

# Foreword





# Report of the Auditor General of Canada to the House of Commons for September and November 1999

## Foreword

I am pleased to present the September and November volume of my 1999 Report. This Foreword is followed by “Matters of Special Importance – 1999” and the Main Points from all of this year’s chapters. Tabling of chapters 11 through 19 had been planned for September, but was deferred when the session of Parliament ended. This volume of my Report contains the following 23 chapters:

11. Agriculture Portfolio – User Charges
12. Agriculture and Agri-Food Canada – A New Crop: Intellectual Property in Research
13. National Defence – Hazardous Materials: Managing Risks to Employees and the Environment
14. National Health Surveillance: Diseases and Injuries
15. Management of a Food-Borne Disease Outbreak
16. Revenue Canada – Goods and Services Tax: Returns Processing and Audit
17. Canada Infrastructure Works Program: Phase II and Follow-up of Phase I Audit
18. Public Works and Government Services Canada – Alternative Forms of Delivery: Contracting for Property Management Services
19. Industry Portfolio – Investing in Innovation
20. Fisheries and Oceans – Pacific Salmon: Sustainability of the Fisheries
21. Financial Information Strategy: Departmental Readiness
22. Attributes of Well-Managed Research Organizations
23. Involving Others in Governing: Accountability at Risk
24. The Canadian Adaptation and Rural Development Fund: An Example of Involving Others in Governing
25. Preparedness for Year 2000: Final Preparation
26. National Defence – The Proper Conduct of Public Business
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28. Canadian International Development Agency – Financial Controls Over Projects
29. Federal Support of Health Care Delivery
30. Sole-Source Contracting for Professional Services: Using Advance Contract Award Notices
31. Department of Foreign Affairs and International Trade – Delivery of Capital Projects in Four Missions
32. Follow-up of Recommendations in Previous Reports
33. Other Audit Observations

My Office issued the first volume of the 1999 Report in April, containing 10 chapters.

In addition, this year my Office has provided:

- an auditor's report and observations on the Financial Statements of the Government of Canada;
- an auditor's report and observations on the Statement of Transactions of the Debt Servicing and Reduction Account; and
- some 90 auditor's reports and observations on federal Crown corporations, federal departmental corporations and other entities, territorial governments, corporations and other entities and international organizations.

In 1998–99 my Office completed special examinations of Atomic Energy of Canada Limited, Defence Construction (1951) Limited, National Arts Centre Corporation, Via Rail Canada Inc., Pacific Pilotage Authority, Canadian Commercial Corporation, Canada Mortgage and Housing Corporation and Business Development Bank of Canada. Further, in the subsequent period of April to November 1999, my Office also completed special examinations of National Museum of Science and Technology Corporation, Standards Council of Canada, Canada Development Investment Corporation, Export Development Corporation, Marine Atlantic Inc., Enterprise Cape Breton Corporation and Old Port of Montreal Corporation Inc.

Under section 11 of the *Auditor General Act* I may undertake, from time to time, assignments at the request of the Governor in Council. No such requests were made in 1999.

# Main Points



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# Correctional Service Canada

## Reintegration of Offenders

### Chapter 1 – Main Points

**1.1** Correctional Service Canada has made a concerted effort to respond to our 1994 and 1996 observations concerning the management of its offender reintegration activities. However, there are some important areas that require further improvement.

**1.2** The Service is now moving in the right direction. It has recently implemented change initiatives in several areas. Among them, it has strengthened the ability of national headquarters to direct and co-ordinate offender reintegration activities Service-wide; implemented a major initiative to streamline its reintegration operations; achieved international recognition for some of its offender rehabilitation programs; and improved its ability to measure the results and performance of its reintegration activities.

**1.3** Progress notwithstanding, improvement is still needed in some key areas:

- more timely acquisition of official documents for initial offender assessment;
- more timely casework preparation to meet the offender's first parole date;
- a clear operational strategy for offender employment programs;
- better-quality offender reintegration reports for the National Parole Board; and
- improved adherence to national standards for frequency of contact with offenders in the community.

#### Background and other observations

**1.4** Correctional Service has as one of its main responsibilities the safe reintegration of offenders into the community. This entails assessing offender risk and needs; preparing the offender for release into the community; reassessing offender suitability for release and making a recommendation to the National Parole Board; and providing supervision and programs for offenders in the community until the end of the sentence.

**1.5** Overall spending on reintegration has risen by \$38 million (13 percent) over the past three fiscal years. Correctional Service Canada spends about \$329 million or 28 percent of its total expenditures for the reintegration of offenders.

**1.6** In 1997–98, there were 13,449 incarcerated offenders in federal institutions and 8,744 offenders in the community, most of whom were supervised by Correctional Service parole officers. Until recently, the proportions of federal offenders in institutions and under community supervision have remained fairly constant. However, in 1997–98, the number of offenders supervised in the community increased by about 500.

**1.7** Under the *Corrections and Conditional Release Act*, there are several different ways that an offender can be released into the community: day parole (six months prior to full parole); full parole (at one third of the sentence) and statutory release (after two thirds of the sentence). Some offenders will be detained until the end of their sentence.

**1.8** A recent change allows offenders serving their first federal sentence who have not been convicted of a violent crime or serious drug offence to be released on day parole at one sixth of their sentence (accelerated parole review).

**1.9** Our previous audit work, in 1994 and 1996, identified systemic weaknesses in the Service's management of reintegration activities. Those audits identified concerns in such areas as work standards, quality assurance procedures, performance information, implementing basic changes and learning from successes and failures. This chapter revisits those issues.

**1.10** As promised to the Public Accounts Committee in April 1998, we reviewed changes made by the Service to the custody rating scale and looked at whether the Service had implemented the new offender security reclassification instrument. We found that the changes to the custody rating scale reduced overrides with minimal impact on the number of escapes. The Service has just implemented a new reclassification instrument, as promised.

**1.11** In addition to their institutional security responsibilities, senior correctional officers still do not consistently perform their required offender reintegration duties, a necessary input to offender assessment reports to the National Parole Board. The Service has undertaken an initiative to address this issue.

**1.12** While the Service has developed a continuum of rehabilitation programs from the institution to the community, its ability to deliver these programs to offenders in the community falls short of current needs. Research indicates that many intervention programs that deal with offenders' criminogenic needs are more effective when delivered in the community.

**Correctional Service's responses to our recommendations are included in this chapter. The Service concurs with the recommendations made and its responses indicate its commitment to take the necessary corrective action.**



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# Revenue Canada

## Underground Economy Initiative

### Chapter 2 – Main Points

**2.1** Revenue Canada has reported that the tax impact (taxes resulting from enforcement actions) of its activities to address the underground economy was \$2.5 billion over five years; however, this includes the results of both regular ongoing enforcement programs and the Underground Economy Initiative. The actual tax impact attributable to the detection of unreported income by the 1,000 staff allocated to Initiative audit activities is much less than the \$500 million reported.

**2.2** It is difficult to assess the overall success of the Initiative in combatting the underground economy because the Department does not measure and report on the full range of Initiative activities and how they have changed taxpayer behaviour.

**2.3** Revenue Canada needs to assess the role that social marketing might play in making the public aware of the societal costs of unpaid taxes and in soliciting its support to combat the underground economy. Polls indicate that an alarming number of Canadians would be willing to participate in the underground economy. The Department also needs to strengthen the activities that promote voluntary compliance by businesses.

**2.4** The underground economy is a difficult and complex problem to solve and the size of the tax loss is significant. The problem requires continuous attention and sustained efforts from Revenue Canada and all Canadians.

#### **Background and other observations**

**2.5** The underground economy results in tax evasion and represents an estimated annual loss of federal and provincial tax revenues of \$12 billion. Tax evasion is not a victimless crime. It puts honest businesses at a competitive disadvantage and, in some cases, out of business. It also causes honest taxpayers to bear the tax load of those who cheat. If left unchecked, underground economy activity could lead to a loss of faith in the fairness of Canada's tax system.

**2.6** In 1993, Revenue Canada announced a new initiative to combat the underground economy by allocating 200 staff to its non-filers and non-registrants program and 1,000 staff to the audit of small businesses, where most of the underground economy activity exists. Thirty-five percent of the Department's audit staff for small and medium-sized businesses are now involved in the Underground Economy Initiative audit activities.

**2.7** The Initiative as planned was, in our view, a balanced approach to combatting tax evasion in the underground economy. It included activities to promote voluntary compliance in small businesses such as community visits and consultations with industry associations. As well, it involved other federal departments, provincial and municipal governments and private sector organizations in sharing information to better deal with the underground economy.

**2.8** The Department can improve its targeting of audits for the detection and reassessment of unreported income. As well, legislative opportunities exist to strengthen existing incentives to deter participation in the underground economy.

**Revenue Canada has agreed to take action to address our recommendations.**



# Statistics Canada

## Managing the Quality of Statistics

### Chapter 3 – Main Points

**3.1** Statistics Canada is committed to producing statistics of high quality. It has put in place a wide range of systems and practices to build quality into its statistical programs and to maintain an environment that encourages a concern for quality throughout the organization. However, the quality of the statistics it produces needs to be better documented and reported both within and outside the Agency. The Agency needs to integrate its many quality-related systems and practices better and adopt a more disciplined approach to documentation.

**3.2** The Agency has employed a number of formal quality assessment mechanisms, but individual programs have not applied them consistently. We concluded that the mechanisms currently used do not, either individually or collectively, provide systematic, transparent information on the adequacy of quality management systems and practices in the Agency's statistical programs or on the quality that they actually achieve.

#### **Background and other observations**

**3.3** Statistics Canada is responsible for collecting, compiling, analyzing and publishing statistical information on the economic, social and general conditions of Canada and Canadians. The statistics that the Agency produces support the development, implementation and evaluation of policies, programs and decision making in all sectors. They help us make informed decisions about such matters as where to live, what careers to pursue and how to vote. The Agency is widely respected among its peers, and has an international reputation for independence, innovation and quality that is second to none.

**3.4** Rapid social, economic and other changes have heightened the demand for reliable, objective statistical information on a wide variety of issues. As the demand for and use of statistics grow, their quality becomes increasingly important. Statistics Canada has identified six characteristics that its systems and practices for managing quality need to address: relevance, accuracy, timeliness, accessibility, interpretability and coherence.

**3.5** The Agency carried out self-assessments of four major surveys for our audit. Each assessment reached a positive conclusion about the overall adequacy of quality management. The work was well planned and executed. We concluded that in three of the four surveys, the self-assessments provide reasonable assurance that quality management systems and practices are adequate. In the remaining case, however, we concluded that the weaknesses identified and the recommendations made are more important than the self-assessment suggests, and deserve the attention of senior management.

**3.6** While its policy on informing users of data quality and methodology is clear and well structured, the Agency's implementation of the policy is inconsistent. Consequently, users are not always appropriately informed of the strengths and limitations of statistics. We also noted that while the quality of statistics figures prominently in its commitments to Parliament for results, the Agency's most recent Performance Report, tabled in October 1998, provides only limited information on the quality of the statistics that it produced.

**Statistics Canada's responses to our recommendations are included in this chapter. The Agency either agrees to take action or notes that initiatives are under way in the case of six of the eight recommendations we make. In the remaining two cases, the Agency agrees with the intent of our recommendations and indicates that it will consider the issues further.**



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## Fisheries and Oceans

### Managing Atlantic Shellfish in a Sustainable Manner

#### Chapter 4 – Main Points

**4.1** In October 1997, we reported on problems associated with the Department’s management of the Atlantic groundfish fisheries. In the current audit, we found that many of these problems also exist in the Department’s management of the Atlantic shellfish fisheries. For example, we noted increases in harvesting capacity and the encouragement of increased fisher participation through open access licensing in the shellfish fisheries. In addition, we found weaknesses in the information used in making resource decisions, and gaps in monitoring, control and surveillance. The full impact of these problems is not obvious, as most shellfish fisheries are currently recording high landed values. However, in our view these are significant concerns that must be addressed to ensure that the shellfish fisheries are managed in a sustainable manner.

