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Government Failure in Canada, 2005 Report

A Review of the Auditor General's Reports, 1992–2005

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Executive summary

The discussion of the limitations of government and subsequent government failures is wholly absent from debate in Canada where, unfortunately, we still assume that governments act benevolently and without institutional constraints. That this is not true is plain to see in the pages of the reports of the Auditor General of Canada, which provide concrete evidence of the existence, and the extent, of government failure in Canada. The Public Choice school of economics, which applies traditional economic methods and techniques to explain the actions and decisions made by those who operate in the political marketplace, has striven to explain government failure empirically. This publication has been written to inform Canadians about the theories and insights of Public Choice Theory (§1), to document government failure from the reports of the Auditor General (§2), and, perhaps most importantly, to describe the mechanisms available to reduce government failure (§3).

Overview of Public Choice

The Public Choice school of thought uses the traditional tools and methods of economics to analyze the political system. Scholars William Mitchell and Randy Simmons, whose book *Beyond Politics* is a modern-day application of Public Choice to a host of current problems, describe Public Choice as using "economic reasoning and analysis ... to uncover the institutions and processes that lead to government failure" (Mitchell and Simmons, 1994: 39).

Public Choice models the behaviour of four groups—voters, politicians, bureaucrats, and special interest groups—to explain actions within the government sector. Public Choice scholars make a seemingly simple assumption regarding the motivation of each participant, assuming they act in their own self-interest. Using this analysis, major insights into how government operates can be observed.

Prior to the introduction of Public Choice, it was generally assumed that politicians, unlike private individuals, maximized "public interest" rather than "self-interest" in their political decisions, decisions made in the best interest of society in general. As Professor and Nobel Laureate James Buchanan has put it, this thinking assumes that people become political and economic eunuchs when they enter government. Public Choice challenges this view of political behaviour and, in doing so, helps explain why governments do not always act in the public interest despite benevolent personal intentions.

Government Failure Documented in the Auditor General's Reports

The reports issued by the Office of the Auditor General of Canada (hereafter, Auditor General) are an excellent source of tangible examples of government failure that illustrate Public Choice theory. This publication describes 284 cases of government failure taken from the Auditor General's reports over the last 14 years (from 1992 to April 2005). The instances from the Auditor General's reports are classified by type of government failure: waste, misrepresentation, red tape, incompetence, program failure, self-service (creating a non-monetary benefit for the public service provider), and self-dealing (creating a monetary benefit for the provider).

More than one quarter of the examples primarily involve incompetence, with waste accounting for nearly one quarter. Self-service, program failure, and misrepresentation each account for between 10% and 18% of the total with instances of red tape and self-dealing less common.

In reviewing the findings of the various Auditor General reports over the last 14 years, it is quite easy to see that government failure is more than just a theoretical concept and all too often a common occurrence. Below are some of the more serious instances of government failure (see §2 of this study for a longer, chronological survey of government failure).

The Canadian Forces Reserves

DND purchased two used offshore supply vessels for militia use in 1987 for approximately $10 million. Despite claims by officials from the DND that the ships were in "excellent condition," they required $16 million in unplanned repairs and were out of service for almost a year.

Contract Management

In 1991/1992, the Prosperity Secretariat in the Department of Industry, Science, and Technology violated Government contract regulations when it entered into 22 contracts without the proper competition. These contracts had a total value of $3.3 million.

Canada Student Loans—Ceiling

The annual monetary ceiling for student loans was exceeded by $170 million in 1992/1993 and $312 million overall from 1991 to 1993. This represented an additional cost to taxpayers of $61 million for 1992/1993 and $112 million for the period from 1991 to 1993.

Bilateral Economic and Social Development Programs

CIDA's development aid often went to areas of industry in developing countries that had little or no effect on the poorest citizens, who were the main targets of aid. For example, a large part of the $1.3 billion given to Pakistan in relief through the 1980s had gone to state-owned infrastructure projects in rail transportation and energy.

Northern Cod Adjustment and Recovery Program

The Department of Fisheries and Oceans initiated this program to assist fishermen affected by the two-year moratorium imposed in 1992 on the Northern Cod fishery. Problems with the program included:

- the program spent $587 million from the government's Consolidated Revenue Fund without the required legislative mandate despite receiving cautionary advice from the Department's lawyers;
- the definition, "Northern Cod fisherman" was such that over 90% of all local fishermen were eligible; and
- non-fishermen employed in related fields of work, and those who had been fired up to 18 months prior to the moratorium, were also eligible.

Custody of Federal Inmates

The number of escapes from minimum-security prisons rose sharply between 1988/1989 (112 escapes) and 1993/1994 (202 escapes). This represented an increase of 80% over a six-year period. From April 1992 to March 1994, 28 of the 390 escapees committed serious offences while at large.

Department of National Defence (DND)—Infrastructure Management

The Auditor General examined the productivity of tradespeople within DND and found that they were approximately 33% less productive than comparable commercial tradespeople. This resulted in additional costs of $50 million a year. For example, at CFB Portage La Prairie in 1990/1991, the Department employed 105 person-years, requiring a budget of $5.25 million, for construction engineering services. After the base closed, the same services were contracted out to a private firm employing 32 staff and operating on a budget of $3.7 million.

Business Assistance Programs

An increase in the number of financial assistance programs for business had led to businesses applying for, and receiving, grants for the same projects from different government funding programs. In Ontario, 44% of recipients of aid from the Microelectronics and Systems Development Program and Strategic Technologies Program applied for financial support from other regional development agencies as well. One company received government funding from 10 different sources totaling $1.2 million in a three-month period.

Regional Development Programs—Industry Canada

Industry Canada—Regional Development sponsored the construction of a new fish plant in Quebec in 1986, costing $2.2 million. The plant was built near an established, already operating fish plant, which also received federal subsidies. More than 250 jobs were to be created by the construction of the new plant but this job creation was offset by the closure of the established plant with as many employees. The project also went against the federal moratorium on increasing fish-processing capacity yet federal officials recommended the project for approval.

Regional Development Projects in Quebec

Evaluators of the federal government's Regional Development projects in Quebec were unable to determine whether programs had benefited the region. Applications for financial assistance were not always analyzed against basic criteria and analysis varied among evaluators. Thirty percent of projects receiving financial aid would have gone ahead with or without government assistance. In one case, a business was granted $90,000 in assistance in the same year it paid out nearly $2.5 million in dividends.

Air Traffic Systems

The Canadian Automated Air Traffic System (CAATS) was started by Transport Canada in 1989. The CAATS contract had to be renegotiated in 1995 after $230 million of the original price of $419 million had been spent. After considering terminating the contract, the government renegotiated the deal at $500 million with total costs for the project projected at $659 million.

Canada Infrastructure Works Program

Program expenditures did not produce a corresponding increase in employment or infrastructure investment. Of the $1.2 billion spent on programs in 1994, it was estimated that more than 35% (approximately $145 million of the $415 million spent in the first year) simply replaced local spending and did not add to overall investment in any given region.

Credit Cards

Balances on public servant credit cards, issued to reduce reimbursement costs, were not paid on time and resulted in $80,000 in unnecessary interest costs over four months.

Foreign Affairs

Only 4 of 43 instances of housing benefits based on hospitality expenses by Foreign Affairs officials actually met the department's guidelines. In one case, an official received over $32,000 in benefits over a four-year period.

Atlantic Fishery

Human Resources Development Canada (HRDC) initially estimated that 8,500 participants (28% of the eligible population) would rely on The Atlantic Groundfish Strategy (TAGS). By 1997, there were 21,722 participants (54% of the eligible population). A follow-up review in 1999 found that:

- one-third of the files with a proposal did not meet stated funding criteria and another third had no proposal on file;
- nearly half of the files had not been closed out upon completion, making it impossible to determine whether funding had been used appropriately.

Social Insurance Numbers

A number of concerns regarding Social Insurance Numbers were raised in 1998 and reiterated in a follow-up review in 2000:

- there were 3.8 million more SINs for Canadians 20 years and older than people in that age group and, by 2000, that number had risen to 5 million;
- there were 100 times as many active SINs for those over the age of 100 as living Canadians over that age;
- there were over 8.3 million usable SINs that have never been verified by personal identification and over 50% of SINs had no supporting documentation;
- the Social Insurance Registry had almost 12 million uncertified accounts.

Grants and Contributions by Human Resources Development Canada (HRDC)

The Auditor General found a widespread lack of due regard and diligence in spending public funds and achieving desired results in the Transitional Jobs Fund (TJF). Documentation was lacking and only 14% of project sponsors responded to a job survey, despite a requirement that recipients indicate the number of jobs created through the program. The management control framework of the Youth Internship Canada program faced similar problems including:

- only 5% of projects had been properly assessed for eligibility and nearly half of small projects did not have proper approval;
- only 18% of small projects could indicate any rationale as to why they received funding; and

- there was no record of the number of jobs created for over 60% of the projects.

Heating Expense Relief

The Auditor General concluded that the relief program was poorly targeted. The use of the GST Credit system expedited cheque issuance but was ineffective in allocating relief to intended recipients. Among other things, the Auditor General found that:

- less than one-quarter of the $1.5 billion in payments went to low-income families and roughly 90,000 Canadians in need of immediate assistance did not receive relief because their prior year income exceeded the GST Credit cut-off;
- between 25% and 35% of recipients had heating already included in their rent or heated with electricity;
- roughly 1 million of the 7.6 million recipient households could have received more than one cheque;
- at least 4,000 expatriate Canadian taxpayers, 7,500 deceased people, and up to 1,600 prisoners received relief.

Canadian Health Network

The Auditor General concluded that Health Canada did not meet government contracting-out rules when it spent $25 million on the Canadian Health Network. The program cost $11 million more than was originally intended and had 25 contract amendments. The document-management system alone cost over $6 million and Health Canada, after four years of use, considered using alternate software.

Satellite Communications

The Department of National Defence (DND) took eight years to develop a $174 million satellite communications system. When the system was completed, DND determined that the commercial system it had been using met existing needs and required fewer staff to operate. The system remains in storage.

Pilot Training

The Department of National Defence (DND) contracted out a $2.8 billion pilot-training program without including sufficient covenants in the event of insufficient demand and without fully contracting the support of NATO partners. In the first two years of a 20-year program, $65 million was spent on training that was never used. Only 41% of the training paid for was actually used. Only 61 Canadian student pilots qualified for training, just 28% of the originally expected 216 student pilots.

Firearms Registry

The Auditor General reviewed how information about the now controversial Firearms Registry was provided and disclosed by the Department of Justice (DOJ). The full costs of the program were not being disclosed, only the costs incurred by the Canadian Firearms Centre, and the DOJ provided insufficient financial information concerning the dramatic increase in the cost of the program, from an estimated $119 million ($2 million net cost after user fees) in 1995 to over $1 billion in 2002. In 2001, the Department conceded the system was expensive, obsolete, and inflexible.

Sponsorship Program

The Sponsorship Program spent $250 million between 1997 and 2003 to "increase the federal presence and visibility in communities across Canada by providing funds to support [1,987] cultural and community events." Over $100 million was paid as fees and commissions to communication agencies. The Auditor General found that funds were transferred to Crown corporations in an attempt to hide the source and nature of the funding. The parliamentary appropriations process was circumvented and no discernible selection process was used.

Purchase of Challenger Aircraft

The government decided to spend almost $100 million on two new Challenger aircraft in the space of nine days in March 2002. The Privy Council Office bypassed the government's own procurement policies and procedures with this decision, circumventing a proper review of requirements, how best to improve the air fleet, and a consideration of other alternatives.

Cultural Heritage

The government spent $500 million on cultural heritage in 2000. Despite this spending, more than two thirds of heritage sites and buildings were found to be in poor or fair condition. Over 90% of the National Library collections are housed in buildings that "do not meet current standards for temperature and humidity."

Department of National Defence (DND)—Upgrades

In 1992, after the 1991 Gulf War, DND decided to upgrade its fleet of CF-18 fighter jets. However, at the time of audit, the upgrade was not expected to be complete until 2006, 14 years after the need was identified. This delay was the result of setbacks in the approval process, budget cutbacks, and rising maintenance costs. The number of CF-18s to be upgraded was based on affordability, not need, despite an increasing number of aborted flights.

Management of Federal Drug Benefits Program

The federal government provides prescription drug benefits to one million Canadians through the Federal Drug Benefits Program (FDBP). The Auditor General concluded that management of the program was inadequate, as the claims processing system did not detect potential abuse. Health Canada, one of the six departments within the FDBP, was unable to explain why the number of clients accessing 50 or more prescriptions a year tripled between 1999 and 2003.

National Security

The Auditor General conducted a comprehensive audit of the federal government's emergency preparedness in the wake of the 2001 Anti-Terrorism Initiative. The audit found:

- Only 60% of the files in the main inspection database for air and marine transportation security breaches (SEMIS) were determined to be completely accurate.
- DND was implementing a High Frequency Surface Wave Radar System (HFSWR) and was initially allocated $43.1 million for the project. An internal study indicated that the full cost of the system would be $220 million and that HFSWR would only perform to expectations during daylight and calm weather.
- Ten million dollars for equipping provincial and local authorities to deal with possible terrorist threats was not distributed according to the capabilities and needs of recipients. There was no risk analysis to guide funding decisions. Forty percent of funding went to areas considered a low risk for a terrorist attack (cities with populations of under 30,000).
- No threat or risk assessment was carried out before $190 million was allocated for the protection of critical infrastructure. There was no information explaining why a certain agency received a certain amount and why it was spent on certain initiatives.

Reducing Government Failure

There are many methods available to governments interested in reducing government waste and overcoming institutional limitations.

Rationalization requires government to define its role clearly and eliminate or restructure any of the activities not supportive of its core functions.

Privatization entails the sale of state-owned assets to the private sector for private operation. Both rationalization and privatization address government failure by changing the institutional structure of program delivery.

Public-Private Partnerships can maintain a complementary role for government and maximize the comparative strengths of each partner in developing infrastructure.

Outsourcing uses the mechanism of competitive bidding for the provision of publicly financed goods or services.

Internal control and monitoring mechanisms can reduce future government failures. This would include more resources for the Auditor General, increasing the scope of available audits to include Crown Corporations and government foundations, and mandatory audit compliance.

Conclusion

The main lesson from the cases investigated by the Auditor General is that the limitations and institutional constraints of the government sector often lead to its failure. This publication has offered several possibilities for reducing government failure and improving the delivery of public services to Canadians.

1 Public Choice

The discussion of the limitations of government and subsequent government failures is wholly absent from debate in Canada where, unfortunately, we still assume that governments act benevolently and without institutional constraints. That this is not true and that government failure does occur should now be plain to all: the reports of the Auditor General of Canada provide concrete evidence of the existence, and the extent, of government failure in Canada. The Public Choice school of economics, which applies traditional economic methods and techniques to explain the actions and decisions made by those who operate in the political marketplace, has striven to explain government failure empirically. This publication was been written to inform Canadians about the theories and insights of Public Choice Theory (§1), to document government failure from the reports of the Auditor General (§2), and, perhaps most importantly, to describe the mechanisms available to reduce government failure (§3).

Overview of the Public Choice Model

The Public Choice approach to economics grew out of the ground-breaking publication of *An Economic Theory of Democracy* by Anthony Downs in 1957. It has since developed into a mainstream branch of economics that uses economic tools and methods to analyze the political system.[1] Scholars William Mitchell and Randy Simmons, whose book *Beyond Politics* is a modern-day application of Public Choice to a host of current problems, describe it as using "economic reasoning and analysis . . . to uncover the institutions and processes that lead to government failure" (Mitchell and Simmons, 1994: 39).

This section explores some of the main findings of Public Choice economics that help us understand how government operates and provides an overview of the theory of government failure as developed by Public Choice. Most importantly, it describes the more significant differences between a market economy and the government sector, differences that in large part explain why government failures occur.

Public Choice employs traditional economic methods and principles to analyze the political system. It models the behaviour of four groups—voters, politicians, bureaucrats, and special interest groups—to explain actions within the government sector.

Motivation

Public Choice scholars have made a seemingly simple assumption regarding motivation that has led to major insights into how government operates. Specifically, each participant is assumed to act in his or her own self-interest. For example, politicians are assumed to be vote-maximizers, interested in gaining election or re-election, while bureaucrats are assumed to prefer job security, larger budgets, and more power and influence.

This represented an enormous change from previous thinking into the motivations of those in the government sector. Unlike most classical or Keynesian economic models, which assume a benevolent, selfless government sector acting solely for some notion of the greater good, Public Choice has striven to include more useful and realistic assumptions about those in the government sector and their motivations.

