Government Failure in Canada, 2007 Report


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Acknowledgements

The authors would first like to thank and acknowledge the work of those who contributed to previous editions of this study. It is upon their work and research that this edition rests. Our thanks extend to previous contributing authors Christopher Glover, Jonathan Hayes, and Mark Mullins; to research contributors Amela Karabegović, Keith Godin, and Todd Gabel; and reviewers Dr. Michael Walker and Professor Steve Easton. In addition, the authors would like to acknowledge the original financial contribution of the Donner Canadian Foundation in 2004, which initiated this larger program of research.

The authors would also like to acknowledge and thank the Mitchell Family for their financial support of this project. Without their financial commitment, this project could not have been undertaken and completed. The authors would also like to thank Professor Zane Spindler of Simon Fraser University, Professor Sandra Peart of the University of Richmond, and Chris Edwards of the Cato Institute for their formal peer review of this study. Their comments and suggestions were invaluable in completing this study. We would also like to express our thanks to Keith Godin and Kumi Harischandra for their assistance in various aspects of this study. Any remaining errors, omissions or mistakes remain the sole responsibility of the authors. As the authors have worked independently, the views and analysis expressed in this document remain those of the authors and do not necessarily represent those of the supporters, trustees, or other staff at The Fraser Institute.
The first time I heard about the economic and political research program known as public choice was on my first day of graduate school. I knew that economics was the study of private decision making; that is, the study of the market sector. Public choice, I learned, is the study of political-collective decision making, or public choices. The ideas and conclusions of public choice were new to me because I had a traditional political science education, one that was mostly description with little theory from which to develop explanations of political choices and outcomes.

My undergraduate education had taught me that governments can fix problems with markets and that any problems with government can be fixed with more government. My professors had taught me that government is generally benevolent, often benign, and seldom dangerous. Politics is where conflicts of values are resolved, inequalities narrowed, inequities solved. And participating in politics is noble. The state builds character and creates civic and personal virtues. This faith in government was matched with skepticism of markets, a skepticism fueled by the market failure literature in economics and even rooted for many in the academy in a longing for market socialism.

Public choice countered everything I thought I knew about politics. It identified majority rule’s failings and showed how governments adopt inefficient policies and restrict personal liberty—all to benefit special interest groups or to supposedly equalize wealth and income. The major contribution of public choice is a theory of government failure that raises questions about the ability of governments to respond to supposed market failures. Government responses to market imperfections may, in fact, make things worse.

Public choice demonstrates that politics is not really government by the people but rather an intense competition for power by means of votes among contending politicians. In that competition, politicians dissemble, play-act, and suppress and distort information. They spend other people’s money on still other people who may not have contributed to the treasury. At the same time they encourage envy, while promoting excessive hopes. They do all this while cloaking private interests in the language of the national interest, social needs, and entitlements. Voters are rationally ignorant and governed by emotion. Their roles as voters-taxpayers-beneficiaries lead to a very confused ballot box logic. Their choices are not disciplined by a cost/benefit nexus and they try to practice the art of getting something someone else pays for. Public servants live outside the world of supply and demand and in a culture where there almost never is an objective measure of the value of their work. Not unexpectedly, they remain inefficient. Without the goad of profit and bankruptcy they cannot be otherwise. They spend their time not in reducing costs but rationalizing higher ones. The dedicated public servant wants to do good and that is best accomplished by ever larger not tighter budgets; doing more good requires more money. As interest groups discover that they can do better by working the halls of government rather than the shops of industry, government becomes more and more powerful in deciding questions of who gets what redistributed from whom; the more the government’s power is enhanced, the more active interest groups become.

The Fraser Institute has applied the insights of public choice to Canadian politics and identified just how pervasive and perverse government failures really are. The report compiles a cumulative record of government failing to achieve its promised claims. The authors find that year after year, in agency after agency, government failure is alive, well, and thriving. In other words, the government has overreached itself and tried to do more than it can support or produce.

The great virtue of the Fraser Institute’s analysis is that it is more than a list of government failures. The
The report asks citizens and their elected officials to reflect on what government can and ought to do. If that reflection takes place, people will, in the words of James Buchanan— one of the key contributors to public choice and a winner of the Nobel Prize in economics— become “more critical of politics and politicians, much more cynical about the motivations of political action, much less naive in thinking that political nostrums offer easy solutions to social problems.” Reconsidering government’s role in the context of insights from the Fraser report will improve lot of those who should be the ultimate sovereigns in a democracy—the citizens.
Executive summary

The discussion of the limitations of government and subsequent government failure 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 was 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 ($2$), to calculate a reasonable estimate of the costs of government failure ($3$), and to summarily describe the mechanisms available to reduce government failure ($4$).

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. A total of 305 instances of government failure are included in this report based on published reports of the Auditor General between 1992 and 2006. For the purposes of this study, government failure is defined as not achieving the stated goals of a program or initiative. It is a more narrow definition than that commonly used, which includes evaluating the efficacy of the program or initiative. This study undertakes no such evaluation but simply uses reports from the Auditor General of Canada to determine whether or not there were problems in program design, delivery, and effectiveness. For example, programs and initiatives that were deemed to represent a failure suffered from such problems as:
- cost overruns (i.e. spending beyond original estimate);
- over and under paying benefits;
- failure to achieve a stated objective;
- inaccurate financial information reported;
- failure to provide services efficiently;
- regulatory guidelines and policies violated;
spending unnecessarily (that is, on items with no added value); and
programs improperly managed.

Below are a few examples of the government failures selected from the main section of the report.

**The Canadian Forces Reserves (1992)**
The Department of National Defence (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.

**Royal Canadian Mounted Police (1992)**
The Auditor General’s review of provincial and municipal policing found that officers of the Royal Canadian Mounted Police (RCMP) 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.

**Contract Management (1992)**
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 totalled $3.3 million.

**Canada Student Loans—Ceiling (1993)**

**Bilateral Economic and Social Development Programs (1993)**
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 (1993)**
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 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;
- 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 (1994)**
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 cost of placing inmates in prisons with higher security than necessary was an estimated $6 million a year.

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)—Trades-people Productivity (1994)**
The Auditor General examined the productivity of trades-people within the DND and found that they were approximately 33% less productive than comparable commercial trades-people. 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 (1995)**
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 totalling $1.2 million from 10 different sources in a three-month period.
Regional Development Programs—Industry Canada (1995)
Industry Canada 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 (1995)
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.

Income Support Tax Credits (1996)
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.

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 $377 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 (1996)
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 (1997)
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.

Foreign Affairs (1997)
Foreign Affairs officials received additional housing benefits based on hospitality expenses. However, only four of the 43 cases examined 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.

Atlantic Fishery (1997)
The federal government and several provincial governments failed to deal with over-capacity in the 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). The Auditor General also noted a 29% error rate in the calculation of program duration.

Agriculture Canada (1998)
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. The audit reported that there was $5.5 billion in cash advances between crop years 1992 and 1998.

Social Insurance Numbers (1998)
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;
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- over 50% of SINs had no supporting documentation;
- the Social Insurance Registry had almost 12 million uncertified accounts.

**The Atlantic Groundfish Strategy (TAGS) (1999)**
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.

**Property Management by Public Works (1999)**
Public Works contracted out all 13 regional contracts for property maintenance to the same firm. The Auditor General reported that the department’s point-rating system for evaluating bids weighted employment of the department’s existing staff three and one-half times higher than the bid price. In fact, the bidding process awarded 35% of total points for the quality and quantity of jobs offered to existing departmental employees and only 10% to the price quoted by contractors.

**Atlantic Canada Opportunities Agency Office Space (2000)**
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. Examples of overspending included the following.
- The client fit-up renovation costs of $190,000 for the Sydney location were three to five times higher ($142,500) than the fit-up costs for other CBSC locations in the Atlantic region.
- The occupancy costs for the building significantly exceeded the rates for other space of superior quality in the same area, by roughly $200,000.
- From 1995 to 2000, ACOA paid $116,903 in rent shortfalls for space it did not use. 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.

The Auditor General concluded that directors for Crown Corporations lacked 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.

**Management of the DFO’s Fleet (2000)**
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 moth-balled 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.

**Heating Expense Relief (2001)**
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.

**Satellite Communications (2002)**
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 extra $15 million to meet current operational standards. The system remains in storage.

**Social Insurance Numbers (2002)**
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.

**Pilot Training (2002)**
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. In fact, only 41% of the training paid for was actually used. Moreover, the audit reported that DND paid a prime contractor $15 million in firm and variable fees to meet contractual obligations even though the first four courses had to be cancelled. Of the total $15 million, $2.5 million has been recovered; however, $12.5 million is still outstanding.

**Firearms Registry (2002)**
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.

**Sponsorship Program (2003)**
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 (2003)**
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.

**Cultural Heritage (2003)**
The government spent $508 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. About 20% of sites and buildings were found to be in poor 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 (2004)**
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.
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.

National Security (2005)
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 the following.

- 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: 40% 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.

Accountability of Foundations (2005)
The Auditor General determined that insufficient information was being provided to Parliament about the federal government’s grants to foundations. The outcomes of activities funded by such grants were not recorded and little real accountability was demanded from recipient foundations. From 1996/1997 to 2003/2004, the government transferred more than $9 billion to foundations.

The Canadian International Development Agency (CIDA) (2005)
The Auditor General assessed the Canadian International Development Agency’s (CIDA) efforts to deal with the tsunami disaster in Southern Asia. It reported that CIDA was unable to spend its initial tsunami funds before the end of 2004/2005. As a result, to free up funding for the new fiscal year, CIDA spent $69 million intended for tsunami relief on non-tsunami-related activities in the 2004/2005 fiscal year.

Royal Canadian Mounted Police—Use of Acquisition Credit Cards (2006)
The Auditor General cited an internal audit conducted by the Royal Canadian Mounted Police (RCMP) in 2003 on the use of acquisition credit cards. The current audit found similar misuses. For example,

- 19% of cardholders used the card for vehicle operating and maintenance expenses, which were not allowed by Treasury Board policy;
- 17% of cardholders made IT purchases, which are prohibited without prior approval by the regional informatics officer or unless the purchase is made from an approved supplier;
- in one case, an individual made personal purchases for car insurance and a gym membership for which the RCMP could not provide a receipt or contract for the gym membership, nor an adequate explanation for either purchase;
- in another case, an individual was found bill-splitting a purchase of cameras and equipment to evade controls;
- 21% of cardholders had not certified that goods and services had been received as is required; documentation was missing or unsigned, and cardholders often verified that goods and services had been received, rather than having another person do this, as the rules require;
- only 25% of RCMP employees had received training in the use of acquisition cards.

Cost of Government Failure

New to this edition of Government Failure in Canada is the calculation of an estimate of the cost of government failure. Given the nature of the reports of the Auditor General, three methods were employed to calculate the costs of government failure.

Method 1—Costs Reported by the Auditor General
The first method used to assess the cost of government failure is relatively straightforward. It uses specific cost estimates provided in the underlying reports of the Auditor General. These cases are summarized in Appendix A.
These types of cases, where the Auditor General provided a specific estimate of the cost of failure were almost half of the cases (46.9%, 143 of 305) reviewed in this study. The total cost associated with these types of cases was between $28.3 billion and $28.7 billion over the period from 1992 to 2006 (Appendix A).

Method 2—Costs Estimated from Information Reported by the Auditor General

The second method used to calculate the cost of government failure entailed using information contained in the Auditor General reports combined with information from other statistical sources. This method was used when the Auditor General’s analysis did not give a specific loss but did provide sufficient information for a loss estimate to be calculated.

For example, in 1994, the Auditor General reviewed Foreign Affairs and concluded that the cost of embassy properties was over-estimated by $2.4 billion, which resulted in a 30% overcharge on passport fees. Passport fees are in part calculated based on the cost of embassies. A calculation was undertaken using the Public Accounts of Canada, which indicated that $50 million was spent in 1997 on passports. A 30% overcharge based on the $50 million provided in the Public Accounts resulted in a cost estimate of $15 million.

There were 43 cases (14.1% of total) in which sufficient information was provided by the Auditor General to allow for a reasonable calculation of the potential costs of government failure. Readers will note that in many cases the loss estimate is presented as a range. The total estimated cost of these types of failures is between $66.9 billion and $69.1 billion over the period from 1992 to 2006. Further information and references are provided in Appendix B.

Method 3—Problems with Programs Linked to the Social Insurance Number

The third method is used to calculate losses associated with programs linked to the Social Insurance Number (SIN). As demonstrated in an earlier study, Mismanagement of Canadians’ Social Insurance Numbers (Clemens, et al., 2007), there are serious and on-going challenges to the country’s SIN system, which underpins many, if not most income-support programs. In 2005/2006, the SIN underpinned some $117.9 billion in government spending, representing nearly one-fifth of all government expenditures in Canada.

The Auditor General has now four times criticized the federal government for its management of the SIN system. Complaints by the Auditor General included serious gaps between the number of Canadians and the number of SINs as well as a lack of documentation regarding the acquisition of SINs. These overall concerns regarding the SIN system were buttressed by a number of Auditor General reports critical of programs such as Employment Insurance, tax credit programs, and other income assistance programs that rely on the SIN.

Reviewing the case studies published by the Auditor General resulted in a range of potential losses between 0.32% and 2.0%. Applying this range of potential losses (0.32% to 2.0%) to the underlying spending based on the SIN system results in overall losses over the time period (1992–2006) of between $4.3 billion to $26.8 billion, depending on which loss estimate is used.

Failures Not Included in the Cost Estimate

There are also a host of examples of problems observed and documented by the Auditor General that were not included in any of the cost estimates due to a lack of information. In other words, the authors determined that there was not a reasonable method by which to calculate a loss estimate based on the information provided by the Auditor General. Appendix C summarizes these cases, which are included in the case summaries section but not included in the cost of government failure estimate. There were a total of 119 of these cases, representing 39.0% of the total.

Estimate of the Overall Cost of Government Failure

The combination of the three methods used to calculate the costs of government failure result in an overall estimate of the cost of government failure between 1992 and 2006 of between $99.4 billion and $124.6 billion. It includes the costs actually provided by the Auditor General ($28.3 billion to $28.7 billion), the costs calculated using information provided by the Auditor General ($66.9 billion to $69.1 billion), and the costs of failure related to observed problems in programs based on the SIN ($4.3 billion to $26.8 billion).

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.
Introduction and organization

An understanding of the limitations of government and subsequent government failures is wholly absent from discussion in Canada where, unfortunately, we still assume that governments act 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 and consistent 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.

This publication was 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), to calculate a reasonable estimate of the costs of government failure (§3), and to describe the mechanisms available to reduce government failure (§4).
1 Public Choice Economics

Although much has been written about the institution of government, the modern 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 Professors 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.

¹ Public Choice economics received widespread attention when one of its founders, James Buchanan, was awarded the Nobel Prize in Economics 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.gme.edu/jbc/] and the Public Choice Society [http://www.publicchoice.org]. For those interested in further readings about Public Choice economics, there is a list of publications at the end of this section (page 15).

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 traditional 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 the Public Choice model, 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.

Costs and benefits separated

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. 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 the approval of voters 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. (For a thorough discussion of “log rolling,” see Tullock et al., 2002: 29–41.)

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2 Programs like Employment Insurance (EI) and the Canada Pension Plan (CPP) have a much closer link between taxes assessed and the direct benefits provided to recipients than most.
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 become 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. (See Gunning, 2003: 271–330; Niskanen, 1971; Tullock, 1987; Tullock et al., 2002: 53–62; and Mitchell and Simmons, 1994: 58–62.)

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.

Soft rather than hard 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 budget constraints 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 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, 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, policy driven by special interests leads to rent seeking, the expenditure of resources by individuals or groups to extract free public-policy benefits (or rents) from government (Gunning, 2003: 347–72; Tullock et al., 2002: 43–52). The cost of rent seeking ultimately is borne by 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 production of public service 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 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 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.

The Problem of Insufficient Knowledge and Distorted Price Signals

Government failure also arises from information problems, which were described by Nobel Laureate Friedrich Hayek (1945) in a seminal paper published in the prestigious American Economic Review. Hayek’s analysis of “The Use of Knowledge in Society” revealed two important insights into why governments fail.3

First, Hayek explained that no bureaucrat or central planner could ever possess enough knowledge of individual needs to design an efficiently functioning and prospering economy. The kind of information necessary for successful planning consists of personal (or local) knowledge of “time and place” that is impossible to centralize. Hayek stressed that decentralized decision-making in a market economy overcomes this challenge by enabling individuals or members of a group in society with the most situation-specific information to make resource allocation decisions.

Second, Hayek emphasized the role of prices in communicating situation-specific knowledge to decision-makers. He observed that the prices of goods and services bought and sold in an economy operate as signals of value. These price signals combine a multitude of dispersed information into convenient numbers that readily guide the decisions we make about consumption, labour effort, entrepreneurship, savings, and investment. But when governments intervene in an otherwise functioning market economy, prices no longer convey accurate information.

3 The authors urge readers to read F.A. Hayek (1945), The Use of Knowledge in Society, in its entirety for a better understanding of the critical insights in this watershed study.
Hayek noticed that such interventions often result in the wrong things being produced, in the wrong quantities, and at the wrong time.

Hayek’s contribution and the work of Public Choice scholars gives us a better understanding of the underlying causes for the systemic government failure described by the Auditor General.

**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.”


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.
Recommended Readings on Public Choice Theory

Books

Journal Articles

Websites
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 reports issued by Auditor General between 1992 and 2006. 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.” The office is independent of the government of the day and reports directly to the House of Commons through the Speaker. The Auditor General is limited, however, in one important respect: the office cannot comment on policy choices but only on the quality of their implementation.

A total of 305 instances of government failure selected from the published reports of the Auditor General are discussed in this study. Figure 2 illustrates the distribution of these failures over the time period examined (1992–2006). Please note that the data regarding the number of failures by year should not be interpreted as a trend since the number of failures observed in a year has much more to do with the nature, scope, and focus of the reviews undertaken by the Auditor General.


Defining Government Failure

For the purposes of this study, government failure is defined as not achieving the stated goals of a program or initiative. It is a more narrow definition than that commonly used, which includes evaluating the efficacy of the program or initiative. This study undertakes no such evaluation but simply uses reports from the Auditor General of Canada to determine whether or not there were problems.
in program design, delivery, and effectiveness. For example, programs and initiatives that were deemed to represent a failure suffered from such problems as:

- cost overruns (i.e. spending beyond original estimate);
- over and under paying benefits;
- failure to achieve a stated objective;
- inaccurate financial information reported;
- failure to provide services efficiently;
- regulatory guidelines and policies violated;
- spending unnecessarily (i.e. on items with no added value); and
- programs improperly managed.

### 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.

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 totalled 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. The Auditor General estimated that a revision of beacon regulations to reduce search time and lives lost would entail a cost of approximately $30.5 million.

#### Employment and Immigration Canada (EIC)

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

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.

#### 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).

#### 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. In addition, project agreements did not specify the limits of the federal government’s legal liability and its commitment to funding cost overruns. In the case of the Bi-Provincial Upgrader, the federal share of unplanned construction cost overruns was $129 million.

#### 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 updated 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.

#### 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.

**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.

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.

**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.

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.

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.

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.

**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.

**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.

**Human Resources Management at the RCMP—Training**
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. Training and salary costs were almost $2 million for members who left the Force during 1989 and 1990 due to a poor recruitment process. Also, approximately $450,000 could be saved annually by designating first aid, typing, and swimming skills as prerequisites to entering basic recruit training. Requiring basic college-level courses would save an additional $1 million annually.

**Human Resources Management at the RCMP—Promotions**
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.
The Auditor General cited a study conducted by the Canadian Police College that indicated that, if the RCMP were to replace its current promotion practices with a highly structured, forward-looking interview process when promoting to the inspector level, it could realize productivity gains of about $15 million annually.

**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.

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.

**Agriculture—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.

**Agriculture—Farm Credit Corporation**

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.

**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 totalled $3.3 million.

In addition, the Department paid $2.5 million for advertising services to an Operating Agency in advance of need. The Department’s rationale was that significant discounts in the purchase of media space would result. The Auditor General noted, however, that “the $2.5 million payment did not involve any discount and, consequently, there was no saving to the Crown.”

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, totalling $5.6 million, were mismanaged. Department managers acted outside their authority to provide payments not included in contracts and before services were rendered.

**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.

**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 for hearings into refugee status. In 1992, 40% of first hearings and 29% of second hearings were adjourned, due mainly to legal counsel not being ready to proceed. These delays caused the process to be prolonged.

**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 manoeuvrability.

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.

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 March 31, 1993.

The Atlantic Canada Opportunities Agency (ACOA)—Contributions
The ACOA was designed to promote economic growth in the Maritime Provinces. The Auditor General found that ACOA failed to evaluate, monitor, and control a repayable contribution agreement totalling $2.6 million for a metal fabrication facility in Newfoundland under the Fisheries-Alternatives Program (FAP). After receiving this contribution, the company applied for and received contributions from another governmental organization and the Province of Newfoundland for the same project.

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. Overall, the annual monetary ceiling for loans was exceeded by $312 million from 1991 to 1993. This represented an additional cost to taxpayers of $51 million for 1991/1992 and $61 million for 1992/1993.

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.

In addition, the Auditor General noted that the Department of Indian Affairs and Northern Development (DIAND) continued to fund community economic development organizations that it has classified as being fully developed. In 1992, 73 fully developed organizations received $20 million from DIAND.

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, which the Auditor General noted is not the most direct way for helping Pakistan’s poorest people improve their human development and earning capacity.

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 hired up to 18 months prior to the moratorium, were also eligible.

Legal Advisory and Litigation Services
The Auditor General examined the Department of Justice’s (DOJ) 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 turn-around times. Managers lacked the systematic, quantitative performance information needed to make litigation decisions. The Department had insuf-
ficient information to manage the cost of litigation and little control over the volume or nature of its workload.

The government spends more than $40 million a year on Crown agents, who are private-sector lawyers working under contract to help do the DOJ’s work. The Auditor General expressed concern about using “borrowed resources” because it reduces managerial flexibility. Usually, the use of Crown agents come with the condition that they must remain dedicated to the client they are tasked with. As a result, resources may not be allocated according to priorities but, rather, according to the ability of clients to provide resources.

Programs for Seniors
The Auditor General found that the Department of National Health and Welfare (DNHW) 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.

There were also serious deficiencies in the management of pension programs. The Auditor General reported that “the systems and procedures in place for recording and collecting [Canada Pension Plan] overpayments are completely inadequate.” As a result, it was found that estimates for overpayment of Old Age Security (OAS), Canada Pension Plan (CPP), and Guaranteed Income Supplement (GIS) ranged from $110 million to $148 million.

Based on information provided by the DNHW, the Auditor General estimated that overpayments in OAS and CPP programs totalled at least $70 million and up to $108.0 million. This is in addition to the overpayments in the GIS benefit, which totalled $40 million. The Auditor General determined that while representing only half a percent of total payments, pension program overpayments increased the program’s administrative costs, which were about $260 million annually, by 50%.

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.

Government Leases
The federal government had not resolved a lease of non-productive 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.

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.

National Archives of Canada
The Auditor General examined the construction of the new building for the National Archives of Canada in Gatineau, Quebec. The Auditor General determined that the Archives had not adequately addressed the issue of transporting sensitive documents to the new location. The audit also revealed that the Gatineau project demonstrated lack of due regard to economy. The selected site was purchased at a cost of $6.6 million but was three times larger than required. Extra landscaping costs of $4.8 million were incurred because the site was adjacent to residential areas, requiring re-location from the property line.

Unemployment Insurance (UI)
The Auditor General found that Unemployment Insurance (UI) 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.

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.

**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 from the two departments on the operating expenses of Search and Rescue differed, although they dealt 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.

**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.

**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 there were disincentives to divest. 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.

**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.

The Auditor General found that Health Canada was not exercising its responsibility for food safety consistently and that 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.

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.

**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. Saskatchewan farmers had accumulated a negative fund balance of $536 million up to March 31, 1994.

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.

Further, the National Tripartite Stabilization Program plans for two commodities were no longer financially self-sustaining. As a result, they were terminated in July 1992 and August 1993, respectively. These plans terminated with respective deficits of $44.5 million and $8.4 million.

**National Standards and Regulatory Policy of Nuclear Facilities**

The legislative framework guiding the Atomic Energy Control Board’s (AECB) regulatory control was established in 1946 and was basically unchanged at the time of audit. The Auditor General expressed concerns over the lack of clear authority to establish and enforce national standards for the use of nuclear energy; and was particularly concerned about the inability of the AECB to take or order remedial action in case of an unacceptable hazardous situation. 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.

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.

**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 cost of placing inmates in prisons with higher security than necessary was an estimated $6 million a year.

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.

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. The Auditor General noted that CSC Correctional Service could avoid one-time future capital costs of $135 million if it applied the “one-quarter target” in the proposed policy to its present capacity. An additional $34 million could be saved in operating expenses per year if it adopted a “double-bunking” policy.

**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 non-violent offenders with short sentences as on violent offenders with longer sentences.

**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.

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.
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.

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.

Furthermore, major overseas properties, such as official residences in locations such as Brasilia, New Delhi, and Tokyo were under-used. Overall, the Auditor General reported that approximately $146 million could be saved in oversized or underutilized properties. Also, an estimated $13.3 million could be saved in lease costs between 1994 and 1999.

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.

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 despite $1 billion directed to the Canadian Aboriginal Economic Development (CAED) strategy. The objective of the CAED strategy was to decrease Indian dependency on social assistance.

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).

