

Chapter

4

Canadian Firearms Program

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Canadian Firearms Program

Main Points

What we examined

We examined the progress made in the management of the Canadian Firearms Program since 2002, when we reported that we were unable to complete our audit of the cost of implementing the program. We said the financial information was unreliable and did not fairly present the net costs of the program. We also reported that the Department of Justice was not giving Parliament enough information to allow for effective scrutiny of the program or to explain the dramatic increase in its costs. We made only one recommendation in 2002: The Department of Justice should rectify these gaps in financial reporting.

In our follow-up audit, we assessed the progress made by the Canada Firearms Centre in implementing our recommendation—that is, whether its recording and reporting of costs and revenues in 2004–05 presented fairly the full costs of developing, implementing, and enforcing the Canadian Firearms Program; all revenues collected by the Centre; and all refunds it issued.

We also examined the operations of the Centre as a whole since the arrival of a new management team in May 2003. We looked at whether the Centre has taken steps to ensure that the information in its database on licensing of individuals and registration of firearms is accurate and complete. We looked at its management of contracting, with a particular focus on the contracts for the Canadian Firearms Information System (CFIS)—the main data system supporting the program and a major source of its costs. And we examined the quality of information the Centre has given to Parliament on the program's performance. We did not examine the effectiveness of the Canadian Firearms Program or its social implications.

Why it's important

In 2001 the government estimated that by 2005 the Canadian Firearms Program would cost \$1 billion. (The actual net cost reported by the government for the program to March 2005 was \$946 million.) Since our 2002 audit, Parliament has expressed concern about the quality of information provided to it on the program's costs and performance.

Parliament's control over the public purse hinges on its voting of annual appropriations to fund departments, signalling its approval of their spending plans. Reporting of departments' expenditures accurately against their annual appropriations is thus a cornerstone of parliamentary control.

We provide a more detailed discussion of this matter in *Government Decisions Limited Parliament's Control of Public Spending*, tabled along with this Status Report.

What we found

- The Canada Firearms Centre has made satisfactory progress in implementing our 2002 recommendation on financial reporting, except in recording the costs of developing a new information system (CFIS II). Although the Centre correctly reported the total cumulative costs of CFIS II at 31 March 2005, in two cases significant costs were not recorded in the correct fiscal year. With the concurrence of the Treasury Board Secretariat, but contrary to the government's accounting policy and good accounting practices, the Centre understated the costs of CFIS II by \$21.8 million as at 31 March 2004.
- The new management team has handled a large volume of licence applications and firearm registrations and transfers. It has dealt with operational issues such as spreading out the timing of licence renewals, expanding service in Western Canada, and consolidating the application-processing sites. It has also established the infrastructure necessary for a stand-alone department in such areas as support to the Minister's office, human resources management, and finance.
- While the new management team has made progress in addressing many of the organizational issues facing the Centre, problems remain. The Centre's performance reports contained errors in meeting service standards, which gave Parliament an incomplete picture of how well the licensing and registration activities have performed. The Centre has no formal process for following up with law enforcement on its revocations, and therefore it cannot report on their impact.
- The Centre has not assessed the quality of the data in the registration database and does not know how many of its records are incomplete. Its plans for resolving concerns about data quality hinge on a network of volunteer verifiers. We have several concerns about the operations of this network.

- Before the new management team arrived in 2003, the contracts for the Canadian Firearms Information System (CFIS) were poorly managed. As a result, the system being developed to replace it, CFIS II, is significantly over budget. Some of the increased costs are due to the fact that development began before legislation and regulations were in place. Project delays have contributed to about one third of the total cost, now expected to be at least \$90 million.

The departments and agencies have responded. In general the departments have agreed with our recommendations and proposed corrective actions.

Introduction

4.1 In 1995, Parliament passed the *Firearms Act* and amendments to the *Criminal Code* to establish the Canadian Firearms Program under the principal responsibility of the Department of Justice Canada. The program is intended to reduce gun violence by

- controlling the acquisition, possession, and ownership of firearms;
- regulating certain types of firearms;
- preventing the misuse of firearms; and
- helping law enforcement agencies prevent and investigate firearm crimes and incidents.

4.2 The program involves several departments and the provincial jurisdictions for which the Canada Firearms Centre has lead responsibility. The Centre's federal partners include the RCMP, the Canada Border Services Agency, and, in lesser roles, Correctional Service Canada, the National Parole Board, the Department of Justice Canada, and others.

4.3 In 2001, the program cost \$200 million annually to administer, and the government estimated that by 2005 its costs from its inception would total \$1 billion. The program's actual net cost reported by the government was \$946 million from 1995 to March 2005 (Exhibit 4.1). Currently, annual funding is set at \$82.3 million.

Exhibit 4.1 Net costs of Canadian Firearms Program

(\$ million)	Expenditures				
	Past	2002–03	2003–04	2004–05	Total
Direct costs	\$688.3	\$78.3	\$101.6	\$92.8	\$961.0
as % of total program costs	95%	85%	84%	84%	92%
Indirect costs	\$33.6	\$13.6	\$19.0	\$17.5	\$83.7
as % of total program costs	5%	15%	16%	16%	8%
Total program costs	\$721.9	\$91.9	\$120.6	\$110.3	\$1,044.7
Net revenues	\$(55.4)	\$(15.6)	\$(16.4)	\$(11.3)	\$(98.7)
Net program costs	\$666.5	\$76.3	\$104.2	\$99.0	\$946.0

What we found in 2002

4.4 In our December 2002 Report, Chapter 10, we examined the costs of implementing the Canadian Firearms Program. We stopped the audit of the program's financial information because the data was unreliable, and we reported that the Department of Justice had not fairly presented the net cost of the program. We also reported that the Department had not provided Parliament with enough information to allow for effective scrutiny of the program or to explain the dramatic increase in its costs. We made only one recommendation in 2002: The Department of Justice should rectify these gaps in financial reporting.

4.5 The Department of Justice acknowledged in our Report that implementing the program across Canada was a significant challenge. It stated that, for public safety and in response to recommendations from the public and Parliament, it had made changes to the initial program design; this had increased the design time and the cost of the program.

4.6 The Treasury Board Secretariat also noted that the Department of Justice faced significant challenges in implementing such a large and unprecedented program and stated in its response, "It was always understood that original estimates would be revised in response to the demands of program implementation."

Events since 2002

4.7 Following our audit, the government announced a number of initiatives to improve the efficiency of the Canadian Firearms Program and reduce its administrative costs:

- The Minister of Justice asked an independent consultant to review the recommendation from our 2002 audit and recommend specific actions. In February 2003, the consultant's report was tabled in Parliament.
- In February 2003, in response to the consultant's report, the Minister of Justice announced the Gun Control Program Action Plan to be implemented over the next 12 months (see Appendix A). The objectives of the action plan were to reduce program costs, improve program management, improve service to the public, and increase transparency and accountability. In the Canada Firearms Centre's *2005–06 Report on Plans and Priorities*, the Commissioner of Firearms stated that all actions had been implemented.

- In April 2003, the Canada Firearms Centre was made a separate department, reporting to the then-Solicitor General, now the Minister of Public Safety and Emergency Preparedness. In May 2003, Parliament passed Bill C-10A, amending the *Firearms Act*. This provided the basis for public and parliamentary consultations on regulatory proposals and the eventual implementation of regulatory improvements. In our opinion, this was a key action by the government because it provided for senior leadership dedicated to implementing the program and clarified financial management and reporting. Officials told us that this approach allows the Centre and other public safety agencies (in particular the RCMP and Canada Border Services Agency) to identify and co-ordinate action on firearms issues that affect public safety, including illegal cross-border movement of firearms and working with Canadian and U.S. counterparts.
- Also in May 2003, a new Commissioner of Firearms was appointed and a new management team was hired for the Centre. Senior management told us that much of its efforts have focussed on setting up the Centre as an independent department; building a capacity in such areas as policy development, human resources management, finance and administration, and ministerial support; and dealing with pressing operational issues such as consolidating processing centres, spreading out the timing of licence renewals, and improving service levels. Management's first objectives were to address the issue of reporting to Parliament and to implement a new information system. It is now looking at performance measurement and reporting.
- In October 2003, the House of Commons Standing Committee on Public Accounts tabled a report on the costs of the program, with 14 recommendations. In March 2004, the government tabled its response stating that it fully responded to the recommendations. We examined progress against all of the recommendations except those we determined were no longer appropriate given changes in conditions, such as the suspension of portions of the alternative service delivery contract. Appendix B provides a summary of the Committee's recommendations and the government's responses.
- In May 2004, the government announced measures to improve the Canadian Firearms Program, encourage compliance, and reduce the burden on firearm owners and users. The announcement followed a ministerial review of the Firearms Program, with national consultations involving stakeholders and

Firearms licence—Individuals are required to have a valid licence to possess or to acquire a firearm and to acquire ammunition. Licence applicants are screened, both on the initial application and at renewal, to detect potential risks to public safety. A key element of licensing individuals is screening for continuing eligibility. This ongoing process allows the review and, if required, the revocation of an existing licence should a firearm owner become a public-safety risk.

Firearms registration—Individuals with a valid firearms licence are required to register each of their firearms according to one of three classifications: non-restricted, restricted, or prohibited. The transfer of a firearm, by sale, barter, inheritance, or gift, must be approved. A new registration certificate for the transferred firearm is issued to the new owner.

provincial governments. The measures included setting a spending cap of \$25 million a year on **firearms registration**, streamlining the process for renewing **firearms licences**, and eliminating the fees to register and transfer firearms. These measures have been implemented.

Focus of the audit

4.8 This follow-up audit assessed the progress that the government and the Canada Firearms Centre have made in implementing our 2002 recommendation—that the recording and reporting of costs and revenues in 2004–05 should fairly present the full costs of developing, implementing, and enforcing the Canadian Firearms Program; all revenues collected by the Centre; and all refunds it made. In addition, we examined operational issues that were not addressed in the first audit. In this chapter we report on the following areas:

- financial information reported to Parliament,
- measuring and reporting of performance,
- management of contracting, and
- contracting for the Canadian Firearms Information System.