Prior to the introduction of Public Choice, it was generally assumed that politicians, unlike private individuals, maximized "public interest" rather than "self-interest." That is, politicians were thought to be primarily concerned with making decisions that provided the best outcome for society in general. While politicians were assumed to act out of self-interest in their private lives, they were thought to be guided by public interest in their political decisions. As Professor and Nobel Laureate James Buchanan has put it, the old way of thinking assumed that when people entered government they became economic eunuchs. Public Choice scholars changed this view of political behaviour by extending the assumption of self-interest to politicians and bureaucrats and, in doing so, explained why governments do not always act in the public interest despite benevolent personal intentions.

As in any marketplace, participants in the political marketplace interact with one another in the political arena in an attempt to improve their situations. It is this interaction among participants and the institutional incentives that affect the decisions that are central to Public Choice. The following is a brief discussion of the major differences between the participants in a political marketplace and those operating in a competitive marketplace.

(1) Politicians

Politicians are the most recognizable participants in the political marketplace. They are characterized as being primarily concerned with getting elected and thus will advocate and subsequently support policies that maximize their chances of winning. Unfortunately, these policies are not necessarily those that maximize the interests of the general public, a result that stems from the diverse and often competing interests and preferences of voters. Since resources are scarce, politicians are forced to balance these competing interests by deciding how best to use available resources, primarily taxpayers' dollars, to maximize their chances of election.

Separating Cost and Benefits

One of the unique attributes of the political marketplace is the separation between the costs and benefits of goods and services provided by government. There is generally no direct link between taxes and the specific provision of goods and services.[2] Individuals, families, and businesses that receive benefits from government programs may not be the same individuals, families, and businesses that are taxed to finance the provision of those programs. In addition, individuals, families, and businesses that are taxed may place very little value on the goods and services provided.

This fundamental separation of costs and benefits has enormous implications for the political system. It enables those seeking voter approval to provide specific, demonstrable benefits to those from whom they seek support. This relationship has become a fundamental tenet in political calculus: tax a large base a politically acceptable amount to disperse the costs and deliver the proceeds to specific groups to concentrate the benefits. In reviewing most government programs, it is easy to identify the specific group for whom the resources are provided as benefits, while identifying the source of resources is typically much less transparent.

Decision-Making and "Log Rolling"

As a result of dispersed costs and concentrated benefits, the political decision-making process is substantially different from, and in many ways significantly more complicated than, that undertaken in the marketplace. An interesting phenomenon has arisen in the political system that is referred to as "log rolling," where politicians support specific measures in order to receive commensurate support for their own programs. For example, Politician *A* supports Bill *X* for the sole purpose of securing Politician *B*'s support for his own special-interest Bill *Y*. This process of log rolling is generally seen as reducing societal welfare.[3]

The central tenet of Public Choice is that politicians maximize their own welfare or self-interest. When the overarching objective of politicians is simply to gain election or re-election, public welfare, long-term sustainability, and social improvement are largely secondary considerations.

(2) Bureaucrats

The other central government player in the political marketplace is the bureaucrat. It is increasingly acknowledged that the effectiveness of public-sector bureaucracies pales in comparison to their private-sector counterparts. While sometimes typecast as lazy and inefficient, the overwhelming majority of bureaucrats are honest, hardworking, and diligent. It is the nature of the institutional constraints and incentive systems in place within the public sector, rather than any particular deficiency of public-sector bureaucrats as individuals, that makes the government sector less efficient.[4]

Misaligned Incentives

The incentive system for effective management in government bureaucracies is generally weak. Bureaucrats are not typically compensated according to their productivity but rather according to the extent of their responsibilities, as measured by the size of their budget or the number of civil servants they supervise. Instead of encouraging bureaucrats to save taxpayers' money, this compensation structure encourages them to increase spending.

The way in which budgets are allocated also creates perverse incentives: government departments are allocated resources based on their ability to spend all of the previous year's budget. The result is large spending increases at the end of each fiscal year in order to exhaust the current year's resources and justify the departments' forthcoming budget allotments.

Finally, it is in the best interest of the managers of any program, department, or ministry to exaggerate the extent of any problem or any purported market failure they are attempting to solve, since they are ultimately attempting to secure or increase their budgets. By making their area of responsibility a priority, bureaucrats have a far higher probability of receiving additional budgetary resources.

Operating as a Monopoly

This misaligned incentive structure is compounded by the fact that most government programs, departments, and ministries operate as monopolies. That is, there is no competition or choice available to citizens. As with any monopoly, there is a tendency towards higher prices, lower efficiency, service of lower quality, and a generally poorer product. In the absence of competition, there is little incentive for governments to provide the public with quality goods and services in a timely manner and at reasonable prices. Further, the inherently dynamic private sector is better equipped than the public sector to meet constant changes in demand.

Hard versus Soft Budget Constraints

Kornai (1979, 1992, 2003) identified budget constraints as one of the major and unchangeable differences between private-sector business enterprises and government. He argued that government budgets are soft, since it is impossible for government departments to go broke. Private-sector businesses, on the other hand, face hard budget constraints. If the latter incur sustained losses, the decline of their business capital will push them into bankruptcy. The private sector must, therefore, provide its customers with the quality goods and services they demand in a timely manner and at affordable prices.

The public sector simply does not face the same pressures. Consistent losses are not a problem; therefore, there is no incentive to react to consumer demands. The implication of Kornai's research is critical, as it indicates that the public sector can never perform at the level generated by a competitive private-sector market structure.

(3) Special interest Groups

Special interest groups, which, like voters, operate outside government though they do act in the political marketplace. Interest groups, such as environmentalists, child advocates, business associations, unions, religious groups, and professional associations, normally coalesce around issues of importance to voters and to potential supporters. Their task is to represent their supporters and ultimately to provide to their members benefits that outweigh the costs of their acquisition.

The interest group is able to undertake analysis and public education, disseminate information, and lobby government for its particular position on issues better than any individual person or less organized association. It can reduce information and search costs for individuals and families by representing their preferences to government in exchange for financial support. These attributes are the basis for entire industries that attempt to affect government decision-making. Enormous amounts of human and capital resources are poured into these organizations on an annual basis in order to try to influence government.

Nobel Laureate Gary Becker did seminal work on the effect of interest groups and the competition between them for legislative success (Becker 1983). Strikingly, Becker concluded that the competition among interest groups was a mitigating factor in government failure because politicians and bureaucrats had to make decisions on which groups to placate. In other words, political actors could not satisfy all of the vested special interest groups and, therefore, had to calculate which to support.

Unfortunately, the main result of this type of special interest driven policy is that it leads to rent seeking,[5] the expenditure of resources by individuals or groups to extract free public-policy benefits (or rents) from government. The cost of rent seeking ultimately comes at the expense of others through either the tax system or laws passed by government in favour of the interest group (preferential regulation).

Rents may take the form of protected markets, subsidies, beneficial tax treatment, or other specified benefits that are not generally available to everyone and are allocated without a price mechanism. This inevitably leads to a misallocation of scarce resources to the political process and lobbying rather than to direct public service production or research. Thus, the rent-seeking aspect of the political marketplace is seen as particularly damaging and counterproductive.

(4) Voters

Voters are perhaps the most interesting and least understood of the four participant groups. Voters represent both the beginning and the end of the political marketplace cycle. For our purposes, however, the critical insights from Public Choice relate to how voters make decisions. Unlike the economic marketplace, where the decision to purchase and consume can be made item by item, voters must make single decisions to acquire or not to acquire a whole set of policies offered by politicians. Consumers in the marketplace make purchasing decisions based on specific preferences for each individual item. Voters, on the other hand, must make one decision among candidates, based on a whole set of preferences regarding issues ranging from taxes, to health, to education, to defence, to the environment and so on. It is consequently very difficult for voters to reveal their complicated and varied preferences in a single vote.

Political and economic marketplaces also differ in terms of accountability. If consumers are displeased with the quality or pricing of a particular good or service, they have the opportunity to switch products. They can, therefore, directly punish the organization responsible. Lines of accountability from voters to politicians and bureaucrats are much less direct—if they exist at all. First, there are often several levels of government involved in the delivery or support of any particular programs. Second, problems present in current programs may be the result of poor decisions by previous governments that have only recently come to light. Third, as discussed above, a central characteristic of government programs is that those who bear the cost of programs in the form of taxes are usually not the same people who receive the benefits. Fourth, it is very difficult to hold to account those responsible for government failures since, in most cases, bureaucrats dealing with the public have little or nothing to do with the actual underlying problem. Fifth, the large size of governments in most industrialized countries means that individuals deal with vast bureaucracies that typically pay little heed to customer experiences.

Why Public Choice Matters

> Whether the free enterprise solution can be improved upon by the substitution of the government or other non-profit institution . . . cannot be ascertained solely by examining the free enterprise solution.
>
> —Harold Demsetz, *Law and Economics*, 1969

When markets produce undesirable outcomes such as high unemployment, high inflation, pollution, or income disparities, there is a commonly held belief that politicians and bureaucrats, acting in the public interest, can best correct these effects. Further, many people believe that markets will not adequately or efficiently provide such goods as transportation infrastructure, health care, education, insurance, entertainment and culture, and so on, without government intervention.

In the past, little analysis was undertaken to assess the government's ability to correct these market results or to provide better goods and services; superior performance was simply assured by the proponents of government delivery. In the words of Harold Demsetz, this is the "nirvana approach" to public policy: when discrepancies arise between market results and ideal outcomes, many people deduced that the market outcome was inefficient and assumed that government intervention would improve the status quo (Demsetz 1969). This is not only a fallacy of logic but also inconsistent with real-world evidence that shows the superiority of competitive market structure over the misaligned incentives and structure of the government sector.

Public Choice has been a critical development in this debate since it has highlighted the government sector's peculiar limitations and institutional constraints, such that intervention by government often leads to poorer results than the status quo. The next section of this paper provides evidence from a Canadian context of exactly the sort of failures that arise from misguided and ineffective government activities.

2 Evidence of Government Failure in Canada, 1992–2005

The reports issued by the Office of the Auditor General of Canada (hereafter Auditor General) are an excellent source of tangible examples of government failure that support Public Choice theory. This section provides highlights from the Auditor General's reports between 1992 and 2005.

The Auditor General provides auditing services for government operations and information to "Parliament to hold the government to account for its stewardship of public funds."[6] The office is independent of the government of the day and reports directly to the House of Commons through the Speaker. It is important to note that the Auditor General is limited in an important respect: the office cannot comment on policy choices but only on the quality of their implementation.

Instances of government failure shown below have been classified by type. Each report from the Auditor General may show more than one type of government failure.

- Waste (**W**): inefficient allocation of public resources;
- Misrepresentation (**M**): inappropriate use of information;
- Red Tape (**R**): bureaucratic barriers to effective program delivery;
- Incompetence (**I**): inability to manage program delivery;
- Program Failure (**F**): inability to achieve stated objectives;
- Self-Service (**S**): program delivery that creates a non-monetary benefit for the provider;
- Self-Dealing (**D**): program delivery that creates a monetary benefit for the provider.

Table 1 summarizes, by type and number, the instances of government failure from 1992 to 2005 discussed in detail below. Every year for 14 years, the Auditor General

Table 1: Government Failures by Type— Number of Instances from Auditor General's Reports

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
Waste	6	4	13	6	11	4	1	0	4	4	8	2	3	1	**67**
Misrepresentation	2	1	4	4	3	2	1	2	4	2	2	2	2	2	**33**
Red Tape	1	0	4	1	3	0	0	0	2	0	2	2	1	1	**17**
Incompetence	11	5	12	5	7	3	1	2	11	4	8	3	7	2	**81**
Program Failure	6	2	9	8	5	2	2	3	5	2	0	1	4	1	**50**
Self-Service	2	1	1	3	1	2	2	2	4	2	4	1	1	2	**28**
Self-Dealing	0	0	1	0	0	1	1	2	1	0	0	1	1	0	**8**
Total	**28**	**13**	**44**	**27**	**30**	**14**	**8**	**11**	**31**	**14**	**24**	**12**	**19**	**9**	**284**

Note: numbers for 2004 include the November 2003 report; numbers for 2005 include only February and April 2005 reports; total is for 1992 to 2005.

has documented multiple instances of most kinds of government failure. There are a total of 284 instances in the table. On a proportional basis, incompetence accounts for 29% of the total, waste for 24%, and each of self-service, program failure, and misrepresentation for between 10% and 18%. Instances of red tape and self-dealing are less common.

The number of government failures is understated, as most of the problems highlighted in the Auditor General reports could be considered as wasting taxpayer funds and not effectively achieving program objectives. Only the key attributes of the government failure for each report are classified here. These examples, of course, only refer to audits undertaken by the Auditor General, published in the various Auditor General reports, and summarized here. There are many more possible examples in the $160 billion that the federal government presently spends on its programs.

1992

Search and Rescue

The Auditor General determined that service standards for the federal government's search-and-rescue operations, especially standards for response time, had not been developed. Development of the $2 million Search and Rescue Information System, begun in 1986, was halted in 1991 due to a lack of consensus on the system's purpose. (**W**)

In addition, the Auditor General found that failure of beacons at federally managed lighthouses was not uncommon and resulted in over-lengthy search operations for missing persons. Extra search times resulting from beacon failures totaled 1,590 hours of primary air resources in 1990. In 1989 and 1990, DND also noted 932 beacon false alarms, primarily from aircraft beacons. Beacon alerts had an 85% false alarm rate. (**W**)

Employment and Immigration Canada (EIC)

The Auditor General examined 25 Unemployment Insurance job creation projects for EIC and determined that only two had clearly specified goals for participants (8% of projects). Projects were also not adequately monitored even by EIC's own standards. (**I, F**)

Community Initiatives Funds were development programs aimed at providing funds for projects considered worthwhile by EIC. The Auditor General examined 22 projects funded to create 2,000 long-term jobs. Many of these programs were approved without proper planning or investment. In one community, proposals for projects requiring investments of $5.6 million were only given $1.6 million. (**I**)

Department of Finance—Loan Guarantees

The Department of Finance was not adequately managing its loan guarantees. The government's financial risk with major loan-guarantee programs was only shared by lending institutions for 26% of all outstanding exposure. There was no lender risk sharing for the Canada Student Loans Program and the Housing Program on Indian reserves. In 1990/1991, the government's net claims for defaulted student loans was $78 million (2.5% of outstanding loans). (**I**)

Energy Megaprojects

The Department of Energy, Mines, and Resources was inadequately coordinating and protecting federal interests in megaprojects like, for example, the development of the Hibernia oil field off the coast of Newfoundland. Project agreements were silent regarding the limits of the federal government's legal liability and its commitment to funding cost overruns. (**F**)

Reserve Land Forest Management

The Department of Indian Affairs and Northern Development (DIAND) was responsible for all forest management on reserve land. The Auditor General concluded that DIAND had no policy or plan to ensure that timber revenue from reserve land went directly to the bands from whose reserves it was taken. The Indian Timber Regulations, the laws pertaining to forestry on reserve lands, were enacted in 1954 and had not been up-dated or implemented consistently across regions. Pertinent forestry information from bands was not collected by DIAND and the department did not regularly report to Parliament on the status of Indian timber and forests. (**M**)

Industrial Development Initiatives

The Auditor General examined several major capital projects within the Department of National Defence (DND). The Auditor General found industrial benefits, or purchase of Canadian manufactured goods and services unrelated to the actual product being purchased, played a large role in some projects.