**4.2** The Department’s decisions have a profound impact on those engaged in the fishing industry and the communities that rely on the income generated from the industry. The absence of a fisheries policy that fully reflects sustainability concepts means that decisions are made on an ad hoc and inconsistent basis rather than as part of an overall framework for achieving a sustainable fishery. An open and transparent process in which clearly articulated and consistently applied principles guide decision making would provide all stakeholders with assurance that their interests are considered and that the resource is protected over the long term.

**4.3** We observed resource use decisions that are not consistent with the Department’s currently stated objectives for fisheries management. As we reported in October 1997, there is a need to have the government clarify fisheries objectives in legislation. The Department needs to move forward with the development of a sustainable fisheries framework that incorporates the interdependent factors — biological, economic and social — that affect the fishery.

#### Background and other observations

**4.4** In the 1990s, Atlantic Canada saw a virtual collapse of its commercial groundfish fishery (cod, haddock, pollock, halibut and various flatfish). In the same period, however, there was a general rise in the value of shellfish landings (lobster, scallop, snow crab and shrimp). In 1997, the landed value of all shellfish in Atlantic Canada was \$920 million, which represented 81 percent of the landed value of all fish landed in the region.

**4.5** The Department has stated in its key parliamentary accountability documents that its objective is conservation, or protecting the productive capacity of the natural resource that supports the fishery. It has also reported that it has an economic objective, but the expected results for this objective are not stated. The Department has indicated that it is not responsible or accountable for social outcomes. We found that most resource use decisions in the shellfish fisheries are heavily influenced by social and economic factors.

**4.6** The Department’s “Fishery of the Future” strategy reflects objectives that include ensuring economically viable and self-reliant fisheries, over time. However, these objectives are not fully reflected in the Department’s reporting to Parliament. We found resource use decisions in the shellfish fisheries that are inconsistent with the concept of an economically viable industry.

**4.7** Co-management, designed to increase industry’s role, responsibility and accountability in fisheries management, is an important aspect of the Department’s Fishery of the Future strategy. Participants assuming greater responsibility for their industry is an important element of sustainability. However, very little power sharing has actually occurred. In our opinion, there are weaknesses in the Department’s current approach to co-management.

**4.8** The Department has recognized that there are weaknesses in the fisheries management framework in the existing *Fisheries Act*. However, amendments to deal with these weaknesses have not yet been re-introduced in the House of Commons.

**Fisheries and Oceans' responses to our recommendations are included in this chapter. The Department either agrees to take action or notes that initiatives are under way to address three of our four recommendations. The Department has not indicated an intention to take action at this time on our recommendation that addresses co-management.**



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# Collaborative Arrangements

## Issues for the Federal Government

### Chapter 5 – Main Points

**5.1** Collaborative arrangements are an alternative way — a potentially more innovative, cost-effective and efficient way — to deliver programs and services that traditionally have been provided by federal government departments and Crown corporations. In collaborative arrangements, the federal government, other levels of government and organizations in the private and voluntary sectors agree to share power and authority in decisions on program and service delivery.

**5.2** With the growing use of these arrangements, more taxpayer dollars are being spent and the risks need correspondingly more attention. The risks include arrangements set up poorly among the partners, limiting their chances for success; partners not meeting commitments; insufficient attention to protecting the public interest; insufficient transparency; and inadequate accountability.

**5.3** We believe that serving the public interest, effective accountability and greater transparency are basic elements of a framework for these arrangements, and we suggest questions that parliamentarians might wish to raise when assessing them.

#### Background and other observations

**5.4** In the desire for greater efficiency, it is very important that the federal government and its partners not lose sight of the public purpose behind the collaborative arrangement, and of the need to provide transparent, fair and equitable service to the public.

**5.5** Effective accountability is more complex in a collaborative arrangement. The federal government is accountable to Parliament for the use of federal funds and authorities, to its partners for keeping its commitments, and, with its partners, to the public for the results the arrangement produces. In our view, this shared accountability means that more parties are accountable and it in no way lessens the federal government's accountability for its own responsibilities in the arrangement.

**5.6** Delivering programs and services to the public through collaborative arrangements often requires more transparency than traditional delivery by a government department. Because partnerships are involved, it may be more difficult for citizens to know who is responsible. Consequently, the federal government needs to be as open as possible with information about agreements, decisions and results of the arrangements.

**5.7** The Treasury Board Secretariat has informed us that it intends to continue to provide advice and to develop guidance on collaborative arrangements for federal departments and agencies that will address many of the issues identified in this study.



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# Human Resources Development Canada — Accountability for Shared Social Programs

## National Child Benefit and Employability Assistance for People with Disabilities

### Chapter 6 – Main Points

#### National Child Benefit

**6.1** The National Child Benefit (NCB) represents a new form of collaborative arrangement between provinces (except Quebec) and territories and the federal government. A key challenge for all involved is to assure taxpayers that moneys are spent for the purposes intended, with due regard to economy and efficiency and with appropriate means to measure and report on effectiveness. Because there are many governments involved, it is also necessary to respect the jurisdictional competence of the different parties. As the NCB is implemented it is critical that, at a minimum, there be no less accountability because it is shared than if only one jurisdiction were involved.

#### Background and other observations

**6.2** The goal of the National Child Benefit is to reduce the depth of poverty among families with children and to increase parental attachment to the work force. The NCB involves no new law, contract, or contribution agreement, but rather an increased federal child tax benefit (the NCB supplement) for low-income families — about \$850 million in 1998, rising to \$1.7 billion by 2000. In turn, jurisdictions providing social assistance benefits to families may reduce their payments by the amount of the increased tax benefit. They have agreed to reinvest these savings in programs that have mutually agreed-upon objectives and that benefit poor families with children.

**6.3** One of the clear achievements of the negotiations leading to the NCB was the partners' agreement on the overall goals of both the federal and the provincial elements of the program. They also have committed to a new kind of joint accountability to the public. What is distinctive about this commitment is that no level of government is more responsible for reporting on the results than another. Each is accountable for the overall program.

**6.4** It will be a significant challenge in the first few years, before evaluation results are available, to demonstrate precisely how the National Child Benefit has contributed to reduced depth of poverty and increased employment among its recipients. In assessing progress, the NCB accountability report will also need to be clear about any trade-offs among goals and to discuss the implications. Otherwise, readers may expect that all goals can be achieved at the same time.

**6.5** There are potential gaps in the quality of financial and other information. The credibility of the accountability reports depends on the comparability, accuracy and verifiability of information from all parties — not only those who negotiated the arrangement (provinces, territories and the federal government) but also those who are responsible for designing and implementing only specific sub-programs (Ontario municipalities and First Nations). This is also a challenge for audit offices that serve the partners in this arrangement.

**6.6** We think the key ingredients in reporting the NCB's results to the public are transparency and adequacy of the information. This means:

- appropriate care is taken to ensure that the information is credible and, at least for financial information, subject to audit;
- data are adequate to determine if the program's overall goals are being achieved; and
- data are sufficiently comparable that outcomes of different provincial approaches can be compared.

It must also be clear whose responsibility it is to do all this, and who will provide assurance that it has been done. Moreover, those charged with the responsibility must have the capacity to undertake the task.

**The Department has said that this chapter will be of considerable assistance in its work to build an accountability regime for the NCB. Some issues are already being addressed. The remaining issues identified in this study will be raised by the federal government in its capacity as co-chair of the federal-provincial-territorial group working on the NCB.**

## **Employability Assistance for People with Disabilities**

**6.7** Employability Assistance for People with Disabilities (EAPD) is the other program to emerge from federal-provincial discussions in 1997–98 on the social union. The aim of this 50–50 cost-shared arrangement is to help people with disabilities overcome the barriers they face in the labour force. EAPD supports provincial and territorial programs and services ranging from programs that assist in the first steps toward developing skills to those that support a person at work so the person can keep working. Our interest in the program at this early juncture is that steps be taken to ensure that the information each partner will provide on its own expenditures and programs is credible, and permits comparisons of different approaches and assessments of the overall program's effectiveness.

### **Background and other observations**

**6.8** Each province has signed an agreement with the federal government. Taken together, the agreements illustrate several of the elements of a collaborative arrangement discussed in Chapter 5 of this Report. For instance, the governments agree to follow a co-ordinated, participative planning process and to evaluate program results.

**6.9** Human Resources Development Canada (HRDC) and provincial partners have set about to solve implementation issues in a collaborative fashion. For example, the provinces have committed to annual accountability to HRDC. However, so far there is no specific commitment to the format, substance, or timing of any overall annual report, nor are there specific goals or targets over any time frame. We recommend that HRDC prepare a brief overall annual report for EAPD, comparing activities, expenditures, program outputs and performance of the partners.

**6.10** The partners still have important work to do. When so many jurisdictions are involved, those with oversight and audit responsibilities face the challenge of helping to ensure that the quality of financial and performance reporting is maintained and enhanced.

**The Department has said that the case study will be useful in its work with provinces. It agrees in principle with the recommendation to produce an overall annual report on EAPD expenditures and performance. It pointed out that it will be important to note that EAPD is only one part of overall programming for people with disabilities.**



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# The Atlantic Groundfish Strategy

## Contributions and Grants

### Chapter 7 – Main Points

**7.1** We have little assurance that all contributions under The Atlantic Groundfish Strategy (TAGS) were used for their intended purposes. These were part of TAGS active labour adjustment measures managed by Human Resources Development Canada (HRDC).

**7.2** Most of the deficiencies noted in the audit relate to a lack of diligence in assessing project proposals and signing contribution agreements, as well as lack of monitoring by the Department.

**7.3** Many of the files contained no project proposals; in others, proposals were not sufficiently developed to allow proper assessment. Some agreements lacked complete information, included ineligible costs, or did not correspond to the measure under which the project was funded. There was little evidence of on-site monitoring visits to examine expense records.

#### Background and other observations

**7.4** The Atlantic Groundfish Strategy, in effect from 16 May 1994 to 29 August 1998, comprised measures to assist those affected by the groundfish moratorium. About \$150 million of the \$1.9 billion allocated to TAGS was spent on active labour adjustment measures such as training, mobility assistance, wage subsidies and employment bonuses.

**7.5** Those expenditures were not covered in our audit of The Atlantic Groundfish Strategy, reported in Chapter 16 of our October 1997 Report. Following the publication of that Report, the House of Commons Standing Committee on Fisheries and Oceans requested that we audit the expenditures.

**7.6** Our Office and the Internal Audit Bureau (IAB) of Human Resources Development Canada agreed that IAB would audit the grants and contributions made under TAGS. We closely monitored and reviewed that audit so we could rely on the findings for this chapter.

**7.7** TAGS had increased the caseload of officers by some 40,000 participants over a short period of time. This created pressure to identify, approve and contract for an unprecedented number of projects.

**7.8** Several contributions went to projects that were not clearly related to TAGS. More than half of the agreements were signed after projects had begun. Expenditures were reimbursed without supporting documentation for the claims. For more than half of the projects reviewed, there was no evidence that the files had been closed, although most of those projects had been completed more than two years earlier.

**Overall, Human Resources Development Canada agrees with the findings of the audit and recognizes that a number of important points and concerns are raised in the chapter. Actions undertaken to address the issues include the development of new policies and procedures, training for managers and staff and, in new initiatives, securing resources to ensure sufficient monitoring.**



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# The Atlantic Groundfish Strategy

## Follow-up

### Chapter 8 – Main Points

**8.1** We believe the government's efforts to implement the recommendations in our October 1997 Report Chapter 16 on The Atlantic Groundfish Strategy (TAGS) have been satisfactory.

