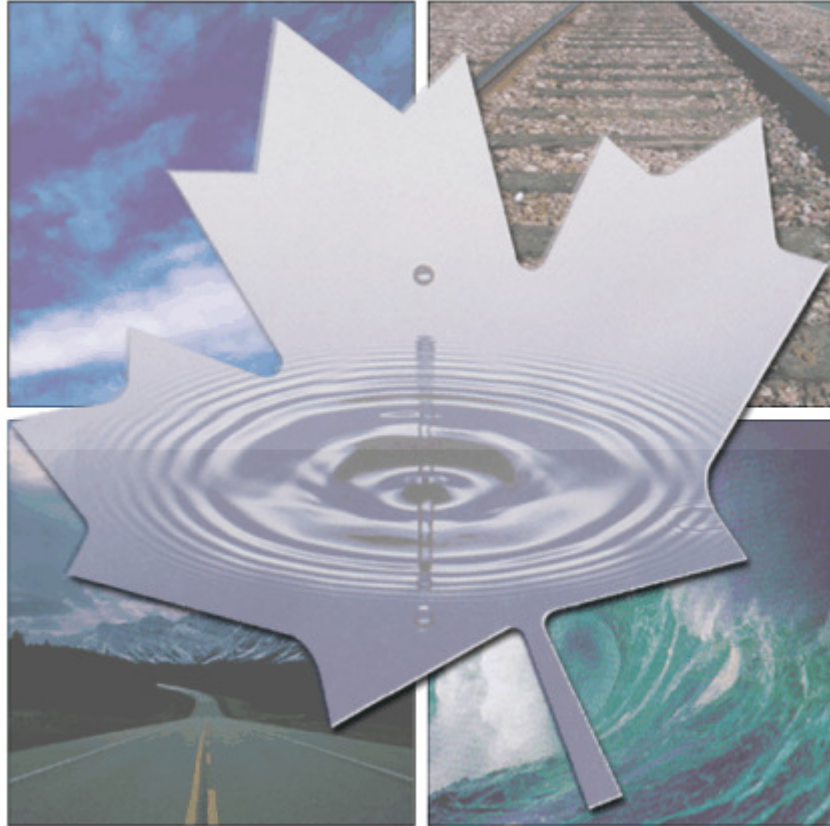


Audit and Advisory Services
Integrity, Innovation and Quality



**Internal Audit of Revenue Collection by the Marine
Safety, Civil Aviation, and Public Ports Programs**

October 2013

File Number: 1577-12/13-105

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EXECUTIVE SUMMARY

Introduction

The *Financial Administration Act* allows departments and agencies to set and collect user fees for their services under certain conditions. The government's 2004 *User Fees Act* provides additional guidance. User fees can be charged for services that provide "direct benefit or advantage" to clients, so that the majority of costs are borne by the clients rather than Canadian taxpayers.

Some user fees are credited to the government's Consolidated Revenue Fund. Others, called "respendable revenues", are credited to the departments that collect them, where they are used to cover or help cover direct service costs. In 2011/12, Transport Canada collected respendable revenues of \$447M. Of this sum, \$359M was credited to the government's Consolidated Revenue Fund.

Audit Objectives and Scope

The purpose of this audit was to assess Transport Canada practices with respect to user fees, including effectiveness of controls over user fee recording, billing, and collection. The focus was on certain components of the Marine Safety Program, Civil Aviation Program and the Public Ports Program. A related consulting assignment was completed to assess the readiness of the Civil Aviation Program and the Marine Safety Program to meet requirements of the 2004 *User Fees Act* and related Treasury Board policies and directives.

The scope of the audit focussed on respendable revenues, as non-respendable revenues were previously audited in the 2010 Audit of Financial Controls for Revenue, and were deemed low risk. Audit and Advisory Services focused on the following respendable revenues: Marine Safety domestic vessel and grain cargo inspections; Civil Aviation Hourly and Fixed Fee Projects; and Public Ports owned by the Department.

Conclusions

The overall conclusion of this work is that the programs audited have adequate practices and processes in place to collect required fees. However, there are weaknesses needing to be addressed.

The audit team found that there have been revenue leakages, i.e., fees that were not being collected although they could have been, in the Marine Safety Program. Although there is still leakage, steps to reduce it in May 2012 had a positive effect.

They also found, for lack of a better term, foregone revenues, i.e., revenues that the government might have been collecting if its fee schedules were more current and if it could charge for all the hours spent on some very labour-intensive services. To support analysis, the audit team did their best to estimate the extent of annual revenue leakages and foregone revenues, which is estimated at approximately \$10.25M for 2012.

The audit team found many inconsistencies in regions' processes and practices, perhaps because of weaknesses in functional direction. They also found oversight weaknesses and data system weaknesses.

On oversight, there was little in the way of quality assurance by headquarters offices, although national monitoring/testing is very important in deterring fraud and wrongdoing where money is changing hands.

On data, the team found data system weaknesses that prevented effective monitoring/testing by the Marine Safety and Public Ports programs. Different systems are used for different information, with no linkages, for example, user fee charges in one system, invoices in another, and revenues received in a third, which prevents cross-checking and analysis.

In case the department should decide at some point to try making a case under the *User Fees Act* for Marine Safety Program and Civil Aviation Program user fee changes, an audit team did an assessment of their readiness. It tested four areas: readiness to estimate the full cost of services, readiness to establish cost recovery levels and pricing policies, readiness to establish service standards and measure annual performance, and readiness to conduct stakeholder consultations and complaints resolution. The Public Ports program was not included in the readiness assessment because of divestiture efforts.

It was found that the Marine Safety Program is farther advanced than the Civil Aviation Program but more preparation would be required from each. The team found the Marine Safety Program partly ready in all four areas and the Civil Aviation Program partly ready in two areas and not ready in the others.

Readiness assessment results will be important whether or not the department wishes to seek fee changes. This is because Treasury Board has proposed that every user fee program be assessed against these standards every five years, with financial penalties if they fall short of the standards.

The following four recommendations have been developed that address these weaknesses.

1. The ADM Safety and Security and the ADM Programs should improve oversight of the three programs (Marine Safety, Civil Aviation and Public Ports) by:
 - improving functional guidance so regions (and harbour masters and wharfingers in the case of the Public Ports program) have the same understanding of user fees that should be charged and revenue collection processes and procedures;
 - improving and integrating data systems so they can support quality assurance assessments and national monitoring/testing; and
 - ensuring there is ongoing national oversight/testing to assess the effectiveness of program delivery and act as a deterrent for fraud and wrongdoing.
2. Because of the very large number of unbilled hours that Civil Aviation inspectors spend on post-certification activities, the ADM Safety and Security should review the current interpretation of Canadian Aviation Regulations, i.e. that such hours are not billable.

3. The ADM Safety and Security should complete implementation of its action plan to address a 2006 internal audit recommendation related to vessel certification, i.e., that vessel owners will be advised of upcoming certification requirements.
4. The ADM Safety and Security should act to address another recommendation of the same audit, i.e., that the department should put in place a monitoring framework to ensure that instances of non-compliance with certification requirements are addressed and evidence of corrective actions are recorded.

Statement of Conformance

This audit conforms to the Internal Auditing Standards for the Government of Canada, as supported by the results of an external assessment as outlined in Internal Audit's quality assurance and improvement program.

Signatures

Signed	October 8, 2013
_____ Dave Leach (CIA) Director, Audit and Advisory Services	_____ Date

Signed	October 8, 2013
_____ Laura Ruzzier, Chief Audit Executive	_____ Date

1. INTRODUCTION

1.1 PURPOSE

The purpose of this audit was to assess Transport Canada practices with respect to user fees, including effectiveness of controls over user fee recording, billing, and collection. The focus was on certain components of the Marine Safety Program, Civil Aviation Program and the Public Ports Program.

A related consulting assignment was completed to assess the readiness of two Safety and Security Programs - the Civil Aviation Program and the Marine Safety Program - to meet requirements of the 2004 *User Fees Act* and related documents related to user fee change proposals.

1.2 BACKGROUND

The *Financial Administration Act* allows departments and agencies to set and collect user fees for their services under certain conditions. The government's 2004 *User Fees Act* provides additional guidance. User fees can be charged for services that provide "direct benefit or advantage" to clients, so that the majority of costs are borne by the clients rather than Canadian taxpayers.

Some user fees are credited to the government's Consolidated Revenue Fund. Others, called "responsible revenues", are credited to the departments that collect them, where they are used to cover or help cover direct service costs.

In 2011-12, Transport Canada collected responsible revenues of \$447M. Of this sum, \$359M (e.g., from airport authority lease payments, Canada Port Authorities stipends, Hopper Car Operating Agreements, and lease payments related to the non-navigational portion of the St. Lawrence Seaway) was credited to the government's Consolidated Revenue Fund.

The rest is a departmental revenue source, helping cover the cost of the department's services. In 2011-12, user fees were collected by six activity areas: Civil Aviation; Transportation Infrastructure; Marine Safety; Road Safety; Internal Services; and Rail Safety.

An internal audit of Transport Revenue Collection was in the department's risk-based audit plan for 2013-14. The focus would be on program areas that collect user fees by invoice because these are the areas for which the risk of non-collection is greatest. Responsible revenue collection is important because responsible revenues have been factored into program budgets; if fees are not collected, program operations could be jeopardized.

In 2004, the Government of Canada passed an act that sets conditions for new user fees and amendments to existing fees. The *User Fees Act* says that before a new user fee can be set, or before an existing fee can be increased, have its application expanded, or have its duration increased, the regulating authority must:

- take reasonable measures to notify clients, and other regulating authorities with a similar clientele of the user fee proposed to be fixed, increased, expanded in application or increased in duration;
- give all clients or service users a reasonable opportunity to provide ideas or proposals for ways to improve the services to which the user fee relates;
- conduct an impact assessment to identify relevant factors, and take into account its findings in a decision to fix or change the user fee;
- explain to clients clearly how the user fee is determined and identify the cost and revenue elements of the user fee;
- establish an independent advisory panel to address a complaint submitted by a client regarding the user fee or change; and
- establish standards which are comparable to those established by other countries with which a comparison is relevant and against which the performance of the regulating authority can be measured.

Transport Canada's user fees predate the *User Fees Act* so the department has not yet had to demonstrate compliance. However, the conditions nevertheless merit attention in case the department should wish to propose changes to current user fees at some point in the future.

They are also important because it has been proposed that all programs which charge user fees be assessed for compliance with *User Fees Act* provisions every five years, whether or not user fee changes are being sought.

1.3 AUDIT SCOPE

The audit covered parts of three programs: Marine Safety, Civil Aviation, and Transportation Infrastructure (Table 1). They were chosen because revenues are collected by invoice rather than in advance, so they present the highest risk of incomplete collection (we were assured that advance payment of user fees is an effective control) and because they had not been covered by a 2010 internal audit of Financial Controls for Revenue.