For example, in 1988 a General Motors plant in London, Ontario submitted an unsolicited proposal to DND to build 200 light armoured vehicles (LAVs) for the Canadian Militia. The proposal stated that due to a production gap, following an order for LAVs for the US Marines, the plant could be closed without the project resulting in the loss of 375 jobs. The contract was awarded, despite concerns over the vehicles' limited ability in rough terrain and lack of compatibility with the Canadian Militia's existing fleet. The industry benefits in the contract amounted to $91.5 million. (**S**)

Project Initiation and Implementation

The Defence Program Management System (DPMS) was designed as a capital equipment acquisition process for DND. The Auditor General found that the DPMS created an enormous workload for DND staff. Various stages in the DPMS ranged in average length from 394 days to 1,608 days. If a project followed all the stages, it would take, on average, over 15 years (5,550 days) to move from conception to approval by the Treasury Board. Only 3.3% of projects went through the complete process and the average actual length of time for project planning was 5.5 years. (**R**)

The Auditor General examined the purchase of initial provisionary spares (IPS) by the Department of National Defence (DND). IPS are sufficient spare parts to operate a weapons system for an initial period of time, usually two years. DND was paying premiums in excess of 50% for the acquisition of IPS compared to the price paid by the US Department of Defense. DND was purchasing IPS through a prime contractor to minimize overall risk but the Auditor General determined that, by buying IPS direct from manufacturers and the US Department of Defense, it could save $20 million a year. (**W**)

The Canadian Forces Reserves

The Auditor General reviewed training programs for Canadian Forces Reserves and found that it was deficient. Comprehensive training for standard, essential wartime military tasks required 215 days whereas most reservists only received 80 days of training. The Auditor general found that this gap in training increased with rank. (**F**)

The Auditor General found that primary reserve readiness was low and was not able to meet the basic requirement of deployability within 30 days. The Auditor General further found that militia units lacked performance standards and had poor turnout rates. For example, between 1988 and 1990 the naval reserves were unable to meet a 30% turnout rate target for exercises. (**F**)

The Auditor General also determined that systems in place for granting skill equivalencies in the Department of National Defence (DND) were inadequate. Military reservists often possessed civilian skills with military equivalencies but, in 1989/1990, fewer than 50 such equivalencies out of 1,200 cases were granted. (**F**)

DND purchased two used offshore supply vessels for militia use in 1987 for approximately $10 million. Despite claims by officials of the DND that the ships were in "excellent condition," they required $16 million in unplanned repairs and were out of service for almost a year. (**W, I**)

Goods and Services Tax (GST)

The Department of National Revenue received almost three million telephone inquiries concerning the GST during 1991/1992 prior to its implementation. This number was about three times the original forecast. To address the extra demand, the Department reallocated resources from the registration program and enforcement activities. This created a backlog in follow-up and maintenance action along with some enforcement action. (**I**)

Royal Canadian Mounted Police (RCMP)

The Auditor General's review of provincial and municipal policing found that RCMP officers spent more time writing case reports than members of other large police forces in Canada. In some cases, because the RCMP was not using technology properly, officers spent 50% of their working hours writing case reports. The Auditor General determined that an increase in efficiency of only 4% could free up 280 officers for crime prevention and community patrol. (**I**)

Human Resources Management (RCMP)

The Auditor General, in reviewing Human Resources at the RCMP, determined that it was inadequate. The RCMP collected minimal performance information on its members, only tracked the success of minority groups, and did limited analysis of recruitment data. Officers did not receive adequate refresher training in basic policing skills. In three divisions, a survey found that 17% to 32% of officers had not updated their training in the use of firearms. (**I**)

The Auditor General determined that promotions within the RCMP were not well supported. Medium and short lists of candidates for promotions were subjective and very little information was retained on file to justify selection decisions. Deficiencies in the promotion process resulted in close to half of the 794 grievances filed in 1990/1991, 30% of which were upheld due to excessively subjective promotions. (**S**)

Emergency Preparedness

The Auditor General examined the emergency preparedness of various branches of the federal government. The Auditor General found that two major government reports about emergency preparedness, the *National Earthquake Support Plan* and *Bhopal Aftermath Report*, faced delays. The delays were caused by interdepartmental jurisdictional disputes, misallocation of resources, and problems coordinating with the provinces. (**R**)

The Auditor General concluded that the Department of the Environment did not keep an inventory of hazardous installations around the country. The Department also had not conducted reviews of accident prevention activities at hazardous waste sites. The Department did not receive immediate reports of significant spills of hazardous materials, especially on industrial sites, and had little information on chemical accidents. (**I**)

Emergency Response

After the forest fires in Manitoba in 1989, the Department of Agriculture provided $17.3 million in assistance to the provincial government. The Auditor General concluded that the department did not have authority to make such payments. (**I**)

The Farm Credit Corporation was designed to help farmers with financial difficulties. Farmers could apply for financial assistance if they made certain concessions. By March 1992, however, the Corporation had been reimbursed for $160 million from the Farm Debt Review Fund but had not received information documenting that farmers receiving assistance had made such concessions. (**M**)

Contract Management

In 1991/1992, the Prosperity Secretariat in the Department of Industry, Science, and Technology violated Government contract regulations when it entered into 22 contracts without the proper competition. These contracts ranged in value from $35,000 to $743,000 and totaled $3.3 million. (**W**)

Also, the Department of National Health and Welfare's Income Security Programs project was not managed in accordance with all legislative requirements. Twenty-two out of 23 contracts issued under the project, totaling $5.6 million, were mismanaged. Department managers acted outside their authority to provide payments not included in contracts and before services were rendered. (**I**)

Canada Pension Plan (CPP)

The Auditor General determined that the reassessment of beneficiaries' eligibility for CPP's disability benefits was not receiving sufficient attention. Eighty percent of a sample of 4,600 files had not been reassessed since benefits were first granted, some over ten years before (1980/1981). The Department of National Health and Welfare estimated annual overpayments for CPP disability benefits to be $65 million. (**I, W**)

Immigration

In a follow-up to the 1990 report on Immigration, the Auditor General found that refugees still did not undergo medical or security checks until they applied for permanent residence, several months after arriving in Canada. There was also still a high rate of adjournment in refugee-status hearings. In 1992, 40% of first hearings and 29% of second hearings were adjourned, due mainly to legal council not being ready to proceed. These delays caused the process to be prolonged. (**F**)

1993

Federal Expenditures

The Auditor General examined net federal government expenditure and found that predetermined spending had almost doubled since 1952/1953. Such predetermined expenditure accounted for 70% of the government's total spending in 1991/1992. The Auditor General raised concerns that this high percentage of predetermined spending resulted in reduced discretionary funds necessary for the government's fiscal maneuverability.

The Auditor General found that Parliament did not conduct cyclical evaluations of predetermined spending. For example, little research had been conducted on the Old Age Security Program's impact and sustainability, despite estimates that the cost of the program ($15 billion in 1993) would double by 2006. (**I, F**)

Atomic Energy of Canada Limited (AECL)—Accounting Principles

The Auditor General found that the AECL had failed to meet generally accepted accounting principles. The AECL did not record long-term obligations for decommissioning and site remediation in its financial statements. As a result, the Auditor General was unable to determine the magnitude of AECL's liabilities and deficit for the year ended 31 March 1993. (M)

The Atlantic Canada Opportunities Agency (ACOA)—Contributions

The ACOA was designed to promote economic growth in the Maritime Provinces. The Auditor General found that the Agency had failed to evaluate, monitor, and control a repayable contribution agreement under the Fisheries-Alternatives Program (FAP). The contribution was related to a metal fabrication facility in Newfoundland that cost $7.9 million, $2.6 million of which was repayable under the FAP. The Agency did not adequately assess the financial viability of the project. (**W**)

Canada Student Loans—Ceiling

The Auditor General found an urgent problem with the Canada Student Loans Act, a problem not attended to despite similar reports in 1990 and 1992. The annual monetary ceiling for loans was exceeded by $170 million in 1992/1993 and $312 million overall from 1991 to 1993. This represented an additional cost to taxpayers of $61 million for 1992/1993 and $112 million for the period from 1991 to 1993. (**W**)

Canadian Aboriginal Economic Development Strategy

The Auditor General found that funding for the Canadian Aboriginal Economic Development Strategy provided by the Department of Industry, Science, and Technology did not depend on performance. Identified problems included:

- the examination of 11 approved corporations (out of a total of 33) found that seven had at least 25% of their loans in arrears;
- four of the 11 approved corporations had funding approved without assurance that they would be in compliance with the program; and
- out of a total of 84 projects in the program, 14 were no longer operating, and documented evidence of monitoring could only be found for 17. (**I**)

Bilateral Economic and Social Development Programs

The Auditor General examined the Canadian International Development Agency's (CIDA) bilateral development programs. The audit found that importing food into developing countries facing shortages often discouraged local production. CIDA's development aid often went to areas of industry in developing countries that had little or no effect on the poorest citizens, who were the main targets of aid. For example, a large part of the $1.3 billion given to Pakistan in relief through the 1980s had gone to state-owned infrastructure projects in rail transportation and energy. (**F**)

Northern Cod Adjustment and Recovery Program

The Department of Fisheries and Oceans initiated the Northern Cod Adjustment and Recovery Program to assist fishermen affected by the two-year moratorium imposed in 1992 on the Northern Cod fishery. The Auditor General noted several problems with the program:

- the program was rushed and underestimated the potential effects of such a large decline in stocks;

- the program spent $587 million from the government's Consolidated Revenue Fund without the required legislative mandate despite receiving cautionary advice from the Department's lawyers;
- the definition of a "Northern Cod fisherman" was such that over 90% of all local fishermen were eligible;
- over 70% of resident fishermen were placed in the program because they had earlier been placed in the Ice Compensation Program; and
- non-fishermen employed in related fields of work, and those who had been fired up to 18 months prior to the moratorium, were also eligible. (**W, I, S**)

Legal Advisory and Litigation Services

The Auditor General examined the Department of Justice's legal advisory and litigation services. Clients of the Department's services were generally satisfied but noted problems with timeliness. The Department had few systematic processes to manage and measure timeliness or monitor turnaround times. Managers lacked the systematic, quantitative performance information needed to make litigation decisions. The Department had insufficient information to manage the cost of litigation and little control over the volume or nature of its workload. (**I**)

Programs for Seniors

The Auditor General found that the Department of National Health and Welfare was providing poor service in Canada Pension Plan (CPP) medical appeals. The inquiry system had been in decline for several years and was severely backlogged and inefficient. Little change had been made since the Auditor General first addressed the problem in 1977. The Department also had a long history of tabling its annual reports late. As a result, there was diminished accountability for seniors programs such as Old Age Security, CPP, and Family Allowance. (**I**)

There were also serious deficiencies in the management of pension overpayments, which incurred debts of $120 to $220 million annually. The Auditor General determined that while representing only half a percent of total payments, overpayments increased program's administrative costs by 50%. Overpayments primarily resulted from insufficient reassessment of eligibility for CPP's disability benefits. (**W**)

1994

Follow-up of Recommendations for the Department of National Defence (DND)

The Auditor General found that DND had only acted upon 44 out of 79 recommendations made by the Auditor General between 1984 and 1990. Many of the remaining 35 recommendations had planning underway but the time it took for such recommendations to be implemented was longer for DND than most other departments. The Auditor General also found that 45% of Canadian Forces Reserve occupations were outdated or lacked specifications. (**R**)

Government Leases

The federal government had not resolved a lease of nonproductive land on a Native reserve in Vancouver. The land had been acquired in 1974 on a 71-year lease by the Department of the Environment for a mixture of storage and office rental space. In 1976, the Minister of the Environment announced that the planned development of the land would not proceed. The issue had not been resolved by 1994 despite three previous mentions by the Auditor General and $26.6 million made in lease payments. (**W**)

Department of Fisheries and Oceans—Planning

The Auditor General found repeated problems in planning at the Department of Fisheries and Oceans (DFO). The DFO spent about $1 million on the design of a vessel that was never built due to structural problems and decided to participate in the funding and development of a $3.2-million deep-sea research system before conducting appropriate analysis. Since its implementation in 1990, the system had rarely been used, and the DFO estimated that use would have to increase six-fold for the system to break even. (**I, W**)

National Archives of Canada

The Auditor General examined the construction of the new National Archives of Canada building in Gatineau, Quebec. The Auditor General determined that the Archives had not adequately addressed the issue of transporting sensitive documents to the new location. Also, the new site was adjacent to residential areas, incurring extra landscaping costs of $4.8 million and requiring that the new building be situated well back from the property line. This resulted in the site being three times larger than required. (**W**)

Unemployment Insurance (UI)

The Auditor General found that UI[7] was not achieving redistribution goals. Only 7% of total benefits went to families with income of less than $15,000; 50% of benefits went to families with incomes of over $40,000; and 33% to families with income over $50,000.

The Auditor General also found that reliance on UI was expected to increase during times of economic recession but, historically, any increase in dependence had not been matched by a decrease when the economy rebounded. UI had accumulated a deficit for 14 of 22 years since 1972, incurring over $3 billion in interest costs due to a lack of a reserve fund. (**W**)

The Auditor General identified several possible negative effects of UI including:

- chronic dependence of beneficiaries on government programs;
- built-in work disincentives for beneficiaries;
- increased worker layoffs by employers as a result of UI; and
- higher unemployment levels.

The Auditor General noted that in 1991 the OECD concluded that UI in Canada had added two percentage points to the level of unemployment after the program changes in the 1970s. The Auditor General determined that adding half a percentage point to the unemployment rate through increased use of the program due to work disincentives could involve more than $500 million in program expenditures. (**F, W**)

Information for Parliament

The Auditor General found inadequate reporting of government program information to parliament. For example, Search and Rescue was a program under both the Department of Transportation (for marine services) and the Department of National Defence (for air exercises). Information on the operating expenses of Search and Rescue differed between the two departments despite dealing with similar costs since the Department of Transportation's financial information for Search and Rescue did not include $875,000 spent on air services as listed by Defence. (**M**)

Department of Science and Technology— Management of Activities

The Auditor General determined that federal research establishments under the Department of Science and Technology were not able to respond effectively to internal reviews. Management systems and practices were lacking as goals of projects and programs were often outlined in general terms and did not specify expected results.

The Auditor General also found that the distribution of financial resources was not related to program objectives or priorities. There was no established accountability in departments and often no clear link between planning and actual laboratory work. Most research establishments did not support their proposals with objective analyses of opportunities, risks, or alternatives. (**I**)

Federal Property Management

The Auditor General examined federal management information systems for real property and found they were incomplete and fragmented. For example, an audit of three departments found that about 50% of their properties in Ontario had outstanding issues and 30% of these properties had information that was out of date.

Federal departments were slow to dispose of property because of disincentives for divestitures. Departments were not charged the full cost of holding property in Canada and did not have funds to develop land in order to obtain its best possible sale price. There was no planning done to ensure that departmental needs were being met by property acquisitions. (**I**)

Federal Management of the Food Safety System

The Auditor General reviewed the federal management of the Food Safety System. In 1990, $38 million was spent on the System to increase resources for food inspection, as requested by the Treasury Board. After two years, no report on how the money was being spent had been submitted. In the four years since the original funding was approved, more than $150 million had been spent without the stipulated accountability. (**M**)

The Auditor General found that Health Canada was not exercising its responsibility for food safety consistently and the Food and Drugs Act was not being applied effectively. For example, in Ontario, more than half of the food production in 37 federally registered establishments was not subject to federal quality and grade standards. (**F**)

Detailed inspections of food processing plants by Health Canada occurred more because of economic than health concerns: 60% of domestic inspection resources were devoted to meat and poultry slaughter houses, despite these being regarded as low risk, to satisfy foreign markets. Nut processing, classified as high risk, had undergone only 25% of the required inspections over the previous three years and fish canneries less than half the required inspections. (**F**)

Farm Income Protection

The Auditor General examined the Farm Income Protection Act, the federal framework for farm safety-net programs and found problems with individual programs. Farmers subscribing to the Saskatchewan Crop Insurance Program were unlikely ever to repay their loans and the cumulative loss for payouts exceeded cumulative premiums by 20%. Due to significant increases in the program's premiums, a large number of Saskatchewan farmers were no longer insuring their crops in the hope that the federal government would provide funding in the case of extreme crop loss. (**F**)

The Auditor General also found that deficiencies in administration hampered the implementation of the Net Income Stabilization Account. The Account faced difficulties with its computer system, developed at a cost of $8 million and obsolete at the time of audit, and $10 million was being spent on developing a new accounting, processing, and management information system. Ten percent of files reviewed were in error and had resulted in net underpayments of $500,000. (**W**)

National Standards and Regulatory Policy of Nuclear Facilities

Legislation respecting the Atomic Energy Control Board (AECB) was established in 1946 and was basically unchanged at the time of audit. The Auditor General expressed concerns that there was no authority regarding national standards relating to nuclear energy. The maximum penalty the AECB was able to impose was a $10,000 fine and/or five years in jail. These penalties were not in line with other environmental legislation. (**F**)

The Auditor General also found that the application of the AECB's regulatory policy on the decommissioning of nuclear facilities was inconsistent. For the 24 nuclear facilities listed as permanently shut down, nine did not submit decommissioning plans. There was little evidence that the AECB adequately reviewed the plans that were submitted. (**I**)

