# *Federal government failure in Canada*

## *2013 Edition*

*A review of the Auditor General's reports, 1988–2013*

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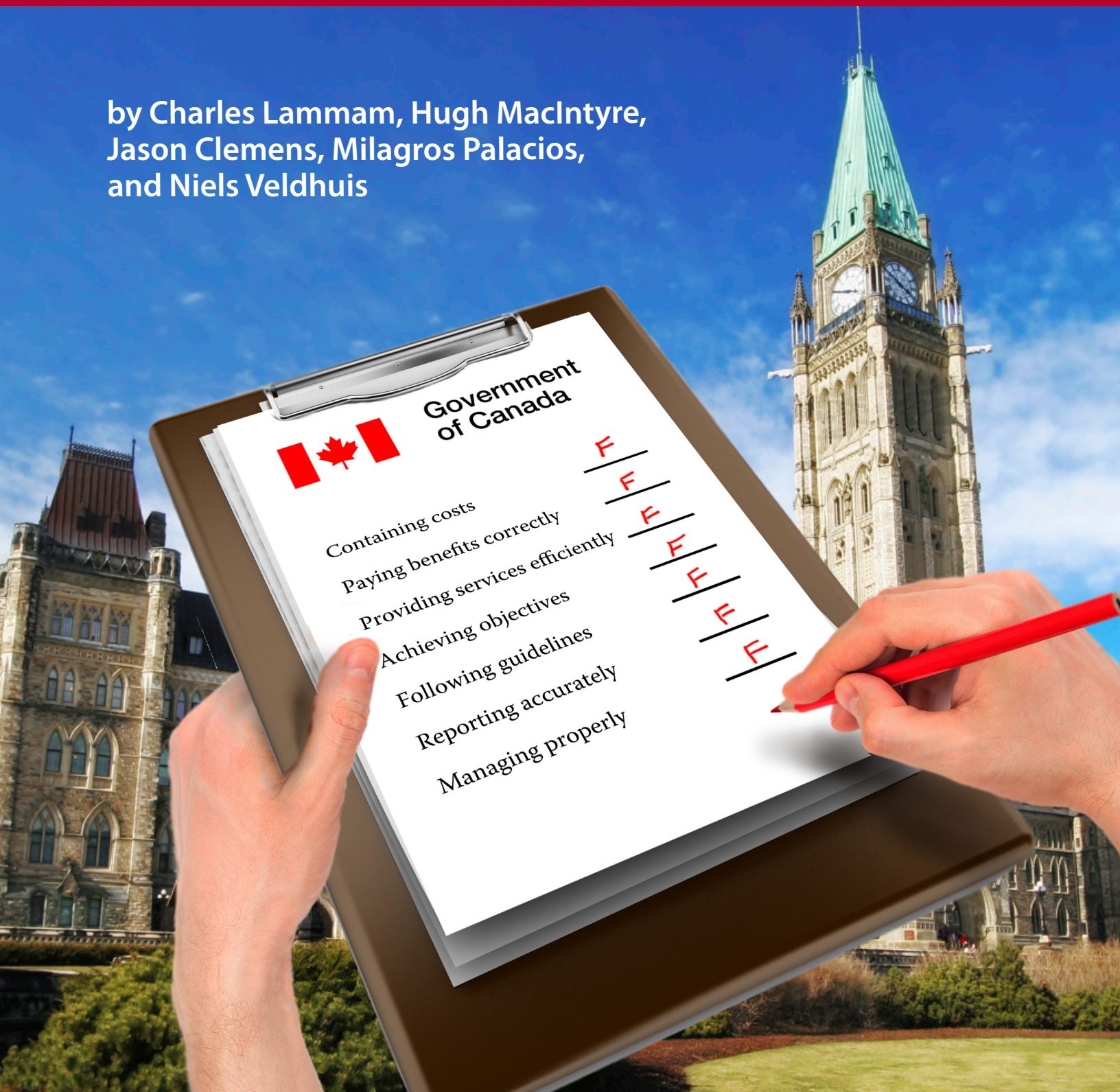
by Charles Lammam, Hugh MacIntyre, Jason Clemens, Milagros Palacios, and Niels Veldhuis



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# 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 Auditor General of Canada's reports, which provide concrete evidence of the existence and extent of federal government failure in Canada. The Public Choice school of thought, which applies traditional economic methods and techniques to explaining 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 (section 1); to document government failure from the reports of the Auditor General (section 2); to calculate a reasonable estimate of the cost of government failure based on these reports (section 3); and to describe briefly the mechanisms available to reduce government failure (section 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 about the motivation of each participant by assuming that each acts in their own self-interest. Using this framework, 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. That is, politicians were thought

to be primarily concerned with making decisions that provided the best outcome for society in general. But as the late Professor and Nobel Laureate James Buchanan put it, this thinking assumes that people become economic eunuchs when they enter government. Public Choice challenges this view of political behaviour and, in doing so, helps to explain why governments do not always act in the public interest (**figure exsum 1**).

## Federal 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 federal government failure that illustrate Public Choice theory. A total of 614 instances of government failure are included in this volume. All cases were derived from reports of the Auditor General published between 1988 and 2013.[1]

For the purposes of this study, government failure is defined as a failure to achieve the stated goal(s) of a program or initiative. It is a more narrow definition than what is commonly used, which includes evaluating the efficacy of a program or initiative. This study undertakes no such evaluation but simply uses the Auditor General reports to determine whether there were problems in program design, delivery, and effectiveness. For example, programs and initiatives that were deemed to represent a failure suffered from problems such as:

- cost overruns (i.e., spending beyond original estimates);
- over- and under-payment of benefits;
- failure to achieve stated objectives;
- inaccurate reporting of financial information;
- failure to provide services efficiently;
- violation of regulatory guidelines and policies;
- unnecessary spending (i.e., spending on items with no added value); and
- improper management.

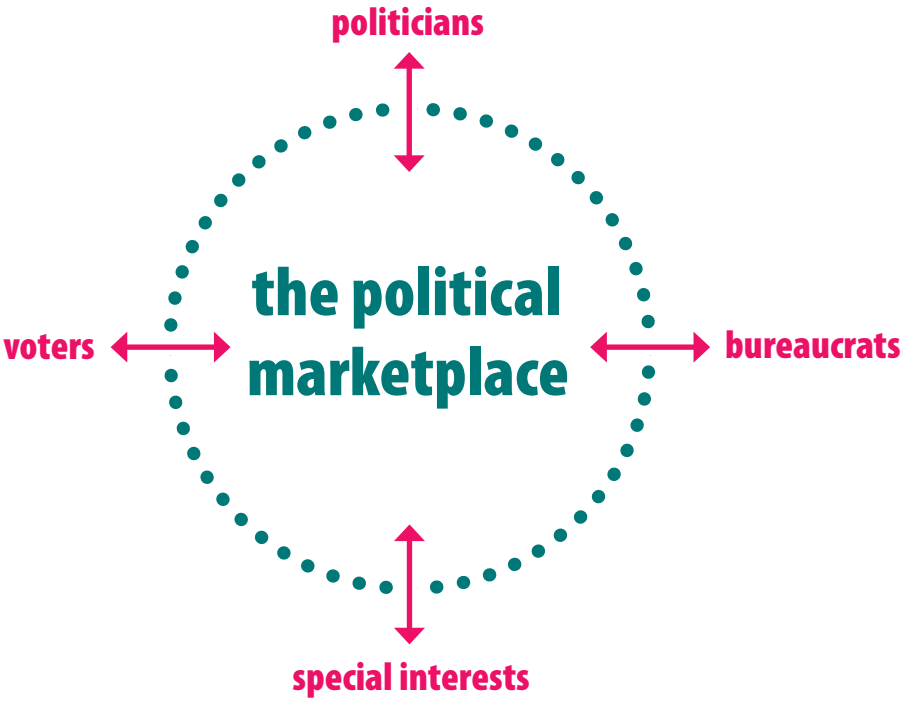
### Examples of government failure

*Newfoundland Offshore Development Fund (1988)*

The February 1985 Atlantic Accord with Newfoundland created a $300 million Development Fund, of which $225 million was provided by the federal government. However, no specific purpose was given for the fund, which meant Parliament could not hold the government accountable for expenditures.

1 At the time of writing, the Auditor General's 2013 spring report was the most recent available.

**Figure exsum 1: The political marketplace, the heart of Public Choice**




The fund's terms and conditions were so broad that virtually any project in Newfoundland would have been eligible. There was no evidence of a co-ordinated plan for federal offshore investment and the federal government did not evaluate fund expenditures, as required by Treasury Board.

*Marine Sciences Research Institute (1989)*

The Auditor General examined the construction of the Maurice Lamontagne Institute, a marine sciences research institute for the Department of Fisheries and Oceans. Due to poor planning and unrealistic timelines, the cost, which was originally reported to parliament at $17 million, was estimated to be $77 million.

*Unemployment Insurance Account (1989)*

Little was done by the Canada Employment and Immigration Commission to decrease the number of overpayment cases out of the Unemployment Insurance Account. In 1988/89, there were about three million beneficiaries of the Unemployment Insurance Account. Overpayments were found in approximately 326,000 beneficiary claims (12 percent of the total), totalling $135 million. Of these cases of overpayment, approximately 173,000 were cases where deliberate misrepresentation took place and penalties were imposed, amounting to $26 million. The Auditor General noted that the penalties were ineffective and that overpayments have occurred since 1984/85 in roughly the same proportion of beneficiary claims.

*Icebreaker Modernization (1990)*

The Auditor General found no reasonable justification for the Canadian Coast Guard's mid-life modernization of Canada's largest and most powerful icebreaker, the Type 1300 CCGS Louis S. St. Laurent. The modernization began with a cost of $51 million but costs eventually rose to $125 million. The Auditor General concluded that this entire modernization was a "major capital expenditure not based on a demonstrated need."

*Military Hospitals (1990)*

The Auditor General found that National Defence failed to operate military hospitals efficiently. Due to overstaffing and resource underutilization, military hospitals cost $27.6 million more than an equivalent group of civilian hospitals.

*Lapsed Funds (1991)*

The Department of Industry, Science, and Technology retroactively increased payments to companies for projects in the previous fiscal year by $22.1 million. This was done to avoid lapsed funds (losing funds that had to be spent by the end of year). The overall result was the Department spent $28 million more than it otherwise would have. The Auditor General felt that this was "not sound business practice" and that the practice ran contrary to the government's cash management policy.

*Western Grain Stabilization Program (1991)*

In 1986, the Auditor General reported that there was an urgent need to review the financial viability of the Western Grain Stabilization Program and, in 1988, a $750 million bailout was required. The management was reporting to Parliament that the program was sustainable over 20 years but the Auditor General found that no study on sustainability had actually been conducted. At the time of audit, the deficit had grown to $1 billion and the Auditor General noted that because no evaluation of the program had been done, decision-makers were "unable to assess what—if any—socio-economic benefits balance out this billion dollar deficit."

*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 DND officials that the ships were in "excellent condition," they required $16 million in unplanned repairs and were out of service for almost a year.

*Efficient use of Police Resources (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, its officers spent 50 percent of their working hours writing case and administrative reports.

### *Contract Management (1992)*

In 1991/92, 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 (1993)*

The annual monetary ceiling for student loans was exceeded by $312 million from 1991 to 1993. This represented an additional cost to taxpayers of $51 million for 1991/92 and $61 million for 1992/93.

### *Bilateral Economic and Social Development Programs (1993)*

The Auditor General noted that the Canadian International Development Agency'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 rather than directly to Pakistan's poorest people.

### *Northern Cod Adjustment and Recovery Program (1993)*

There were several problems with the Department of Fisheries and Ocean's Northern Cod Adjustment Program, which was meant to assist fishermen affected by a two-year moratorium on the Northern Cod fishery. For example, 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 percent 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)*

A review of 100 inmates in Ontario found 36 percent were in prisons not matching their security level, exceeding the acceptable levels of between 15 percent and 20 percent. The cost of placing inmates in prisons with higher security than necessary was an estimated $6 million a year.

In addition, the number of escapes from minimum-security prisons rose by 80 percent from 112 escapes in 1988/89 to 202 escapes in 1993/94.

From April 1992 to March 1994, 28 of the 390 escapees committed serious offences while at large and two prisoners who escaped from a minimum-security prison in British Columbia in May, 1994 were later implicated in a murder case in Oregon.

### *Tradespeople Productivity (1994)*

The productivity of tradespeople within the Department of National Defence (DND) was approximately 33 percent lower than comparable commercial tradespeople, resulting in additional costs of $50 million a year. For example, at CFB Portage La Prairie in 1990/91 the DND 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 industry had led to businesses applying for, and receiving, grants for the same projects from different government funding programs. In Ontario, 44 percent 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. In a three-month period, one company received government funding totalling $1.2 million from 10 sources.

### *Regional Economic Development Programs (1995)*

Industry Canada sponsored the construction of a new fish plant in Quebec in 1986, costing $2.2 million and built near an established, already operating fish plant, which also received federal subsidies. The more than 250 jobs created by the new plant were 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.

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 totalling $200 million 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 found many problems with Revenue Canada's management of the Child Tax Benefits and GST Credit programs. For instance, improper payments of Child Tax Benefits in 1994/95 for children born in

1993 were in the range of $5.9 million to $31.6 million and increased each year as children grew older. The amount paid out for GST credits grew 50 percent faster than the number of recipients for no explicable reason. Approximately $19.8 million was overpaid through GST credits in 1994/95 and no information was available to aid retrieval of excess payments and prevent future mistakes.

### *Air Traffic Systems (1996)*

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 estimated at $659 million.

### *Canada Infrastructure Works Program (1996)*

A majority of projects within the Canada Infrastructure Works Program lacked reliable documentation 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. In addition, program expenditures did not produce a corresponding increase in employment or infrastructure investment. Of the $1.2 billion spent on programs in 1994, more than 35 percent (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 for Public Servants (1997)*

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

### *Property Management (1997)*

Foreign Affairs overestimated the cost of its properties by $2.4 billion, resulting in an overcharge on the consular portion of the passport fee. The cost of properties is capitalized and passed on to users through passport fees. The passport fee was $25 but should have been $19.

Foreign Affairs officials received additional housing benefits based on hospitality expenses although only four of the 34 cases examined (11.8 percent) 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 unused furniture in warehouses, and $37,000 annually for unauthorized employee accommodations.

*Atlantic Fishery (1997)*

The federal government and several provincial governments failed to deal with over-capacity in the Atlantic fishery. Human Resources Development Canada initially estimated that 8,500 participants (28 percent of the eligible population) would rely on the Atlantic Groundfish Strategy (TAGS). By 1997, there were 21,722 participants (54 percent of the eligible population). The Auditor General also noted a 29 percent error rate in the calculation of program duration.

*Cash Advance Program (1998)*

Agriculture Canada's Cash Advance Program provides loans up to 50 percent 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. There were cash advances of $5,573 million during the crop years from 1992 to 1998.

*Social Insurance Numbers (1998)*

The Auditor General raised a number of concerns in its audit of the Social Insurance Number system:

- 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 percent of SINs had no supporting documentation;
- the Social Insurance Registry had almost 12 million uncertified accounts.

The Auditor General also found problems from using the SIN as a common identifier. For example, overpayments for employment insurance claims were estimated at $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.

*The Atlantic Groundfish Strategy (1999)*

In a follow-up audit of the Atlantic Groundfish Strategy (TAGS), which began in 1994 to support fishermen and ended one year earlier than planned in 1998 due to poor implementation and cost overruns, the Auditor General found 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; and
- 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 (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 awarded 35 percent of total points for the quality and quantity of jobs offered to existing departmental employees and only 10 percent to the price quoted by contractors.