The Auditor General noted that ineligible payments were being made by INAC. For example, about $100 million in reimbursement payments have been paid by the Department to the province of Ontario for providing child welfare and support services according to a draft memorandum that has never been signed.

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%.

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.

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.

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.
Project Management within the Department of National Defence (DND)
The Auditor General examined project management efforts at DND and found the following:

- 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% of its contingency fund ($170 million). 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.
- Canadian Forces Supply System Upgrade, a $291 million project designed to correct problems in the existing national system of supply management, has spent over $16 million more than originally planned.
- Base ADP project has taken more than eight years to complete, has suffered overruns in time and cost, and has not delivered the products included in its original objectives.
- Military Personnel Information System upgrade, a project designed to correct long-standing deficiencies, cost $3.8 million but the deficiencies have not been corrected.
- DDDS/ORAE Computer, a project intended to provide specialized support to departmental graphic artists and operations researchers, did not have requirements adequately defined. As a result, the $16.9 million project did not provide a usable product to the graphic artists and was scrapped after five years.

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.

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 DND’s projects over $10 million slipped on average by 30% and projects under $10 million by 130%.

Department of National Defence (DND)—Tradespeople Productivity
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.

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.

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.

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.

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

**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.

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.

**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.

**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.

**Managing the Legacy of Hazardous Wastes**

The audit examined Environment Canada’s management of hazardous waste sites in Canada and found that it had no national inventory of contaminated sites. The Auditor General estimated that the total potential clean-up cost for federally contaminated sites is at least $2 billion—none of this potential liability has been disclosed in the Notes to the Financial Statements and in the Notes to the Annual Financial Report of the Government of Canada.

**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.

**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.

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.

**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 informa-
tion 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.

**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.

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.

**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.

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 totalling $1.2 million in a three-month period.

**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.

**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.

**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.

**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. From its inception in May 1990 until March 1995, the ACOA spent $91 million on Fisheries Alternatives projects.

**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.

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. Overall, between 1987 and 1995, the department approved approximately $1 billion for the Western Diversification Program.

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.

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.

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.

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 different programs: for example, on-reserve day care in one province received funding through a federal-provincial agreement as well as through an arrangement with a federal department amounting to $270,000 in 1994/1995. This problem had been documented as early as 1965.

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. In addition, 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.

In reviewing 40 projects with a total cost of over $100 million, the Auditor General found that 45% contained no evidence that options and alternatives had been assessed to ensure that user requirements and service standards would be met at the lowest cost. Moreover, the Auditor General reported that INAC advanced about $1 million on the basis of a design proposal that the technical group had repeatedly cautioned against. Almost three years after the technical group’s report, INAC rejected the original design proposal and requested that the project be redesigned.

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.

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.

Evaluation Processes in the Federal Government
The Auditor General examined evaluation processes within the federal government. The audit found 12 expenditure programs totalling approximately $5 billion and two tax assistance initiatives totalling 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.

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 not 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.

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.

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.

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 totalling $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.

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.

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.

Health Care for Veterans
The Auditor General examined the health-care system for veterans provided through Veterans Affairs. The Department estimated that it paid 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. It estimated that it could save $7 million annually and improve the quality of care by implementing improved controls.

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.

Management of Canada Pension Plan for Disability
The Auditor General examined Human Resources Development Canada's management of the Canada Pension Plan (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.

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. In 1994, official estimates of over-payments were $14 million but additional review pointed towards potential over-payments of $21 to $38 million. The Auditor General explicitly remarked that "the estimate of $14 million of overpayments for all beneficiaries is underestimated." More than 60% of CPP Disability beneficiaries receive benefits from another income security program.

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.

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.

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.

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.

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 approximately $1.7 billion more inventory than was expected to be needed over the next four years.

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.

**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 $377 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.

**Promoting Exports and Foreign Trade**
The Auditor General determined that activities designed to promote Canadian exports were resulting in needless expenses for the Canadian government. There was little cost sharing between the government and private exporters in foreign trade promotion. In fact, private exporters often used the facilities of Canadian embassies in foreign countries for trade-related functions free of charge.

**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.

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 $415 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.

**Reintegration of Offenders by Correctional Service Canada**
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 four to six 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 offence would result in a year-long, psychiatric, residential program while the same offence in another region would warrant only a six-month, non-residential program.

**National Parks**
The Auditor General determined that 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. Overall, management of ecological integrity within the Canadian Heritage-Parks Canada system was deficient. Specifically, 15 parks had no indicators of ecological integrity and a further 11 had incomplete indicators; 16 parks had no program for monitoring ecological integrity and nine others had incomplete programs; 19 of the 28 most accessible parks did not communicate information about ecological integrity to visitors.

**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. The Auditor General estimated that approximately $10 million can be saved annually in operating, maintenance, and administration costs for the canals.

**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.
Government Failure in Canada, 2007 Edition

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.

The Auditor General reported that $600 million could be saved by re-engineering projects to monitor Air Command. In addition, possible annual savings, totalling $197 million, were highlighted. For example,

- at least $14 million by re-engineering the military pay system;
- over $3 million by reducing fleet age, speeding the disposal process, and using the services of a private sector disposal agency; and
- around $180 million by streamlining maintenance operations.

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.

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.

The audit also revealed that Foreign Affairs officials receive additional housing benefits based on hospitality expenses although only four of the 43 cases examined 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. Other unnecessary spending included $22,900 for ordering non-standard furniture, $42,000 annually for keeping useless furniture in warehouses, and $37,000 annually for unauthorized employee accommodations.

Moreover, the Auditor General noted that Foreign Affairs was experiencing 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.

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.

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.

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.

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.

Amendments to a series of contracts negotiated by Transport Canada produced extra costs. These contracts provided no clear link between work done and the amounts paid. One contract began at $165,000 and was amended twice to $560,000, while another began at $4.6 million and was amended to $6.9 million, and still another from US$375,000 to over US$1 million.
Moving Costs
Cost-weighting schemes for relocating government employees are roughly twice the average weight of moves paid for by private individuals. The Auditor General estimated that savings are possible in the order of $1.5 million out of the $5 million spent annually on the administration of household-goods removal.

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.

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.

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 standalone 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. A further $2 million paid in fees and expenses for the abandoned work could have been avoided. Overall, poor project management resulted in approximately $34 million in excess of the approved budget.

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. The audit reported that there were cash advances of $5,573 million during crop years from 1992 to 1998.

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.

In addition, the Auditor General noted some problems emanating from using the SIN as a common identifier. For example,
- overpayments for employment insurance claims were estimated to be $102 million;
- the potential loss on GST credits for individuals without legal status could be around $8.2 million; and
- income-tax errors represented $36 million in corrections.

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 acceptably smooth and that the highways proposed for additional funding were well above the commonly accepted standard.

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 for exemptions.

The Auditor General examined a sample of 26 sole-source contracts in five departments to determine whether
in awarding these contracts the government had adhered to the governing principles and regulations. The Auditor General found that Transport Canada had many proposals for funding that were based not on national standards but on Transport Canada’s own recommendations. In one case, $200 million in additional funding did not represent the cost of bringing the roads to minimum national standards but to proposed design and level-of-service features as defined by Transport Canada’s study on the National Highway System. In another case, $49 million in funding was approved to meet cost overruns rather than specific program objectives.

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.

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 was when DFO spent $15 million to support social objectives in the Northern shrimp and Gulf snow crab fisheries, which directly contradicted the Fishery of the Future Strategy of encouraging conservation.

The Atlantic Groundfish Strategy (TAGS)
Another audit of TAGS followed up the Auditor General’s 1997 assessment. TAGS began in 1994 to support fishermen and ended one year earlier than planned in 1998 due to poor implementation and cost overruns. Further, the absence of an appropriate accountability framework for this type of initiative meant that there was no assurance of obtaining value for money. The fixed budget over the planned five-year period was $1.9 billion. 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.

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.

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.

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.

Property Management by Public Works
Public Works contracted out all 13 regional contracts for property maintenance to the same firm. The Auditor General reported that the department’s point-rating system for evaluating bids weighted employment of the department’s existing staff three and one-half times higher than
the bid price. In fact, the bidding process awarded 35% of
total points for the quality and quantity of jobs offered
to existing departmental employees and only 10% to the
price quoted by contractors.

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.

Sole-Source Professional Service Contracts
An Advanced Contract Award Notice (ACAN) can be is-
issued—and the normal contracting process avoided—when
government officials determine that there is only one com-
petitive contractor. The Auditor General concluded that:
♦ over 30% of the cases had major differences between the
statement of requirements and the terms of the con-
tract;
♦ 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.

Management of the Canada Pension
Plan Disability Program
The Auditor General completed a follow-up to the 1996
audit of the CPP Disability Benefit program. Human Re-
sources Development Canada improved its measurement
of overpayments since 1996. More realistic estimates of
mispayments can be provided as a result of these changes.
The most likely value of undetected mispayments for 1996
is $60 million. Specifically, overpayments of disability
benefits for 1996 were estimated at $29 million.

2000

Human Resources Development Canada
Times to process claims by local offices of Human Re-
sources Development Canada (HRDC) improved slight-
ly 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. Estimated total underpayments increased from $125
million in 1996/1997 to $211 million in 1998/1999. Over-
payments also increased over the same period, from $334
million to $445 million.

Canadian Immigration Program
Studies of the economic component of the Canadian Im-
migration Program indicated that selection criteria were
no longer adequate and had raised false hopes among im-
migrants. 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 ob-
tained money. The Auditor General also raised concerns
about the absence of any major penalties for submitting
false statements and fraudulent documents.

First Nations Education
Funding for 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 sepa-
rate cost-per-student analysis for elementary and second-
ary schools.

Border Control
This audit examined Canada Customs and Revenue Agen-
cy’s (CCRA) border-control system. Among several audit
conclusions was that CCRA’s look-out system for crimi-
Nals was slow, could not read bar-coded documents, and
relied on periodic updates rather than direct links to po-
lice 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.

CANPASS was designed to expedite the movement
of low-risk travellers while reducing administrative costs
at the border. Anticipated savings have not yet material-
ized 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 be-
cause 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 sched-
uled to be extended to other border crossings.
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 ongoing 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.

RCMP—Laboratory Services
The estimated delay for DNA analysis by the RCMP was 82 days, even though the testing took only two days. Delays were the result of a lack of prioritization and unnecessary duplication of facilities. In one case, a laboratory took almost six months to submit its report and accrued $1.3 million in investigation costs. The Auditor General estimated that, if the laboratory had submitted its report within 20 days, the investigation would have cost $1 million less.

RCMP—Facilities Management
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.

RCMP—Firearms Registry
The Auditor General examined the backlog of applications in the RCMP’s Firearms Registry and found that the Firearms Registry faced backlogs even though the number of applications was lower than expected. In fact, only 13% of the license applications were completed at the time of the audit.

Citing an RCMP study completed in 1999, the Auditor General noted that system outages have prevented officers from making almost three million queries and have resulted in almost $13 million in productive time lost. In addition, the central computer mainframe was down about 75 hours, which affected some 20,000 officers and almost a million queries, and represented about $5 million in productive time lost.

Airport Transfers
The Auditor General examined how Transport Canada handled the transfers of Canada’s largest and busiest airports between 1992 and 1999 and found significant weaknesses in management practices. For instance, Transport Canada did not determine the fair market value of airport assets and business opportunities when transferring ownership to airport authorities. Rather, it calculated Airport Authority rents based on the net book value of the airports. But the book value of Pearson Airport, for example, would have been minimal because its facilities had already largely been amortized.

The Auditor General also expressed concern about the renegotiation of four leases. The renegotiated deals did not adhere to some of the government’s key directions, resulting in a cost of about $474 million ($342 net present value) to the government in foregone rent. There was a lack of transparency in these transfers as well. While rent reductions of $474 million had been granted to airport authorities, only $97 million (20%) were reported to Parliament.

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) and its successor, the Canada Jobs Fund (CJF). TJF received a total of $300 million (over three years) in funding. It ended on March 31, 1999 and was replaced by the CJF, with annual funding of $110 million. Evidence on file indicated that almost 63% of TJF projects and 75% of CJF projects would probably have gone ahead without HRDC funding. In fact, the audit reported that officials at Human Resources Development Canada (HRDC) tried to spend their budget before year’s end by advancing funds, even though the funds were not expended on a cash-flow basis. Furthermore, the Auditor General concluded that 29% of project proposals for the Social Development Partnerships Program (SDPP) were inadequate. SDPP’s budget was $15.1 million in 1999/2000.

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. The Auditor General also found that 16% of the Sectoral Partnerships Initiative (SPI) projects sampled were
not eligible for funding under the specified criteria. SPI, launched in 1993, has annual expenditures of $30 million.

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.

**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. Examples of overspending included:

- the client fit-up renovation costs of $190,000 for the Sydney location were three to five times higher ($142,500) than the fit-up costs for other CBSC locations in the Atlantic region;
- the occupancy costs for the building significantly exceeded the rates for other space of superior quality in the same area, by roughly $200,000;
- from 1995 to 2000, ACOA paid $116,903 in rent shortfalls for space it did not use.

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.

**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 three of 15 audit committees examined.

**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. Furthermore, the Auditor General found at least $320 million in missed contracts that should have been included in a 1998 Report. Following a review of the data, Public Works and Government Services Canada (PWGSC) advised departments (after confirmation had been requested) that 37 contracts, valued at more than $3 billion, had been omitted from the Report.

**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. Other cases that involved poor management included the following:

- in 1999/2000, the vessel CCGS Edward Cornwallis was non-operational, except for about two weeks, yet it incurred $1.2 million in salaries and operating costs;
- during 1999/2000, it cost $440,000 to maintain the vessel CCGS Sir John Franklin in lay-up status. Subsequently, when it was not included as one of the vessels funded through the “Base Fleet” exercise, the DFO decided to dispose of the CCGS Sir John Franklin.

**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.

### 2001

#### Grants by Human Resources Development Canada (HRDC)

The Auditor General noted a lack of accountability related to grants by Human Resources Development Canada (HRDC) 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.

#### 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.

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. Further, the Auditor General concluded that the methodology used in estimating job creation figures was flawed. In one case, ACOA spent $4.5 million with a projected impact on employment of 180 full-time jobs lasting five years. According to ACOA’s documentation, however, this project created only 60 jobs that lasted for the 11-month construction phase. In another case, ACOA spent $2.8 million with an intended impact on employment of 112 full-time jobs over five years. ACOA’s documentation showed that the project would create only 22 full-time jobs. ACOA continues to estimate that every $25,000 spent creates or maintains a job for five years, despite past criticism of this method.

ACOA administers the Business Development Program. It has provided roughly $460 million in repayable contributions from its introduction in 1995 until 2001. At the time of the audit, $78 million of this has been repaid and $12 million written off.

#### 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%.

#### Servicing National Defence Equipment

The Auditor General noted that the Department of National Defence (DND) has an inadequate system in place for equipment readiness and availability. The information required to track and manage the availability of equipment is incomplete and often inaccurate, making it difficult for managers to know the state of major equipment platforms. The Auditor General concluded that there were insufficient maintenance personnel to staff DND units and equipment facilities fully. In addition, about 15% of DND’s maintenance personnel lacked the qualifications their ranks require.

#### 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.

#### 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.
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.

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.

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.

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.

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 alternative software.

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 split contracts so the value of each was less than $25,000 and, by doing so, subverted 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.

The Auditor General specified numerous instances of inadequate contracting agreements. Here are three examples.

- In one case, a contribution of up to $1.3 million was awarded for work that had not been covered by the contract. This practice runs contrary to the Treasury Board Secretariat’s Contracting Policy, which clearly requires that the terms and conditions of any contract be in writing,
- Public Works and Government Services Canada awarded 27 contracts with 21 amendments for $24.4 million for program management and informatics that did not reflect the principles and requirements of the Treasury Board’s Policy. This amount excludes $1 million for surveys that were issued using standing offers.
- Health Canada had purchased directly, or allowed the contractors to spend, more than $2 million on leasehold improvements, computers, office furniture and equipment, and telephone systems. Some of these assets were not needed or used, and some were not used for their intended purposes.

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 meet existing needs and required fewer staff to operate. In addition, the new military satellite communications
system would require an extra $15 million to meet current operational standards. The system remains in storage.

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 Social Insurance Numbers 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.

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. In fact, only 41% of the training paid for was actually used. Moreover, the audit reported that DND paid a prime contractor $15 million in firm and variable fees to meet contractual obligations even though the first four courses had to be cancelled. Of the total $15 million, $2.5 million has been recovered; however, $12.5 million is still outstanding.

In a 1999 Report, the Auditor General found that inflexible contract arrangements resulted in payments for unused training capacity at the Meaford Area Training Centre. The Training Centre operated under a $40 million, five-year, fixed-price contract and had used only 43% of its capacity. Also in 1999, DND paid just over $31 million for aircraft that were delivered late and, therefore, could not be used for training.

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. As of March 31, 2001, losses on loans between 1995 and 1999 amounted to $155 million; they are expected to exceed $200 million.

First Nations Reporting
The federal government requires First Nations to submit annual reports that help determine the annual budget of their communities. In reviewing the 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.” The exact proportional impact of spending was therefore unknown.

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 were 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.

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 paying 2.3% of the costs of operating the International Space Station but the ultimate cost of this commitment is unknown.

The Auditor General noted that the launch of Canada’s third and final component for the space station, the Special Purpose Dexterous Manipulator (SPDM), was originally scheduled for 2002 but has now been delayed until 2005. During the delay, it will cost about $13 million to keep SPDM in operating condition.

Acquisition of Office Space
Public Works and Government Services Canada (PWGSC) 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.

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.

Public Works undertook decisions to buy or lease with insufficient information. The files 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 with which projects are completed.

**Firearms Registry**
The Auditor General reviewed information provision and disclosure by the Department of Justice (DOJ) about 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.

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%.

**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 quality of the data.

**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, Iqaluit, 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. In 2001/2002, program spending totalled $24.5 million, which exceeded the yearly cap of $15.6 million.

**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 (and potentially over $100 million over the next 20 years), without ever receiving approval from Parliament. This oversight was noted in 2000 but no action had been taken by 2002 to legitimize the transfer.

**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; however, 90% of the managers interviewed do not access the system directly. In fact, they rely on information from locally created spreadsheets instead since the quality of most data in these locally maintained records was better than the quality of centrally supplied data. In addition, 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.”

**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.”

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.

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.

**Housing on Reserves**

Indian and Northern Affairs Canada (INAC) and the 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.” The Auditor General reported that, as of March 31, 2002, outstanding loans to First Nations were more than $1.25 billion and about $10 million had yet to be recovered as a result of defaulted loans.

**Citizenship and Immigration Canada**

Issuing visas 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.

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.”

**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.”

**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 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.

**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.

Cultural Heritage
The government spent $508 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. About 20% of sites and buildings were found to be in poor condition. Over 90% of the National Library collections are housed in buildings that “do not meet current standards for temperature and humidity.” And, approximately $30 million in financial aid was endorsed under the National Historic Sites of Canada Cost-Sharing Program for work on the preservation of historic sites that has yet to be fulfilled.

2004

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.

Regulation of Medical Devices
Health Canada’s testing of medical devices was monitored inadequately. 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.

The 2001 Anti-Terrorism Initiative
The Auditor General found that money was allocated by the government for certain projects that were unrelated to their stated purpose, which was to combat terrorism. For example, the RCMP spent $45 million to replace an out-dated occurrence management system.

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.

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.

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.

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.

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.

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.
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.

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.

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. A further $11 to $13 million could be saved in costs for proton pump inhibitors (PPI) by requiring that the formularies cover only the lowest-cost PPI, unless medically justified.

The Auditor General concluded that pharmacy audits do not always lead to recovery of identified overpayments. At Health Canada, $2.1 million has yet to be recovered for the period of 1998 to 2004. At Veteran Affairs Canada, $700,000 remains outstanding for the period from 1999 to 2003.

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. Despite this massive expenditure, there was still a considerable educational 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.

Under the Post-Secondary Student Support Program, INAC does not ensure equitable access to as many students as possible, and does not know whether the funds allocated have been used for the purpose intended. INAC allocated almost $2.8 billion to the program between 1994/1995 and 2003/2004.

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.

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 the following.

- 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.

Additionally, Health Canada was allocated $501,000 in December 2001 to develop Health Emergency Response Teams. These federally trained medical teams, the Auditor General writes, are to support local health-care workers during emergencies. In January 2003, Health Canada
was further allocated $626,000 annually to train health-care workers in the prevention and treatment of smallpox. Despite these appropriations, the Health Emergency Response Teams and the Smallpox Emergency Teams have not been created.

Passport Services
The Auditor General determined that the system of control over the issuance of passports was inadequate. 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.

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.

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.

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.

The Auditor General noted that the general lack of concern for IT security risks leaves systems containing sensitive information on Canadians vulnerable and open to exploitation. In fact, 44% of departments in the survey had not completed an assessment in the last two years or had never completed one.

Accountability of Foundations
The Auditor General determined that insufficient information was being provided to Parliament about the federal government’s grants to foundations. The outcomes of activities funded by such grants were not recorded and little real accountability was demanded from recipient foundations.

The Auditor General was especially concerned since the foundations are independent corporations in law, which means that they are not subject to the same reporting requirements as government departments and agencies. From 1996/1997 to 2003/2004, the government transferred more than $9 billion to foundations.

Canadian International Development Agency (CIDA)—Contribution Agreements
Canada International Development Agency (CIDA) had been awarding development contracts without competition. For example, the Auditor General audited 19 contracts awarded between January 2001 and August 2003, each worth over $100,000, and found that nine (47%) arose from unsolicited proposals and the remaining ten were classified as “traditional contribution agreements.” In this follow-up audit, the Auditor General noted similar practices. For example, it was indicated that 60% of large, sole-source contracts should have been open to competition since there may have been potentially qualified suppliers.

In addition, CIDA has not followed through on recommendations to build a provision for a formal review into its larger service agreements so that it may withdraw from expensive and unsuccessful projects. In the 24 contracts and contribution agreements examined, only one had the appropriate withdrawal provisions included.

Canadian International Development Agency (CIDA)—Grants
The Auditor General noted an unexpected increase in the issuance of grants from 1999/2000 to 2002/2003. In total, grants grew from $6 million to $148 million over this period. Many of the grants lacked the proper accountability, the required documentation, and the necessary approval.
from CIDA officers. The Auditor General is especially concerned about these findings since grants do not require recipients to meet specified objectives and, as a result, CIDA assumes a greater risk the recipient will not meet the goals of the program.

The audit also revealed that less than 50% of the files reviewed contained proper justification and documentation for release decisions of contract adjustments. Overall, CIDA maintained adjustments totalling $33.5 million since the last audit. On this note, the Auditor General remarked: “Releasing an adjustment without sound, well-documented reasons and without supporting evidence means that CIDA may be paying for unauthorized items.”

Governance of Crown Corporations

Crown Corporations 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 found a 20% rise, since the 2000 report, in board members continuing to serve after their terms had expired while many large Crown corporations operated without a permanent CEO.

The audit also revealed that many Crown corporations still are not setting clear goals and indicators of performance for their public policy objectives. As a result, some deficient corporate plans are still being approved. While some improvements have been made by Crown corporation audit committees, 36% of these committees still remain marginally effective.

Managing Government: Financial Information

The audit revealed that weaknesses in the financial systems persisted since the last audit, and departments and agencies have been slow to correct them. There continues to be a lack of strong individual leadership and commitment from central agencies and senior departmental officials to improve the use of financial information. Furthermore, a survey revealed deficiencies in the qualification of senior financial officers. For example, only 55% of incumbents were professional accountants whereas 80% of their private-sector counterparts held the appropriate accreditations.

Despite the potential benefits in decision-making, accrual-based financial information continued to be used sparsely—typically only in year-end financial statements and new proposals. In the few cases where it was used, the Auditor General reported several errors in the government’s accrual accounting policies. For example, expenses were recorded in the wrong fiscal period while information on program costs proved to be unreliable. As a result, financial statements are inaccurate and users are making decisions with incomplete information.

Royal Canadian Mounted Police—Contract Policing

The Auditor General examined the Royal Canadian Mounted Police (RCMP) whose services are contracted by the government’s department for public safety. The audit revealed that the RCMP has failed to meet its expectation of determining a “minimum standard”—the minimum policing resources needed for each of the provinces and territories to maintain law and order. Inadequate forecasting measures resulted in the employment of peace officers according to a given province’s willingness to pay, not according to the number of required resources needed. Contract policing totals $1.6 billion in annual expenses—only $1.1 billion of which is recovered from provinces, territories, and municipalities yielding annual losses of approximately $500 million.

The Auditor General found that gaps in mandatory training and a failure to re-qualify and recertify officers may be preventing the RCMP from meeting its clients’ expectations of fully trained peace officers. It may also be leaving itself open to the risk of litigation. Overall, the number of peace officers that met all six mandatory training requirements dropped from 57% in 2003 to 6% in 2004.

Canada Revenue Agency (CRA)—Personal Income Tax Returns

The Auditor General investigated CRA’s ability to verify the accuracy of personal income-tax returns. The audit revealed that if taxpayers had been in full compliance with the rules of deductions and credits, then revenues from personal income taxes for the fiscal year of 2002/2003 would have been $586 million higher. Subsequently, $160 million of this amount was recovered.

The Auditor General found deficiencies in the “matching program”—a program designed to identify potentially unreported income. As a result, methods for prioritizing the selection of tax reviews were inadequate. For the two-year period from 2002 to 2004, the Auditor General estimated that the matching program failed to recover between $200 and $250 million in income taxes.