Custody of Federal Inmates

The Auditor General examined the custody of inmates by the Correctional Service of Canada. The audit determined that it was acceptable that 15% to 20% of inmates be placed in prisons with security levels that did not match those of the inmates. A review of 100 inmates in Ontario found 36% were in prisons not matching their security level. The costs of placing inmates in prisons with higher security than necessary was an estimated $6 million a year. (**W**)

The number of escapes from minimum-security prisons rose sharply between 1988/1989 (112 escapes) and 1993/1994 (202 escapes). This represented an increase of 80% over a six-year period. From April 1992 to March 1994, 28 of the 390 escapees committed serious offences while at large. Two escapees from a minimum-security prison in British Columbia in May, 1994 were later implicated in a murder case in Oregon. (**I**)

Double-bunking in Canadian prisons increased from 14% in 1992 to 24% in 1993. There was unequal distribution of prison beds by region and security level. The overall capacity of the Correctional Service of Canada's facilities exceeded inmate population until 1992. (**F**)

National Parole Board

The Auditor General examined the management of the National Parole Board (NPB) and called it a "prisoner" of its own files as it was inundated with work. However, while Board members were "drowning" in information, the NPB needed further information on the criminal history of offenders to make proper decisions. The Auditor General also raised concern that board members spent as much time on short-sentence non-violent offenders as on longer-sentence violent offenders. (**R**)

Supervision of Released Offenders

The Auditor General examined the supervision of released offenders by the Correctional Service of Canada. The Auditor General determined that CSC did not pay enough attention to parole supervision or focus enough on identifying high-risk offenders. Offenders had been released from prison before their criminal file and photograph had reached the parole office. (**F**)

The Auditor General determined that the Correctional Service of Canada was not consistent in its management of offenders throughout all regions. The term "high-risk" (offender) had different meanings among staff as it could either mean a high likelihood to commit any offence or a high likelihood to commit a violent offence. Supervision techniques and the average time available for direct supervision of offenders also varied widely from region to region. For example, a sex offender in British Columbia was seen twice a week by a parole officer in a group setting and once a week by a private therapist. Other (unnamed) regions allotted program resources based more on supply rather than on need or demand. (**I**)

Environment Partners Fund

The Auditor General discovered projects in Environment Canada's Environment Partners Fund that were significantly changed or cancelled after they were approved. When the program was revised in 1991, Cabinet imposed a $7 million limit on non-formal environmental education initiatives over the eight-year life of the program. This limit was not enforced and the Auditor General found that approvals for the Fund's educational activities had exceeded the limit by approximately $250,000. (**S**)

Department of Foreign Affairs and International Trade—Financial Management

The Auditor General examined the financial management of the Department of Foreign Affairs and International Trade's foreign missions and found that accountability was unclear. At individual foreign missions, objectives did not clearly state outputs, outcomes, or accomplishments in a way that could be measured against costs. The Auditor General found that many heads of foreign missions did not know the full costs of running their missions and many costs were not reflected in budgets. Major overseas properties, such as official residences in locations such as Brasilia, New Delhi, and Tokyo were under-used. (**I**)

The Auditor General also determined that the Department needed to expand the scope of its internal audits. A significant portion of the Department's expenditures ($1.4 billion) and many of its key activities were not subjected to internal audit. (**W**)

Social Assistance on Native Reserves

The Auditor General examined management of social assistance on Native reserves in Canada by Indian and Northern Affairs Canada. The audit found that social assistance dependency rates among on-reserve Indians in 1992 were at 42%, up 7% from 1982. The average for Canadians, excluding on-reserve Indians, was 7%. (**F**)

The Auditor General found that Indian and Northern Affairs Canada had not obtained assurance that its management responsibilities had been properly delegated to individual Native bands. Bands were required to submit audited financial statements annually but statements were often late by months or did not come at all. Documentation obtained was substandard and did not meet requirements. In a nation-wide sample of 2,400 case files, 74% of band case files lacked adequate documentation. Other problems included improper income verification (22% of sample) and improper entitlement calculation (16% of sample). (**I**)

Defence Management Systems

The Auditor General examined the Department of National Defence's (DND) management plans for the Canadian Forces and determined they were unaffordable and contained gaps. Budget cuts in 1992 to DND's funding meant that there was a $542 million shortfall in the military's development plan, a 4% gap for each of the first five years. The Auditor General selected 15 samples from DND's management plans and found that only four had adequate cost information provided. Plans without adequate cost information included a proposal to start a $3 million Armed Forces newspaper and a decision to increase CF-18 squadrons in Canada, after squadrons in Europe were eliminated, which overestimated savings by 40%. (**M**)

Information Technology within the Department of National Defence (DND)

The Auditor General found that some DND's Information Technology (IT) projects had become obsolete while still in the planning stage. The average time to implement IT projects was seven years. If planning before funding approval was included the process was closer to 14 years. (**W**)

The Military Police System Project was designed to automate the recording of offences committed within DND. The Auditor General found that the project had been under study since 1974 and was to be implemented sometime between 1995 and 2000, 26 years after the need had been identified. (**R**)

The Auditor General took a sample of 61 DND projects to determine whether or not project funding was adequately justified. The sample covered over half of the entire program. DND staff was not able to explain funding levels for 22 out of the 61 projects in the sample. Around $1.2 billion out of $3.2 billion in current IT programs was not supported by a plan. The Auditor General also determined that $700 million would have been saved if 11 of the 61 projects had been implemented on a priority basis. (**I, W**)

The Auditor General examined the Tactical Command, Control, and Communications System, a $1.9 billion project intended to provide communication capability for the land force. The Auditor General found that the system had used up 70% ($170 million) of its contingency fund. Delays in design of the software required the project office to remain in place at least a year beyond the original plan at a cost of $1 million per month. Project analysis was mostly qualitative and did not assess the benefits of the $291-million upgrade to the supply system before the project was approved. (**W**)

Department of National Defence (DND)—Infrastructure Management

The Auditor General examined the DND's infrastructure management and found numerous examples of inefficiencies and waste. For example, in October 1993, the DND ordered the construction of a $5-million headquarters at Canadian Forces Base (CFB) Shearwater despite a possibility that the base would be closed. In November, DND reassessed the project and concluded it was most cost efficient to complete it. The 1994 federal budget consolidated Shearwater with CFB Halifax, where there was also a new headquarters under construction. (**W**)

The Auditor General also determined that at CFB Esquimalt the Fleet Maintenance Group facility was poorly planned. The facility cost $13 million, three times the original estimate and was five years behind schedule. The Auditor General found that the DND's projects over $10 million slipped on average by 30% and projects under $10 million by 130%. (**W**)

The Auditor General examined the productivity of tradespeople within the DND and found that they were approximately 33% less productive than comparable commercial tradespeople. This resulted in additional costs of $50 million a year. For example, at CFB Portage La Prairie in 1990/1991, the Department employed 105 person-years, requiring a budget of $5.25 million, for construction engineering services. After the base closed, the same services were contracted out to a private firm employing 32 staff and operating on a budget of $3.7 million. (**D**)

Revenue Canada—Data Collection

The Auditor General examined Revenue Canada's practices for collecting income-tax details and found that it had not kept pace with private-sector practices in key areas of collection operations. Performance information was also difficult to generate due to weaknesses in the Department's information systems. Automatic risk scoring of delinquent accounts was ineffective and the Department did not have profiles of tax debtors. (**I**)

Revenue Canada's GST Audits and Special Investigations

The Auditor General examined Revenue Canada's audits and special investigations relating to the GST and found that audit coverage was low. Assuming a population of 1.6 million registrants, it was expected that about 2,300 auditors would perform 152,000 audits every year. In 1993/1994, only about 80,300 audits were performed. The Auditor General also determined that the number of investigations and prosecutions was also low. (**F**)

Tax Assistance for Retirement Savings (TARS)

Information to parliament concerning Revenue Canada's TARS program had not been improved since the problem was noted in the Auditor General's 1992 report. Cost estimates provided to parliament were inadequate and changed greatly between reports. In 1990, a Department presentation to the House Finance Committee said that the tax revenue it would not collect in 1989/1990 due to TARS would be $5.5 billion. Three years later, that estimate had grown to $12.5 billion. (**M**)

The Auditor General also found that Revenue Canada's monitoring of TARS compliance was inadequate. Backlogs were increasing and the opening inventory of case files had more than doubled between 1991/1992 and 1994/1995, notwithstanding a production increase of 12% over that three-year period. As of December 1993, 36% of the case files were more than six-months old and, as of March 1994, that number had risen to 40%. The backlog of plans awaiting registration or amendment increased by 48% from 1991/1992 to 1992/1993 and by 41% between 1992/1993 and 1993/1994. (**I**)

Management and Operation of Crown-Owned Office Buildings

The Auditor General examined the management and operation of Crown-owned office buildings by Public Works and Government Services Canada and determined that Public Works' budgeting for government capital investment and operating costs was insufficient. No distinction was made between a $25 million cost to renovate a building and a $4 million cost to rent the same amount of space. (**I**)

An operational review done by external consultants and the Auditor General's office in November 1992 found excessive complexity in the day-to-day management of Public Works. It was estimated that $12 million could be saved annually through reduction and the simplification of administrative practices. (**R**)

1995

Crown Corporations

The Auditor General found that the debt of Crown Corporations had risen 33% between 1990 and 1995 to a total of $38 billion. Many Crown Corporations also lacked clearly articulated mandates, measurable objectives, and adequate reporting of results. Despite these deficiencies, parliament continued to hand each of the Crown Corporations an average of $5 billion a year. (**I**)

Ethics and Fraud Awareness

The Auditor General surveyed senior managers in government departments and agencies concerning ethics and fraud awareness in government. The Auditor General expressed concern over the results. For example:

- over 10% of public servants believed that it was appropriate to accept the weekend use of a ski chalet from a recipient of a subsidy or a grant;
- 30% believed it would be appropriate to hire a brother-in-law on a $20,000 untendered contract;
- a high percentage of civil servants would not report a conflict of interest, especially at the senior management level; and
- 38% of senior managers interviewed said they would not report a fellow manager who was using information gained while working to secure a position with a firm that wanted to do business with the department. (**S**)

Managing the Legacy of Hazardous Wastes

The Auditor General examined Environment Canada's management of hazardous waste sites in Canada and found that it had no national inventory of contaminated sites. The cost of cleaning up all known sites was not clear, although the Auditor General estimated a minimum of $1 billion, not including sites on Department of National Defence (DND) land, Native Reserves, or vacated Crown land. The cost for cleaning up DND sites alone was estimated to be $700 million. (**F**)

Federal Radioactive Waste Management

The federal government's project to find a disposal site for waste from the Port Hope nuclear refinery had spent $21 million, taken eight years, and still had not been successful. Eldorado Nuclear Limited, the owner of the refinery, had attempted to set up a disposal site in Port Hope but had failed. The federal government set up a program to find a permanent solution to the problem in 1986 but no solution had been found by 1994. (**W**)

Transportation Subsidies

The Western Grain Transportation Act was founded to transport crops to port at the lowest cost to farmers. The program was ended in 1995 due to inefficiencies and cost overrun. With an estimated 7,000 to 8,000 more railcars needed in the 1993/1994 shipping season, the fleet of railcars operated by the program was becoming insufficient to meet demand. Wear and tear on the rail lines was not being properly repaired and railcars were not being used efficiently as costs for operation were included in the overall rate, which stayed the same throughout seasonal variations. (**I**)

The Atlantic Region Freight Assistance program was founded to link Atlantic Canada with Quebec and Central Canada via the Intercolonial Railway built in 1876. The program chose a route through Canada that was 250 miles longer than the route through the United States. It was disbanded in 1995 due to lack of efficiency and poor service to users. Subsidized carriers were using their advantage to undercut other independent carriers and charge their affiliated companies more. In one case, a shipper was paying an affiliated carrier 200% more than its non-affiliated carriers to ship the same commodities. (**F**)

Travel and Hospitality

The Auditor General examined travel and hospitality practices for federal government departments. The audit found that there was an overall lack of management information and that departments did not budget indirect costs for travel, such as arranging for tickets. The Auditor General estimated that such costs could account for 25% to 35% of travel expenditures, or roughly $170 to $250 million a year. (**S**)

Systems under Development

The Auditor General examined several government systems under development. For the Income Security Program Redesign, developed by Human Resources Development Canada, the Auditor General found a risk of slipping seriously behind schedule. Fifteen months into a 35-month contract, it had already used up its entire contingency for scheduled slippage. (**I**)

The Public Service Compensation System (PSCS) project was terminated before completion but after over half of the budget allotted ($61 million out of $119.5 million) had been spent. This figure does not include the cost of departmental resources dedicated to the project. As a result of poor budgeting, the price of the PSCS project went from $55.1 million to $119.5 million. (**W**)

Business Assistance Programs

The Auditor General examined Industry Canada's involvement in various business development and assistance programs and determined that they were poorly administered. While projects applying for assistance were often time-sensitive, the approval process was time-consuming, taking an average of nearly 300 days per project and often over a year. While programs were designed to assist businesses having trouble with capital projects, financial position was not always considered in application processes. In one case, a company with $86 million in working capital was granted financial assistance of $972,623 for a biotechnology project costing $2.2 million. (**F**)

An increase in the number of financial assistance programs for business had led to businesses applying for, and receiving, grants for the same projects from different government funding programs. In Ontario, 44% of recipients of aid from the Microelectronics and Systems Development Program and Strategic Technologies Program applied for financial support from other regional development agencies as well. One company received government funding from 10 different sources totaling $1.2 million in a three-month period. (**R**)

Project Financing by Public Works

The Auditor General examined the management of the Northumberland Strait Crossing Project (the Confederation Bridge) by Public Works and Government Services Canada. The Auditor General found that financing arrangements for the Confederation Bridge were "complex and a departure from usual practice." The bulk of the project was financed through the sales of government bonds and the Auditor General found that the financing costs of repaying these bonds could have been reduced by about $45 million had the government raised the amount needed through its own borrowing program. (**W**)

Regional Economic Development Programs

An overview of the federal government's regional economic development programs found that most had objectives stated in general terms rather than specific, measurable goals. Despite the $4 billion in economic development programs, there was no clear consensus on results. (**F**)

Regional Development Programs—Industry Canada

Industry Canada—Regional Development sponsored the construction of a new fish plant in Quebec in 1986, costing $2.2 million. The plant was built near an established, already operating fish plant, which also received federal subsidies. More than 250 jobs were to be created by the construction of the new plant but this job creation was offset by the closure of the established plant with as many employees. The project also went against the federal moratorium on increasing fish-processing capacity yet federal officials recommended the project for approval. (**W**)

Atlantic Canada Opportunities Agency

The Auditor General found that the Atlantic Canada Opportunities Agency did not record project results in its database. As a result, such information was not readily available. A large number of assumptions had to be made to estimate the direct impacts of the COOPERATION Program, which was designed to improve the economic atmosphere in the Atlantic region. Expected economic outcomes were not clearly stated in 26% of approved applications. For 23% of projects, the Agency did not appear to have considered the net economic benefit to the region and, in some instances, local providers could actually have been hurt by Agency support of a project. (**F**)

Regional Development Projects in Quebec

Evaluators of the federal government's Regional Development projects in Quebec were unable to determine whether programs had benefited the region. Applications for financial assistance were not always analyzed against basic criteria and analysis varied among evaluators. Thirty percent of projects receiving financial aid would have gone ahead without government assistance. In one case, a business was granted $90,000 in assistance in the same year it paid out nearly $2.5 million in dividends. (**F**)

Western Economic Diversification

The Auditor General examined the Western Economic Diversification Canada program and found that its monitoring of projects was poor. Departmental staff spent less time monitoring projects in progress than analyzing proposals. As a result, incomplete information existed on the success rate of projects. There were frequent accounts of beneficiaries making multiple applications and receiving multiple grants for the same projects. Fifty percent of 101 sample cases had received other funding ($136 million) besides their initial assistance packages. (**I**)

Departmental data on job creation resulting from the program was inadequate despite the fact that quarterly reports on job creation were conducted. The rate of success was not known and assessments of individual projects tended to focus on positive outcomes. An assessment of 185 objectives in the 101 sample cases found that the success rate was about a third and the failure rate about a third; in the case of the other third, assessments were inconclusive. Overall, the program had been running for eight years and cost over $1 billion. (**M**)

Employee Development Training Program—Human Resources Development Canada (HRDC)

The Auditor General examined HRDC's employee development training program and found there was large regional variation in the cost per participant. Data problems had been recognized and information on the training of only 37% of trainees was recorded. The number of participants had also been overestimated since trainees taking more than one course were counted for each registration. Double counting applied to 23% of participants. (**M**)

Funding provided to regions did not depend on the success of individual programs or unique qualities of a region. There was little financial incentive for regions to be more successful than others. There was duplication of indicators involving unemployment, which magnified local unemployment conditions and cost the program up to $60 million annually in extra funding. (**F, W**)

Native Reserve Capital Facilities Maintenance

The Auditor General examined Indian and Northern Affairs Canada's (INAC) management of on-reserve capital facilities and maintenance. The audit determined that operational targets for INAC did not adequately support objectives. For 1994/1995, the Department's reference level for capital facilities and maintenance was $670 million, $100 million more than original estimates. Some services were receiving double funding under two different programs: for example, on-reserve day care in one province received funding through a federal-provincial agreement and also under an arrangement with the federal department amounting to $270,000 in 1994/1995. This problem had been documented as early as 1965. (**I, S**)

The Auditor General determined the maintenance of on-reserve assets was inadequate. Despite replacement costs being estimated at $7 billion, maintenance funds for on-reserve assets were being diverted to other areas. Also, INAC's estimates of material conditions on reserves did not contain accurate information. INAC data showed 92% of houses on reserves received adequate water services in 1993/1994. A survey conducted by the Auditor General found half of reserves had water problems and 20% were facing potential health and safety concerns. (**F, M**)

Revolving Funds

The federal government's revolving funds, programs whose revenues are used to finance various departmental and agency operations, continued from year to year with little parliamentary oversight. In 1993/1994, $4.3 billion flowed through 11 revolving funds, mainly in Public Works and Government Services. (**M**)

Management of Receivables

The Auditor General examined the Treasury Board's management of interest on non-tax receivables. The audit found approximately $222 million in short-term receivables as of March 1995 that had the potential to attract interest and were not doing so. Few of the 55 departments and agencies reporting appeared to be charging interest on overdue accounts. Using a base of $222 million for 1994/1995, the Auditor General estimated that the government might have forgone up to $17 million in annual interest charges.