*Employment Insurance Claims (2000)*

Times to process Employment Insurance (EI) claims by local offices of Human Resources Development Canada improved slightly between 1996 and 1999 but at the expense of accuracy, which fell from 96 percent to 94 percent. Reduced accuracy increased underpayments of EI benefits by 60 percent and overpayments by a third. Estimated total underpayments increased from $125 million in 1995/96 to $211 million in 1998/99. Overpayments also increased over the same period, from $334 million to $445 million. All told, total incorrect payments for EI benefits increased from $459 million in 1995/96 to $656 million in 1998/99.

*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.

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 percent to 30 percent more expensive than buildings of superior quality in Sydney. The Auditor General discovered that the facility was never used for the purpose indicated and that at most two federal employees were located at the site.

*Crown Corporations (2000)*

Directors at Crown Corporations lacked key skills and capabilities that are needed to function effectively. Roughly 25 percent of boards were out of their depth due to selection being based on "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 that three of 15 audit committees examined demonstrated financial illiteracy.

*Fleet Management (2000)*

There was 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 was divided into five regional units, which resulted in missed opportunities for greater sharing of resources and for improved productivity. In one case, 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.

*Heating Expense Relief (2001)*

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

- 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 percent and 35 percent of recipients received a cheque but had heating already included in their rent or heated with electricity;
- at least 40 percent 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 not living 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 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 (2002)*

The Auditor General found that problems with the Social Insurance Number (SIN) system persisted. There were 5 million more SINs for people over the age of

20 than there are Canadians of those ages, and 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. 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 percent of the training paid for was actually used. Moreover, 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, but $12.5 million is still outstanding.

### *Firearms Registry (2002)*

The Auditor General reviewed information provision and disclosure by the Department of Justice (DOJ) about the Firearms Registry. DOJ assured Parliament that the Minister would be accountable for the full cost of the Firearms Registry. However, only a portion of the costs incurred by the Canadian Firearms Centre had been reported. According to the Auditor General, the DOJ provided insufficient financial information and explanations for the dramatic increase in the cost of the program, which grew 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, but 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 spent almost $100 million on two new Challenger aircraft for VIP travel in the space of nine days in March 2002, but the Auditor General noted that the Privy Council Office bypassed the government's own procurement policies and procedures with this decision. Specifically, it circumvented 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 cultural heritage in 2000. About 20 percent of sites and buildings examined were found to be in poor condition. Over 90 percent 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.

*Defence Upgrades (2004)*

In 1992, after the 1991 Gulf War, National Defence 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 (2004)*

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 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.

The federal government could have saved $15 million if it had used drug purchasing practices similar to those of certain provinces. A further $11 million to $13 million could be saved on proton pump inhibitors (PPI) by requiring the formularies to cover only the lowest-cost PPI, unless medically justified.

*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 and found the following.

- Only 60 percent of files in the main inspection database for air and marine transportation security breaches were completely accurate.
- National Defence initially allocated $43.1 million for a High Frequency Surface Wave Radar System, but an internal study revealed the system's full cost would be $220 million and that it 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. For example, 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.

*Government Foundations (2005)*

Insufficient information was being provided to Parliament on 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 1996/97 to 2003/04, the government transferred more than $9 billion to foundations.

*Foreign Aid (2005)*

The Auditor General examined CIDA's efforts to deal with the tsunami disaster in Southern Asia and found that CIDA was unable to spend its initial tsunami funds before the end of 2004/05. To free up funding for the new fiscal year, CIDA spent $69 million intended for tsunami relief on non-tsunami-related activities in the 2004/05 fiscal year.

*Pilot Training (2006)*

The cost of a 20 year contract involving the Department of National Defence and Public Works to purchase pilot training increased from $2.8 billion to $3.4 billion. Despite concerns raised in a 2002 status report, the Auditor General found that student pilot training positions were underused. The total value of missed training was $89 million. In one case, DND paid for 654 student pilot training positions but used only 509 positions (78 percent). This unused training is estimated to have cost approximately $39 million.

*Use of Acquisition Credit Cards (2006)*

Misuses of acquisition credit cards at the Royal Canadian Mounted Police (RCMP) persisted. For example,

- 19 percent of cardholders used credit cards for vehicle operating and maintenance expenses, which were not allowed by Treasury Board policy;

- 17 percent of cardholders made IT purchases, which are prohibited without approval by the regional informatics 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 percent of cardholders had not certified that goods and services had been received as required; and
- only 25 percent of RCMP employees had received training in the use of acquisition cards.

*Social Insurance Numbers (2007)*

Progress on previously identified problems with the SIN system was "unsatisfactory," largely because outstanding issues of concern had not been resolved. Progress on the Social insurance Registry (SIR), which contains the basic personal information used for the SIN, was inadequate and no goals had been established for its accuracy, completeness, or reliability. In addition, policies governing the use of the SIN were still not clear. The Auditor General noted some improvements in the SIN system but warned that monitoring was required. The number of usable SINs exceeding the Canadian population aged 30 years or older was about 2.9 million in 2006, a significant reduction from the 5 million in 2001.

*Information Security in Contracts (2007)*

National Defence's security policies were outdated. They did not require individuals with regular access to federal information or buildings to have the required minimum security clearance. In one case, unscreened contractors and workers had access to the plans and construction site for the NORAD Above Ground Complex, designed to house highly classified material.

*Afghanistan Supply Chain (2008)*

The Auditor General found problems with the Canadian Forces supply chain that delivered supplies to Afghanistan. Approximately half of items shipped from Canada's main supply depot at CFB Trenton in Ontario did not reach Kandahar, Afghanistan within their expected time frame. More than 90 percent of items considered critical or essential were not received by their required delivery date. The Auditor General noted the Canadian Forces "can lose sight of supplies" in Kandahar, resulting in "surplus stocks, unnecessary delays, or wasted shipments." The Department of National Defence indicated that $7 million of inventory shipped to Afghanistan could not be located and identified $6.6 million of items in Afghanistan that were not listed in the mission's inventory.

### *Staff Overtime (2008)*

Staff overtime costs at Correctional Services Canada have escalated 42 percent between 2002/03 and 2007/08, even though the number of correctional officers, inmates, and violent incidents remained constant over the period. The Auditor General noted that little analysis or strategy was completed to control overtime costs and highlighted unrecorded leave as a cause of the growing overtime problem.

### *Acquiring Military Vehicles for Use in Afghanistan (2009)*

The Auditor General examined four military vehicle procurement projects conducted by the Department of National Defence (DND), costing a total of $1.1 billion, and found that Treasury Board guidelines were not followed. Most of the required documentation was either not submitted or submitted incompletely. For example, the government approved the replacement of a light armoured vehicle fleet for $55 million but DND did not inform the government that an additional $63 million would be required. At the same time, the Treasury Board failed to provide oversight by not adequately challenging the documentation.

### *Acquisition of Military Helicopters (2010)*

The Auditor General found considerable problems with the procurement of two military helicopter projects. The delivery of a $5.7 billion project replacing the current maritime fleet was delayed by seven years. As a result of the delay, the current active maritime helicopter fleet required an additional $168 million for repairs and overhaul. In addition, decision-makers were not provided with accurate or timely information regarding project risks and life-cycle costs.

### *G8 Legacy Infrastructure Fund (2011)*

The Auditor General found a lack of transparency in the $50 million G8 Legacy Infrastructure Fund, established to support the 2010 G8 Summit, and was concerned the lack of transparency could lead to a misallocation of public funds. The documents sent to Parliament made no actual mention of the Fund so it is unclear whether Parliamentarians were aware that they were being asked to approve it. No documentation exists on how the 32 approved infrastructure projects were selected and required consultations with Foreign Affairs did not take place. In one case, the Auditor General found that a $9.75 million facility expansion project was not used for the purpose originally intended.

### *Security Screening Visa Applications (2011)*

Canada Border Services Agency (CBSA) failed to properly conduct security screenings for visa applications. For permanent residence applications, 80 percent of reviewed security screenings did not include all the mandatory security checks.

*F-35 Fighter Jet Procurement (2012)*

The Department of National Defence (DND) failed to present a full life-cycle cost to decision-makers in procuring an F-35 fighter jet fleet. For example, DND did not include the cost of necessary upgrades, which was later estimated to be $1.2 billion. As a result, the cost was at least $1.2 billion more than projected.

*Public Security and Anti-Terrorism Initiative (2013)*

Between 2001 and 2009, various government departments and agencies were given $12.9 billion in funding for the Public Security and Anti-Terrorism Initiative, the purpose of which was to prevent terrorist attacks and protect Canada's infrastructure. The Auditor General was unable to identify how $3.1 billion had been allocated.

*Employment Insurance Overpayments (2013)*

In 2011/12, Human Resources and Skills Development Canada (HRSDC) made an estimated $578 million in undetected Employment Insurance overpayments. HRSDC also failed to recover all detected overpayments, mostly due to HRSDC's inability to recover overpayments within the set legal time period. In 2011/12, HRSDC wrote off $62 million in unrecovered detected overpayments, penalties, and interest.

## Cost of Federal Government Failure

This study also calculates an estimate of the cost of federal government failure in Canada based on the Auditor General reports from 1988 to 2013. Given the nature of the Auditor General's reports, three methods were used to calculate this estimate. Based on these three methods, the total estimated cost of federal government failure is between $158.3 billion and $197.1 billion.

*Method 1—Costs Reported by the Auditor General*

The first method used to calculate the cost of federal government failure is relatively straightforward. It uses cost estimates provided in the underlying reports of the Auditor General. Cases where the Auditor General reported a specific estimate of the cost of government failure are summarized in **Appendix A**. These types of cases made up almost half of the cases (48.5 percent, 298 of 614) reviewed in the study. The total cost associated with these types of cases was between $44.7 billion and $45.1 billion over the period (see Appendix A).

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

The second method used to calculate the cost of federal government failure involved making calculations based on information in the Auditor General's

reports and drawing upon information from other statistical sources where necessary. This method was used when the Auditor General's analysis did not assign a specific cost to the failure but provided sufficient information for an estimate to be calculated.

For example, a review of the department of Foreign Affairs in 1997 concluded that the cost of embassy properties was over-estimated by $2.4 billion, which resulted in a 31.6 percent overcharge on the consular fee. The consular fee forms a portion of the passport fee, which is in part calculated based on the cost of these properties. Foreign Affairs charged a $25 consular fee on every passport purchase when it should have charged $19. A calculation was undertaken using the Public Accounts of Canada, which indicated that $34 million was collected in revenues in 1996/97 from consular fees. A 31.6 percent overcharge based on the $34 million in the Public Accounts resulted in an $8.2 million estimate for the cost of government failure.

There were 81 cases (13.2 percent of the total) in which sufficient information was provided by the Auditor General to allow for a reasonable calculation of the cost of government failure. Readers will note that in many cases the cost estimate is presented as a range. The total estimated cost of these types of failures is between $107.8 billion and $115.7 billion. Further information and references are provided in **Appendix B**.

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

A third method was used to calculate the cost of federal government failure 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., 2007a), there are serious and on-going challenges to the country's SIN system, which underpins many, if not most income-support programs. In 2012/13, the SIN underpinned some $143.9 billion in government spending, representing about one-fifth of all government expenditures in Canada (Statistics Canada, 2013b; calculations by the authors).

The Auditor General has criticized the federal government in four audit reports for its management of the SIN system (see Office of the Auditor General, 1998; 2000; 2002; 2007) and has complained about 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 have been buttressed by a number of the Auditor General's reports critical of programs such as Employment Insurance, Canada Pension Plan, tax credit programs, and other income assistance programs that rely on the SIN.

Reviewing the case studies published by the Auditor General revealed a range of potential failures totalling between 0.32 percent and 2.0 percent of related program spending. Applying this range of potential failures (0.32 percent to 2.0 percent) to the underlying spending based on the SIN system

resulted in an overall cost of government failure over the period totalling between $5.8 billion and $36.3 billion, depending on which percentage is used (highlighted in **Appendix B**).

*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 an estimate of the cost of government failure based on the information provided by the Auditor General. **Appendix C** summarizes these cases, which are included in the case studies section of the report but not in the cost estimate of federal government failure. There were a total of 235 of these cases, representing 38.3 percent of the total.

### Estimated Overall Cost of Federal Government Failure

The combination of the three methods resulted in an overall estimated cost of federal government failure totalling between $158.3 billion and $197.1 billion. This estimate is based on the Auditor General's reports from 1988 to 2013 and includes the costs reported by the Auditor General ($44.7 billion to $45.1 billion), the costs calculated using information provided by the Auditor General ($107.8 billion to $115.7 billion), and the costs related to observed problems in programs based on the SIN ($5.8 billion to $36.3 billion) (**table exsum 1**).

Importantly, this estimate of the overall cost of federal government failure is conservative. First, the estimate is limited to failures identified by the Auditor General. In other words, it excludes potential failures in programs and initiatives over the 1988 to 2013 period that the Auditor General did not audit. Second, the definition of government failure in this report is narrower than typical definitions; it only counts as failures instances where the government failed to meet objectives and does not comment on the merits of programs or initiatives. Third, the estimate excludes 235 failures (38.3 percent) where information was not available to calculate a cost. Finally, the estimate is solely for the federal government and excludes the great number of failures at the provincial and local government levels.

## Reducing Government Failure

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

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

**Table Exsum 1: Low and High Estimates of the Cost of Federal Government Failure**

| | Low estimate ($ millions) | High estimate ($ millions) |
|---|---|---|
| Costs provided by the Auditor General (Appendix A) | 44,652 | 45,114 |
| Costs calculated using information from the Auditor General (Appendix B) | 107,799 | 115,704 |
| Costs related to the Social Insurance Number (table 2) | 5,804 | 36,278 |
| **Total estimated cost of federal government failure** | **158,256** | **197,096** |

Note: The estimates above are based on information provided in the Auditor General's reports from 1988 to 2013 (up to the spring 2013 report).

2 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.

3 Public-Private Partnerships allow government both to maintain a complementary role in the delivery of programs and to maximize the comparative strengths of the public and private partners in developing infrastructure.

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

5 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.

6 Finally, requiring the Auditor General to provide detailed cost estimates for all failures mentioned in the reports would improve the accuracy of the estimates in this study and give Canadians a better assessment of the cost of government failure.

## Conclusion

The main lesson from the case studies produced by the Auditor General is that the limitations and institutional constraints of the government sector often lead to systemic and indeed costly failure. This publication offers several solutions for reducing government failure and improving the delivery of public services to Canadians.

# 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 groundbreaking book, *An Economic Theory of Democracy,* published by Anthony Downs in 1957. It has since developed into a mainstream branch of economics that uses traditional 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 to 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 significant differences between a market economy and the government sector, differences that in large part explain why government failures occur. Public Choice models the behaviour of four groups—voters, politicians, bureaucrats, and special-interest groups—to explain actions within the government sector.

## Motivation

Public Choice scholars have made a seemingly simple assumption regarding motivation that has led to major insights into how government operates. Specifically, each participant is assumed to act in his or her own self-interest. For example, politicians are assumed to be vote-maximizers, interested in

1 Public Choice economics received widespread attention when one of its founders, the late 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 reading about Public Choice economics, there is a list of publications at the end of this section.

gaining election or re-election, while bureaucrats are assumed to prefer job security, larger budgets, and more power and influence. This represents an enormous change from previous thinking about 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 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 the late Professor and Nobel Laureate James Buchanan put it, the old way of thinking assumed that people become economic eunuchs when they enter government. Public Choice scholars have changed this view of political behaviour by extending the assumption of self-interest to politicians and bureaucrats and, in doing so, have explained why governments do not always act in the public interest.

As in any marketplace, participants in the political marketplace interact with one another in the political arena in an attempt to improve their situations (**figure 1**). 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 among the participants in a political marketplace and those operating in a competitive marketplace.