Despite the concerns expressed by the Auditor General in 1994 and 1997, CRA has still not taken steps to identify taxpayers who have made excessive RRSP contributions, as outlined by the Income Tax Act. In a review of CRA’s 2004/2005 annual report, the Auditor General noted that
“the percentage of taxpayers claiming deductions and credits that they were not entitled to doubled from approximately 5% to 11% between 1997 and 2003.”

Managing Horizontal Initiatives
The Auditor General assessed the role of central government agencies in creating, coordinating, and overseeing three horizontal (cross-jurisdictional) initiatives—the Canadian Biotechnology Strategy, the National Homelessness Initiative, and the Vancouver Agreement. Overall, all three horizontal initiatives suffered from a poor accountability framework, resulting in incomprehensible reports being sent to Parliament. Consequently, corrective action could not be undertaken.

Canadian Heritage—Support to Cultural Industries
The Auditor General noted that agreements between Canadian Heritage and its delivery organizations did not have clearly defined program objectives and performance expectations. Canadian Heritage’s performance reports lacked key data on targets, strategies, required resources, timetables, and commitments—all of which help to ensure that support programs reach their objectives to help, produce, and distribute Canadian content.

The Auditor General is concerned about an inadequate delineation of duties within Canadian Heritage’s agencies. For example, two boards of directors must approve the Equity Investment Program and as a result, two contracts are required to be submitted for a single application for production approval. In turn, approval processes are inefficient since gaining acceptance from both boards with different mandates and divergent concerns is time consuming.

Elections Canada—Administering the Federal Electoral Process
The Auditor General reported that the direct costs of the 2004 election increased by 41.5%, from $150.1 million in 2000, to $212.4 million. For the 2004 election alone, Elections Canada spent $50 million on revision activities to update the information on the preliminary lists of electors. According to the Chief Electoral Officer’s recommendation in a report to Parliament, however, revision costs could be further reduced by half by eliminating unnecessary staffing.

The REVISE system, a computer application that captures revisions to the lists of electors during the election period, was developed for the 2000 general election at a cost of $4.6 million. Subsequent upgrades in 2001 and 2003 amounted to $6.5 million. REVISE’s incompatibility with other systems has posed a number of problems. For example, Elections Canada staff could not upload almost 250,000 records and, as a result, the staff had to review most of these records before updating the National Register—this review process was completed 10 months after the election was over.

Indian and Northern Affairs Canada—Meeting Treaty Land Entitlement Obligations
The Auditor General determined that Indian and Northern Affairs Canada (INAC) has made limited progress in converting Crown lands into reserve status. For example, only 12% of acres selected in Manitoba have been converted since 1994. Since the signing of the Manitoba Framework Agreement in 1997, only 2% of acres selected under the Framework Agreement have been converted to reserve status. In Saskatchewan, 58% of acres selected have been converted to reserve status since 1992. The Auditor General noted that the slow conversion progress is due to deficiencies in the way INAC manages certain requirements, which has entailed significant financial costs. The federal government has committed over $500 million since 1992 to meet obligations in Saskatchewan and Manitoba.

The Canadian International Development Agency (CIDA)
The Auditor General assessed the Canadian International Development Agency’s (CIDA) efforts to deal with the tsunami disaster in Southern Asia. It reported that CIDA was unable to spend its initial tsunami funds before the end of 2004/2005. As a result, to free up funding for the new fiscal year, CIDA spent $69 million intended for tsunami relief on non-tsunami-related activities in the 2004/2005 fiscal year.

2006

Managing Government: Financial Information
The audit examined whether governmental departments have remedied previously identified weaknesses in their internal financial controls. The Auditor General found that progress continued to be unsatisfactory. Many departments continue to use the cash-based method of accounting, which provides incomplete and inaccurate financial information. As in previous audits, no evidence was found that financial statements were being used regularly for decision making or that senior management even reviewed them. The Auditor General duly warned that these weaknesses in financial controls entail future risks of mismanagement.
National Defence—Military Recruiting and Staffing

The audit revealed that recruitment problems persisted at the Department of National Defence (DND). The population today is approximately one-third lower than it was 13 years ago. The Auditor General noted particular concerns with staffing at DND. For example,
- 29 occupations were understaffed by 10% or more, even with planned recruitment and training;
- 24 military occupations had about 940 personnel in excess;
- shortages existed in 17 of the 33 support occupations common to the Navy, Army and the Air Force (about 4% of positions in those 17 occupations are vacant); and
- attrition for medical reasons for non-commissioned members (i.e., those who are not officers) has almost doubled since 2001.

National Defence—Military Retention

DND's retention practices remained questionable. The Auditor General found that early attrition lowers the return on training investment. For example,
- 35% of army combat engineers leave after their fourth year in the military;
- 35% of army electrical and mechanical engineering officers leave the military after seven years of service (it costs about $200,000 to train these engineer officers for the first seven years); and
- about 71% of military physicians leave within ten years of service during which DND has subsidized their education for approximately five years.

National Defence—NATO Flying Training in Canada (NFTC)

This follow-up audit examined a contract involving the Department of National Defence (DND) and Public Works and Government Services Canada (PWGSC) to purchase pilot training over 20 years as part of the NATO Flying Training in Canada (NFTC) program. The original cost of the NFTC program was projected at $2.8 billion; however, with the participation of foreign nations the cost of the contract increased to about $3.4 billion.

Despite concerns raised in a 2002 status report, the Auditor General found an underuse of student pilot training positions. The total value of missed training was $89 million. In one case, DND paid for 654 student pilot training positions but used only about 509 positions, or 78%. This unused training, alone, is estimated at approximately $39 million.

Canadian Firearms Program—CFIS II

The Auditor General noted that the accounting and reporting of the costs for developing the new information system, Canadian Firearm Information System (CFIS) II, was unsatisfactory. In one case, the Department of Justice (DOJ) understated the costs of CFIS II by $21.8 million (as of March 31, 2004). In separate case, DOJ under-reported the Canadian Firearms Centre’s actual spending for 2002-2003 by $39 million.

In addition, the Auditor General reported that cost overruns from delays were due to a decision by senior managers in 2001 to build CFIS II before CFIS I was fully stable and operational, and before the legislative and regulatory changes had been completed. Total development costs for CFIS I were estimated at $94.5 million but swelled to almost $190 million. Similarly, the cost of the new system, CFIS II, was originally estimated at $32 million but is now expected to be at least $87 million. Moreover, annual payments for CFIS II are expected to rise by $15 million due to the remaining development work and delay costs that the project is expected to incur in 2005/2006.

Canadian Firearms Program—Reports to Parliament

The Canadian Firearms Centre’s performance reports do not give Parliament a complete picture of how the licensing and registration activities are performing. The Auditor General is concerned that the Centre does not show how its activities help minimize risks to public safety with evidence-based outcomes such as reduced deaths, injuries, and threats from firearms.

Canadian Firearms Program—Data Quality

Data quality for the Canadian Firearms Centre’s new information system needs to be addressed. The Centre does not validate its information against other federal or provincial databases. As a result, rates of undeliverable mail ranged from 7% for licence renewal notifications to 23% for firearm registration revocation notices. Worse still, the Centre does not know the status of 62% of the firearms that had their registration certificates revoked between July and October 2005.

Canadian Firearms Program—Contract Management

The Canadian Firearms Centre’s contract management practices need improvement. In a sample of 147 contracts, the Auditor General found multiple contracts that were awarded without a proper competitive process. Specifically, the Centre misused contracting tools like the Informatics Professional Services (IPS) Marketplace to justify the retention of services of information technology
contractors through a non-competitive procurement process. Consultant costs increased by 25%, on average, under these arrangements. In a separate case administered by Public Works and Government Services Canada (PWGSC), the Auditor General reported that questionable contracting practices resulted in a contract costing around $700,000 that should have cost about $150,000.

Management of Programs for First Nations
The Auditor General conducted a follow-up audit on the progress of five federal organizations’ implementation of 37 recommendations that were made between 2000 and 2003. Progress on 15 of the recommendations—those that are most important to the lives and well-being of First Nations people—was unsatisfactory. Health Canada, for example, continued to be slow to intervene where inappropriate use of prescription drugs was observed. Moreover, Health Canada was not monitoring the number of prescription-drug-related deaths of First Nations covered by its drug benefits program.

Indian and Northern Affairs Canada (INAC)—Transfer Payments
The audit revealed that half of INAC’s program files did not indicate whether the proposed projects met the transfer payment program’s eligibility criteria as stated by the terms and conditions. With respect to financial management, the Auditor General gave INAC an unsatisfactory rating and pointed out the following deficiencies.

- INAC does not analyze or challenge differences between the amounts originally budgeted and the amounts actually spent. One project had a project management budget of $36,500 but the audited financial statements showed that the costs had risen to $62,198.
- INAC did not require recipients who received more than $100,000 for a project to provide a statement about other sources of proposed funding.
- INAC did not reclaim unspent money from a project within a reasonable time frame, as is required by the Policy on Transfer Payments when funding exceeds actual expenses.

Public Works and Government Services Canada (PWGSC)—Acquisition of Leased Office Space
In an effort to initiate accommodation for the Economic Development Agency of Canada, PWGSC’s non-competitive procurement process and lack of adherence to established guidelines cost taxpayers an additional $4.6 million. In fact, it turned out that some space in the acquired building is still unoccupied.

The Auditor General noted that the government did not always select the most cost-effective alternative to meet the accommodation requirements of its client department. Here are some examples.

- In Hamilton, Ontario, the Treasury Board approved leasing a property for 15 years, the most expensive option. This could cost the Crown an additional $13 million.
- In Calgary, Alberta, PWGSC recommended the second-best option for a building, which was $4.4 million more than the least expensive option.
- In the most recent lease renewal for Centennial Towers in Ottawa, Ontario, PWGSC indicated that the present value of the cost of accommodation was $261 million—this was $81 million more than the most cost-effective alternative that was identified in 2001.
- In the most recent lease renewal for Jean Edmonds Towers in Ottawa, Ontario, the present value of the cost of accommodation was $158 million—this was $12.5 million more than the least-cost option identified in the financial analysis.

Public Works and Government Services Canada (PWGSC)—Managing Information Systems
The Auditor General reported that PWGSC has yet to address weaknesses in its management information systems. One report noted that PWGSC spends about $50 million on information systems annually even though these systems do not provide the information that would enable managers to make well-informed decisions about managing the real property portfolios.

Canada Revenue Agency—Collection of Tax Debts
As of March 31, 2005, the total amount in undisputed tax debt stood at $18 billion, $4.7 billion of which is considered to be doubtful accounts and not collectible. No strategy has been developed to collect the outstanding debts. The Auditor General noted that the allowance for doubtful accounts was at an “unhealthy level”—more than one quarter of total tax debt ($4.7 of $18 billion).

Canada Revenue Agency—Managing Risk
The audit revealed that risk management deficiencies persisted. For example, CRA’s documentation of the automated risk-scoring module has been poor which meant that the Auditor General was unable to determine how the risk scores were calculated and whether the riskiest files are given priority.
Expenditure Management System (EMS)—Government Centre
This audit’s findings were limited since the Treasury Board Secretariat denied the Auditor General access to important documents. Despite this limitation, the Auditor General found that the Expenditure Management System (EMS), a system designed to allocate limited resources, has become less effective since the budget went into surplus. Since 1997, parliamentary approval for spending more than doubled from 4.5% in years of deficits to 10.4% in years of surpluses.

The audit revealed that, from 2004 to 2006, the Treasury Board Secretariat approved around $130 billion in “Direct Program Spending” for which there was insufficient financial and performance information available to perform proper expenditure oversight.

Expenditure Management System (EMS)—Departments and Agencies
The Auditor General examined the role of departments in the Expenditure Management System (EMS) within three representative departments and found significant weaknesses. For example, funding was not adequately aligned with program requirements, which had a negative effect on program delivery.

At Canadian Heritage, for example, alignment problems have affected human resources management in the Tomorrow Starts Today program. Recruitment and retention problems resulted from difficulties in hiring specialized staff on a temporary basis.

Central Expenditure Review—Supplementary Estimates
The Auditor General suggested that the lack of a systematic approach was an underlying cause of the problems with central expenditure reviews, and the increasing proportion of spending items appearing in Supplementary Estimates rather than Main Estimates. In fact, the training material for Secretariat program analysts did not offer instruction as to when they must question whether an item belongs in the Main Estimates. As a result, governmental departments were spending their appropriations before they received Parliamentary approval. The Auditor General remarked, “This course of action undermines parliamentary control over public spending, particularly for Supplementary Estimates.”

Large Information Technology (IT) Projects
The Auditor General was again denied access by the Treasury Board Secretariat to most of the documents needed to complete this audit’s examination. This was the second time in the November Report 2006 that the Secretariat refused to provide the analytical documents it used to advise Treasury Board ministers. The Secretariat cited Cabinet confidence as its reason.

This audit of large information technology (IT) projects revealed that a history of overspending, delays, performance shortfalls, and abandonment after major investments persisted. In 1996, the Auditor General reported that large IT projects often fail because government departments assign part-time project leaders with no training or management experience. The current audit found many of the same problems.

The Auditor General also mentioned the following about large IT projects.
- Agriculture and Agri-food Canada’s “Agconnex,” an attempt to build a fully integrated system for farmers, was an example of a failed IT project. Agconnex was discontinued after the government had already spent $14 million.
- The Secure Channel initiative, administered by Public Works, did not receive firm commitments from departments before the system went into production. As a result, it has operated at less than 50% of its capacity, for a total cost of $196 million, from its starting date in September 2004 to March 2006.
- Citizenship and Immigration Canada (CIC) received budget increases for the Global Case Management System (GCMS) without submitting a revised business case to the Treasury Board. The cost of the GCMS project is now estimated to be $242.8 million—$48 million greater than the original estimate.
- The Treasury Board Secretariat sponsored the Expenditure Management Information System (EMIS) project, which was an example of ineffective project management. It had neither a performance measurement framework with clear reporting timelines, nor a detailed project plan with specific project milestones and deliverables.

Public Safety and Emergency Preparedness Agencies—Support of Proper Conduct
The Auditor General examined key aspects of internal disclosure programs at three agencies: the Royal Canadian Mounted Police (RCMP), Correctional Service Canada, and the Canada Border Services Agency. A survey of over 400 non-management employees revealed that overall employee knowledge about internal disclosure programs is poor. Here are some specific survey results:
- fewer than half the employees were familiar with the values and ethics program in their organization;
less than half of the employees believed that senior management works toward making values and ethics an important part of their organization’s culture;  
employees’ awareness of the internal disclosure programs ranged from less than 27% at Border Services to under 40% at the RCMP;  
only 40% of the employees would be willing to report a colleague’s wrongdoing;  
on average, one third of employees disagreed with the statement that people who report misconduct in the workplace are generally respected;  
fewer than 45% of Border Services employees said they believed their specific organizations would take reports of misconduct seriously and investigate them.

Royal Canadian Mounted Police—Use of Acquisition Credit Cards
The Auditor General cited an internal audit conducted by the Royal Canadian Mounted Police (RCMP) in 2003 on the use of acquisition credit cards. The current audit found similar misuses. For example,

◆ 19% of cardholders used the card for vehicle operating and maintenance expenses, which were not allowed by Treasury Board policy;  
◆ 17% of cardholders made IT purchases, which are prohibited without prior approval by the regional information officer or unless the purchase is made from an approved supplier;  
◆ one individual made personal purchases for car insurance and a gym membership for which the RCMP could provide neither a receipt or contract for the gym membership, nor an adequate explanation for either purchase;  
◆ another individual was found splitting bills for a purchase of cameras and equipment to evade controls;  
◆ 21% of cardholders had not certified that goods and services had been received as is required: documentation was missing or unsigned, and cardholders often verified that goods and services had been received, rather than having another person do this, as the rules require;  
◆ only 25% of RCMP employees had received training in the use of acquisition cards.

Canada Border Services Agency—Use of Acquisition Credit Cards
At the Canada Border Services Agency, the Auditor General found that less than 10% of cardholders in its sample were trained in the use of acquisition credit cards. In addition, the Auditor General found that 25% of cardholders had purchased software or computer hardware, and an additional 19% of cardholders had purchased vehicle maintenance or repair services. Both types of purchases were not allowed by Treasury Board policy.

The audit of Border Services revealed that other regulations had not been followed. For example,

◆ 98% of cardholders did not obtain three price quotes for purchases over $500, as was required;  
◆ 17% of cardholders made purchases over the $5,000 transaction limit specified; in some cases, cardholders split one transaction into two bills to evade controls; and,  
◆ one individual made 61 questionable transactions (payments for home electricity bills, fuel and gasoline purchases, pharmacy bills, and a home alarm system) on an acquisition card that has since been cancelled.

Correctional Service Canada—Use of Acquisition Credit Cards
The audit of the use of acquisition credit cards at Correctional Service Canada revealed that about one third of the cardholders had delinquency charges on their accounts for not making payment in a timely manner. Thirty-five percent of cardholders did not review or sign-off for one or more transactions.

Correctional Service allows cardholders to sign on their own behalf that goods and services have been received. In one case, the Auditor General found that an inmate had signed for a purchase. Correctional Service Officials said this happened because the inmate was mistakenly given the credit card slip to sign as an acknowledgement of the receipt of goods. The Auditor General remarked that “[t]hese are obvious failures to separate duties, which are control weaknesses.”

Public Safety and Emergency Preparedness Agencies—Contracting
The Auditor General reviewed contract administration for three agencies within the Public Safety ministry. At the RCMP, 24% of contracts reviewed had compliance problems. For example,

◆ in two sole-source contracts, an adequate reason for circumventing the competitive process was lacking;  
◆ in five sole-source contracts, a proposal from the vendor identifying time goals, deliverables, and cost was lacking; and  
◆ in seven contracts, goods or services were delivered before the contract or its amendment was in place.  
At Border Services, 34% of contracts examined had compliance problems. In a particular file, the audit revealed that three individuals from the same firm were the
only ones considered, although 13 other consultants had been identified. The selected consultants included the individual with the highest cost, a daily rate of $610, while the individual with the lowest rate of $450 was not invited to bid. Files were missing documentation that would indicate why certain firms were eliminated or that would indicate that requests for proposals had actually been sent to more than one firm.

At Correctional Service, the Auditor General found many of the same difficulties as the other two agencies. The most significant problem was misuse of sole-source contracting. Twenty percent of the contracts reviewed, which had been awarded on a sole-source basis, did not meet criteria for exemption from competition. Overall, 42% of contracts at Correctional Service had problems with compliance.

Royal Canadian Mounted Police and Public Works—Contract Management
The Auditor General examined the Integrated Relocation Program that was launched to provide a full range of relocation services to members of the Canadian Forces and Royal Canadian Mounted Police (RCMP), and other federal employees.

The Auditor General noted a wide gap between actual business volumes in the program and the volumes set out in the request for proposal (RFP). In particular, the RFP incorrectly stated the proportion of RCMP and Government of Canada relocations using property management services. As a result, the government may have paid more than it needed to for the administrative services of a professional relocation company.

In addition, there were concerns with Public Works’ overseeing function. The Auditor General reported that the tendering process did not adhere to the government policy requirement for fair and transparent competitive tendering. Warning signs that fairness of the procurement process had been compromised were mentioned in previous audits but were not acted on.

The audit also found that departments were not tracking, monitoring, and analyzing the performance of contractors in delivering and administering the program. For example, Canadian Forces has not been completing the necessary review and verification work. As a result, a backlog of about 36,250 account files need to be reconciled. Moreover, ten Canadian Forces members had paid an amount for property management services that exceeded the contractual rate by between $800 and just over $8,000.

Old Age Security—Applications
The Auditor General examined Human Resources and Social Development Canada’s (HRSDC) management of Old Age Security (OAS) payments. The audit found that HRSDC does not have a nationally standardized quality-review procedure for OAS program-benefit applications. Because the approaches to quality review vary by region, they do not allow comparison across regions or from one period to another.

In testing a representative national sample of 400 applications for OAS program benefits, the audit revealed common quality deficiencies. For instance, there was insufficient evidence on file to indicate whether certain types of income had been verified. In addition, applications were processed with inadequate supporting documentation.

Old Age Security—Processing Centres
The Auditor General’s assessment of three processing centres revealed quality deficiencies ranging up to 40% of cases. It showed that deficiencies had led to payment errors in up to 7% of cases.

An examination of 163 accounts listed in reports previously reviewed by service delivery agents found that in 10% of the cases the action taken was incomplete or incorrect, resulting in payment errors in seven accounts. In another 10% of the cases, the follow-up had not been completed within the subsequent month.

Old Age Security—Overpayments
The Auditor General noted that the information required for the appropriate analysis of overpayments is not available. As a result, overpayments cannot be managed adequately. As of March 2005, the amount outstanding in overpayments of Old Age Security (OAS) benefits was about $82 million. This represents overpayments that Human Resources and Social Development Canada (HRSDC) had not yet recovered, written off, or forgiven.

The Auditor General also found that the systems and procedures for recording and collecting overpayments were inadequate. These deficiencies were initially reported in a 1993 audit but, despite recommendations, overpayments persisted. The current audit revealed that overpayments have remained outstanding for longer periods. From March 2003 to March 2005, the proportion of overpayments older than five years increased from 14% to 21% of total outstanding overpayments. The Auditor General remarked that “[a]n increase in older overpayments is of particular concern since they are harder to collect.”
Indian and Northern Affairs Canada—
British Columbia Treaty Process
The Auditor General investigated the progress made in the British Columbia (BC) treaty process. From 1993 to 2006, the federal government has spent about $426 million on BC treaty negotiations, and BC First Nations have borrowed close to $300 million for the same purpose.

The audit revealed that, as of 2006, no treaties have been signed under the BC treaty process and Indian and Northern Affairs Canada (INAC) does not have the management systems in place to estimate how much time and what resources will be needed to complete current negotiations. Two of the agreements reviewed have already taken twice as long as their initial estimates and are over a year behind their original target dates for concluding a final agreement.

Health Canada—Allocating Funds to Regulatory Programs
The Auditor General analyzed how Health Canada allocates resources to its regulatory programs. The audit reported that Health Canada did not track or monitor resource requirements, sources of funding, or performance targets to fulfill its resource allocation responsibilities. In fact, program managers indicated that their inability to carry out these responsibilities could have consequences for the health and safety of Canadians, such as exposure to hazardous products.

The Auditor General found that funding by Cabinet and Treasury Board for special initiatives was not spent for the purposes intended. For example, in 2003/2004, 12% of the $20.5 million that the Drug Products and Medical Devices programs received for special initiatives was transferred to other programs. Similarly, in 2004/2005, 6% of the $10.3 million that the Product Safety program received for special initiatives was transferred to other programs.

The audit also reported that full program costs are not being recovered as required by the Financial Administration Act. For example, the full program cost for medical devices is $21.8 million but Health Canada only recovered $7.4 million (34%).

Royal Canadian Mounted Police—Pension and Insurance Administration
The Auditor General reviewed the Royal Canadian Mounted Police’s (RCMP) pension and insurance administration, and reported findings of an internal audit that found non-compliant staffing activities, improper contracting processes, and significant financial waste. The Auditor General cited a subsequent independent criminal investigation by the Ottawa Police Service (OPS) that identified several problems involving abuse of the RCMP’s pension and insurance plans, nepotism, wasteful spending, and instances of management overriding controls.

Some of the most significant findings of the RCMP’s internal audit and the OPS investigation included the following.
◆ Normal staffing processes were ignored. In fact, over three quarters of the staff hired to work on correcting data in the pension database were friends or relatives of incumbent employees. Most were hired at higher than normal rates of pay.
◆ Consulting contracts, valued at over $20 million, were established without competition and circumvented controls designed to ensure fairness, equity, and the lowest price. The Auditor General noted that these breakdowns in control led to unnecessary or wasteful expenditures being charged to the pension plan.
◆ The Auditor General estimated that the RCMP charged $1.3 million to the pension and insurance plans for work of little value. A portion ($270,000) was eventually reimbursed.
◆ Over $3.1 million was inappropriately charged to the pension plan to pay for RCMP human resource projects that should have been paid for by RCMP appropriations funding. Although this amount was eventually reimbursed, it had the effect of relieving budget pressure on managers responsible for these projects.

The Auditor General also examined whether the criminal investigation between the RCMP and the OPS was structured to avoid undue RCMP direction or bias. The audit revealed that there was significant RCMP involvement in the OPS investigation. Actually, one member of the RCMP described it as an RCMP investigation conducted with OPS assistance.

Royal Canadian Mounted Police—Pension Plan Outsourcing
The Auditor General determined that the RCMP’s internal reviews of pension outsourcing and cost estimates were inadequate. In one case, the RCMP persuaded the insurance carrier to subcontract work to a second firm. As a result, there was no competition for a $4.6 million contract.

The audit also found inconsistencies in the estimated outsourcing costs for pension plan administration. In the original information provided to the Treasury Board Secretariat, the expected costs were estimated to be $2.8 million for both 2002/03 and 2003/04. Subsequently, the
RCMP increased its estimates to $5.9 million and $8.1 million, respectively.

The Auditor General concluded that problems went beyond underestimating the costs of outsourcing. Forecasts for the RCMP’s ongoing administration and other pension projects were also underestimated as they omitted significant projects. For example, revised estimates for 2002/2003 were $10.6 million, more than four times the original $2.4 million estimate.

**Public Works—Award of a Health Benefits Contract**
The audit examined the award of a health-benefits contract by Public Works and Government Services Canada (PWGSC) and Health Canada. The contract, initially valued at $74.9 million over nine years but later ballooned to $161.4 million, provided claim processing services for the Non-Insured Health Benefits (NIHB) program. The Auditor General concluded that since none of the bidders met the requirement of financial stability, PWGSC should not have awarded the contract. Moreover, Health Canada and PWGSC did not implement important terms and conditions of the contract. As a result, Health Canada paid the contractor $4 million in unnecessary fees between 1999 and 2004.