Table 1: Program areas covered by the Audit

Program	Responsible Revenue Category	Responsible Revenues, 2011/12 (\$M)
Aviation Safety	<i>Schedule V, Canadian Aviation Regulations (CAR) user fees</i>	\$0.9
Aviation Safety	Recovery of incremental overtime and travel costs for inspections and certifications pursuant to CAR	\$1.9
Marine Safety	Vessel inspection user fees (pursuant to <i>Board of Steamship Inspection Scale of Fees</i>) and cargo inspection user fees (pursuant to <i>Port Wardens Tariff</i>)	\$4.5
Transportation Infrastructure	Public Port revenues from user fees and wharf permits	\$8.4
	TOTAL	\$15.7

Each program is delivered by the headquarters office, five regional offices, and some or all of the 29 Transport Canada Centres (TCCs), with functional direction from the headquarters office.

In Aviation Safety, the team looked at revenue collection for aeronautical product¹ approvals; in Marine Safety, they looked at domestic vessel inspections and cargo inspections; and in Transportation Infrastructure, they looked at Public Port user fees and wharf permits. Total departmental revenue from these areas was \$15.7M in 2011-12. This was approximately 18% of all Transport Canada responsible revenues (\$88M).

In each program, the team looked at the effectiveness of practices relating to revenue collection. More specifically, they looked for answers to three questions:

- Was there adequate recording of activities to be covered by user fees (inspections, overtime, and travel)?
- Were user fees correctly applied and collected?
- Was there adequate oversight of user fee invoicing and collection?

As well, the audit team looked at the department's implementation of management action plan commitments in response to revenue-related recommendations of a 2006 internal audit of regulatory programs (*Audit of Marine Safety Inspection Standardization*).

¹ Means any aircraft, aircraft engine, aircraft propeller or aircraft appliance or part or the component parts of any of those things, including any computer system and software.

1.4 READINESS ASSESSMENT SCOPE

As already noted, the assessment covers the Civil Aviation and Marine Safety programs. Its purpose was to assess the extent to which the programs are in a position to meet *User Fees Act* standards. Meeting these standards will be necessary should the department decide to seek user fee changes or increases. The assessment team looked at readiness to:

- estimate the full cost of service;
- establish cost recovery levels and pricing policies;
- establish service standards and measure annual performance; and
- conduct stakeholder consultations and complaints resolution.

The assessment did not look at the Public Ports Program due to divestiture efforts currently under way.

1.5 REPORT STRUCTURE

This introduction is the first of seven parts.

Parts 2, 3 and 4 provide audit findings, with one section for each program area. Part 2 is about the Marine Safety Program, Part 3 is about the Civil Aviation Program, and Part 4 is about the Public Ports Program.

Part 5 provides findings of the readiness assessment. There is a sub-section for each of the four readiness assessment questions (readiness to estimate the full cost of service, readiness to establish cost recovery levels and pricing policy, readiness to establish service standards and measure annual performance, and readiness to do stakeholder consultations and complaints resolution).

Part 6 provides conclusions and recommendations, and Part 7 provides the department's Management Action Plan to address report recommendations.

2 FINDINGS - MARINE SAFETY PROGRAM

2.1 BACKGROUND

The Marine Safety Program develops and administers policies and regulations to advance the safety of Canada's marine transportation system. Two of its core responsibilities are the inspection/certification of Canadian registered vessels and the inspection of vessels loading grain, timber and concentrates.

The department's authority for the program is derived from the *Canada Shipping Act, 2001*. User fees to be charged for Marine Safety Program services are set out in two documents: the *Board of Steamship Inspection Scale of Fees* (for vessel inspections) and the *Port Wardens Tariff* (for cargo inspections). The fee schedules were last updated in 1997.

2.2 AUDIT APPROACH

To assess the program's revenue collection processes and practices, the audit team looked at a statistically valid sample of inspections. The Ship Inspection Reporting System (SIRS) is the Marine Safety Program's repository for inspection records.

Of the 2,411 vessels inspected by Marine Safety Program staff in calendar year 2012, a sample of 73 vessels was identified, based upon a confidence level of 95%, a precision of 5% and a sample error rate of 5% (Table 2).

Table 2: Domestic Vessel Inspections in 2012 and Audit Sample

Vessel Category	Number of Vessels Inspected	% of Vessels Inspected	Number of Vessels in the Audit Sample	% of Vessels in the Audit Sample
Fishing Vessel < 24 meters	1,097	45%	31	42%
Passenger Vessel	508	21%	14	19%
Commercial Vessel => 150 gross tonnage	309	13%	15	21%
Commercial Vessel < 150 gross tonnage	307	13%	5	7%
Ferry	100	4%	4	5%
Fishing Vessel => 24 meters	90	4%	4	5%
TOTAL	2,411	100%	73	100%

A further analysis was done to identify the most appropriate locations for site visits. As 70% of domestic vessel inspections had been done by the Atlantic and Pacific regions (Table 3), it was decided that the site visits would be to two Pacific Region offices (Vancouver and Nanaimo) and two Atlantic Region Offices (Dartmouth and Yarmouth). The purpose of site visits was to review inspection files / invoices and interview inspectors / managers.

Table 3: 2012 Domestic Vessel Inspections by Region

Region	Number of Vessel	% of Vessels
Atlantic	1,200	50 %
Pacific	471	20 %
Quebec	365	15 %
Ontario	290	12 %
Prairie and Northern	80	3 %
Headquarters	5	0 %
TOTAL	2,411	100 %

Selecting an audit sample for cargo inspections was more complex than sample selection for domestic vessel inspections as a central database to record grain, concentrate and timber deck load inspections (e.g. number of inspections per vessel) does not exist.

The audit team therefore developed a judgmental sample. They assembled National Time Activity Reporting System (NTARS) data on overtime, regular travel hours, and overtime travel hours charged in 2012 by inspectors. The five inspectors who had reported the most overtime / regular travel / overtime travel hours for cargo inspections were identified, and for each, a sample of five grain cargo inspection files was chosen.

This strategy was chosen because overtime hours and travel hours were seen as the best indicators of inspectors that do the majority of cargo inspections, and grain load inspections are the largest cargo inspection revenue source. As it turned out, all five inspectors were from the Vancouver office.

2.3 FINDINGS - DOMESTIC VESSEL INSPECTIONS

2.3.1 Not all fees applicable per the Board of Steamship Inspection Scale of Fees (BSISF) were charged in 2012.

Using the audit sample to test inspection invoices against the *Board of Steamship Inspection Scale of Fees (BSISF)* fee schedule, the audit team found that in 2012, the department had invoiced less than is applicable per the BSISF. The difference between total *possible* invoices (\$258,433) and total *actual* invoices (\$170,653) was \$87,780 (Table 4). This was considered “revenue leakage”.

Table 4: Domestic Vessel Inspection Sampling Results (2012)

Vessel Category	Number of Vessels Tested	Number of Vessel Inspection Activities Recorded in SIRS	Total Invoices	Total Possible Invoices	Revenue Leakage
Fishing Vessel < 24 meters	33	114	\$48,966	\$62,156	\$13,190
Passenger Vessel	14	73	\$47,755	\$64,275	\$16,520
Commercial Vessel => 150 gross tonnage	13	129	\$37,589	\$70,519	\$32,930
Commercial Vessel < 150 gross tonnage	5	14	\$6,622	\$7,322	\$700
Ferry	4	38	\$11,353	\$24,933	\$13,580
Fishing Vessel => 24 meters	4	33	\$18,368	\$29,228	\$10,860
TOTAL	73	401	\$170,653	\$258,433	\$87,780

2.3.2 There was a marked decrease in revenue leakage after May 2012.

The audit team was advised by Marine Safety Program officials that they were aware that fee schedules were applied inconsistently in the regions. For that reason, the headquarters office had issued a Ship Safety Bulletin on May 8, 2012 informing clients that a number of fees in the *Board of Steamship Inspection Scale of Fees* would be consistently applied after 30 May 2012. Specifically, all Marine Safety offices would assess a \$500 fee for an inspector to be available upon request for vessel services, a \$400 fee for the first issue of a Safe Manning Document, a \$100 fee for a Safe Manning Document renewal, and a minimum of \$100 per visit fee. A guideline with similar information was sent to regional offices.

To determine the impact of the bulletin and guidelines, the audit team looked more closely at 2012 revenue information. Revenues were separated into two categories: those collected between January and May (i.e., *before* the bulletin and guidelines) and those collected between June and December (i.e., *after* the bulletin and guidelines). They found that the bulletin and guidelines had had a significant impact – revenue leakage fell from 58% for the period from January to May to 8% for the period from June to December (Table 5).

Using the same rates, the audit team did an estimate of total leakage in 2012 (Table 6).

Table 5: Estimated Revenue Leakage (Audit Sample)

	January to May 2012	June to December 2012	All 2012
Chargeable fees	\$133,806	\$124,627	\$258,433
Actual billings	\$55,856	\$114,797	\$170,653
Revenue leakage	\$77,950	\$9,830	\$87,780
Leakage as a % of chargeable fees	58 %	8 %	34 %

Table 6: Total Estimated Revenue Leakage, 2012

	Jan to May 2012	June to Dec 2012	Total
Total billings	\$1,877,058	\$3,624,949	\$5,502,007
% shortfall (from the sample)	58 %	8 %	34 %
Estimated total leakage in 2012	\$1,088,694	\$289,996	\$1,870,682

2.3.3 Revenue leakage was in large part due to uninvoiced standby fees and overtime.

The audit team used the audit sample to identify the main reasons for revenue leakage, and found it was mainly due to uninvoiced standby fees and overtime (Table 7).

Table 7: Explanations for Revenue Leakage

Explanations for Revenue Leakage	January to May 2012	%	June to December, 2012	%
Unbilled Standby Fees	\$69,500	89.1%	\$6,000	61 %
Unbilled Overtime	\$4,250	5.5%	\$2,830	29 %
Unbilled Visit Fees	\$4,000	5.1%	\$600	6 %
Unbilled Safe Manning Document	\$200	0.3%	\$400	4 %
TOTAL	\$77,950	100 %	\$9,830	100 %

The BSISF says that standby fees are chargeable when a ship owner/operator requests that an inspector be on call or be made available to perform a service for a continuous or specified period. Program representatives told the audit team that these fees had not often been charged before June 2012.

Uninvoiced overtime was likely due to inspector work schedules. The BSISF allows for charging of inspector overtime after 5 pm on weekdays. However, some inspectors started their workdays early in the morning with the result that their workdays finished before 5 pm. In such situations, it fell to the department to pay any overtime before 5 pm.

Overtime may also be incurred by the department if a manager directs inspectors, travelling to a location, to schedule more than one inspection to take advantage of being on site.