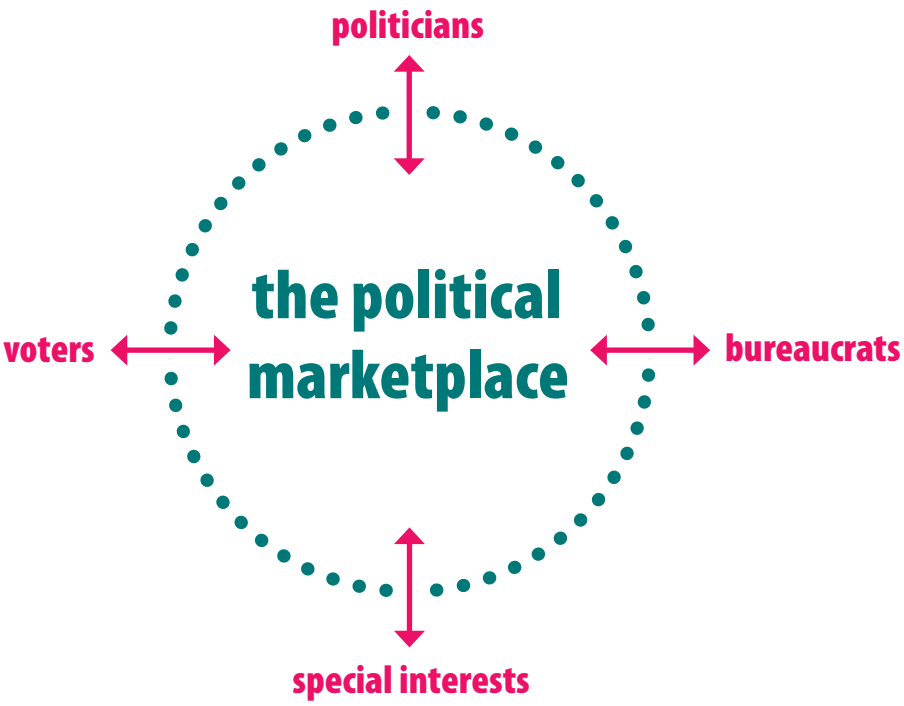
## 1 Politicians

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 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 taxpayer 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. That is, there is generally no direct link between taxes and the specific

**Figure 1: The political marketplace, the heart of Public Choice**




provision of goods and services.[2] Individuals, families, and businesses that receive benefits from government programs may not be the same individuals, families, and businesses that are taxed to finance the provision of those programs. In addition, individuals, families, and businesses that are taxed may place very little value on the goods and services provided. This fundamental separation of costs and benefits has enormous implications for the political system. It enables those seeking 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, decision-making in the marketplace. An interesting

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.

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.)

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 taxpayer 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 the previous year's entire 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. This practice is known as "lapsed funds" and specific examples of it are highlighted in the case studies section.

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; thus, 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 even though they 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 human and capital resources are poured into these organizations on an annual basis in order 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 (i.e. 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 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. 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 a decision on whether 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. Consequently, it is 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 program. Second, problems present in current programs may be the result of poor decisions by previous governments that

have only recently come to light. Third, as discussed above, a central characteristic of government programs is that those who bear the cost of programs in the form of taxes are usually not the same people who receive the benefits. Fourth, it is very difficult to hold to account those responsible for government failures since, in most cases, bureaucrats dealing with the public have little or nothing to do with the actual underlying problem. Fifth, the large size of governments in most industrialized countries means that individuals deal with vast bureaucracies that typically pay little heed to the experiences of their customers.

## The problems of insufficient knowledge and distorted price signals

Fundamental to why government failure arises are the problems of insufficient knowledge and distorted price signals, which were described by Nobel Laureate Friedrich Hayek (1945) in important scholarly work published in the prestigious *American Economic Review*. Hayek's analysis in "The Use of Knowledge in Society" revealed two critical 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 knowledge of "time and place," which is impossible to centralize. Hayek argued that decentralized decision-making in a market economy overcomes the knowledge problem by enabling individuals and groups in society with the most situation-specific information to make decisions about how best to use and manage society's resources.

Hayek's second major insight relates to the role of prices in communicating situation-specific knowledge to decision-makers. The prices of goods and services in the economy, Hayek explained, act as signals of value by combining a multitude of information into convenient numbers. These price signals then readily guide the decisions we make about consumption, labour effort, entrepreneurship, savings, and investment. But when governments intervene into an otherwise well-functioning market, prices cease to convey accurate information and this often results in the wrong things being produced, in the wrong quantities, and at the wrong time.

Hayek's insights combined with the work of Public Choice scholars help explain the underlying causes of government failure highlighted by the Auditor General (see chapter 2).

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.

## Why Public Choice matters

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

When markets produce undesirable outcomes such as high unemployment, high inflation, pollution, or income disparities, there is a commonly held belief that politicians and bureaucrats, acting in the public interest, can best correct these effects. Further, many people believe that markets will not adequately or efficiently provide such goods as transportation infrastructure, health care, education, insurance, entertainment and culture, and so on, without government intervention. In the past, little analysis was undertaken to assess the government's ability to correct these market results or to provide better goods and services; superior performance was simply assured by the proponents of government delivery. In the words of Harold Demsetz, this is the "nirvana approach" to public policy: when discrepancies arise between market results and ideal outcomes, many people deduce that the market outcome is inefficient and assume 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 showing 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 unique limitations and institutional constraints, such that intervention by government often leads to poorer results than the status quo. The next section of this publication provides evidence from a Canadian context of exactly the sort of failures that arise from misguided and ineffective government activities.

# 2 Evidence of Federal Government Failure in Canada, 1988–2013

The reports issued by the Office of the Auditor General of Canada (hereafter Auditor General) are excellent sources of tangible examples of government failure that support the conclusions of Public Choice theory. This section summarizes findings from reports issued by Auditor General between 1988 and 2013.[1] 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 614 instances of federal government failure are discussed in this section. All cases were derived from reports of the Auditor General published between 1988 and 2013. However, the number of failures discussed in each 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. This section provides summaries of the chapters of each Auditor General report released over the period from 1988 to 2013. In some cases, the summaries are portions of a chapter since the Auditor General covered more than one topic per chapter.

## 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 a program or initiative. This study undertakes no such evaluation but simply uses reports

1 At the time of writing, the Auditor General's 2013 spring report was the most recent available.

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 problems such as:

- cost overruns (i.e., spending beyond original estimates);
- over- and under-payment of benefits;
- failure to achieve stated objectives;
- inaccurate reporting of financial information;
- failure to provide services efficiently;
- violation of regulatory guidelines and policies;
- unnecessary spending (i.e., spending on items with no added value); and
- improper management.

# 1988

## Government Financial Statements

The Auditor General found that summary financial information in the federal government's financial statements was based on inappropriate accounting policies and difficult to understand. The government's financial statements did not present information fairly and were incomplete because they did not include activities of some Crown corporations.

At Atomic Energy of Canada Limited, a current asset of $16.4 million related to its CANDU 300 reactor program was recorded on its March 31, 1988 balance sheet although it represented government funding that had not been approved by Parliament. This practice violated generally accepted accounting principles.

## Canadian Saltfish Corporation

The Canadian Saltfish Corporation violated the Saltfish Act in 1987/88 by authorizing $3.7 million in loan guarantees for fish producers and giving them $1.2 million in direct loans. The Corporation also violated the Act by selling frozen fish products in 1987/88 worth $32.4 million.

## Agricultural Stabilization Board

The Agricultural Stabilization Board provides an income stabilization program for agricultural producers. However, the board lacked financial controls during 1987/88 when it paid $186.8 million to producers. Financial officers certified payments based on inadequate supporting documentation and without appropriate procedures to determine the accuracy of payments.

## 1988

### Leased Property

The Department of Environment was making rental payments for approximately 55 acres of land which was almost entirely vacant, despite several earlier recommendations by the Auditor General and the Public Accounts Committee that the lease be disposed of or changed. The government made approximately $12.7 million in payments for the land over 14 years. In 1984, the Auditor General calculated the net annual cost of the 71-year lease, which was signed in 1974, to be just under $800,000.

### Saint John Harbour Bridge Authority

The federal government was giving the Saint John Harbour Bridge Authority a continually increasing subsidy, even though its original stated intention was to provide a loan that was to be repaid. As of March 31, 1988, the debt to Canada totalled $30 million and foregone revenue was $12 million. The Department of Finance projected debt to Canada will be approximately $85 million when the agreement expires in 2021, with foregone interest income reaching more than $100 million.

### Compliance with Program Authorities

The Department of Fisheries and Oceans (DFO) signed an agreement to provide more than $1 million to a company to establish a salmon demonstration farm for researching salmon-farming technology. However, revenue from the sale of the farm's salmon bypassed normal financial controls and Parliament's authority since it was not deposited into the government's Consolidated Revenue Fund as required by the Financial Administration Act. The government's contribution to the farm exceeded Treasury Board limits by more than $900,000. DFO also approved a $600,000 contract with the New Brunswick Department of Fisheries that was contrary to a Treasury Board decision.

In addition, the federal government purchased four vessels under the Canada-New Brunswick Subsidiary Agreement on Fisheries and Development, but the Auditor General found that purchasing two of the vessels represented an overpayment of at least $500,000 and potential excess payment of $910,000, and did not demonstrate due regard for economy.

### Regional Development

The Department of Regional Industrial Expansion provided $2.3 million in financing to *Rendez-vous 87*, a hockey tournament in Quebec City, which was supposed to be repaid based on the tournament's revenue. However, the Department did not pursue repayment of the estimated $115,000 it was owed for more than a year and, at the time of the audit, the money had not been repaid.

## 1988

In addition, the Department made payments worth $125 million to a shipbuilder for a ferry but, because most payments were made in advance of need, the shipbuilder invested the excess in short-term securities to earn more than $4.25 million in interest as of March 1988. By the time the ferry was completed, the shipbuilder could have earned an additional $1.8 million.

### VIA Rail

Payments to VIA Rail lacked accounting controls. Transport Canada was unable to determine the amount owed to VIA Rail at the end of any particular year and misstated the related expenditures in the government's financial statements. The Department overstated year-end capital payments to VIA Rail by $5.7 million in 1985/86, $10.7 million in 1986/87, and by at least $15 million in 1987/88.

### Information to Parliament

The Auditor General found several problems with information presented to Parliament. Information did not provide an extensive description of government plans, policy objectives, or initiatives. Information also did not provide full accountability because it was not easy for members of Parliament and the public to understand. Documents generally provided little justification for the increased authority they were requesting.

### Group Surgical Medical Insurance Plan

The Auditor General examined the Treasury Board Secretariat's administration of the Group Surgical Medical Plan, which provides medical and hospital coverage for 400,000 federal and territorial government employees and pensioners, noting a "significant need" for a thorough review of financial arrangements, for closer monitoring of insurers, for improved procedures in claims operations, and for the regular use of professional underwriting and actuarial expertise. The Auditor General highlighted several changes that could result in annual cost savings and improved cash flow. For example:

- the plan's premium rates were higher than necessary, producing surplus funds that could have earned an additional annual interest income of $900,000 if they were better invested;
- improved banking arrangements for the plan could have created an additional annual savings of $160,000;
- self-insured underwriting arrangements could have reduced or eliminated premium taxes and Quebec sales taxes, resulting in annual savings of between $2.2 million and $2.5 million;
- the plan could have saved up to five percent of paid claims ($4.25 million in 1987) with more aggressive enforcement of a particular clause.

## 1988

### Forestry Resource Development Agreements

The Auditor General examined the Canadian Forestry Service's (CFS) forestry resource development agreements with provinces and found that agreements did not meet one of their major objectives of reducing the backlog of unsatisfactorily restocked forest land. The federal portion of the agreements was $612 million, of which $320 million was spent as of the audit. The Auditor General noted approximately 50 percent of funds were directed to reforestation.

In addition, agreement guidelines were inadequate and not consistently followed. For example, between 1985 and 1987, $10.5 million was spent on planting for sites that did not comply with distance guidelines. Agreements did not always outline work to be done and how it related to forest development. Agreements also did not contain clear standards for follow-up work or collecting data on reforested areas. Required evaluations on the effectiveness of agreements were not available to CFS in time to take appropriate action.

### Canadian Forestry Service

The Auditor General found several problems with operations at the Canadian Forestry Service (CFS). For example, documents produced by CFS contained factual errors, misleading statements, and inconsistent data from prior years. There was also no formal process to ensure that research conducted by CFS had potential clients or was of practical value.

### Food Production and Inspection Branch

The Auditor General examined operations at the Food Production and Inspection Branch and found no meaningful risk assessment was performed for certain foods, shortcomings in detecting chemicals and bacteria in slaughtered animals, poor employment practices among inspectors, deficiencies in the pesticide program (which was supposed to provide reasonable assurance that products used in Canada were effective and posed minimal risk to human and environmental health), weak import inspection practices, and lack of focus in the Animal Health program (which was not involved in most domestic animal diseases that industry considered significant). Partly because of these problems, the branch did not know the extent that contamination of certain foods posed a threat to human health, might have allowed food contamination to go undetected, could not distinguish between safe and unsafe products and food safety, issued temporary registrations for pesticide products known to be hazardous to human health, allowed Canada to be vulnerable to foreign plant and animal disease, and granted and renewed licenses for products that had their efficacy widely disputed in scientific literature.

## 1988

### International Aid

The Auditor General examined contracting for goods and services at the Canadian International Development Agency (CIDA). One third of 39 contracts contained weaknesses in defining requirements, statements of work, pricing, or contract administration. International aid provided under contracts did not always respond to needs approved by CIDA and the recipient country. A contract review process was not consistently followed. Approximately half of contracts where the Auditor General observed deficiencies contained inadequate references to project requirements. By not reviewing contract requirements, CIDA was unable to know how closely contract requirements matched project requirements, which would lead to funds not being used for purposes that CIDA authorized.

The Auditor General highlighted specific international initiatives where CIDA administered contracts poorly.

- CIDA signed a $13 million contract in August 1986 to produce a feasibility study on the Three Gorges Hydroelectric Dam in China, but the contract did not address one of two principal objectives.
- CIDA spent $2.2 million on 116 kilometres of rail in Indonesia that was not needed for purposes listed in the project's documentation.
- CIDA signed a $13 million contract as part of the Canada-Tanzania wheat program. A key activity was the preparation of an inception plan by a project field director in Tanzania. However, after a year the executing agent had not sent to the plan as required.
- Suppliers charged CIDA approximately $1.2 million (8 percent) more for potash than they charged commercial clients, despite having promised a fair price.
- CIDA did not achieve value for money from its $40 million Aid Information System.

### Canada-Nova Scotia Development Fund

The $200 million Canada-Nova Scotia Development Fund was supposed to finance infrastructure for exploring or developing offshore oil and gas in Nova Scotia, but the Auditor General found up to $128.5 million was committed to projects with questionable relevance to the fund's objectives.

### Newfoundland Offshore Development Fund

The February 1985 Atlantic Accord with Newfoundland created a $300 million Development Fund, of which $225 million was provided by the federal government. However, no specific purpose was given for the fund, which meant Parliament could not hold the government accountable for expenditures. The fund's terms and conditions were so broad that virtually any project in Newfoundland would have been eligible, and there was no evidence

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of a co-ordinated plan for federal offshore investment. Moreover, the federal government did not evaluate fund expenditures as Treasury Board required.

### Mineral Development Agreements

The federal government was providing $143.1 million over five years to some provinces under the Mineral Development Agreements. Agreements with British Columbia and Quebec were worth $5 million and $50 million in federal funds, respectively, and structured as "economic and regional development agreements," which were required to have a clear plan for economic development but did not. In one case, $7 million was spent on a highway to open up the Quebec iron-ore industry even though the Canadian industry had excess capacity and ore prices were falling. Agreements with other provinces also lacked adequate economic development plans and management.

### Resource Management and Fish Inspection Programs

The Auditor General examined Fisheries and Oceans' Resource Management and Fish Inspection programs and found a number of problems, many of which were identified in past reports. One persistent problem was overcapacity in the Atlantic fishery. In 1982, the Kirby Task Force made recommendations on how to achieve a viable Atlantic fishery but structural problems identified by the task force as leading to overcapacity and over-capitalization were not resolved. Another long-standing problem was deficient program support and training.