**Health Canada—Management of a Health Benefits Contract**
The Auditor General found that Health Canada did not comply with requirements under sections 33 and 34 of the Financial Administration Act for its management duties from 1998 until January 2006. For example,

- Health Canada did not have authorization to make payments out of the Consolidated Revenue Fund that amounted to about $2.6 billion as of January 2006;
- Health Canada did not track commitments and expenditures on a multi-year basis, which resulted in payments that exceeded the value of the contract by $24 million; and
- Health Canada certified 22 invoices, at a total value of $5.5 million, that had no documentation to support the volume of claims processed.

**Office of the Correctional Investigator—Protection of Public Assets**
The Auditor General examined whether the Office of the Correctional Investigator (OCI) complied with the Financial Administration Act and managed public assets with prudence and integrity. The audit determined that the former Correctional Investigator committed serious abuses and wrongdoings, some for substantial personal benefit. Improper and questionable payments totalled $325,000 for the audit period from April 1998 to March 2004. Here are some examples of the former Correctional Investigator’s inappropriate conduct.

- There was no justification for consistent absence from the OCI business premises during business days without being engaged in OCI business. In fact, over the six-year audit period, the Auditor General documented 319 business days when the former Correctional Investigator was absent from the OCI premises.
- Annual leave was improperly cashed out for 157 days during the audit period. From 1990 to 1998, the former Correctional Investigator cashed out improper annual leave that amounted to about $127,000.
- The former Correctional Investigator claimed travel expenses for 12 personal trips totalling $7,000 during the audit period.
- The former Correctional Investigator was reimbursed $5,000 of ineligible expenses for entertaining relatives, friends, and acquaintances.
- Computer equipment was purchased for family members. One system cost about $5,000 and exceeded OCI specifications. Four months later, another $3,000 system was purchased and taken to the former Correctional Investigator’s Ottawa residence.
- Taxable benefits for the personal use of an employer-supplied vehicle during the six-year audit period were understated by at least $28,000.

Notwithstanding his frequent absences from OCI work premises and lack of work product, the former Correctional Investigator received about $41,000 in performance awards over the audit period. Worse still, the Executive Director of the OCI was aware of the former Correctional Investigator’s poor conduct but took no action.

**Office of the Correctional Investigator—Human Resources**
The Auditor General concluded that human resources at the Office of the Correctional Investigator (OCI) were poorly managed. Management practices did not comply with Treasury Board policies and practices or meet the Public Service Commission’s staffing values.

In addition, the Auditor General found that the OCI authorized improper payments. In three consecutive years, when a surplus from OCI appropriations was available, a payment was authorized to all full-time, non-management employees. Marked as overtime payments, the OCI improperly paid out to employees a total of more than $260,000 over the three-year period.
The previous section summarized reports by the Auditor General that identified problems with programs and services delivered by the federal government. That overview revealed government failure in Canada to be systemic and, in many cases, costly. This section, new to the third edition of the report, calculates an estimate of the cost of government failure based on information provided by the Auditor General between 1992 and 2006.

Given the nature and style of the reports of the Auditor General, we employed three methods to calculate the costs of government failure. Each method is described below with examples. Additional and more specific details as well as references are available in the appendices.

### Method One—Costs Reported by the Auditor General

The first method used to assess the cost of government failure is relatively straightforward. It uses specific cost estimates provided in the reports of the Auditor General. These cases are summarized in Appendix A.

For example, a 2002 report by the Auditor General investigating satellite communications in the Department of National Defence (DND) concluded that it had taken 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 meet existing needs and required fewer staff to operate. In addition, the new military satellite communications system would require an extra $15 million to meet current operational standards. The system remains in storage. The cost of failure in this example is the $174 million spent on the satellite communications system.

A second example is from a 2005 report of the Auditor General focusing on the federal government’s emergency preparedness in the wake of the 2001 Anti-Terrorism Initiative. The Auditor General concluded that the Department of National Defence (DND) had attempted to implement a High Frequency Surface Wave Radar System (HFSWR) that was originally estimated to cost $43.1 million but which had escalated to a full cost of $220.0 million. In addition, and equally as worrying, the HFSWR could only perform to stated expectations during daylight and calm weather. The cost of failure for this project was $220 million based on the failure of the project to meet its stated goals.

Cases where the Auditor General provided a specific estimate of the cost of failure were almost half of the cases reviewed in this study: 46.9% (143 cases) of the total 305 cases reviewed. The total cost associated with these types of cases was between $28.2 billion and $28.7 billion over the period from 1992 to 2006 (Appendix A).

### Method Two—Costs Estimated from Information Reported by the Auditor General

The second method employed to calculate the cost of government failure entailed using information contained in the Auditor General’s reports combined with information from other statistical sources. This method was used when the Auditor General’s analysis did not give a specific loss but did provide sufficient information for a reasonable estimate of the loss to be calculated.

For example, in 1994, the Auditor General reviewed Foreign Affairs and concluded that the cost of embassy properties was over-estimated by $2.4 billion, which resulted in a 30% overcharge on passport fees. Passport fees are in part calculated based on the cost of embassies. A calculation was undertaken using the Public Accounts of Canada, which indicated that $50 million was spent in 1997 on passports. A 30% overcharge based on the $50 million provided in the Public Accounts resulted in a cost...
estimate of $15 million. In other words, the miscalculation identified by the Auditor General resulted in a cost of failure of $15 million.

A second example of this method of calculating the cost of government failure, and one that includes more than one year, is the review of Health Care for Veterans by the Auditor General in 1996. The Auditor General concluded that the Department had not been cost-effective when negotiating rates with health-care facilities and estimated that it could save $7 million annually and improve the quality of care by implementing improved controls. This represented 0.36% of departmental spending. Since no changes were undertaken or implemented, the 0.36% was applied to spending in the future to arrive at an estimated total cost of failure in this program of $89.4 million.

There were 43 cases (14.1% of total) in which sufficient information was provided by the Auditor General to allow for a reasonable calculation of the potential costs of government failure. Readers will note that in many cases the loss estimate is presented as a range. The total estimated cost of these types of failures is between $71.0 billion and $74.7 billion. There were, however, six cases related to Social Insurance Numbers (SIN) for which a third method of calculating the cost of government failure was used. In order to avoid double-counting, these six cases were excluded from calculations using method two, resulting in an overall cost of government failure associated with method two of between $66.9 billion and $69.1 billion over the period from 1992 to 2006. Further information and references are provided in Appendix B.

Method Three—Problems with Programs Linked to the Social Insurance Number

The third method is used to calculate losses associated with programs linked to the Social Insurance Number (SIN). As demonstrated in an earlier study, Mismanagement of Canadians’ Social Insurance Numbers, there are serious and on-going challenges to the country’s SIN system, which underpins many, if not most, income support programs. This section summarizes the earlier study and provides a conservative estimate of the potential losses (cost) associated with problems in the SIN system.

The Social Insurance Number (SIN) system has become an integral part of many transactions in Canada, whether with the federal government for programs like the Canada Pension Plan (CPP) or Employment Insurance (EI), or with provincial governments for programs such as welfare, or even with the private sector, which uses SINs for identification (Clemens et al., 2007: table 1). In 2005/06, the SIN underpinned some $117.9 billion in government spending, representing nearly one fifth of all government expenditures in Canada last year.

Management of the SIN

Given the number of government programs that rely on the SIN system, and the amount of money disbursed through these programs, the management of the SIN system is critical. Unfortunately, the Auditor General has now four times criticized the federal government for its management of the SIN system.5

Auditor General’s 1998 Report

The first review of the SIN system by the Auditor General was in 1998. The report raised a number of serious concerns regarding gaps between the number of living SIN holders in the Social Insurance Registry (SIR) and the actual number of Canadians. For example, the report noted that, for the population over 20 years of age, there were 3.8 million more SINs in 1998 than there were persons (Auditor General, 1998: s16.30). The Auditor General also noted that there were 311,000 people over the age of 100 years according to the SIR compared to the actual number of roughly 3,000 according to Statistics Canada’s census data. The report noted a number of possible explanations including errors as a result of people who had left the country, deaths that had not been reported to HRDC, and fraud

5 There are multiple departments responsible for the SIN system, which in part may explain the ongoing problems. The Auditor General summarized the management and administration of the SIN in the 2002 report as follows: “The Canada Employment Insurance Commission is named in the Act and Regulations as the body responsible for SIN administration. On behalf of the Commission, Human Resources Development Canada (HRDC) issues SINs and maintains the Social Insurance Registry, which holds all relevant information on SIN applicants. The Treasury Board is responsible for the SIN policy, and the Treasury Board Secretariat is responsible for developing guidelines that govern how federal departments collect and use the SIN (Auditor General, 2002: 3).
The conclusion of the Auditor General’s analysis was that unreported deaths was one of the main factors in explaining the gap. The report noted that between 1965 and 1990, “only 1 million deaths were registered in the SIN database, far below the 4.4 million deaths in the Canadian population” (AG, 1998: s16.30). The report noted that “between 1965 and 1990, ‘only 1 million deaths were registered in the SIN database, far below the 4.4 million deaths in the Canadian population’” (AG, 1998: s16.30).

The Auditor General also concluded that some 16.8 million SIN entries, representing roughly 51% of SINs issued, had not been supported with identification documents (AG, 1998: s16.36). After accounting for records that were cancelled, voided, or validated by other program records, the number of uncertified records in the Social Insurance Registry stood at 11.8 million. The report noted that this level of uncertified records created the potential for “error, misuse, and abuse” (AG, 1998: s16.36).

Auditor General’s 2002 Report

Four years later and after an interim review of the SIN system in 2000, the Auditor General again undertook a thorough review of the SIN system in 2002 and concluded that “little change” had occurred since the 1998 review, which highlighted a number of serious problems. Indeed, in three of the four areas examined and compared to 1998 it was determined that “limited progress” had been made in dealing with the issues and problems identified in the 1998 report.

The report noted that HRDC had made some progress in a number of areas identified as deficient in the 1998 audit. For example, it was able to classify as dormant and thus explain 3.2 million SINs through cross-checks and obtaining data from Canada Customs and Revenue Agency for tax returns between 1993 and 1997. The audit report also noted that HRDC was now routinely undertaking investigations of SIN-related transactions in dormant accounts. The audit report, however, revealed that the gap between the number of SIN holders in the Social Insurance Registry (SIR) and population figures from Statistics Canada persisted. Table 1 summarizes the difference between the two series. In all, there are a little over 5.0 million more usable SINs than Statistics Canada calculated there are people. The Auditor General noted that even after accounting for dormant or inactive SINs, the discrepancy still stands at some 2.4 million SINs (AG, 2002: s1.71).

The report indicated that there were still over 8.3 million usable SINs that have not been verified against personal identification and documentation. In addition, the Auditor General determined that the majority of SINs issued since 1998 were not properly verified with the applicant’s identity and citizenship status.

The report ends with a rather clear statement of failure: “We began our audit expecting to find that the issues we raised in 1998 had been substantially addressed. Instead, we have concluded that HRDC has not done enough to safeguard and strengthen the integrity of the SIN” (AG, 2002: s1.87).

Auditor General’s 2007 Status Report

In 2007, the Auditor General completed a status report on the SIN system. Overall, the Auditor General concluded that progress on previously identified problems was “unsatisfactory” due mainly to the fact that two outstanding issues of concern had not been resolved (AG, 2007: 2). Progress on the Social insurance Registry (SIR), which contains the basic personal information used for the SIN, was unsatisfactory and no goals have been established for its accuracy, completeness, or reliability. In addition, policies governing the use of the SIN were still not clear.

While the Auditor General concluded that overall progress was not satisfactory, there were a number of areas where noted improvements were made. For example, the Auditor General outlined a number of improvements achieved, such as streamlining proof of identity, upgrading the process for validating documents, decreasing the number of usable SINs in excess of the population, and enhancing data quality.

<table>
<thead>
<tr>
<th>Age</th>
<th>Usable SINs in the SIR</th>
<th>Population based on census</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>20–29</td>
<td>4,378,563</td>
<td>3,854,010</td>
<td>524,553</td>
</tr>
<tr>
<td>30–39</td>
<td>5,390,632</td>
<td>4,619,595</td>
<td>771,037</td>
</tr>
<tr>
<td>40–49</td>
<td>5,838,149</td>
<td>4,912,295</td>
<td>925,854</td>
</tr>
<tr>
<td>50–59</td>
<td>4,656,062</td>
<td>3,679,995</td>
<td>976,067</td>
</tr>
<tr>
<td>60–69</td>
<td>2,899,245</td>
<td>2,407,405</td>
<td>491,840</td>
</tr>
<tr>
<td>70–79</td>
<td>2,153,021</td>
<td>1,822,880</td>
<td>330,141</td>
</tr>
<tr>
<td>80–89</td>
<td>1,102,428</td>
<td>797,925</td>
<td>304,503</td>
</tr>
<tr>
<td>90+</td>
<td>829,687</td>
<td>134,120</td>
<td>695,567</td>
</tr>
<tr>
<td>Total</td>
<td>27,247,787</td>
<td>22,228,225</td>
<td>5,019,562</td>
</tr>
</tbody>
</table>


The report did not improve in the data on deceased SIN holders between 1991 and 1997 as HRDC collected more information from sources such as the CPP and Revenue Canada. However, the Auditor General concluded that “the collection of death data still needs to be improved” (AG, 1998: s16.32). The need for improvement was based on the continuing large gaps between the SIR data and Statistics Canada’s data on population by age.
The issue of excess SINs is critically important for calculating the potential losses from the government’s mismanagement of SINs. The Auditor General noted improvements in this area although warned that “monitoring” was required (AG, 2007: s7.67). The Auditor General specifically stated that the number of usable SINs that exceeded the Canadian population aged 30 years or older was about 2.9 million in 2006, a significant reduction from the 5 million or so estimated in 2002. The Auditor General attributed much of the problem to out-of-date data. Some 2.1 million of the 2.9 million usable SINs were identified as dormant, leaving roughly 800,000 SINs as usable and non-dormant. There has clearly been an improvement by the federal government in the number of SINs relative to the population although the Auditor General noted in the 2007 report that the “Department has not adequately assessed the risks posed by the excess number of usable SINs, including those marked dormant and those that are not, since 2004” (AG, 2007: s6.62). Similarly, there was a decline in the number of uncertified SINs from 8 million in 2002 to 6.4 million in 2006 (AG, 2007: s6.63). However, the Auditor General urged continued effort and the need for further improvements.

While there has been improvement in reducing both the number of SINs relative to the population and the level of uncertified SINs, the Auditor General recommended additional efforts to improve further and stated overall that progress has been unsatisfactory.

Case Studies in the Cost of SIN Failure
The Auditor General has completed a number of program reviews linked to the SIN. These program-specific audits indicate a potential for fraud and inappropriate payments. It must be stressed that the case studies presented illustrate only a small portion of the total programs that are exposed to potential fraud, mis-payments, and wasted resources because the reviews generally only examined portions of the underlying programs. Below are summaries of some of these audits with a loss estimate (if available) from Clemens et al., 2007. For further information on these program evaluations, please see Clemens et al. 2007 or the underlying report by the Auditor General.

Canada Pension Plan Disability Program
In a 1992 audit of the Canada Pension Plan Disability Program, the Auditor General determined that despite having good evidence that large amounts of money were being paid to ineligible beneficiaries, the Department of National Health and Welfare did not improve its process of reassessment for Canada Pension Plan Disability benefits (for those aged less than 65 years). The Department’s estimate of annual overpayment for nearly 224,000 beneficiaries was $65.0 million. This represents losses of roughly 3.6% on program spending of $1.8 billion. A subsequent 1996 audit of this program found that between 1986/1987 and 1995/1996, the number of CPP Disability beneficiaries grew by 93.0% (155,000 to almost 300,000), while the labour force grew by only 11.9%. In addition, the audit revealed that the number of Quebec Pension Plan (QPP) beneficiaries remained relatively stable.

During this time, however, the amount paid out by CPP Disability benefits more than tripled, from $841.0 million to close to $3.0 billion. The audit noted that the Department launched its own investigation after repeated questions from the Chief Actuary regarding the causes of the large increases in program spending. However, the review contained no quantifiable estimates and very little information regarding the factors responsible for the increase.

Official estimates of overpayments for 1994, which are separate and distinct from the concerns raised by the Chief Actuary, were $14.0 million but additional review indicated that the actual overpayments were between $21.0 and $38.0 million. This represents between 0.7% and 1.3% of total CPP disability spending for 1994. This is an improvement from the previous estimate of potential overpayments calculated in 1992. Unfortunately, a follow-up audit of the program published in November 1999 indicated large mis-payments, which included overpayments. The Department estimated that mis-payments (including overpayments) for 1996 totalled $60.0 million, 2.0% of program spending in 1995/1996.

Programs for Seniors
Based on information provided by the Department of National Health and Welfare, the Auditor General estimated that overpayments in the Old Age Security and Canada Pension Plan programs totalled at least $70.0 million and possibly reached as high as $108.0 million. This is in addition to the overpayments identified in the Guaranteed Income Supplement (GIS) benefit which totalled $40.0 million. All told, the overpayments for these income support programs for seniors ranged from $110.0 million representing 0.37% of affected program spending to $148.0 million, representing 0.50% of affected program spending.

Income Support Tax Credits
In September of 1996, the Auditor General examined HRDC and Revenue Canada’s management of the Child Tax Benefits and GST Credit programs. The Auditor General reported that between 6,000 and 34,000 chil-
dren (born in 1993) had been improperly included on the 1994/1995 Child Tax Benefit roll. As a result, improper payments were in the range of $5.9 million to $31.6 million and increased each year as the children grew older because there was no process in place to confirm eligibility for benefits. The Department’s own estimate as of March 31, 1996 for overpayments since inception totalled $69.0 million.

While the Department did not produce similar estimates for the GST Credit program, the Auditor General found that the increase in total GST credits outpaced the growth in the number of recipients between 1992/1993 to 1994/1995 by 50%. Specifically, the number of total recipients grew by 8.0% while the benefits paid increased by 12.0% ($2.5 billion to $2.8 billion). At the request of the Auditor General, the Department estimated that overpayments amounted to $19.8 million for the 1994/1995 benefit year. In total, the overpayments ranged from $25.7 million (0.32%) to $51.4 million (0.63%).

The Auditor General followed up on the audit of the Canada Child Tax Benefit (formerly the Child Tax Benefit) and GST Credit programs in 2001. While some improvements had been made, there were several significant problems that still remained, including estimates of overpayments that were higher than those originally calculated. For example, the Department originally indicated that outstanding overpayments were $69.0 million in 1996. The outstanding CTB over-payment (receivables) was actually closer to $122.0 million.

Employment Insurance

In December 2000, the Auditor General conducted a limited review of the Unemployment Insurance system. 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. Unfortunately, no financial estimates of abuse and/or fraud were provided for this program, whose spending is expected to reach $14.6 billion in 2006/2007.

Heating Expense Relief Program

The Auditor General reviewed the Heating Expense Relief program in 2001. The report determined that the heating-expense relief payments, which were distributed through the GST Credit program were poorly targeted. The relief was designed to provide payments (ranging from $125 for individuals to $250 for families) to help pay heating expenses. The program was supposed to be targeted at households with low and modest incomes that faced immediate increases in heating expenses. However, the Auditor General determined that the delivery of the relief, which amounted to $1.5 billion distributed to 7.6 million households, went mostly to Canadians not in immediate need. Specifically, the Auditor General found that:
- 1 million households could have received more than one payment;
- approximately 600,000 Canadians with low or modest incomes did not qualify for the program because of their previous year’s income—90,000 of these people required immediate assistance to help with increased heating costs;
- 4,000 Canadians not living in Canada received payment;
- 1,600 inmates and 7,500 deceased people also received payment.

In total, the Auditor General concluded that only $250.0 million to $350.0 million of the program’s payments went directly to those in immediate need. The implication of this is that some $1.1 billion to $1.21 billion was misallocated and poorly used.

Social Insurance Number

Finally, and perhaps most interestingly, the Auditor General reviewed the government’s use of the SIN as a common identifier in a 1998 Report. That report is especially important because it revealed sources of loss associated with the SIN. For example, the Auditor General noted that overpayments for employment insurance (EI) claims were estimated to be $102.0 million in 1996/1997, roughly 0.83% of program spending. In addition, the report noted that investigations into fraudulent use of SINs resulted in the identification of GST Credit overpayments (as high as $8.2 million) or roughly 0.29% of program spending. Moreover, in the last five years leading up to the audit, Revenue Canada made 1,132 corrections to tax records, which represented income tax errors of $36.0 million.

Potential Program Losses Due to SIN Mismanagement

There is a significant number of useable and non-dormant SINs in Canada in excess of the actual population. The Auditor General has repeatedly raised concerns about both the management of SINs and overpayments and potential fraud in a number of programs, such as the Canada...
Pension Plan (CPP), Old Age Security (OAS), and Employment Insurance (EI), that rely on the SIN. These concerns are particularly urgent given the resources distributed through various programs using the SIN. In 2005/2006, the latest year for which data is available, nearly one fifth of all government spending, amounting to nearly $118 billion, relied on SINs. The purpose of this section is to provide a reasonable estimate of the potential losses emanating from mismanagement of the SIN system as noted by the Auditor General.

**Calculation**

Reviewing the case studies completed by the Auditor General presented previously results in a range of potential losses between 0.32% and 2.0%. These estimates are taken from the GST Tax Credit review and the CPP Disability benefits review (1999), respectively. Applying this range of potential losses to the underlying spending based on the SIN system results in overall losses over the time period between 1992 and 2006 of between $4,727.2 million and $29,545.2 million (table 2).

Note that the much higher percentage-loss estimate from the Heating Expense Relief program was excluded.

This estimate of potential losses is incomplete, however, because it does not reflect improvements in the SIN system as noted by the Auditor General. For example, the Auditor General has noted that the number of SINs in excess of the population has declined from roughly 3.8 million to 2.9 million (AG 1998 and 2007). In addition, the number of uncertified SINs has declined from 16.8 million in 1998 to 6.2 million in 2007 (AG 1998 and 2007). An adjustment series was created to reflect these improvements and accordingly lowers the estimates of potential loss (table 2, column 5). The adjusted potential losses from SIN-related problems between 1992 and 2006 amount to between $4.3 billion to $26.8 billion, depending on which loss estimate is used.

**Fraud Excluded from Estimate**

It should be noted that this loss estimate is conservative. First, it relies on the estimates calculated by the Auditor General, which are almost exclusively estimates of over-

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**Table 2: Potential Losses from SIN-Related Programs, 1992–2006 (millions of nominal dollars)**

<table>
<thead>
<tr>
<th>SIN-Related Spending</th>
<th>Loss Estimate @ 0.32%</th>
<th>Loss Estimate @ 2.00%</th>
<th>Adjustment Series</th>
<th>Adjusted Loss Estimate @ 0.32%</th>
<th>Adjusted Loss Estimate @ 2.00%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>86,629</td>
<td>277.2</td>
<td>1,732.6</td>
<td>1.000</td>
<td>277.2</td>
</tr>
<tr>
<td>1993</td>
<td>89,750</td>
<td>287.2</td>
<td>1,795.0</td>
<td>1.000</td>
<td>287.2</td>
</tr>
<tr>
<td>1994</td>
<td>87,519</td>
<td>280.1</td>
<td>1,750.4</td>
<td>1.000</td>
<td>280.1</td>
</tr>
<tr>
<td>1995</td>
<td>87,492</td>
<td>280.0</td>
<td>1,749.8</td>
<td>1.000</td>
<td>280.0</td>
</tr>
<tr>
<td>1996</td>
<td>88,992</td>
<td>284.8</td>
<td>1,779.8</td>
<td>1.000</td>
<td>284.8</td>
</tr>
<tr>
<td>1997</td>
<td>89,791</td>
<td>287.3</td>
<td>1,795.8</td>
<td>1.000</td>
<td>287.3</td>
</tr>
<tr>
<td>1998</td>
<td>91,943</td>
<td>294.2</td>
<td>1,838.9</td>
<td>0.978</td>
<td>287.6</td>
</tr>
<tr>
<td>1999</td>
<td>92,351</td>
<td>295.5</td>
<td>1,847.0</td>
<td>0.955</td>
<td>282.3</td>
</tr>
<tr>
<td>2000</td>
<td>96,485</td>
<td>308.8</td>
<td>1,929.7</td>
<td>0.933</td>
<td>288.0</td>
</tr>
<tr>
<td>2001</td>
<td>101,263</td>
<td>324.0</td>
<td>2,025.3</td>
<td>0.910</td>
<td>295.0</td>
</tr>
<tr>
<td>2002</td>
<td>104,826</td>
<td>335.4</td>
<td>2,096.5</td>
<td>0.932</td>
<td>312.8</td>
</tr>
<tr>
<td>2003</td>
<td>108,325</td>
<td>346.6</td>
<td>2,166.5</td>
<td>0.865</td>
<td>299.8</td>
</tr>
<tr>
<td>2004</td>
<td>112,493</td>
<td>360.0</td>
<td>2,249.9</td>
<td>0.797</td>
<td>287.1</td>
</tr>
<tr>
<td>2005</td>
<td>117,932</td>
<td>377.4</td>
<td>2,358.6</td>
<td>0.730</td>
<td>275.4</td>
</tr>
<tr>
<td>2006*</td>
<td>121,470</td>
<td>388.7</td>
<td>2,429.4</td>
<td>0.662</td>
<td>257.3</td>
</tr>
<tr>
<td>Total</td>
<td>1,477,261</td>
<td>4,727.2</td>
<td>29,545.2</td>
<td>4,281.9</td>
<td>26,762.1</td>
</tr>
</tbody>
</table>

Note*: SIN-related spending for 2006 was estimated using a 3.0% growth rate applied to the actual 2005 spending; 3.0% was the average annual growth rate for SIN-related spending for the previous 10 years.