A third explanation is that managers have the authority to waive certain costs, for example the cost of a second inspector, and have likely done so. Unfortunately, no records were kept of waived fees.

2.3.4 Revenue shortfalls varied between regions.

The audit team also found that revenue leakage varied little from region to region, except for Quebec, which was higher (Table 8).

Table 8: Revenue Shortfall by Region

Region	Number of Vessels	Possible Invoices	Actual Invoices	Shortfall	Shortfall as a % of possible invoices
Atlantic	41	\$168,394	\$114,564	\$53,830	32%
Quebec	8	\$33,058	\$18,788	\$14,270	43%
Ontario	10	\$26,258	\$17,388	\$8,870	34%
Prairie and Northern	-	-	-	-	-
Pacific	14	\$30,723	\$19,913	\$10,810	35%
TOTAL	73	\$258,433	\$170,653	\$87,780	34 %

2.3.5 Functional direction has improved, but there is still room for improvement.

The headquarters office of the Marine Safety Program has developed standards and guidelines to aid managers and inspectors in the conduct of inspections and apply specific inspection fees. However, the audit team observed a need for stronger functional direction.

It was found that even on subjects where supporting documents had been developed, there were differences between regions, offices, and inspectors in the way guidance was understood and applied. For example, inspectors had questions about how some standby and overtime fees were to be applied, e.g., how overtime fees should be applied when the work was done over two days.

The audit team also found that some offices were not verifying that invoices for past inspections had been paid for before they did new inspections (e.g. outstanding or written-off payments). One office required payment of past-due fees but not the up-front payment for a new inspection. This confusion existed despite availability of a guidance document (*Procedure for Handling of Complaints Related to Vessel Inspection Fees*) developed in October 2012. It said that when a client requests an inspection, the manager must determine whether the client has outstanding fees and, if yes, advise the client that no Canadian Maritime Document can be issued until outstanding fees and fees for the requested inspection have been paid. (Inspectors confusion may have been because the document name was about complaints rather than collection of outstanding fees).

In addition, there was a lack of guidance to regional offices on the issuance of temporary and final certificates. Some offices issued final certificates after a vessel inspection was completed (assuming no significant deficiency was found) and others issued a temporary certificate, with the final certificate to be sent with the invoice. Some senior managers in the regions and headquarters said inspectors *should* issue temporary certificates at the end of an inspection, with the final certificates to be sent at a later date with the invoice, but there has not been written guidance to this effect.

2.3.6 There are gradual improvements to program data systems.

The Marine Safety Program uses four Information Technology systems - the Canadian Register of Vessels, SIRS, NTARS and an Oracle Accounts Receivable module - to keep track of domestic vessels, inspection activity, inspector regular time, inspector overtime and travel hours, and invoices. Given the number of systems, there have been challenges to get a clear picture of program activity to billing activity.

On April 1st, 2013, the first phase of a new NTARS module – the Marine Safety Dispatch and Tracking System (MSDTS) – was introduced, its purpose to automate invoicing of domestic vessel inspections and cargo inspection fees. MSDTS enhancements are planned for other Marine Safety Program service lines. This should allow an easier comparison between billing and program activity.

The audit team would like to see data tracking that facilitates oversight by alerting managers and headquarters functional leads to weaknesses and inconsistencies in program delivery, for example records of waived fees and foregone revenues, overtime hours recorded in NTARS but not cost recovered, and uncompleted service requests.

2.3.7 Two recommendations of a 2006 internal audit were not fully addressed.

The audit team looked at Marine Safety Program commitments to address revenue-related recommendations of a 2006 internal audit (Audit of Inspection Standardization Practices) and found actions to address two recommendations had not been completed.

In response to a recommendation on tracking of vessel certificate expiry dates (*“Marine Safety should review the risk associated with not tracking vessel certificate expiry dates and institute a mechanism to record and collect observed instances of non-compliance relating to vessels found to be operating with expired certificates”*), the department said vessel owners would in future be advised of upcoming certification requirements.

The audit team found that the Marine Safety Program had developed and distributed a policy (*Identification, Notification of Expiring Vessel Certificates*) in 2007 that directed managers to identify vessels with expiring Canadian Marine Documents and provide notification of upcoming certification requirements. However, they found only one of the four offices where site visits were made is meeting this commitment, with the result that vessels may be operating without valid certificates.

To determine the extent to which this happens, the audit team used SIRS data to identify vessels with certificates that expired between 2011 and 2012. They found 169 of them, of a total vessel population of 2,411. The final count could be slightly lower if the count included vessels that had very recently been inspected or vessels that had been taken out of service.

There was also an audit recommendation about follow-up on non-compliance with certificate requirements that are identified through domestic vessel inspections and cargo inspections (*“Marine Safety should develop a framework to formally monitor the application of functional direction governing domestic vessel and port warden cargo inspections to ensure that observed instances of non-compliance be addressed in a timely fashion and that evidence of corrective action be formally recorded”*). The department’s response was that quality control mechanisms would be introduced and managers would oversee inspection files including verifying amounts invoiced for inspection services.

However, the audit team found that a quality control process had not been put in place; monitoring practices varied from region to region and there was no national monitoring. It was found that some managers review files to ensure post-inspection reports are complete and vessel owners are appropriately invoiced; others do not.

2.3.8 Action is being taken on past-due accounts.

The audit team looked at outstanding invoices for domestic vessel inspections. For the 73 vessels in the audit sample, invoices totaling \$170,653 were issued and all but four had been paid, leaving an outstanding balance of \$5,876 (3.4%).

The audit team looked at all past due invoices for inspection activity and found that invoices totaling \$288K had been outstanding for 121 or more days (Table 9). Fifty-nine percent of the total was in the Atlantic Region, including 29% in a single office.

Table 9: Past Due (121 days +) Accounts by Region

Region	Past Due: 121 days +	% of Total
Atlantic	\$170,875	59 %
Pacific	\$36,807	13 %
Quebec	\$32,222	11 %
Ontario	\$26,807	9 %
Prairie and Northern	\$20,207	7 %
National Capital Region	\$1,200	1 %
TOTAL	\$288,118	100%

Source: Oracle Accounts Receivable Sub-ledger as at March 31, 2013.

The audit team reviewed *Chapter 513* of the department's *Financial Policy and Procedures Manual* (on collection), which says that in such cases, the department should:

- contact the debtor to arrange for full settlement;
- send a collection letter if the first reminder notice does not result in payment, in order to specify further action the Department is prepared to take if payment is not received by a specified date; and
- if the collection letter is unsuccessful, consider other collection alternatives including a collection agency and recovery from Crown payments due to debtors (e.g., income tax refunds or social benefit payments).

The audit team also reviewed *Chapter 540* of the manual (on *Debt Write-Off*) which sets out write-off criteria for past due accounts. It was found that long past due accounts were being managed in accordance with departmental collection and write-off policies.

2.4 FINDINGS - CARGO INSPECTIONS

2.4.1 Grain cargo inspection fees were appropriately billed but inspector standby fees were incorrectly coded in the financial system.

The May 2012 bulletin described in the vessel inspection section had implications for cargo inspections too. Marine Safety Program offices were also expected to invoice standby fees for cargo inspectors. The audit team found that standby fees had been charged for the grain inspections in the sample, but fees had been incorrectly entered into the financial data system. The result was an apparent spike in grain survey fees (Table 10). The finding was brought to the attention of program officials.

Table 10: Grain Cargo Inspection Invoices (Audit Sample)

Line Object	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
8J21 – Grain Surveys	\$400,086	\$378,015	\$455,750	\$483,969	\$482,336	\$810,746
8T04 – Inspector Standby Fees	\$0	\$0	\$0	\$0	\$0	\$12,000

Source: Oracle General Ledger, as at March 31, 2013.

2.4.2 Some Pacific Region “Readiness to Load” stability calculations had errors.

Based on interviews with regional staff, the audit team was made aware of potential duplication of effort for cargo inspections. This led to the audit team conducting a further review of “Readiness to Load” inspections and found that five of 23 “Readiness to Load” stability calculations done by the Nanaimo office (for vessels on their way to Vancouver) had errors, with the result that inspections and calculations had to be redone in Vancouver. Vessel owners were not charged for the extra inspections, because re-inspections are not billable, there was a duplication of effort and extra costs for the department.

In May 2013, the Vancouver office circulated a document to Pacific Region inspectors (*Harmonization of Cargo Inspection Procedures*) that clarified procedures for cargo inspections and load stability calculations. Though the document might have been useful to inspectors in other regions too, it was not circulated outside that region.

3 FINDINGS – CIVIL AVIATION PROGRAM

3.1 BACKGROUND

The role of the Civil Aviation Program is to advance Civil Aviation in Canada. Its oversight activities include verifying aviation industry compliance with the regulatory framework.

The Program's authority to collect user fees derives from the *Aeronautics Act* and the 1998 *Canadian Aviation Regulations*. User fees to be collected are set out in the *Canadian Aviation Regulations* (CAR).

3.2 AUDIT APPROACH

The audit team looked at revenue collection for two major services:

- Airworthiness certification of new domestic or foreign aircraft, aircraft engines or propellers (hourly fees); and
- Certification of new models of foreign aeronautical products (fixed fees).

The audit focused mainly on user fees that are invoiced – i.e. CAR 104 Schedule V user fees (for Aeronautical Product Approvals). User fees that are paid in advance were deemed low risk and were scoped out of the audit.²

3.3 FINDINGS

3.3.1 Civil Aviation Program technical specialists spent many more hours on hourly billing projects than were invoiced.

Under the Canadian Aviation Regulations, companies seeking airworthiness certification for new domestic or foreign aircraft, aircraft engines and propellers (under an hourly billing project) are to be charged \$40 per hour per technical specialist assigned to the project³. The Regulations also put a ceiling on the number of hours that a company can be billed for.

The audit team found that program technical specialists are spending many more hours than the department can charge for some projects because of the CAR ceiling. Since 1998, there have been 57 such projects. Table 11 looks at closed projects, i.e., projects that were either completed or suspended (totalling 24). Project start dates were as early as October 2002 and project close dates were as recent as June 2012. The table compares the number of hours spent on closed projects with the number of hours billed.

² Fees for medical certificates are also collected after service delivery, but were scoped out of the audit because this activity had been audited already (Audit of Recurring Pilot Fees in 2003, Follow-up Audit of Recurring Pilot Fees in 2006, and Audit of Financial Controls for Revenues in 2010).

³ This rate can be increased to \$120/hour with no maximum, if a company asks that full-time technical specialists be assigned to its project on an exclusive and priority basis, but this provision has only been exercised once.

It was found that six projects required more hours than could be invoiced, in one case more than 15,000 hours more. In total, companies were billed for 51,220 hours; a further 15,859 hours were not invoiced because of the CAR ceiling.