We did not examine the effectiveness of the program or its social implications.

It should be noted that our conclusions about management practices and actions refer only to those of public servants. The rules and regulations we refer to are those that apply to public servants; they do not apply to contractors. We did not audit the records of the private sector contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed or to their performance.





4.9 More information on the objectives, scope, approach, and criteria can be found in **About the Audit**.


Observations and Recommendations


4.10 The Canada Firearms Centre has made satisfactory progress in implementing our 2002 recommendation on financial reporting, with the exception of its accounting for the costs of developing of the CFIS II, the Centre's new information system. Its methods of apportioning costs between the licensing and registration activities are

reasonable. It is now reporting the indirect costs of its federal partners in the program, although it has not developed a clear definition of what those costs include (Exhibit 4.2).

Exhibit 4.2 Progress in addressing our recommendations on financial reporting

Recommendation	Progress
Auditor General's December 2002 Report, Chapter 10, paragraph 10.89	
The Department of Justice, using a meaningful activity-based reporting framework, should annually provide Parliament in its departmental performance report complete, accurate, and up-to-date financial and management information on the following:	
<ul style="list-style-type: none"> the full costs to develop, implement and enforce the Canadian Firearms Program 	 except for the recording of CFIS II costs
<ul style="list-style-type: none"> all revenues collected and refunds made 	
<ul style="list-style-type: none"> forecast costs and revenues to the point at which the Department expects the Program to become fully operational, including details on outsourcing major components of the Canadian Firearms Registration System and moving certain headquarters functions to Edmonton 	
<ul style="list-style-type: none"> complete explanations for changes in costs and revenues, and changes to the overall Program 	

 **Satisfactory**—Progress is satisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

 **Unsatisfactory**—Progress is unsatisfactory, given the significance and complexity of the issue, and the time that has elapsed since the recommendation was made.

Financial information reported to Parliament

The Centre needs to examine how it records costs

4.11 We audited the Centre's annual expenditures of \$92.8 million and its annual revenues of \$11.3 million as reported in its 2004–05 *Departmental Performance Report*. We found the figures to be reasonable except for an error in recording the costs of the Canadian Firearms Information System (CFIS) II. The Centre recorded an expenditure of \$21.8 million in 2004–05 that it should have recorded in 2003–04. We found that this was the second of two accounting errors in the recording of CFIS development costs.

4.12 In December 2002, the Department of Justice had requested Parliament's approval for Supplementary Estimates to bring the Centre's 2002–03 planned spending to \$113.5 million. Parliament at first would not approve the Supplementary Estimates as presented, but

in March 2003 it agreed to do so based on the Minister's commitment that the Centre's spending for 2002–03 would not exceed \$100.2 million.

4.13 The first accounting error. The Department later reported the Centre's actual spending for 2002–03 at \$78.3 million. However, this amount did not include the estimated \$39 million in CFIS II development costs incurred that year.

4.14 In our opinion, in leaving the \$39 million unrecorded the Department of Justice did not comply with the Treasury Board's Policy on Payables at Year-End (PAYE). This policy states that costs for large system development are to be recorded as expenditures against a departmental appropriation in the year when they are incurred, rather than when they become due and payable under a contract. Furthermore, had the Department of Justice recorded this amount in its 2002–03 expenditures, while its total spending would have remained within its **voted appropriation**, the Centre's actual spending would have been \$117.3 million, \$17.1 million over the limit to which the Minister had committed.

Voted appropriations—Departments are required to obtain approval of funding through annual appropriations voted by Parliament, in order that Parliament can maintain control over the public purse. Reporting their expenditures accurately against their annual appropriations is thus a cornerstone of parliamentary control.

4.15 The second accounting error. Because of the accounting issue in 2002–03 and because CFIS II costs continued to rise unexpectedly, the Centre became concerned that recording these costs would cause it to “blow its Vote.” In January 2004, the Centre sought advice from the Treasury Board Secretariat on the appropriate accounting treatment for “over-expenditure.” The Treasury Board Secretariat's original opinion was that all costs incurred before 31 March 2004 should be charged to the Centre's 2003–04 voted appropriation to comply with the PAYE policy. This would have meant that either the Centre would have exceeded its appropriation or required approval of additional funds through the use of Supplementary Estimates.

4.16 The Centre concluded, based on subsequent consultations with the Treasury Board Secretariat, that it would only record costs that were specifically covered by the CFIS II contract. As a result, the Centre remained within its 2003–04 appropriation level, and a balance of \$21.8 million remained unrecorded.

4.17 The Treasury Board Secretariat decided to record the \$21.8 million as a liability in the consolidated Accounts of Canada, rather than against the Centre's voted appropriation. The Centre reported this amount as an “unrecorded liability” in its *2003–04 Departmental Performance Report*.

4.18 Even though the Centre disclosed the unrecorded amount to Parliament, we believe the \$21.8 million should have been recorded as part of the 2003–04 expenditures in order to comply with the Treasury Board PAYE policy.

4.19 The cumulative project costs of \$74.3 million to 31 March 2005 were reported accurately. If the two accounting errors were corrected, however, the Centre's expenditures would be reallocated between fiscal years; its approved expenditures for 2002–03 would be shown as overspent, while its 2003–04 and 2004–05 expenditures would be within the respective appropriation levels (Exhibit 4.3).

4.20 We also note that the revised CFIS II contract as amended provides for annual payments to the contractor to operate and maintain the system over 15 years. The annual payments will also include \$15 million for the costs of the remaining development work and the delay costs that the project is expected to incur in 2005–06. The Centre plans to record these costs as expenditures against annual appropriations over the 15 years, as they are paid. In our opinion, this accounting treatment does not comply with the Treasury Board's PAYE policy.

4.21 Recommendation. The Canada Firearms Centre should ensure that the recording of project development costs over the life of the service agreement conforms to the Treasury Board's Policy on Payables at Year-End. The Centre should record costs against annual appropriations as they are incurred.

Exhibit 4.3 Impact of correction of accounting errors (\$ million)

	Costs of the Canadian Firearms Information Centre (CFIS) II			Total annual expenditures of the Canada Firearms Centre		
	As reported	Corrections made	Corrected amounts	Planned spending	Corrected expenditures	Variance over (under)
2002–03 (Justice)	\$0.0	\$39.0	\$39.0	\$100.2 ¹	\$117.3	\$17.1
2003–04 (Centre)	39.7	(39.0) 21.8	22.5	116.0 ²	84.4	(31.6)
2004–05 (Centre)	34.6	(21.8)	12.8	99.6 ²	71.0	(28.6)
Total	\$74.3	\$0.0	\$74.3			

¹ The Centre's commitment within the Department of Justice's voted appropriation

² The Centre's voted annual appropriation

Canada Firearms Centre’s response. Payment of the remaining development costs over the life of the service agreement was one element of the restructured CFIS II contract intended to provide system delivery and service incentives to the contractor. The approach to appropriation charging was developed with the support of the Office of the Comptroller General, bearing in mind the requirements of the *Financial Administration Act* and Treasury Board policy. It will be fully disclosed in all parliamentary reporting.

Indirect costs are reported but need to be better defined

Indirect costs—Certain costs of the Canadian Firearms Program incurred by federal partners that are not reimbursed by the Centre.

4.22 The Centre started to report the full cost of the Canadian Firearms Program in its *2003–04 Departmental Performance Report*, including **indirect costs**. Its approach was a reasonable response to our 2002 recommendation.

4.23 Our objective was to assess whether the Centre and its federal partners have adequate processes to ensure the reasonableness of indirect costs reported to Parliament. We did not audit the accuracy of these costs as reported.

4.24 Based on our review of the Centre’s recent annual reports to Parliament, there has been a clear improvement in reporting the full costs of the program since our 2002 audit.

4.25 However, we found that the Centre does not have a quality review process to ensure that its partners report their indirect costs accurately and completely. Such a process would, at a minimum, include regular review of the systems and practices that partners use to report their activities that are indirectly related to firearms. Given the complexity and size of some of the partners’ systems and operations, this kind of review could be a significant endeavour for the Centre.

4.26 We also found that, in some cases, the Centre and its partners have agreements under which the Centre will reimburse certain costs incurred by the partner up to a maximum amount, with any excess absorbed by the partner’s operating budget. The Centre reports the costs it reimburses as “direct costs” of the program, while the excess costs that its partners absorb are reported as “indirect costs.” When these agreements were adopted, the costs that constitute indirect costs of the program had not been defined. We reviewed how the indirect costs are computed and found that there is no clear definition of the cost elements that make up indirect costs.

4.27 Recommendation. The Canada Firearms Centre should define what types of cost elements should be reported as the indirect costs of the Canadian Firearms Program.

Canada Firearms Centre's response. Agreed. In conjunction with the Treasury Board Secretariat and program partners, the appropriateness and content of reporting indirect costs will be reviewed. This will be completed in conjunction with the preparation of the 2005–06 *Departmental Performance Report*.

A reasonable model has been developed to allocate costs

4.28 The government has asked that Parliament start in 2005–06 to fund the Canada Firearms Centre through two votes—one for registration activities and the other for licensing activities and other operations. The government capped the vote for registration activities at \$25 million per year. Because the Centre's operational units perform both licensing and registration activities, a costing model is necessary to allocate costs between the two votes. Our objective was to determine whether the Centre's costing model does this reasonably.

4.29 We reviewed and analyzed the various assumptions and estimates used in the costing model. We also performed sensitivity analyses to assess the impact that changes in key variables would have on its results. We concluded that the model can be expected to allocate costs reasonably between the two votes if it is used in a consistent way over time.

Measuring and reporting of performance

4.30 In 2002 we reported that the Department of Justice had not provided Parliament with sufficient financial information to allow it to exercise effective scrutiny and ensure accountability. Reporting performance information is a key component in accountability.

4.31 In the Gun Control Program Action Plan, the Canada Firearms Centre committed to improving its service to the public and the efficiency of the registration and licensing programs. We reviewed the levels of service established for licensing and registration and the extent to which they are met and reported, and we looked at how the Centre manages performance overall.