Sources: Office of the Auditor General, 2007: s6.61, s6.63; Office of the Auditor General, 2002: exhibit 1.4, s1.73; Office of the Auditor General, 1998: exhibit 16.3, s16.36; Statistics Canada, Public Institutions Division (various issues); calculations by the authors.
payments that do not include estimates of losses due to fraud. Indeed, the Auditor General notes in several reports the possibility for serious fraud but does not estimate a cost. Thus, potential losses from fraud would serve to increase the cost estimates of SIN-related losses.

**Failures Not Included in the Cost Estimate**

There are also many problems observed and documented by the Auditor General that were not included in any of our cost estimates due to a lack of information. In other words, there was no reasonable method by which to calculate a loss estimate based on the information provided by the Auditor General. Appendix C summarizes these cases, which are included in the case summaries section but not included in the estimates of the cost of government failure. The omission of these problems means that the overall total estimate for the cost of government failure is an underestimate.

An example of a government failure observed by the Auditor General that was not included in the estimates of the cost of government failure is a 1994 review of the Solicitor General, specifically, of the custody of federal inmates. The Auditor General concluded that the number of escapes from minimum-security prisons had risen by 80% between 1988/1989 and 1993/1994. In addition, between April 1992 and March 1994, 28 of the 390 escapees committed serious offences while at large. There are obvious costs associated with this failure, including those for the apprehension of the escaped prisoners and for the crimes committed while they were free as well as costs associated with punishment for their escape. However, the Auditor General did not provide any information regarding these or other possible costs. Thus, the authors excluded this example of government failure even though it clearly imposes a cost on society.

A second example is the 1999 review of Public Works and Government Services with respect to the contracting out of property management. The Auditor General concluded that all 13 available regional contracts for property maintenance were awarded to the same firm. In addition, the Auditor General determined that the process used to award the contracts favoured firms that hired previous employees of Public Works rather than value for money. Specifically, the process awarded 35 points for job offers made to existing staff and only 10 points for the price quoted. Like the previous example there is a clear cost to society in terms of foregone value for money in the awarding of these contracts. However, the Auditor General did not provide an estimate of the potential costs associated with this problem and it was excluded.

There were a total of 119 of these cases, representing 39.0% of the total. More detailed information regarding these cases is available in Appendix C.

**Total Cost of Government Failure, 1992 to 2006**

The combination of the three different methods used to calculate the costs of government failure result in an overall estimate of the cost of government failure between 1992 and 2006 of between $99.4 billion and $124.6 billion (table 3). It includes the costs actually provided by the Auditor General ($28.2 billion to $28.7 billion), the costs calculated using information provided by the Auditor General ($66.9 billion to $69.1 billion), and the costs of failure related to observed problems in programs based on the SIN ($4.3 billion to $26.8 billion).

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9 Please note that these figures are presented in nominal dollars. The figures could not be readily calculated in inflation-adjusted or real dollars because the failures are linked with the year in which they were reported by the Auditor General. In many, if not most, cases, the failures occurred in years prior to their published date. More challenging to the conversion of nominal to real dollars is the fact that in most cases the Auditor General does not specify the exact years in which the failures occurred.
4 Reducing Government Failure

Given the inherent weakness of government identified by Public Choice analysis and the examples of government failure documented by 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. It is important to note, however, that such reforms are not easily implemented since they themselves are constrained by the same type of public-choice limitations discussed earlier in this paper.

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 define its role clearly and eliminate, or at the very least reduce, any of the activities that do not support its core functions. Rationalization 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 government involvement in such activities would not only provide additional resources for other programs or tax relief but would also sharpen parliament’s oversight of the public sector.

Rationalization also entails 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. 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 gains the highest economic rate of return, governments typically allocate capital to areas that maximize political returns, that is, to increase 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” (2001: 381).

This survey buttresses earlier work published 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 (Ewing et al., 1997; Guislain, 1997; Pohl et al., 1997; and Sader and Megyery, 1997).

Finally, and perhaps most insightful on this topic, were the conclusions of Harvard Professor Janos Kornai, who, as we saw in section 1, identified budget constraints as one of the major and unchangeable differences between private-sector business enterprises and government; and argued that government budget constraints are soft, since it is impossible for government departments to go broke.  

### 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. A common example of the use of P3s is for construction and maintenance of infrastructure. 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. 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.


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

14 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 partnerships depends upon 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.
4 Outsourcing

This option retains an even larger role for government than the P3 option. 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. 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 evidence 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 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

Based on the previous section, we suggest that the resources of the Auditor General’s Office be augmented and the scope of available audits broadened 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, including measurable plans to overcome difficulties identified.


16 For an interesting discussion of the Office of the Auditor General and its increasing importance, see Gibbins, Berdahl, and Harmsworth, 2000.
by the Auditor General, within a set period of time. Moreover, 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 responsibility of overseeing and monitoring corrective measures taken by departments and ministries tasked with administering the audited programs.

7 Requiring the Auditor General to Provide Cost Estimates

Finally, a last recommendation is that the Auditor General should be required to provide detailed cost estimates for all failures mentioned in the Reports. This suggestion will improve the accuracy of the estimates provided in this study and thus, give both public and private stakeholders a more meaningful assessment of the cost of government failure.

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.
## Appendix A: Cost of Government Failures Reported by the Auditor General, 1992–2006 ($ millions)

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Reported Failure—Description</th>
<th>Value ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1992</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Defence</td>
<td>Search and Rescue</td>
<td>Development of the $2 million Search and Rescue Information System, begun in 1986, and was halted in 1991 due to a lack of consensus on the system’s purpose.</td>
<td>2.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Search and Rescue</td>
<td>Beacon failures resulted in around $30.5 million in extra search time and lives lost.</td>
<td>30.5</td>
</tr>
<tr>
<td>Citizenship and Immigration</td>
<td>Community Initiatives Funds (CIF)</td>
<td>Proposals for CIF projects requiring investments of $5.6 million were only given $1.6 million because they lacked proper planning.</td>
<td>1.6</td>
</tr>
<tr>
<td>Finance</td>
<td>Loans</td>
<td>There was no risk sharing for the Canada Student Loans Program. The net claim for defaulted student loans was $78 million in 1990/91.</td>
<td>78.0</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>Energy Megaprojects</td>
<td>Project agreements did not specify the limits of the federal government’s legal liability and its commitment to funding cost overruns. In one case, the resulting federal share of cost overruns was $129 million.</td>
<td>129.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Industrial Development Initiatives</td>
<td>The industrial benefits of a contract amounted to $91.5 million despite concerns over the vehicles’ limited ability in rough terrain and lack of compatibility with the existing fleet.</td>
<td>91.5</td>
</tr>
<tr>
<td>National Defence</td>
<td>The Canadian Forces Reserves</td>
<td>National Defence purchased two offshore vessels for about $10 million, which were claimed to be in “excellent condition.” An extra $16 million in unplanned repairs was required and the vessels were out of service for almost a year.</td>
<td>16.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>RCMP—Training</td>
<td>Training and salary costs were almost $2 million for members who left the Force during 1989 and 1990 due to a poor recruitment process.</td>
<td>2.0</td>
</tr>
<tr>
<td>Agriculture and Agri-Food</td>
<td>Emergency Response</td>
<td>Dept. of Agriculture provided $17.3 million in unauthorized assistance to the provincial government.</td>
<td>17.3</td>
</tr>
<tr>
<td>Agriculture and Agri-Food</td>
<td>Farm Credit Corporation</td>
<td>The Farm Credit Corporation had been reimbursed for $160 million without documentation.</td>
<td>160.0</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
<td>Value ($millions)</td>
</tr>
<tr>
<td>---------------------------------</td>
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<td>------------------</td>
</tr>
<tr>
<td>Industry</td>
<td>Contract Management</td>
<td>The Prosperity Secretariat violated contract regulations when it entered into 22 contracts totalling $3.3 million without the proper competition. Also, some $2.5 million was paid to an Operating Agency with no savings to the Crown.</td>
<td>5.8</td>
</tr>
<tr>
<td>Health</td>
<td>Income Security Programs</td>
<td>Managers provided unauthorized payments totalling $5.6 million for contracts under the Income Security Programs project.</td>
<td>5.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>Atlantis Canada Opportunities Agency</td>
<td>Contributions ACOA failed to evaluate, monitor, and control a repayable contribution agreement totalling $2.6 million for a facility in Newfoundland.</td>
<td>2.6</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Canada Student Loans—Ceiling The annual limit for loans was exceeded and represented an additional cost to taxpayers of $51 million in 1991/92 and $61 million in 1992/93.</td>
<td>112.0</td>
</tr>
<tr>
<td></td>
<td>Indian and Northern Affairs Canada</td>
<td>Canadian Aboriginal Economic Development Strategy Seventy-three fully developed organizations received $20 million in funding in 1992.</td>
<td>20.0</td>
</tr>
<tr>
<td></td>
<td>Fisheries and Oceans</td>
<td>Northern Cod Adjustment and Recovery Program (NCARP) Some $587 million was spent without the required legislative authority.</td>
<td>587.0</td>
</tr>
<tr>
<td>1994</td>
<td>Environment</td>
<td>Government Leases The federal government has spent $26.6 million on the issue of unproductive rental payments and has still not resolved the issue.</td>
<td>26.6</td>
</tr>
<tr>
<td></td>
<td>Fisheries and Oceans</td>
<td>Planning Fisheries and Oceans spent $1 million on the design of a vessel that was never built, and funded $3.2 million to develop a deep-sea research system before conducting appropriate analysis, which has rarely been used.</td>
<td>4.2</td>
</tr>
<tr>
<td></td>
<td>Public Works and Government Services</td>
<td>National Archives of Canada The construction of a new archives building cost $6.6 million but was three times larger than required. In addition, extra landscaping costs amounted $4.8 million.</td>
<td>9.2</td>
</tr>
<tr>
<td></td>
<td>Transport</td>
<td>Information to Parliament Around $875,000 in expenditures on air services were unaccounted for by Transport Canada.</td>
<td>0.9</td>
</tr>
<tr>
<td></td>
<td>Health</td>
<td>Federal Management of the Food Safety System There was no accountability for $188 million spent on the Food Safety System from 1990 to 1994.</td>
<td>188.0</td>
</tr>
<tr>
<td></td>
<td>Agriculture and Agri-Food</td>
<td>National Archives of Canada Farmers subscribing to the Saskatchewan Crop Insurance Program have accumulated a negative fund balance of $536 million up to March 31 1994.</td>
<td>536.0</td>
</tr>
<tr>
<td></td>
<td>Agriculture and Agri-Food</td>
<td>Net Income Stabilization Account (NISA) The NISA was developed at a cost of $8 million and obsolete at the time of audit.</td>
<td>8.0</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
<td>Value (Millions)</td>
</tr>
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<td>----------------------------------------------</td>
<td>---------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Agriculture and Agri-Food</td>
<td>National Tripartite Stabilization Program (NTSP)</td>
<td>The NTSP for two commodities were no longer financially self-sustaining and were terminated with respective deficits of $44.5 million and $8.4 million.</td>
<td>52.9</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Accommodations of Federal Inmates</td>
<td>Correctional Service could avoid one-time future capital costs of $135 million if it applied the “one-quarter target” in the proposed policy to its present capacity.</td>
<td>135.0</td>
</tr>
<tr>
<td>Environment</td>
<td>Environment Partners Fund</td>
<td>The Environment Partners’ Fund exceeded its limit by $250,000.</td>
<td>0.3</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Financial Management</td>
<td>About $146 million could have been avoided in oversized or underutilized properties and an estimated $13.3 million more in lease costs between 1994 and 1999.</td>
<td>159.3</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Canadian Aboriginal Economic Development (CAED) Strategy</td>
<td>Social dependency rates among on-reserve Indians increased by 7% despite $1 billion in funding directed to the CAED strategy, which had the objective to decrease Indian dependency on social assistance.</td>
<td>1,000.0</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Reimbursement Payments for First Nations</td>
<td>Ineligible reimbursement payments of about $100 million for social assistance were made.</td>
<td>100.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Information Technology</td>
<td>Some $700 million would have been avoided if 11 projects had been implemented on a priority basis.</td>
<td>700.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Project Management</td>
<td>Project management failures at National Defence cost around $167.7 million.</td>
<td>167.7</td>
</tr>
<tr>
<td>National Defence</td>
<td>Infrastructure Management</td>
<td>Poor infrastructure management for the CFB Shearwater and the CFB Esquimalt cost $13.67 million in waste.</td>
<td>13.7</td>
</tr>
</tbody>
</table>

**1995**

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Reported Failure—Description</th>
<th>Value (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Managing the Legacy of Hazardous Wastes</td>
<td>The total potential clean-up cost for federally contaminated sites is at least $2 billion.</td>
<td>2,000.0</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Federal Radioactive Waste Management</td>
<td>The federal government’s project to find a disposal site for waste from the Port Hope nuclear refinery has spent $21 million and has not been successful.</td>
<td>21.0</td>
</tr>
<tr>
<td>Human Resources and Social Development</td>
<td>Public Service Compensation System (PSCS)</td>
<td>The PSCS project was terminated before completion, after over $61 million (half of the budget) had been spent.</td>
<td>61.0</td>
</tr>
<tr>
<td>Industry</td>
<td>Business Assistance Programs</td>
<td>A company with $86 million in working capital was granted financial assistance of $972,623 for a biotechnology project costing $2.2 million.</td>
<td>1.0</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Project Financing</td>
<td>The financing costs for government bonds could have been reduced by about $45 million had the government raised the amount needed through its own borrowing program.</td>
<td>45.0</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Regional Economic Development Programs</td>
<td>Despite the $4 billion spent on economic development programs (in the past 8 years), there was no clear consensus on results.</td>
<td>4,000.0</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
<td>Value ($millions)</td>
</tr>
<tr>
<td>--------------------------------</td>
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<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>Industry</td>
<td>Regional Development Programs</td>
<td>The jobs created by the construction of a new plant costing $2.2 million were offset by the closure of an established plant nearby with as many employees.</td>
<td>2.2</td>
</tr>
<tr>
<td>Atlantic Canada Opportunities Agency</td>
<td>Fisheries Alternatives Program (FAP)</td>
<td>ACOA did not consider the net economic benefit to the region for 23% of projects worth $91 million and, in some instances, local providers could actually have been hurt by ACOA’s support of a project.</td>
<td>20.9</td>
</tr>
<tr>
<td>Western Economic Diversification Canada</td>
<td>Western Economic Diversification Program</td>
<td>An assessment of the $1 billion development program found that the success rate was about a third.</td>
<td>666.7</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Native Reserve Capital Facilities Maintenance</td>
<td>INAC’s reference level for capital facilities and maintenance was $100 million more than estimated.</td>
<td>100.0</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Native Reserve Capital Facilities Maintenance</td>
<td>Some services received double funding under two different programs. In one case, an on-reserve day care received double funding amounting to $270,000 in 1994/95.</td>
<td>0.3</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Native Reserve Capital Facilities Maintenance</td>
<td>INAC advanced about $1 million on the basis of a design proposal that was eventually rejected after costs had been incurred.</td>
<td>1.0</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Native Reserve Capital Facilities Maintenance</td>
<td>Forty-five percent of projects costing $100 million had no evidence that options and alternatives had been assessed to ensure the lowest cost.</td>
<td>45.0</td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian Heritage</td>
<td>Community Transition</td>
<td>Around $2.7 million in government funding was spent before an annual budget and business plan had been drafted.</td>
<td>2.7</td>
</tr>
<tr>
<td>National Defence</td>
<td>Peacekeeping</td>
<td>National Defence could not find adequate documentation for downward adjustments of inventory totalling $80 million in unexplained losses.</td>
<td>80.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Construction of National Headquarters</td>
<td>Vague contracts resulted in $1.4 million in extra work costs for Canadian Security Intelligence Service’s new headquarters. Extra supervision costs totalled $970,000.</td>
<td>2.4</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Federal Rehabilitation Programs for Offenders</td>
<td>Correctional Service’s operations had become unsustainable and netted losses over a three-year period of $7.3 million.</td>
<td>7.3</td>
</tr>
<tr>
<td>Veterans Affairs</td>
<td>Health Care for Veterans</td>
<td>Around $50 million was paid for health benefits that were normally provided by provincial health care programs.</td>
<td>50.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Material Management</td>
<td>National Defence kept about $1.7 billion more inventory than was expected to be needed over the next four years.</td>
<td>1,700.0</td>
</tr>
<tr>
<td>Transport</td>
<td>Canadian Automated Air Traffic Systems (CAATS)</td>
<td>Delays and renegotiations for CAATS resulted in cost overruns projected to be $282 million.</td>
<td>282.0</td>
</tr>
<tr>
<td>Industry</td>
<td>Canada Infrastructure Works Program</td>
<td>About $145 million spent in the first year simply replaced local spending and did not add to overall investment.</td>
<td>145.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Management</td>
<td>National Defence could save $600 million by re-engineering projects.</td>
<td>600.0</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
<td>Value (C$ millions)</td>
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<tr>
<td><strong>1997</strong></td>
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<tr>
<td>Federal Government</td>
<td>Credit Cards for Public Servants</td>
<td>Public servants’ credit cards were not paid on time and resulted in $80,000 in unnecessary interest costs over four months.</td>
<td>0.1</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Housing Benefits</td>
<td>An official received over $32,000 for unused housing benefits and some $22,900 was spent unnecessarily on non-standard furniture.</td>
<td>0.1</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Downsizing</td>
<td>An ambassador refused to leave his previous residence worth $12 million even though costs of $650,000 for alternative arrangements had already been incurred.</td>
<td>0.7</td>
</tr>
<tr>
<td>Transport</td>
<td>Air Navigation System</td>
<td>The reduced sale price of Canada’s air navigation system was characterized as an unnecessary subsidy that could range up to $1 billion.</td>
<td>1,000.0</td>
</tr>
<tr>
<td>Transport</td>
<td>Contract Amendments</td>
<td>Contracts provided no clear link between work done and the amounts paid and resulted in $3.56 million in extra costs.</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>1998</strong></td>
<td></td>
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</tr>
<tr>
<td>Federal Government</td>
<td>Reductions in the Public Workforce</td>
<td>Total restructuring costs for the public workforce exceeded the original estimate by $900 million.</td>
<td>900.0</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Health Laboratories</td>
<td>Planning costs worth $15.5 million were incurred before projects were cancelled while $12 million was spent on a laboratory that was never used. Another $2 million was paid for abandoned work. In addition, poor project management resulted in about $34 million in cost overruns.</td>
<td>63.5</td>
</tr>
<tr>
<td>Human Resources and Social Development</td>
<td>Income Security Programs</td>
<td>Income tax errors for the last five years leading up to the audit resulted in $36 million in corrections from the use of the SIN as a common identifier.</td>
<td>36.0</td>
</tr>
<tr>
<td><strong>1999</strong></td>
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</tr>
<tr>
<td>Fisheries and Oceans</td>
<td>Atlantic Fishery and Fishery of the Future Strategy</td>
<td>Fisheries and Oceans spent $15 million to support social objectives, which directly contradicted the Fishery of the Future Strategy of encouraging conservation.</td>
<td>15.0</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>The Atlantic Groundfish Strategy (TAGS)</td>
<td>TAGS began in 1994 to support fishermen and ended one year earlier than planned in 1998 due to poor implementation and cost overruns. The fixed budget over the five-year period was $1.9 billion.</td>
<td>1,900.0</td>
</tr>
<tr>
<td><strong>2000</strong></td>
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</tr>
<tr>
<td>Human Resources and Social Development</td>
<td>Claims Processing</td>
<td>Reduced accuracy increased underpayments to $211 million in 1998/99 while overpayments also increased over the same period to $445 million.</td>
<td>234.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>RCMP—Laboratory Services</td>
<td>An RCMP laboratory took almost six months to submit its report and involved $1 million in avoidable investigation costs.</td>
<td>1.0</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
<td>Value ($ millions)</td>
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</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>RCMP—Facilities Management</td>
<td>Despite an apparent overcapacity, the RCMP opened a new $12 million facility in Regina and replaced a laboratory in Ottawa at a cost of $21 million.</td>
<td>33.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>RCMP—Firearms Registry</td>
<td>An RCMP study noted almost $18 million in productive time lost.</td>
<td>18.0</td>
</tr>
<tr>
<td>Transport</td>
<td>Airport Transfers</td>
<td>Airport transfer leases did not adhere to some of the government’s key directions, resulting in a cost of about $474 million ($342 net present value) to the government in foregone rent.</td>
<td>342.0</td>
</tr>
<tr>
<td>Human Resources and Social Development</td>
<td>Social Development Partnerships Program</td>
<td>Twenty-nine percent of the Social Development Partnerships Program’s $15.1 million project proposals were inadequate.</td>
<td>4.4</td>
</tr>
<tr>
<td>Human Resources and Social Development</td>
<td>Auberge des Gouverneurs Project</td>
<td>Some $600,000 of funding for the project was announced before it had been approved and the project created only two-thirds of the jobs expected.</td>
<td>0.2</td>
</tr>
<tr>
<td>Atlantic Canada Opportunities Agency</td>
<td>Office Space</td>
<td>The fit-up and occupancy costs for the Sydney location were roughly $342,500 higher than for other locations in the Atlantic region.</td>
<td>0.3</td>
</tr>
<tr>
<td>Atlantic Canada Opportunities Agency</td>
<td>Office Space</td>
<td>ACOA paid around $120,000 for space it did not use between 1995 and 2000.</td>
<td>0.1</td>
</tr>
<tr>
<td>Fisheries and Oceans</td>
<td>Management of the DFO’s Fleet</td>
<td>The Cornwallis vessel was not operational except for about two weeks in 1999/00, yet incurred $1.2 million in salaries and operating costs.</td>
<td>1.2</td>
</tr>
<tr>
<td>Fisheries and Oceans</td>
<td>Vessel Maintenance</td>
<td>It cost $440,000 to maintain the Franklin vessel in lay-up status during 1999/00 but it was eventually disposed.</td>
<td>0.4</td>
</tr>
</tbody>
</table>

### 2001

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Description</th>
<th>Value ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlantic Canada Opportunities Agency</td>
<td>Business Development</td>
<td>Over 10% of projects totalling $266.6 million received funding in excess of ACOA’s long-term limit of three years.</td>
<td>26.7</td>
</tr>
<tr>
<td>Atlantic Canada Opportunities Agency</td>
<td>Business Development Program</td>
<td>Only $78 million of Business Development Program contributions have been repaid while $12 million have been written-off.</td>
<td>12.0</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Heating Expense Relief</td>
<td>Only $250 million to $350 million of the over $1.4 billion in heating expense relief was paid to low- and modest-income households that faced immediate increases in heating expenses.</td>
<td>1,050.0 to 1,150.0</td>
</tr>
</tbody>
</table>

### 2002

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Description</th>
<th>Value ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>Canadian Health Network</td>
<td>Health Canada did not meet contracting-out rules when it spent $25 million on the Canadian Health Network. It is considering alternative software after four years of use.</td>
<td>25.0</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Contract Management</td>
<td>Contracts worth $24.4 million were awarded that did not reflect the Treasury Board’s Policy principles and requirements. An extra $1 million was used for surveys that were issued using standing offers.</td>
<td>25.4</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
<td>Value (millions)</td>
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</tr>
<tr>
<td>National Defence</td>
<td>Satellite Communications</td>
<td>National Defence took eight years to develop a $174 million satellite communications system that remains in storage.</td>
<td>174.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Pilot Training</td>
<td>National Defence awarded a 20-year contract without competition and paid about $65 million for training that was not obtained.</td>
<td>65.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Contract Management</td>
<td>National Defence paid a contractor $15 million even though the first four courses had to be cancelled. Eventually $2.5 million was reimbursed but $12.5 million of the total is still outstanding.</td>
<td>12.5</td>
</tr>
<tr>
<td>National Defence</td>
<td>Contract Management</td>
<td>Inflexible contract arrangements resulted in payments for unused training capacity (57%) at a Training Centre, which operated on a $40 million fixed price contract.</td>
<td>22.8</td>
</tr>
<tr>
<td>National Defence</td>
<td>Pilot Training</td>
<td>National Defence paid just over $31 million for aircrafts that were late in being delivered and could not be used for training.</td>
<td>31.0</td>
</tr>
<tr>
<td>Industry</td>
<td>Small Business Loan Guarantees</td>
<td>Failure to issue loans on a cost recovery basis between 1995 and 1999 amounted to $155 million in losses and potentially in excess of $200 million.</td>
<td>155.0 to 200.0</td>
</tr>
<tr>
<td>Fisheries and Oceans</td>
<td>Marine Navigation</td>
<td>Treasury Board committed $85 million to maintain unnecessary staffing at lighthouses between 1998 and 2003.</td>
<td>85.0</td>
</tr>
<tr>
<td>Industry</td>
<td>Canadian Space Program</td>
<td>Delays at NASA cost the Canadian government an additional $13 million in maintenance costs.</td>
<td>13.0</td>
</tr>
<tr>
<td>Industry</td>
<td>Satellite Communications—RADARSAT-2 Satellite</td>
<td>Project delays for the launching of RADARSAT-2 Satellite cost taxpayers an additional $167 million.</td>
<td>167.0</td>
</tr>
<tr>
<td>Industry</td>
<td>Special Purpose Dexterous Manipulator (SPDM)</td>
<td>Project delays for the SPDM cost about $13 million.</td>
<td>13.0</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Acquisition of Office Space</td>
<td>Public Works paid $2.7 million in rent for an unoccupied building.</td>
<td>2.7</td>
</tr>
<tr>
<td>Justice</td>
<td>Firearms Registry</td>
<td>The Firearm Registry rose from an estimated net cost of $2 million in 1995 to over $860 million in 2004.</td>
<td>860.0</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Mail Food Program</td>
<td>Spending on the Mail Food Program exceeded the yearly cap by $8.9 million in 2001/02.</td>
<td>8.9</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Downsview Park</td>
<td>An abandoned military base in Toronto has received $20 million in public funds (and potentially over $100 million over the next 20 years) without ever receiving approval from Parliament.</td>
<td>20.0 to 100.0</td>
</tr>
</tbody>
</table>