Table 11: Closed Hourly Billing Projects as of February 2013

Project Number	Application Date	Project Close Date	Total Project Hours	Maximum Hours Chargeable up to Ceiling	Actual Amount Charged @\$40 ⁴ /hour	Hours Not Charged	Amount Not Charged @\$40/hour
1	May-06	Aug-11	23,072.30	7,698.63	\$307,945	15,373.68	\$614,947
2	Jun-08	May-12	596.30	396.00	\$15,840	200.30	\$8,012
3	Oct-07	Apr-12	2,307.00	2,197.40	\$87,896	109.60	\$4,384
4	Apr-05	Apr-12	3,687.70	3,600.00	\$144,000	87.70	\$3,508
5	Nov-06	Feb-10	1,120.30	1,064.75	\$42,590	55.55	\$2,222
6	Jan-08	Jul-09	527.00	495.00	\$19,800	32.00	\$1,280
SUB-TOTAL			31,310.60	15,451.78	\$618,071	15,858.83	\$634,353
7	Jan-06	Aug-07	3,550.40		\$142,016	0	\$0
8	Jun-08	Jan-09	108.75		\$4,350	0	\$0
9	Dec-05	Jan-10	1,382.80		\$55,312	0	\$0
10	Nov-06	Jan-10	4,409.22		\$176,369	0	\$0
11	Jan-06	Dec-10	750.45		\$30,018	0	\$0
12	Sep-10	May-12	509.30		\$20,372	0	\$0
13	Jan-05	Suspended	645.99		\$25,840	0	\$0
14	May-11	Jul-12	413.07		\$16,523	0	\$0
15	Mar-09	Dec-10	306.91		\$12,276	0	\$0
16	Jan-09	Jul-11	97.00		\$3,880	0	\$0
17	May-10	Suspended	321.08		\$12,843	0	\$0
18	Nov-07	May-09	1,168.80		\$46,752	0	\$0
19	Feb-08	Jan-09	248.75		\$9,950	0	\$0
20	Nov-10	Aug-12	599.25		\$23,970	0	\$0
21	Apr-09	Jan-12	245.25		\$9,810	0	\$0
22	Sep-05	May-12	3,858.66		\$154,346	0	\$0
23	Oct-02	Mar-08	1,108.13		\$44,325	0	\$0
24	Mar-07	Suspended	185.67		\$7,427	0	\$0
SUB-TOTAL			19,909.47	0.00	\$796,379	0	\$0
TOTAL			51,220.07	15,451.78	\$1,414,450	15,859	\$634,353

Source: Standardized Cost Recovery and Activity Monitoring System (SCRAM)

Note: Projects 7 to 24 are projects that did not reach the maximum number of hours chargeable up to the cap. Therefore, the amount not charged over the cap is \$0.

Table 12 provides data on hourly billing projects that were still open in January 2013. Five of the 33 open projects have passed the hours ceiling set in the Regulations. A total of 99,368 hours have been invoiced for these projects. Another 56,611 hours were not invoiced because of the CAR ceiling.

⁴ Pursuant to S. 104.03(1) of CAR

Table 12: Hourly Billing Projects Open in January 2013

Project Number	Application Date	Total Project Hours as of Jan 23, 2013	Maximum Hours Chargeable up to Ceiling	Actual Amount Charged @ \$40/hour	Hours Not Charged	Amount Not Charged @ \$40/hour
1	Jun-04	63,757.91	12,617.00	\$504,680	51,140.91	\$2,045,636
2	Jul-06	6,629.30	3,276.00	\$131,040	3,353.30	\$134,132
3	Mar-08	2,192.00	1,064.00	\$42,560	1,128.00	\$45,120
4	May-06	5,265.20	4,629.00	\$185,160	636.20	\$25,448
5	Aug-07	3,177.50	2,825.00	\$113,000	352.50	\$14,100
SUB-TOTAL		81,021.91	24,411.00	\$976,440	56,610.91	\$2,264,436
6	Oct-11	53.00		\$2,120	0	\$0
7	Feb-12	22.50		\$900	0	\$0
8	May-12	573.30		\$22,932	0	\$0
9	Aug-11	3,757.80		\$150,312	0	\$0
10	Nov-12	38.20		\$1,528	0	\$0
11	Feb-12	249.80		\$9,992	0	\$0
12	Oct-12	1.50		\$60	0	\$0
13	Oct-12	132.80		\$5,312	0	\$0
14	Jan-12	121.00		\$4,840	0	\$0
15	Nov-08	1,655.40		\$66,216	0	\$0
16	Oct-12	2.00		\$80	0	\$0
17	Nov-10	803.60		\$32,144	0	\$0
18	Oct-10	185.50		\$7,420	0	\$0
19	Dec-10	1,758.00		\$70,320	0	\$0
20	Sep-10	244.60		\$9,784	0	\$0
21	Jan-12	136.60		\$5,464	0	\$0
22	Mar-10	620.80		\$24,832	0	\$0
23	Jul-09	3,749.60		\$149,984	0	\$0
24	Jul-11	89.80		\$3,592	0	\$0
25	Sep-12	20.00		\$800	0	\$0
26	Nov-11	92.50		\$3,700	0	\$0
27	Apr-11	237.80		\$9,512	0	\$0
28	Jan-11	1,237.40		\$49,496	0	\$0
29	Feb-98	136.70		\$5,468	0	\$0
30	Jul-12	26.00		\$1,040	0	\$0
31	Dec-10	1,753.30		\$70,132	0	\$0
32	May-06	623.80		\$24,952	0	\$0
33	May-07	22.80		\$912	0	\$0
SUB-TOTAL		18,346.10		\$733,844	0	\$0
TOTAL		99,368.01		\$1,710,284	56,610.91	\$2,264,436

Source: Standardized Cost Recovery and Activity Monitoring System (SCRAM)

Note: Projects 6 to 33 are projects that did not reach the maximum number of hours chargeable up to the cap. Therefore, the amount not charged over the cap is \$0.

3.3.2 Fixed fee project revenues are low and the use of generic project codes to track these projects limits the usefulness of the data to support management oversight.

Fixed fees are specified in the CARs for projects involving the approval of some aeronautical products, appliances and aeronautical product design changes resulting in issuance or reissuance of a Part Design Approval⁵ (PDA), Repair Design Approval⁶ (RDA) or Supplemental Type Certificate⁷ (STC). Most fixed fee projects, particularly in regions, involve review of a change to the type design of an aeronautical product.

Table 13 provides a summary of 2011-12 fixed fee invoices. It shows that the Civil Aviation Program received, on average, \$13.71 per hour for its services. At \$21.55 per hour, the Atlantic Region’s rate was highest. At \$2.54 per hour, Quebec Region’s was lowest.

Table 13: Fixed Fee Projects

Region	Number of projects invoiced in 2011-12	Total Hours Worked (to 31 December)	Fixed Fees Invoiced (to 31 December)	Fee per hour worked
Ontario	488	13,740	\$204,700	\$14.90
Prairie Northern	436	9,033	\$167,620	\$18.56
Pacific	186	4,357	\$74,540	\$17.11
Atlantic	47	1,514	\$32,630	\$21.55
National Capital Region	22	1,904	\$31,095	\$16.33
Quebec	71	8,200	\$20,830	\$2.54
TOTAL	1,250	38,748	\$531,415	\$13.71

Source: Standardized Cost Recovery and Activity Monitoring System (SCRAM)

The audit team sees room for better coding of fixed fee project hours in the Standardized Cost Recovery and Activity Monitoring (SCRAM) data base; use of generic codes makes it difficult to determine the number of hours spent on individual projects. In Ontario Region, 99%, in Quebec Region, 71%, and in Atlantic Region, 100% of the hours recorded for fixed fee projects were charged to a number of generic codes. In Prairie and Northern Region, 84% of fixed fee project hours were charged to a single generic code. Only the Pacific Region and National Capital Region are recording actual hours worked to specific fixed fee project codes.

The number of hours worked on individual projects cannot be identified in most cases due to the use of generic project codes. The use of generic project codes means that individual fixed fee project hours are not being tracked in Aircraft Certification’s Standardized Cost Recovery & Activity Monitoring (SCRAM) database, limiting the usefulness of the data for tracking work and supporting managerial oversight.

⁵ A document issued by the Minister to record the approval of the type design of an appliance or a part identified in the document by a model number, by a part number or by some other identification unique to the appliance or part.

⁶ A document that is issued by the Minister to record approval of the type design of a replacement part identified by a part number or by some other means of identification unique to the part, for use on an aeronautical product that is identified by type or model.

⁷ A document, including a limited supplemental type approval and a supplemental type approval, issued by the Minister to record the approval of a change to the type design of an aeronautical product, several aeronautical products of the same type, or of differing types.

3.3.3 Post-certification hours cannot be invoiced at all.

Many post-certification design changes, particularly those reviewed by regions, result in the issuance or reissuance of an STC, PDA or RDA in reference to fixed fee project revenues; however, many post-certification design changes do not result in the issuance or re-issuance of one of these documents or the re-issuance of a Type Certificate⁸.

Civil Aviation Program officials advised that companies cannot be charged for these services, because these services are provided after certification. They note that *CAR 104 Schedule V – Aeronautical Product Approvals* only permits invoicing for time spent on initial issuance of a Type Certificate or reissuance of a Type Certificate. It makes no provision for billing for work after a certificate is issued.

Program officials also advised that some post-certification changes to aircraft can be as time-consuming as approval of derivative models. Table 14 gives the number of hours spent on post-certification work from April 2011 to December 2012. It shows that an estimated 54,000 non-billable hours were spent on post-certification work in the 21 months from April 2011 to December 2012.

Table 14: Post-Certification Hours (April 2011 to December 2012)

National Aircraft Certification Division	Domestic or Foreign Manufacturer	Hours
Engineering	Domestic	24,470
Flight Test	Domestic	8,970
Programs	Domestic	13,593
Other	Domestic	3
Sub-total - Domestic Manufacturers		47,036
Engineering	Foreign	380
Flight Test	Foreign	732
Programs	Foreign	6,228
Other	Foreign	18
Sub-total – Foreign Manufacturers		7,358
TOTAL		54,394

Source: Standardized Cost Recovery and Activity Monitoring System (SCRAM)

3.3.4 Unbilled aeronautical project approval hours might add to \$4.55M annually.

Table 15 provides an estimate of fees not charged by the program because of limits set by CARs. Where ceilings limit the number of hours that can be charged, extra hours have been assessed at the difference between the 1998 rate of \$40/hour and an estimated 2012 rate of \$71.48/hour.⁹ The cost of post-certification hours was also estimated at the rate of \$71.48/hour.

⁸ A document issued by the Minister to certify that the type design of an aircraft, aircraft engine or propeller identified in the document meets the applicable standards for that aeronautical product recorded in the type certificate data sheets.

⁹ Estimated based on the top of the 2012 salary range for an engineer (ENG-04) and a general technician (GT-04), assuming that the work split is 90% engineering and 10% technical.