Reporting performance to Parliament has improved

4.32 Good-quality performance reporting is fundamental to effective governance and accountability to Parliament. At the time of our 2002 audit, we had serious concerns about the quality of financial

information provided to Parliament. In 2001–02, the Department of Justice had provided one page of performance information on the program in its performance report. It did not include information on licensing and registration by year or on how it was achieving its expected public safety results. At the time of this follow-up audit, the Canada Firearms Centre had tabled its performance reports for 2003–04 and 2004–05; these reports provided significantly increased performance information on the program.

4.33 To determine the quality of these reports, we used our Office’s model for rating performance reports. Our model is generally consistent with performance reporting principles in Treasury Board Secretariat guidelines. Our April 2005 Report, Chapter 5, describes how the model is used to rate performance reports. In that chapter we noted that providing quality performance reports to Parliament continues to be a challenge for many departments, even after almost a decade of effort.

4.34 The Centre’s performance reports provide a fair to good overview of its organizational context and planned strategic outcomes. The reports could be improved with a description of

- the risks it faces to achieving its planned strategic outcomes, and
- the challenges it faces in contributing to government-wide initiatives while achieving its own expected outcomes.

4.35 We found that the Centre reported performance at a basic level in the more important and difficult areas—namely,

- stating performance targets,
- reporting results, and
- reporting how results will be used to improve future performance.

4.36 In particular, the Centre has not set any performance targets and has provided few examples of its outcomes. Instead of reporting the key results achieved, the Centre describes its activities and services.

4.37 We noted that in its 2003–04 report, the Centre estimated that almost 90 percent of all firearm owners had complied with the licensing regulations. However, it did not provide a corresponding estimate in its 2004–05 report. The Centre told us that it had been concerned because the estimate of compliance was based on information that was becoming outdated. In our opinion, it is important that the Centre either tell Parliament the level of compliance with the legislation or explain the difficulty of estimating it.

4.38 The Centre's strategic outcome is to ensure that "the risks to public safety from firearms in Canada and international communities are minimized." The performance report focusses on activities such as issuing licences and registering firearms. The Centre does not show how these activities help minimize risks to public safety with evidence-based outcomes such as reduced deaths, injuries, and threats from firearms.

4.39 The Centre has said that there are many statistical and data problems in linking its licensing and registration activities to public safety outcomes. A recent government evaluation of the Canadian Firearms Program stated that it will not be possible to determine the outcomes of the program until it has been operating longer.

4.40 While the Centre may not be able to show direct evidence of how its activities contribute to its public safety goals, it could improve its performance reporting by using a results chain. A results chain can help an organization

- show its contribution to a planned outcome,
- link its performance expectations to key results, and
- attribute outcomes shared by its partners and other levels of government.

4.41 Recommendation. The Canada Firearms Centre should improve its reporting on the performance of the Canadian Firearms Program by providing targets and evidence-based results, and by showing through the use of a results chain how these results could contribute to public safety goals.

Canada Firearms Centre's response. Agreed. As a new department the Centre's priority has been to ensure that the program's fundamental baseline data is correct and to develop the capacity for more in-depth analysis of performance information. As the chapter notes, this has resulted in a significant increase in the performance information provided to Parliament. The Centre will continue to enhance its performance reporting as the program matures and more complete longitudinal data becomes available.

The Centre has not consistently stated what its client service standards are or how it measures performance

4.42 The government's action plan for the Canadian Firearms Program, announced in February 2003, included initiatives to improve the management of the program and service to the public. These actions were to be implemented within 12 months.

4.43 Initiatives to improve management. We found that almost three years later, some of these performance management initiatives have not been fully implemented—for example, the action plan committed to “establishing national work performance measurements and cost standards.” We found that the performance measures that were established are not being used, and staff told us that these measures are irrelevant to operations. We also noted that the Centre has not established cost standards.

4.44 In March 2004, the Miramichi and Québec processing sites were consolidated. The Centre stated in its performance report that this would reduce costs and maintain the quality of service. Cost savings were estimated at \$2 million annually. The Centre has not reported the outcome of the consolidation.

4.45 Initiatives to improve service to the public. To enhance service to the public, the government committed to “ensuring clients can easily access 1-800 telephone information services.” The Centre has not established service standards for easy access. It reported to Parliament that the response time for calls to its national call centre “averaged just over two minutes.” The Centre was unable to tell us the actual number of calls that were answered in just over two minutes. We found that while average wait times increased in 2003–04, they decreased in 2004–05. In our opinion, it would be more useful to know how many actual calls met the standard.

4.46 The government also committed to “processing properly completed registration applications within 30 days of receipt.” It later developed a similar service standard for processing licence applications within 45 days of receipt. In its first performance report, in 2003–04, the Centre said it had met both these service standards. However, it could not provide us with the original calculations showing how it determined that it had met its standards.

4.47 Officials told us that in calculating performance for the two service standards, they did not include applications that had client eligibility failures (applications with issues to be investigated), even if the application had been properly completed. Investigations to

determine eligibility can add days or weeks to the processing time, and the Centre has not established service standards for applications that involve such investigations. Applications with eligibility failures accounted for 46 percent of licence applications from August 2004 to August 2005.

4.48 We examined the processing times for properly completed registration and licence applications in 2003–04. We found that 45 percent of registration applications had taken longer than 30 days to process and 35 percent of licence applications had taken longer than 45 days. We concluded that the Centre had not met its service standards, as it had stated in its performance report.

4.49 In its performance report for 2004–05, the Centre reported that 89 percent of registration applications had been processed within 30 days and 86 percent of licence applications within 45 days. We analyzed the data and found that only 73 percent of registration applications met the 30-day standard, not 89 percent.

4.50 We noted that in its 2004–05 performance report, the Centre reported that it was defining new performance standards over the next 12 months and reviewing existing standards.

4.51 Recommendation. The Canada Firearms Centre should present its performance information in its performance reports in a comprehensive and complete manner that allows Parliament to fully understand the performance it has achieved and the challenges it faces.

Canada Firearms Centre's response. Agreed. As acknowledged by the Office of the Auditor General, there has been a significant increase in performance information provided to Parliament. Having established this foundation, the Centre will continue to enhance its performance reporting as the program matures and more complete longitudinal data becomes available.

4.52 Recommendation. To improve its service to the public, the Canada Firearms Centre should analyze how long it takes to investigate and complete licence and registration applications that have client eligibility failures, identify the nature of the problems, and take appropriate action.

Canada Firearms Centre's response. Agreed. As identified in the Centre's 2004–05 *Departmental Performance Report*, client service standards are being reviewed. This review will take into consideration lessons learned during the audit, including the impact of the

investigation of eligibility issues on meeting service standards. This will be done recognizing that a balance must be struck between the efficiency with which client applications are processed and the effectiveness of the investigation procedures related to public safety.

Data quality needs to be addressed

4.53 In his 2003 Report, the Commissioner of Firearms acknowledged “the need for the highest possible quality of information in the Canadian Firearms Information System to support law enforcement and reduce risks to public safety.” The Canadian Firearms Information System (CFIS) is a national database of information on licences issued and firearms registered. The Centre has told us that addressing the quality of data in the CFIS is a priority.

4.54 Our objective was to determine the extent to which the Centre has taken steps to ensure the accuracy of licensing and registration data in the CFIS. We expected the Centre to have systems in place to estimate the quality of data and to establish targets for quality.

4.55 Following our 2002 audit, the Centre took steps to improve the quality of data—for example, by adding a feature that allows applicants to change their address on-line and by verifying information received over the telephone. However, the Centre told us that it does not validate its information against other federal or provincial databases but it plans to explore options as part of the new information system, CFIS II. For example, we noted that rates of undeliverable mail ranged from seven percent of licence renewal notifications to 23 percent of firearm registration revocation notices.

4.56 In November 2004, the Centre published a plan to address over 130 issues that affect the quality of data, for example,

- potential duplicate registration certificates, and
- errors in owner’s name, date of birth, or current residential address.

4.57 We noted that the Centre’s plan did not establish targets for data accuracy or methods of measuring the accuracy of data in the CFIS. Centre officials told us that they are making significant progress in resolving the issues identified in the plan.

4.58 Before the *Firearms Act* was passed in 1995, about 1.2 million prohibited and restricted firearms were registered in the Restricted Weapons Registration System (RWRS). The Act required these firearms to be registered again in the new Canadian Firearms

Information System by 1 January 2003. About half of the 1.2 million firearms registered in RWRS still have not been re-registered with the Centre, but RWRS remains operational so information on those firearms is still available.

4.59 A 1994 study commissioned by the Department of Justice found that, in the RWRS, many of the records for restricted and prohibited firearms were outdated or incorrect. However, owners who had registered in the CFIS were not required to confirm or update information provided previously. Confirmation of information would have strengthened the quality of data in the CFIS.

4.60 In 2002 we reported that to reduce the burden of the Canadian Firearms Program's requirements and to increase registration, the government had approved a more flexible standard for describing firearms. As a result, the Centre relied on applicants to describe their firearms with reasonable accuracy. It did not physically verify descriptions provided by applicants at the time of registration, and the registration process did not require information such as model or exact barrel length. The Centre expected to correct and complete firearm records at the time that the firearm is transferred.

4.61 As an indication of the scope of the data quality problem, we found that as of October 2004, 27 percent of all registered firearms had been verified. After 24 October 2004, almost 142,000 previously registered firearms were transferred to different owners and verified for the first time. In that **verification** process, the description of some firearms were changed. Accurate firearms descriptions are critical information for identification purposes and are important to the Canadian Firearms Registry's support of law enforcement. For instance,

Verification—A process used to confirm the physical details such as manufacturer, model, serial number, barrel length, and type of action of a particular firearm.

- nine percent of registration certificates needed to have information on a firearm's action corrected from, for example, bolt action to semi-automatic;
- twelve percent needed to have the firearm's make corrected; and
- three percent needed to have the serial number corrected.