**8.2** New fishery restructuring and adjustment measures are being implemented. In contrast to our observations of 1997, the eligibility criteria for the new measures are clear, logical and applicable. The accountability framework established for the measures corrects the shortcomings we had identified in TAGS: it clearly defines the responsibilities of the organizations involved, sets out an overall strategic plan and provides for a formal co-ordination mechanism.

#### **Background and other observations**

**8.3** The objective of TAGS (1994–98) was to restructure the fishery industry in Atlantic Canada to make it economically viable and environmentally sustainable.

**8.4** Close to \$1.9 billion was allocated to TAGS. Most of the funding was used to provide income support to the some 40,000 fishers and plant workers affected by the groundfish moratorium.

**8.5** In October 1997, we urged the government to carefully examine the impact of the decisions made under TAGS in order to benefit from the valuable lessons that could be learned.

**8.6** This follow-up examined progress to date in addressing our 1997 recommendations. Some of our observations in this chapter relate to TAGS and others to the Atlantic fishery restructuring and adjustment measures announced in June 1998.

**8.7** Human Resources Development Canada completed an evaluation of the labour adjustment component of TAGS. It also reviewed the duration of eligibility of TAGS participants. The departments involved in implementing the new measures now have considerable information on the profile of the targeted populations, in sharp contrast to the situation that prevailed when TAGS was developed.

**8.8** We believe the orderly way in which the departments are implementing the new fishery restructuring and adjustment measures represents satisfactory progress.



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# Management of Science and Technology Personnel

## Follow-up

### Chapter 9 – Main Points

**9.1** We are satisfied with the efforts made by the science and technology community to follow up on our audit recommendations of 1994 and the concerns we raised in our 1996 follow-up report. In our view, the community is showing leadership and perseverance in dealing with the human resource management issues we raised.

**9.2** As a result of all the work done since 1994, the science and technology community is now in a position to act. But the community is faced with considerable challenges. It must give priority to resolving the oncoming changes in its demographic profile that could weaken or compromise the government's science and technology capacity. It must tackle the dual challenges of attracting and recruiting promising young scientists and technologists while retaining high-calibre employees to mentor and develop the new recruits. The community is thus seeking new measures, tools and resources for external recruitment, as it estimates that over the next five years it may have to recruit between 2,500 and 3,300 employees to build a renewed and rejuvenated science and technology work force.

#### Background and other observations

**9.3** At 31 March 1998, the federal government had close to 20,000 scientific and technical employees working in science-based departments, agencies, Crown corporations and research establishments in the fields of natural sciences and engineering (hereinafter referred to as the "science and technology community").

**9.4** The science and technology community makes an important contribution to the government's 1996 science and technology strategy, which focusses on sustainable job creation and economic growth, improved quality of life and the advancement of knowledge.

**9.5** Expenditure and work force reduction in the public service has changed the profile of the science and technology community and worsened the long-identified problems of rejuvenation and recruitment. The change in the age profile is a major challenge to the future of the community. Not only have most senior and experienced scientists and technologists left the government since 1994, but the youngest and most promising as well.

**9.6** Following our 1994 audit of federal science and technology activities, the community mobilized to develop a management framework and a results-oriented plan for human resources management in science and technology. It addressed such issues as the need for a more strategic approach to the management of scientific personnel; for more systematic renewal of scientific personnel; and for more effort to maintain the skills and knowledge base in research establishments. Working groups were created to study important human resource issues. Among their recommendations to the Science and Technology Senior Steering Committee on Human Resources was that new mechanisms be adopted and human resource strategies developed to improve the management of science and technology personnel in science-based departments and agencies.

**9.7** In 1994, we pointed out the need to develop a stronger and more effective management capability. Since then, the community has developed a competency profile for science and technology managers. During our consultations, we noted that most science-based departments used their own competency profiles instead of the one developed by the working group. Moreover, their profiles were being used solely to identify training needs and generally not for purposes of manager recruitment, promotion or performance assessment. Present practices suggest a lack of consensus in the community on the management competency profile defined by the working group. This could eventually prevent the integration of recruitment and training activities as well as the reward, promotion and compensation systems envisioned in the *Science and Technology Blueprint for Human Resources Management*.

**9.8** The Treasury Board Secretariat, science-based departments and agencies and the science and technology community have indicated that they are committed to following through on the strategies and plans developed to date.



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# Indian and Northern Affairs Canada

## Funding Arrangements for First Nations: Follow-up

### Chapter 10 – Main Points

**10.1** Indian and Northern Affairs Canada still needs to better match the level of flexibility attached to funding arrangements with the willingness and ability of First Nations to assume responsibility for billions of dollars they receive annually through the Department.

**10.2** The Department is not taking adequate steps to ensure that allegations of wrongdoing, including complaints and disputes related to funding arrangements, are appropriately resolved. Redress (resolution mechanisms) needs to be improved as an element of accountability.

**10.3** The Department has stated that it has slowed the rate at which the Financial Transfer Arrangement (FTA), a new type of funding arrangement, is being implemented in order to address issues concerning the willingness and ability of First Nations to adopt it. The Department still has a long way to go if it wishes to achieve its objective of implementing the FTA as the appropriate funding mechanism to replace other types of funding arrangements. It will need to find ways to expedite the conversion process while improving co-ordination of funding with other federal departments.

#### Background and other observations

**10.4** Funding arrangements are a key element in the relationship between First Nations and the federal government. Parliament appropriates about \$4 billion annually to Indian and Northern Affairs Canada to fund several programs for First Nations communities. The programs include social assistance, education, capital facilities, housing, and economic development for approximately 600 First Nations and other Aboriginal groups.

**10.5** In our November 1996 Report, we made recommendations relating to funding arrangements, including the FTA, and to the co-ordination of funding across federal departments. We also made recommendations on accountability issues and on the suitability of funding arrangements for the needs of the Department and First Nations.

**10.6** This follow-up focusses on the Department's implementation of our 1996 recommendations.

**The Department believes that with respect to redress, the follow-up extends beyond the issues raised in 1996; however, it has acknowledged that continuing effort is needed to improve certain aspects of funding arrangements, including accountability.**



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# Agriculture Portfolio

## User Charges

### Chapter 11 – Main Points

**11.1** We noted a number of good practices in the way Agriculture and Agri-Food Canada, the Canadian Grain Commission and the Canadian Food Inspection Agency have designed and managed fees they charge to users of their services. But these organizations do not yet meet all the requirements of the government's policy on user charges. Although in recent years they have made progress, they are losing momentum and user charges are not being updated as programs change. This could result in some user groups paying either more or less than their fair share.

**11.2** Our audit found that the organizations often view user fees primarily as a means of generating revenue, ignoring their potential to achieve other possible benefits. For example, the Canadian Food Inspection Agency often charges the same fee for inspections whether or not food inspectors have found deficiencies, even though an inspection that has found problems entails additional time. This provides no incentive for the industry to comply with regulations and thereby minimize the time government inspectors need to spend.

**11.3** The organizations we audited need to make major improvements in the way they report to the public, the industry and Parliament on their plans for user charges and on the results. Despite the fact that this is a contentious issue that has sparked a great deal of interest from Parliament, the organizations in most cases have not publicly explained why specific user charges were needed and how they would be applied. Nor have their reports provided enough information to allow readers to judge whether user charges are managed properly.

**11.4** The three organizations need to improve their management of user charges in a number of areas, including costing their services, assessing the impact of fees, establishing formal appeal processes and integrating user charges into their strategic planning.

#### Background and other observations

**11.5** In its 1997 Cost Recovery and Charging Policy, the federal government states that user charges should be implemented for "services that provide identifiable recipients with direct benefits beyond those enjoyed by the general public, unless overriding policy objectives would be compromised." A key underlying principle is that user charges provide benefits much broader than the revenue generated, such as making services more responsive to users' needs.

**11.6** Organizations in the agriculture portfolio charge for many different services. For example, the Canadian Grain Commission charges the grain industry for weighing and inspecting grain destined for export. The Canadian Food Inspection Agency charges importers and exporters to inspect plants and plant products for pests or diseases. Agriculture and Agri-Food Canada charges owners of cattle that graze on community pastures for services it provides.

**11.7** User charges have been a focal point of much concern in the agriculture sector. Over the past five years, revenues from user charges in certain areas have increased by as much as 300 percent. Producers and the industry have objected to the way the fees were introduced and to the cumulative impact they have had. Some have contended that the fees were simply a tax.

**11.8** A moratorium on new fee increases was announced at the time the Canadian Food Inspection Agency was created, to be in effect until the year 2000. Officials of the three organizations have given many different

interpretations of not only how long the moratorium will last but whether it applies to other organizations in the portfolio. We note that the organizations we audited believe they are constrained from correcting even known inconsistencies among fees and responding to changes in their business environment. In our view, the period of the moratorium offers them an opportunity to reassess their current position, develop guiding principles and plan improvements.

**11.9** The organizations face specific challenges in that they recover fees from individuals they also regulate. It can be difficult to establish the amount that users of a service should be charged for the benefits they receive when the service also benefits the general public. There is a need for broader consultation, where possible, that takes into account the interests of both industry and the public. Those who pay fees want to influence how services are provided, and the organizations must ensure that the needs of all stakeholders are taken into account.

**11.10** The three organizations need to make key decisions on user charges and take action to resolve the following situations:

- Recent changes in its operations and in the grain industry have made the existing fee structure of the Canadian Grain Commission no longer appropriate.
- The Canadian Food Inspection Agency initiated fee increases but has not completed its plan for user charges. Consequently, commodity groups are paying different proportions of the Agency's costs for similar service, which represents inconsistent treatment.
- Agriculture and Agri-Food Canada has not explained adequately when, how and why user charges are implemented for each of its programs. Consequently, the reasons why some programs have user charges and other, similar programs do not remain unclear.

**The responses to our recommendations from Agriculture and Agri-Food Canada, the Canadian Food Inspection Agency and the Canadian Grain Commission are included at the end of this chapter. Each of the organizations has said that it will act upon the recommendations that apply to it.**



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# Agriculture and Agri-Food Canada

## A New Crop: Intellectual Property in Research

### Chapter 12 – Main Points

**12.1** The context of intellectual property related to food production in Canada has changed dramatically in the last 10 to 15 years. This is forcing Agriculture and Agri-Food Canada's Research Branch to seriously rethink its way of managing its own intellectual property. It faces the following issues:

- What should the Research Branch do when it makes a discovery that leads to an invention? Should it publish it, or legally protect it and then license it to others? If it does license it, should it license it to one organization or many?
- How should the Research Branch deal with intellectual property of others that it uses in its own research? For example, if it develops a new potato by taking advantage of private sector patents, will this hinder its ability to get the new product into the hands of producers? Should the Branch buy access to private sector patents? Should it barter with its own patents?

We believe that it is important for the Branch to answer these questions — how best to release its intellectual property and how best to acquire the intellectual property of others — because they have implications for the future success of agriculture. As Canada's agriculture sector becomes more and more sophisticated, it depends increasingly on exchange of and access to new knowledge coming from the Research Branch and other organizations. Answers to these questions also have implications for future government revenues from intellectual property.

**12.2** Particularly urgent is the risk to the Branch's continued ability to provide the agriculture sector with innovations. The risk stems from its significant use in research projects of intellectual property owned by others. Should it encounter significant obstacles to procuring the rights to use these proprietary technologies, the Branch may have to alter, postpone or abandon current research initiatives.

**12.3** The Research Branch is endeavouring to cope with these challenges, but this has become difficult due to substantial changes in the Branch and in the agri-food sector. In our opinion, the Branch needs to hasten and expand its efforts. A decision framework is needed to guide employees in deciding which research products should be legally protected, how to best acquire new intellectual property and how to best release its own protected intellectual property. Other tasks facing the Branch are to improve communication with staff; improve information on the Branch's intellectual property; and improve the integration of stakeholders' views into decision making. An overall approach to managing intellectual property is needed.