Table 15: Estimated Revenue Gap for Aeronautical Product Reviews (Various time periods)

Aeronautical Project Types	Total Invoiced (various periods of time)	Total Estimated Revenue Gap - (various periods of time)	Annual Revenue Gap¹⁰ (estimate)
Closed Hourly Billing Projects (from 2008-09 to 2012-13 inclusive)	\$1,414,450	\$2,246,761	\$450,000
Open Hourly Billing Projects to 23 January 2013 (in some cases for as long as nine years)	\$1,710,284	\$5,392,541	\$600,000
Fixed Fee Projects (2011-12 invoices for the 21 months from 1 April 2011 to 31 December 2012)	\$531,415	\$2,238,310	\$1,300,000
Sub Total	\$3,656,149	\$9,877,612	\$2,350,000
Post-certification work (for the 21 months from 1 April 2011 to 31 December 2012)	--- ¹¹	\$3,888,100	\$2.2M
TOTAL	\$3,656,149	\$13,765,712	\$4.55M

3.3.5 Controls over invoicing and fee collection are effective.

The audit team tested the largest closed project and the largest open hourly billing project to determine if the department’s cost recovery is effective. No internal control weaknesses were identified.

They also reviewed handling of accounts receivable for invoices issued pursuant to *CAR 104 Schedule V – Aeronautical Product Approvals* and found them effective, as no significant past due accounts receivable were found.

¹⁰ Based on estimated cost of salaries (\$71.48/hr), grossed up by employee benefits and accommodation costs. The annual revenue gap is understated because full costing principles require the addition of other operating costs, depreciation and indirect costs (e.g., internal services), which cannot be readily estimated at this time.

¹¹ Post certification activities are not billable because the CAR Schedule V fee structure only authorizes fees when services result in the issuance or reissuance of a certificate.

4 FINDINGS – PUBLIC PORTS

4.1 BACKGROUND

Since adoption of the National Marine Policy in 1995, 489 public ports previously owned and managed by Transport Canada have been transferred, demolished or had their public harbour status terminated, leaving the department with responsibility for 60 public ports and 26 harbour beds (Table 16).

Table 16: TC-Owned Ports and Harbour Beds as of May 2013

Region	Local Ports	Remote Ports ¹²	Harbour Beds ¹³	Total Ports and Harbour Beds	%
Quebec	17	10	0	27	34 %
Atlantic	8	0	17	25	29 %
Pacific ¹⁴	1	15	1	17	20 %
Ontario	8	1	6	15	17 %
TOTAL	34	26	26	86	100 %

Although the Programs and Operations Branch at headquarters is the functional lead, port operations and divestiture are largely delivered by regional offices. Day-to-day management is by regional offices and TCCs, with functional direction provided by the Programs and Operations Branch in headquarters.

Two ports, Victoria Harbour in Pacific Region and Cap-aux-Meules in the Magdalen Islands in Quebec Region – have a full-time Transport Canada port manager. Victoria Harbour also has a TC employee as harbour master. At other ports, TC is represented by a harbour master, a harbour master/wharfinger, or a wharfinger appointed by the Minister of Transport under section 69 (1) of the *Canada Marine Act*.¹⁵ At the time this report was written, 55 of the 60 public ports owned by Transport Canada had harbour masters, harbour master/wharfingers or wharfingers.

The department’s authority to charge public port fees is derived from Sections 49 and 69 of the 1998 *Canada Marine Act* and the *Public Port Tariff Notices*. Revenues are generated when

¹² Ports that provide the only means of access to isolated communities.

¹³ Water lots in locations where Transport Canada has no port facilities, i.e., Transport Canada owns the land under the harbor but ships load and unload at private, provincial or municipal wharves and docks or transfer goods from ship to ship.

¹⁴ Ports managed by the Pacific Region include Fort Chipewyan in Alberta.

¹⁵ Harbour masters: are responsible for monitoring activities in designated public harbours. While the principal function of the Harbour Master is to record vessel movements so that appropriate harbour dues can be charged, they also serve as the ‘eyes and ears’ of Transport Canada’s regional offices, offering important local knowledge and presence.

Wharfingers: are responsible for monitoring and directing the use of Transport Canada wharves and for assessing appropriate berthage, wharfage, storage and other fees under the Canada Marine Act. Like Harbour Masters, Wharfingers play an important monitoring and operational role on behalf of the Regional Office. At sites that have both a designated harbour and a Transport Canada wharf, one individual is usually appointed as both the Harbour Master and Wharfinger.”

harbour masters/wharfingers record vessel movements on Accounts Receivable Vouchers and submit them to finance representatives who in turn invoice vessel owners for harbour dues, wharfage and transfer charges, utilities and other charges, berthage fees, and storage. As of June 2013, the exception to this description is Ontario Region, where harbour masters/wharfingers themselves prepare invoices and collect revenues.

4.2 AUDIT APPROACH

The audit team reviewed practices to ensure that public port revenues (wharfage and transfer charges, public port storage fees, berthage fees, harbour dues, public port utility and other service charges, etc) were properly recorded, invoiced and collected.

Because identifying vessels that entered TC owned ports was not possible for most ports (the only possible data source is the Canadian Coast Guard and the Coast Guard operates in only a few of the ports), the team decided against trying to develop a statistically valid audit sample for detailed examination.

Instead, the basis for their analysis was document reviews, interviews, public port revenue reviews (including treatment of accounts receivable), and a review of the management control frameworks for each of the four regions that reported public port revenues (Atlantic, Quebec, Ontario and Pacific). Documentation of the management control frameworks was reviewed by the audit team.

4.3 FINDINGS

4.3.1 Although the number of ports did not change, public port revenues declined by 9% from 2011-12 to 2012-13.

Table 17 provides an overview of public port revenues from 2007-08 to 2012 -13. Revenues were between \$8.3M and \$8.5M from 2007-08 to 2011-12, falling to \$7.8M in 2012-13.

Table 17: Revenues and Number of Public Ports, 2007-08 to 2012-13 (\$M)

Region	2007-2008		2008-2009		2009-2010		2010-2011		2011-2012		2012-2013	
	Rev.	# of Ports	Rev.	# of Ports	Rev.	# of Ports	Rev.	# of Ports	Rev.	# of Ports	Rev.	# of Ports
Quebec	\$3.12	31	\$3.29	31	\$3.26	31	\$3.63	31	\$3.94	27	\$3.36	27
Atlantic	\$3.78	20	\$3.62	20	\$3.28	20	\$3.09	11	\$2.78	10	\$2.51	8
Pacific	\$0.80	17	\$0.94	17	\$1.03	18	\$1.00	17	\$1.00	17	\$1.12	16
Ontario	\$0.73	9	\$0.69	9	\$0.76	9	\$0.74	8	\$0.82	8	\$0.79	9
TOTAL	\$8.43	77	\$8.53	77	\$8.33	78	\$8.45	67	\$8.54	62	\$7.78	60

Table 18 shows the main sources of public port revenues in 2012-13 (harbour dues and wharfage/transfer fees).

Table 18: Public Port Revenues by Region and Tariff in 2012-13 (\$M)

Region	2012-13 Total (\$)	2012-13 Totals (%)	Harbour Dues	Wharfage & Transfer Fees	Utilities & Other Charges	Berthage	Storage
Quebec	\$3.36	43%	\$0.41	\$2.20	\$0.31	\$0.39	\$0.06
Atlantic	\$2.51	32%	\$1.95	\$0.29	\$0.20	\$0.06	-
Pacific	\$1.12	15%	\$1.12	-	-	\$0.00	-
Ontario	\$0.79	10%	\$0.30	\$0.03	\$0.29	\$0.16	\$0.01
TOTAL	\$7.78	100%	\$3.78	\$2.52	\$0.80	\$0.61	\$0.08
			49%	32%	10%	8%	1%

4.3.2 Functional direction and national oversight by the HQ office is limited.

It was found that guidance, training and oversight by the Programs and Operations Branch in HQ have all diminished as ports have been divested. The branch’s role now tends to be advisory, with regional officials managing operations, overseeing harbour master/wharfingers, and handling most operational issues.

The audit team found no departmental guidance to ensure that public port revenues are consistently calculated, invoiced, collected and monitored across the country. As a result, each region has developed its own forms, processes and procedures, and few of the procedures and processes have been documented. In one region, there are even differences between local ports.

And, although the headquarters office still does an annual high-level public port revenue review, the responsibility for ongoing monitoring has moved to regions. Regional responsibility centres are responsible for “monitoring performance against revenue expectations to ensure completeness and accuracy of the billing activity”.¹⁶

Although regional port operation managers were found to have an extremely sound understanding of their port operations and financial situation, the program would nevertheless benefit from a stronger national perspective.

4.3.3 Regions are deciding harbour masters/ wharfingers duties and trainings and there are many differences.

The audit team compared duties assigned to harbour masters and wharfingers in different regions and found many differences. HQ Programs and Operations Branch had circulated a draft document called *Duties & Responsibilities for Harbour Masters & Wharfingers* to regional offices in May 2011 with a short list of duties that should be assigned by regional offices to harbour masters/wharfingers and a longer list of duties that regional offices could decide whether or not to assign. (The only provisions about revenue collection were in the second list – they said harbour masters and wharfingers *may* be required to issue Transport Canada receipts and Accounts Receivable Vouchers.)

¹⁶ TC financial policy TP 117, Chapter 511

The team found that regional offices had each developed its own instructions for harbour masters and wharfingers, and there were several differences, for example:

- Two regions identified “invoicing” responsibilities, two did not;
- One region identified “collection” responsibilities, three did not;
- One region made reference to Conflict of Interest, three did not;
- Four regions included frequency of invoicing/remittance points but there were two different approaches;
- Regions provided different forms for tracking vessel movement, recording public fees, and invoicing for public port fees;
- Reporting relationships and responsibility for oversight was not described in all the regional documents; and
- Although the Duties & Responsibilities document made no reference to Public Port and Public Port Facility regulations, the regional documents did.

All regions agreed that harbor masters and wharfingers should track vessel movements and apply tariffs, but there was no consensus about fee collection. The HQ Accounting Operations group does revenue collection for ports in Atlantic and Quebec regions. In Ontario, harbour masters do both invoicing and fee collection. And in Pacific Region, invoicing for the largest port (Victoria Harbour) has been outsourced.

The audit team also found differences in approaches to harbour master and wharfinger training.

Because of the many differences, a shipping company that operates in more than one region might well be confused about the department’s approach.

4.3.4 The Programs and Operations Branch does not maintain Port Operations Program level data and is not reconciling harbour master/wharfinger appointment and termination information.

The audit team compared information on harbour masters/wharfingers in four data systems (ccmMercury, Programs, Accounting Operations, departmental financial system) to ensure completeness and consistency. The systems are maintained by different parts of the department (the Office of Crown Corporations and Governance, Program and Operations Branch, regional operations, Accounting Operations).