However, we noted that only 0.1 percent of firearms classifications (unrestricted, restricted, or prohibited) had to be changed. This classification is the key element for the type of licence required by a gun owner.

4.62 We also attempted to determine whether all transferred firearms had undergone the required verification. Due to problems in accessing

the data, we were unable to conclude whether they had. We are concerned that the Centre cannot easily retrieve such information to use in managing its activities.

4.63 At the time of initial registration, the Centre had an opportunity to create a complete and accurate firearms registry. Due to the decision to encourage registration and reduce the workload by accepting incomplete information before the legal deadline of 31 December 2002, the Registry continues to suffer from data quality problems. Given the current status of the Verifiers Network and the degree to which verification is done by phone, the Centre is missing another opportunity to strengthen the integrity of Registry data.

4.64 Recommendation. The Canada Firearms Centre should ensure that its new information system will be able to provide management with the performance information it needs to run the Canadian Firearms Registry.

Canada Firearms Centre's response. Agreed. The project is being assessed to ensure that the system provides appropriate operational and management information in support of all aspects of the program.

4.65 Recommendation. As part of CFIS II, the Canada Firearms Centre should validate addresses against information in other databases, and check all records for entry errors and completeness.

Canada Firearms Centre's response. Agreed. As noted in the chapter, the Centre has an ongoing plan to monitor and address data quality issues. This initiative will continue to form part of the ongoing continuous improvement plan. Specifically, the Centre will

- explore cost-effective alternatives to validate address information with other databases,
- examine a solution to migrate Restricted Weapons Registration System information, and
- continue the process of validating data accuracy and completeness.

Weaknesses exist in the Verifiers Network

4.66 To address the issue of data quality, the Centre expected to verify previously registered but unverified firearms at the time of a transfer, using a network of volunteer **verifiers**. These verifiers are important to correcting any errors in the data of the CFIS. However, from early 2002 to summer 2003, officials of the Centre confirmed that it did not have contact with its volunteer verifiers.

Verifier—The Canada Firearms Centre (CAFC) has established a Verifiers Network to assist businesses and individuals that need to have their firearms verified. The service is provided at no charge by a community volunteer, such as a firearms dealer, gun club member, or safety instructor. A verifier must sign and date the application to indicate that the firearms on the list have been verified.

4.67 Because some registrants have difficulty getting to a verifier, the Centre also provides the service over the telephone. According to the Centre, 20 percent of transfers and new registrations have been verified by telephone since October 2004. Police organizations and gun-control advocates have stated that inspecting every firearm registered is important to ensuring the integrity of the system. The Centre does not have guidelines on when to conduct a telephone verification, and it has not studied whether the quality of registry data is affected by telephone verification.

4.68 In its *2004–2005 Report on Plans and Priorities*, the Centre announced plans to improve its network of volunteer verifiers in order to ensure that gun owners have access to an approved verifier. Recent activities have included the following:

- **Improving contact with verifiers.** The Centre has been improving its contact with verifiers by sending out regular bulletins and adding a Verifiers Network section to its Web site. In September 2005, it held cross-country consultations with about 120 verifiers to discuss how the network could be improved. Officials told us additional work is planned.
- **Determining the number and location of verifiers.** In August 2005, the Centre completed a project to map the location of about 3,000 verifiers who are willing to perform verification for the public.

4.69 We noted the following weaknesses in the Verifiers Network:

- **No performance or service standards.** There are no performance or service standards for verifiers, such as timeliness of service or distance travelled to verify firearms. We also noted that the Centre does not know how many verifiers are needed and where they are needed to meet the demand for verification services.
- **Verifiers can verify their own firearms.** In our opinion, allowing volunteers to verify their own firearms creates a potential conflict of interest.
- **Lack of evaluation of verifiers.** To become a verifier, a person must have a valid firearms licence and attend a three-hour training session. There is no qualifying or post-training test and no background checks beyond those that are part of the licensing process.
- **Lack of quality assurance.** There is no quality assurance system in place to check a verifier's work.

4.70 Recommendation. The Canada Firearms Centre should undertake a complete review of the volunteer Verifiers Network, including determining how many verifiers are needed, where they are needed, and how they should be managed.

Canada Firearms Centre's response. Agreed. As identified in the Department's 2005–06 *Report on Plans and Priorities*, the development and implementation of a strategy to enhance the firearms verification process was identified as a priority. In the fall 2005, surveys were sent to 3,328 verifiers and 952 firearms owners. These surveys, in addition to the consultations with verifiers, resulted in an approach to identifying the number of verifiers needed. Additional analysis will be completed over the coming months and the resulting strategy will be implemented during 2006–07.

The Centre has limited ways to follow up on revocations of firearm registration certificates

4.71 Between July and October 2005, the Centre revoked 2,653 firearm registration certificates of 1,254 licence holders because of expired licences. If a licence expires or is revoked, a person is no longer legally permitted to own a firearm. When firearm owners receive a revocation notice, they are required to apply for a new licence, transfer the firearm, or dispose of the firearm by deactivating it or turning it in to the police.

4.72 The Centre does not know the status of 62 percent of the firearms that had their registration certificates revoked between July and October 2005. Its only recourse is to contact the local police by letter and then by telephone, because it lacks a mandate to enforce revocations. The Centre told us that it is the role of the police to seize revoked guns. However, police are not required to notify the Centre when they destroy a firearm, enforce revocations, or seize firearms. In September 2005, the government delayed implementing regulations that would require local police to notify the Centre within 30 days of taking any firearms into protective custody.

4.73 Recommendation. The Canada Firearms Centre should take the necessary steps to follow up on revocation orders, including seeking the implementation of the Public Agents Firearms Regulations.

Canada Firearms Centre's response. Agreed. In conjunction with the implementation of the Public Agents Firearms Regulations, the Centre will review its processes regarding follow-up on revoked registration certificates.

Management of contracting

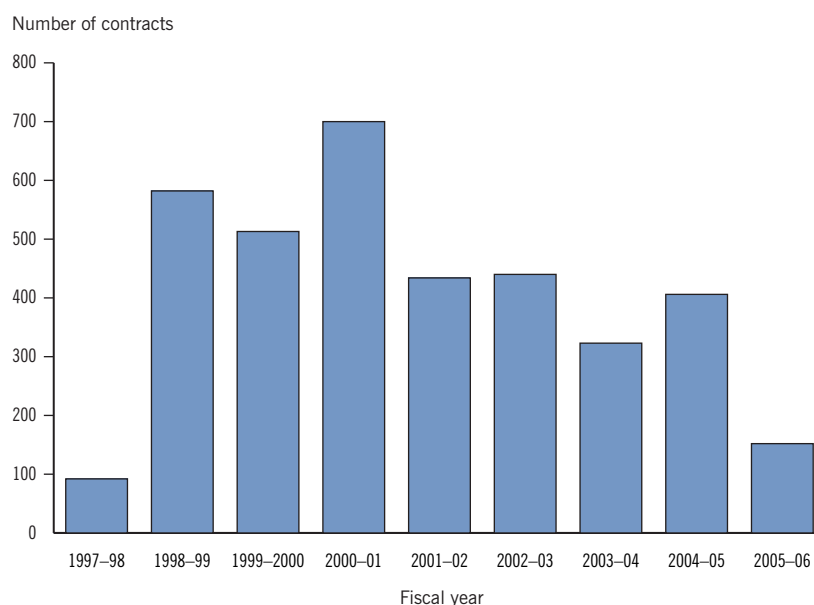
The Centre is improving its contracting practices

4.74 The Canada Firearms Centre delivers many of its services through contracts. Therefore, non-compliance with contracting regulations and authorities represents a significant risk for the Centre. We had planned to look only at contracts signed since 2002, but found that the Centre still depends on contracts initiated years earlier by the Department of Justice or by Public Works and Government Services Canada. We therefore assessed all 3,642 contracts from January 1997 to June 2005 to determine whether

- contracting was managed adequately and with due regard to economy,
- officials complied with the Treasury Board policy on contracting and with the Centre's contracting authority, and
- contracts were awarded competitively or had proper justification on file for sole sourcing.

4.75 Program managers sign 400 to 500 contracts per year on average (Exhibit 4.4); 2000–01 was the most active year, with 700 contracts signed.

Exhibit 4.4 Number of contracts awarded each year by the Canada Firearms Centre



4.76 While the number of contracts is large, more than 68 percent of their combined value is accounted for by two contracts for developing the Canadian Firearms Information System I and II. We discuss these two contracts separately.

4.77 In selecting a sample of contracts to review, we analyzed all 3,642 contracts for “red flags” that might indicate non-compliance with regulations, for example,

- a final contract amount more than 150 percent of the original amount, which could indicate a failure to seek competitive bids or an attempt to evade contracting limits;
- multiple low-dollar-value contracts to one supplier, which might indicate contract splitting; or
- other evidence that contracts may not have been awarded competitively, such as multiple contracts with the same date.

4.78 Based on our analysis, we identified three activities that indicated a high risk of non-compliance with regulations, which could also affect fairness and best price:

- sole-source contracts
- large amendments to contracts
- multiple contracts to the same vendor

4.79 We had specific criteria that a contract had to meet before we would look at it in detail. The use of specific criteria to select our sample of contracts meant that those selected had a high probability of non-compliance. These results cannot be applied to the entire population of 3,642 contracts. We identified 485 contracts that had at least one red flag, and from those 485, we selected a **purposeful sample** of 147 contracts for detailed audit.

Purposeful sample—A sample selected not at random but to provide insight and in-depth understanding rather than generalizations about the whole population.

4.80 In our sample, we found contracts that were awarded without a proper competitive process, for example,

- contracts below \$25,000 (the limit for sole sourcing) that were amended to 150 percent of the initial value,
- multiple contracts for \$24,000 issued to the same vendor on a continuous basis,
- contracts awarded using a request for proposals and subsequently amended to much higher amounts,

- multiple contracts issued to the same vendor on the same day using a standing offer, and
- contracts issued on a sole-source basis without proper justification.