#### Background and other observations

**12.4** Intellectual property is information that is useful and transferable and controlled by someone. It includes inventions, some of which are controlled through patents and others that are controlled by secrecy. It also includes plant varieties and plant materials. Until recently, there were few ways to protect intellectual property stemming from agricultural research, and new crops offered little monetary return to the breeder. New crop types can now be protected under the 1990 *Plant Breeders' Rights Act*, and some new biotechnology processes can be protected by patent.

**12.5** The Research Branch is the part of the federal agriculture department that does scientific research. It has a budget of about \$250 million annually and is a key player in agricultural research in Canada. It is a major contributor to “Innovating for a Sustainable Future”, one of the Department’s business lines. It first made its mark more than 100 years ago with the release of Marquis wheat, which greatly helped develop Prairie agriculture. Current revenue from the Branch’s intellectual property licenses is around \$3.4 million a year, a minor but growing part of its \$250 million budget.

**12.6** The challenges the Branch faces in managing intellectual property include the accelerated pace of change, especially in the field of biotechnology; uncertainty in the Branch brought on by downsizing and a greater focus on research partnerships; the need to consult broadly on intellectual property policy; the high cost of protecting and enforcing its intellectual property rights; the need to understand the market for its intellectual property; and the need for good management information.

**The Department has accepted our recommendation and has committed its Research Branch to work to develop and communicate a general framework for managing the Branch’s intellectual property.**



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## National Defence

### Hazardous Materials: Managing Risks to Employees and the Environment

#### Chapter 13 – Main Points

**13.1** Our audit at 10 Canadian Forces bases found widespread, frequent and recurring instances in which National Defence did not meet the legal and policy requirements that govern hazardous materials. Such instances may put employees and the environment at increased risk.

**13.2** The Department has made efforts to improve its management of hazardous materials. While there are few clear measures of the impact of these efforts, we did find that injury rates for hazardous material injuries that require at least one day off work declined by more than half from 1993 to 1997.

**13.3** The 10 bases that we audited do not periodically monitor their air or liquid effluent emissions for all hazardous material contaminants on which limits are set by federal laws or guidelines. As a federal agency, the Department is not legally bound by provincial or municipal laws and bases do not monitor emissions and effluents against all of those standards.

**13.4** There is a lack of information on the overall state of compliance with legal and policy requirements. The existing management systems to ensure compliance at the base and unit levels do not promote continual improvement. Objectives are not set, plans do not exist, audit and inspection programs are not consistent and performance information is lacking. These are major factors in the instances of non-compliance by the Department with legal and policy requirements.

#### Background and other observations

**13.5** National Defence uses more than 6,000 hazardous products, such as gasoline, ammunition and battery acid. The Department estimates that at least one quarter of its 80,700 full-time employees come into frequent contact with hazardous chemical products, and that every worker may have some contact with hazardous materials.

**13.6** It is the Department's policy that its hazardous materials management activities must meet or exceed the letter and spirit of applicable federal acts, regulations, policies and guidelines and, where appropriate, be compatible with provincial acts and municipal and international standards. The Department has not defined the meaning of "where appropriate".

**13.7** Our audit focussed on how the Department is implementing its policy and programs related to hazardous materials. We looked at policies, procedures and results at National Defence headquarters, and conducted field work at 10 bases. We also reviewed how the Department is implementing relevant sections of its sustainable development strategy.

**13.8** Leadership is needed to set targets, to identify and monitor performance measures, and to follow up to ensure that programs are implemented. Commanders and managers have opportunities to demonstrate leadership when they revise the Department's sustainable development strategy and implement environmental management systems.

**The Department responded positively to all our recommendations and proposes to take action that should address the problems our audit identified. In particular, the Department told us it is committed to rectifying situations of non-compliance with the requirements of the Workplace Hazardous Materials Information**

**System; reviewing its effluent monitoring procedures and plans for air emissions; identifying provincial and municipal regulations and policies applicable at each base and wing; and establishing core requirements for audit and inspections to ensure consistency.**

**The Department did not fully accept our conclusions about the level of non-compliance, contending that its audits have identified relatively few instances each year.**



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# National Health Surveillance

## Diseases and Injuries

### Chapter 14 – Main Points

**14.1** We observed weaknesses in national surveillance of diseases and injuries that, taken together, have clear national implications for public health. First, they compromise Health Canada's ability to detect, anticipate, prevent and control health risks associated with outbreaks of communicable diseases and with other health threats. Second, they compromise its ability to plan, carry out and evaluate public health programs and other programs that deal with the causes and treatment of diseases.

#### **Background and other observations**

**14.2** Health surveillance is a core function of public health. National surveillance of communicable and chronic diseases and of injuries is conducted mainly by Health Canada's Laboratory Centre for Disease Control (LCDC), part of the Health Protection Branch. LCDC depends greatly on its interaction and collaboration with the provinces and territories and a variety of other federal departments and non-governmental organizations.

**14.3** There is no specific legislation, policy or agreement that links separate components of public health functions at the various levels of government. Indeed, there is a void: current health surveillance activities are largely carried out on an ad hoc basis.

**14.4** We found few formal agreements or protocols in place to prevent the entry into Canada of serious communicable diseases and to deal with disease outbreaks and threats to public health. The lack of attention to formalizing the way these threats are to be managed places the health of Canadians at undue risk.

**14.5** Key surveillance systems that we looked at were not working as intended. For a number of reasons, they were not enabling Health Canada to effectively monitor communicable diseases such as influenza, AIDS, tuberculosis and food-borne disease. The same is true of systems for surveillance of injuries and chronic diseases such as cancer, diabetes, and heart disease and stroke. We also found that performance measurement and reporting of results need to be improved.

**14.6** Work has begun on strengthening the Health Protection Branch's future surveillance capacity. An important step in this regard is the Branch's support of an integrated national surveillance network for public health information. It is unclear when such a network will be implemented, and it is paramount that all parties involved in this network remain committed to its implementation.

**Health Canada's responses to our recommendations are included in this chapter. The Department concurs with the recommendations and has agreed to take corrective action. In some cases, this action is already under way.**



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# Management of a Food-Borne Disease Outbreak

## Chapter 15 – Main Points

**15.1** In the spring of 1998, there was a nation-wide outbreak of a food-borne disease; it was one of the largest outbreaks of food-borne disease in Canadian history and involved the investigation of more than 800 reported cases across Canada. Over 80 percent of the affected were children under 15 years of age. At least 60 were hospitalized.

**15.2** Some important aspects of the response to the outbreak worked well, but others did not. The contaminated product was identified quickly and its removal from points of sale was started immediately after the issuing of a recall. However, there was a lack of timely exchange of information to identify the scope of the outbreak. There was also a lack of full co-operation among the agencies involved in the response to this outbreak. The Canadian Food Inspection Agency (CFIA) did not share certain distribution information when requested by provincial public health officials to assist in the investigation. In addition, the CFIA's abrupt decision not to lead one of the plant inspections resulted in confusion and unnecessary delay.

**15.3** A formal framework is needed that sets out clearly the roles and responsibilities of Health Canada's Laboratory Centre for Disease Control (LCDC) in relation to those of other participants, in order to guide the response to threats to public health. Many individuals could have avoided this illness had the federal and provincial health departments acted more quickly.

### Background and other observations

**15.4** The case described in this chapter illustrates many of the issues discussed in Chapter 14 on National Health Surveillance and the management of outbreaks and threats to public health. The audit looked at how federal and provincial agencies — Health Canada's Laboratory Centre for Disease Control and Food Directorate, the Canadian Food Inspection Agency, and provincial and local public health departments — responded to this nation-wide outbreak of a food-borne disease.

**15.5** Food-borne diseases have important implications because of the wide distribution of food products and the resulting potential for affecting very large numbers of people spread over wide geographic areas.

**15.6** The activities of the Laboratory Centre for Disease Control involve the timely investigation and control of disease outbreaks, often in collaboration with provinces and other federal agencies — in particular, with the Canadian Food Inspection Agency in the event of a disease caused by food. The CFIA is responsible for enforcement actions in food-related emergencies and is to take a lead role in investigations and co-ordination of food safety emergency responses. Health Canada's Food Directorate is responsible for assessing the effectiveness of the CFIA's food safety activities. Provincial and local medical officers of health have a legislative mandate to investigate disease outbreaks, and provincial laboratories provide laboratory services.

**15.7** We found that LCDC was not well prepared to manage disease outbreaks. It had no established operating procedures to respond to food-borne disease outbreaks. In addition, there were no formal protocols between Health Canada, the CFIA and the provinces that clearly defined procedures and the role of LCDC in relation to the roles of other participants in the investigation of disease outbreaks.

**15.8** There was a lack of transparency in the post-outbreak reviews undertaken by LCDC and by the CFIA. In such situations, particularly given that the cause of the contamination was never found, we believe it is in the interest of public health that all participants contribute to, and learn from, such reviews.

**Responses to our recommendations from Health Canada and the Canadian Food Inspection Agency are included in this chapter. Both Health Canada and the Canadian Food Inspection Agency concur with the recommendations and have agreed to take corrective action. In some cases, this action is already under way.**



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## Revenue Canada

### Goods and Services Tax: Returns Processing and Audit

#### Chapter 16 – Main Points

**16.1** We found that Revenue Canada's Summerside Tax Centre, until recently its sole GST processing centre, has steadily become more efficient. It has streamlined several processes, enhanced its error correction procedures, reduced unit costs and improved the timeliness of its processing operations. As a prelude to decentralizing the processing of GST returns, Revenue Canada further simplified its processing procedures. The results of a pilot test point to further efficiency gains.

**16.2** At present, standards for returns processing tend to place insufficient emphasis on quality, accuracy, timeliness and unit cost, and the use of performance information is hampered by problems with the availability and reliability of data. Better performance measures would help to manage interest costs and improve service to registrants.

**16.3** Revenue Canada can do more to improve the performance of its set of automated validity checks. These checks are the cornerstone of its pre-payment audit program. However, they are not particularly discriminating in their initial targeting of inappropriate refund claims. Revenue Canada also needs to consider reviewing and auditing returns on which refunds are not requested at the same time as it conducts pre-payment audits of refund requests.

**16.4** Many of Revenue Canada's post-payment audits consume too many staff hours and go on for too long. Revenue Canada needs to help its auditors shorten their audit times by providing closer supervision and by encouraging better planning, execution and control of audit work. Audit performance may also be improved by better selection of registrants for audit.

#### Background and other observations

**16.5** The introduction of the Goods and Services Tax (GST) in 1991 had a huge impact on Revenue Canada's activities. The Department had to develop a completely new processing operation and techniques to verify the accuracy of the returns submitted by almost 2 million registrants, ranging from small entrepreneurs to multinational corporations.

**16.6** In 1993, Revenue Canada opened a new tax centre in Summerside, Prince Edward Island to process all GST returns and rebate forms from non-Quebec registrants. (The ministère du Revenu du Québec administers GST processing and audit of Quebec registrants.) The Summerside Tax Centre employs the equivalent of about 660 employees and has an annual operating budget of about \$28 million.

**16.7** Revenue Canada now processes about 5.5 million GST returns each year, as well as 200,000 domestic rebate forms and 3 million remittances from GST registrants.

**16.8** The Department has begun to decentralize a portion of its GST processing activities to tax centres across the country. The processing of rebate forms will continue to be done in Summerside.

**16.9** While, in general, GST returns processing is a tax centre activity, Revenue Canada's audit programs are performed by auditors in tax services offices across the country. There are two major audit programs. The first is the pre-payment audit program, which accounts for about 25 percent of auditor time. After the data have been processed but before refunds are issued, Revenue Canada applies a variety of automated validity checks to ensure

that requests for refunds are appropriate. The checks are designed to capture the requests with the highest risks of non-compliance. The captured refund claims are sent electronically to tax services offices across Canada for review and, in some cases, for audit. In 1997–98, the GST pre-payment audit program resulted in assessments of about \$165 million.