The audit team found that recommended and approved adjustments to harbour masters/wharfingers remuneration (e.g. increases, decreases and status quo), which are to be implemented upon renewal of an expiring harbour master/wharfinger term, have been insufficiently tracked. It was found that a manual work-around had been put in place to facilitate harbour masters/wharfingers remuneration. The process for managing starts and stops to harbour master/wharfinger remuneration had not been documented, although it required coordinated action by four areas.

It was also found that one harbour master/wharfinger had received monthly payments for two months after his port had been divested, although payments should have ended with divestiture. Had this issue not been flagged by the audit team, the monthly payments could have continued

indefinitely. (On being made aware of it, the department's Accounting Operations group has said it will attempt to recover the funds).

4.3.5 In several ports, remuneration to harbour masters/wharfingers exceeds port revenue.

The audit team looked at revenues collected at each of the 60 TC owned ports and found the 14 busiest public ports represented 94% total public port revenues.

They found that harbour dues represented roughly half (49%) of public port revenues, with 92% generated in eight locations. Remuneration to harbour masters and wharfinger totaled \$712,750 in 2011-12.

There were six ports with harbour masters/wharfingers (including two lifetime appointments) that received no commercial revenue. The total paid to harbour masters /wharfingers was \$36,500. There were another nine ports where harbour master / wharfinger remuneration totaled \$48,000 compared to revenues of \$9,573. The team also found that 17% of ports (10 of 60) only collect harbor dues and provided no services.

4.3.6 In Victoria Harbour, collection and remittance of harbour dues has been done for many years by a company with no written agreement in place.

In the course of the audit, the audit team learned that a private company in Victoria – a shipping agent – has been doing the invoicing and collection of harbour dues on the department's behalf for as long as 25 years, although there has been no written agreement. In 2011-12, the department received approximately \$1.1M from the company. This represented 98% of harbour due revenues for Victoria Harbour.

It was also learned from the Regional Director of Corporate Services, Pacific Region that the region has agreed on a similar arrangement with a second shipping agent, again with no written agreement, and neither company is receiving any remuneration.

A departmental employee in the Victoria office reviews the web-published cruise ship schedule, which lists the name, date, length, weight, etc. of every cruise ship that is booked to visit Victoria harbour. The shipping agents collect cheques from the cruise lines for harbour dues that are due to the department and issue TC receipts to the cruise lines. Harbour dues are charged at a rate of \$0.0553 per gross tone, based on the department's fee schedule. At the end of every month, the shipping agents provide a receipt book listing payments along with a single cheque for the fees due for the month, payable to the Receiver General. The Victoria office then reconciles the cheque with the list of ships on the cruise ship schedule. The harbour master (a departmental employee) is responsible for collecting harbour dues and any other required fees from other vessels. This represents approximately 2% of revenues.

The Regional Director of Corporate Services has expressed his confidence that there is no risk to the department; in fact he sees the arrangement as a departmental best practice. An outside perspective might be different – if a cruise ship company did not pay the agent, or an agent

neglected to pass on companies' cheques to the department, it is not clear what the department's recourse would be.

Asked for supporting information, the Programs and Operations and the Finance and Administration offices in headquarters said they had not been aware there was no written agreement, and they undertook to look into the matter.

4.3.7 The connection between spendable revenues and the program's budget is not clear.

Because the government expects spendable revenues collected by programs to be used by those programs, so costs to taxpayers are reduced, the audit team sought information on spendable revenues collected by Port Operations.

They found that Port Operations (including the Public Ports program) officials predicted expenditures of \$12M and revenues of \$9.8M in 2012-13. However, the program's operating budget was set \$5.7, considerably lower than the projected \$12M cost. The resulting \$6.3M budget shortfall was to be externally funded, either by a funding request to Treasury Board or by a transfer of surplus moneys from other groups in the department.

Although clarification was sought from several program and finance officials, the connection between spendable revenues and the program's budget was still unclear. Clearer information would facilitate strategic planning.

4.3.8 Accounts receivable are being managed as required, but regions need better information.

The audit team reviewed public ports accounts receivable and found that past due accounts were being managed as required.

They noted that past due receivables from the Atlantic and Quebec regions represented almost all (98%) past due receivables, although they generate 75% of revenues. The Atlantic Region total was 79% and Quebec Region total was 19%. The disproportionate size of past due Atlantic Region accounts receivable was flagged to regional officials.

They also noted a need for regular updates to regions on the status of past due receivables from the Accounting Operations group.

4.3.9 A billing centralization initiative has started but is behind schedule.

The audit team examined the Public Ports portion of the Airports and Port Billing Centralization Initiative, the Pro-Navire system. This part of the initiative is being led by the Quebec Region Dorval office and the HQ Accounting Operations group. The goal is to centralize invoicing of public port user fees in Quebec Region. The expected benefits are easier, more consistent invoice creation, better invoice information and accuracy, reduced workload for regions beyond Quebec, and better national port revenue reporting capacity.

A pilot test involving several Quebec Region ports started in March 2013. Atlantic Region ports and more Quebec Region ports were to start using the system in April.

As of June 2013, it was found that project start-up had been slower than planned, leading to difficulties in assessing the process or effectiveness.

5 USER FEE READINESS ASSESSMENT

5.1 PURPOSE

The purpose of this readiness assessment was to assess the readiness of two TC programs – the Civil Aviation Program and Marine Safety Program – to meet the 2004 *User Fee Act* and Treasury Board Secretariat requirements for proposals for user fee changes.

5.2 BACKGROUND

The federal government signalled the possibility of changes to the Civil Aviation user fees when Budget 2013 included the following statement: “At present, fees charged for certifications recover only a small portion of the cost of these services, making expansion of these services to keep up with demand a potentially costly proposition for taxpayers. Economic Action Plan 2013 commits to review cost-recovery rates for aircraft safety certification to ensure the National Aircraft Certification program can deal with growth in demand for certifications efficiently, while keeping the program affordable for both taxpayers and aerospace firms.”

A November 2012 Industry Canada report also raised the possibility of Civil Aviation user fee changes, recommending that the government implement a full cost-recovery model for aircraft safety certification¹⁷.

Officials of the Marine Safety Program signalled possible user fee changes when they initiated client consultations in October-November 2012.

The internal audit function offered to assess the two programs’ readiness to meet *User Fees Act* provisions related to user fee changes. The readiness assessment was done concurrently with the revenue collection controls audit. It was completed in June 2013.

¹⁷ In Nov. 2012, David Emerson, Head of the Review of Aerospace and Space Programs and Policies at Industry Canada, submitted a report to the Minister of Industry entitled “*Beyond the Horizon: Canada's Interests and Future in Aerospace*”.

5.3 APPROACH

The Treasury Board Secretariat management control framework for user fees says that federal departments and agencies that charge user fees must:

- Estimate the full cost of service;
- Establish a cost recovery / pricing policy;
- Establish service standards and measure annual performance; and
- Hold stakeholder consultations on any matter related to user fees and establish a complaints resolution process.

The readiness assessment team assessed the two programs against each of these requirements. More specific criteria were based on a review of Treasury Board Secretariat and Office of the Comptroller General policies and directives (Table 19), the *User Fees Act*, a draft User Fees Act directive and a draft User Fees Act guidelines, best practices of a number of other departments, Civil Aviation and Marine Safety legislation and regulations (Table 20), and consultations with Civil Aviation and Marine Safety program officials.

Table 19: Related TBS policies and directives

Source	Title and Date
Treasury Board Secretariat	<i>Policy on Special Revenue Spending Authorities</i> (July 2000 update)
Treasury Board Secretariat	<i>Policy on Service Standards for External Fees</i> (29 November 2004)
Office of the Comptroller General	<i>Guide to Costing</i> (23 April 2008 update)
Office of the Comptroller General	<i>Guide to Establishing the Level of a Cost-Based User Fee or Regulatory Charge</i> (22 May 2009 update),
Treasury Board Secretariat	<i>Guideline on Service Standards</i> (4 July 2012 update).

Table 20: Legislation and Regulations

Program	Legislation	Regulations
Aviation Safety	<i>Aeronautics Act</i>	<i>Canadian Aviation Regulations</i>
Marine Safety	<i>Canada Shipping Act, 2001 (CSA 2001)</i>	<i>Board of Steamship Inspection Scale of Fees</i>
		<i>Cargo, Fumigation and Tackle Regulations</i>
		<i>Marine Personnel Regulations</i>
		<i>Port Wardens Tariff</i>
		<i>Ship Radio Inspection Fees Regulations</i>
		<i>Vessels Registry Fee Tariff</i>
	<i>Navigable Waters Protection Act (NWPA)</i>	<i>Navigable Waters Works Regulations</i>

5.4 FINDINGS – READINESS TO ESTIMATE FULL COST OF SERVICE

5.4.1 Civil Aviation Program

In May 2013, Transport Canada established an Aircraft Certification Cost Recovery Focus Group to:

- Identify and confirm types of aircraft certification activities that should be subject to the cost recovery framework
- Review options for a regulatory framework that will provide an appropriate level of cost recovery from aircraft certification companies of all sizes, and
- Address benefits and potential adverse effects for both TC and industry of cost recovery options.

The focus group is comprised of TC officials and aerospace industry representatives. In May 2013, the Civil Aviation Program hosted the first meeting. Its purpose was to develop recommendations for strengthening the Civil Aviation Program's approach to cost recovery.

In addition, a CAR 104 Fees and Charges Task Team has been established to advise whether modernization of the current fee structure should be recommended (to reflect current cost of services and the increase in service demands). The overall objective is a review of the current CAR 104 regulatory structure to identify regulatory program efficiencies.

However, the assessment team found the Civil Aviation Program is not ready to meet UFA and TBS requirements for determining full cost of service at this time, as it does not have an up-to-date assessment of the full cost services. To ensure consistency across the department, the estimated cost of Civil Aviation Program services should be updated using full costing principles established in 2012 by Transport Canada.

5.4.2 Marine Safety Program

At the time of the audit the Marine Safety Program was in the process of assessing the full cost of service for five program groups (Table 21) with a planned completion date of June 2013. If the assessment is well-done, the readiness assessment team's view is that the Program will be ready to meet UFA and TBS requirements in this area.