4.81 In the federal government, while departments have authority to handle contracts up to a certain dollar amount, Public Works and Government Services Canada (PWGSC) contracts on behalf of other departments for many goods and services. PWGSC also has in place contracting tools that, when used correctly, allow departments to meet competitive procurement requirements by selecting contractors from a list to submit bids. Officials at PWGSC told us that when a department uses those tools, the department becomes the contracting authority and is ultimately accountable. However, PWGSC is responsible for ensuring that the tools are used in accordance with prescribed policies and regulations.

4.82 We found that the Centre misused contracting tools to retain the services of information technology (IT) contractors. We looked in detail at 13 contractors who had been with the Centre for several years—the longest period was from January 1997 to June 2005. We found evidence that there were also five other contractors who had been with the Centre for several years.

4.83 In most cases, these contractors were hired using one of two PWGSC contracting tools:

- **The Informatics Professional Services (IPS) Marketplace.** IPS is a procurement database, managed by PWGSC, that allows federal departments to search for consultants based on a list of skills and experience. IPS produces a list of qualified consultants, and departments are supposed to select at least three contractors and invite each to compete. Departments were allowed to go up to the limit of the North American Free Trade Agreement (\$89,000 per contract) only once using IPS. Additional requirements for a consultant need to be met through competitive means.

We examined 15 cases, from 1997 to 2004, where the contractor was retained for many years using IPS. Searches of the database would yield only the name of the incumbent contractor. The result was that contracts were awarded directly to a consultant, using IPS to justify a non-competitive procurement process. In our opinion, this was a misuse of the IPS tool that made directed contracts appear to have been awarded competitively. We found

that the Centre was the contracting authority in most of the 15 cases.

The Centre told us it recognizes that IPS was used inappropriately, and it ceased the practice in 2004.

- **The Information Technology Services Branch (ITSB).** This branch of PWGSC provides IT professional services to departments through three master contracts it has with IT consulting firms. These contracts were awarded through a competitive procurement process. Client departments request professional services from ITSB through a service agreement.

We found that in 11 cases, incumbent contractors who had been at the Centre for several years remained there from 2004 to 2005 under ITSB supply arrangements. We found evidence that the Centre asked ITSB to provide its list of incumbent contractors to the IT consulting firm under contract with ITSB, with the intention of continuing their services. PWGSC officials said that they agreed to this practice because the Centre told them that it needed the incumbents in order to meet operational requirements. We also found documents showing that PWGSC staff assured the Centre that it was procuring professional services legitimately. In our opinion, because the individual task authorizations were used to direct business to specified contractors, the end result was a non-competitive process and did not meet the objectives of the Treasury Board Contracting Policy. They also lacked due regard to economy—for each incumbent, the Centre paid ITSB, who paid the IT consulting firm, who, in many cases, paid the sub-contractor, who finally paid the incumbent. Using ITSB added two additional commissions to the cost of a consultant. We noted that on average the cost to the Centre for each consultant increased by about 25 percent under this supply arrangement.

4.84 In the case of the 13 contractors retained over several years, we are concerned about a potential liability to the government because the Centre may have established an employer–employee relationship. We were told by staff that these contractors have been kept for the transfer from the Canadian Firearms Information System (CFIS) I to CFIS II—an event that they had anticipated would happen a few months after March 2003. We were also told that the contractors were indispensable to the smooth operation of the CFIS and, in some cases, possessed unique knowledge. However, we question this argument because one of the contractors has already been replaced successfully,

and ITSB has informed us that it will not be renewing the current supply arrangement with the Centre.

4.85 We also found specific cases in our sample of 147 contracts that did not follow good contracting practices.

- A contract from 1 January 1997 to March 2000 retained a consultant as senior Project Manager for CFIS I; the title of the position was subsequently changed to Project Director. The position had full signing authority, including authority to contract for consultants. The justification for sole-source procurement was that the consultant had been doing the same work at the Department of Justice. The initial contract was for \$151,261.40; the final total, with amendments and new contracts, was \$700,253.29. PWGSC was the contracting authority for this contract.
- A contract originally for \$135,000 in 1998 used a request for proposal process. Subsequently, only the incumbent submitted a proposal. The file shows that the incumbent was rated on work done in the position, rather than on the requested proposal. We also found an amendment that predated the contract. In this case, PWGSC was the contracting authority.
- A contract in 2001 was signed after the work period had passed. In this case, the Centre was the contracting authority.
- Several fixed-price contracts were awarded to three contractors in 2001 and 2002 that, in some cases, had no measurable deliverable, and no record of a deliverable product being received. The initial value of each contract was below the \$25,000 limit, but the final values were much higher: \$50,000, \$107,000, and \$319,431. We noted that requests for the contractors' security clearance stated that they would have no access to the work site. In these cases, the Centre was the contracting authority. We will be reviewing these contracts in greater detail.

4.86 We found that the number of red flags has decreased significantly since 2004 as the Centre improves its contracting practices. Exhibit 4.5 shows that the number of contracts awarded between \$24,000 and \$25,000 has dropped since 2000–01. Exhibit 4.6 shows that the number of contracts below \$25,000 that were amended in excess of 150 percent has dropped since 2000–01.

4.87 The Centre has a new contracting manual in place. It is also conducting an internal audit of its contracting practices that it was planning to report on in the winter of 2006. However, we still have

concerns, having found that the Centre is continuing to contract IT consultants through PWGSC without a proper competitive process. We also noted cases of sole-source procurement for professional services in areas other than IT.

Exhibit 4.5 The number of contracts between \$24,000 and \$25,000 has dropped significantly since 2000–01

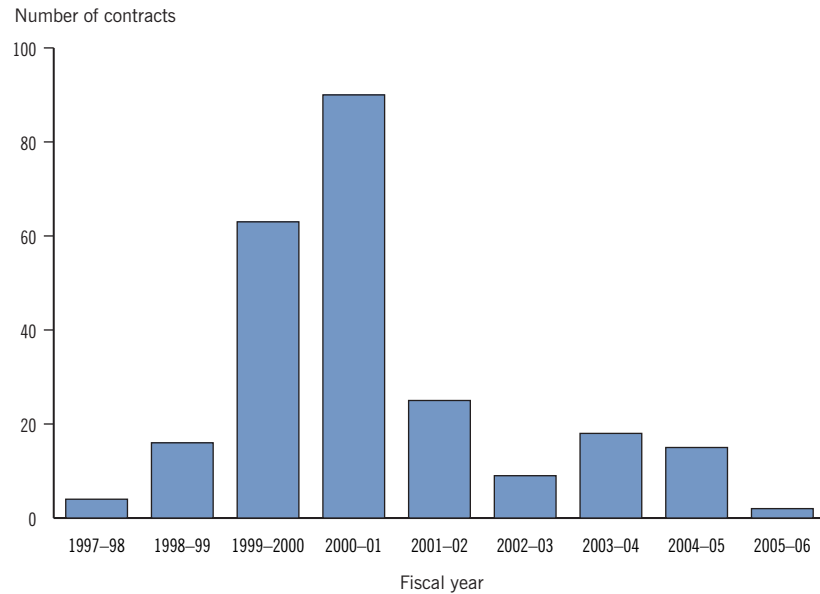
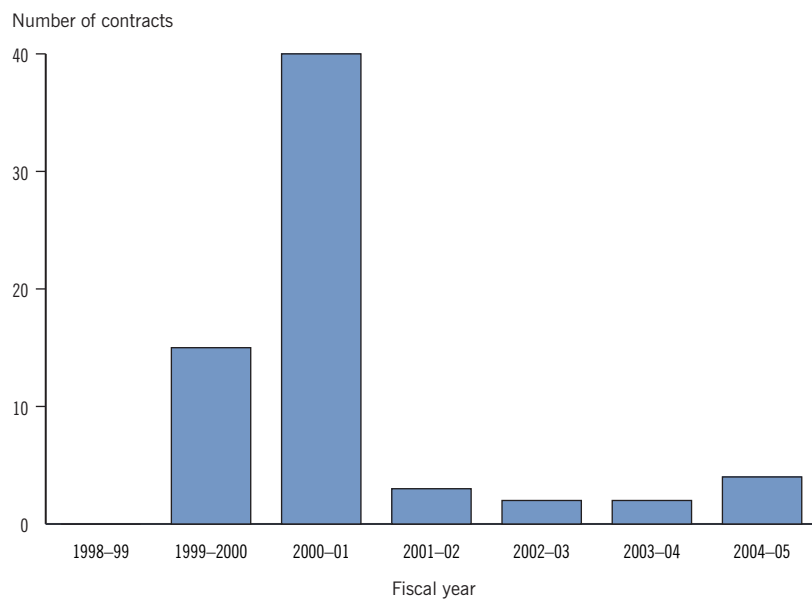


Exhibit 4.6 The number of contracts below \$25,000 that were amended by more than 150 percent has dropped significantly since 2000–01



4.88 Recommendation. Public Works and Government Services Canada should review how client departments use the contracting tools it has developed. It should be able to provide assurance that its tools are not being used to circumvent contracting policies and regulations.

Public Works and Government Services Canada response. The Auditor General's recommendation identifies a weakness with the proper use of the Department's contracting tools. The Department recognizes the importance of this recommendation and is taking corrective measures to address the issues highlighted in this chapter. Such measures include training of users on accountabilities, policies, and processes, increased monitoring and reporting of usage; and, where appropriate, restricting use of the tool.

4.89 Recommendation. The Canada Firearms Centre should review its contracting of IT consultants to ensure that it does not create employee-employer relationships.

Canada Firearms Centre's response. Agreed. The Centre continues to take steps to reduce its dependence on the core group of IT consultants. As contracts of the Information Technology Services Branch of Public Works and Government Services Canada come up for renewal, they will not be extended. Additionally, the Centre has contracted the provision of IT services to a private sector service provider. As a result, the contractual relationship with the individuals in question will cease.

Contracting for the Canadian Firearms Information System

4.90 In 2002 we reported the following problems with the CFIS I, then known as the Canadian Firearms Registration System.