**16.10** Revenue Canada also performs post-payment audits. These audits account for about 75 percent of auditor time and focus not only on particular returns but also on registrants with the highest risk of non-compliance. In 1997–98, this work resulted in assessments of about \$355 million.

**16.11** We examined the efficiency and effectiveness of the GST returns processing and audit functions. The efficient and effective use of resources is important because it has a direct impact on protecting the public purse and improving service to registrants.

**Revenue Canada’s responses to our recommendations are included in this chapter. The Department is in agreement with the seven recommendations, and its responses describe a number of actions that have been completed or are in progress to deal with them.**



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# Canada Infrastructure Works Program

## Phase II and Follow-up of Phase I Audit

### Chapter 17 – Main Points

**17.1** The follow-up to our 1996 audit chapter indicates limited progress in addressing the deficiencies we identified in Phase I of the Canada Infrastructure Works Program. Our 1996 observations dealt with the need for clearer definitions of program objectives and project selection criteria, as well as the need for improved information, including better measurement and reporting of job creation. The main area of improvement has been environmental assessments; as well, a start has been made in responding to the need for compliance audits. However, most of our concerns have not been addressed.

**17.2** The Program was implemented within very demanding time frames. Federal and provincial program managers view the program approach positively and regard it as having contributed to strong federal-provincial relations and co-operation. The Program's output from 1994 to date has involved mobilizing and co-ordinating the efforts and resources of three levels of government and other partners to plan and implement more than 17,000 engineering and construction projects nation-wide.

**17.3** Our audit of Phase II indicates that, from an overall federal perspective, the Program is essentially "running on trust" with little accountability. Criteria for project selection were not clearly defined, and many of the files we reviewed lacked persuasive evidence to justify applicants' claims relating to selection criteria. In most cases, federal officials recommended projects for approval without ensuring that applicants' claims were adequately supported.

**17.4** We found that federal officials relied on municipal and provincial certifications with respect to costs claimed. The implementation of compliance audits, which, among other things, represent a means of obtaining assurance on the adequacy of financial controls, has been slow.

**17.5** There are incentives for provincial governments to transfer their budgetary resources away from their own programs to the federal infrastructure initiative. However, this program substitution is not inevitable; in two provinces, for example, safeguards were put in place in Phase I to limit the "substitution effect". Any substitution that does occur reduces the Program's infrastructure development and job creation benefits. The Treasury Board Secretariat has not set out the limitations of estimates of employment generated by the Program in reporting them to Parliament.

#### Background and other observations

**17.6** The Canada Infrastructure Works Program was introduced by the federal government in 1994 as a \$6 billion temporary shared-cost initiative with the objectives of assisting in the maintenance and development of infrastructure in local communities and the creation of employment. In 1997, the government announced an extension (Phase II), involving an additional \$425 million provided by the federal government, to be matched by a further \$850 million from the provinces and other partners. For the most part, construction under both phases was scheduled to be completed by 31 March 1999.

**17.7** Construction of roads, bridges, and water and sewer networks predominated in both phases, accounting for well over 60 percent of total expenditures. Community, cultural and recreational services were of less significance in Phase II.

**17.8** The Canada Infrastructure Works Program is a contributions program, with a requirement for the payment of federal funds to be subject to performance conditions being met (such as project targeting) and to compliance with program requirements. However, our examination of the project files indicated that program officials have not adequately addressed these concerns.

**17.9** Finally, we found that progress has been made under Phase II in conforming with the requirements of the *Canadian Environmental Assessment Act*. However, where negative environmental effects have been identified, the specification and monitoring of mitigation measures remain inadequate.

**The Treasury Board Secretariat indicated that although improvements can and should be made in any future such programs, the chapter presents an inappropriately negative view of what was a highly successful program in terms of results and one that made a positive contribution to federal-provincial-municipal relations in Canada.**



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## Public Works and Government Services Canada

### Alternative Forms of Delivery: Contracting for Property Management Services

#### Chapter 18 – Main Points

**18.1** The contracting process used by Public Works and Government Services Canada (PWGSC) to contract out the operation and maintenance of two thirds of its buildings was well managed and consistent with the objectives of the Department. We found that the bidding process was open, transparent and fair. The contracts were well designed and the handover to the contractor went smoothly. A significant feature of the contracting process was the use of “fairness monitors” to provide independent assurance to the Department’s senior management that the process was conducted fairly and in accordance with the rules.

**18.2** Because some of the key monitoring and control features were not in place at the time of the handover of operations, ongoing management of the contracts has been problematic. Important items that had to be ready at contract signing — such as budgets for the first year, assessments of building condition and performance indicators of tenant satisfaction — were not completed until well into the first year. As a result, the Department will not be able to carry out a complete assessment of the contractor’s performance in the first year and thereby get full assurance that it is receiving the quality and quantity of service to which it is entitled.

#### Background and other observations

**18.3** Public Works and Government Services Canada, through its Real Property Services Branch (RPS), is the primary landlord of a significant proportion of the government’s real property holdings. Its inventory amounts to about 6 million square metres of space — from office buildings, laboratories and warehouses to the Parliament buildings and other “national treasures”. It also administers 3,000 leases representing annual rent of \$550 million. This makes the Branch one of the largest property managers in the country.

**18.4** In 1996, the Department embarked on an initiative called “Alternative Forms of Delivery” (AFD). A key element of the initiative was to contract out the management and operations of a portfolio of buildings, including services ranging from cleaning and the operation of building systems to maintenance, landscaping and repair projects. This initiative was a response to the government’s 1994 Program Review and served as a strategy for restructuring the Branch around its core business activities. The Branch also wanted to support the Canadian property management industry and reduce costs through this initiative.

**18.5** The Department contracted out to the private sector the operations and maintenance of approximately 300 buildings with about 2.3 million square metres of office space. It expects to achieve about \$20 million annually in cost savings by turning over the management of those buildings to the private sector.

**18.6** The buildings were regrouped by region and offered to the private sector in 13 separate contracts, with a total value of around \$170 million. The same contractor won each of the 13 contracts. It offered jobs to almost all affected employees at full salary for a minimum of three years. About 465 employees accepted the transfer to the contractor.

**18.7** It is too early to assess whether savings the Department expects from this initiative will be achieved. We cannot measure at this time whether the Department will receive services at least equal to those it provided itself,

and receive them at lower cost. However, mechanisms were incorporated in the contracts that are conducive to achieving savings. We will follow up on these issues in future audit work.

**18.8** We encourage Public Works and Government Services Canada to continue to use “fairness monitors” for large and complex contracts. In a project of this scope and complexity, we did not expect to find that all contractual requirements would be fulfilled by the handover date. We did expect that the Department would have established an action plan to deal with the uncompleted deliverables. We have recommended that it develop an action plan with the contractor to deal with outstanding contractual issues, including target completion dates and respective responsibilities for resolving them.

**The Department has agreed with our recommendation.**



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# Industry Portfolio

## Investing in Innovation

### Chapter 19 – Main Points

**19.1** This audit sought to determine if four grant and contribution programs, through which over \$1.3 billion was spent over the last three years, were well designed to help improve Canada’s innovation performance. We audited the following programs:

- Industrial Research Assistance Program — National Research Council (NRC)
- Research Partnerships Program — Natural Sciences and Engineering Research Council (NSERC)
- Networks of Centres of Excellence — NSERC
- Technology Partnerships Canada — Industry Canada

**19.2** We expected that these programs would be based on a sound understanding of innovation performance problems in the economy. We found that while there is a wealth of information on various aspects of innovation performance in the economy, it is unclear what this information means when considered together. Moreover, we found that management has not defined what specific innovation performance problems these programs are supposed to address, nor what specific results are expected from them toward promoting innovation.

**19.3** We also sought to determine if these programs were well managed and if management knew whether value for money was being achieved. We could not assure ourselves that many of the contributions under the Industrial Research Assistance Program and many of the grants under the Research Partnerships Program were properly supported. While the technological merit of the projects we examined had been well documented, there was often little explanation of the commercial or pre-commercial benefits expected from the projects, and of the need for government support. There are also important performance issues for which management has little information — in particular, on the commercial or pre-commercial results of funded projects.

**19.4** We concluded that due diligence had been exercised in the grants we audited under the Networks of Centres of Excellence program. We also concluded that the management of Technology Partnerships Canada (TPC) had exercised due diligence in making the contributions that we audited, with specific exceptions. TPC could make improvements in monitoring the progress and results of funded projects, and in reporting to Parliament on how it shares risks and returns with funding recipients.

#### Background and other observations

**19.5** The government has made building a more innovative economy one of its policy goals. A number of recent government reports have referred to an “innovation gap”, meaning that Canada is not innovative enough compared with its main trading partners. These reports argue that weaker innovation performance lies at the heart of broader performance problems in the economy — particularly lower productivity in relation to the United States.

**19.6** However, our review of the issues suggests that the causes and effects of this gap are not straightforward. While innovation is undoubtedly an important factor in economic growth, assessing the actual innovation performance of the economy is a multifaceted challenge. Although a comprehensive assessment is still difficult to make, there is growing evidence that Canada’s performance lags behind that of its major competitors in a number

of specific ways. It is reasonably clear that better innovation performance depends on more than just increased spending on research and development; it involves supporting research and development with the activities needed to embed new technologies in the economy. It seems equally clear that spending on research and development is not the only determinant of the Canadian economy's rate of productivity growth, and may not be the most important one.

**19.7** Promoting innovation in the economy is one of the principal objectives of the Industry Portfolio, which is made up of the organizations for which the Minister of Industry is responsible. The programs we audited focus on supporting research and development and account for the bulk of the grants and contributions made by the Portfolio toward that objective:

- The National Research Council delivers the Industrial Research Assistance Program, which helps small- and medium-sized enterprises develop and exploit technologies (\$120 million in 1998–99).
- The Natural Sciences and Engineering Research Council delivers the Research Partnerships Program with the objective of fostering interactions and partnerships between university researchers and other sectors in order to generate new knowledge and develop new expertise, and to transfer this new knowledge and expertise to Canadian-based organizations (\$95 million in 1998–99). NSERC also delivers the Networks of Centres of Excellence program to improve Canada's performance in science and technology, and to facilitate transfer of knowledge to those who can use it to advance Canada's social and economic development (\$47 million in 1998–99).
- Technology Partnerships Canada is a special operating agency within Industry Canada. It is intended to promote the development and commercialization of innovative technologies that contribute to increasing economic growth and creating jobs and wealth (\$250 million in 1998–99).

**The responses of Industry Canada, the National Research Council and the Natural Sciences and Engineering Research Council to our recommendations are included in the chapter. The two councils have agreed to act on all of our recommendations. Industry Canada has agreed to act on all but one of our recommendations. The Department has indicated that no additional measures are required to address our recommendation concerning the justification for the amount of its contributions.**



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## Fisheries and Oceans

### Pacific Salmon: Sustainability of the Fisheries

#### Chapter 20 – Main Points

**20.1** The Pacific salmon fisheries are in trouble. Catches have declined overall, but the commercial catch has plummeted. The long-term sustainability of the fisheries is at risk because factors like overfishing, habitat loss, and declining ocean productivity have eroded the resource base. The result is a fisheries management crisis that has cast a cloud of uncertainty over the future of the salmon fisheries. Salmon fishing will continue, but more stringent controls are needed in the short term to ensure that salmon survive for the benefit of future generations.

**20.2** The management challenge for the Department of Fisheries and Oceans is to conserve existing stocks and rebuild those that are at low levels, while maintaining the viability of the fisheries. It will have to adapt its management regime to the new realities and gain the acceptance and support of stakeholders if it is to be successful. These will be difficult tasks to accomplish.