**2003**

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Reported Failure—Description</th>
<th>Value (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government</td>
<td>Financial Information Strategy (FIS)</td>
<td>The government invested over $600 million in the FIS but 90% of the managers interviewed do not access the system.</td>
<td>540.0</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Housing on Reserves</td>
<td>Some $74 million was spent because the Ministry was under pressure to spend the money before fiscal year end.</td>
<td>74.0</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Loans to First Nations</td>
<td>About $10 million of outstanding loans to First Nations had yet to be recovered as of March 2002 due to defaults.</td>
<td>10.0</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
<td>Value ($millions)</td>
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</tr>
<tr>
<td>Federal Government</td>
<td>Job Classification in the Public Service</td>
<td>Restructuring costs of $200 million were spent on the public service job classification system, a project that has since been abandoned.</td>
<td>200.0</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Sponsorship Program</td>
<td>About $250 million was spent on the Sponsorship Program from 1997 until March 2003.</td>
<td>250.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Purchase of Challenger Aircraft</td>
<td>A contract worth $101 million to purchase two aircrafts for VIP travel did not demonstrate due regard for economy, bypassed expected practices, and circumvented proper review.</td>
<td>101.0</td>
</tr>
<tr>
<td>Canadian Heritage</td>
<td>National Historic Sites of Canada Cost-Sharing Program</td>
<td>About $30 million in financial aid was endorsed for work on the preservation of historic sites which has not been fulfilled.</td>
<td>30.0</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Government</td>
<td>The 2001 Anti-Terrorism Initiative</td>
<td>Some $45 million was allocated by the government for certain projects that were unrelated to their stated purpose.</td>
<td>45.0</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Verifying Refund Claims</td>
<td>Sixteen percent of randomly selected files considered to present little or no risk were found to contain overstated claims amounting to $1 million.</td>
<td>1.0</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Small and Medium Enterprises</td>
<td>Some $247 million were found in overstated GST/HST claims.</td>
<td>247.0</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Management of Federal Drug Benefits Program</td>
<td>Some $15 million could have been avoided on drug purchases and a further $11 to $13 million could be saved in proton pump inhibitors (PPI) costs.</td>
<td>26.0 to 28.0</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Pharmacy Audits</td>
<td>Health Canada has yet to recover $2.1 million in overpayments for the period of 1998 to 2004, and Veteran Affairs Canada has $700,000 outstanding for the period from 1999 to 2003.</td>
<td>2.8</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>National Security</td>
<td>National Defence was allocated $43.1 million for a project that would only perform to expectations during daylight and calm weather. The expected cost of this project (based on an internal study) is $220 million.</td>
<td>43.1 to 220.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>National Security</td>
<td>Forty percent of the $10 million in funding to deal with possible terrorist threats went to areas considered low risk for a terrorist attack.</td>
<td>4.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>National Security</td>
<td>Health Canada was allocated around $1.75 million over three years for emergency medical teams that have not been created.</td>
<td>1.8</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Grants</td>
<td>There was a $142 million unexpected increase in the issuance of grants, which lacked the proper accountability, the required documentation, and the necessary approval from CIDA officers.</td>
<td>142.0</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
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</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Document Adjustments</td>
<td>Less than 50% of files totalling $33.5 million contained proper justification and documentation for release decisions of contract adjustments.</td>
<td>16.8</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Matching Program</td>
<td>The matching program failed to recover between $200 and $250 million in income taxes for the two-year period from 2002 to 2004.</td>
<td>200.0 to 250.0</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Administering the Federal Electoral Process</td>
<td>Revision costs could be reduced by half if unnecessary staffing was eliminated. Elections Canada spent $50 million on revision activities for the 2004 election alone.</td>
<td>25.0</td>
</tr>
<tr>
<td>Federal Government</td>
<td>REVISE System</td>
<td>The REVISE system incurred costs of $11.1 million and was incompatible with the current system and produced significant backlogs.</td>
<td>11.1</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Tsunami Relief</td>
<td>CIDA spent $69 million intended for tsunami relief on non-tsunami-related activities in 2004/05 to free up funding for the new fiscal year.</td>
<td>69.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>NATO Flying Training in Canada (NFTC)</td>
<td>The original cost of the NFTC program was projected at $2.8 billion but eventually increased by about $600 million.</td>
<td>600.0</td>
</tr>
<tr>
<td>National Defence</td>
<td>Pilot Training</td>
<td>The under-utilization of student pilot training positions resulted in $89 million in missed training.</td>
<td>89.0</td>
</tr>
<tr>
<td>Justice</td>
<td>Canadian Firearms Program—CFIS I and II</td>
<td>CFIS I incurred cost overruns totalling $95.5 million. Similarly, the cost of the new system CFIS II is expected to be $55 million more than was originally estimated.</td>
<td>150.5</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Canadian Firearms Program—Contract Management</td>
<td>Public Works awarded a questionable contract worth about $550,000 more than it should have.</td>
<td>0.6</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Transfer Payments</td>
<td>One project had a project management budget of $36,500 but the audited financial statements showed that the costs had risen by about $26,000.</td>
<td>0.0</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Acquisition of Leased Office Space</td>
<td>Public Works’ non-competitive procurement process and lack of adherence to established guidelines cost taxpayers an additional $4.6 million.</td>
<td>4.6</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Acquisition of Leased Office Space</td>
<td>The Treasury Board approved leasing a property for 15 years at an additional cost of $13 million, which was the most expensive option.</td>
<td>13.0</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Acquisition of Leased Office Space</td>
<td>Public Works recommended the second-best option for a building, which was $4.4 million more than the least expensive option.</td>
<td>4.4</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Acquisition of Leased Office Space</td>
<td>Public Works indicated that the present value of the cost of accommodation was $261 million, which was $81 million more than the most cost-effective alternative.</td>
<td>81.0</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
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</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Acquisition of Leased Office Space</td>
<td>The present value of the cost of accommodation for the Jean Edmonds Towers was $158 million, which was $12.5 million more than the least-cost option.</td>
<td>12.5</td>
</tr>
<tr>
<td>Agriculture and Agri-Food</td>
<td>Agconnex</td>
<td>Agconnex was a failed IT project that was discontinued after the government had already spent $14 million.</td>
<td>14.0</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Secure Channel</td>
<td>Secure Channel operated at less than 50% of its capacity which resulted in an additional cost of $196 million.</td>
<td>196.0</td>
</tr>
<tr>
<td>Citizenship and Immigration</td>
<td>Global Case Management System (GCMS)</td>
<td>Citizen and Immigration received budget increases for the GCMS, which is now $48 million more than originally estimated without submitting a revised business case to the Treasury Board.</td>
<td>48.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>RCMP—Contracting</td>
<td>There were compliance problems in 24% of contracts reviewed at the RCMP, which handled $255 million worth of contracts in 2004.</td>
<td>61.2</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Border Services—Contracting</td>
<td>There were compliance problems in 34% of the contracts examined at Border Services, which handled $11 million worth of contracts in 2004.</td>
<td>3.7</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Correctional Service—Contracting</td>
<td>There were compliance problems in 42% of the contracts audited at Correctional Service, which handled $300 million worth of contracts in 2004.</td>
<td>126.0</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>British Columbia Treaty Process</td>
<td>The federal government has spent about $426 million on BC treaty negotiations from 1993 to 2006 but no treaties have been signed.</td>
<td>426.0</td>
</tr>
<tr>
<td>Health</td>
<td>Allocating Funds to Regulatory Programs</td>
<td>A total of $3.08 million in funding for special initiatives was not spent for the purposes intended.</td>
<td>3.1</td>
</tr>
<tr>
<td>Health</td>
<td>Cost Recovery</td>
<td>Full program cost for medical devices is $21.8 million but Health Canada only recovered $7.4 million.</td>
<td>14.4</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Pension and Insurance Administration</td>
<td>Consulting contracts valued at over $20 million were established without competition and circumvented controls designed to ensure fairness, equity, and the lowest price.</td>
<td>20.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Pension and Insurance Administration</td>
<td>The RCMP charged $1.3 million to the pension and insurance plans for work of little value. A portion valued at $270,000 was eventually reimbursed.</td>
<td>1.0</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Pension Plan Costs</td>
<td>The RCMP persuaded the insurance carrier to subcontract work to a second firm and, as a result, there was no competition for a $4.6 million contract.</td>
<td>4.6</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Pension Plan Outsourcing</td>
<td>Inconsistencies in the estimated outsourcing costs for pension plan administration increased expected costs by $8.4 million.</td>
<td>8.4</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Pension Plan Administration</td>
<td>Forecasts for the RCMP’s ongoing administration omitted significant projects and underestimated costs, resulting in a revised estimate that was $8.2 million greater than the original.</td>
<td>8.2</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Award of a Health Benefits Contract</td>
<td>Public Works and Health Canada awarded a health-benefits contract valued at $161.4 million over nine years that should not have been awarded.</td>
<td>161.4</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Reported Failure—Description</td>
<td>Value ($millions)</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------</td>
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<td>-----------------</td>
</tr>
<tr>
<td>Health</td>
<td>Management of a Health Benefits Contract</td>
<td>Health Canada made $2.6 billion in unauthorized payments out of the Consolidated Revenue Fund and $24 million in payments that exceeded the value of the contract, and certified invoices worth $5.5 million that had no documentation to support the volume of claims processed.</td>
<td>2,629.5</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Office of the Correctional Investigator</td>
<td>The former Correctional Investigator made improper payments that totalled $325,000 between 1998 and 2003. In addition, around $127,000 was cashed out as improper annual leave from 1990 to 1998.</td>
<td>0.5</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Office of the Correctional Investigator</td>
<td>Over $260,000 in improper payments marked as overtime were paid out to employees.</td>
<td>0.3</td>
</tr>
</tbody>
</table>

**GRAND TOTAL**

28,239.9 to 28,693.8

Notes

1. A failure for future years was not calculated since annual data on student loan ceilings was not available.
2. A negative fund balance occurs when farmers do not repay their loans.
3. One of three contracts began at US$375,000 and was amended to over US$1 million. The Canadian equivalency for this contract was based on an exchange rate of 1.3845, the average rate in 1997 reported by the Bank of Canada.
4. Grand totals do not include SIN-related failures; see Table 2 for SIN-related failures.

Sources

Bank of Canada (2006); Canada, Department of Finance (2005); Canada, Department of Finance (2006); Office of the Auditor General (various issues); Office of the Superintendent of Financial Institutions, Office of the Chief Actuary [OSFI-OCA] (various issues); Receiver General for Canada (various issues); Statistics Canada, Income and Expenditure Accounts Division (2006); Statistics Canada, Public Institutions Division (2006); Clemens et al. (2007); calculations by the authors.
## Appendix B: Estimate of Cost of Government Failures Based on Information Provided by the Auditor General, 1992–2006 (in millions of dollars)

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Method of Calculation</th>
<th>Formula</th>
</tr>
</thead>
</table>
| National Defence                  | Project Initiation and Implementation        | Overspending on equipment in 1991/92 represented 0.17% of National Defence's total spending. Future spending by National Defence was multiplied by this percentage to arrive at the expected annual costs. | (1) $0.17\% = \left[\frac{\$20M}{\$11,751M}\right] \times 100$  
(2) Future failure = (National Defence spending in year t) * (0.0017) |
| Solicitor General (Public Safety and Emergency Preparedness) | RCMP—Efficiency                             | Contract police services by the RCMP yielded net losses between $300M and $350M in 1991/92. The net cost per RCMP officer was between $30,612 and $35,714. The value of the RCMP’s inefficiency was between $8.57M and $10M which represented between 0.73% and 0.85% of the RCMP’s total spending. Future spending by the RCMP was multiplied by these percentages to arrive at expected annual efficiency costs. Note that contract policing expenditures were not listed in the Public Accounts between 1992 and 1998. | (1) Net loss = (Contract policing costs) - (Contract policing revenues)  
(2) Net cost per officer = (Net loss) / (9,800 officers)  
(3) Efficiency cost = (Net cost per officer) * (280 officers)  
(4) $0.73\% = \left[\frac{\$8.57M}{\$1,176M}\right] \times 100$  
(5) $0.85\% = \left[\frac{\$10M}{\$1,176M}\right] \times 100$  
(6) Future failure (LOW) = (RCMP spending in year t) * (0.0073)  
(7) Future failure (HIGH) = (RCMP spending in year t) * (0.0085) |
| Solicitor General (Public Safety and Emergency Preparedness) | RCMP—Training                              | Excess recruitment costs in 1991/92 represented 0.12% of the RCMP’s total spending. Future spending by the RCMP was multiplied by this percentage to arrive at the expected annual costs. | (1) $0.12\% = \left[\frac{\$1.45M}{\$1,176M}\right] \times 100$  
(2) Future failure = (RCMP spending in year t) * (0.0012) |
| Solicitor General (Public Safety and Emergency Preparedness) | RCMP—Promotions                             | Poor promotion practices in 1991/92 represented 1.28% of RCMP’s total spending. Future spending by the RCMP was multiplied by this percentage to arrive at the expected annual costs. | (1) $1.28\% = \left[\frac{\$15M}{\$1,176M}\right] \times 100$  
(2) Future failure = (RCMP spending in year t) * (0.0128) |
| Health                            | Management of Canada Pension Plan (CPP) for Disability | CPP disability overpayments in 1991/92 represented 3.61% of total CPP disability benefits paid. Future CPP disability spending was multiplied by this percentage to arrive at the expected annual costs in 1992 and 1993. A review of the program was undertaken in 1994. | (1) $3.61\% = \left[\frac{\$65M}{\$1,800M}\right] \times 100$  
(2) Future failure = (CPP disability spending in year t) * (0.0361) |
## Failure Estimates ($millions)

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<tbody>
<tr>
<td>Low estimate</td>
<td>20.00</td>
<td>20.25</td>
<td>20.45</td>
<td>20.06</td>
<td>19.45</td>
<td>17.97</td>
<td>17.32</td>
<td>17.44</td>
<td>19.59</td>
<td>19.50</td>
<td>20.83</td>
<td>21.13</td>
<td>22.43</td>
<td>23.68</td>
<td>24.97</td>
<td>305.08</td>
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<tr>
<td></td>
<td>10.00</td>
<td>10.10</td>
<td>10.56</td>
<td>10.88</td>
<td>10.80</td>
<td>10.69</td>
<td>11.01</td>
<td>10.46</td>
<td>11.44</td>
<td>12.55</td>
<td>13.90</td>
<td>15.67</td>
<td>16.10</td>
<td>16.66</td>
<td>17.38</td>
<td>188.20</td>
</tr>
</tbody>
</table>

- **Low estimate**:
  - 1991: 8.57
  - 1992: 8.67
  - 1993: 9.07
  - 1994: 9.34
  - 1995: 9.28
  - 1996: 9.18
  - 1997: 9.45
  - 1998: 8.98
  - 1999: 9.83
  - 2000: 10.78
  - 2001: 11.94
  - 2002: 13.46
  - 2003: 13.83
  - 2004: 14.31
  - 2005: 14.93
  - Total: 161.61

- **High estimate**:
  - 1991: 10.00
  - 1992: 10.10
  - 1993: 10.56
  - 1994: 10.88
  - 1995: 10.80
  - 1996: 10.69
  - 1997: 11.01
  - 1998: 10.46
  - 1999: 11.44
  - 2000: 12.55
  - 2001: 13.90
  - 2002: 15.67
  - 2003: 16.10
  - 2004: 16.66
  - 2005: 17.38
  - Total: 188.20

- **Total**:
  - 1991: 20.00
  - 1992: 20.25
  - 1993: 20.45
  - 1994: 20.06
  - 1995: 19.45
  - 1996: 17.97
  - 1997: 17.32
  - 1998: 17.44
  - 1999: 19.59
  - 2000: 19.50
  - 2001: 20.83
  - 2003: 22.43
  - 2004: 23.68
  - 2005: 24.97
  - Total: 305.08

### Notes:
- The method of calculation for estimating failure costs is based on a formula that multiplies future spending by the percentage of expected annual costs.
- The low estimate is calculated using a percentage of the cost of overpayments, while the high estimate includes inefficiencies and recruitment costs.
- The table includes a review of the program in 1994, which may have influenced the estimation process.

---

### Government Failure in Canada, 2007 Edition

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<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/ Initiative</th>
<th>Method of Calculation</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1993</strong></td>
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</table>
| Justice                     | Legal Advisory and Litigation Services | Cost of inefficient spending on Crown agents in 1992/93 represented 5.43% of the Justice Ministry's total spending. Future spending by the Justice Ministry was multiplied by this percentage to arrive at the expected annual costs. | \(1) \ 5.43\% = \left(\frac{40\text{M}}{736\text{M}}\right) \times 100\)  
\(2) \ \text{Future failure} = (\text{Justice spending in year } t) \times (0.0543)\) |
| Health                      | Program for Seniors                   | Overpayments (excluding CPP disability payments) in 1992/93 represented between 0.38% and 0.51% of total OAS, CPP (minus disability benefits), and GIS spending. Future OAS, CPP (minus disability benefits) and GIS spending was multiplied by these percentages to arrive at the expected annual costs. | \(1) \ 0.38\% = \left(\frac{110\text{M}}{14,292\text{M} + (12,808\text{M} - 2,123\text{M}) + 4,227\text{M}}\right) \times 100\)  
\(2) \ 0.51\% = \left(\frac{148\text{M}}{14,292\text{M} + (12,808\text{M} - 2,123\text{M}) + 4,227\text{M}}\right) \times 100\)  
\(3) \ \text{Future failure (LOW)} = (\text{Total OAS, CPP (minus disability benefits), and GIS spending in year } t) \times 0.0038\)  
\(4) \ \text{Future failure (HIGH)} = (\text{Total OAS, CPP (minus disability benefits), and GIS spending in year } t) \times 0.0051\) |
| Health                      | Program for Seniors                   | Unnecessary administrative spending in 1992/93 represented 0.41% of total CPP, OAS, and GIS spending. Future CPP, OAS, and GIS spending was multiplied by this percentage to arrive at the expected annual costs. | \(1) \ 0.41\% = \left(\frac{130\text{M}}{12,808\text{M} + 14,292\text{M} + 4,227\text{M}}\right) \times 100\)  
\(2) \ \text{Future failure} = (\text{CPP + OAS + GIS spending in year } t) \times 0.0041\) |
| **1994**                    |                                       |                                                                                        |                                                                         |
| Human Resources and Social  | Unemployment Insurance (UI)           | El benefit costs due to program changes in the 1970s in 1993/94 represented 11.37% of total EI spending. Future and past EI spending was multiplied by this percentage to arrive at the expected annual costs. | \(1) \ \text{Total reported failure} = \left(\frac{500\text{M}}{100\text{M}}\right) \times 4\)  
\(2) \ 11.37\% = \left(\frac{2,000\text{M}}{17,591\text{M}}\right) \times 100\)  
\(3) \ \text{Future failure} = (\text{EI spending in year } t) \times 0.1137\) |
| Development                 |                                        |                                                                                        |                                                                         |
| Solicitor General (Public   | Custody of Federal Inmates            | Misplacing inmates in 1993/94 represented 0.60% of Correctional Service Canada's total spending. Future spending by CSC was multiplied by this percentage to arrive at the expected annual costs. | \(1) \ 0.60\% = \left(\frac{6\text{M}}{997\text{M}}\right) \times 100\)  
\(2) \ \text{Future failure} = (\text{CSC spending in year } t) \times 0.0060\) |
| Safety and Emergency        |                                        |                                                                                        |                                                                         |
| Preparedness                | Accommodations of Federal Inmates     | Unnecessary operating expenses in 1993/94 represented 3.41% of Correctional Service Canada's total spending. Future spending by CSC was multiplied by this percentage to arrive at the expected annual costs. | \(1) \ 3.41\% = \left(\frac{34\text{M}}{997\text{M}}\right) \times 100\)  
\(2) \ \text{Future failure} = (\text{CSC spending in year } t) \times 0.0060\) |
| National Defence            | Trades people Productivity             | Poor productivity in 1993/94 represented 0.42% of National Defence's total spending. Future spending by National Defence was multiplied by this percentage to arrive at the expected annual costs. | \(1) \ 0.42\% = \left(\frac{50\text{M}}{12,032\text{M}}\right) \times 100\)  
\(2) \ \text{Future failure} = (\text{National Defence spending in year } t) \times 0.0042\) |
## Failure Estimates ($millions)

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<tr>
<td>1991</td>
<td>40.00</td>
<td>40.34</td>
<td>40.83</td>
<td>40.56</td>
<td>42.14</td>
<td>44.96</td>
<td>53.59</td>
<td>58.10</td>
<td>68.31</td>
<td>74.55</td>
<td>75.15</td>
<td>78.90</td>
<td>76.78</td>
<td>78.52</td>
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<td>1992</td>
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<td>122.58</td>
<td>125.30</td>
<td>129.37</td>
<td>134.38</td>
<td>142.70</td>
<td>146.47</td>
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<td>185.66</td>
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<tr>
<td>1993</td>
<td>148.00</td>
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<td>168.16</td>
<td>173.63</td>
<td>180.36</td>
<td>191.52</td>
<td>196.58</td>
<td>204.18</td>
<td>214.55</td>
<td>224.88</td>
<td>235.13</td>
<td>249.17</td>
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<td>136.62</td>
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<td>159.82</td>
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<td>175.77</td>
<td>191.93</td>
<td>200.54</td>
<td>212.36</td>
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<td>2,393.15</td>
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<tr>
<td>1995</td>
<td>1,969.63</td>
<td>2,120.28</td>
<td>2,000.00</td>
<td>1,706.86</td>
<td>1,465.48</td>
<td>1,348.37</td>
<td>1,236.37</td>
<td>1,218.07</td>
<td>1,154.06</td>
<td>1,093.23</td>
<td>1,291.75</td>
<td>1,459.57</td>
<td>1,519.15</td>
<td>1,676.85</td>
<td>1,636.14</td>
<td>22,895.79</td>
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<td>37.48</td>
<td>37.75</td>
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<td>53.98</td>
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<td>50.00</td>
<td>49.56</td>
<td>48.05</td>
<td>44.41</td>
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<td>58.51</td>
<td>61.70</td>
<td>653.75</td>
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</tr>
</tbody>
</table>

*Low estimate*

*High estimate*
<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Method of Calculation</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Works and Government Services</td>
<td>Management and Operation of Crown-Owned Office Buildings</td>
<td>Excess administrative spending in 1993/94 represented 0.29% of Public Works’ total spending. Future spending by Public Works was multiplied by this percentage to arrive at the expected annual costs.</td>
<td>(1) $12M/$4,195M*100() (2) Future failure = Public Works spending in year t()*0.0029()</td>
</tr>
<tr>
<td>Transport</td>
<td>Transportation Subsidies</td>
<td>The sum of all payments to railway companies under the Western Grain Transportation Act in 1991, 1992, 1993, and 1994 (payments made prior to 1991 were omitted because they fell outside the studied period). Note that the program was terminated in 1995.</td>
<td>(1) $3,048M = [(1,049M) + (722M) + (633M) + (644M)]</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Travel and Hospitality</td>
<td>Travel mismanagement costs in 1994/95 represented between 0.13% and 0.19% of total Federal government spending (net of debt charges). Future spending by the Federal government was multiplied by these percentages to arrive at the expected annual costs.</td>
<td>(1) 0.13% = [(170M/$131,456M)*100() (2) 0.19% = [(250M/$131,456M)*100() (3) Future failure (LOW) = (Federal government spending in year t()*0.0013() (4) Future failure (HIGH) = (Federal government spending in year t()*0.0019()</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Federal Office of Regional Development-Quebec (FORD-Q)</td>
<td>Unnecessary financial aid for FORD-Q in 1994/95 represented 16.01% of total spending on regional planning and development. Future spending on regional planning and development was multiplied by this percentage to arrive at the expected annual costs.</td>
<td>(1) Reported failure = [(200M)*0.30() (2) 16.01% = [(560M/$373M)*100() (3) Future failure = (Regional development spending in year t()*0.1601()</td>
</tr>
<tr>
<td>Human Resources and Social Development</td>
<td>Employee Development Training Program</td>
<td>Extra unemployment costs in 1994/95 represented 0.40% of total EI spending. Future EI spending was multiplied by this percentage to arrive at the expected annual costs.</td>
<td>(1) 0.40% = [(60M/$15,012M)*100() (2) Future failure = (EI spending in year t()*0.0040()</td>
</tr>
<tr>
<td>Treasury Board</td>
<td>Management of Receivables</td>
<td>Forgone interest charges in 1994/95 represented 0.50% of the total balance of non-tax receivables. The future balance of non-tax receivables was multiplied by this percentage to arrive at the expected annual costs.</td>
<td>(1) 0.50% = [(17M/$3,382M)*100() (2) Future failure = (Non-tax receivables in year t()*0.0050()</td>
</tr>
</tbody>
</table>

### 1996

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Method of Calculation</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Government</td>
<td>Classification and Job Evaluation</td>
<td>Cost of the Universal Classification Standard program in 1995/96 represented between 0.05% and 0.15% of total Federal government spending (net of debt charges). Future Federal government spending was multiplied by these percentages to arrive at the expected annual costs. The program was abandoned in 2003.</td>
<td>(1) 0.05% = [(65M/$129,072M)*100() (2) 0.15% = [(200M/$129,072M)*100() (3) Future failure (LOW) = (Federal government spending in year t()*0.0005() (4) Future failure (HIGH) = (Federal government spending in year t()*0.0015()</td>
</tr>
<tr>
<td>Veterans Affairs</td>
<td>Health Care for Veterans</td>
<td>The cost of having inadequate controls in 1995/96 represented 0.36% of Veterans Affairs’ spending. Future spending by Veterans Affairs was multiplied by this percentage to arrive at the expected annual costs.</td>
<td>(1) 0.36% = [(7M/$1,937M)*100() (2) Future failure = (Veteran Affairs spending in year t()*0.0036()</td>
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## Failure Estimates ($millions)

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<tbody>
<tr>
<td></td>
<td>12.00</td>
<td>12.29</td>
<td>11.84</td>
<td>11.90</td>
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<td>7.55</td>
<td>7.06</td>
<td>6.95</td>
<td>7.33</td>
<td></td>
<td></td>
<td>135.70</td>
</tr>
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</table>

### Public Works and Government Management

- **Excess administrative spending in 1993/94 represented 0.29% of Public Works’ total spending.**
  
  - **Formula:** \(0.29\% = \left(\frac{12M}{4,195M}\right) \times 100\)
  
  - **Future failure:** Public Works spending in year \(t\) \(\times 0.0029\)

### Transport Subsidies

- The sum of all payments to railway companies under the Western Grain Transportation Act in 1991, 1992, 1993, and 1994 (payments made prior to 1991 were omitted because they fell outside the studied period).
  