1996

Community Transition

When Canadian Forces Base Cornwallis closed, the Cornwallis Park Development Association was founded to assist the community in adjusting. The Association drafted no annual budget of costs and activities and did not deliver a business plan until 14 months after its creation. By that time, $2.7 million of its $7.5 million in government funding had been spent. (**M**)

Evaluation Processes in the Federal Government

The Auditor General examined evaluation processes within the federal government. The audit found 12 expenditure programs totaling approximately $5 billion and two tax assistance initiatives totaling approximately $16 billion that did not include information on effectiveness. There were no new mechanisms to monitor progress in implementing recommendations and no systematic process for departments to assess recommendations. The Auditor General noted similar problems as early as 1983. (**I**)

Internal Audit in Departments and Agencies

The Auditor General examined the internal auditing practices of federal departments. The audit found that the problems noted in the 1993 Auditor General's report concerning the same topic had not been addressed. There was still great variation among federal departments in the quality of internal auditing. Four out of seven departments did no follow-up to audit recommendations as required by the Treasury Board. In one department, the audit committee had not met in three years either to review or to approve audit coverage. (**R**)

Classification and Job Evaluation

Beginning in 1991, the Treasury Board Secretariat, in collaboration with federal departments developed the Universal Classification Standard for the public service. The Standard, designed to reform out-of-date government job classification systems, was deemed overly expensive. In one department, the cost of acquainting managers with the Standard was $3.4 million in salary alone for some 18,000 positions. The overall cost of the program across all government departments was estimated to cost between $65 million to $200 million a year for some 200,000 classification actions. (**W**)

Department of National Defence (DND)—Peacekeeping

Canadian Forces involved in international peacekeeping faced a shortage of supplies (including medical) and it was necessary to make emergency purchases of equipment in order to avoid borrowing from allies. Getting this equipment to troops took an average of 180 days or one full field rotation. DND also faced a shortage of armoured personnel carriers (APCs). Canadian APCs lacking proper protection were used throughout the Yugoslavia mission until 1995, when they received additional armour. (**F**)

There was no inventory control for Canadian Forces' overseas missions or standard scales for supplies and equipment. Many of the 300 sea containers sent to Canadian Forces in Somalia were not properly marked and required opening to determine their contents. The DND could not find adequate documentation for downward adjustments of inventory totaling $80 million and these losses went unexplained. For example, 31 vehicles were recorded as being sent to the mission in Haiti but only 29 arrived. This discrepancy was later written off as a clerical error and no loss was recorded. (**I, W**)

Canadian Security Intelligence Service (CSIS)—Construction of National Headquarters

In 1995, the new headquarters for the Canadian Security Intelligence Service was completed. While construction of the building was approximately $500,000 under budget, the finished building was 13,000 square metres larger than originally planned. The sixth floor of the building (containing executive offices) was redesigned after other design changes had been frozen. The extra work cost approximately $1.4 million. Site supervision costs were drawn up in a vague contract and the result was an increase in cost from $1.35 million to $2.32 million. (**S, W**)

Federal Rehabilitation Programs for Offenders

The Auditor General examined Correctional Service Canada's (CORCAN) rehabilitative programs and found they were not meeting training and correctional goals. CORCAN's operations had also become unsustainable, netting losses over a three-year period of $7.3 million. CORCAN had been relying more heavily on its revolving fund than originally planned and was expected by March 31, 1996 to have only $7 to $10 million remaining of the original balance of $45 million. (**I, F**)

Health Care for Veterans

The Auditor General examined the health care system for veterans provided through Veterans Affairs. The Department estimated it was paying approximately $50 million for health benefits that were normally provided by provincial health care programs. Cost per patient-days varied among regions and ranged from $138 to $234 for similar levels of care. The Department had not been cost-effective when negotiating rates with more expensive care facilities. (**W**)

Public Service Quality

The Public Service 2000 Initiative was launched in 1989 and designed to develop a more client-oriented approach to public services. In its review of existing public services, the Initiative found that:

- most departments had not enunciated formal levels of service;
- the public service, with some exceptions, was not service-oriented;
- new technology was under-used in comparison with the private sector; and
- service considerations tended to be secondary to administrative ones.

Many services did not collect and analyze data on complaints. Also there were problems with the government telephone services, both logistically and in quality. The only department that made use of recorded client complaints was Taxation. (**R**)

Management of Canada Pension Plan (CPP) for Disability

The Auditor General examined Human Resources Development Canada's management of the CPP for Disability. The audit found that between 1986 and 1996, the number of CPP Disability beneficiaries grew by 93%, while the labour force grew by only 12%. During this time, the amount paid out by CPP Disability benefits more than tripled, from $841 million to close to $3 billion.[8] The Auditor General concluded that the program lacked the information necessary to cope with the increases and provide accountability. Actual costs exceeded actuarial estimates every year between 1992 and 2000 except 1995. Official estimates of over-payments were $14 million but additional review pointed towards potential over-payments of $21 to $38 million. More than 60% of CPP Disability beneficiaries receive benefits from another income security program. (**W, I**)

Income Support Tax Credits

The Auditor General examined Revenue Canada's management of the Child Tax Benefits and GST Credit programs. The Auditor General found that profile information on recipients of Canada Child Tax Benefits was not easily attainable, as the appropriate departments did not have such information on file. Other problems included the following.

- Human Resources Development Canada was only able to locate information on 148 participants out of a survey of 185 (80%) and Revenue Canada only 26 out of 65 (40%).
- There was no way of telling if all qualified individuals were receiving Child Tax Benefits or GST Credits.
- Improper payment of Child Tax Benefits in 1994/1995 for children born in 1993 was in the range of $5.9 million to $31.6 million and increased each year as children grew older. (**I**)

The Auditor General examined the telephone lines Revenue Canada had set up to deal with inquiries concerning Child Tax Benefits or GST benefits. The Auditor General found that busy signal rates on these lines were very high (90%). During peak hours in three major cities on and around the payment date, less than 5% of calls ever got through and callers tried, on average, nine times before reaching the department. (**F**)

The Auditor General determined that the amount paid out for GST credits grew 50% faster than the number of recipients, for no explicable reason. It was estimated that $19.8 million was overpaid through GST credits in 1994/1995 and no information was available to aid retrieval of excess payments and prevent future mistakes. (**W**)

Revenue Canada Inquiries

The Auditor General examined the Business Window program, intended to make Revenue Canada more available to inquiries from businesses. The audit found that the program had serious problems with its telephone system. The likelihood of a business getting through on the telephone was between 15% and 28%, whereas telephone inquiries under the previous system had a success rate of anywhere from 31% to 99%, depending on the individual office. Less than half of telephone inquiries received a fully correct answer (48.6%) and nearly a quarter (23.8%) had received incorrect answers. (**F**)

Material Management

The Auditor General examined the management of material stock by the Department of National Defence. The audit found that an internal report in July 1996 estimated that the department kept 20% (approximately $1.7 billion) more stock than was expected to be needed over the next four years. (**W**)

The Auditor General determined that best value had not been achieved in material acquisitions made by the Department of Transportation. For example, the contract for the docking and refitting of a Dartmouth-based Coast Guard ship was awarded to a Newfoundland shipyard in 1995 because it had underbid a Nova Scotia shipyard by $71. The cost of sailing the ship to Newfoundland exceeded $30,000, well in excess of the $71 saved in awarding the contract to the lowest bidder. (**W**)

Air Traffic Systems

The Canadian Automated Air Traffic System (CAATS) was started by Transport Canada in 1989 and faced delays in its first year. The CAATS contract had to be renegotiated in 1995 after $230 million of the original price of $419 million had been spent. After considering terminating the contract, the government renegotiated the deal at $500 million with total costs for the project projected at $659 million. For the renegotiated $500 million contract, the government received $282 million worth of services and hardware. (**W**)

Export Promotion

The Auditor General determined that Canadian export promotion activities were resulting in needless expenses for the Canadian government. There was little cost sharing between the government and private exporters in foreign trade promotion. Canadian exporters often used foreign embassy facilities, such as theatres and other reception services, for trade-related functions but were required to cover only the cost of catering and not for staff overtime pay, wear and tear on the facility, and so on. (**W**)

Canada Infrastructure Works Program

The Auditor General examined the Canada Infrastructure Works Program and found that a majority of projects within the program lacked reliable documentation. Project proposals were described in vague, qualitative terms and often had no data to back up claims. In several provinces, salary costs were paid even if they were not included in the initial project application. (**I**)

The Auditor General also found that program expenditures did not produce a corresponding increase in employment or infrastructure investment. Of the $1.2 billion spent on programs in 1994, it was estimated that more than 35% (approximately $145 million of the $415 million spent in the first year) simply replaced local spending and did not add to overall investment in any given region. (F)

Federal Reintegration of Offenders

The Auditor General determined that Correctional Service Canada (CSC) was mismanaging the reintegration of offenders into Canadian society. Convicts' files and court cases were difficult to obtain from municipalities and provinces and often arrived after sentencing had already taken place. CSC did not always prepare offenders' casework in time for their first "parole eligibility date." On average, it took 10 to 12 weeks to produce an initial assessment in most regions whereas, if all information was available immediately, a decision could be reached in 4 to 6 weeks. As a result, numerous parole and release decisions were overly reliant on information from the offender. There were also discrepancies in the way different regions treated similar cases. In one region, a high-risk sex offense would result in a year long psychiatric residential program while the same offense in a different region would warrant only a six-month non-residential program. (**R**)

National Parks

The Auditor General determined that National Parks within the Canadian Heritage-Parks Canada system were not properly managed. The average National Park management plan was 12 years old, despite the National Parks Act requiring park management plans to be reviewed every five years. Fifteen parks had no indicators for species of ecological integrity and a further 11 had incomplete indicators. Sixteen parks had no program for monitoring ecological integrity and nine others had incomplete programs. Nineteen of the 28 most accessible parks did not communicate information about ecological integrity to visitors. (**I**)

Management of Historic Canals

The Auditor General found problems in the way that Canadian Heritage-Parks Canada managed its historic canals. The Rideau and Trent-Severn Waterways in Eastern Ontario had major gaps between revenue from traffic and operating costs. Taxpayers covered 91% of the cost of canal maintenance in 1994/1995, even though only a small number of boaters used the canals. Parks Canada's method for determining canal traffic exaggerated use, as it did not include travel through successive locks or multiple trips by boaters. (**M**)

Funding Arrangements for First Nations

The Auditor General found that the Department of Indian and Northern Affairs (DIAND) had not estimated the total value of all its funding arrangements with First Nations. The DIAND did not know the total value of service contracts between tribal councils and other First Nations. Nearly a third of First Nations and tribal councils were running deficits ranging from 24% to 102% of annual revenues. The value of these reported deficits was over $190 million in 1994/1995. (**M**)

Department of National Defence (DND)—Productivity

The Auditor General determined that productivity for the Department of National Defence (DND) was on the decline. Training productivity for the period from 1994/1995 fell 40% when compared to 1990/1991. Three out of seven DND business plans lacked cost and output data. DND under-used its vehicles by 16% to 65%. Vehicle maintenance could have been reduced greatly by taking advantage of warranties on vehicles: the DND used warranties for only 10% of its vehicles while commercial fleets use them for 50% to 75% of their vehicles. (**W**)

1997

Credit Cards

Balances on public servants' credit cards, issued to reduce reimbursement costs, were not paid on time and resulted in $80,000 in unnecessary interest costs over four months. (**W**)

Foreign Affairs

Foreign Affairs overestimated the cost of embassy properties by $2.4 billion, resulting in a 30% overcharge on passport fees since the cost of embassies is capitalized and passed on to users through passport fees. (**I**)

Foreign Affairs officials receive additional housing benefits based on hospitality expenses. Only 4 of 43 actually met the department's guidelines for such expenses. In one case, an official received over $32,000 in benefits, even though the property was not used for hospitality over a four-year period. (**D**)

Foreign Affairs experienced internal resistance in its attempt to downsize ambassadorial residences. For example, one ambassadorial residence was sold for $12 million and a new residence leased for $350,000, on top of additional renovations of $300,000. The ambassador refused to leave the previous residence and the project was cancelled, even though costs had already been incurred. (**W**, **S**)

First Nations Health

Reserve-provided health services were found to be inferior due to employee absences, improperly qualified workers, and incompetence. In addition, some doctors may have been over-prescribing mood-altering drugs and drugs affecting the central nervous system. Health Canada was aware of the potential problem for nearly a decade and took no remedial action. (**I**)

Atlantic Fishery

The federal government and several provincial governments failed to deal with over-capacity in the Atlantic fishery. In fact, the federal government encouraged over-capacity by subsidizing the income of fishermen through Unemployment Insurance (UI) (now referred to as Employment Insurance). Unemployment Insurance payments for fishermen rose from $20 million in 1972 to $270 million in 1988. Self-employed Newfoundland fishermen received $1.60 in UI benefits for every dollar earned in 1990. (**I**)

The Atlantic Groundfish Strategy (TAGS) did not achieve its goals of reducing over-capacity. Human Resources Development Canada (HRDC) initially estimated that 8,500 participants (28% of the eligible population) would rely on TAGS. By 1997, there were 21,722 participants (54% of the eligible population). The Auditor General also noted a 29% error rate in the calculation of program duration. (**I**, **F**)

Air Navigation System

The sale price of Canada's air navigation system was, in all likelihood, well below market value due to the exclusion of certain capitalization costs. The Auditor General characterized the reduced price as a subsidy to purchasers that could range up to $1 billion. (**M**, **W**)

A series of contracts negotiated by Transportation Canada for financial advice were later amended, thereby substantially increasing their value. One contract began at $165,000 and was amended twice to $560,000, while another began at US$375,000 and was amended to over US$1 million. Both contracts provided no clear link between work done and the amounts paid. (**M**)

Moving Costs

Cost weighting schemes for relocating government employees are roughly twice the average weight of moves paid for by private individuals and so moves cost more. (**W**, **S**)

1998

Reductions in the Public Workforce

This initiative was hampered by

- Public servants not eligible for the program "swapping" jobs with those employees determined to be surplus. By 1995, some 2,600 swaps were reported.
- A requirement that public servants deemed surplus be given a reasonable job offer at equivalent salary in the same region before they could be laid off.