### Fishing License System

The Department of Fisheries and Oceans (DFO) was not consistent in how it awarded licenses. In one instance, DFO issued licenses to people who failed to meet all of DFO's criteria. Licenses often limited the hold capacity of vessels, but these restrictions were not strictly enforced and harvesting capacity was not controlled. As a result, DFO did not have an accurate measure of the Atlantic fishing fleet's capacity and the extent of overcapacity.

In November 1984, the Minister of Fisheries and Oceans announced DFO would increase foreign fishing license fees by 25 percent a year from 1985 to 1988. However, the request for the increase was not submitted to the Treasury Board until June 1986 and not approved until September 1986, a nine-month delay that cost approximately $600,000 in lost revenues.

### Fishery Oversight

Support mechanisms for Fishery Officers performing policing were weak. Information to plan, control, and evaluate policing operations was often inadequate. Cabinet authorized the Department of Fisheries and Oceans (DFO) to arm fisheries patrols, but there was incomplete information on costs and

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other factors involved. As a result, estimated costs of the arming rose from $610,000 to $3.7 million. Full implementation of the program was delayed because of difficulties acquiring and installing equipment and completing training.

DFO had multiple communications systems in use, resulting in incompatibilities and patchy coverage in some areas. A replacement system would cost approximately $4 million in capital funds and $430,000 annually in operating costs.

### Vessel Management

The Auditor General observed several instances of vessel mismanagement at the Department of Fisheries and Oceans (DFO). For example:

- DFO signed a contract for a patrol boat for catching poachers that was supposed to have a top speed of 25 knots. However, DFO provisionally accepted the vessel even though its top speed in sea trials was 20.7 knots. DFO later reported that the vessel was not fast enough to catch poachers.
- DFO spent more than $300,000 to make post-delivery modifications to three boats to meet Canadian Steamship Inspection requirements and to enhance stability and improve handling capabilities.
- DFO commissioned small patrol boats that were supposed to be light and transportable. However, the boats were costly to operate, too heavy, did not adequately accommodate a second crew member, and were difficult to maintain.
- Vessel *J.W. Deraspe* required $22,216 in modifications after it showed inadequate speed, excessive fuel consumption, and excessive weight.
- Two vessels required $113,000 in modifications after sea trials were waived because of an early winter.

### Post-Secondary Education Assistance

Post-secondary education assistance delivered by the Department of Indian Affairs and Northern Development (DIAND) differed from one region to another, which was contrary to policy and despite DIAND's knowledge of inconsistencies. The Auditor General also found many errors in the student files examined, including inaccurate payments, funding for ineligible students, ineligible programs, and incomplete documentation.

### Social Policy Programs

Social policy programs administered by the Department of Indian Affairs and Northern Development (DIAND) suffered from many shortcomings. For example, the Adult Care program lacked proper planning. Responses to external requests were made ad hoc and not supported by policy. Services were not delivered based on an assessment of needs or a clear policy. The Auditor

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General visited two regions and found that bills from provincial and private institutions were not adequately reviewed. In most cases, DIAND did not assess the financial means of service recipients as was required.

### Funding Arrangements

The Auditor General reviewed funding arrangements with 30 native bands for services for the fiscal year 1987/88 and found little improvement over the previous 20 years on managing the funding process. Funds were being released to bands before documentation requirements were satisfied. DIAND staff was not monitoring bands thoroughly enough to determine whether funds were spent according to contribution agreements, which violated the Financial Administration Act. Reviews of bands' audited financial statements were deficient and reviews were rarely completed early enough to be useful. DIAND funding management officers lacked proper qualifications, did not adequately consider financial risk when implementing funding agreements, and reacted to deficits long after the fact. More than 45 percent of recipient bands were in a deficit position as of March 1987. In one region, 69 houses were forgone between 1986 and 1988 in order to use capital funds to reduce debt by $2.8 million.

### Munitions Supply Program

Despite government funding for facility and machinery upgrades at Canadian munitions plants, ammunition was costing the Department of National Defence (DND) approximately $50 million more (30 percent) annually than the cheapest NATO ammunition. One goal of the Munitions Supply Program was to make the Canadian ammunition industry economically viable yet Canadian ammunition manufacturing remained heavily reliant on parts and material from foreign manufacturers. The Auditor General estimated that DND's stock of ammunition is $205 million above the authorized level.

### Inventory Management

National Defence's inventory of repairable parts exceeded peacetime requirements by approximately 16 percent, while shortages of other parts existed, which were caused in part by purchasing practices that needed review. Because of deficient systems and practices, $250 million worth of the small repairable parts exceeded requirements (approximately $100 million of the excess parts resulted from shortcomings the Auditor General noted in previous reports). Shortages worth about $20 million existed because of long turnaround times that were not corrected.

### Emergency Assistance

National Defence charged a reduced rate for emergency assistance to provinces upon request that should have been provided at commercial rates. Some

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provinces have not reimbursed National Defence for these services, totalling $11 million as of March 31, 1987. The Auditor General noted this problem in 1963 but no action was taken.

### Contract Audits

Contract audits performed by the Department of Supply and Services (DSS) provided inadequate protection to government. Approximately 65 percent of the value of cost reimbursable contracts was not audited annually, whereas in the United States all cost reimbursable contracts required audits before final payments to contractors. DSS was awarding approximately $2.1 billion in cost reimbursable contracts annually.

Virtually no independent audits on fixed time rate contracts were performed in recent years but in the United States all fixed time rate contracts received a cost audit and were also subject to defective pricing audits. DSS awarded almost $700 million in fixed time rate contracts in 1986/87.

In a sample of contract audit reports, the Auditor General found that approximately 30 percent did not have their audit findings resolved or that their resolution had been delayed at least a year. In one case, a contractor was unable to segregate some development costs that were eligible for reimbursement, resulting in an overpayment of approximately $1 million.

### National Defence Contracts

The Auditor General examined the quality of 15 National Defence contracts worth a total of $166 million. Two contracts worth a total of $38 million significantly deviated from technical standards. In one case, a contractor responsible for the repair and overhaul of aircraft components failed to comply with the contract's technical requirements. Supply and Services knew before signing the contract that the contractor was not always able to comply with National Defence's technical orders. As a result of delays in obtaining parts, some search and rescue aircraft were grounded and robbed for parts. Late deliveries of landing gear parts for another aircraft resulted in claims of between $41,000 and $75,000 by another contractor for idle time. In a separate case, Supply and Services agreed to pay a contractor $162,000 to fix a paint adhesion problem with helicopters, even though the contractor was expected to do so.

### Canada Employment and Immigration Commission

It cost some Canada Employment Centres double what it cost others to process claims. The Auditor General noted that "a large portion" of the difference in processing costs could not be justified and estimated that, if the least productive Canada Employment Centres lowered their unit costs for processing claims to the national average, the government would save $4.5 million annually.

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In a sample of records of employment, the Auditor General found that 15 percent were submitted by employers after the deadline and five percent were never sent at all. The Canada Employment and Immigration Commission estimated it made $76 million in overpayments and $57 million in underpayments in 1987 because of problems with records of employment. Another $50 million in overpayments was made due to errors in calculating individuals' number of insurable weeks of employment. Wages incorrectly reported by claimants that went undetected by government's Comprehensive Tracking System increased by 77 percent since 1984. This was the most common cause of benefit overpayment.

In addition, the Auditor General noted that less money would be paid out in unemployment insurance if more effort was made to help beneficiaries return to work. No Canada Employment Centres examined by the Auditor General enforced a requirement that claimants with qualifications in short-supply jobs regularly submit a list of employers they visited. These claimants were not subject to appropriate job search monitoring.

### Fraud Reporting Procedures

The Auditor General examined the extent to which six government departments complied with Treasury Board directions related to fraud and found that progress was unsatisfactory. Most departments did not have the required procedures for reporting fraud and violations of the Financial Administration Act, and some cases of suspected fraud went unreported. The Auditor General was concerned that some departments conducted investigations without contacting the RCMP. Gaps were also found in fraud reporting that contravened Treasury Board policy.

### Edmonton Civil Service Building

The Auditor General reviewed a lease purchase agreement for a building to house the majority of Edmonton's federal civil service. Public Works received government approval to sign the agreement with a 1984 net present value of $152.2 million, but the report to Parliament did not contain a management agreement worth $3.4 million annually for 10 years and a $33.7 million land assembly agreement as part of a project's costs. Moreover, Public Works paid $40,000 to two unsuccessful builders without proper authority. Overall, the government was to pay approximately $100 million more for the building than the $80 million it cost to construct. Treasury Board was aware of the higher cost but directed Public Works to enter into the lease purchase agreement anyway. Several major deficiencies were reported during construction but corrective action was not always taken.

### Animal Diseases Research Institute

The Auditor General examined the construction of the Animal Diseases Research Institute near Lethbridge. The Department of Agriculture did not

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quantify the building requirements necessary to respond to industry demand or to increases in the scope of scientific research that would result from the new building. The Department paid $336,000 for consulting work but could not use approximately $155,000 worth because of changes in the project's safety requirements. The building contained 91 percent more usable space than what was originally proposed, was larger than needed, and contained more gross area than the Treasury Board had approved. Staffing was increased by 18 person-years without justification, despite the original proposal claiming no growth was planned for the project. An analysis of options for the building did not consider alternatives outside the Lethbridge area. As a result, the Auditor General was not assured that the option chosen was the most economical one. Costs could have been reduced by up to $350,000 per year had the Department chosen a more efficient design. The building's final design did not meet the Department's containment requirements.

### Animal Virus Laboratory

Design, engineering, and laboratory consultants were appointed by the Department of Agriculture to construct an animal virus laboratory in Nepean, Ontario without Treasury Board authorization or formal competition. The laboratory design was far more expensive than what was intended. At the time of audit, $4.8 million was paid, with an outstanding design consultant claim to $735,000 for plans that could not be used.

### Special Air Services

There were no government-wide directives or guidelines on the management of aircraft. The Auditor General found "distinct weaknesses" in planning for the acquisition of aircraft or special aircraft service, including a lack of in-depth economic analysis. Several aircraft acquired through lease-purchase arrangements cost more than an outright purchase would have cost.

### Chartering a Helicopter

In 1987, the Department of Fisheries and Oceans chartered a helicopter for fishery surveillance and regulatory enforcement in Newfoundland at a cost of $3.7 million. The performance specifications were based on data that was almost 10 years out of date and on the faulty assumption that fishing vessels were randomly distributed. The helicopter did not meet primary operational requirements and could only operate in favourable sea conditions. The Auditor General found the helicopter's cost-effectiveness was less than 10 percent that of other options.

### Computerized Aircraft Maintenance

The National Research Council used a computer program to manage maintenance of its nine aircrafts. However, the program did not provide a reliable,

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accurate figure for the value of its spare parts inventory or a cost per aircraft. As a result, the Council did not know the true costs of aircraft operation and maintenance for performance evaluations.

### Business Subsidies

The Auditor General examined a sample of 21 programs, including 114 contributions (subsidies) worth a total of $55.3 million. Five funding recipients received contributions from multiple departments for the same, or closely related, projects. In three of these cases, the donor departments were not aware of the other department's funding. The Auditor General noted that communication among funding departments was weak and there was a risk of double-funding.

### Canada Student Loans

The Auditor General examined progress on the Canada Student Loans Program. An information system that was supposed to be in operation by the end of 1986 was delayed indefinitely after the Secretary of State stopped the project in 1987 following seven years and approximately $5 million of work. The Secretary of State did not assign personnel with enough experience to the project and did not adequately define in advance desired features of the information system.

### Customs Canada

The Auditor General examined progress on Customs Canada's operation activities at customs ports. It found customs inspectors applied professional judgement to carry out directives when they were not permitted to do so. Contrary to recommendations by the Auditor General, the Customs Commercial System did not measure an overall commercial compliance rate. A new data bank for a profiling system did not allow high-risk entries to Canada to be identified. With the exception of air passengers, there was no progress in measuring and reporting passenger travel and commercial operations compliance.

### Canadian Human Rights Commission

Contrary to the Auditor General's expectation, the Canadian Human Rights Commission addressed complaints on a first-come, first-served basis, rather than handling some complaints on a priority basis. In addition, the Commission's management information system did not adequately assist managers in monitoring investigations and staff productivity, which the Auditor General noted contributed to delays in investigations.

### Planning in Correctional Services

Problems persisted at Correctional Service of Canada (CSC). For example, cost-effectiveness analysis of the Long Range Accommodation Plan was not completed. The Industries Program lacked clear definitions of key terms and

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lacked measures to assess effectiveness. CSC had not developed procedures to ensure inmate information was automatically transferred to its Case Management group. CSC also had not determined the optimal level of overtime and therefore did not have a realistic goal to reduce overtime expenses. The Auditor General noted that improvements in planning, controlling, and documenting management reviews were required.

### Trade Function

The Department of External Affairs did not implement previous recommendations on service levels, cost recovery, and post planning and monitoring. The Auditor General was concerned that a risk assessment process had not been fully designed and communicated to supervisory staff. It took an average of three years to complete actuarial reports on employee pension plans, despite a new requirement that reports be completed within 18 months. The Auditor General estimated that billing financial institutions quarterly for recoverable costs, as opposed to the existing practice of twice per year, would have saved $900,000 in 1987/88.

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### Prairie Farm Rehabilitation Administration

The Prairie Farm Rehabilitation Administration was responsible for the reconstruction of the Bassano Dam in Alberta. The project, scheduled to be completed in five years, was delayed by 11 years. As a result, project costs escalated from $5 million to $17.2 million.

### Customs and Excise's Training Facility

Customs and Excise purchased a facility for $5 million to train staff. The Auditor General found that inadequate evaluation of the facility required Customs and Excise to spend an additional $35 million on renovations. At the time of audit, completion of the facility was expected to be delayed by two years.

### Marine Sciences Research Institute

The Auditor General examined the construction of the Maurice Lamontagne Institute, a marine sciences research institute for the Department of Fisheries and Oceans. Due to poor planning and unrealistic timelines, the cost, which was originally reported to parliament at $17 million, was estimated to be $77 million.

### Obtaining Parliamentary Approval

The Government of Canada guaranteed $3.7 billion of Canadian Wheat Board's receivables (loans) without proper authority from Parliament

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and the Auditor General determined that $3.2 billion of these loans were troubled and estimated that at least $1.5 billion would not be paid back.

### Export Development Corporation

The Export Development Corporation held $4.7 billion in sovereign loans in 1988 and recorded an allowance for losses (the amount of loans that are not expected to be repaid) of $107.8 million on its balance sheet. The Auditor General noted that this allowance was "significantly understated" and that Export Development Corporation failed to adhere to generally accepted accounting principles.

### Contributions

The Auditor General found that the Department of Agriculture made a $600,000 payment (of a $1.2 million contribution) to the Government of Quebec too early according to Treasury Board guidelines. Due to this early payment, the Auditor General estimated that the Department incurred an unnecessary $50,000 interest cost.

### Accountability and Parliamentary Control

The Governor in Council of the Department of Agriculture had excessively used section 5 of the Department of Agriculture Act to circumvent parliamentary control to create new programs. The Auditor General noted that Parliament was provided with little specific information on departmental programs and, therefore, had little opportunity to debate them and little basis for monitoring and controlling them. In one case, a departmental evaluation indicated that a program involving $1 billion may have been "ill-conceived."

### Tripartite Program

The Auditor General reported that the Tripartite Program, a program developed to stabilize the payments of agricultural commodities for participating producers, was not meeting the legal requirement of financial self-sustainability stipulated by the Agricultural Stabilization Act. Departmental forecasts estimated that by 1988 the program would have accumulated a deficit of approximately $17 million.