  - **Formula:** \(1,049.00 + 722.00 + 633.00 + 644.00 = 3,048.00\)

### Interdepartmental Travel and Hospitality

- Travel mismanagement costs in 1994/95 represented between 0.13% and 0.19% of total Federal government spending (net of debt charges).
  
  - **Low estimate formula:** \(0.13\% = \left(\frac{170M}{131,456M}\right) \times 100\)
  
  - **High estimate formula:** \(0.19\% = \left(\frac{250M}{131,456M}\right) \times 100\)
  
  - **Future failure (LOW):** Federal government spending in year \(t\) \(\times 0.0013\)
  
  - **Future failure (HIGH):** Federal government spending in year \(t\) \(\times 0.0019\)

### Federal Government Classification and Job Evaluation

- Cost of the Universal Classification Standard program in 1995/96 represented between 0.05% and 0.15% of total Federal government spending (net of debt charges). Future Federal government spending was multiplied by these percentages to arrive at the expected annual costs. The program was abandoned in 2003.
  
  - **Low estimate formula:** \(0.05\% = \left(\frac{65M}{129,072M}\right) \times 100\)
  
  - **High estimate formula:** \(0.15\% = \left(\frac{200M}{129,072M}\right) \times 100\)
  
  - **Future failure (LOW):** Federal government spending in year \(t\) \(\times 0.0005\)
  
  - **Future failure (HIGH):** Federal government spending in year \(t\) \(\times 0.0015\)

### Veterans Affairs Health Care for Veterans

- The cost of having inadequate controls in 1995/96 represented 0.36% of Veterans Affairs’ spending.
  
  - **Formula:** \(0.36\% = \left(\frac{7M}{1,937M}\right) \times 100\)
  
  - **Future failure:** Veterans Affairs spending in year \(t\) \(\times 0.0036\)

## Summary

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</thead>
<tbody>
<tr>
<td></td>
<td>1,049.00</td>
<td>722.00</td>
<td>633.00</td>
<td>644.00</td>
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<td>3,048.00</td>
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</tbody>
</table>

**Low estimate**

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<tr>
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<td>170.00</td>
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<td>211.02</td>
<td>226.11</td>
<td>232.83</td>
<td>2,212.48</td>
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**High estimate**

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<tr>
<td></td>
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<td></td>
<td>17.00</td>
<td>24.62</td>
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<td>16.85</td>
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<td>13.41</td>
<td>14.70</td>
<td>13.02</td>
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<td>11.27</td>
<td>12.91</td>
<td>182.87</td>
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**Low estimate**

<table>
<thead>
<tr>
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<td>65.00</td>
<td>60.56</td>
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<td>64.60</td>
<td>69.48</td>
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<td>609.52</td>
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</tbody>
</table>

**High estimate**

<table>
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<tr>
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<td></td>
<td>200.00</td>
<td>181.69</td>
<td>175.84</td>
<td>183.94</td>
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<td>217.20</td>
<td>229.16</td>
<td>243.48</td>
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<td>7.00</td>
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<td>7.59</td>
<td>8.09</td>
<td>8.91</td>
<td>9.30</td>
<td>9.70</td>
<td>10.37</td>
<td>89.40</td>
<td></td>
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</tr>
</tbody>
</table>
### Method of Calculation Formula

Highlighted items are failures linked to the social insurance number (SIN).

#### Human Resources and Social Development

Management of Canada Pension Plan (CPP) for Disability

CPP disability overpayments in 1994/95 represented between 0.73% and 1.33% of total CPP disability benefits paid. Future CPP disability spending was multiplied by these percentages to arrive at the expected annual costs. Further review of the program was undertaken in 1995.

<table>
<thead>
<tr>
<th>Year</th>
<th>Low Estimate</th>
<th>High Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>21.00</td>
<td>38.00</td>
</tr>
</tbody>
</table>

#### Canada Revenue Agency (CRA)

CTBs and GST Credits

Improper CTB and GST credit payments in 1994/95 represented between 0.32% and 0.63% of total CTB and GST credit spending. Future CTB and GST credit spending was multiplied by these percentages to arrive at the expected annual costs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Low Estimate</th>
<th>High Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>25.70</td>
<td>51.40</td>
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<tr>
<td>1992</td>
<td>25.80</td>
<td>50.79</td>
</tr>
<tr>
<td>1993</td>
<td>26.03</td>
<td>51.24</td>
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<tr>
<td>1994</td>
<td>26.43</td>
<td>52.03</td>
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<tr>
<td>1995</td>
<td>27.46</td>
<td>54.07</td>
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<tr>
<td>1996</td>
<td>28.69</td>
<td>56.49</td>
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<tr>
<td>1997</td>
<td>30.88</td>
<td>60.80</td>
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<td>1998</td>
<td>33.90</td>
<td>66.74</td>
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<td>69.91</td>
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<tr>
<td>2000</td>
<td>36.66</td>
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<tr>
<td>2001</td>
<td>37.68</td>
<td>74.19</td>
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<tr>
<td>2002</td>
<td>40.06</td>
<td>78.86</td>
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<tr>
<td>2003</td>
<td>374.79</td>
<td>738.67</td>
</tr>
</tbody>
</table>

#### Canadian Heritage

Management of Historic Canals

Poor management in 1995/96 represented 0.33% of Canadian Heritage's total spending. Future spending by Canadian Heritage was multiplied by this percentage to arrive at the expected annual costs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Future Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>10.00</td>
</tr>
</tbody>
</table>

#### Indian and Northern Affairs Canada

Funding Arrangements for First Nations

Deficits in 1994/95 represented 3.81% of Indian Affairs and Northern Development's total spending. Future spending by INAC was multiplied by this percentage to arrive at the expected annual costs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Future Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>190.00</td>
</tr>
</tbody>
</table>

#### National Defence

Management

Costs identified in 1995/96 represented 1.72% of National Defence's total spending. Future spending by National Defence was multiplied by this percentage to arrive at the expected annual costs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Future Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>145.43</td>
</tr>
</tbody>
</table>

### 1997

#### Foreign Affairs and International Trade

Embassy Properties

Passport fees in 1996/97 were $50 million according to the Public Accounts of Canada. Thirty percent represented overcharges.

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>15.00</td>
</tr>
</tbody>
</table>

#### Foreign Affairs and International Trade

Housing Benefits

Poor management practices in 1996/97 represented 0.0024% of Foreign Affairs' total spending. Future spending by Foreign Affairs was multiplied by this percentage to arrive at the expected annual costs.

<table>
<thead>
<tr>
<th>Year</th>
<th>Future Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1.0024%</td>
</tr>
</tbody>
</table>

#### Human Resources and Social Development

Atlantic Fishery

The estimated failure is the difference between a simple counterfactual of unemployment spending on fishermen assuming no program changes and actual spending. The counterfactual is derived by multiplying EI spending in 1971/1972 (the year before program eligibility changed) by the annual growth rate in average wages and salaries.

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1.72%</td>
</tr>
</tbody>
</table>

### Formula

1. **Low Failure** = \( (\text{Future spending}) \times 0.33\% \)
2. **High Failure** = \( (\text{Future spending}) \times 0.63\% \)

For example:

- **Low Failure** = \( (\text{Future spending}) \times 0.33\% \)
- **High Failure** = \( (\text{Future spending}) \times 0.63\% \)

Where:
- **Future spending** is the spending in the corresponding year.
- **0.33%** and **0.63%** are the percentages calculated for the program in the given year.
### Failure Estimates ($millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Low Estimate</th>
<th>High Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>21.00</td>
<td>38.00</td>
</tr>
<tr>
<td>1992</td>
<td>21.00</td>
<td>38.00</td>
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<tr>
<td>1993</td>
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<td>2001</td>
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<td>2002</td>
<td>21.00</td>
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<tr>
<td>2003</td>
<td>21.00</td>
<td>38.00</td>
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<tr>
<td>2004</td>
<td>21.00</td>
<td>38.00</td>
</tr>
<tr>
<td>2005</td>
<td>21.00</td>
<td>38.00</td>
</tr>
<tr>
<td>Total</td>
<td>190.00</td>
<td>2,330.95</td>
</tr>
</tbody>
</table>

The table shows the failure estimates for various programs and departments in Canada from 1991 to 2005. The estimates are presented in two columns: Low and High. The Low estimates range from 21.00 million dollars in 1991 to 197.00 million dollars in 2005. The High estimates range from 38.00 million dollars in 1991 to 2,330.95 million dollars in 2005. The totals for each year are also provided, with the highest total being 2,330.95 million dollars in the year 2005.
### Method of Calculation

Highlighted items are failures linked to the social insurance number (SIN).

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/ Initiative</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interdepartmental</strong></td>
<td>Moving Costs</td>
<td>(1) 0.0094% = [($1.5M/($10,573M + $1,258M + $4,103M))*100] (2) Future failure = ((\text{National Defence + RCMP + Public Works spending in year } t))*0.00094)</td>
</tr>
</tbody>
</table>

### 1998

<table>
<thead>
<tr>
<th>Agriculture and Agri-Food</th>
<th>Cash Advance Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdepartmental Moving Costs</td>
<td>Unnecessary moving costs in 1996/97 represented 0.0094% of total spending at National Defence, RCMP, and Public Works. Future interdepartmental spending was multiplied by this percentage to arrive at the expected annual costs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Resources and Social Development</th>
<th>Employment Insurance (EI) Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdepartmental Moving Costs</td>
<td>Unnecessary moving costs in 1996/97 represented 0.0094% of total spending at National Defence, RCMP, and Public Works. Future interdepartmental spending was multiplied by this percentage to arrive at the expected annual costs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Resources and Social Development</th>
<th>Goods and Services Tax (GST) Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdepartmental Moving Costs</td>
<td>Unnecessary moving costs in 1996/97 represented 0.0094% of total spending at National Defence, RCMP, and Public Works. Future interdepartmental spending was multiplied by this percentage to arrive at the expected annual costs.</td>
</tr>
</tbody>
</table>

### 1999

<table>
<thead>
<tr>
<th>Human Resources and Social Development</th>
<th>Management of Canada Pension Plan (CPP) for Disability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdepartmental Moving Costs</td>
<td>Unnecessary moving costs in 1996/97 represented 0.0094% of total spending at National Defence, RCMP, and Public Works. Future interdepartmental spending was multiplied by this percentage to arrive at the expected annual costs.</td>
</tr>
</tbody>
</table>

### 2000

<table>
<thead>
<tr>
<th>Human Resources and Social Development</th>
<th>Transitional Jobs Fund (TJF) and Canada Jobs Fund (CJF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdepartmental Moving Costs</td>
<td>Unnecessary moving costs in 1996/97 represented 0.0094% of total spending at National Defence, RCMP, and Public Works. Future interdepartmental spending was multiplied by this percentage to arrive at the expected annual costs.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Resources and Social Development</th>
<th>Sectoral Partnerships Initiative (SPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interdepartmental Moving Costs</td>
<td>Unnecessary moving costs in 1996/97 represented 0.0094% of total spending at National Defence, RCMP, and Public Works. Future interdepartmental spending was multiplied by this percentage to arrive at the expected annual costs.</td>
</tr>
</tbody>
</table>
### Failure Estimates ($millions)

|---------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-------|
| Interdepartmental Moving Costs | Unnecessary moving costs in 1996/97 represented 0.0094% of total spending at National Defence, RCMP, and Public Works. Future interdepartmental spending was multiplied by this percentage to arrive at the expected annual costs.
| (1) 0.0094% = \([\frac{1.5M}{10,573M + 1,258M + 4,103M}]*100\) | (2) Future failure = \([\text{National Defence} + \text{RCMP} + \text{Public Works spending in year } t]*0.000094\) |
| Low estimate | 1.50 | 1.43 | 1.45 | 1.57 | 1.62 | 1.72 | 1.59 | 1.72 | 1.81 | 16.06 |
| High estimate | 1.50 | 1.43 | 1.45 | 1.57 | 1.62 | 1.72 | 1.59 | 1.72 | 1.81 | 16.06 |

| Agriculture and Agri-Food Cash Advance Program | Ineffective cash advances between 1992 and 1997 represented 38.9% of Agriculture and Agri-Food's total spending over the same period. Future spending by Agriculture and Agri-Food was multiplied by this percentage to arrive at the expected annual costs.
| (1) 38.9% = \([\frac{5,573M}{14,328M}]*100\) | (2) Future failure = \(\text{Agriculture and Agri-Food spending in year } t*0.389\) |
| Low estimate | 5,573.00 | 614.62 | 937.88 | 1,064.30 | 1,142.10 | 1,246.75 | 2,019.69 | 1,531.49 | 1,556.39 | 15,686.22 |
| High estimate | 5,573.00 | 614.62 | 937.88 | 1,064.30 | 1,142.10 | 1,246.75 | 2,019.69 | 1,531.49 | 1,556.39 | 15,686.22 |

| Employment Insurance (EI) Claims | Overpayments for employment insurance (EI) claims in 1996/97 represented 0.86% of total EI spending. Future EI spending was multiplied by this percentage to arrive at the expected annual costs.
| (1) 0.86% = \([\frac{102M}{11,859M}]*100\) | (2) Future failure = \(\text{EI spending in year } t*0.0086\) |
| Low estimate | 102.00 | 93.52 | 92.13 | 87.29 | 82.69 | 97.70 | 110.40 | 114.90 | 126.83 | 1,031.22 |
| High estimate | 102.00 | 93.52 | 92.13 | 87.29 | 82.69 | 97.70 | 110.40 | 114.90 | 126.83 | 1,031.22 |

| Goods and Services Tax (GST) Credits | Losses on GST credits for individuals without legal status in 1994/95 represented 0.29% of total GST credit spending. Future GST credit spending was multiplied by this percentage to arrive at the expected annual costs.
| (1) 0.29% = \([\frac{8.2M}{2,833M}]*100\) | (2) Future failure = \(\text{GST credit spending in year } t*0.0029\) |

| Management of Canada Pension Plan (CPP) for Disability | CPP disability overpayments and mispayments in 1996/97 represented 0.97% and 2.00% of total CPP disability benefits paid, respectively. Future CPP disability spending was multiplied by these percentages to arrive at the expected annual costs from 1995 onward.
| (1) 0.97% = \([\frac{29M}{3,000M}]*100\) | (2) 2.00% = \([\frac{60M}{3,000M}]*100\) | (3) Future failure (LOW: overpayments only) = \(\text{CPP disability spending in year } t*0.0097\) | (4) Future failure (HIGH: mispayments) = \(\text{CPP disability spending in year } t*0.02\) |
| Low estimate | 29.00 | 34.75 | 35.08 | 26.99 | 27.08 | 27.50 | 25.43 | 26.35 | 27.25 | 28.51 | 29.59 | 317.52 |
| High estimate | 60.00 | 71.64 | 72.34 | 55.64 | 55.84 | 56.70 | 52.44 | 54.32 | 56.18 | 58.78 | 61.00 | 654.88 |

| Transitional Jobs Fund (TJF) and Canada Jobs Fund (CJF) | TJF received $189 million in unnecessary funding for its final three years while CJF's (annual) unnecessary funding in 1999/00 represented 0.32% of Human Resources' total spending. Future spending by Human Resources was multiplied by this percentage to arrive at the expected annual costs.
| (1) TJF's unnecessary funding (final three years) = \(\text{\$300M}\)*0.63 | (2) CJF's unnecessary funding (annually) = \(\text{\$110M}\)*0.75 | (3) Total reported failure in 1999/00 = \(\text{\$189M} + \$82.5M\) | (4) 0.32% = \([\frac{82.5M}{26,159M}]*100\) | (2) Future failure = \(\text{Human Resources spending in year } t*0.0032\) |
| Low estimate | 271.50 | 86.47 | 89.19 | 90.07 | 94.70 | 104.09 | 109.33 | 845.36 |
| High estimate | 271.50 | 86.47 | 89.19 | 90.07 | 94.70 | 104.09 | 109.33 | 845.36 |

| Sectoral Partnerships Initiative (SPI) | Ineligible SPI funding in 1999/00 represented 0.018% of Human Resources' total spending. Future (and past) spending by Human Resources was multiplied by this percentage to arrive at the expected annual costs. SPI was launched in 1993.
<p>| (1) Ineligible (annual) SPI funding = (\text{$30M})*0.16 | (2) 0.018% = ([\frac{4.8M}{26,159M}]<em>100) | (2) Future failure = (\text{Human Resources spending in year } t</em>0.00018) |
| Low estimate | 5.99 | 6.07 | 4.38 | 4.49 | 4.54 | 4.80 | 4.86 | 5.02 | 5.07 | 5.33 | 5.86 | 6.15 | 62.55 |
| High estimate | 5.99 | 6.07 | 4.38 | 4.49 | 4.54 | 4.80 | 4.86 | 5.02 | 5.07 | 5.33 | 5.86 | 6.15 | 62.55 |</p>
<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/ Initiative</th>
<th>Method of Calculation</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2001</strong></td>
<td></td>
<td>--------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Atlantic Canada Opportunities Agency          | Documentation of Job Creation               | Only 33.3% of the $4.5 million in spending created employment.                        | (1) $33.3\% = \left(\frac{\text{Actual # of jobs created}}{\text{Intended # of jobs created}}\right) \times 100  
(2) Estimated failure = \left(\frac{\$4.5M \times (1 - 0.333)}{100}\right)                                                                 |
| Atlantic Canada Opportunities Agency          | Documentation of Job Creation               | Only 19.64% of the $2.8 million in spending created employment.                      | (1) $19.64\% = \left(\frac{\text{Actual # of jobs created}}{\text{Intended # of jobs created}}\right) \times 100  
(2) Estimated failure = \left(\frac{\$2.8M \times (1 - 0.1964)}{100}\right)                                                                 |
| **2004**                                     |                                             |--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Indian and Northern Affairs Canada Canada     | Post-Secondary Student Support Program for First Nations | Only 17% of First Nations students supported by the $2.8 billion program graduated post-secondary. | (1) \# of First Nations and Inuits receiving assistance between 1994 and 2002 = \left(\frac{\text{# of recipients per year}}{8 \text{ years}}\right)  
(2) Graduation rate between 1994 and 2002 = \left(\frac{\text{Graduates}}{\# \text{ of First Nations and Inuits receiving assistance}}\right)  
(3) Estimated failure = \left(\frac{\text{Program spending}}{1 - \text{Graduation rate}}\right) |
| **2005**                                     |                                             |--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Solicitor General (Public Safety and Emergency Preparedness) | Contract Policing                           | Net losses in 1991/92 represented 27.64% of RCMP's total spending. Future spending by the RCMP was multiplied by this percentage to arrive at the expected annual costs. | (1) $27.64\% = \left(\frac{\$325M}{\$1,176M}\right) \times 100  
(2) Future failure = (RCMP spending in year t) \times (0.2764)                                                                 |
| **2006**                                     |                                             |--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| National Defence                             | Military Retention                          | Around $350,000 was paid annually for poor training investments which totalled $5.25 between 1991 and 2005. | (1) Seven-year training costs = \left(\frac{\$200,000}{35 \text{ recruits per year}}\right) \times (35)  
(2) Seven-year failure = \left(\frac{\$7M}{0.35}\right)  
(3) Average failure per year = \left(\frac{\$2.45M}{7 \text{ years}}\right)  
(4) Estimated failure = (\$0.35) \times (15 years)                                                                 |
| Justice                                      | Canadian Firearms Program—CFIS II           | Rising annual costs for CFIS II in 2005/06 represented 1.04% of the Justice Ministry’s total spending. Future spending by the Justice Ministry was multiplied by this percentage to arrive at the expected annual costs. | (1) $1.04\% = \left(\frac{\$15M}{\$1,446M}\right) \times 100  
(2) Future failure = (Justice Ministry spending in year t) \times (0.0104)                                                                 |
| Public Works and Government Services         | Managing Information Systems                | Unnecessary spending in 2005/06 represented 1.98% of Public Works’ total spending. Future spending by Public Works was multiplied by this percentage to arrive at the expected annual costs. | (1) $1.98\% = \left(\frac{\$50M}{\$2,528M}\right) \times 100  
(2) Future failure = (Public Works spending in year t) \times (0.0198)                                                                 |
### Failure Estimates ($millions)

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</thead>
<tbody>
<tr>
<td>1991</td>
<td>4.23</td>
<td>2,380.00</td>
<td>325.00</td>
<td>5.25</td>
<td>15.00</td>
<td>50.00</td>
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<tr>
<td>1992</td>
<td>4.23</td>
<td>2,380.00</td>
<td>328.36</td>
<td>5.25</td>
<td>15.00</td>
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<tr>
<td>1993</td>
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<td>2,380.00</td>
<td>343.29</td>
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<td>15.00</td>
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<tr>
<td>1994</td>
<td>2.25</td>
<td>2,380.00</td>
<td>353.79</td>
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<td>15.00</td>
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<td>2,380.00</td>
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<td>1997</td>
<td>2.25</td>
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<td>357.94</td>
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<td>15.00</td>
<td>50.00</td>
</tr>
<tr>
<td>1998</td>
<td>2.25</td>
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<td>339.97</td>
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<td>50.00</td>
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<td>1999</td>
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<td>2000</td>
<td>2.25</td>
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<td>408.24</td>
<td>5.25</td>
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<td>50.00</td>
</tr>
<tr>
<td>2001</td>
<td>2.25</td>
<td>2,380.00</td>
<td>451.91</td>
<td>5.25</td>
<td>15.00</td>
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<tr>
<td>2002</td>
<td>2.25</td>
<td>2,380.00</td>
<td>509.68</td>
<td>5.25</td>
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<tr>
<td>2003</td>
<td>2.25</td>
<td>2,380.00</td>
<td>523.50</td>
<td>5.25</td>
<td>15.00</td>
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<tr>
<td>2004</td>
<td>2.25</td>
<td>2,380.00</td>
<td>500.00</td>
<td>5.25</td>
<td>15.00</td>
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<tr>
<td>2005</td>
<td>2.25</td>
<td>2,380.00</td>
<td>565.24</td>
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<td>15.00</td>
<td>50.00</td>
</tr>
<tr>
<td>Total</td>
<td>4.23</td>
<td>2,380.00</td>
<td>2,380.00</td>
<td>5.25</td>
<td>15.00</td>
<td>50.00</td>
</tr>
</tbody>
</table>

### Method of Calculation

1. **Atlantic Canada Opportunities Agency**
   - Documentation of Job Creation
   - Only 33.3% of the $4.5 million in spending created employment.
   - Formula: \[\text{Estimated failure} = (\text{Program spending} \times (1 - 0.333))\]
   - Estimated failure: $4.23

2. **Atlantic Canada Opportunities Agency**
   - Documentation of Job Creation
   - Only 19.64% of the $2.8 million in spending created employment.
   - Formula: \[\text{Estimated failure} = (\text{Program spending} \times (1 - 0.1964))\]
   - Estimated failure: $2.25

3. **Indian and Northern Affairs Canada Post-Secondary Student Support Program for First Nations**
   - Only 17% of First Nations students supported by the $2.8 billion program graduated post-secondary.
   - Formula: \[\text{Estimated failure} = (\text{Program spending} \times (1 - \text{Graduation rate}))\]
   - Estimated failure: $2,380.00

4. **Solicitor General (Public Safety and Emergency Preparedness) Contract Policing**
   - Net losses in 1991/92 represented 27.64% of RCMP's total spending.
   - Future failure: \[(\text{RCMP spending in year } t) \times (0.2764)\]
   - Future failure: $325.00, $328.36, $343.29, $351.30, $347.71, $357.94, $372.03, $408.24, $451.91, $509.68, $523.50, $500.00, $565.24, $6,077.98

5. **National Defence Military Retention**
   - Around $350,000 was paid annually for poor training investments.
   - Future failure: \[(\text{Seven-year training costs}) \times (0.35)\]
   - Future failure: $5.25

6. **Justice Canadian Firearms Program—CFIS II**
   - Rising annual costs in 2005/06 represented 1.04% of the Justice Ministry's total spending.
   - Future failure: \[(\text{Justice Ministry spending in year } t) \times (0.0104)\]
   - Future failure: $15.00

7. **Public Works and Government Services Managing Information Systems**
   - Unnecessary spending in 2005/06 represented 1.98% of Public Works' total spending.
   - Future failure: \[(\text{Public Works spending in year } t) \times (0.0198)\]
   - Future failure: $50.00
<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Method of Calculation</th>
<th>Formula</th>
</tr>
</thead>
</table>

Highlighted items are failures linked to the social insurance number (SIN).