**20.3** The Department now needs to:

- identify information needs and priorities;
- review the consultation process and identify areas for improvement;
- implement integrated fisheries management plans;
- complete the downsizing of the fleet as a priority;
- establish an independent allocation board; and
- develop a better working relationship with the Province of British Columbia where fishery issues are concerned.

#### Background and other observations

**20.4** The Department has already taken the first steps to address the challenges it faces. It has affirmed conservation as its primary objective to protect existing salmon stocks and rebuild the resource base. In 1998 it announced a new policy, *A New Direction for Canada's Pacific Salmon Fisheries*, to direct its management activities in the future. The regional office has developed and is implementing its strategic plan for 1998–2001 based on this policy.

**20.5** In addition to the management of larger stocks targeted primarily by the commercial fishery, the regional office has begun to focus more on the conservation of smaller stocks that are important to the Aboriginal and recreational fisheries. It has taken a conservation-based approach to fisheries management and is testing selective fishing methods and gear, in addition to implementing special programs such as fleet reduction and restructuring. However, there are areas that need attention if policy objectives are to be attained. The most important are improving regional databases and information management to enable it to manage Pacific salmon on a stock-by-stock basis, and resolving consultation problems to improve stakeholder relations and move toward forming partnerships to share management responsibilities and offset costs.

**20.6** The Department will need time to adjust to the new management regime. During this time, fisheries will be subject to closure to allow stocks to recover. Improvements cannot be expected to occur quickly, given that

salmon life cycles can extend to five years or longer and salmon need time to adjust to changes in their freshwater and marine habitats. Finally, the future sustainability of the fisheries will depend not only on the Department's ability to implement its New Direction policy but also on its success in enlisting the help of stakeholders and the provincial government to share the workload.

**The responses of Fisheries and Oceans to our recommendations are included in this chapter. The Department agrees with all 13 recommendations and notes that initiatives are under way in several areas.**



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# Financial Information Strategy

## Departmental Readiness

### Chapter 21 – Main Points

**21.1** We found that most departments are just starting to focus on the Financial Information Strategy (FIS) despite the fact that the target implementation date for FIS, 1 April 2001, is less than two years away. At the time of our audit, while most departments had implemented new financial systems, they still had a lot of work to do to prepare these financial systems and to implement the accrual accounting policies to meet FIS requirements. Strategies for preparing managers to use the information provided by FIS to strengthen management decision making are not yet in place. We are also concerned that FIS is not seen as a high priority by senior managers.

**21.2** In our view, the Treasury Board Secretariat, overall project manager for FIS, will need to assume a greater leadership role, drawing on some of the lessons learned in dealing with the Year 2000 problem. In particular, the central FIS Project Office will need to put in place and keep current an updated overall implementation plan, and use appropriate risk management capabilities, monitor implementation by departments and intervene constructively if problems arise. In addition, it will need to provide departments with required accounting policies and manuals, which are currently being developed, and assist departments in developing an appreciation of the use of FIS in day-to-day management.

**21.3** Public Works and Government Services Canada (PWGSC) effectively carried out the development and implementation of new central systems. PWGSC and its major partners, the Secretariat and Revenue Canada, worked together to conclude a successful pre-production pilot of those new systems. We found that the Department and its partners established a detailed plan and risk management capability, monitored progress and intervened when necessary, and met key target dates.

#### Background and other observations

**21.4** As we reported last year in our first report on FIS (September 1998 Chapter 18), the government is making sweeping changes in the type of financial information provided to decision makers. Under the Financial Information Strategy, new financial systems throughout government are being implemented. But FIS is much more than the renewal of aging financial systems. The Strategy is also designed to help the government strengthen significantly its management of business lines and its accountability to Parliament. To do this, FIS will generate full accrual accounting information similar to that used by the private sector and integrate this information into day-to-day decision making of departmental managers. The Office of the Auditor General continues to support fully these stated objectives of FIS.

**21.5** The push for improvements in financial information to support government decision making started in 1962 with the Royal Commission on Government Organization (Glassco Commission). FIS was officially launched in 1989 and, after several false starts, the project was revitalized in 1995. A goal of April 2001 was published as the target date for implementation. We noted in our research that in some other jurisdictions, such as the Province of Alberta, the United Kingdom, Australia and New Zealand, financial management reform has progressed more rapidly.

**21.6** Parliament's Standing Committee on Public Accounts held a hearing on Chapter 18 in October of 1998. The Committee called for the Treasury Board Secretariat to proceed with "all diligence and speed" in pursuing the option discussed in the chapter of changing the appropriations process to focus on resources consumed to achieve results rather than simply resources acquired. We saw this change in the appropriations process as a necessary step

in creating demand by departmental managers for full accrual information to strengthen day-to-day management and decision making. The Committee also called for the Secretariat to monitor the progress of FIS across all departments and agencies and to provide Parliament with better estimates of the total implementation costs. Estimates of FIS costs are still largely unknown or undetermined; only 11 of 24 departments that we surveyed had partial or full cost estimates.

**21.7** One of the key aspects of successfully delivering a major initiative like FIS is the cultural change required at the management level to fully participate in and reap the benefits from the new approaches to informed decision making that FIS brings. The importance of change management has been well publicized in industry and in other government jurisdictions. Looking ahead, a major challenge for the Secretariat will be to provide guidance and lessons learned to departments with regard to this important issue.

**The Treasury Board Secretariat's responses to our recommendations are included in the chapter. In line with the recent decision to increase its focus on implementation of the Strategy, the Secretariat will monitor departmental progress and take into consideration our recommendations.**



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# Attributes of Well-Managed Research Organizations

## Chapter 22 – Main Points

**22.1** We found that well-managed research organizations share a number of attributes that we have grouped under four themes:

- They **focus on people**, recruiting, developing and retaining the right mix of talent in a positive and supportive environment.
- They show **leadership**, aligning themselves with the needs of those who depend on them for results, achieving buy-in of the vision, values and goals, and undertaking the right research at the right time and at the right investment.
- They **manage research** to ensure excellence and results, the leveraging of resources, and the capture of organizational learning.
- They strive for a high level of **organizational performance**, being widely known and respected, and meeting the needs of those who depend on them for results.

**22.2** We developed the attributes following research and consultation with research managers in Canada and the United States. The attributes are not a recipe for action but rather statements of the direction that management action should take. They are supplemented by examples of practices used by organizations we visited.

**22.3** While the attributes describe ideal outcomes, and are therefore not attainable, they are stated so that progress toward the ideal is observable and measurable. In our view, the extent to which an attribute is demonstrated by an organization is a measure of the quality of its management.

### Background and other observations

**22.4** The federal government invested nearly \$5.5 billion in science and technology (S&T) in 1998–99. Of that amount, \$3.2 billion was spent by federal research organizations, with the balance being paid to outside organizations to undertake research and development and related scientific activities.

**22.5** In *Science and Technology for the New Century: A Federal Strategy* (1996), the federal government recognized the need for better management of S&T activities and provided new governance mechanisms and a set of general operating principles to improve S&T management across and within departments and agencies. Our work complements and reinforces the Strategy by describing what good management should look like in a research organization.



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# Involving Others in Governing

## Accountability at Risk

### Chapter 23 – Main Points

**23.1** We found a total of 77 new governance arrangements across the federal government, involving annual expenditures totalling over \$5 billion. Federal investments in some arrangements are quite small, such as the Canadian Industry Program for Energy Conservation, but others involve federal commitments of billions of dollars, such as the Canada Infrastructure Works Program.

**23.2** Under these arrangements, the federal government involves external partners in the planning, design and achievement of federal objectives, replacing delivery by federal employees, contractors or agents. These partners are not accountable to ministers and Parliament.

**23.3** These initiatives, if properly implemented, have the potential to improve the delivery of federal programs and services. However, many of the new governance arrangements we examined have been put together in an ad hoc manner that puts accountability to Parliament at unnecessary risk. Parliament has limited means under these arrangements — in some cases no means — of holding the government to account for the federal functions performed or the federal objectives to be achieved. Good will and trust alone, while essential in all arrangements, are not adequate insurance for continued success in the long term.

**23.4** For these new arrangements, the government does not have in place a consistent and generally accepted governing framework that safeguards the essential principles of our parliamentary system. Nor has it been adequately capturing and communicating the lessons being learned in these new approaches. In our view, the federal government remains accountable to Parliament for the use of federal tax dollars, assets and authorities, no matter what tools it uses or arrangements it puts in place with partners to achieve its public objectives.

**23.5** Parliament and the public need to be consulted on the development of an adequate governing framework that will reconcile new governance arrangements with accountability to Parliament for the exercise of federal functions by parties outside the federal government.

#### Background and other observations

**23.6** Over the last decade, the government has significantly increased its use of external partners in innovative arrangements to deliver federal programs and services to Canadians. In some cases, these arrangements have diffused federal power, by drawing outside parties into the process of actually governing Canadians in important areas of public policy that were once the sole domain of the federal government.

**23.7** The new governance arrangements we examined use a wide variety of approaches to program and service delivery. Provision for ensuring good governance and accountability to Parliament and the public is very patchy: we found limited reporting of performance, many weak accountability mechanisms, and inadequate attention to transparency and protection of the public interest. These need to be fixed.

**23.8** The government needs to ensure that departments and agencies setting up new arrangements address the essential issues of credible reporting to Parliament and the public, effective accountability mechanisms, adequate transparency and protection of the public interest. The Treasury Board Secretariat's leadership and commitment are needed in developing a governing framework and overseeing its use, recognizing that what constitutes appropriate and adequate specific provisions to address these issues will vary from case to case.

**23.9** There is a balance to be struck between the independence these arrangements need to operate efficiently to achieve results and the need for adequate accountability. In our view, appropriate accountability to Parliament and the public is not incompatible with independence from government intervention in operational matters.

**The response of the Treasury Board Secretariat is included at the end of the chapter. The Secretariat endorses the elements of the governing framework we propose, stresses the need for flexibility in their application and acknowledges the need for improvement in some areas. The Secretariat mentions several steps it is taking to address issues identified in this chapter.**



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# The Canadian Adaptation and Rural Development Fund

## An Example of Involving Others in Governing

### Chapter 24 – Main Points

**24.1** The Canadian Adaptation and Rural Development (CARD) fund is a new governance arrangement developed by Agriculture and Agri-Food Canada to help farmers, producers and processors adapt to the new business realities of farming. Under the arrangement, projects to support agricultural adaptation are selected largely by the agriculture industry for funding.

**24.2** We found that a reasonable balance had been struck between giving industry councils the freedom to make the best decisions and respecting the public purpose of the funds. In designing this arrangement, the Department developed a number of good practices. However, we also found some areas that need to be improved.

**24.3** In conjunction with the Department, we developed an instrument to assess the capabilities of the adaptation councils. Pilot results suggest that the CARD councils rate well in most of the required competencies. We determined that the instrument could be useful for assessing the capabilities of parties in this new governance arrangement and perhaps in others.

**The Department accepts our findings and has committed to act on our recommendations, although no details have been provided.**



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# Preparedness for Year 2000

## Final Preparation

### Chapter 25 – Main Points

**25.1** The government has made significant progress in preparing its systems that support government-wide mission-critical functions for the Year 2000 computer problem. The Treasury Board Secretariat reported that work on government-wide mission-critical systems was 99 percent complete at July 1999. Our audit supports the overall 99 percent completion rate for those systems. According to its plans, all government-wide mission-critical systems were to be ready for Year 2000 by 31 October 1999, two months before the new millennium.

**25.2** Health Canada and the Atomic Energy Control Board have established Year 2000 requirements for licensees of medical devices, nuclear power reactors and radioactive devices. Some follow-up is needed for medical and radioactive devices but the licensees for active nuclear power plants have met the requirements.