### Administration of the St. Roch Historic Site

The Canadian Parks Services did not have authority to spend funds for the display and administration of the St. Roch Historic Site in Vancouver. After the City of Vancouver failed to take responsibility for the site following its construction, Canadian Parks Services assumed the burden of display and administration expenses without parliament's approval. In the years leading up to the audit, the Department of Environment was spending $200,000 annually on this site, even though it was owned by the City of Vancouver.

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### Accounting Records

Accounting records for domestic public debt are maintained by both the Department of Finance and the Bank of Canada, but the Auditor General felt this duplication was unnecessary. The Auditor General estimated that annual cost savings of $100,000 could be realized by eliminating this redundant action.

### Firefighting and Rescue Vehicles

The Department of Supply and Services agreed to provide the Department of Transport with $22.1 million worth of firefighting and rescue vehicles for use at airports in the event of crashed aircraft. The vehicles were urgently required for public safety but the Department of Supply and Services took four years to deliver them. The Auditor General noted that additional costs of $1.3 million were incurred due to poor contract negotiations between the Department of Supply and Services and the vehicle suppliers.

### Contracting Practices

The departments of Supply and Services and Fisheries and Oceans contracted out computer processing and support services for a financial management system. The contract was for a fixed fee of $50,000 per month with the option to extend the contract. The departments realized an additional month of work was needed but failed to extend the contracts within the required time limit. After several disputes, the departments were forced to pay $250,000 for the additional month of work.

### Information Requests

The Auditor General requested access to receipts and written requests for use of VIP fleet aircraft in order to audit the travel expenses claimed by ministers. However, the Government of Canada refused to provide this information.

### Management and Use of Telecommunications

The federal government failed to use its telecommunications networks efficiently. The Auditor General estimated that annual savings of between $30 million and $45 million could be realized through coordination of data services across departments. The Auditor General also estimated that savings of at least 15 percent of voice operating expenditures could be recognized through the consolidation of voice and data networks.

### Elections Canada

Elections Canada's outdated legislation caused it to operate inefficiently and suffer quality declines in service. For example, outdated legislation

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required that each ballot box be made of some durable material. The Auditor General estimated that it cost an extra $500,000 every election to use metal ballot boxes instead of cardboard ballot boxes.[2]

### Canadian Parks Service

Problems at Canadian Parks Service persisted. These included having no strategic plan to guide the allocation of the Parks program's budgetary resources to meet objectives. One objective was for each defined land region to have a national park, but only 21 of 39 (54 percent) land-based regions had a national park at the time of audit.

Another stated objective of Canadian Parks Service is the protection of natural resources within the parks, but the Auditor General found that natural resource management procedures were not being implemented, which put high priority plants and animals at risk. Canada Parks Service also failed to implement reliable measures of visitor satisfaction and attendance, leading to poor resource allocation within the parks and low service quality.

### Assistance and Protection to Canadians Living and Travelling Abroad

External Affairs was failing to properly aid Canadians who live or travel abroad. In particular, the Department failed to develop contingency plans to protect Canadians caught in foreign crises. The Auditor General noted that seven of the 33 posts considered medium to high risk did not have contingency plans for foreign crisis. Of the posts that did have contingency plans, many were out of date.

The Auditor General also found that the training process at External Affairs was inadequate and that many officers with little experience and training were being placed at challenging overseas posts. In addition, the audit revealed that poor procedures for issuing passports at overseas posts had caused an increase in the risk of ineligible persons obtaining Canadian Passports.

### Management of Foreign Exchange Operations

The Department of Finance was not keeping pace with the rapidly changing international finance environment. In 1989, the government unnecessarily held about $7.8 billion in gold reserves. The Auditor General estimated that the government missed out on $800 million in interest in 1989 alone, by failing to convert the gold reserves into interest-bearing securities.

2 This practice changed in 1992. According to the Elections Canada website, cardboard boxes replaced metal boxes beginning with the 1992 federal referendum (http://www.elections.ca/content.aspx?section=res&dir=his&document=chap4&lang=e#a4).

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### Canada Assistance Plan

Under the Canada Assistance Plan, the federal government shares half the costs of eligible social service programs delivered by the provinces and territories. The Auditor General found that the Department of National Health and Welfare failed to investigate and confirm the amount provinces spent on social services. In fact, the Auditor General uncovered several cases where provinces did not meet Canada Assistance Plan's conditions.

### Quality Assurance

The federal government spent in excess of $5 billion in 1988 on an array of goods for which quality assurance was not carried out, impairing the government's ability to operate efficiently. In one case, the Canadian Coast Guard purchased cranes for use on six of their ships but the lack of quality assurance meant that several modifications had to be made to the cranes. One crane alone had modification costs exceeding $300,000.

In another case, emergency vehicles delivered to the Department of Transport did not have proper central tire deflation systems and these systems had to be replaced for 21 vehicles at a cost of more than $30,000 per vehicle. Moreover, the Canadian International Development Agency funded the $2.8 million upgrade of a telecommunications satellite in Bangladesh, but inadequate quality assurance caused the upgrade to be delayed by two years.

### Federal Regulatory Review Process

The federal government failed to adequately report key information on regulations, such as commercial benefits to private sector firms and the cost to the government. The Auditor General noted that government departments failed to provide all interested parties equal and consistent opportunities for consultation on proposed regulations.

### Customs and Excise

The Auditor General found several weaknesses in the Excise Branch's administration of the federal sales tax. The information on tax performance and compliance was inadequate and data have not been used by the Excise Branch's administration of efficiency.

### Services to Government Agencies

Supply and Services failed to provide timely and low-cost services to government agencies. A survey of the Department's clients showed that 22 percent of client contracts were not awarded in a timely fashion, 23 percent of client deliveries were delayed, and four percent of the contracts contained quality issues. The survey also showed that five percent of clients reported not receiving the lowest price available.

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### Protecting Mariners' and the Public's Interests

The Canadian Coast Guard does few random inspections to detect or prevent unsafe operating practices on fishing vessels, unsafe transportation of dangerous goods, or the use of unqualified seamen. Specifically, the Auditor General found that only 7 percent to 8 percent of foreign vessels were inspected and that a high proportion of the inspections of foreign vessels revealed serious safety problems. The Auditor General also found that only two percent of ships carrying hazardous material in the Maritimes were inspected by the Ship Safety Branch. In addition, the Canadian Coast Guard had not developed a plan to deal with spills or accidents involving hazardous materials.

### Fleet Management

The Auditor General concluded that the Canadian Coast Guard could benefit from more efficient fleet management. For example, the aids-to-navigation fleet could be reduced by five ships. The ships had a total replacement cost of $169.1 million and each ship required $10 million in annual operating costs. The Auditor General also noted that crews at the Canadian Coast Guard were receiving full pay when the ships were not operational. For example, Edward Cornwalllis was not operational for 37 weeks but remained fully crewed at a weekly cost of $25,775.

### Unemployment Insurance Account

Little was done by the Canada Employment and Immigration Commission to decrease the number of overpayment cases out of the Unemployment Insurance Account. In 1988/89, there were about three million beneficiaries of the Unemployment Insurance Account. Overpayments were found in approximately 326,000 beneficiary claims (12 percent of the total), totalling $135 million. Of these cases of overpayment, approximately 173,000 were cases where deliberate misrepresentation took place and penalties were imposed, amounting to $26 million. The Auditor General noted that the penalties were ineffective since they were usually imposed one year after the offence took place, were not administered on a consistent basis, and did not account for whether the claimant was a first-time or repeat offender. The Auditor General also noted that overpayments have occurred since 1984/85 in roughly the same proportion of beneficiary claims.

### Tax Loophole

The Department of Finance failed to plug a loophole in the Excise Tax Act which, by government estimates, had cost the government between $300 million and $350 million annually in lost revenue. Several amendments failed to close the loophole. As a result, in the April 1989 Budget, the government announced it would not close the loophole and that the problem would be eliminated with the introduction of the Goods and Services Tax on 1 January 1991.

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## Farm Credit Corporation

The Farm Credit Corporation's (FCC) financial statements were not presented in accordance with generally accepted accounting principles. In addition, the Auditor General noted three instances where the Department of Agriculture entered into agreements with the FCC that exceeded the $50,000 departmental authority without receiving the required approval from the Treasury Board. The contracts were worth $260,000, $475,000, and $995,000, respectively.

## Business Assistance Programs

The Atlantic Canada Opportunities Agency (ACOA) failed to adequately evaluate the commercial viability of a recipient of their contribution agreement. In 1989, ACOA entered into a repayable contribution agreement of $5.1 million with a Nova Scotia company to test diesel engines and generators despite advice from the Department of Regional Industrial Expansion expressing serious concerns about the viability of the project. ACOA paid $2.2 million to the applicant before they entered into receivership in early 1990.

## International Aid

The Canadian International Development Agency (CIDA) provided $2.3 million to finance a coal-washing plant in Pakistan, but there was inadequate assurance that the washed coal would be purchased or that the equipment was suitable for the quality of the coal. The plant achieved a rate of production of less than one percent of its designed output over its first ten years. The Auditor General felt that "since the plant totally failed to meet its designed objectives, there was little value obtained for the money spent on it." The Auditor General noted that there were indications that CIDA did not perform feasibility studies on the project.

## Agricultural Stabilization Board

The Agricultural Stabilization Board's (ASB) objectives were to stabilize returns received by agriculture producers and to help them realize fair returns. ASB was intended to be self-sustaining but the Auditor General noted that, since the inception in 1986 of the ASB's first programs, federal contributions to the National Tripartite Stabilization Programs had exceeded $230 million.

## Lapsed Funds

The Department of the Environment entered into agreements to clean up the Tar Ponds in Sydney, Nova Scotia and the Windermere Basin in Hamilton, Ontario at a cost of $24.0 million and $1.3 million, respectively. In order to

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prevent lapsing funds at year end, the Department made payments of $1.3 million to the Tar Ponds and $478,000 to the Windermere Basin, before the funds were actually required. This violated cash management guidelines set out by the Treasury Board policy and resulted in $127,000 in unnecessary interest costs.

The Department of Fisheries and Oceans (DFO) improperly maintained and incorrectly used a trust account to prevent lapsing funds of $118,000 at year end. The money was intended to be transferred to the Great Lakes Fishery Commission but instead the DFO improperly transferred the funds into a trust account. The Auditor General noted that the DFO violated the terms of agreement with the Great Lakes Fishery Commission by failing to turn over surplus operating funds on an annual basis as agreed.

### Contributions

In April 1988, a company requested $850,000 to help construct a complex of greenhouses. Departmental analysis indicated that this would have a negative impact on other producers. The Department of Industry, Science, and Technology approved a contribution of $1.2 million ($321,000 more than requested) despite the project not meeting basic eligibility criteria.

A $978,000 contribution was approved to support a business incubator complex (a business incubator provides facilities and administrative and professional services to new companies until they can operate autonomously). This project also did not meet eligibility criteria and would not create any permanent jobs.

### Icebreaker Mordernization

The Canadian Coast Guard scheduled the mid-life modernization of Canada's largest and most powerful icebreaker, the Type 1300 CCGS *Louis S. St. Laurent*, but the Auditor General found no defined levels of service for icebreaking or analysis of demand to justify the mid-life modernization. The modernization began with a cost of $51 million but costs eventually rose to $125 million. The Auditor General concluded that this entire modernization was a "major capital expenditure not based on a demonstrated need" and was not in line with Coast Guard's maintenance strategy.

### Parking at Lester B. Pearson Airport

In 1982, a consultant's report indicated that the parking garage at Lester B. Pearson Airport was deteriorating quickly, and restoring the garage would cost $12.3 million and provide an additional life of 15 to 20 years. However, the Department of Transport (DOT) did not act on the recommendation of the report. The Auditor General concluded that the DOT's decision to defer restoration of the parking garage increased estimated costs to the Crown by between $28 million and $38 million and affected the safety of the structure.

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### Late-Filing Penalties

The Department of Finance did not apply the late-filing penalty for charities imposed under the Income Tax Act, despite receiving legal advice stating it did not have the legal authority to waive this fee. The Auditor General estimated that $49 million had been foregone by not collecting the penalty.

### National Hydrology Research Centre

Effective project approval for building the National Hydrology Research Centre (NHRC) was given by the Treasury Board in 1984 at a cost of $16.1 million. The approval included space for Atomic Energy Canada (AEC). A site next to the University of Saskatchewan was selected so that AEC could share university facilities such as conference rooms, cafeterias, and library. However, the NHRC building contained its own conference rooms, cafeteria, and library at a cost of more than $300,000. Moreover, AEC never occupied several areas that were specifically constructed for them at a cost of $850,000.

### The Great Lakes Forestry Centre

Treasury Board approved $17.4 million to renovate the Great Lakes Forestry Centre (GLFC). A consultant recommended that a vapour barrier for the façade of the building be included in the renovation. The Forestry Service did not follow the consultant's advice and no vapour barrier was installed. The lack of a vapour barrier caused significant water damage, which was estimated to cost $2 million to repair.

### Centre de Foresterie des Laurentides

The Auditor General examined the construction of Le Centre de Foresterie des Laurentides in 1984. Several problems were found including poor cost management, outstanding construction claims, and a poor competitive bidding structure for contractors. As a result, the Auditor General noted that construction costs escalated from an original estimate of $5.8 million to a final cost of $19.7 million.

### School Construction

The Treasury Board approved $11.92 million for the Department of Indian Affairs and Northern Development to construct a new school at La Pas. The Auditor General noted that "problems arose almost immediately in the construction phase." Concrete was poured against the architect's direction and there were concerns about construction practices and project management. Subsequently, the supervising Band appointed a professional management firm that brought the project to an acceptable standard. The Auditor General found that costs increased by approximately $2 million.

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### Refugee Backlog

The Treasury Board authorized $105 million to clear the entire backlog of 85,000 refugee claimants by April 1989. However, the Auditor General found the clearance problem was not addressed until September 1989 and the deadline was further extended to September 1991. The Auditor General estimated that the revised deadline would not be met. By March 1990, 2,073 cases had been completed when 21,450 should have been completed.

### Patent Office

The Patent Office had been decreasing in efficiency and service level even though resources had not significantly decreased. In 1983/84, it took 33 months to process an application, while in 1988/89 it took 43 months. The Auditor General noted that the Patent Office is failing to allocate resources effectively.

### Cost-Recovery on Digital Maps

The Auditor General found that no analysis was performed to determine whether digital files would be more efficient than paper maps. Digital maps cost $25,000 more than conventional maps and the Auditor General estimated that, in order to recoup the increased costs, 50 copies of each map would have to be sold. The Department of Energy, Mines, and Resources did not sell more than 20 copies of any and very few sold more than five. At least 88 digital maps were created. Moreover, the Auditor General found that the Environmental Emergency Program in Ontario, the Water Planning and Management Branch, and Statistics Canada could not use the digital maps that they purchased.

### Land Management

The government established a federal land use planning policy, and Treasury Board approved and allotted resources to the Department of Indian and Northern Affairs (DIAND) for carrying out a Northern Land Use Planning Program. Since the 1981 announcement, land use planning costs were estimated by DIAND to have exceeded $20 million. As of spring 1990, there were still no approved land use plans for any part of the North.

### Mineral Royalties

The Department of Indian and Northern Affairs (DIAND) is responsible for managing the mineral royalties for the northern territories. A royalty produces revenue to the Crown in exchange for the removal of a Crown asset from the ground (such as gold, silver, or oil). The methods for calculating DIAND's royalties were based on out-dated analysis and data, and the Auditor General felt that they should have been reviewed and revised.

## 1990

### Military Hospitals

The Auditor General found that National Defence failed to operate military hospitals efficiently. Military hospitals were overstaffed and resources were not fully utilized. The Auditor General concluded that military hospitals cost $27.6 million more than an equivalent group of civilian hospitals.