Table 21: Marine Safety Program Activities for which a Full Cost of Service Assessment is Being Done

Group 1	Pleasure Craft
	Licensing
	National Operator Competency Program
Group 2	Cargo Inspections and Port State Control Inspections
Group 3	Marine Personnel Programs
	Approved training
	Certificates of Competency
	Direct Examinations
	Dispensations
	Examination Services
	Maritime Labour Licenses and Certificates
	Medical Certificates
	Safe Manning Documents
	Seafarers' Documents
Group 4	Navigable Waters Protection Program
	Review of navigation impacts on applications for approval to construct works in, on, over, under, through, or across navigable water in Canada
Group 5	Vessel Registration, Inspection and Certification
	Continuous Synopsis Record
	Marine Insurance Unit
	Marine Technical Review Board Services
	Ship Radio Inspection
	Small Vessel Compliance Program
	Technical Services
	Vessel Inspection and Certification Services
	Vessel Registry Services

There is a sixth group of programs that was not included in the full cost of service assessment being done (Pollution Prevention and Response marine programs, i.e., Certification of Oil Spill Response Organizations, National Air Surveillance, and Oil Handling Facility Inspection).

5.5 READINESS TO ESTABLISH COST RECOVERY LEVELS / PRICING POLICY

5.5.1 Civil Aviation Program

The assessment team found the Civil Aviation Program is not ready to comply with UFA and TBS requirements for determining cost recovery levels / pricing policy.

The desired level of cost recovery/pricing policy for Civil Aviation services must be re-examined, as user fees have not been reassessed or updated since 1998.

As noted above, an Aircraft Certification Cost Recovery Focus Group has been established to reexamine cost recovery / pricing policies.

5.5.2 Marine Safety Program

The assessment team found that the Marine Safety Program is partly ready to comply with UFA and TBS requirements for determining cost recovery levels / pricing policy.

The desired level of cost recovery / pricing policy for Marine Safety Program services is now being examined; the cost of services is being determined and compared to revenues. However, to fully comply with UFA requirements, the Marine Safety Program must also prepare a Fee Impact Assessment to address equitability of proposed fees and benchmark proposed fees against those charged by other countries.

5.6 READINESS TO ESTABLISH SERVICE STANDARDS AND MEASURE ANNUAL PERFORMANCE

5.6.1 Civil Aviation Program

The assessment team found the Civil Aviation Program is partly ready to comply with UFA and TBS requirements for determining service standards and performance measurement.

Service standards for Civil Aviation Program services were consolidated and published in 2010. In 2009-10, the Civil Aviation Program began measuring performance against service standards by phasing in the implementation of a ccmMercury Activity Tracking System as a tracking tool to capture performance data against published service standards. The rollout of ccmMercury was phased over three years.

The following partial annual results have been published on the Transport Canada website:

- 2009-10 – Ontario Region only
- 2010-11 – Ontario Region only
- 2011-12 – Atlantic and Ontario Regions only
- 2012-13 – Atlantic, Ontario, Prairie Northern and Pacific Regions (not yet published – the data is being compiled)

In 2013-14, the Civil Aviation Program intends to begin measuring performance results in Quebec Region and National Operations Branch, so the national performance report will include performance results from all five regions and National Operations Branch for the first time.

As the Civil Aviation Program's performance results are based on partially tracked data, they are inconclusive. Performance results published to date indicate that for many services, service standards are not being met. The following factors may explain this gap:

- Current performance measurement is not accurate enough to factor out delays that occur when Civil Aviation waits for clients to respond to its requests for additional information.

- The transition to ccmMercury has introduced new business procedures that create management challenges; as a result, there is room for improvement in the recording and tracking of performance.

The UFA says that user fees must be reduced if performance does not meet established standards by a percentage greater than ten per cent. Civil Aviation Program services and related user fees were established prior to the enactment of the UFA in 2004 so they are not currently subject to the UFA. However, if the program were to seek increased or new user fees, its fees would become subject to UFA user fee reduction provision, so it is critical that the accuracy of Civil Aviation Program performance measurement be improved before the program proposes user fee increases or new fees.

As an example, based upon partially tracked data used for the Program's 2011-12 Level of Service Summary, forty-four (44) of seventy (70) services with user fees appear to have not met their service standards by more than ten per cent.

The Civil Aviation Program has advised that it is still completing its transition to ccmMercury and working to improve accuracy and completeness of performance measurement. When there is accurate performance tracking, it will be important to review service standards to determine whether they are realistic / attainable.

5.6. 2 Marine Safety Program

The Marine Safety Program is partly ready to meet UFA and TBS existing and proposed requirements for determining service standards and performance measurement.

Service standards that existed prior to December 2012 were broadly defined pursuant to related regulations and did not reflect operational processes. As a result, some standards were not measurable nor relevant to users. Internal performance results were available for the Vessels Registry Fees Tariff for fiscal year 2011/12. However, vessel registry services were centralized in Ottawa effective April 1, 2013 so new service standards must be developed to reflect this program change. Performance reports have never been published on Transport Canada's website.

In December 2012, Marine Safety implemented new service standards that were developed following a stakeholder consultation process that took place from February to May 2012. Based on these consultations, Marine Safety and its stakeholders concluded that the service standards developed for the following groups are realistic, attainable, and measurable:

- Group 1: Pleasure Craft;
- Group 2: Cargo and Port State Control Inspections;
- Group 3: Marine Personnel Programs;
- Group 4: Navigable Waters Protection Program; and
- Group 5: Vessel Registration, Inspection and Certification.

Marine Safety is currently updating its systems to ensure objective, timely and accurate performance measurement against new service standards. For example, as described earlier in this report, Marine Safety recently implemented Phase I of the Marine Safety Dispatch and Tracking System (MSDTS), which will allow Marine Safety to track a number of services provided to stakeholders (e.g. domestic vessel inspections).

5.7 READINESS FOR STAKEHOLDER CONSULTATIONS AND COMPLAINTS RESOLUTION

5.7.1 Civil Aviation Program

The assessment team found the Civil Aviation Program is partly ready to comply with UFA and TBS requirements for stakeholder consultations and complaints resolution.

As already noted a CAR 104 Fees and Charges Task Team has been put in place to advise whether a new Civil Aviation Program fee structure should be recommended to take account of current costs of and demands for services. The overall objective is to review the current CAR 104 regulatory structure and identify opportunities to increase efficiency.

With respect to complaints resolution, the Civil Aviation Program's process for handling complaints about user fees or services is available on the Transport Canada website. The website explains how those wishing to complain can raise their issues and when they should use the Civil Aviation Issues Reporting System (CAIRS). In addition, the website advises that a party may choose to pursue an issue through the following redress mechanisms:

- Privacy Commissioner
- Information Commissioner
- Commissioner of Official Languages
- Canadian Human Rights Commission
- Transportation Appeal Tribunal of Canada (TATC)
- Canadian Aviation Regulation Advisory Council (CARAC)
- Air Travel Complaints (Canadian Transportation Agency)
- Letter to Member of Parliament
- Letter to Minister of Transport

However, Transport Canada would need to be prepared to establish an independent advisory panel (IAP) to address client complaints before the Civil Aviation Policy could increase its user fees or introduce new ones.

5.7.2 Marine Safety Program

Based on assessment criteria, the Marine Safety Program is partly ready to comply with UFA and TBS existing and proposed requirements for stakeholder consultations and complaints resolution.

The Marine Safety Program has developed a National Consultation Strategy, *the Marine Safety and Security User Fees – Phase I*, including the following consultation and communication plan:

- **Consultation:** There will be targeted internal and external stakeholder consultations prior to publishing in the *Canada Gazette* to obtain comments on the user fees proposal, clarify outstanding issues from past consultations, and determine stakeholder positions and any areas of concern or contention. The feedback will be gathered into a Summary Report to be shared with participants. As required, it will also be used for the legislative proposal which will be tabled in Parliament and to revise the proposed regulations and the *Cabinet Directive for Streamlining Regulations* (CDSR) documents for publishing in the *Canada Gazette*.
- **Communication:** In communications activities, Marine Safety and Security will reiterate Transport Canada Marine Safety and Security's commitment to marine safety and development of Marine Safety and Security User Fees and Service Standards Regulations, provide target audiences with necessary information and tools to facilitate the consultation process, and clearly and accurately inform all target audiences of *Marine Safety and Security User Fees – Phase I* progress and key milestones.

With regard to complaints resolution, the Marine Safety Program's policy for handling complaints about marine safety user fees or services is on the Transport Canada website. The Marine Safety Program's policy states that upon receipt of a complaint about a proposed user fee, the Program will adhere to the four-level complaints resolution process set out in Section 4.1 of the *User Fees Act* (UFA), i.e.:

- First Level – complaints received orally to and handled by the Inspector (regions) or applicable Office of Primary Interest (OPI) (headquarters).
- Second Level – complaints received orally and in writing addressed to and handled by the region (Inspector, Manager and, if required, Regional Director). Complaints received in Headquarters will be handled by the Manager, Director, and if required, Director General.
- Third Level – complaints received in writing referred by the region or addressed directly to and handled by Headquarters.
- Final Level – complaints addressed to the Minister of Transport handled as prescribed by departmental standards.

However, to introduce new or increased user fees, TC must be ready to meet the UFA requirement for an independent advisory panel, i.e.:

- As a precondition to the consultations process, S. 4. (1)(e) UFA requires that before a regulating authority fixes, increases, expands the application of or increases the duration of a user fee, it must establish an IAP to address a complaint submitted by a client regarding the user fee or change.

- As part of the complaints resolution process, S.4.1 (2) of the UFA specifies that if a complaint is not resolved to the complainant's satisfaction within 30 days after the expiry of the period set out in a notice issued by that authority, the complainant may request in writing that the regulating authority refer the complaint to an IAP.

To better understand the above UFA requirements, Internal Audit consulted with the Office of the Comptroller General (OCG). The OCG advised that departments should make all necessary pre-arrangements to create an independent advisory panel (IAP) in case one is needed during the user fee consultations process and/or as part of the complaints resolution process. Recommended readiness preparations include:

- Organizing the logistics required to create an IAP;
- Defining the panel's mandate and terms of reference;
- Creating a template for a contractual agreement with IAP members who are not departmental employees;
- Creating a list of potential departmental representatives to serve on the panel; and
- Creating a list of potential neutral representatives to chair the panel.

The Marine Safety Program advises that it has drafted terms of reference for an IAP and developed a list of TC members.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

This audit assessed Transport Canada practices with respect to user fees, including effectiveness of controls over user fee recording, billing, and collection, in the Marine Safety, Civil Aviation and Public Ports programs.

The findings are important because the government expects departments that provide services to particular client groups to recover a portion of those costs from those who directly benefit from those services, and because the department depends on responsible revenues collected by such programs to cover a portion of the programs' operating costs. (The government's approach to user fees is set out in the 2004 *User Fees Act* and related documents).

The audit team found that there have been revenue leakages, i.e., fees that were not being collected although they could have been, in the Marine Safety Program. Although there is still leakage, steps to reduce it in May 2012 had a positive effect.

They also found, for lack of a better term, foregone revenues, i.e., revenues that the government might have been collecting if its fee schedules were more current and if it could charge for all the hours spent on some very labour-intensive services.