Termination benefits tended to exceed the private sector standard of 36 to 59 weeks of salary. Total restructuring costs exceeded the original estimate by $900 million. The Auditor General also discovered double-dipping: some 600 individuals received buyouts and then returned to the public sector, mostly on contract, between 1992 and 1997. (**S**, **D**)

Equipment for the Canadian Forces

The Auditor General has issued warnings regarding capital spending by the military since 1984. In this review, they estimated five-year capital expenditure needs of $11 billion, compared with only $6.5 billion in available funds. Operations and maintenance costs exceeded 30% of departmental funding, further impairing equipment modernization. (**F**)

Health Laboratories

Resources were wasted within the integration of Health Canada and Agriculture Canada's laboratory functions. For example, $5.5 million was spent on planning for the Animal Virus Laboratory in Nepean before it was cancelled and $10 million was lost when plans for a stand-alone Health Canada facility in Winnipeg were cancelled. Another laboratory in Winnipeg cost $12 million to build but the containment laboratory was never used or evaluated and large portions of the facility remained empty. (**W**)

Agriculture Canada

Agriculture Canada's Cash Advance Program provides loans up to 50% of the value of crops, with the federal government paying interest on the first $50,000 advance. The Auditor General found no evidence that the program contributed to orderly marketing. The incremental effect of the program was likely minimal and, rather than expanding credit, it actually displaced private credit financing. (**F**)

Social Insurance Numbers

The Auditor General raised a number of concerns regarding Social Insurance Numbers:

- there were 3.8 million more SINs for Canadians 20 years and older than people in that age group;
- there were 100 times as many active SINs for those over the age of 100 as living Canadians over that age;
- over 50% of SINs had no supporting documentation;
- the Social Insurance Registry had almost 12 million uncertified accounts. (**I**)

Highways

Transportation Canada provided Parliament with misinformation regarding road conditions relative to minimum national standards. Such information could have left the impression that improvements would require billions of dollars of expenditure. An internal study revealed that pavement surfaces were actually acceptably smooth and that the highways proposed for additional funding were well above the commonly accepted standard. (**M**)

Sole-source Professional Service Contracts

Contracts can be exempted from competitive bidding under specific circumstances. The Auditor General found that competitive bids were sought for only half of the $3.7 billion in contracts that exceeded the minimum exemption level of $25,000. None of the files met all of the Treasury Board Secretariat's requirements regarding exemptions. (**S**)

1999

Underground Economy Initiative

Revenue Canada over-estimated the effectiveness of its Underground Economy Initiative, which focused on small and medium-sized businesses and involved 1,000 audit staff. The Auditor General concluded that the actual tax impact was "much less than the $500 million reported." For example, Revenue Canada claimed $100 million of detected income that was actually attributable to *Revenu du Quebec*, the provincial ministry. (**M**)

Atlantic Fishery

The Auditor General found a contradiction between the Department of Fisheries and Oceans' (DFO) stated objective of conservation and that of the decision-making process, which favoured social and economic factors. For example, both the snow crab fishery and the Bay of Fundy scallop fishery remained open to support equitable sharing of resources, despite strong conservation objections from DFO. Another example saw the issuance of offshore shrimp quotas to fishermen's unions that did not have licenses. (**F**)

Another audit of TAGS followed up the Auditor General's 1997 assessment. The Auditor General noted that:

- one-third of projects did not have a proposal on file;
- one-third of the files with a proposal did not meet stated funding criteria;
- it was impossible to determine how the selection criteria had been applied in most files;
- there was generally nothing in the file to indicate why a project had been recommended or selected;
- nearly half of the files had not been closed-out upon completion, which made it impossible to determine whether funding had been used appropriately. (**I**)

Hazardous Materials

The Department of National Defence (DND) estimated that one-quarter of its staff came into contact with hazardous chemicals on a daily basis. The Auditor General concluded that DND personnel were not meeting their legal and policy requirements governing hazardous materials. (**F**)

National Health Surveillance System

The National Health Surveillance system is intended to coordinate provincial health authorities in the detection and prevention of communicable diseases. There is no formal arrangement with the provinces and territories covering the common standards and procedures for collecting and exchanging data. In addition, Health Canada operates an office to track the incidence of disease and injury but has no formal system for collecting the information. (**F**)

Canada Infrastructure Works Program

The Auditor General expressed concerns about information published by the Canada Infrastructure Works Program regarding the source of estimates, the duration of employment, and whether job creation could be attributed to the program. The estimates were based on Statistics Canada's assumptions regarding investment multiplier effects. These are not true performance measures since higher spending necessarily results in higher performance. Auditor General had previously raised this concern in 1996 but no adjustment in reporting was made. (**M**, **S**)

Property Management by Public Works

Public Works contracted out all 13 regional contracts for property maintenance to the same firm. The Auditor General discovered that the guiding principle was to provide employment to the department's existing staff. The bidding process awarded 35% of total points for the quality and quantity of job offers to existing departmental employees and only 10% to the price quoted. (**D**)

National Defence

The Auditor General found widespread and systematic abuse from secret commissions and kickbacks from retail service stations providing diesel fuel for Canadian Forces and civilian Defence employees. DND personnel accepted cash rebates for 88% of 861 diesel purchases. (**D**)

Sole-source Professional Service Contracts

An Advanced Contract Award Notice (ACAN) can be issued—and the normal contracting process avoided—when government officials determine that there is only one competitive contractor. The Auditor General concluded that:

- over 30% of the cases had major differences between the statement of requirements and the terms of the contract;
- contractors' work had not been critically assessed in three-quarters of the contracts reviewed;
- only half the files contained proof that the contract had even been delivered; and
- almost 90% of the 50 contracts examined did not fall under any of the exceptions or did not have adequate information to support the exception. (**I, S**)

2000

Human Resources Development Canada

Claims processing times by Human Resources Development Canada (HRDC) local offices improved slightly between 1996 and 1999 but at the expense of accuracy, which fell from 96% to 94%. Reduced accuracy increased underpayments of benefits by 60% and overpayments by a third. (**I**)

Canadian Immigration Program

Studies of the economic component of the Canadian Immigration Program indicated that selection criteria were no longer adequate and had raised false hopes among immigrants. For example, the list of occupations that receive additional consideration did not reflect Canada's current labour market, as they had not been updated since 1993. The selection of business-oriented immigrants left open the possibility of fraud, organized crime, and illegally obtained money. The Auditor General also raised concerns about the absence of any major penalties for submitting false statements and fraudulent documents. (**I**, **F**)

First Nations Education

Native education on reserves amounts to $1 billion annually. The Auditor General found no process or mechanism to measure and assess whether or not student needs were being served. For example, there was no separate cost-per-student analysis for elementary and secondary schools. (**R**, **F**)

Border Control

This audit examined Canada Customs and Revenue Agency's (CCRA) border control system. Among several audit conclusions was that CCRA's look-out system for criminals was slow, could not read bar-coded documents, and relied on periodic updates rather than direct links to police databanks. The Auditor General noted that there were delays of two to five months in entering criminal records into the system and a previous study noted that the system was inaccessible over 10% of the time. (**F**)

CANPASS was designed to expedite the movement of low-risk travellers while reducing administrative costs at the border. Anticipated savings have not yet materialized because user uptake has been limited. At Fort Erie and Windsor, for instance, CANPASS use was frustrated as users had to wait in line-ups with regular traffic because no separate lanes were available. CANPASS lanes at two other border crossings have been abandoned for lack of use. In an attempt to encourage user uptake, the Whirlpool Bridge was restricted solely to CANPASS users. Use of the bridge subsequently dropped 63%. Despite the mixed results of past experiments, CANPASS was scheduled to be extended to other border crossings. (**I**)

R&D Tax Credits

Unclear rules regarding the eligibility of software development for Canada Customs and Revenue Agency's (CCRA) tax credit program resulted in on-going court challenges and the expenditure of tens of thousands of staff hours and hundreds of thousands of dollars on multiple science reviews. The Auditor General found that science advisors and CCRA auditors rejected roughly $1.3 billion of $2.8 billion (46%) in claims requested under the program. (**I**)

RCMP Services for Law Enforcers

The estimated delay for DNA analysis by the RCMP was 82 days, even though the testing only took two days. The Auditor General attributed such delays to a lack of prioritization and unnecessary duplication of facilities. (**I**)

A 1990 report from the Auditor General noted that the Federal Bureau Investigation (FBI) serves all of the United States with one central forensic facility, while the Prairie provinces alone have three such facilities. A 1997 task force noted that the RCMP could reduce costs by reducing the number of laboratories and centralizing activities. Despite this apparent overcapacity, the RCMP opened a new $12 million facility in Regina in 1995 and replaced a laboratory in Ottawa at a cost of $21 million. The Auditor General concluded that the level of service does not meet the needs of the clients. (**W**, **S**)

The Auditor General also examined the backlog of applications in the RCMP's Firearms Registry. They noted that the Firearms Registry faced backlogs, even though the number of applications was lower than expected. Only 5,600 license applications were completed of the 41,500 received at the time of the audit. (**I**)

Airport Transfers

Transportation Canada did not determine the fair market value of airport assets and business opportunities when undertaking the transfer of ownership to airport authorities. Rather, it calculated Airport Authority rents based on the net book value of the airports. For example, the Auditor General noted that the book value of Pearson Airport would have been minimal due to the fact that Pearson's facilities had already largely been amortized. (**W**, **M**)

The Auditor General also expressed concern regarding the lack of transparency in these transfers. For instance, rent reductions of $474 million had been granted to airport authorities but only $97 million (20%) had been reported to Parliament. Three external studies concluded that the government incurred a financial loss with two of the four airport transfers but these results were not reported to decision-makers even one year later. (**W, M**)

Grants and Contributions by Human Resources Development Canada (HRDC)

The Auditor General found a widespread lack of due regard and diligence in spending public funds and to achieving desired results in the Transitional Jobs Fund (TJF). Among a number of problems identified, the TJF required every funding application to include a written recommendation from a Member of Parliament, which confused traditional accountability relationships. The Auditor General also concluded that fewer than 5% of TJF projects were adequately assessed. (**I, S**)

Officials at Human Resources Development Canada (HRDC) tried to spend their budget before year's end by advancing funds. HRDC recognized the advance as being spent, even though the funds were not expended on a cash-flow basis. (**D**)

The Auditor General also raised concerns regarding documentation in the TJF. For example, the contribution agreements offered by HRDC stipulate that any recipient must indicate the number of jobs created through the program. However, only 14% of project sponsors responded to the job survey. (**I, F**)

The *Auberge des Gouverneurs* project was sponsored by the Prime Minister's constituency office. The Minister announced $600,000 of funding for the project before the project had been approved. HRDC determined that the project would create only two-thirds of the jobs originally expected. Departmental funding limits required that project funding should have been proportionally reduced but it was not. (**M, S**)

Similar problems were identified in the management control framework of the Youth Internship Canada program. Among the problems identified by the Auditor General were:

- only 5% of projects had been properly assessed for eligibility;
- only 18% of small projects could indicate any rationale as to why they received funding;
- nearly half of the small projects did not have proper approval; and
- there was no record of the number of jobs created for over 60% of the projects. (**I, F**)

Atlantic Canada Opportunities Agency Office Space

The Auditor General was critical of how the Atlantic Canada Opportunities Agency (ACOA) and Public Works tendered a contract for office space in Sydney, Nova Scotia. ACOA specified a contract for twice as much space as had been used at similar offices elsewhere in Atlantic Canada and with 10 times as many parking places. The contract also specified that the space had to be leased on a specific section of a specific street in Sydney though no rationale was offered for this. Public Works surveyed downtown real estate and found the building acquired under the tender was 20% to 30% more expensive than buildings of superior quality in Sydney. The Auditor General also discovered that the facility was never used for the purpose indicated and that at most two federal employees were located at the site. (**W**)

Governance of Crown Corporations

The Auditor General concluded that directors for Crown Corporations reflected Canada's diversity but lacked other key skills and capabilities that are needed to function effectively. The Auditor General noted comments by chairs and CEOs of Crown Corporations that roughly 25% of boards were out of their depth due to the selection according to "political criteria." The Auditor General stressed the importance of audit committees but found at least half of such committees were operating below an effective level and demonstrated financial illiteracy in 3 of 15 audit committees examined. (**I, S**)

Contracting Out

The Auditor General reviewed annual contracting-out statements by the government and concluded that contracting out was overstated. For example, standing orders were included in the inventory of activity, even though they are simply agreements with suppliers to supply when demanded. Public Works alone included $1.3 billion in standing orders, and over $300 million in credit-card payments were also reported as contracting activity. (**M**)

Management of the DFO's Fleet

There is a lack of adequate and effective management of capital and human resources by the Department of Fisheries and Oceans (DFO). For example, DFO's fleet is divided into five regional units, which results in missed opportunities for greater sharing of resources and for improved productivity. A case mentioned by the Auditor General involved the use of icebreakers in Atlantic Canada. The Maritimes Region mothballed a 14-year-old icebreaker for lack of funding at the same time that the Newfoundland Region was using 41-year-old and 33-year-old icebreakers. (**R**)

Employment Insurance

The Auditor General determined that there was abuse of the Employment Insurance (EI) program in British Columbia and that EI benefits were obtained through the use of false records. Human Resources Development Canada (HRDC) officials had been aware of the alleged fraud for over 20 years and Canada Customs and Revenue Agency had never prosecuted employers or claimants for making fraudulent claims. (**I**)

2001

Grants by Human Resources Development Canada (HRDC)

The Auditor General noted a lack of accountability related to Human Resources Development Canada (HRDC) grants and suggested that they be reserved for particular cases only. However, as of 2001, almost 70% of planned spending on funding was allocated to grants. (**W**)

Atlantic Canada Opportunities Agency

A principal criterion for grant approval by Atlantic Canada Opportunities Agency (ACOA) is commercial viability and, in order to ensure this, the agency's policy is to limit funding to three years. Despite this explicit rule, the Auditor General found that over 10% of projects reviewed had received funding in excess of three years. Worse still, over 20% of projects reviewed were deemed unlikely to be financially sustainable in the future without on-going government assistance. (**W**, **M**)

A significant measure of the agency's success is based on ACOA's partners reporting the number of jobs created. However, the Auditor General found that when a number of partners participate in a project, they all tend to claim responsibility for the jobs created. Such double counting made the actual numbers difficult to determine. The Auditor General further concluded that the methodology used in estimating job creation figures was flawed. ACOA continues to estimate that every $25,000 spent creates or maintains a job for five years, despite past criticism of this method. (**M**)

Verification of Commercial Shipments

Canada Customs and Revenue Agency's (CCRA) response to the increase in trade has been a program of random verification of shipments. These spot-checks were intended to increase compliance and identify high-risk areas. In 1997, the Auditor General noted that CCRA had not made as much progress as it had expected. In 2001, the Auditor General concluded that periodic verification achieved little at great cost. After four years, the program had only completed 53 of 187 planned verifications. In determining reliability, 48 of the 53 companies verified had made classification errors. In some sectors, error rates were over 50%. (**I**)

Servicing National Defence Equipment

The Department of National Defence (DND) now operates equipment of a minimum serviceable level, which has meant reductions in the availability of equipment. The Auditor General identified a number of problem areas with respect to the availability of aircraft between 1998 and 2001, including a decline in the availability of the Aurora fleet from 55% to 42% and of the Sea King helicopters from 42% to 29%. The Auditor General concluded that half of the decline in serviceable aircraft was attributable to repairs to keep the fleet airworthy. The Auditor General found similar problems in the Navy. (**F**)

The Auditor General also concluded that there were insufficient maintenance personnel to staff DND units and facilities fully. DND's maintenance units suffer overall vacancy rates of 13%, and 15% of the maintenance personnel that are available lack the qualifications their ranks require. (**I**)

Income Support Tax Credits

The Auditor General raised concerns regarding a lack of fraud and abuse measures in the Child Tax Benefit (CTB) and GST Credit systems. For example, a 1996 report from the Auditor General concluded that there were more children enrolled in the CTB program than the eligible child population. Another study concluded that 30% of child deaths in Alberta and British Columbia went unreported to the program and that, in some cases, payments continued inappropriately until the child reached age 18. The 2001 report found that overpayments were still being made, reaching a quarter of a billion dollars, and that there were continuing delays in detecting errors. (**W**, **I**)

Sole-Source Contracting

The Auditor General expressed concern that the rules for contracting out were still not being enforced. A sample of 26 sole-source professional service contracts was examined in 1998 and only eight satisfied even one of the stipulated conditions for sole-source contracts. In 1999, the Auditor General looked at a sample of 50 sole-source contracts and only 11% met the conditions stipulated by the government. (**S**)

Heating Expense Relief

In response to rising natural gas and heating fuel costs in the winter of 2000, the government granted relief checks to recipients of the GST Credit. The Auditor General was concerned that parliamentary scrutiny of the initiative was weakened because the government chose an approval process that did not involve Parliament. (**S**)