- The scope of CFIS I had expanded well beyond the Department of Justice's experience. Internal audits by the Department had revealed several major project management problems, including not establishing a formal framework for financial reporting until the project was well under way and making a high number of changes in the design of the system.
- In 2001, the Department of Justice told the government that the three-year-old CFIS was not working well. The system had been developed at the same time as changes were being made to the forms, rules, and processes for the Canadian Firearms Program and before legislation and regulations were finalized. The Department stated that the complexity of CFIS increased unnecessarily because many of the design assumptions were invalid.

- The government approved outsourcing the redesign of the existing CFIS as part of its restructuring of the program.

4.91 We examined the development of CFIS II to identify the factors that had led to the increase in total costs. We expected to see lessons learned from CFIS I applied to the establishment and management of CFIS II. We also looked for evidence that the Centre had followed the Treasury Board policy (including the Enhanced Management Framework) for managing large IT acquisitions.

4.92 Exhibit 4.7 presents the CFIS I story through a timeline of significant events, and Exhibit 4.3 outlines the costs of CFIS II.

The lessons learned from CFIS I were not used in developing CFIS II

4.93 Consistent with internal audit reports issued by the Department of Justice and the Centre, we found that CFIS I took longer to implement than expected and cost more than twice the original estimate because of the following factors:

- change control processes were poorly managed by the Department of Justice,
- project requirements were not well defined,
- a level-of-effort (cost plus) contract was used, and
- the passage of Bill C-10 and its regulations was delayed for more than two years.

4.94 Estimates of final costs varied over time, as well as what was included in calculating them. In 1995 the Department of Justice said, in the financial framework for Bill C-68, that costs associated with the development of CFIS I would reach \$48.8 million for the Department of Justice alone, and that total costs would be \$85 million by 2000. The Effective Project Approval in 1998 estimated total development costs at \$94.5 million. We found that at 22 March 2005, total CFIS I project costs, which included development, maintenance, and operations, were almost \$190 million.

The decision to proceed with CFIS II was ill-considered

4.95 In 2001 the Department of Justice supported redeveloping CFIS I, despite pending regulatory and legislative changes that represented major risks to the project. These risks were identified in a draft consultant's report and draft internal reports. The Centre's current management was unable to provide us with final versions of these reports, to confirm who had seen them, or to provide a plan

Exhibit 4.7 Canadian Firearms Information System (CFIS) I and II development timeline

Year	Canadian Firearms Information System I	Legislative and regulatory environment	Canadian Firearms Information System II	Management environment
1995		<i>Firearms Act</i> receives royal assent but proclamation delayed to January 1997 to develop information system (December).		Firearms Control Task Group within Department of Justice manages the Firearms Control Program.
1996	Request for proposal to select system developers (mid-year).	<i>Firearms Act</i> regulations tabled but not passed (November).		Canadian Firearms Centre (CAFC), within the Department of Justice, is designated to implement Canadian Firearms Program (1996).
1997	Contracts signed with CFIS I system developers (November).	Revised regulations tabled but not passed (October).		
1998	Treasury Board gives effective project approval for CFIS I (May). CFIS I is partially implemented (December).	Revised regulations passed (March). <i>Firearms Act</i> and regulations come into effect (December).		
1999	Performance working group established to review CFIS I performance (January). CFIS I is fully implemented; systems performance problems are identified (May).			
2000	Consultant study warns planned changes to CFIS I would be a major risk (May).			Chief Executive Officer appointed for the Centre (January 2000 to July 2001).
2001		<i>Firearms Act</i> amendments tabled. These amendments will affect information system requirements (March).	Department of Justice tells government CFIS I needs restructuring (2001). Treasury Board approves restructuring plan (March).	New Chief Executive Officer appointed (July 2001 to January 2003).
2002	CFIS I costs and levels of performance stabilize.	Legislative amendments die when Parliament adjourns (June). Revised legislative amendments tabled (October).	Treasury Board approves further system development (May). Contract awarded to system developers (July).	Auditor General's Report: Department of Justice—Costs of Implementing the Canadian Firearms Program (December 2002).
2003		Legislative amendments to the <i>Firearms Act</i> receives royal assent (May). Regulatory changes tabled (June). Regulatory changes on hold pending ministerial review of program (December).	Ready to implement (March). Implementation delayed (March). Delay costs are incurred (April). Implementation put on hold until regulations are passed (November). Treasury Board designates CFIS II as a Major Crown Project (November).	Gun Control Action Plan (February). New Chief Executive Officer appointed (February). CAFC becomes a separate department reporting to the then Solicitor General, now the Minister of Public Safety. Current Chief Executive Officer is appointed as Commissioner of Firearms (May).
2004		Regulatory changes passed (December).	Information System developers' contract extended (March).	
2005	New release of CFIS I to meet regulatory changes (April).	Regulatory changes come into effect (April).	Treasury Board directs CAFC to report on CFIS II progress (February).	

showing how the risks would be mitigated. In addition, the draft reports identified major risks due to higher expectations for the system's capabilities than the budget could support and a timeline that was too short to complete the project.

4.96 The draft reports were all similar and predicted with high accuracy the major risks to the CFIS II project. The project is already more than two years late, and the estimated cost is now about \$90 million. At the end of our audit, the expected completion date was spring 2006.

4.97 We found that the request for proposals for CFIS II that went out in the fall of 2001 did not include detailed requirements. The contractor that won the bid did not receive the user specifications until after receiving the letter of intent stating that it was the successful bidder. The Centre told us that management chose this approach to encourage the creativity of the proposals. The letter of intent also told the contractor to start work before the formal contract was signed. The contractor was later able to claim that changes in the project's scope had resulted in additional costs.

4.98 In our opinion, the CFIS II cost overruns resulted from the decision by senior managers in 2001 to build CFIS II before CFIS I was fully stable and operational and before the legislative and regulatory changes had been completed. We also found that the applicable lessons learned from CFIS I were not applied in the development and management of CFIS II.

CFIS II project delays contributed to significant escalation of project costs

4.99 Although it was originally planned that the CFIS II development phase initiated in April 2002 would take nine months, after three years it is still under way.

4.100 There were significant delays during the development phase, for reasons that include the following:

- Although originally planned for January 2003, Bill C-10A to amend the *Firearms Act* did not receive royal assent until May 2003, and related regulations were not enacted until December 2004.
- The approved legislative amendments resulted in significantly more changes to the system requirements and to the scope of the project than had originally been communicated to the contractor.

4.101 In March 2003, the contractor completed the development of the system based on the original requirements. However, because the legislative process was still ongoing and the Centre expected that the system as developed would not meet the new requirements, it put the project development on hold. As a result, the Centre incurred delay costs of \$30.6 million during 2003–04 and 2004–05. Delay costs included

- the costs to the contractor for retaining the personnel to complete the system;
- the costs of maintaining the system while the project was on hold, for example, the cost of purchased computer equipment and monthly charges for software licences; and
- interest charges of \$2 million due to project delays and a delayed-payment schedule negotiated by the Centre in the original contract.

4.102 Under the restructured agreement with the contractor, the Centre capped the development and delay costs required to bring CFIS II into service at \$15 million, to be paid over 15 years. The negotiated 15-year payment plan will result in a total cost of \$23 million, with \$8 million of that amount as interest charges. In our opinion, this does not represent due regard to economy.

4.103 The Centre’s management told us that one of its objectives for the restructured agreement was to transfer some of the project risk back to the contractor, by

- setting a cap on the costs of completing the system and on service delivery costs over 15 years, and
- eliminating a price **escalator clause** and a clause to reprice every five years, which had been in the original agreement.

Escalator clause—A statement in a contract that provides for increasing one amount in proportion to a change in another amount.

4.104 With the restructured agreement, the Centre intended to stop the accumulation of delay costs, defer the outsourcing of the Central Processing Site until the Centre’s operations had stabilized, and ensure that no further payments would be due to the contractor until the system described in the agreement was implemented.

A project management plan for CFIS II is being put in place

4.105 We reviewed the management of the CFIS II project and found that appropriate management practices for a project of such cost and complexity are now being put in place. In June 2003, the Treasury Board directed that the alternative service delivery plan that was the

basis for the CFIS II contract be reviewed by the Centre in the context of a major Crown project. In November 2003, the Treasury Board designated the CFIS II as a major Crown project and directed the Centre to provide a detailed project submission prior to January 2004 to reflect the new designation. Officials at the Centre told us that because of uncertainty at that time over the future direction of the Canadian Firearms Program, they had reassessed whether to continue with CFIS II, and no development work occurred during this period. No project submission was prepared. As a result of the uncertain status from November 2003 to February 2005, the CFIS II project was not reported as a major Crown project, although it had been designated as one.

4.106 In February 2005, the Treasury Board directed the Centre to report on the project's progress in its report on plans and priorities and its performance report. This reporting will replace the major Crown project policy requirement for progress reports to the Treasury Board. The Centre plans to submit a project evaluation and a close-out report before the end of 2006–07.

4.107 The Centre has developed a project management plan that includes creating an organizational structure and hiring new project management staff for CFIS II's completion. The staffing and structure represent progress; however, a formal, integrated project management plan that defines clear roles and responsibilities is still required.

4.108 Recommendation. The Canada Firearms Centre should clarify for Parliament the current status of the CFIS II system development phase. It should also clearly identify the nature of the services it is to receive during the operational 15-year period and reconcile their cost with the service charges in the original contract from 2002.

Canada Firearms Centre's response. Agreed. The Centre will continue to provide Parliament with improved CFIS II reporting, including information on the system development project and the nature of services to be provided over the 15-year operation period.

Conclusion

4.109 The Canada Firearms Centre has made satisfactory progress in implementing our 2002 recommendation on financial reporting, except in its accounting for the costs of developing the CFIS II, its new information system. Its methods of apportioning costs between the licensing and registration activities are reasonable. And it is now

reporting the indirect costs of its federal partners in the Program, although it has not developed a clear definition of what those costs include.

4.110 While the new management team has made progress in addressing many of the organizational issues facing the Centre, problems remain. The Centre's performance reports do not give Parliament a complete picture of how the licensing and registration activities are performing. The lack of performance standards is an urgent matter that needs to be addressed.