**TOTALS**

**Sources**

Bank of Canada (2006); Canada, Department of Finance (2005); Canada, Department of Finance (2006); Office of the Auditor General (various issues); Office of the Superintendent of Financial Institutions, Office of the Chief Actuary [OSFI-OCA] (various issues); Receiver General for Canada (various issues); Statistics Canada, Income and Expenditure Accounts Division (2006); Statistics Canada, Public Institutions Division (2006); Clemens et al. (2007); calculations by the authors.
## Failure Estimates ($millions)

<table>
<thead>
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<tbody>
<tr>
<td>Total low estimate</td>
<td>70,995.21</td>
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<tr>
<td>Total high estimate</td>
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<tr>
<td>Low SIN-related costs</td>
<td>4,131.85</td>
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<tr>
<td>High SIN-related costs</td>
<td>5,556.26</td>
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<tr>
<td>Total low estimate minus SIN-related</td>
<td>66,863.36</td>
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<tr>
<td>Total high estimate minus SIN-related</td>
<td>69,136.67</td>
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</table>

Sources:
- Bank of Canada (2006); Canada, Department of Finance (2005); Canada, Department of Finance (2006); Office of the Auditor General (various issues); Office of the Superintendent of Financial Institutions, Office of the Chief Actuary [OSFI-OCA] (various issues); Receiver General for Canada (various issues); Statistics Canada, Income and Expenditure Accounts Division (2006); Statistics Canada, Public Institutions Division (2006); Clemens et al. (2007); calculations by the authors.
### Appendix C: Government Failures Reported by the Auditor General but with Insufficient Cost Information, 1992–2006

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1992</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Reserve Land Forest Management</td>
<td>The Department had no policy or plan to ensure that timber revenue from reserve land went directly to the bands from whose reserves it was taken.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Project Initiation and Implementation</td>
<td>The Defence Program Management System (DPMS) created an enormous workload for National Defence staff. Only 3.3% of projects went through the complete process.</td>
</tr>
<tr>
<td>National Defence</td>
<td>The Canadian Forces Reserves</td>
<td>Training programs for Canadian Forces Reserves were deficient. In addition, primary reserve readiness was low and was not able to meet the basic requirement of deployability within 30 days. Militia units also lacked performance standards and had poor turnout rates.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Goods and Services Tax (GST)</td>
<td>The number of telephone inquiries received concerning the GST during 1991/92 was about three times the original forecast. As a result, resources were reallocated to address the problem, but this created a backlog in follow-up and maintenance action.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Emergency preparedness</td>
<td>Two major reports about emergency preparedness faced delays due to interdepartmental jurisdictional disputes, misallocation of resources, and problems coordinating with the provinces.</td>
</tr>
<tr>
<td>Citizenship and Immigration</td>
<td>Immigration</td>
<td>There was 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 counsel not being ready to proceed.</td>
</tr>
<tr>
<td><strong>1993</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Government</td>
<td>Federal Expenditures</td>
<td>Predetermined spending by the Federal government had almost doubled since 1952/53. This effectively reduces the government’s fiscal manoeuvrability.</td>
</tr>
<tr>
<td>Atomic Energy of Canada Limited (AECL)</td>
<td>Accounting Principles</td>
<td>The magnitude of AECL’s liabilities and deficit could not be determined because of inappropriate accounting practices.</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Bilateral Economic and Social Development Programs</td>
<td>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.</td>
</tr>
<tr>
<td>Department of National Health and Welfare (DNHW)</td>
<td>Program for Seniors—Canada Pension Plan (CPP)</td>
<td>The inquiry system used for CPP medical appeals had been in decline for several years and was severely backlogged and inefficient.</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Failure</td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>--------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>1994</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Defence</td>
<td>Follow-up of recommendations</td>
<td>National Defence only acted on 56% of the recommendations made by the Auditor General between 1990 and 1994.</td>
</tr>
<tr>
<td>Emergency Preparedness)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Tax Assistance for Retirement Savings (TARS)</td>
<td>The backlog of plans awaiting registration or amendment increased by 48% between 1991/92 and 1992/93, and by 41% between 1992/93 and 1993/94.</td>
</tr>
<tr>
<td>Science and Technology</td>
<td>Management of Activities</td>
<td>Management systems and practices were lacking as goals of projects and programs were often outlined in general terms and did not specify expected results. In addition, the distribution of financial resources was not related to programs objectives or priorities.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Property Management</td>
<td>Federal management information systems for real property was incomplete and fragmented. For example, an audit of three departments found that about 50% of the properties in Ontario had outstanding issues and 30% had information that was out of date.</td>
</tr>
<tr>
<td>Atomic Energy Control Board (AECB)</td>
<td>National Standards and Regulatory Policy of Nuclear</td>
<td>There was a lack of clear authority in establishing and enforcing national standards relating to the use of nuclear energy.</td>
</tr>
<tr>
<td></td>
<td>Facilities</td>
<td></td>
</tr>
<tr>
<td>Public Safety</td>
<td>National Parole Board</td>
<td>Board members spent more time on short-sentence non-violent offenders than on longer-sentence violent offenders.</td>
</tr>
<tr>
<td>Public Safety</td>
<td>Correctional Services—Supervision of Released</td>
<td>Supervision techniques and the average time available for direct supervision of offenders varied widely from region to region.</td>
</tr>
<tr>
<td></td>
<td>Offenders</td>
<td></td>
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<tr>
<td>National Defence</td>
<td>Management Plans for the Canadian Forces</td>
<td>Only 25% of the DND’s management plans provided adequate cost information.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Data Collection</td>
<td>Practices for collecting income-tax details had not kept pace with private-sector practices in key areas of data collection.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>GST Audits and Special Investigations</td>
<td>Audit coverage of the GST was low according to the Auditor General.</td>
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<tr>
<td><strong>1995</strong></td>
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<tr>
<td>Human Resources and Social Development</td>
<td>Systems under Development</td>
<td>Human Resources used up its entire contingency for scheduled slippage 15 months into a 35-month contract.</td>
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<tr>
<td>Industry</td>
<td>Microelectronics and Systems Development Program (MSDP) and Strategic Technologies Program (STP)</td>
<td>In Ontario, 44% of recipients of aid from the MSDP and STP applied for financial support from multiple government funding programs for the same projects.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Governance of Crown Corporations</td>
<td>Crown Corporations lacked clearly articulated mandates, measurable objectives, and adequate reporting of results.</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Failure</td>
</tr>
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</tr>
<tr>
<td>Federal Government</td>
<td>Ethics and Fraud Awareness</td>
<td>Results from a survey of senior managers in government departments and agencies concerning ethics and fraud awareness revealed a high likelihood of civil servant fraud.</td>
</tr>
<tr>
<td>Transport</td>
<td>Transportation Subsidies</td>
<td>The Atlantic Region Freight Assistance program was disbanded in 1995 due to inefficiency and poor service. Subsidized carriers were undercutting independent carriers and charging affiliated companies more.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Revolving Funds</td>
<td>Revolving funds had little parliamentary oversight. In 1993/94, $4.3 billions flowed through 11 revolving funds, mainly in Public Works and Government Services.</td>
</tr>
</tbody>
</table>

| 1996                                                                 |
|--------------------------------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Interdepartmental              | Evaluation Processes in the Federal Government | Twelve expenditure programs totalling about $5 billion and two tax assistance initiatives totalling about $16 billion did not include information on effectiveness.                                      |
| Canada Revenue Agency (CRA)    | Income Support Tax Credits                 | Telephone lines for inquiries concerning federal benefits had busy signal rates of 90%. In some cases, less than 5% of calls got through and callers tried an average of nine times before reaching the department.       |
| Interdepartmental              | Internal Audit in Departments and Agencies | Four of seven departments did no follow-up on 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.               |
| Canada Revenue Agency (CRA)    | Business Window Program                   | The likelihood of getting through on the telephone line under the new program was between 15% and 28% whereas the success rate was between 31% and 99% under the previous system.                                    |
| Solicitor General (Public Safety and Emergency Preparedness) | Federal Reintegration of Offenders         | Correctional Service mismanaged the reintegration of offenders into Canadian society. It took an average of six extra weeks to produce an initial assessment in most regions.                                |
| National Defence               | Productivity                              | National Defence’s training productivity fell by 40%. Meanwhile, 43% of business plans lacked cost and output data.                                                                                     |
| National Defence               | Productivity                              | National Defence under-used its vehicles by an average of 41%. In addition, vehicle vehicle maintenance could have been reduced significantly by taking advantage of warranties on vehicles.                  |
| Interdepartmental              | Public Service Quality                    | The public service was not service oriented; technology was under-used; many services did not collect and analyze data on complaints; and, there were problems with the government telephone services.           |
| Federal Government             | Export Promotion                          | Export promotion activities resulted in needless expenses. Cost sharing between the government and private exporters in foreign trade promotion was minimal.                                                   |
| National Parks                 | Canadian Heritage-Parks Canada system     | Management plans were 12 years old, despite requirements stating that reviews should be undertaken every 5 years. As a result, some parks lacked indicators and programs for monitoring ecological integrity. |

<p>| 1997                                                                 |
|--------------------------------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Health                         | First Nations Health                      | Reserve-provided health services were poor due to employee absences, improperly qualified workers, and incompetence. In addition, there were problems with over prescription of drugs among First Nations. |</p>
<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1998</strong></td>
<td></td>
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</tr>
<tr>
<td>National Defence</td>
<td>Equipment for the Canadian Forces</td>
<td>Operations and maintenance costs exceeded 30% of departmental funding, further impairing equipment modernization.</td>
</tr>
<tr>
<td>Transport</td>
<td>Highways</td>
<td>Additional funding was sought for highways that were well above acceptable standards.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Sole-source Professional Service Contracts</td>
<td>There were irregularities in the awarding process of sole-source contracts; some contracts were exempt from the competitive bidding process.</td>
</tr>
<tr>
<td><strong>1999</strong></td>
<td></td>
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<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Underground Economy Initiative</td>
<td>Revenue Canada overestimated the effectiveness of its Underground Economy Initiative. The actual tax impact of this initiative was much less than the $500 million reported.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Hazardous materials</td>
<td>About 25% of DND staff came into contact with hazardous chemicals on a daily basis.</td>
</tr>
<tr>
<td>Health</td>
<td>National Health Surveillance System</td>
<td>Coordination among provincial authorities in the detection and prevention of communicable diseases was lacking.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Canada Infrastructure Works Program</td>
<td>Information published by the Canada Infrastructure Works Program regarding the source and duration of employment attributed to the program was questionable.</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Property Management</td>
<td>Public Works contracted out all 13 available regional contracts for property maintenance to the same firm. The quoted price, a criterion used for awarding the contracts, was given only a 10% weight.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Diesel Purchases</td>
<td>National Defence personnel accepted cash rebates from retail service stations for 88% of their diesel purchases.</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Sole-source Professional Service Contracts</td>
<td>Only 11% of the contracts examined had a justification for sole-sourcing on file that complied with the conditions stipulated in the Government Contracts Regulations.</td>
</tr>
<tr>
<td><strong>2000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources Development Canada (HRDC)</td>
<td>Claims Processing Time</td>
<td>Claims processing times by HRDC local offices improved slightly between 1996 and 1999 but at the expense of accuracy, which fell from 96% to 94%.</td>
</tr>
<tr>
<td>Immigration</td>
<td>Canadian Immigration Program</td>
<td>Selection criteria were not adequate and raised false hopes among immigrants. The list of occupations that received additional consideration did not reflect Canada’s current labour market.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Border Control</td>
<td>There were delays (two to five months) in entering criminal records into the system. A previous study indicated that the system was inaccessible over 10% of the time.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>R&amp;D Tax Credits</td>
<td>The R&amp;D tax credit program produced on-going court challenges and extra spending on multiple science reviews.</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Failure</td>
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</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>First Nations Education</td>
<td>There was no process or mechanism to measure and assess whether the needs of First Nation students were being served.</td>
</tr>
<tr>
<td>Human Resources Development Canada (HRDC)</td>
<td>Youth Internship Canada Program</td>
<td>Only 5% of projects had been properly assessed for eligibility under this program; nearly 50% of the projects did not have proper approval; over 60% of the projects did not record the number of jobs created; and only 18% of small projects indicated why they received funding.</td>
</tr>
<tr>
<td>Justice</td>
<td>Firearms Registry</td>
<td>Only 13% of the firearms license applications were completed at the time of the audit.</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Contracting Out</td>
<td>At least $320 million in missed contracts should have been included in a 1998 Report. Following a review of the data, contracts valued at more than $3 billion had been omitted from the Report.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Governance of Crown Corporations</td>
<td>Directors of Crown Corporations lacked key skills and capabilities. About 25% of Chairs and CEOs of Crown Corporations were selected according to “political criteria.”</td>
</tr>
</tbody>
</table>

### 2001

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Development Canada (HRDC)</td>
<td>Grants</td>
<td>HRDC grants lacked accountability.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Verification of Commercial Shipments</td>
<td>Periodic verification of shipments achieved little at great cost. After four years, the program completed only 28% of planned verifications.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Maintenance Staffing</td>
<td>National Defence’s maintenance units suffered overall vacancy rates of 13%, and only 15% of the personnel had the qualifications their ranks required.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Income Support Tax Credits</td>
<td>There were more children enrolled in the CTB program than the eligible child population; 30% of child deaths in Alberta and British Columbia went unreported; and in some cases payments continued inappropriately until the child reached age 18.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Sole-Source Contracting</td>
<td>In 1999, only 11% of sole-sourced professional service contracts met the conditions stipulated by the government.</td>
</tr>
</tbody>
</table>

### 2002

<table>
<thead>
<tr>
<th>Ministry</th>
<th>Program/Initiative</th>
<th>Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Tax Administration</td>
<td>CRA’s registry for tracking tax forgiveness requests did not record the reasons given for rulings. In one case, a nation-wide service provider received three different rulings from seven regional tax authorities for the same tax issue.</td>
</tr>
<tr>
<td>Human Resources and Social Development</td>
<td>Social Insurance Numbers (SINS)</td>
<td>There were 5 million more SINs for people over the age of 20 than Canadians of those ages. Half of them were considered dormant while 8.3 million usable SINs were never verified by personal identification.</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>First Nations Reporting</td>
<td>Populations on reserves are unknown because the “Indian Registry System” was not designed to collect information about the number of residents. As a result, the exact proportional impact of reserve spending is unknown.</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Acquisition of Office Space</td>
<td>Key planning documents were outdated or missing which lead to vacant buildings and poor client service at Public Works.</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
<td>Failure</td>
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</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Acquisition of Office Space</td>
<td>Fourteen percent of purchases and leases were missing investment analysis reports and 21% lacked market analysis reports.</td>
</tr>
<tr>
<td>Justice</td>
<td>Canadian Firearms Program</td>
<td>There were serious concerns about the accuracy and completeness of the Canadian Firearms database.</td>
</tr>
<tr>
<td>2003</td>
<td></td>
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</tr>
<tr>
<td>Citizenship and Immigration</td>
<td>Immigration Control</td>
<td>Citizen and Immigration was only 50% effective at restricting inadmissible travellers in 1994. In 2000, half of the applicants scheduled for removal did not appear for their removal hearing.</td>
</tr>
<tr>
<td>Citizenship and Immigration</td>
<td>Immigration Control</td>
<td>Around 40% (50% for applicants with a criminal background) of the permits issued to immigrants contained files without proper justification.</td>
</tr>
<tr>
<td>Citizenship and Immigration</td>
<td>Immigration Control</td>
<td>Visa documents were outdated and easy to falsify because offices did not reconcile documents on a daily basis.</td>
</tr>
<tr>
<td>Citizenship and Immigration</td>
<td>Immigration Control</td>
<td>Citizen and Immigration attracted only 43% of the number of skilled worker their performance reports claimed.</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Land Claim Agreements</td>
<td>Two land-claim settlements outlined government obligations that have not been measured or assessed over the past 10 years.</td>
</tr>
<tr>
<td>2004</td>
<td></td>
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</tr>
<tr>
<td>Industry</td>
<td>Management of Leading-Edge Research</td>
<td>The National Research Council was unable to provide basic information on the total number of current projects and their costs.</td>
</tr>
<tr>
<td>Health</td>
<td>Regulation of Medical Devices</td>
<td>Medical devices testing by Health Canada was inadequately monitored; there was little follow-up to ensure that approved products were safe.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>The 2001 Anti-Terrorism Initiative</td>
<td>Clearance was given to restricted areas at airports without a criminal record check.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>The 2001 Anti-Terrorism Initiative</td>
<td>Intelligence sharing among federal departments could not address a possible terrorist attack.</td>
</tr>
<tr>
<td>Citizenship and Immigration</td>
<td>Immigration Control</td>
<td>There was no standard quality control mechanisms for monitoring those entering the country. In addition, there was no system of transferring information on the 162,000 outstanding Canada-wide arrest warrants to border control and immigration.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Internal Audit in Departments and Agencies</td>
<td>The Treasury Board had not established a strategy for addressing and directing internal audits within government.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Upgrades</td>
<td>In 1992, the DND decided to upgrade its fleet of CF-18 fighter jets. However, the upgrade was not expected to be complete until 2006, 14 years after the need was identified.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Management of Federal Drug Benefits Program</td>
<td>Health Canada was unable to explain why the number of clients receiving 50 or more prescriptions a year tripled between 1999 and 2003.</td>
</tr>
<tr>
<td>Ministry</td>
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</tr>
<tr>
<td>Natural Resources</td>
<td>Governance and Strategic Management</td>
<td>Management at Natural Resources Canada did not have a corporate strategic plan. Risk assessment was also inadequate.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Air and Marine Transportations Security Breaches (SEMIS)</td>
<td>Around 40% of files in the main inspection database for SEMIS were inaccurate.</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>National Security</td>
<td>No threat or risk assessment was carried out before $190 million was allocated for the protection of critical infrastructure.</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Passport Services</td>
<td>Seventy-four percent of passport applications showed no evidence of the required processes to determine the eligibility of applicants.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Command and Control, Computing, Intelligence, Surveillance, and Reconnaissance (C4ISR)</td>
<td>Only 46% of C4ISR projects and 11% of related projects submitted funding approval.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Project Spending</td>
<td>National Defence spent $2.9 billion on projects that did not have approved documentation.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Information Technology Security</td>
<td>Departments and agencies had not developed comprehensive IT security standards and, in some departments, access to sensitive data and programs were not controlled and networks were not secure.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Accountability of Foundations</td>
<td>The outcomes of activities funded by grants to foundations were not recorded resulting in poor accountability. The government transferred more than $9 billion to foundations between 1996/97 and 2003/04.</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Contribution Agreements</td>
<td>Sixty percent of large, sole-source contracts should have been open to competition since there may have been potentially qualified suppliers.</td>
</tr>
<tr>
<td>Foreign Affairs and International Trade</td>
<td>Contribution Agreements</td>
<td>In the 24 contracts and contribution agreements examined, only one case had the appropriate withdrawal provisions included.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Governance of Crown Corporations</td>
<td>There was a 20% rise in board members serving after their terms had expired.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Financial Information</td>
<td>Only 55% of public sector employees were professional accountants whereas 80% of their private sector counterparts held the appropriate accreditations.</td>
</tr>
<tr>
<td>Government Agencies</td>
<td>Managing Horizontal Initiatives</td>
<td>Due to poor accountability, a number of government agencies had produced reports to Parliament that were incomprehensible. Consequently, corrective action could not be undertaken.</td>
</tr>
<tr>
<td>Canadian Heritage</td>
<td>Support to Cultural Industries</td>
<td>Canadian Heritage’s performance reports lacked key data on targets, strategies, required resources, timetables and commitments.</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Treaty Land Entitlement Obligations</td>
<td>INAC made limited progress in converting Crown lands into reserve status, resulting in significant financial costs.</td>
</tr>
<tr>
<td>Ministry</td>
<td>Program/Initiative</td>
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</tr>
<tr>
<td>Interdepartmental</td>
<td>Financial Information</td>
<td>Many departments continue to use the cash-based method of accounting, which provides incomplete and inaccurate financial information.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Military Recruiting and Staffing</td>
<td>Recruitment problems persisted at DND; some occupations were understaffed while others had personnel in excess.</td>
</tr>
<tr>
<td>Justice</td>
<td>Canadian Firearms Program - Reports to Parliament</td>
<td>Performance reports to Parliament failed to show how program activities help minimize risks to public safety with evidence-based outcomes such as reduced deaths, injuries, and threats from firearms.</td>
</tr>
<tr>
<td>Justice</td>
<td>Canadian Firearms Program—Data Quality</td>
<td>The Canadian Firearms Centre did not know the status of 62% of the firearms that had their registration certificates revoked between July and October 2005.</td>
</tr>
<tr>
<td>Health</td>
<td>Management of Programs for First Nations</td>
<td>Health Canada was slow in intervening when inappropriate use of prescription drugs was observed.</td>
</tr>
<tr>
<td>Indian and Northern Affairs Canada</td>
<td>Transfer Payments</td>
<td>INAC did not require recipients who received more than $100,000 for a project to provide a statement about other sources of proposed funding.</td>
</tr>
<tr>
<td>National Defence</td>
<td>Military Retention</td>
<td>Thirty-five percent of army combat engineers leave the military after their fourth year and about 71% of military physicians leave within ten years of service.</td>
</tr>
<tr>
<td>Public Works and Government Services</td>
<td>Canadian Firearms Program—Contract Management</td>
<td>Consultant costs increased by an average 25% because the Canadian Firearms Program misused contracting tools to justify the retention of information technology contractors through a non-competitive procurement process.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Collection of Tax Debts</td>
<td>As of March 31, 2005, the total amount in undisputed tax debt stood at $18 billion, $4.7 billion of which was considered doubtful accounts and not collectible. No strategy has been developed to collect the outstanding debts.</td>
</tr>
<tr>
<td>Canada Revenue Agency (CRA)</td>
<td>Managing Risk</td>
<td>CRA's documentation of the automated risk-scoring module was poor which meant that the Auditor General was unable to determine how risk scores were calculated and whether the riskiest files were given priority.</td>
</tr>
<tr>
<td>Interdepartmental</td>
<td>Expenditure Management System (EMS)</td>
<td>Program delivery suffered because EMS funding was inadequately aligned with program requirements.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Direct Program Spending</td>
<td>The Treasury Board approved around $130 billion in “Direct Program Spending” for which there was insufficient financial and performance information available to perform proper expenditure oversight.</td>
</tr>
<tr>
<td>Federal Government</td>
<td>Central Expenditure Review - Supplementary Estimates</td>
<td>Government departments were spending their appropriations before they received Parliamentary approval.</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Support of Proper Conduct</td>
<td>A survey of three agencies covering 400 non-management employees revealed that overall, employee knowledge about internal disclosure programs was poor.</td>
</tr>
<tr>
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</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Use of Acquisition Credit Cards</td>
<td>Nineteen percent of RCMP cardholders used their cards for vehicle operating and maintenance expenses, which were not allowed by Treasury Board policy.</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Use of Acquisition Credit Cards</td>
<td>One individual at Canada Border Services Agency made 61 questionable transactions (i.e., payments for home electricity bills, fuel and gasoline purchases, pharmacy bills, and a home alarm system).</td>
</tr>
<tr>
<td>Solicitor General (Public Safety and Emergency Preparedness)</td>
<td>Use of Acquisition Credit Cards</td>
<td>About 33% of the cardholders at Correctional Service Canada had delinquency charges on their accounts for not making payments in a timely manner.</td>
</tr>
<tr>
<td>Royal Canadian Mounted Police and Public Works</td>
<td>Contract Management—Integrated Relocation Program</td>
<td>The government may have overpaid for administrative services from a professional relocation company.</td>
</tr>
<tr>
<td>Human Resources and Social Development Canada (HRSDC)</td>
<td>Old Age Security—Applications</td>
<td>HRSDC did not have a nationally standardized quality review procedure for OAS program benefit applications.</td>
</tr>
<tr>
<td>Human Resources and Social Development Canada (HRSDC)</td>
<td>Old Age Security—Processing Centres</td>
<td>Assessment of three processing centres revealed quality deficiencies in up to 40% of cases, resulting in payment errors in up to 7% of cases.</td>
</tr>
<tr>
<td>Human Resources and Social Development Canada (HRSDC)</td>
<td>Old Age Security—Overpayments</td>
<td>Overpayments were managed inadequately because the information required for appropriate analyses was unavailable.</td>
</tr>
</tbody>
</table>

Sources
Office of the Auditor General (various issues).
References


Publications from the Office of the Auditor General


Government sources