The Auditor General concluded that the relief program was poorly targeted. The use of the GST Credit system expedited check issuance but was ineffective in allocating relief to intended recipients. Among other things, the Auditor General found that:

- roughly 90,000 Canadians in need of immediate assistance did not receive relief because their income in the year prior exceeded the GST Credit cut-off;
- less than one-quarter of the $1.5 billion in payments went to low-income families facing emergency heating costs;
- between 25% and 35% of recipients received a cheque but had heating already included in their rent or heated with electricity;
- at least 40% of relief recipients were not low-income or did not face heating cost increases;
- roughly 1 million of the 7.6 million households that received the relief could have received more than one cheque;
- at least 4,000 Canadian taxpayers who did not live in Canada received payments;
- up to 1,600 prisoners could have received cheques; and
- at least 7,500 deceased people received relief. (**I, W, F**)

2002

Government Foundations

The Auditor General noted that foundations distort the accurate portrayal of government financial performance. The government accounts for lump-sum transfers to foundations as expenditures, even though they represent future spending, and this minimizes the apparent size of the fiscal surplus. Foundations have also been placed beyond the reach of effective ministerial oversight and parliamentary scrutiny. (**M**, **S**)

Tax Administration

The Auditor General found that Canadian Custom and Revenue Agency's (CCRA) registry for tracking tax forgiveness requests does not record the reasons given for rulings. The original intention of the registry was to provide consistent rulings but this is impossible when the reasons are not given. In one case, a nation-wide service provider received three different rulings from seven regional tax authorities for the same tax issue. (**R**)

Canadian Health Network

The Auditor General concluded that Health Canada did not meet government contracting-out rules when it spent $25 million on the Canadian Health Network. The program cost $11 million more than was originally intended and experienced 25 contract amendments. The document-management system alone cost over $6 million and Health Canada, after four years of use, is considering using alternate software. (**W**)

Under government procurement rules, a contract valued at less than $25,000 can be tendered without public bidding. The Auditor General found that the Canadian Health Network used contract splitting on a series of contracts to award contracts under $25,000 and subvert the competitive bidding process. In one instance, a multimedia call centre was posted for bidding on March 10, 1998 with a closing date of March 20, and a completion date of March 31. (**S**)

Satellite Communications

The Department of National Defence (DND) took eight years to develop a $174 million satellite communications system. When the system was completed, DND determined that the commercial system it had been using was sufficient to meeting existing needs and required fewer staff to operate. In addition, the new military satellite communications system would require an additional $15 million to meet current operational standards. The system remains in storage. (**W**)

Social Insurance Numbers

The Auditor General undertook a follow-up review of the Social Insurance Number (SIN) system. Continuing problems:

- there were 5 million more SINs for people over the age of 20 than there are Canadians of those ages;
- more than half of these SINs were considered dormant;
- there were over 8.3 million usable SINs that have never been verified by personal identification; and
- the majority of SINs issued since 1998 were not properly verified with the applicant's identity and citizenship status. (**I**, **M**)

Pilot Training

The Department of National Defence (DND) contracted out a $2.8 billion pilot-training program without including sufficient covenants in the event of insufficient demand and without fully contracting the support of NATO partners. In the first two years of a 20-year program, $65 million was spent on training that was never used. Only 41% of the training paid for was actually used. Only 61 Canadian student pilots qualified for training, just 28% of the originally expected 216 student pilots. DND paid $31 million for training for which the ministry did not have the necessary aircraft. (**W**, **I**)

Small Business Loan Guarantees

One of the stated goals of the Canada Small Business Financing Program is that loans should be incremental. A recent internal report suggested that 46% of the loans could have been obtained without the program. An additional program goal is that loans should be issued on a cost recovery basis. This is only possible if loan defaults do not exceed 6.25% of the value of guaranteed loans. The Department expects 9% of loans issued between 1995 and 1999 to default. This is expected to lead to losses in excess of $200 million. (**W**)

First Nations Reporting

In reviewing concerns of First Nations over reporting requirements, the Auditor General determined that populations on reserves are unknown because the "Indian Registry System … was not designed to collect information about the number of residents." Therefore, the exact proportional impact of spending is unknown. (**I**)

Marine Navigation

The Department of Fisheries and Oceans (DFO) staffs 50 of 51 lighthouses in Canada, largely for heritage reasons. Between 1998 and 2003, Treasury Board committed $85 million to maintain staffing at lighthouses. The Auditor General concluded that staffed lighthouses are unnecessary. Since 1990, the United States has removed staff from 474 of 475 lighthouses. The Auditor General concluded that it is unclear how staffed light stations serve a heritage objective. (**W**, **S**)

Canadian Space Program

The Canadian Space Agency (CSA) is currently experiencing difficulty because of program commitments that are often beyond its control. Some of the CSA's cost overruns are attributable to decisions made by Canada's international partners. In one instance, delays at NASA in launching a Canadian component for the international space station cost the Canadian government an additional $13 million in maintenance costs. When NASA withdrew its support for launching the RADARSAT-2 satellite, the project was delayed two years at an additional cost to taxpayers of $167 million. In 2008, Canada is committed to pay 2.3% of the costs of operating the International Space Station but the ultimate cost of this commitment is unknown. (**I**)

Acquisition of Office Space

Public Works has a $1.7 billion annual budget for housing some 187,000 civil servants. According to an internal assessment, key planning documents are outdated or missing. The Branch knows the renewal dates of leases but it does not use that information as a basis to plan ahead. More than half of all cases reviewed were examined with insufficient time to consider all options. This led to vacant buildings and poor client service. (**I**)

The Auditor General found that Public Works had engaged in speculative land acquisitions. In one instance, a building was leased in the National Capital Region even though the file indicated that Public Works anticipated reluctance to move to that particular location. The client agency refused to move and a new tenant is being selected. In the intervening 16 months, Public Works has paid $2.7 million in rent for an unoccupied building. (**W**)

Audits concluded that Public Works undertook decisions to buy or lease with insufficient information. The files reviewed showed that 14% of purchases and leases were missing investment analysis reports and 21% lacked market analysis reports. The Auditor General concluded that management does not systematically monitor key items of business, such as the prices paid for leases and the timeliness of project completion. (**I**)

Firearms Registry

The Auditor General reviewed information provision and disclosure by the Department of Justice (DOJ) regarding the now controversial Firearms Registry. DOJ assured Parliament that the Minister would be accountable for the full cost of the Firearms Registry. However, only the costs incurred by the Canadian Firearms Centre had been reported, not the full costs of the program. According to the Auditor General, DOJ provided insufficient financial information and explanations for the dramatic increase in the cost of the program. The cost rose from an estimated $119 million ($2 million net cost after user fees) in 1995 to over $1 billion in 2002. (**M, W**)

The information system needed to run the Firearms Registry was well beyond any previous DOJ initiative. This inexperience led to cost overruns and frequent adjustments. By 1999, the system had received 1,000 orders for system changes. These changes typically took three to six months to implement and cost millions of dollars. In 2001, the Department conceded that the system was not working well, was expensive, obsolete, and inflexible. Construction and maintenance costs of the existing system were exceptionally high and were expected to represent 60% of future operating costs, significantly higher than the industry norm of 10% to 20%. (**I, W**)

Canadian Firearms Program

The Auditor General and law enforcers expressed serious concerns regarding the accuracy and completeness of this RCMP database. In 2001, an RCMP review revealed that people are in the database who should not be, while others should be included and are not. According to the Auditor General, the review concluded that a tragic incident could arise as a consequence of the poor data quality. (**R**)

Mail Food Program

The Government subsidizes the shipment of perishable food to northern aboriginal communities. No review has ever been conducted on the rationale behind the food entry points selected. Food is currently shipped out from Val D'Or, Churchill, Iqualuit, and other remote communities. The Auditor General suggested that program administrators consider shipping food from other Canadian cities where the prices, quality, and variety of fresh food are better. (**I**)

Downsview Park

Downsview Park, an abandoned military base in Toronto, is being kept for use as an urban green space. It has received $20 million in public funds, without ever receiving approval from Parliament. This oversight was noted in 2000 but no action had been taken by 2002 to legitimize the transfer. (**S**)

2003

Financial Information Strategy

The government has invested over $600 million in its Financial Information Strategy (FIS), intended to integrate all costing and decision-making information into one database. The shortcomings of the FIS infrastructure means that 90% of the managers interviewed do not rely directly on the FIS system but rather use internal accounts. As well, nearly 90% of the 44 entities with multiple business lines account for their administrative costs on a separate business line. This led the Auditor General to conclude that "the full cost of departmental activities is not being presented to Parliament and the public." (**M**)

Immigration Control

In the last six years, there were 36,000 more people ordered removed from Canada than there were confirmed removals. The Auditor General estimated that Citizenship and Immigration Canada (CIC) will soon have to remove an additional 29,000 people now in Canada. In 1994, an evaluation of the border-point examination process found that the Department was only 50% effective at restricting inadmissible travellers. In 2000, 50% of the applicants scheduled for removal did not appear for their removal hearing. The Auditor General remarked that CIC "has not analyzed how it will handle its growing backlog of investigations and removals." (**I**, **F**)

Canada Customs and Revenue Agency (CCRA), which administers most ports of entry into Canada, does not receive effective immigration intelligence from CIC. In part, this is because the CCRA's administrative system is based on license plates and is not compatible with the CIC system based on personal identification. (**R**)

Minister's permits may be issued to immigrants who are otherwise inadmissible to Canada for technical, medical, or criminal reasons. In 2001, nearly 4,000 such permits were issued. The Auditor General examined a representative sample of permits and found that the applicants' files did not support the issuance of permits in 40% of the cases. In cases involving applicants with a criminal background, nearly half of the files did not provide justification for the permit. (**I**)

Housing on Reserves

The Department of Indian and Northern Affairs (INAC) and Canada Mortgage and Housing Corporation have provided First Nations with $3.8 billion for on-reserve housing over the last 10 years. INAC transferred $34 million in 2001 and $40 million in 2002 of unspent funds from other programs to address "urgent" housing needs on reserves. The Auditor General found inadequate information on how the funds were spent and noted that "the Department and First Nations were under pressure to spend the money before fiscal year end. This resulted in 'emergency spending' in the Department, with questionable results." (**W**, **S**)

Citizenship and Immigration Canada

Visa issuance is the primary form of control on immigration. The Auditor General was concerned that the Immigration Visa and Record of Landing document "was outdated and easy to falsify." Furthermore, departmental records indicate that visas had been stolen. Theft was in part possible because certain offices did not reconcile document inventories on a daily basis and other appropriate controls were not in place. (**I**, **D**)

The departmental performance report claims that Citizenship and Immigration Canada attracted 137,119 skilled workers to Canada in 2001. In fact, the number of skilled workers that came to Canada was 58,860, with 78,259 dependants. The Auditor General stated that "the information presented to Parliament on the number of skilled workers entering Canada may be misunderstood." (**M**)

Job classification in the Public Service

The government has planned to reform the existing job classification system that had 840 pay rates and 70,000 rules governing pay and allowances since 1990. The Treasury Board Secretariat was constrained in its efforts because total conversion costs could not exceed $400 million, no salary was to be lowered as a result of conversion, and a majority of civil servants had to see an appreciation in their classification levels. For 12 years, "tens of thousands of employees from some 60 departments and agencies devoted significant amounts of time and energy to writing, evaluating, and revising work descriptions for some 150,000 employees—more than once," with estimated incremental expenditures at $200 million. On the structure of the current pay system, the Auditor General says that "these classification standards support values no longer relevant to achieving efficient delivery of services and programs." (**W**, **R**)

2004

Sponsorship Program

The Sponsorship Program spent $250 million between 1997 and 2003 to "increase the federal presence and visibility in communities across Canada by providing funds to support [1,987] cultural and community events." Over $100 million was paid as fees and commissions to communication agencies. The Auditor General found that funds were transferred to Crown corporations in an attempt to hide the source and nature of the funding. The parliamentary appropriations process was circumvented and no discernible selection process was used. (**M**, **D**)

Purchase of Challenger Aircraft

The government decided to spend almost $100 million on two new Challenger aircraft in the space of nine days in March 2002. The Auditor General noted that the Privy Council Office bypassed the government's own procurement policies and procedures with this decision, circumventing a proper review of requirements, how best to improve the air fleet, and a consideration of other alternatives. (**W**, **S**)

Land Claim Agreements

The Auditor General examined two land-claim settlements with the Gwich'in in the Northwest Territories and the Inuit in Nunavut. In both cases, the agreements set out government obligations that have not been measured or assessed over the past 10 years. (**I**)

Cultural Heritage

The government spent $500 million on the cultural heritage in 2000. The Auditor General looked at the areas most at risk: national historic sites and federal heritage buildings, federal archives, and the collections of the National Library of Canada and federal agencies. More than two-thirds of sites and buildings were found to be in poor or fair condition. Over 90% of the National Library collections are housed in buildings that "do not meet current standards for temperature and humidity." (**F**)

Management of Leading-Edge Research

The National Research Council (NRC) is the most comprehensive federal government agency managing leading-edge research. The Auditor General found that the NRC was giving inadequate information about research management to its Governing Council. For example, the NRC was unable to provide basic information on the total number of current projects and their costs. Also government legislation related to the NRC had not been updated since 1979. (**M**)

Regulation of Medical Devices

Health Canada's testing of medical devices was not adequately monitored. There was little follow-up of approved products on the market to ensure their continued safety. Health Canada did not know whether its regulations were followed after approval had been given or the extent to which manufacturers monitored products once on the market. (**F**)

The 2001 Anti-Terrorism Initiative

Transportation Canada's screening methods for applications for access to restricted areas at airports was found to be inadequate. The Auditor General found that in some instances clearance had been given without a criminal record check, a result of transport officials having inadequate access to police files. (**F**)

The 2001 Anti-Terrorism Initiative was a program to equip the Canadian government better to address a possible terrorist attack. The Auditor General concluded that required changes to intelligence sharing among federal departments had not been made. Information was often sent to the wrong location or in duplicate form. In one instance, a message concerning a potential threat, sent via the government's top-secret messaging system, was addressed incorrectly. After waiting a month for a response, the department that sent the message discovered that it had not been received. (**R**)

Immigration Canada had no standard quality control mechanisms for monitoring those entering the country. The list for "lost" Canadian passports was managed manually and was not available to border-control officials. There was no system of transferring information on the 162,000 outstanding Canada-wide arrest warrants to border control and immigration. (**I**)

Canada Revenue Agency

Canada Revenue Agency's (CRA) audit staff for small and medium-sized enterprise tax services was distributed evenly across the country even though some regions presented larger risks than others. The Auditor General found that 33% of CRA audits were conducted with no written plans. Fifty-five percent of audits meriting an extensive net-worth review of the audit subject did not include one. Fifty-four percent of audits that the CRA deemed penalty worthy failed to consider some negligence penalties. (**I**)

In 2002/2003, CRA received 2.6 million GST/HST refund claims from small and medium-sized enterprises on which it paid out $29.8 billion. CRA audited 1.6% (approx. 42,000) of claims before paying and found $247 million in overstated claims. Despite this high figure found in a small percentage of claims, CRA did not determine the overstatement risk factor for the remaining 98.4%. From the 42,000 audited, the Auditor General randomly selected 262 files considered to present little or no risk and found 16% were overstated, amounting to about $1 million. (**I, W**)

Internal Audits in Departments and Agencies

The Auditor General expressed concern that internal audits within government departments and agencies lacked the independence typical of internal audits in the private sector. The Treasury Board had not established a strategy for addressing and directing internal audits within government. **(I)**

Department of National Defence (DND)—Upgrades

In 1992, after the 1991 Gulf War, the DND decided to upgrade its fleet of CF-18 fighter jets. However, at the time of audit, the upgrade was not expected to be complete until 2006, 14 years after the need was identified. This delay was the result of setbacks in the approval process, budget cutbacks, and rising maintenance costs. The number of CF-18s to be upgraded was based on affordability, not need, despite an increasing number of aborted flights. **(I)**

Management of Federal Drug Benefits Program

The federal government provides prescription drug benefits to one million Canadians through the Federal Drug Benefits Program (FDBP). The Auditor General concluded that management of the program was inadequate as the claims processing system did not detect potential abuse. Health Canada, one of the six departments within the FDBP, was unable to explain why the number of clients receiving 50 or more prescriptions a year tripled between 1999 and 2003. **(I)**