4.111 The loosening of information requirements so that the 31 December 2002 legal deadline for registration could be met compromised the quality of information in the registration database. The Centre has not assessed the quality of the data and does not know how many of its records are incomplete. Its plans for resolving concerns about data quality hinge on a network of volunteer verifiers. We have several concerns about the operations of this network.

4.112 We note that the integrity of the contracting process has improved since the Centre was established as a separate agency. We found that earlier contracting practices did not comply with government policies and regulations that require competitive procurement.

4.113 The cost of the main information system, CFIS I, was \$190 million, including operating costs, which is significantly higher than original estimates. Although the system now works, earlier doubts about its viability and maintainability led to a second project to replace it. The cost of CFIS II was originally estimated at \$32 million but is now expected to be at least \$87 million. Beginning the development of CFIS II before legislation and regulations were in place repeated the errors of CFIS I, and this was responsible for some of the increased costs.

4.114 In evaluating the Canada Firearms Centre's progress in responding to our 2002 recommendation, it is important to take several factors into account: The status of the CFIS project (late and over budget) is largely due to early decisions made in 2001 and 2002; the lack of compliance with good contracting practices goes back to 1997; and the current management team inherited an organizational structure that had not stabilized. These factors imposed real constraints on how much could be done in the period since our audit in 2002. The current management team has made notable progress on a number of issues, including the establishment of a new department.

About the Audit

Objectives

The main objective of this audit was to assess the progress the Centre has made in addressing our 2002 recommendation aimed at the Department of Justice and in managing the Canadian Firearms Program.

We wished to determine if the Centre and its partners were adequately recording and reporting all of their costs and revenues associated with the firearms program.

In addition, we wished to determine the adequacy of performance reporting, contracting practices, and the development of major data systems.

Scope and approach

To review progress on reporting financial information and performance information, we did the following:

- We audited the Centre's expenditures and revenues reported in Table 3 and Table 6, respectively, of its 2004–05 *Departmental Performance Report*. (We did not audit financial information reported by the Centre in prior fiscal years.) This financial information has been prepared in accordance with relevant Receiver General and Treasury Board requirements. It is the responsibility of the Centre's management, and our responsibility is to express an opinion on this information, based on our audit work. We conducted our audit in accordance with Canadian generally accepted auditing standards, which require that we plan and perform an audit to obtain reasonable assurance on whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.
- We assessed whether the Centre and its federal partners implemented adequate processes to ensure that the indirect costs reported to Parliament are reasonable; we did not audit the accuracy of indirect costs.

We audited only the performance of government organizations. We did not examine and make no comment on the performance or actions of any contracted party.

We examined files relating to performance management, contracting for the period 1997 to 2005, and the implementation of CFIS II. We did not examine the technical solution being developed for CFIS II.

We interviewed senior managers and staff at the Centre, Department of Justice, Public Works and Government Services Canada, certain of the Centre's federal partners, and the Treasury Board Secretariat. We reviewed extensive documentation, including relevant submissions to the Treasury Board. We visited chief firearms officers and attended consultation meetings with volunteer verifiers.

During the course of our work, we kept senior management informed of our progress and our preliminary findings. Except for the financial audit, the period of our audit was from May 2005 to September 2005.

Conflict of Interest Disclosure

The current Deputy Auditor General was the Acting Comptroller General of Canada during part of the period in which the decisions about the 2003–04 accounts were made: last January 2004 to early March 2004. He resigned his position in mid-February 2004 and left the employment of the Government in early March 2004. Shortly thereafter, he was named Deputy Auditor General of Canada. When the commencement of this audit was announced, he immediately disclosed that he had had an involvement in matters that might arise in the course of our audit and recused himself from all involvement in the audit. He was interviewed by the audit team in his capacity as the former Acting Comptroller General of Canada.

Criteria

We expected that the Centre's annual revenues and annual expenditures for the year ending 31 March 2005 reported in its *2004–05 Departmental Performance Report* would be fairly presented, in all material respects, in accordance with Receiver General and Treasury Board requirements.

We expected that the Centre and its federal partners would have processes in place to ensure the reasonableness of the reporting of indirect costs incurred by federal partners.

We expected that the Centre would have developed a costing methodology based on the following generally accepted criteria: cause and effect, equitability, reliability, representativeness of actual efforts, and replicability.

We also expected that the Centre would

- follow Treasury Board guidelines for the design and preparation of performance reports;
- have systems in place to monitor and improve efficiency and service to the public;
- have systems in place to manage and assure the quality of its database;
- have a model in place to estimate the quality of its database and establish targets for quality;
- comply with the Treasury Board's policy on contracting, the Government Contracts Regulations, and the Centre's contracting authorities; and
- have used lessons learned from CFIS I in developing CFIS II, and have the capacity to anticipate and adjust to change.

We expected that the governance structure for CFIS II would be based on *An Enhanced Framework for the Management of Information Technology Projects*, including such things as

- clear accountabilities,
- clearly defined roles of project leader and manager,
- in-house staffing of core responsibilities and functions, and
- project management decisions based on risk management.

Audit work completed

Audit work for this chapter was substantially completed on 15 November 2005.

Team

Assistant Auditor General: Hugh McRoberts

Senior Principal: Peter Kasurak

Principal: Louis Lalonde

Directors: Lissa Lamarche, Renée Pichard, and Edward Wood

Mark Carroll

Geneviève Couillard

Alexis Dusonchet

Carol McCalla

Jacinthe Pépin

Lucie Vallières

For information, please contact Communications at (613) 995-3708 or 1-888-761-5953 (toll-free).

Appendix A The Gun Control Program Action Plan and its status

Announced in February 2003, the government's plan included the following actions, to be implemented in the next 12 months:	Status of actions
<p>1. Reducing costs and improving management, by moving the National Weapons Enforcement Support Team (NWEST) to the National Police Services administered by the RCMP, to align enforcement operations; streamlining headquarter functions and consolidating processing sites; creating a continuous improvement plan to generate ongoing program efficiencies; establishing national work performance measurements and cost standards; and limiting computer system changes to projects that improve the efficiency of the program.</p>	<ul style="list-style-type: none"> • NWEST was transferred to RCMP by April 2003. • Québec and Miramachi processing sites were consolidated by March 2004. • Continuous improvement plan was established. In 2005, the Centre reports over 50 elements completed, and 36 awaiting completion. • National work performance measures were established but are not relevant to operations. Refer to paragraph 4.43. • Limited changes to computer system pending development and delivery of new system.
<p>2. Improving service to the public, by extending free Internet registration and making it more easily accessible and reliable; ensuring clients can easily access 1-800 telephone information services; processing properly completed registration applications within 30 days of receipt; and implementing a targeted outreach program to help firearm owners fulfill licensing and registration requirements.</p>	<ul style="list-style-type: none"> • The Centre reports that 65 percent of registration applications from individuals were submitted on-line in 2004–05. • No telephone service levels were established. Refer to paragraph 4.45. • 73 percent of properly completed registration applications were processed within 30 days of receipt. Refer to paragraph 4.49.
<p>3. Seeking input from parliamentarians, stakeholders, and the public, by holding consultations in spring 2003 on how to improve the design and delivery of the gun control program, and creating a Program Advisory Committee of experienced individuals external to government to provide ongoing advice on cost reductions, quality of service, and the continuous improvement plan.</p>	<ul style="list-style-type: none"> • Public consultations were held and results were reported on in August 2004. • Advisory Committee was established in June 2003 and is meeting regularly.
<p>4. Strengthening accountability and transparency, by reporting to Parliament full program costs across government; tabling an annual report to Parliament that provides full financial and performance information on the gun control program; hiring a Comptroller, who would be responsible for resource management, risk analysis, data integrity and reporting; and creating an annual audit and evaluation plan for all major program components, which would operate on a three-year cycle with the first report on results in 2005.</p>	<ul style="list-style-type: none"> • Improvement in reporting full costs was noted, but clearer reporting is necessary. Refer to paragraphs 4.11 to 4.20 and 4.30 to 4.49. • Chief Financial Officer was appointed in 2003. Internal audit and evaluation plan was established. First departmental audit report was published in 2005 and is available to the public.

Appendix B *Government's Response to the Twenty-Fourth Report of the Standing Committee on Public Accounts (selected excerpts), and the status*

Recommendations	Government response	Auditor General's 2006 Status Report reference
<p>Recommendation 1</p> <p>That the Department of the Solicitor General prepare, in cooperation with its federal partners in the gun control program, a special report to be filed with the Clerk of the House of Commons no later than 31 December 2003 that provides the full costs of the Canadian Firearms Program across government together with data on the revenues collected and refunds made on a retroactive basis using an activity-based framework in accordance with the government's regulatory policy.</p>	<p>On October 30, 2003 the Minister of Justice tabled in Parliament the Department of Justice's Performance Report for the year ended March 31, 2003. This report included expanded information on the Canadian Firearms Program including: a fulsome discussion of the year's activity, disclosure of a full federal government cost history, net revenues and refunds, as well as a summary of program results, challenges and lessons learned. This expanded disclosure responded to the recommendations of the Auditor General and is consistent with the special report information requested by the committee. This reporting was also supported in the Gun Control Program Action Plan.</p>	<p>The specific report recommended by the Committee was not done. The Centre through various reports has provided much of the information.</p> <p>Refer to paragraphs 4.11 to 4.29.</p>
<p>Recommendation 2</p> <p>That in those instances in which retroactive data on costs, revenues, and refunds are not available, the Department of the Solicitor General provide a full explanation in the special report.</p>	<p>The Departmental Performance Report referenced above contained all cost, revenue and refund information since the inception of the program in 1995-96. Limitations ... are disclosed in the notes to the schedule. None of the limitations or assumptions has a significant negative effect on the usefulness of the information. For example, amounts were rounded to the nearest one hundred thousand dollars.</p>	<p>Refer to paragraphs 4.11 to 4.29.</p>