**25.3** Measures are being put in place for contingencies and national emergencies. Although contingency procedures have largely been defined, departmental contingency planning needs more work.

**25.4** We concluded that the government needs to remain vigilant to keep any Year 2000 disruptions to a minimum.

#### Background and other observations

**25.5** Year 2000, the two-digit year code problem, has been a cause of concern to industry and governments around the world. The estimated costs of addressing this problem run as high as US\$800 billion worldwide. In August 1999, the federal government estimated the costs of its Year 2000 projects at \$2.2 billion. According to the Treasury Board Secretariat, the final costs could reach \$2.5 billion.

**25.6** In 1997 we audited the government's preparedness for Year 2000, and again in 1998. Our 1997 Report noted our concern about the slow pace of Year 2000 work; in 1998, we remained very concerned that some essential services might be interrupted in 2000. Most of our recommendations have been accepted and implemented by the government.

**25.7** In 1999, as we completed our work in individual departments and agencies, we reported our findings to management and suggested actions to consider. That additional step was taken to provide more time for departments and agencies to act.

**25.8** We verified the government's Year 2000 progress information as reported by the Secretariat against the information in its supporting files and we further reviewed departmental documents for seven government-wide mission-critical functions in six organizations. Our verification showed no substantive differences from the information reported by the Secretariat.

**25.9** In the departmental contingency plans we reviewed, we found that some key components were not complete or lacked specific details. In particular, plans for testing were weak and few organizations planned to complement the National Contingency Planning Group validation exercise with other tests of their contingency procedures.

**25.10** We have identified several issues that will require action beyond 1999, and have recommended measures for the government to take or to consider. They include moving to comply with government date standards; maintaining and updating valuable information bases developed from Year 2000 projects; and looking out for Year 2000 pitfalls after January 2000.

**The government's responses to our recommendations are included in the chapter. The government agrees with our recommendations and the responses identify the action that it will take to address them.**



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## National Defence

### The Proper Conduct of Public Business

#### Chapter 26 – Main Points

**26.1** National Defence has taken positive steps in each of the areas we reviewed in this audit: active support of ethical conduct, internal control and audit, and follow-up on complaints. However, each of these areas requires further improvement.

**26.2** The Defence Ethics Program, initiated by the Department in 1994 as a key response to ethical problems that had surfaced in recent years, has not yet been fully implemented throughout the Department and the Canadian Forces. The central design of the program has been completed, ethics components have been added to some training courses and ethics training for new recruits is progressing at a satisfactory pace, but other key elements are still not in place. In the military services there is a lack of commitment to the program, and its integration into personnel systems varies widely. The Department needs to move forward and make the program fully operational as soon as possible. To do so, it needs to develop an action plan with clear dates and deliverables.

**26.3** We also found weaknesses in the departmental control systems, including internal controls, internal audit and the military police. There is evidence that in some areas, controls over financial and materiel resources have weakened. While the central internal audit group has recently completed several studies of risks associated with delegated resource management, we are concerned that internal audit resources have fallen below prudent levels and that decisions about the level of compliance audit work necessary to detect and deter fraud and abuse are not based on adequate risk analysis. A few local commanders do not fully understand the new role of the Canadian Forces Provost Marshal in setting policy and standards for the military police. This has resulted in instances of interference.

**26.4** We examined how the Department responded to complaints directed to senior departmental management in National Defence headquarters. Allegations of such abuses of resources as unauthorized upgrading of official residences and misappropriation of government property have not always been dealt with adequately. Corrective action has been inconsistent and remedial action is slow. We have recommended that the Department track all complaint cases and ensure that they are resolved expeditiously.

#### Background and other observations

**26.5** In recent years, National Defence has suffered from several highly publicized breakdowns in management and leadership conduct, most notably the subject of the Somalia Inquiry, and others related to misuse of resources. Over the past five years, the Department has also undergone extensive change: its budget has been reduced by almost 25 percent, an entire level of management has disappeared, and management has been substantially decentralized. This has posed significant challenges to the maintenance of management controls and the reform of the Department.

**26.6** In response to identified problems, senior officials in the Department directed the development of the Defence Ethics Program in February 1994. The program that was developed was approved in December 1997. It is based on the *Statement of Defence Ethics*, which consists of principles (respect, service and obedience to lawful authority) and obligations (integrity, loyalty, honesty, courage, responsibility and fairness). The program is intended to be implemented from the top down by group principals at headquarters and by the navy, army and air force chiefs of staff.

**26.7** The Department's strategy for implementing the Defence Ethics Program includes raising awareness, providing ethics training for military members and civilian employees, encouraging discussion and open dialogue and finding means to deal with ethical issues. It also includes assessing areas of risk to identify specific ethical problems. One of our objectives in this audit was to determine the extent to which the Defence Ethics Program has addressed the problems identified so far.

**26.8** In addition to the Defence Ethics Program, the Department continues to rely on controls such as internal audit, military police and management checks on compliance. We examined these areas as well. We also assessed whether National Defence responds appropriately to complaints about misuse of resources or misconduct.

**The Department responded positively to our recommendations and agreed to make several improvements. It said it would re-emphasize the responsibilities of managers for implementing the Defence Ethics Program and would assist them in making plans. The Department agreed to strengthen the risk analysis required to guide audits in the individual military services. It hopes to use automated data analysis to analyze transactions in order to identify irregularities. Finally, the Department said it is now tracking responses to complaints of abuse and is confident that most assessments will be complete within one year.**



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# National Defence

## Alternative Service Delivery

### Chapter 27 – Main Points

**27.1** The Alternative Service Delivery (ASD) program at National Defence — a search for new and better ways of providing government services — is still in its early stages and has made gains at a slower rate than the Department had initially expected. Unconfirmed departmental estimates suggest that savings are currently about \$68 million. Given the Department's \$3.5 billion annual expenditures on support services, considerable scope for savings remains. In 1996 it projected that annual savings would reach \$200 million by 1999. Based on results to date, however, the Department has revised this projection to \$175 million a year by 2004.

**27.2** Many of the business case analyses for the 14 projects we audited were poorly done. Options were not always adequately assessed or the best option chosen. Personnel appeared to lack the necessary skills to undertake analyses. The Department has taken steps to improve its management of more recent ASD projects and believes it has corrected the earlier shortcomings.

**27.3** The government lacks an adequate policy framework for “partnering” with the private sector and contracting out large service programs. In particular, the \$2.8 billion NATO Flying Training in Canada contract:

- was let without competition, contrary to government contracting policy and regulations, thus forgoing the benefits of price competition; and
- did not follow Public Works and Government Services Canada's profit policy and guidelines for sole-source contracts, and profit markups were not supported by adequate analyses.

**27.4** Inflexible contract arrangements resulted in payments for unused training capacity. For example:

- The Meaford Area Training Centre is operated under a \$40 million five-year fixed-price contract. However, it was used at only 43 percent capacity in 1998.
- The Canadian Aviation Training Centre, Portage-la-Prairie operates a flying training program under a \$165 million contract; it was substantially underutilized during the first six years.

#### Background and other observations

**27.5** According to National Defence, the aim of its ASD program is to provide a framework for departmental managers to pursue best value for the defence dollar in non-core activities. Through the program, it hopes to identify and use the most cost-effective ways of delivering support services, which constitute about one third of the Department's \$10.3 billion budget. We noted that many of the activities being considered for the ASD program have already achieved savings through downsizing and re-engineering.

**27.6** When the Department launched the ASD program in 1995, it set a goal of saving \$200 million a year by 1999 and \$350 million a year by 2001. We audited 14 of its 40 active ASD projects. We audited only government actions and our observations imply no criticism of any third party supplying services to the government.

**The responses of National Defence, the Treasury Board Secretariat and Public Works and Government Services Canada are included in this chapter. National Defence is taking action to address all our recommendations. In particular, the Department is devoting a higher level of management attention to ASD projects and ensuring that staff are adequately trained.**

**With respect to our concern about the lack of an adequate policy framework for “partnering” with the private sector, the Treasury Board Secretariat and Public Works and Government Services Canada are currently participating in an interdepartmental initiative to reform procurement that will include, among other matters, work on guidance for large, multi-year service contracts.**

**National Defence believes that the NATO Flying Training in Canada program is innovative and will provide good-quality pilot training at a lower cost than the current training system or any other training option in the foreseeable future.**



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# Canadian International Development Agency

## Financial Controls Over Projects

### Chapter 28 – Main Points

**28.1** CIDA's financial controls are effective in monitoring and controlling the flow of funds for projects, and in tracking the financial status of projects — that is, what has been spent and what remains to be spent. However, reports on the progress of projects often do not compare what has been accomplished with what was planned. This makes it difficult to determine the rate of progress or to analyze the financial implications of changes from expected progress. The result is a risk that project scope may have to be reduced or the budget increased to accomplish the intended objectives.

**28.2** CIDA uses audits as a means of ensuring that its executing agents are respecting the financial conditions in its contracts with them. These audits have generally indicated that expenditures by executing agents are largely in accordance with contract conditions. In the contracts we audited, the amounts identified as possible adjustments because of non-compliance with contract conditions were relatively small — \$32.2 million out of about \$932 million. However, CIDA's audits have also identified some persistent problems of non-compliance with contract conditions. CIDA has released (that is, waived) some dollar adjustments identified as amounts to be repaid by the executing agents as a result of non-compliance. The rationale for doing so was documented in most cases but, in our view, the reasons given did not always justify the releases. From our sample, we estimated these amounts to be \$12 million to \$13 million over the four years of reports we examined.

**28.3** We believe that the Performance Review Branch needs to be more active in auditing whether the system of financial controls is functioning as intended.

#### Background and other observations

**28.4** CIDA is responsible for managing about \$1.8 billion of Canada's international assistance. Just over \$1 billion represents contributions to third parties, usually referred to as Canadian executing agents (CEAs), to deliver development assistance projects. Executing agents may be Canadian or developing country institutions, provincial governments and their organizations and agencies, or Canadian private sector firms.

**28.5** CIDA has put in place a number of financial controls to support the management of its aid projects. At the centre of project management is the contract or the contribution agreement with the CEA. CIDA uses audits to ensure that CEAs are complying with its contracts and contribution agreements. In this audit, we wanted to see if CIDA's financial controls for projects were functioning as intended. We also wanted to examine the actions taken by CIDA to deal with the results of its compliance audits of these projects.

**28.6** Although we noted problems of non-compliance with contracts, in nearly all the contracts we examined we also observed that once there was agreement between CIDA and a CEA that money should be repaid, CIDA recovered the amounts owing. Information generated by the audits commissioned by CIDA was being assembled and analyzed, but was not presented to senior program management for action.

**The Agency has accepted our recommendations and agreed to take action to address the issues raised.**



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# Federal Support of Health Care Delivery

## Chapter 29 – Main Points

**29.1** The federal government is not in a position to determine what its total contribution to health care really is. Federal funds are transferred under the Canada Health and Social Transfer in a block, providing provinces and territories with the flexibility to allocate these funds among health care, post-secondary education, and social assistance and social services. As a result, Parliament and the general public do not have a clear picture of the amount of federal funding directed to health care.

**29.2** Health Canada strives to administer the *Canada Health Act* in a non-intrusive manner. This approach has not brought about the speedy resolution of non-compliance issues and differences in interpretation of the Act. A new approach, using the provisions of the Social Union Framework Agreement, offers a process for avoiding and resolving disputes.

**29.3** Deficiencies in the Department's annual reports to Parliament compromise their usefulness: Parliament cannot readily determine the extent to which each province and territory has satisfied the criteria and conditions of the *Canada Health Act*. When the Department cannot provide this information in its reports, it should clearly explain the reasons.

### Background and other observations

**29.4** The delivery of health care is a primarily provincial/territorial responsibility. However, the federal government administers a significant piece of legislation in this area, the *Canada Health Act*. To many Canadians, the *Canada Health Act* provides for a health care system that helps to define this country. It articulates health care as a basic right and describes the features of the health care system.