Most federal organizations within the FDBP did not use cost-saving measures such as large-volume purchasing of drugs. The Auditor General determined that, had the federal government used purchasing practices similar to those of certain provincial governments, $15 million could have been saved on drug purchases. **(W)**

Education Programs and Support for Post-Secondary Students for First Nations peoples

Indian and Northern Affairs Canada (INAC) was spending $1.1 billion a year on education programs and support for post-secondary students for First Nations peoples. Despite this massive expenditure, there was still a considerable education gap between First Nations people living on reserve and the Canadian population as a whole. Management of the INAC education programs did not define roles or responsibilities, have appropriate performance and results indicators, or contain appropriate cost information. **(F)**

Information Technology Security

The Auditor General found large inconsistencies in the records of federal departments for compliance with the Government Security Policy for Information Technology (IT) systems. Government departments and agencies had not developed comprehensive IT security standards, including intrusion detection and incident management. In some departments, access to sensitive data and programs were not controlled and networks were not secure. **(I)**

Accountability of Foundations

The Auditor General determined that insufficient information was being provided to Parliament about the federal government's grants to foundations—non-profit corporations considered to be at arms length from the government. The outcomes of activities funded by such grants were not recorded and little real accountability was demanded from recipient foundations. The Auditor General recommended the Treasury Board clarify the policy framework for foundations to give the government greater flexibility regarding future grants. **(M)**

Financial Compliance Audits and Managing Contracts and Contributions

The Canada International Development Agency (CIDA) had been awarding development contracts without competition. The Auditor General audited 19 contracts each worth over $100,000 and found that nine arose from unsolicited proposals and the other ten were classified as "traditional contribution agreements." **(W)**

Governance of Crown Corporations

The Auditor General found that Crown Corporations had made limited progress in addressing the recommendations in the Auditor General's 2000 report. There were still problems with the way boards of directors were chosen and oriented and the appointment of directors, board members, and CEOs was not timely. The Auditor General also found a 20% rise, since the 2000 report, in board members continuing to serve after their terms had expired. **(S)**

2005

Governance and Strategic Management

An audit of the management of Natural Resources Canada (NRC) found it did not have a corporate strategic plan and that its strategic planning documents were inconsistent. Risk assessment was also determined to be inadequate. The management guide used by NRC sectors was too general to provide effective guidance. NRC sectors did not consistently consider the same factors or attempt to quantify consequences. **(I)**

National Security

The Auditor General conducted a comprehensive audit of the federal government's emergency preparedness in the wake of the 2001 Anti-Terrorism Initiative. The Auditor General found:

- Only 60% of files in the main inspection database for air and marine transportation security breaches (SEMIS) were determined to be completely accurate.
- DND was implementing a High Frequency Surface Wave Radar System (HFSWR) and was initially allocated $43.1 million for the project. An internal study indicated that the full cost of the system would be $220 million and that HFSWR would only perform to expectations during daylight and calm weather.
- Ten million dollars for equipping provincial and local authorities to deal with possible terrorist threats was not distributed according to the capabilities and needs of recipients. There was no risk analysis to guide funding decisions. Forty percent of funding went to areas considered a low risk for a terrorist attack (cities with populations of under 30,000).
- No threat or risk assessment was carried out before $190 million was allocated for the protection of critical infrastructure. There was no information explaining why a certain agency received a certain amount and why it was spent on certain initiatives. **(F)**

Passport Services

The Auditor General examined the quality assurance system for passport examiner entitlement functions and found it lacking. There was no way to confirm examiners followed the required processes to determine the eligibility of applicants. Seventy-four percent of applications showed no evidence of the required guarantor check. Confirming vital statistics was difficult and passport examiners were only beginning to have electronic access to provincial registries to verify information. **(R)**

Department of National Defence (DND)—Command and Control

The DND's program, Command and Control, Communications, Computing, Intelligence, Surveillance, and Reconnaissance (C4ISR), was initiated to coordinate and support Command across the entire spectrum of the Canadian Forces. The Auditor General found that officials in the Department of National Defence (DND) often bypassed the C4ISR review committee prior to project approval. Since 1999, only six of 13 “enabler projects” (i.e., projects to enable the C4ISR Initiative) and two of 19 related projects were submitted to committee for funding approval. Also 72% of C4ISR enabler and related projects were missing key documentation for project review. DND had spent $2.9 billion of the $3.7 billion required on such projects that did not have approved documentation. **(S)**

Key performance indicators for C4ISR had not been developed. As a result, DND could declare any of its objectives to be achieved. DND concluded that 20 out of 41 “spiral-one” objectives were significantly or totally fulfilled. This assessment was subjective and lacked formal criteria. The Auditor General found that for 12 of the 20 “successful” objectives it was difficult to conclude, from the evidence presented, whether completion has in fact been achieved. **(M)**

3 Reducing Government Failure

Given the inherent weakness of government identified by Public Choice analysis and the examples of government failure documented by the Office of the Auditor General of Canada, we must ask if there are mechanisms through which government failure can be reduced. The methods available for reducing government failure range from simple bureaucratic and administrative changes, such as increasing oversight and improving public sector incentives, to the outright elimination of government activities.

Perhaps the most important step in reducing government failures is setting priorities. By prioritizing its objectives, government would be better able to ensure that critical services are provided to citizens in a timely and cost-effective manner. A failure to prioritize goals and objectives leads to misallocation of limited resources, spreading resources too thinly, and ultimately to an inability to achieve the desired goals and objectives. More disconcerting is the potential for the government to fail to provide vital services in which it has a central role, such as public safety and national defence. Below is a list of some of the other mechanisms for reducing government failure.

(1) Rationalization

This requires government to clearly define its role and eliminate, or at the very least reduce, any of the activities not supportive of its core functions. It represents one end of the spectrum of alternatives available to government to curb waste and reduce government failure.

For instance, a government may decide that it is not necessary or appropriate for government to allocate investment capital, as the federal government does at present through various regional development and tax subsidy programs. The ideal response would be to eliminate such activities.

There are a number of obvious examples where it is difficult to articulate a clear mandate or even need for government involvement, given the presence of a functioning market. In the addition to capital allocation, other examples of questionable government involvement include support for broadcasting, agricultural subsidies, industrial strategies, and job promotion schemes. Eliminating these activities of government would not only provide additional resources for other programs or tax relief but would also sharpen the oversight capacity of parliament and the attention of the public sector.

Rationalization also embodies the recognition that there is a range of proper government involvement, from simple oversight and regulation to direct program financing and provision. Understanding the range between these two extremes can assist government not only in rationalizing the areas in which it should be involved but, equally as important, in determining the methods by which it should structure its involvement.

(2) Privatization

Government privatization initiatives also require a prioritization of responsibilities and activities by government. Unlike rationalization, however, privatization entails the sale of state-owned assets to the private sector for private operation.

For example, the government may decide that it is not necessary or productive for the state to own, operate, finance, and regulate gas stations. It could, therefore, sell its stake in a state-owned oil and gas company to the private sector, as the Canadian federal government did with Petro-Canada.

The benefits of privatization are well established and result from the key differences between how the private and public sector behave and the incentives each faces.[9]

Economists William Megginson and Jeffrey Netter, for example, provided a comprehensive, worldwide review of privatization in an article published in the *Journal of Economic Literature* (Megginson and Netter, 2001). They found, among other things, that the public sector uses less capital and is more labour intensive than the private sector. Less capital in the hands of public-sector workers leads to their having lower productivity than their private-sector counterparts, even though research indicates that public sector employees receive a wage premium.

Another essential difference is that governments are preoccupied with fulfilling social goals rather than pursuing economic or business objectives. This often leads to a significant misallocation of resources. Instead of allocating capital where it garners the highest economic rate of return, governments typically allocate capital to areas that maximize political returns, i.e. the governing party's chances for re-election.

Finally, Megginson and Netter found both short-term and long-term gains for economies undertaking privatizations. In the short term, taxpayers gained through one-time revenues from the sale of government assets; in the longer term, privatizations increased economic growth. Megginson and Netter note: "Divested firms almost always become more efficient, more profitable, financially healthier, and increase their capital investment spending."[10]

This survey buttresses earlier work completed by the World Bank that examined over 60 privatized companies in 18 countries. It found that, after privatization, companies increased profitability by 45%, efficiency by 11%, output by 27%, investment in plant and equipment by 44%, and employment by 6%; an overwhelming endorsement of the benefits of privatization.[11]

Finally, and perhaps most insightful, were the conclusions of Harvard Professor Janos Kornai in his analysis of soft and hard budget constraints discussed above.[12]

(3) Public-Private Partnerships (P3s)

Unlike the previous two options, Public-Private Partnerships (P3s) maintain a central and active role for government. An ideal P3 includes an accurate matching of costs and benefits for participating partners and maximizes the comparative strengths of each.[13]

A common example of P3s is infrastructure construction and maintenance. Most often, private firms are contracted to design, construct, and maintain the infrastructure while the government provides assistance with financing and land assembly. Harnessing the competitive advantages of the private sector can reduce the overall costs of the project while maximizing the potential benefits.[14] It is important to acknowledge the importance of P3 contracting and the fact that many P3 initiatives go awry because of poor planning or poor contractual agreements.[15]

(4) Outsourcing

This option retains an even larger role for government than the P3 option discussed previously. Outsourcing is simply the use of competitive bidding for the provision of specified goods or services for government. For instance, the government may decide that it has no particular expertise in the provision of food services or janitorial services and opts to use private firms. The government opens the provision of the services to competitive bidding, within the context of certain contractual stipulations. Governments across Canada currently use outsourcing to reduce costs and maximize efficiency.

The benefits of outsourcing are well documented in academic literature. Domberger and Rimmer (1994), in a review of international empirical studies on contracting out in public sectors in North America, Europe, Asia, and Oceania, concluded that competitive tendering and contracting usually leads to substantial cost savings, in the order of 20%.

Savas (1982) examined the available international evidence on the effects of contracting out in a host of services formerly provided by governments, including solid-waste collection, electric power, fire protection, transportation, postal services, health care, education, and social services. Savas found that, at the very least, the evidence indicates that public provision of services is not superior to private provision and that the argument for private provision can find considerable support. Other studies support the finding that private services are superior to their public counterparts.

For example, in two cross-Canada surveys of municipalities, McDavid (1988) found clear evidence of cost savings due to outsourcing based on productivity differences between the public and private sectors. Finally, Domberg *et al.* (1995) evaluated 61 cleaning contracts in an attempt to determine the effects of outsourcing on costs and quality. They found that competitive tendering significantly lowered prices and maintained or enhanced the quality of service.

It is also important to note that simply introducing competitive bidding can improve public-sector performance.[16] An example of this occurred in Indianapolis under Mayor Stephen Goldsmith, where public-sector productivity was improved by simply opening up the provision of government services to competitive bidding. Such improvements in the public sector provide support that, at a minimum, the public sector should be exposed to competition from the private for-profit and non-profit sectors for the delivery of government services.

Like P3s, outsourcing can be abused by both private providers and government. The critical component in an outsourcing initiative is the tendering process. Unfortunately, as we saw in section 2 of this study, there were a number of instances identified by the Auditor General where outsourcing was severely abused and resulted in losses to the government (taxpayers). It is, therefore, critical that incentives for undertaking outsourcing be such that departments find it in their best interest that outsourcing be successful. In addition, outsourcing contracts should include clear measurable targets for service delivery. Finally, on-going review of contracts and results should be undertaken by the outsourcing department as well as by an oversight department such as the Office of the Auditor General.

(5) Internal Control and Monitoring Mechanisms

Internal government mechanisms are yet another option available to reduce government failure. For instance, the resources of the Auditor General, the Ethics Counsellor, the Public Accounts Committee, the Treasury Board, and other governmental departments could be expanded so as to allow for a greater number of reviews and greater depth of review. In addition, a position equivalent to a Corporate Comptroller could be introduced within Treasury to monitor and control spending by government more closely.

(6) Strengthening the Auditor General's Office

A specific recommendation, based on the previous section, would be to increase the resources of the Auditor General's Office[17] and broaden the scope of available audits to include Crown Corporations and government foundations. In addition, any program, department, or ministry that undergoes an audit review should be required to publish its response within a set period of time, including measurable plans to overcome difficulties identified by the Auditor General.

Finally, follow-up audits to determine compliance should also be made mandatory and all communications should be made public. This process could be improved further if a dedicated parliamentary committee, similar to the Public Accounts Committee, were given the oversight of the Auditor General and, more importantly, the follow-up process with audited programs, departments, and ministries.

Conclusion

There are many mechanisms that can be used by governments interested in reducing waste and overcoming institutional limitations. The most important changes are to focus resources on areas of priority and to establish rules and regulations that create an environment within which productive and effective decision-making can be undertaken. In addition, it is critical to acknowledge the range of government involvement available and determine the most effective means by which a government can involve itself in a particular activity.

The main lesson from the facts as assembled by the Auditor General is that governments are not very effective vehicles for accomplishing outcomes. Therefore, the objective must be to minimize the tasks that are undertaken in the public sector. The government does not need to undertake an activity in order to ensure that it is done. Public purposes, as we have shown, can be accomplished as well, or better, by contracting, privatizing, or ceding the activity to the private sector.

Notes

1 Public Choice received widespread attention when one of its founders, James Buchanan, won the Nobel Prize in 1986. Buchanan and his colleague Gordon Tullock were instrumental in establishing the Center for the Study of Public Choice at George Mason University <http://www.gmu.edu/jbc/> and the Public Choice Society <http://www.pubchoicesoc.org>. There are a large number of publications listed in the reference section for those who wish to further their understanding of this important branch of economics.

2 Some programs, like Employment Insurance and the Canada Pension Plan, have a much closer link between taxes assessed and the direct benefits provided to recipients than most programs.

3 For a through discussion of "log rolling," see Tullock et al., 2002: 29–41.

4 See Gunning, 2003: 271–330; Niskanen, 1971; Tullock, 1987; Tullock et al., 2002: 53–62; and Mitchell and Simmons, 1994: 58–62.

5 See Gunning, 2003: 347–72 and Tullock et al., 2002: 43–52 for a through analysis of rent seeking.

6 See Office of the Auditor General, <http://www.oag-bvg.gc.ca/domino/other.nsf/html/bodye.html>.

7 Now called Employment Insurance (EI).

8 Not adjusted for inflation.

9 For further information on privatization, please see the Reason Foundation's Privatization Initiative's website at <http://www.privatization.org>. The Fraser Institute has also published a number of studies, ranging from full-length books to shorter journal articles on various privatization initiatives and opportunities: Jones, 2003; Jones and Walker, 1997; Hepburn, 2001; Easton, 1998; Schafer, Emes, and Clemens, 2001; Walker, 1988; Lofgren, 2002b; West, 1997; Clemens and Esmail, 2002a, 2002b; Clemens and Miljan, 2001; Chittick, 2003. See also the important work, Butler, 1992.

10 See Megginson and Netter, 2001: 381.

11 See Ewing et al., 1997; Guislain, 1997; Pohl et al., 1997; and Sader and Megyery, 1997.

12 In Kornai, 1992, 2003. For a broad overview of budget constraints and their affects, please see Kornai et al., 2003.

13 For further information on P3s, please see the National Council for Public-Private Partnerships <http://ncppp.org/>; The Institute for Public-Private Partnerships <http://www.ip3.org/>; Canadian Council on Public-Private

Partnerships <http://www.pppcouncil.ca/>; we also recommend reading Finn Poschmann's excellent overview of P3s in Poschmann 2003, available at <http://www.cdhowe.org/pdf/commentary_183.pdf>.

14 Hanss (2001), in an extensive analysis of Germany's municipal local transport utilities, argues that public-private partnership would overcome competitive disadvantages of public enterprises and produce benefits for both the private company and the government. Specifically, the financial burden on the government is minimized, freeing up funds for other purposes.

15 Nijkamp, Van der Burch, and Vindigni (2002), in analyzing nine Dutch case studies of public-private partnerships in urban land-use projects, conclude that the success of public-private partnership depends on several factors. First, a P3 is more likely to succeed if it is designed on the basis of a joint-venture model. Next, a detailed outline of the scope of the project, the planning, and the level of party involvement is an essential element of success. Finally, clear insight into the expected costs, revenues, and profitability is critical.

16 For more information on civic reform, see Goldsmith, 1998, McMahon et al., 2003, and the website of the Manhattan Institute's Center for Civic Innovation, <http://www.manhattan-institute.org/html/cci.htm>.

17 For an interesting discussion of the Office of the Auditor General and its increasing importance, see Gibbins, Berdahl, and Harmsworth, 2000.

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