### Cooperating to enforce the law

The Auditor General found a lack of formal agreement between Canada Customs and the Royal Canadian Mounted Police (RCMP), which may have impaired the ability to disband large-scale drug operations. There were conflicts between the two agencies in many areas: information sharing, intelligence gathering, cooperation at ports of entry, inland investigation, international liaison, and public recognition of seizures. The Auditor General noted that several judges had already commented on the failure of the two agencies to cooperate and the negative impact this had on lawmaking.

### Canadian Police Information Centre and Information Sharing

The Auditor General examined the use of the Canadian Police Information Centre (CPIC), an information system that allowed officers to log on and access operational police information such as background information on individuals. The Auditor General found that when logging onto the network, the user only needed to provide a name and reason for entry. Thus, if a problem ever occurred, the lack of unique individual identifiers such as Smart Cards, passwords, or personal identification numbers, made it difficult to trace the individual responsible. The Auditor General also found that the Royal Canadian Mounted Police failed to have a complete recovery plan in the event CPIC is affected by a disaster.

### National Defence Training

The Auditor General found that, at National Defence, 27 percent of individual training was redundant and an additional 35 percent was irrelevant to common tasks. The value of training involved was approximately $165 million annually.

### Canada Student Loans

The Department of Secretary of State had received no assurance that the Canada Student Loans Program had been managed in accordance with the Canada Student Loans Act since 1985/86. This lack of monitoring led to approved ceilings being exceeded. There were two options if a ceiling were exceeded: either reduce next year's loans by the excess amount or arrange for the provincial government to increase its allocation by the excess amount the following year. Neither of these options were exercised, which led to excesses between 1985/86 and 1988/89 estimated at $264 million.

# 1991

## Business Assistance Programs

The Atlantic Canada Opportunities Agency (ACOA) violated government policy several times in its administration of business assistance programs. For example, ACOA violated internal policy when it advanced approximately $1.5 million to a manufacturer producing vinyl wall coverings without the required environmental certification. The manufacturer subsequently went into receivership. The federal government may be required to pay an estimated $400,000 to clean up soil contamination caused by the manufacturer. In addition, the government may be responsible for $10.4 million in commercial loans because loan insurance was provided to the manufacturer.

ACOA violated the Action Program's policy by approving a $700,000 interest buy-down, which is a non-repayable contribution to reduce the interest costs on term loans, for a project that was already finished. In a separate case, ACOA approved a $5.8 million non-repayable contribution to a company. Although the Action Program allowed for only one payment prior to commercial production, ACOA made three payments totalling $3.6 million before the firm had begun production, paying out $2.3 million more than was permitted.

ACOA approved $5.2 million in assistance to a company despite serious concerns about the viability of the project. ACOA was notified that the cost and size of the project were expected to rise, which warranted a full re-evaluation of the project. The Minister was never notified and ACOA made payments to the company totalling $5.9 million.

Treasury Board authorized ACOA to make a $19.9 million non-contribution to a provincial Crown corporation. The corporation then became ineligible because it was unable to provide all the required documentation. ACOA changed a portion of the contribution to a grant without Treasury Board authority, eliminating the requirement for supporting documents. At the time of review, ACOA had paid $1.9 million in grants to the corporation.

## Canada Employment and Immigration Commission

The Auditor General's examination of the Canada Employment and Immigration Commission (CEIC) found that close to $500 million was paid to a province without obtaining any cost certifications, which were required by the National Training Act.

## Project Management

External Affairs spent $53 million on a system for classified communications but the project was two years behind schedule and could not yet be used for classified purposes. Due to advances in technology, some of the investment was obsolete.

## 1991

### Payment Collection

In 1989, the Department of Finance paid $6 million in interest because the province of Quebec delayed repayment of the federal income-tax abatement. The federal government has provided an income tax abatement of three percent to the residents of Quebec since 1974, which is recovered by the Province of Quebec.

### Tax Administration

The Auditor General expressed concern that the Department of National Revenue-Taxation (NRT) was acting on proposed policy before Royal Assent had been granted. In one case, the NRT allowed taxpayers to claim a tax credit on their 1989 returns even though the credit was still draft legislation. The NRT estimated that $600,000 was granted in credits. In another case, the NRT administered proposed legislation that allowed taxpayers to claim deductions for childcare expenses paid to relatives 18 years or older while the actual legislation allowed for expenses paid to relatives 21 years or older.

### Project Management

The Department of Fisheries and Oceans (DFO) replaced an existing information system estimated at $522,000, but neither conducted a user requirement study nor developed specifications for the system. After spending $2.5 million on the new system, DFO found it could not perform and suspended the system.

### Lapsed Funds

The Department of Industry, Science, and Technology retroactively increased payments to companies for projects in the previous fiscal year by $22.1 million in order to avoid lapsing funds. The overall result was the Department spent $28 million more than it otherwise would have. The Auditor General felt that this was "not sound business practice" and that the approach to cash management was contrary to government policy.

### Fleet Management

The Canada Forces Base Ottawa maintained a VIP fleet of 17 vehicles. Vehicles cost $17,000 each and all had drivers on call at all times. The Auditor General found that five vehicles would suffice more than 91 percent of the time and recommended that National Defence review the cost effectiveness of the fleet.

### Travel Payments

The Department of National Health and Welfare (NHW) broke Treasury Board directives when it made arrangements with a firm to turn a payment for travel of $500,000 into $633,000 worth of trips. The payment, which

## 1991

was not protected by a mandatory performance bond, was recorded in the incorrect fiscal year as "professional services" instead of "transportation costs." Moreover, $59,000 earned in interest on the $500,000 payment was not reported in the Public Accounts. The Auditor General rebuked the managers for their "disregard for the control framework that was in place."

### Interest Payments

The Auditor General brought the problem of interest paid on overdue bills to the attention of the Department of National Health and Welfare (NHW) in the three years leading up to the report. However, the Department had yet to deal with the issue. Over the previous five years, failure to pay suppliers on time resulted in $2.5 million in interest charges.

### Income Support Programs

The Auditor General reported on inadequate procedures used in assessing and verifying Guaranteed Income Supplement (GIS) payments to low-income seniors. Only half of the applications were cross-checked with tax returns and only five percent were subject to income verification. The Department of National Health and Welfare estimated that in 1990/91 overpayments of the GIS were between $35 million and $66 million and that underpayments were between $12 million and $22 million.

The Auditor General also reported that legislation limiting Canada Assistance Plan (CAP) payments was not followed. In 1990/91, the Department's own analysis on the previous year's payments indicated that the limit had been exceeded by $173 million but the Department continued to make payments. The 1990/91 overpayments totalled $489 million, resulting in an interest-free advance to the provinces.

### Canada Student Loans

The Auditor General examined the Canada Student Loans Program and found that in 1989/90 an estimated 27 percent of recipients misrepresented their financial situation and 47,000 full-time students received $72 million of loans in excess of their entitled amount. The excess loans cost taxpayers an estimated $39 million.

### Land Lease Agreement

The Auditor General expressed concern about a 41-year, $20 million land-lease agreement between the Department of Transportation (DOT) and a developer for the construction, maintenance, and operation of a hotel at the Halifax airport. The DOT broke its own standards by not ensuring the developer had done a feasibility study, and did not assess the financial viability of the project or adequately challenge the information supplied by the developer, whose forecasts relied on below-market rates for financing.

## 1991

### Recouping Expenses

The Office of the Superintendent of Financial Institutions (OSFI) billed financial institutions to recoup expenses, recovering $36 million (92 percent) of its total expenses in 1989/90. The final billings, however, were not sent out until after the end of the fiscal year, despite the fact the Office of the Superintendent of Financial Institutions Act allows OSFI to prepare an interim assessment during the fiscal year. The Auditor General estimated that OSFI could save at least $1 million per year if it prepared an interim assessment or $2 million per year if it prepared the assessment on a quarterly basis, through savings on interest costs.

### Purchase of Office Buildings

Investigating whether the Department of Public Works had done its due diligence before purchasing two office buildings, the Auditor General found that no life-cycle cost analysis had been done for either building as required by Treasury Board Policy. In addition, both buildings were in breach of the National Fire and Building Codes, and many modifications would have to be made before either building could be used.

### Vehicle Fleet Acquisition and Disposal

The Auditor General examined vehicle management at several federal government ministries and found that the disposal and acquisition of vehicles was inefficient. The Department of National Defence took, on average, five months to notify the Department of Supply and Services that a vehicle's replacement had arrived. This cost an estimated $1 million in lost revenue per year. Two RCMP divisions kept 1,184 new vehicles in storage for an average of 122 days, costing $310,000 in foregone interest. Sixty-one percent of replaced vehicles at the Department of Transport were retained for an average period of 226 days, costing $349,000 in foregone interest. Moreover, the Department of Agriculture replaced fair and good condition vehicles prematurely.

### Fleet Management Information System

The Department of Supply and Services' (DSS) Fleet Management System (FMIS) cost $1.5 million annually to operate but did not provide useful reports. Most managers who were contacted by the Auditor General felt that FMIS was not accurate or complete. The Auditor General observed similar problems with the Department of Transportation's (DOT) FMIS. The DOT's system received a $290,000 upgrade in 1988 and cost between $80,000 and $100,000 to operate each year, yet still remained unreliable and unused.

### Vehicle Fleet Utilization

The Department of Transport's vehicle fleets could be significantly reduced for a saving of about $8.75 million over two years, while the Department of Agriculture could have saved $3.9 million on vehicle costs.

## 1991

### Vehicle Maintenance Standards

The Auditor General found that maintenance standards for vehicles at government departments were poor. Although the Department of Agriculture mandates that vehicles be serviced every 5000 km, 34 percent of vehicles were serviced between 20,000 km and 39,000 km. At six of seven Department of National Defence bases, maintenance did not know when vehicles were due to be replaced, creating a risk of making major repairs to vehicles soon to be replaced.

### Cost Recovery

Several departments had no policy on cost recovery, which violated government guidelines. In 1988, the Treasury Board allocated $13.6 million to the Department of National Health and Welfare (DNHW) for the pre-market evaluation of drugs on the condition that a full cost-recovery program was implemented by January 1, 1989. By January 1, 1989, the evaluation costs had risen to $90 million and none of the cost had yet been covered. In 1989/90, DNHW recovered only $23 million of $40 million in hospital operating cost.

The Food Production and Inspection Branch of the Department of Agriculture (DOA) consumed approximately $268 million for inspection and regulation activities but only reported about $13 million in cost recovery. The DOA also produced $11 million in overpayments through the Special Canadian Grains Program and the Canadian Drought Assistance Program, with $3.4 million still outstanding at the time of the audit.

The Department of External Affairs and International Trade had difficulty recovering costs and often resorted to "collection blitzes." The Auditor General reported that the Department was owed $42.6 million by approximately 4,600 companies.

### Western Grain Stabilization Program

The Auditor General examined the Western Grain Stabilization Program and found that it lacked criteria for ordering priorities, had no controls to prevent it from becoming unsustainable, and the Department of Agriculture was unable to define the intended effects of the program. In 1986, the Auditor General reported that there was an urgent need to review the financial viability of the program and, in 1988, a $750 million bailout was required. The management was reporting to Parliament that the program was sustainable over 20 years but when the Auditor General challenged the Department, it found that a study on sustainability had not been conducted. At the time of audit, the deficit had grown to $1 billion and the Auditor General noted that because no evaluation of the program had been done, decision-makers were "unable to assess what—if any—socio-economic benefits balance out this billion dollar deficit."

## 1991

### Reports to Parliament

Information provided to Parliament did not give a realistic picture of Canada's multilateral activities and did not justify the resources used for Canada's extensive participation in various organizations. The Department of External Affairs did not disclose the full cost and nature of multilateral activities and provided no link between resources and results, making Parliamentary scrutiny difficult.

### Habitat Policy

The Department of Fisheries and Oceans was slow in implementing the Habitat Policy. Habitat managers had yet to refine measures to determine the productive capacity of different habitats and a number of initiatives were not completed. The Auditor General found that Parliament was not being properly informed about problems the Department was facing.

### Accountability

Transfer payments made by the Department of Indian Affairs and Northern Development (DIAND) to Indian bands were not unconditional and had specific purposes, which needed to be accounted for to Parliament. The DIAND lacked an accountability framework and had no procedures to ensure that bands were accountable for the funds they received. The Auditor General was concerned that reports to Parliament were incomplete. The DIAND did not disclose direct links to costs, settlement values and timeframes, or comparative trends in the claims process.

### Customs Commercial System

The Auditor General tested the automated Customs Commercial System, an automated system that supports the processing of commercial cargo, to check whether Customs Canada adequately inspected hazardous materials at ports of entry. Eight classes of banned substances were used for the test but the system identified only two substances as being banned; the other six drew no response.

### Taxpayer Services

According to the Declaration of Taxpayer Rights, the Department of National Revenue (DNR) had to provide responses to taxpayer queries that were 100 percent accurate. During the 1990 and 1991 filing seasons, the DNR performed surveys of general enquiries. In 1990, only 68 percent of answers to test questions were correct and in 1991 only 80 percent were correct. The Auditor General stated that these results clearly show that the DNR failed to meet the Declaration of Taxpayer Rights.

### Office Accommodation Planning and Leasing

The Auditor General found the Department of Supply and Services' planning and leasing of office buildings was ineffective and short-sighted. In one case,

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the Department spent more on a long-term lease than it would have purchasing the property. The Auditor General examined a random sample of government offices and found that most offices were unhappy with the timeliness, quality, and location of spaces provided by the Department.

### Management of Government Procurement

Of approximately $8 billion worth of goods and services bought by Department of Supply and Services (DSS) each year, more than $3 billion worth is acquired on a non-competitive basis. While contracting regulations allow for non-competitive procurements in certain situations, the Auditor General found that the Department's information systems failed to explain adequately why non-competitive contracts were awarded.

In 1982, the DSS was responsible for the design and construction of a ship. They hired a naval architecture firm and a ship builder. Poor project management led to several unnecessary design revisions and construction delays, resulting in an increase of $1 million to the ship's cost.

In 1984, DSS awarded a $2.8 million contract to a supplier to engineer the Shipborne Integrated Communication System. The system was expected by August 1985, but five years later the project was still not completed.

In 1986, the Auditor General found that DSS wrongly awarded contracts for four ships without competitive bidding. The arrangement had a ceiling price of $946 million in 1984 but the government assumed responsibility for non-performance of the specified shipyard. The first two ships were completed and the same specified shipyard won contracts for the other two ships. By 1991, the costs had increased to $1.3 billion and work had fallen behind schedule by 18 to 24 months. At the time of audit, cost overruns totalled $354 million.

Also in 1986, DSS split a $22.1 million contract for 68 rescue vehicles between two domestic suppliers. Despite concerns that one supplier did not have the technical expertise to fulfill the contract, the Department awarded the bid. Eight months after signing, it became clear that that supplier could not fulfill the requirements and DSS paid it $290,000 to terminate the contract. Meanwhile, the other supplier was awarded the second half of the contract at a cost of $1 million more than their original bid. In yet another case, the Auditor General found that poor contractual management led to a contractual cost increase of $1.08 million.

### Official Languages and Translation

The Auditor General examined the cost of in-house translation by Secretary of State. The government's cost per word was 41.6 cents while the cost per word in the private sector was estimated at between 21 cents and 24 cents. The government translated 313 million words in 1990/91, 65 percent of which were done in-house.

# 1992

## Search and Rescue

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

In addition, the Auditor General found that beacon failures at federally managed lighthouses were 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, National Defence recorded 932 beacon false alarms, primarily from aircraft beacons. Beacon alerts had an 85 percent 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.

## Job Creation Programs

The Auditor General examined 25 Unemployment Insurance job-creation projects at Employment and Immigration Canada (EIC) and found that only two (8 percent of projects) had clearly specified goals for participants. Projects were inadequately monitored even by EIC's own standards. The Auditor General also examined 22 projects funded to create 2,000 long-term jobs and found 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.