Recommendations	Government response	Auditor General's 2006 Status Report reference
<p>Recommendation 3</p> <p>That the Department of the Solicitor General include, in its special report, forecasts of costs and revenues to the point at which the Department expects the Program to become fully operational, including details on outsourcing major components of the Canadian Firearms Registration System and moving certain headquarters functions to Edmonton.</p>	<p>Effective in April 2003, the Canada Firearms Centre (CAFC) was established as a stand-alone department for the purposes of the <i>Financial Administration Act</i>. It is now a department within the portfolio of the Minister of Public Safety and Emergency Preparedness (formerly the Solicitor General). As such, it will now report directly to Parliament, through the Minister of Public Safety and Emergency Preparedness, on its plans and priorities on an annual basis. Its first Report on Plans and Priorities is to be tabled in Parliament in 2004. This report will reflect the Program's strategic directions, major outcomes and a forecast of costs and revenues over the planning horizon.</p> <p>The Gun Control Program Action Plan also recommended streamlining Headquarters function. The CAFC Headquarters has been consolidated and is now located in Ottawa.</p>	<p>Refer to paragraphs 4.7, 4.10 to 4.21, and 4.91 to 4.108.</p>
<p>Recommendation 4</p> <p>That the Department of the Solicitor General include, in the special report, complete explanations for changes in costs and revenues, and changes to the overall program.</p>	<p>As discussed in the response to Recommendation 1, full disclosure of federal government costs and revenues for the overall program since its inception was provided to Parliament as part of the Department of Justice's 2002–03 Performance Report.</p> <p>Ministers are accountable to Parliament on costs outlined in the reports, and opportunities exist to seek further explanations of costs when reports are tabled.</p>	<p>Refer to paragraphs 4.11 to 4.29.</p>
<p>Recommendation 8</p> <p>That the Government of Canada implement the 1997 Project Charter, making the Canada Firearms Centre at the Department of the Solicitor General of Canada the single point of responsibility and accountability for the Canadian Firearms Program.</p>	<p>Effective in April 2003, the Canada Firearms Centre was created as a stand-alone Department reporting to the Solicitor General, now the Minister of Public Safety and Emergency Preparedness. In this capacity, it is the central point of contact for all aspects of the Canadian Firearms Program. All federal government program costs, whether incurred directly by the CAFC or by federal or provincial partners, will be reported to Parliament in the CAFC's accountability reports (IRPP, DPR) and Commissioner's Report). The CAFC's first [RPP] is expected to be tabled in Parliament in 2004.</p>	<p>Refer to paragraphs 4.7, 4.22 to 4.27.</p>

Recommendations	Government response	Auditor General's 2006 Status Report reference
<p>Recommendation 9</p> <p>That all federal participants in the delivery of the Canadian Firearms Program clearly set out their roles and responsibilities in a formal accountability framework signed by senior officials, and include this framework in the first report on the full costs of the Program.</p>	<p>The roles and responsibilities of federal participants are laid out in the legislative and regulatory framework of the program. Some departments and agencies carry out these responsibilities in their own right with funding provided directly by Parliament (i.e.: RCMP - [National Weapons Enforcement Support Team] NWEST and Public Works and Government Services Canada - Accommodation). Others carry out their program responsibilities on a fee for service basis (i.e.: RCMP - Canadian Police Information Centre system, Canada Customs and Revenue Agency - Import of firearms). This multi-faceted and complex program delivery structure is managed in such a way that the participants must respond in a flexible fashion to day-to-day changes in priorities. As such, it is managed on a bilateral basis rather than through one comprehensive formal accountability framework. The Centre has developed a Management Accountability Framework to guide its operations. This framework will provide the basis for the Centre's first [RPP]. The affected Departments are required by Parliament to report on their activities through regular reporting procedures such as [DPR]s and RPPs.</p>	<p>Refer to paragraphs 4.22 to 4.27.</p>

Appendix C List of recommendations

The following is a list of recommendations found in Chapter 4. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraph where the topic is discussed.

Recommendation	Department's response
Financial information reported to Parliament	
<p>4.21 The Canada Firearms Centre should ensure that the recording of project development costs over the life of the service agreement conforms to the Treasury Board's Policy on Payables at Year-End. The Centre should record costs against annual appropriations as they are incurred. (4.11–4.20)</p>	<p>Payment of the remaining development costs over the life of the service agreement was one element of the restructured CFIS II contract intended to provide system delivery and service incentives to the contractor. The approach to appropriation charging was developed with the support of the Office of the Comptroller General, bearing in mind the requirements of the <i>Financial Administration Act</i> and Treasury Board policy. It will be fully disclosed in all parliamentary reporting.</p>
<p>4.27 The Canada Firearms Centre should define what types of cost elements should be reported as the indirect costs of the Canadian Firearms Program. (4.22–4.26)</p>	<p>Agreed. In conjunction with the Treasury Board Secretariat and program partners, the appropriateness and content of reporting indirect costs will be reviewed. This will be completed in conjunction with the preparation of the 2005–06 <i>Departmental Performance Report</i>.</p>
Measuring and reporting of performance	
<p>4.41 The Canada Firearms Centre should improve its reporting on the performance of the Canadian Firearms Program by providing targets and evidence-based results, and by showing through the use of a results chain how these results could contribute to public safety goals. (4.30–4.40)</p>	<p>Agreed. As a new department the Centre's priority has been to ensure that the program's fundamental baseline data is correct and to develop the capacity for more in-depth analysis of performance information. As the chapter notes, this has resulted in a significant increase in the performance information provided to Parliament. The Centre will continue to enhance its performance reporting as the program matures and more complete longitudinal data becomes available.</p>
<p>4.51 The Canada Firearms Centre should present its performance information in its performance reports in a comprehensive and complete manner that allows Parliament to fully understand the performance it has achieved and the challenges it faces. (4.42–4.50)</p>	<p>Agreed. As acknowledged by the Office of the Auditor General, there has been a significant increase in performance information provided to Parliament. Having established this foundation, the Centre will continue to enhance its performance reporting as the program matures and more complete longitudinal data becomes available.</p>

Recommendation	Department's response
<p>4.52 To improve its service to the public, the Canada Firearms Centre should analyze how long it takes to investigate and complete licence and registration applications that have client eligibility failures, identify the nature of the problems, and take appropriate action. (4.42–4.50)</p>	<p>Agreed. As identified in the Centre's 2004–05 Departmental Performance Report, client service standards are being reviewed. This review will take into consideration lessons learned during the audit, including the impact of the investigation of eligibility issues on meeting service standards. This will be done recognizing that a balance must be struck between the efficiency with which client applications are processed and the effectiveness of the investigation procedures related to public safety.</p>
<p>4.64 The Canada Firearms Centre should ensure that its new information system will be able to provide management with the performance information it needs to run the Canadian Firearms Registry. (4.53–4.63)</p>	<p>Agreed. The project is being assessed to ensure that the system provides appropriate operational and management information in support of all aspects of the program.</p>
<p>4.65 As part of CFIS II, the Canada Firearms Centre should validate addresses against information in other databases, and check all records for entry errors and completeness. (4.53–4.63)</p>	<p>Agreed. As noted in the chapter, the Centre has an ongoing plan to monitor and address data quality issues. This initiative will continue to form part of the ongoing continuous improvement plan. Specifically, the Centre will</p> <ul style="list-style-type: none"> • explore cost-effective alternatives to validate address information with other databases, • examine a solution to migrate Restricted Weapons Registration System information, and • continue the process of validating data accuracy and completeness.
<p>4.70 The Canada Firearms Centre should undertake a complete review of the volunteer Verifiers Network, including determining how many verifiers are needed, where they are needed, and how they should be managed. (4.66–4.69)</p>	<p>Agreed. As identified in the Department's 2005–06 <i>Report on Plans and Priorities</i>, the development and implementation of a strategy to enhance the firearms verification process was identified as a priority. In the fall 2005, surveys were sent to 3,328 verifiers and 952 firearms owners. These surveys, in addition to the consultations with verifiers, resulted in an approach to identifying the number of verifiers needed. Additional analysis will be completed over the coming months and the resulting strategy will be implemented during 2006–07.</p>

Recommendation	Department's response
<p>4.73 The Canada Firearms Centre should take the necessary steps to follow up on revocation orders, including seeking the implementation of the Public Agents Firearms Regulations. (4.71–4.72)</p>	<p>Agreed. In conjunction with the implementation of the Public Agents Firearms Regulations, the Centre will review its processes regarding follow-up on revoked registration certificates.</p>
<p>Management of contracting</p>	
<p>4.88 Public Works and Government Services Canada should review how client departments use the contracting tools it has developed. It should be able to provide assurance that its tools are not being used to circumvent contracting policies and regulations. (4.74–4.87)</p>	<p>Public Works and Government Services Canada response. The Auditor General's recommendation identifies a weakness with the proper use of the Department's contracting tools. The Department recognizes the importance of this recommendation and is taking corrective measures to address the issues highlighted in this chapter. Such measures include training of users on accountabilities, policies, and processes, increased monitoring and reporting of usage; and, where appropriate, restricting use of the tool.</p>
<p>4.89 The Canada Firearms Centre should review its contracting of IT consultants to ensure that it does not create employee-employer relationships. (4.74–4.87)</p>	<p>Agreed. The Centre continues to take steps to reduce its dependence on the core group of IT consultants. As contracts of the Information Technology Services Branch of Public Works and Government Services Canada come up for renewal, they will not be extended. Additionally, the Centre has contracted the provision of IT services to a private sector service provider. As a result, the contractual relationship with the individuals in question will cease.</p>
<p>Contracting for the Canadian Firearms Information System</p>	
<p>4.108 The Canada Firearms Centre should clarify for Parliament the current status of the CFIS II system development phase. It should also clearly identify the nature of the services it is to receive during the operational 15-year period and reconcile their cost with the service charges in the original contract from 2002. (4.90–4.107)</p>	<p>Agreed. The Centre will continue to provide Parliament with improved CFIS II reporting, including information on the system development project and the nature of services to be provided over the 15-year operation period.</p>