To support the analysis, the audit team did their best to estimate the extent of annual revenue leakages and foregone revenues (Table 22). Included is the estimated revenue leakage for Marine Safety, how much forgone revenue has occurred due to current fee caps for Civil Aviation, as well as fee adjustments based on inflation for the three programs (using the Consumer Price Index – Bank of Canada calculator, based on the last time each user fee was updated).

Table 22: Summary of Revenues Collected/Revenue Leakage/Foregone Revenue 2012 (\$M)

Program	Revenue Category	Revenues Collected	Foregone Revenues			Total Estimated Foregone Revenues	Potential Total Revenue
			Estimated Leakage	Due to Inflation	Due to Fee Caps		
Marine Safety	User fees for vessel inspections (pursuant to <i>Board of Steamship Inspection Scale of Fees</i>), cargo inspections (pursuant to <i>Port Wardens Tariff</i>) (Last updated 1997)	\$4.5	\$1.87 ¹⁸	\$2.2	-	\$4.07	\$8.57
Transportation Infrastructure	Public Port revenues from user fees and wharf permits (Last updated 2004)	\$8.4	-	\$1.3	-	\$1.3	\$9.7
Civil Aviation	Recovery of incremental costs (i.e., overtime and travel) for inspections and certifications pursuant to CAR	\$1.9 ¹⁹	-	-	-		\$1.9
	<i>Canadian Aviation Regulations</i> (CAR) user fees – Schedule V (Last updated 1998)	\$0.9	-	\$0.3	\$2.35	\$2.65	\$3.55
	Post Certification hours not currently chargeable under CAR Schedule V	-	-	-	\$2.2	\$2.2	\$2.2
TOTAL		\$15.7	\$1.87	\$3.8	\$4.55	\$10.22	\$25.92

¹⁸ Extrapolation of the error rate in the sample. If Marine Safety Program improvements are sustained, revenue leakage in future years will be considerably lower (i.e. 8% of \$5.5M = \$440k).

¹⁹ Costs collected based on actual costs for overtime and travel.

The audit team found many inconsistencies in regions' processes and practices, perhaps because of weaknesses in functional direction. They also found oversight weaknesses and data system weaknesses.

On oversight, there was little in the way of quality assurance by headquarters offices, although national monitoring/testing is very important in deterring fraud and wrongdoing where money is changing hands.

On data, the team found data system weaknesses that prevented effective monitoring/testing by the Marine Safety and Public Ports programs. Different systems are used for different information, with no linkages, for example, user fee charges in one system, invoices in another, and revenues received in a third, which prevents cross-checking and analysis. (To do their analysis, audit team members themselves had to do this work).

In case the department should decide at some point to try making a case under the *User Fees Act* for Marine Safety Program and Civil Aviation Program user fee changes, an audit team did an assessment of their readiness. It tested four areas: readiness to estimate the full cost of services, readiness to establish cost recovery levels and pricing policies, readiness to establish service standards and measure annual performance, and readiness to conduct stakeholder consultations and complaints resolution. The Public Ports program was not included in the readiness assessment because of divestiture efforts.

It was found that the Marine Safety Program is farther advanced than the Civil Aviation Program but more preparation would be required from each. The team found the Marine Safety Program partly ready in all four areas and the Civil Aviation Program partly ready in two areas and not ready in the others.

Readiness assessment results will be important whether or not the department wishes to seek fee changes. This is because Treasury Board has proposed that every user fee program be assessed against these standards every five years, with financial penalties if they fall short of the standards.

The overall conclusion of this work is that the programs audited have practices and processes in place to collect required fees although there are some weaknesses needing to be addressed.

6.2 RECOMMENDATIONS

1. The ADM Safety and Security and the ADM Programs should improve oversight of the three programs (Marine Safety, Civil Aviation and Public Ports) by:
 - Improving functional guidance so regions (and harbour masters and wharfingers in the case of the Public Ports program) have the same understanding of user fees that should be charged and revenue collection processes and procedures;
 - Improving and integrating data systems so they can support quality assurance assessments and national monitoring/testing; and
 - Ensuring there is ongoing national oversight/testing to assess the effectiveness of program delivery and act as a deterrent for fraud and wrongdoing.

2. Because of the very large number of unbilled hours that Civil Aviation inspectors spend on post-certification activities, the ADM Safety and Security should review the current interpretation of Canadian Aviation Regulations, i.e., that such hours are not billable.
3. The ADM Safety and Security should complete implementation of its action plan to address a 2006 internal audit recommendation related to vessel certification, i.e., that vessel owners will be advised of upcoming certification requirements.
4. The ADM Safety and Security should act to address another recommendation of the same audit, i.e., that the department should put in place a monitoring framework to ensure that instances of non-compliance with certification requirements are addressed and evidence of corrective actions are recorded.

7 MANAGEMENT ACTION PLAN

#	Recommendation	Detailed Management Action Plan	Completion Date for each Action	OPI Direct Report Responsible for each Action
Safety and Security's Detailed Management Action Plan				
1	<p>The ADM Safety and Security should improve oversight of the two programs (Marine Safety and Civil Aviation) by:</p> <p>a) Improving functional guidance so regions (and harbour masters and wharfingers in the case of the Public Ports program) have the same understanding of user fees that should be charged and revenue collection processes and procedures;</p> <p>b) Improving and integrating data systems so they can support quality assurance assessments and national monitoring/testing; and</p> <p>c) Ensuring there is ongoing national oversight/testing to assess the effectiveness of program delivery and act as a deterrent for fraud and</p>	<p>Conduct a comprehensive review and update of existing and planned National MSS revenue collection policy, procedures, work instructions, technology and training to ensure all are in alignment.</p> <p>Review and update the Standardized Cost Recovery and Activity Monitoring (SCRAM) activity codes to ensure that they are relevant to the business needs and support management oversight.</p> <p>Ad-hoc manual reporting on Quality Assurance assessment and monitoring (Marine Safety). Implement automation via capital projects identified in the MSS IT Strategy, particularly Phase II of the Marine Safety Dispatch and Tracking System (MSDTS).</p> <p>Establish a process to review SCRAM activity codes on a regular basis to support management oversight.</p>	<p>April 2014</p> <p>April 2014</p> <p>FY 2015/16</p> <p>April 2014</p>	<p>Functional Directors under the coordination of Strategic Organizational Transformation & Management Services</p> <p>National Aircraft Certification</p> <p>Strategic Organizational Transformation & Management Services</p> <p>National Aircraft Certification</p>

#	Recommendation	Detailed Management Action Plan	Completion Date for each Action	OPI Direct Report Responsible for each Action
	wrongdoing.	Develop a National MSS internal assessment and continual monitoring capability as part of a comprehensive MSS Quality Assurance Framework	April 2015	Strategic Organizational Transformation & Management Services
2	Because of the very large number of unbilled hours that Civil Aviation inspectors spend on post-certification activities, the ADM Safety and Security should review the current interpretation of Canadian Aviation Regulations, i.e., that such hours are not billable.	Conduct a review of the current Civil Aviation Regulation (CAR) 104 Schedule V Aeronautical Products Approvals fee structure with the objective to update the fees as applicable	April 2014	National Aircraft Certification Policy and Regulatory Services
3	The ADM Safety and Security should complete implementation of its action plan to address a 2006 internal audit recommendation related to vessel certification, i.e., that vessel owners will be advised of upcoming certification requirements.	<p>Conduct a policy and legal review to determine feasibility and risk of sending notifications in relation to CSA 2001 requirements.</p> <p>Update the Ship Inspection Reporting System (SIRS) database to generate reports identifying vessels that are due for inspection based on the expiry date of their current certificates.</p> <p>In coordination with Finance and Administration Directorate, a solution will be sought to provide the marine safety inspectorate with information on any outstanding invoices for past inspections, to ensure certificates are not renewed prior to receiving outstanding payments.</p>	March 2014	Functional Directors under the coordination of Strategic Organizational Transformation & Management Services
4	The ADM Safety and Security should act to address another recommendation of the	Develop a National MSS internal assessment and continual monitoring capability as part of a comprehensive MSS Quality	March 2015	Functional Directors under the coordination of Strategic

#	Recommendation	Detailed Management Action Plan	Completion Date for each Action	OPI Direct Report Responsible for each Action
	same audit, i.e., that the department should put in place a monitoring framework to ensure that instances of non-compliance with certification requirements are addressed and evidence of corrective actions are recorded.	Assurance Framework.		Organizational Transformation & Management Services
Programs' Detailed Management Action Plan				
5	<p>The ADM Programs should improve oversight of the Public Ports program by:</p> <p>a) Improving functional guidance so regions (and harbour masters and wharfingers in the case of the Public Ports program) have the same understanding of user fees that should be charged and revenue collection processes and procedures;</p> <p>b) Improving and integrating data systems so they can support quality assurance assessments and national monitoring/testing; and</p>	<p>Port Programs HQ, in collaboration with the regions, will review existing directives to ensure that duties and responsibilities are clearly defined and consistently communicated to regional officials and appointed harbour masters/wharfingers. This will support a nationally consistent approach to the application of user fees (i.e., charging and collection).</p> <p>Port Programs HQ will undertake to further strengthen the post-divestiture protocol to ensure information regarding the successful completion of a divestiture is communicated to responsible groups within TC. This will be done through integration with the groups that have an impact on the collection of port revenues (i.e., Crown Corporation, Accounting Operations, Quebec region (OPI for the Central Billing System) and the Regions.</p>	<p>September 2014</p> <p>September 2014</p>	<p>Director General, Air and Marine Programs</p> <p>Director General, Air and Marine Programs</p>

#	Recommendation	Detailed Management Action Plan	Completion Date for each Action	OPI Direct Report Responsible for each Action
		<p>A ports centralization billing system is currently being implemented nationally. This new system was put in place to facilitate the tracking of invoices for users of TC ports in a consistent manner. In addition, it will provide a standardized set of business processes resulting in the consistency of practices and better quality of data, reduced costs and improved performance.</p> <p>Furthermore, a guide which will outline roles and responsibilities of those involved in the billing process is being developed.</p>		
	<p>c) Ensuring there is ongoing national oversight/testing to assess the effectiveness of program delivery and act as a deterrent for fraud and wrongdoing.</p>	<p>It is planned to have regular monthly conference calls with regional Port Managers / Operations Officers and Ports Program HQ to discuss:</p> <ul style="list-style-type: none"> • any discrepancies throughout the country regarding the application of port fees • identify the steps to be taken by the Region to ensure controls are in place to verify revenue, ensure accuracy and address any wrong doing in a timely fashion <p>In addition, Port Programs HQ will conduct random spot checks of revenues reported and verification of appropriate application of the tariffs with each region.</p> <p>By implementing these types of activities, it will ensure port</p>	<p>March 2014</p>	<p>Director General, Air and Marine Programs</p>

#	Recommendation	Detailed Management Action Plan	Completion Date for each Action	OPI Direct Report Responsible for each Action
		activities are properly monitored, resulting in accurate billing.		