## Loan Guarantees

The Department of Finance was not adequately managing its loan guarantees. The government's financial risk with major loan-guarantee programs was shared by lending institutions for only 26 percent of all outstanding exposure. There was no lender risk sharing for the Canada Student Loans Program and the Housing Program on Indian reserves. In 1990/91, the government's net claim for defaulted student loans was $78 million (2.5 percent of outstanding loans).

## Energy Megaprojects

The Department of Energy, Mines, and Resources inadequately coordinated and protected federal interests in megaprojects, such as 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.

## 1992

### Reserve Land Forest Management

The Department of Indian Affairs and Northern Development (DIAND) was responsible for all forest management on reserve land, but 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) and 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, without the project the plant could be closed, 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 the Department of National Defence (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 percent 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 (IPSs) by the DND. IPSs are spare parts to operate a weapons system for an initial period of time, usually two years. DND was paying premiums in excess of 50 percent for the acquisition of IPSs compared to the price paid by the US Department of Defense. DND was purchasing IPSs through a prime contractor to minimize overall risk but the Auditor General determined that the Department could save $20 million a year by buying IPSs direct from manufacturers and the US Department of Defense.

## 1992

### The Canadian Forces Reserves

The Auditor General reviewed training programs for Canadian Forces Reserves and found deficiencies. Comprehensive training for standard, essential wartime military tasks required 215 days whereas most reservists only received 80 days of training, and this gap in training increased with rank.

Primary reserve readiness was low and unable to meet the basic requirement of deployability within 30 days. 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 percent turnout rate target for exercises.

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 1989/90, 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

The Department of National Revenue received almost three million telephone inquiries concerning the GST in 1991/92 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, which created a backlog in follow-up and maintenance action along with some enforcement action.

### Efficient use of Police Resources

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

### Training Police Forces

Human resources management at the RCMP was inadequate. The RCMP collected minimal information on the performance of 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 percent to 32 percent 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

## 1992

due to a poor recruitment process. 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.

### Promoting Police Officers

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 1990/91, 30 percent of which were upheld due to excessively subjective promotions.

The Auditor General cited a study conducted by the Canadian Police College indicating 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 and found that two major government reports on emergency preparedness—the National Earthquake Support Plan and Bhopal Aftermath Report—faced delays, which were caused by inter-departmental 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, did not conduct reviews of accident prevention activities at hazardous waste sites, did not receive immediate reports of significant spills of hazardous materials (particularly on industrial sites), and had little information on chemical accidents.

### Emergency Response

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

### 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.

# 1992

## Contract Management

In 1991/92, 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 doing so would result in significant discounts in the purchase of media space. 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."

Management of the Department of National Health and Welfare's Income Security Programs project did not adhere with all legislative requirements. Twenty-two out of 23 contracts issued under the project worth a total of $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

The Auditor General determined that the reassessment of beneficiaries' eligibility for Canada Pension Plan (CPP) 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 1980/81. The Department of National Health and Welfare estimated that annual overpayments of CPP disability benefits totalled $65 million.

## Immigration

In a follow-up to the 1990 audit 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 percent of first hearings and 29 percent 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 federal government expenditures and found that predetermined spending had almost doubled since 1952/53. This predetermined spending accounted for 70 percent of the government's total

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expenditures in 1991/92. The Auditor General was concerned that such a high percentage of predetermined spending reduces discretionary funds necessary to maintain the government's fiscal manoeuvrability.

The Auditor General also 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.

### Accounting Principles

Atomic Energy of Canada Limited (AECL) 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.

### Contributions

The Auditor General found that the Atlantic Canada Opportunities Agency (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

The Auditor General found an urgent problem with the Canada Student Loans Act, a problem not addressed 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 1991/92 and $61 million for 1992/93.

### Canadian Aboriginal Economic Development Strategy

Funding for the Canadian Aboriginal Economic Development Strategy provided by the Department of Industry, Science, and Technology did not depend on performance. For example:

- the examination of 11 approved corporations (out of a total of 33) found that seven had at least 25 percent 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.

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In addition, 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 bilateral development programs of the Canadian International Development Agency (CIDA) and 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 that, 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 percent of all local fishermen were eligible;
- over 70 percent of resident fishermen were placed in the program because they had earlier been placed in the Ice Compensation Program; and
- non-fishermen employed in related fields of work, and those who had been fired up to 18 months prior to the moratorium, were also eligible.

### Legal Advisory and Litigation Services

The Auditor General examined the Department of Justice's (DOJ's) legal advisory and litigation services. Clients of the DOJ's services were generally satisfied but noted problems with timeliness. DOJ 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 insufficient information to manage the cost of litigation and little control over the volume or nature of its workload.

## 1993

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 Department of National Health and Welfare was providing poor service for 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—deficiencies that resulted in overpayments that ranged from $110 million to $148 million. Specifically, the Auditor General estimated that annual overpayments on the Old Age Security and Canada Pension Plan programs were between $70 million and $108.0 million,[3] while overpayments on the Guaranteed Income Supplement program equalled $40 million. These pension program overpayments increased the administrative cost of program delivery, which was about $260 million annually, by 50 percent. In addition, pension overpayments produced debts owed to the Crown that ranged between $120 million and $220 million per year.

## 1994

### Follow-up of Recommendations

The Department of National Defence (DND) 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 percent of Canadian Forces Reserve occupations were outdated or lacked specifications.

3 These figures exclude overpayments on CPP disability benefits.

## 1994

### Leased Property

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.[4]

### 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 and determined that the Archives had not adequately addressed the issue of transporting sensitive documents to the new location. The Gatineau project also 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

Unemployment Insurance (UI) was not achieving redistribution goals. Only 7 percent of total benefits went to families with income of less than $15,000; 50 percent of benefits went to families with incomes of over $40,000; and 33 percent to families with income over $50,000. The Auditor General 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.

4 This failure is calculated in Appendix B, as the authors have obtained information from sources outside the Office of the Auditor General in order to calculate the value of this failure for future years. In earlier editions of this report, this failure was included in Appendix A.

## 1994

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.

In 1991, the Organisation for Economic Co-operation and Development (OECD) concluded that UI in Canada 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 reporting of government program information to parliament was inadequate. 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, because the Department of Transportation's financial information for Search and Rescue did not include $875,000 spent on air services, as listed by National Defence.

### Management of Activities

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 concluded 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 percent of their properties in Ontario had outstanding issues and 30 percent 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.

## 1994

### Federal Management of the Food Safety System

The Auditor General reviewed the federal management of the Food Safety System (FSS). In 1990, $38 million was spent on the FSS 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 determined 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 rather than health concerns: 60 percent 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 percent 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 percent. 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 as of March 31, 1994.

Deficiencies in administration hampered the implementation of the Net Income Stabilization Account. The Account faced difficulties with its computer system, which had been developed at a cost of $8 million and which was 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.

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.

## 1994

### 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 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, but these penalties were not in line with other environmental legislation.

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 (CSC) and determined it was acceptable to place 15 percent to 20 percent of inmates in prisons with security levels that did not match those of the inmates. However, a review of 100 inmates in Ontario found 36 percent 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.

In addition, the number of escapes from minimum-security prisons rose by 80 percent from 112 escapes in 1988/89 to 202 escapes in 1993/94. From April 1992 to March 1994, 28 of the 390 escapees committed serious offences while at large. Two prisoners who escaped 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 CSC's facilities exceeded inmate population until 1992. The Auditor General noted that CSC 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.

### Paroling Offenders

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. 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 was also concerned that board members spent as much time on non-violent offenders with short sentences as on violent offenders with longer sentences.

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### Supervision of Released Offenders

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

CSC 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

Projects in Environment Canada's Environment Partners Fund 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.

### Financial Management of Foreign Missions

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. Many heads of foreign missions did not know the full costs of running their missions and many costs were not reflected in budgets.

In addition, major overseas properties, such as official residences in locations such as Brasilia, New Delhi, and Tokyo were underused. Overall, the Auditor General reported that approximately $146 million could be saved in oversized or underused properties. An estimated $13.3 million could also be saved in lease costs between 1994 and 1999.

The Auditor General concluded 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.

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### Social Assistance on Native Reserves

The Auditor General examined management of social assistance on Native reserves in Canada by Indian and Northern Affairs Canada and found that social assistance dependency rates among on-reserve Indians in 1992 were at 42 percent, up 7 percent 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.

Indian and Northern Affairs Canada (INAC) had not obtained assurance that its management responsibilities had been properly delegated to 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 percent of band case files lacked adequate documentation. Other problems included improper income verification (22 percent of sample) and improper entitlement calculation (16 percent 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.

### Management Plans for the Canadian Forces

The Auditor General examined the Department of National Defence's (DND's) 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 four percent 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 percent.

### Information Technology Management

Some of the Department of National Defence's (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, but 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.

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The Auditor General took a sample of 61 DND projects to determine whether 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, and $700 million would have been saved if 11 of the 61 projects had been implemented on a priority basis.

### Project Management

The Auditor General examined project management efforts at the Department of National Defence (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, had used up 70 percent of its contingency fund ($170 million) even though the most complex part of the project and the part most likely to require contingency funding was only 10 percent completed. 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, had spent over $16 million more than originally planned.
- Base ADP (Automated Data Processing) 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, had 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.

### Infrastructure Management

The Auditor General examined infrastructure management at the Department of National Defence (DND) and found numerous examples of inefficiencies and waste. For example, in October 1993 DND ordered the construction of a $5-million headquarters at Canadian Forces Base (CFB) Shearwater despite a possibility 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.

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The Fleet Maintenance Group facility at CFB Esquimalt 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 percent and projects under $10 million by 130 percent.

### Tradespeople Productivity

The Auditor General examined the productivity of tradespeople within DND and found that they were approximately 33 percent less productive than comparable commercial tradespeople, resulting in additional costs of $50 million per year. For example, at CFB Portage La Prairie in 1990/91 the DND 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.

### 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.

### GST Audits and Special Investigations

The Auditor General examined Revenue Canada's audits and special investigations relating to the Goods and Services Tax (GST) and found that audit coverage was low. The Auditor General expected that about 2,300 auditors would perform 152,000 audits every year (assuming a population of 1.6 million registrants), but in 1993/94 only about 80,300 audits were performed. In addition, the number of investigations and prosecutions were low.

### Tax Assistance for Retirement Savings

Information to parliament concerning Revenue Canada's Tax Assistance for Retirement Savings (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 the tax revenue it would not collect in 1989/90 due to TARS would be $5.5 billion. Three years later, that estimate had grown to $12.5 billion.

Revenue Canada's monitoring of TARS compliance was inadequate. Backlogs were increasing and the inventory of case files had more than doubled between 1991/92 and 1994/95, despite a production increase of 12

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percent over that three-year period. As of December 1993, 36 percent of the case files were more than six-months old and that number had risen to 40 percent as of March 1994. The backlog of plans awaiting registration or amendment increased by 48 percent between 1991/92 and 1992/93, and by 41 percent between 1992/93 and 1993/94.

### 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 simplification of administrative practices.

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### Crown Corporations

The Auditor General found that the debt of Crown Corporations had risen 33 percent between 1990 and 1995 to a total of $38 billion. Many Crown Corporations 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 about ethics and fraud awareness in government, and expressed concern over the results. For example:

- over 10 percent of public servants believed it would be appropriate to accept the weekend use of a ski chalet from a recipient of a subsidy or a grant;
- 30 percent 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 percent 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.

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### Managing the Legacy of Hazardous Wastes

The Auditor General examined Environment Canada's management of hazardous waste sites 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, but 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 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 ended in 1995 due to inefficiencies and cost overruns. With an estimated 7,000 to 8,000 more railcars needed in the 1993/94 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. 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. At the time, 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 inefficiencies and poor service to users. Subsidized carriers were taking advantage of their position by undercutting other independent carriers and charging their affiliated companies more. In one case, a shipper was paying an affiliated carrier 200 percent 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 and found that there was an overall lack of management information and that departments did not budget indirect costs for travel, such as arranging for tickets. The Auditor General estimated that such costs could account for 25 percent to 35 percent of travel expenditures, or roughly $170 million to $250 million per year.

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### Systems under Development

The Auditor General reviewed 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.

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.

### Business Assistance Programs

The Auditor General examined Industry Canada's involvement in various business development and assistance programs and determined they were poorly administered. Projects applying for assistance were often time-sensitive, but 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, their 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 industry had led to businesses applying for, and receiving, grants for the same projects from different government funding programs. In Ontario, 44 percent 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

The Auditor General examined the management of the Northumberland Strait Crossing Project (the Confederation Bridge) by Public Works and Government Services Canada and 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 sale 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

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specific, measurable goals. Despite the $4 billion in economic development programs between 1988 and 1995, there was no clear consensus on results.

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 went against the federal moratorium on increasing fish-processing capacity yet federal officials recommended the project for approval.

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 totalling $200 million 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.

The Auditor General found that the Atlantic Canada Opportunities Agency (ACOA) 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 percent of approved applications. For 23 percent of projects, ACOA 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 ACOA's support of a project. From its inception in May 1990 until March 1995, ACOA spent $91 million on Fisheries Alternatives projects.

### 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.

In addition, 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

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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

The Auditor General examined Human Resources Development Canada's (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 percent 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 percent 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's) management of on-reserve capital facilities and maintenance and found that operational targets for INAC did not adequately support objectives. For 1994/95, 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 1994/95. This problem had been documented as early as 1965.

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 percent of houses on reserves received adequate water services in 1993/94, but a survey conducted by the Auditor General found half of reserves had water problems and 20 percent 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 percent 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, INAC advanced about $1 million on the basis of a design proposal that a technical group had

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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 1993/94, $4.3 billion flowed through 11 revolving funds, mainly at Public Works and Government Services.

### Management of Receivables

The Auditor General examined the Treasury Board's management of interest on non-tax receivables and found approximately $222 million in short-term receivables as of March 1995 that had the potential to attract interest but 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 1994/95, the Auditor General estimated that the government might have forgone up to $17 million in annual interest charges.

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### 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

The Auditor General examined evaluation processes within the federal government and 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 and found that problems noted in a 1993 report concerning the same topic had not been addressed. There was still great variation among

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federal departments in the quality of internal auditing. Four out of seven departments did no follow-up to audit recommendations as required by the Treasury Board. In one department, the audit committee had not met in three years either to review or to approve audit coverage.

### 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. The program was eventually abandoned in 2003.

### 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. The Department of National Defence (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. 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

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 resulted in costs increasing from $1.35 million to $2.32 million.

## 1996

### Federal Rehabilitation Programs for Offenders

The Auditor General examined rehabilitative programs of Correctional Service Canada (CSC) and found they were not meeting training and correctional goals. CSC's operations had also become unsustainable, netting losses over a three-year period of $7.3 million. CSC had been relying more heavily on its revolving fund than originally planned and was expected by March 31, 1996 to have only $7 million 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 and found the Department 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. Veteran Affairs had not been cost-effective when negotiating rates with more expensive care facilities and 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. There were also 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. Between 1986 and 1996, the number of CPP Disability beneficiaries grew by 93 percent, while the labour force grew by only 12 percent. 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

## 1996

1994, official estimates of over-payments were $14 million but additional review pointed towards potential over-payments of $21 million to $38 million. The Auditor General explicitly remarked that "the estimate of $14 million of over-payments for all beneficiaries is underestimated." More than 60 percent 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 and 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 percent) and Revenue Canada only 26 out of 65 (40 percent); there was no way of telling if all qualified individuals were receiving Child Tax Benefits or GST Credits; and improper payments of Child Tax Benefits in 1994/95 for children born in 1993 were in the range of $5.9 million to $31.6 million and increased each year as children grew older.

The amount paid out for GST credits grew 50 percent faster than the number of recipients, for no explicable reason. Approximately $19.8 million was overpaid through GST credits in 1994/95 and no information was available to aid retrieval of excess payments and prevent future mistakes.