**29.5** The *Canada Health Act* establishes five criteria and two conditions as well as extra-billing and user charge provisions. All of these must be met if a province or territory is to receive the full federal cash contribution under the Canada Health and Social Transfer. The five criteria mean that regardless of where people live in Canada, they have universal access to a comprehensive, publicly administered health care insurance plan that will cover them if they move to another province and when they travel in Canada. With certain limitations, it also covers them when they travel outside Canada. The two conditions of the Act require provinces and territories to supply information that the federal government may reasonably require and to publicly recognize federal transfers.

**29.6** Federal funding is provided to provinces and territories and other organizations to assist them in carrying out their health care mandates and related health activities. Health Canada is responsible for the administration of the *Canada Health Act* and other programs in health and related areas, including recent initiatives to renew health care and strengthen health information and technology.

**29.7** We found that Health Canada does not have the information it needs to effectively monitor and report on the extent of compliance with the *Canada Health Act*. The only departmental evaluation undertaken in this area was limited in scope, and it was five years before results were reported to Parliament.

**29.8** The federal government is funding efforts to meet a wide range of information needs. Information is a critical tool for allocating resources and reporting on how well the health care system has served the public. This work presents major challenges that all parties concerned with national health information need to manage

carefully. In addition, Health Canada needs to move expeditiously to meet its commitment to report on the performance and effectiveness of its programs.

**29.9** The federal government has established the Health Transition Fund to support provinces in undertaking pilot projects to assess ways in which Canada's health care system can be improved. It has also introduced the Health Infostructure Support Program to help organizations involved in health care services further test and assess their use of information technologies. We found weaknesses in the management of both initiatives that, in our view, could compromise their usefulness as tools for helping planners to make sound decisions on health care delivery.

**Responses to our recommendations from Health Canada and the federal government are included in the chapter. Health Canada has agreed to take corrective action on those recommendations directed to the Department. The federal government is committed to improving information generally but has not responded to our recommendations on the provision of specific information.**



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# Sole-Source Contracting for Professional Services

## Using Advance Contract Award Notices

### Chapter 30 – Main Points

**30.1** This chapter examines the government's practice of awarding sole-source contracts for professional services. It also examines a mechanism known as an Advance Contract Award Notice (ACAN), used widely by departments to advertise their intention to award sole-source contracts to a specific supplier.

**30.2** The principles of accessibility, competition, fairness to suppliers, transparency and best value lie at the core of government contracting policy. The contracting regulations require that all contracts be let through a competitive process, with certain very narrowly defined exceptions. When the contract is needed in an emergency, when the value is small, when it is not in the public interest to solicit bids (for example, if national security is involved) or when there is only one supplier who can do the work, the contract can be let without competition on what is called a sole-source basis. Almost 90 percent of the 50 sole-source contracts we examined did not fall under any of the exceptions or did not have adequate evidence of doing so and hence ought to have been competitively tendered. As in last year's audit of sole-source contracts for professional services, we concluded that the process of awarding most of the contracts audited in this year's sample would not pass the test of public scrutiny.

**30.3** We concluded that the ACANs associated with these sole-source contracts added transparency to directed contracting, because ACANs are publicly advertised (compared with the nearly 40 percent of sole-source contracts that are let without any public notice) and can be challenged before their expiry date. However, in our view the challenge process is flawed and discourages potential suppliers from submitting challenges. Only 35 of the 522 contracts that we reviewed had been challenged and only 4 of the challenges were accepted. We found the following:

- The information the ACANs provide is often vague and they are challenged infrequently. Furthermore, many ACANs are posted for less than the recommended 15 days. There is no policy defining the challenge process, nor any criteria for judging the validity of a challenge. Those who decide whether a challenge is valid are, for the most part, the same departmental officials who originally decided that the contract should not be open to competition. There is no recourse to appeal their decisions unless the contract is subject to trade agreements, in which case they may be appealed to the Canadian International Trade Tribunal. Mounting a challenge to an ACAN under these unfavourable circumstances requires the supplier to invest both money and good will, an investment that most find unattractive.
- Based on the 50 sole-source contracts selected for detailed examination, in most instances the decision to contract is not well considered, the requirements are often defined only vaguely, pricing is not done with due regard to economy and often deliverables are not assessed against the original requirements of the contract.
- The existing framework of contracting rules, policies and regulations for contracting is basically sound. However, the evidence shows that departments either do not understand this framework or in some instances choose not to follow it.

#### Background and other observations

**30.4** In 1997, contracts of \$25,000 and above for all types of services (including professional services) had a total value of \$3.9 billion. Of that amount, \$1.34 billion was for sole-source contracts. An ACAN was posted for

over half of those (\$830 million) and the balance (\$510 million) were entered into without public notice of the government's intent to issue a sole-source contract.

**30.5** Our December 1998 Report (Chapter 26 — Contracting for Professional Services: Selected Sole-Source Contracts) noted that the process of awarding most of the contracts in the sample we audited that year would not stand the test of public scrutiny. In May 1999, the Standing Committee on Public Accounts supported the audit findings and expressed concerns about departmental practices as they relate to ACANs.

**30.6** The objective of the current audit was to assess the use of sole-source contracts and ACANs in professional services contracts by National Defence, Human Resources Development Canada, the Canadian International Development Agency and Industry Canada, and by Public Works and Government Services Canada on their behalf. Our audit included all 522 ACANs issued by, or on behalf of, the four departments in 1998, and examined in detail a sample of 50 of these.

**30.7** We have made recommendations designed to encourage and strengthen the accountabilities in departments and agencies for the exercise of delegated contracting authority by managers. Additionally, to strengthen the challenge process for contracts, including contracts let using ACANs, we have recommended that the government clarify the due process rights of contractors and establish an independent appeal mechanism for contractors.

**The Treasury Board Secretariat has indicated that the Treasury Board's contracting policies are based on the strong values and principles of competition, openness, equal access, transparency, fairness and best value for Canadians. It explains that the Board's role is to establish these policies and that departments, in turn, are accountable to their ministers and to parliamentarians for implementing them. The Secretariat commits to introducing a program of training and certification for procurement specialists as well as implementing a monitoring framework for evaluating contracting activities. While Treasury Board policy encourages contract review mechanisms and internal audits, the Secretariat does not believe that a mandatory policy requirement for a contract review mechanism in departments is necessary, nor does it support the recommended scope for internal audits of sole-source contracts. The Secretariat does not believe that an independent appeal mechanism for contractors that deals with contracts lying outside the purview of the Canadian International Trade Tribunal is necessary.**



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## Department of Foreign Affairs and International Trade

### Delivery of Capital Projects in Four Missions

#### Chapter 31 – Main Points

**31.1** This audit examined how the Department of Foreign Affairs and International Trade planned and implemented six capital projects at four missions in Seoul, New Delhi, Geneva and Bangkok. Capital costs for these missions totalled about \$75 million, representing approximately 20 percent of the capital expenditures planned by the Department over the five-year life of its Long-Term Capital Plan.

**31.2** Delivering capital projects outside of Canada entails significant additional risks, difficulties and challenges not experienced in the delivery of capital projects domestically.

**31.3** The audit confirmed that valid reasons existed for initiating each of the projects and that users are generally satisfied with their new accommodation. Overall, the projects were delivered within budgets and project schedules. In general, contracts were awarded on a competitive basis and change orders were well managed. We noted several positive initiatives to address environmental concerns.

**31.4** However, we identified weaknesses in the preliminary planning of the projects. Indicative project estimates were incomplete and unreliable. The preliminary cost estimates of three projects increased by \$38 million, representing increases ranging from 64 percent to 153 percent over their initial estimates. In one case, a poor cost estimate may have resulted in an uneconomical expenditure of \$15 million. We estimate that, over the last five years, the opportunity cost of this payment totals \$8 million.

**31.5** We are also concerned with the lack of rigour of the Department's analysis of options in support of their recommendations to the Treasury Board. We found instances where the Department failed to document the results of its analysis of various options that may have realized savings totalling at least \$7 million over a 20-year period. We also noted weaknesses in the methodology used by the Department to support its investment decisions, and the lack of documentation to support a particular option.

**31.6** The quality of reporting to the Treasury Board to explain project delays and budget increases needs to be improved.

**31.7** In summary, the magnitude and frequency of increases in preliminary cost estimates and other problems identified by the audit seem to indicate that systemic weaknesses exist in the Department's planning of capital projects and these need to be addressed.

#### Background and other observations

**31.8** The Department of Foreign Affairs and International Trade manages a significant and diverse portfolio of office and residential accommodation, encompassing property in 160 locations in over 100 countries. The estimated value of these Crown-owned properties abroad is \$1.5 billion to \$2 billion and annual leasing and capital expenditures total approximately \$110 million and \$60 million respectively. The Department and other government departments use the facilities to deliver their programs.

**31.9** This audit reaffirmed our opinion that the government's administrative policies for managing capital projects are sound, but problems persist in their application.

**The Department of Foreign Affairs and International Trade agrees with the chapter's recommendations and has developed an action plan that addresses our concerns.**



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## Follow-up of Recommendations in Previous Reports

### Chapter 32 – Main Points

**32.1** The majority of our reviews this year depict an improvement in the efforts made by management to take positive and effective remedial action. In other cases, we are concerned with the slow progress on fixing the problems — for a variety of reasons, as outlined in the various segments.

**32.2** The Department of Finance has gone to considerable effort in trying to address and resolve the issues we raised in our 1997 chapter about its equalization program. The changes enacted through Bill C-65 had a significant financial impact on the federal government and resulted in payments being more consistent with the principles of the program.

**32.3** At Human Resources Development Canada, the Department expended considerable effort to improve service to clients and manage the Canada Pension Plan Disability program more effectively. It took action in each area discussed in our 1996 chapter.

**32.4** The RCMP Public Complaints Commission has undertaken initiatives to address our previous audit concerns about reducing its backlog of cases and streamlining its complaint review procedures. However, it needs to further reduce its backlog, develop a communications strategy, restructure its information system and work with the RCMP to meet its review turnaround target.

**32.5** Our follow-up of Canada's Export Promotion activities found that Industry Canada and Foreign Affairs and International Trade have made significant progress on many operational matters; however, progress is much less evident in areas that would improve accountability for results. As well, Foreign Affairs and International Trade advised the Standing Committee on Public Accounts that it would propose a realistic and feasible service charging scheme, but the departments have decided not to implement charging for services. While the departments believe that the measures they have taken are sufficient, we are concerned that the progress we have observed will not be sustained if our other recommendations are not implemented.

**32.6** In our follow-up of financial management and control at Foreign Affairs and International Trade, we noted a lack of urgency in implementing a number of our recommendations; however, where the Department had focussed its efforts, it had made considerable improvements.

**32.7** The Treasury Board Secretariat has taken certain steps to respond to our recommendations on Renewing Government Services Using Information Technology. The Secretariat has made good progress in its monitoring and measurement of government-wide information management and information technology initiatives. However, progress over the past three years has been slow and, to date, full implementation of action to address our recommendations has been limited.

**32.8** A number of the original chapters were reviewed by the Standing Committee on Public Accounts. We feel that this has been instrumental in bringing about necessary changes.



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## Other Audit Observations

### Chapter 33 – Main Points

**33.1** The *Auditor General Act* requires the Auditor General to include in his Reports matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

**33.2** The “Other Audit Observations” chapter fulfils a special role in the Reports. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments, or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

**33.3** The chapter normally contains observations concerning departmental expenditures and/or revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

**33.4** Observations reported this year cover the following:

- secret commissions/kickbacks for refueling military vehicles;
- the lack of financial control and management systems at CORCAN; and
- the Employment Insurance Account surplus.

**33.5** Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.