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

### Business Window Program

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

### Material Management

The Auditor General examined the management of material stock by the Department of National Defence and found that an internal report in July

## 1996

1996 estimated that the department kept approximately $1.7 billion more inventory than was expected to be needed over the next four years.

Best value had not been achieved in material acquisitions made by Transport Canada. 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 estimated at $659 million. For the renegotiated $500 million contract, the government received $282 million worth of services and hardware.

### Promoting Exports and Foreign Trade

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 percent (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.

### Reintegration of Offenders

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

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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 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 another 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 percent of the cost of canal maintenance in 1994/95, even though only a small number of boaters used the canals. Parks Canada's method for determining canal traffic exaggerated use by excluding travel through successive locks or multiple trips by boaters. The Auditor General estimated that approximately $10 million could be saved annually in operating, maintenance, and administration costs for the canals.

### Funding Arrangements for First Nations

The Department of Indian and Northern Affairs had not estimated the total value of all its funding arrangements with First Nations. The Department 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 percent to 102 percent of annual revenues. The value of these reported deficits was over $190 million in 1994/95.

### Productivity

Productivity at the Department of National Defence (DND) was on the decline. Training productivity in 1994/95 fell 40 percent when compared to 1990/91. Three out of seven DND business plans lacked cost and output data. DND under-used its vehicles by 16 percent to 65 percent. Vehicle maintenance

## 1996

could have been reduced greatly by taking advantage of warranties on vehicles, but DND used warranties for only 10 percent of its vehicles while commercial fleets use them for 50 percent to 75 percent of their vehicles.

The Auditor General estimated that $600 million could be saved by re-engineering projects to monitor Air Command. In addition, annual savings totalling $197 million were possible, including 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 for Public Servants

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

### Property Management

Foreign Affairs overestimated the cost of its properties by $2.4 billion, resulting in an overcharge on the consular portion of the passport fee. The cost of properties is capitalized and passed on to users through passport fees. An accurate property assessment would have reduced the consular fee from $25 to $19.

Foreign Affairs officials received additional housing benefits based on hospitality expenses although only four of the 34 cases examined (11.8 percent) 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 unused furniture in warehouses, and $37,000 annually for unauthorized employee accommodations.

The Auditor General also noted that Foreign Affairs was experiencing internal resistance in its attempt to downsize ambassadorial residences. For example, one official residence was sold for $12 million and a new residence leased for $350,000, on top of additional renovations of $300,000. The head of mission 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 inferior due to employee absences, improperly qualified workers, and incompetence. In addition, some doctors

## 1997

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 fishers through Unemployment Insurance (UI) (now referred to as Employment Insurance). Unemployment Insurance payments for fishers rose from $20 million in 1972 to $270 million in 1988 as a result. Self-employed Newfoundland fishers received $1.60 in UI benefits for every dollar earned in 1990.[5]

The Atlantic Groundfish Strategy (TAGS) did not achieve its goals of reducing over-capacity. Human Resources Development Canada initially estimated that 8,500 participants (28 percent of the eligible population) would rely on TAGS. By 1997, there were 21,722 participants (54 percent of the eligible population). Moreover, the Auditor General noted a 29 percent 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 reach up to $1 billion.

### Contracting

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 of National Defence, the RCMP, and Public Works 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.

5 To avoid double counting and since the cost of this failure overlaps with an earlier failure in 1994 (see "Unemployment Insurance"), a separate estimate for the cost of government failure was not calculated.

# 1998

## Reductions in the Public Workforce

A government 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) and by 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, the Auditor General estimated five-year capital expenditure needs of $11 billion, compared with only $6.5 billion in available funds. Operations and maintenance costs exceeded 30 percent of departmental funding, further impairing equipment modernization.

## Health Laboratories

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

## Cash Advance Program

Agriculture Canada's Cash Advance Program provides loans up to 50 percent 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. There were cash advances of $5,573 million during the crop years from 1992 to 1998.

## 1998

### Social Insurance Numbers

The Auditor General raised a number of concerns in its audit of the Social Insurance Number system:

- 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 percent of SINs had no supporting documentation;
- the Social Insurance Registry had almost 12 million uncertified accounts.

In addition, the Auditor General found problems from using the SIN as a common identifier. For example, overpayments for employment insurance claims were estimated at $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

Transport Canada provided Parliament with misinformation on road conditions relative to minimum national standards, potentially leaving the impression that improvements would require billions of dollars in expenditures. But an internal study revealed that pavement surfaces were acceptably smooth and 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 rather 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 Québec, the provincial ministry.

## Atlantic Fishery

The Auditor General found a contradiction between the Department of Fisheries and Oceans' (DFO's) stated objective of conservation and 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 the Department of Fisheries and Oceans. Another example saw the issuance of offshore shrimp quotas to fishermen's unions that did not have licences. A further 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

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. 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. In addition, the Auditor General indicated 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; and
- nearly half of the files had not been closed out when projects were completed, which made it impossible to determine whether funding had been used appropriately.

## 1999

### 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. Thus, 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 supposed to coordinate the efforts of provincial health authorities in detecting and preventing communicable diseases. However, 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. But these are not true performance measures, since higher spending does not necessarily result in higher performance. Auditor General had previously raised this concern in 1996 but no adjustment in reporting was made.

### Property Management

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 percent of total points for the quality and quantity of jobs offered to existing departmental employees and only 10 percent to the price quoted by contractors.

### Diesel Purchases

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. National Defence personnel accepted cash rebates for 88 percent of 861 diesel purchases.

### Sole-Source Professional Service Contracts

An Advanced Contract Award Notice (ACAN) can be issued—and the normal contracting process avoided—when government officials determine

## 1999

that there is only one competitive contractor. However, the Auditor General found that almost 90 percent of the 50 contracts examined did not fall under any of the exceptions or did not have adequate information to support the exception. In addition, over 30 percent of the cases had major differences between the statement of requirements and the terms of the contract; contractors' work had not been critically assessed in three-quarters of the contracts reviewed; and only half the files contained proof that the contract had even been delivered.

### Management of the Canada Pension Plan Disability Program

The Auditor General completed a follow-up to the 1996 audit of the Canada Pension Plan (CPP) Disability Benefit program. Human Resources Development Canada improved its measurement of overpayments since 1996 and more realistic estimates of mis-payments can be provided as a result of these changes. The most likely value of undetected mis-payments for 1996 was $60 million, while overpayments of disability benefits for 1996 were estimated at $29 million.

## 2000

### Employment Insurance Claims

Times to process Employment Insurance (EI) claims by local offices of Human Resources Development Canada improved slightly between 1996 and 1999 but at the expense of accuracy, which fell from 96 percent to 94 percent. Reduced accuracy increased underpayments of EI benefits by 60 percent and overpayments by a third. Estimated total underpayments increased from $125 million in 1995/96 to $211 million in 1998/99. Overpayments also increased over the same period, from $334 million to $445 million. All told, total incorrect payments for EI benefits increased from $459 million in 1995/96 to $656 million in 1998/99.

### Canadian Immigration Program

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

## 2000

### First Nations Education

Funding for Native education on reserves amounts to $1 billion annually, but the Auditor General found no process or mechanism to measure and assess whether student needs were being served. For example, there was no separate cost-per-student analysis for elementary and secondary schools.

### Border Control

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

CANPASS was designed to expedite the movement of low-risk travellers while reducing administrative costs at the border. However, anticipated savings have not yet materialized because user uptake has been limited. At Fort Erie and Windsor, for instance, CANPASS use was frustrated as users had to wait in line-ups with regular traffic because no separate lanes were available. CANPASS lanes at two other border crossings have been abandoned for lack of use. In an attempt to encourage user uptake, the Whirlpool Bridge was restricted solely to CANPASS users. Use of the bridge subsequently dropped 63 percent. Despite the mixed results of past experiments, CANPASS was scheduled 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's) tax-credit program resulted in on-going court challenges and the expenditure of tens of thousands of staff hours and hundreds of thousands of dollars on multiple science reviews. The Auditor General found that science advisors and CCRA auditors rejected roughly $1.3 billion of $2.8 billion (46 percent) in claims requested under the program.

### Laboratory Services

The estimated delay for DNA analysis by the RCMP was 82 days, even though the testing took only two days. Delays resulted from 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.

## 2000

### 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.

### 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 percent 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, representing about $5 million in productive time lost.

### Airport Transfers

The Auditor General examined how Transport Canada handled the transfers of the ownership 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 percent) were reported to Parliament.

### Grants and Contributions

The Auditor General found a widespread lack of due regard and diligence in spending public funds and in achieving desired results in the Transitional

## 2000

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 percent of TJF projects and 75 percent of CJF projects would probably have gone ahead without Human Resources Development Canada (HRDC) funding. In fact, the Auditor General noted that officials at 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. Moreover, the Auditor General concluded that 29 percent of project proposals for the Social Development Partnerships Program (SDPP) were inadequate. SDPP's budget was $15.1 million in 1999/00.

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 it 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 found that 16 percent 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. Specifically, the Auditor General found that:

- only 5 percent of projects had been properly assessed for eligibility;
- only 18 percent 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 percent of the projects.

### 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. Specific 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 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; and from 1995 to 2000, ACOA paid $116,903 in rent shortfalls for space it did not use.

## 2000

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 percent to 30 percent more expensive than buildings of superior quality in Sydney. The Auditor General discovered that the facility was never used for the purpose indicated and that at most two federal employees were located at the site.

### Crown Corporations

Directors at Crown Corporations reflected Canada's diversity but lacked other key skills and capabilities that are needed to function effectively. Comments by chairs and CEOs of Crown Corporations indicated that roughly 25 percent of boards were out of their depth due to selection being based on "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 that three of 15 audit committees examined demonstrated financial illiteracy.

### 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 reported as contracting activity. In addition, 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 advised departments (after confirmation had been requested) that 37 contracts, valued at more than $3 billion, had been omitted from the Report.

### Fleet Management

There was 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 was divided into five regional units, which resulted in missed opportunities for greater sharing of resources and for improved productivity. One 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.

There were other cases involving poor management. In 1999/00, the vessel CCGS *Edward Cornwallis* was non-operational, except for about two weeks, but incurred $1.2 million in salaries and operating costs. Also in

## 2000

1999/00, 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 officials had been aware of the alleged fraud for over 20 years but Canada Customs and Revenue Agency had never prosecuted employers or claimants for making fraudulent claims.

## 2001

### Grants

The Auditor General noted a lack of accountability regarding grants issued by Human Resources Development Canada and suggested that they be reserved for particular cases only. However, as of 2001, almost 70 percent of funding was allocated to grants.

### Business Development

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 percent of projects reviewed had received funding in excess of three years. And over 20 percent of projects reviewed were deemed unlikely to be financially sustainable in the future without ongoing 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. Moreover, 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, but ACOA's documentation showed that the project would create only 22

## 2001

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 and 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's) 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 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 percent.

### Servicing National Defence Equipment

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 percent of DND's maintenance personnel lacked the qualifications their ranks require.

### Income Support Tax Credits

The Auditor General was concerned about 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 found there were more children enrolled in the CTB program than the eligible child population. Another study found that 30 percent 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 on-going delays in detecting errors.

### Sole-Source Contracting

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.

## 2001

In 1999, the Auditor General examined a sample of 50 sole-source contracts and only 11 percent 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 cheques to recipients of the GST Credit. However, 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 the issuing of cheques 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 percent and 35 percent of recipients received a cheque but had heating already included in their rent or heated with electricity;
- at least 40 percent 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 not living 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. 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 the Canadian Custom and Revenue Agency's (CCRA's) registry for tracking tax-forgiveness requests does not record the

## 2002

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 differing rulings from seven regional tax authorities for the same tax issue.

### Contract Management

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, after four years of use, Health Canada is considering using alternative software.

Under government procurement rules, a contract valued at less than $25,000 can be tendered without public bidding, but 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 several instances of inadequate contracting agreements. Below 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 is 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.

## 2002

### Social Insurance Numbers

The Auditor General found that problems with the Social Insurance Number (SIN) system persisted. There were 5 million more SINs for people over the age of 20 than there are Canadians of those ages, and 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. The majority of SINs issued since 1998 were not properly verified with the applicant's identity and citizenship status.

### Management of Contracts for 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 percent of the training paid for was actually used. Moreover, 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 but $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 percent 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. However, a recent internal report suggested that 46 percent 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 percent of the value of guaranteed loans. As of March 31, 2001, losses on loans between 1995 and 1999 amounted to $155 million and 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.

## 2002

### 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. So the Auditor General concluded 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. Specifically, the Special Purpose Dexterous Manipulator (SPDM) was originally scheduled for 2002 but had been delayed until 2005. During the delay, it will cost about $13 million to keep SPDM in operating condition.

In addition, 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 percent of the costs of operating the International Space Station but the ultimate cost of this commitment is unknown.

### Acquisition of Office Space

Public Works and Government Services Canada 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 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 percent of purchases and leases were missing investment analysis reports and 21 percent 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.

## 2002

### Firearms Registry

The Auditor General reviewed information provision and disclosure by the Department of Justice (DOJ) about the 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 percent of future operating costs, significantly higher than the industry norm of 10 percent to 20 percent.

### 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, but no review has ever been conducted on the rationale behind the food entry points selected. Food is currently shipped out from Val d'Or, Churchill, Iqualuit, and other remote communities. The Auditor General suggested that program administrators consider shipping food from other Canadian cities where the prices, quality, and variety of fresh food are better. In 2001/02, 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 invested over $600 million in its Financial Information Strategy (FIS), which is intended to integrate all costing and decision-making information into one database. However, 90 percent 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 is better than the quality of centrally supplied data.

In addition, nearly 90 percent of the 44 entities with multiple business lines account for their administrative costs on a separate business line, leading 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 percent effective at restricting inadmissible travellers. In 2000, 50 percent 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 because the CCRA's administrative system is based on license plates and incompatible with the CIC system, which is 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 files did not support the issuance of permits in 40 percent 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 and Loans to First Nations

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

## 2003

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.

### Immigration Control

Issuing visas is the primary form of control on immigration, but 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 possible in part because certain offices did not reconcile document inventories on a daily basis and other appropriate controls were not in place.

The departmental performance report claimed that Citizenship and Immigration Canada attracted 137,119 skilled workers to Canada in 2001, but the number of skilled workers that actually 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

Since 1990, the government planned to reform the existing job classification system that had 840 pay rates and 70,000 rules governing pay and allowances. 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 incremental expenditures estimated at $200 million. Regarding the structure of the current pay system, the Auditor General says "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,

## 2003

but 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 spent almost $100 million on two new Challenger aircraft for VIP travel in the space of nine days in March 2002, but the Auditor General noted that the Privy Council Office bypassed the government's own procurement policies and procedures with this decision. Specifically, it circumvented 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 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 percent of sites and buildings were found to be in poor condition. Over 90 percent 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. Yet, 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. Moreover, government legislation regarding the NRC had not been updated since 1979.

## 2004

### 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.

### 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.

Transport Canada's screening methods for applications of access to restricted areas at airports were inadequate. 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 better equip the Canadian government to address a possible terrorist attack. However, 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 unavailable 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.

### Small and Medium-sized Enterprise Tax Services

Canada Revenue Agency's (CRA's) audit staff for small and medium-sized enterprise (SME) tax services was distributed evenly across the country, even though some regions presented larger risks than others. The Auditor General found that 33 percent of CRA audits were conducted with no written plans. Fifty-five percent of audits warranting 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 2002/03, CRA received 2.6 million GST/HST refund claims from SMEs on which it paid out $29.8 billion. CRA audited 1.6 percent of claims (approximately 42,000) 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 percent.

## 2004

From the 42,000 audited, the Auditor General randomly selected 262 files considered to present little or no risk and found 16 percent 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.

### Defence Upgrades

In 1992, after the 1991 Gulf War, National Defence 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 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. 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 million to $13 million could be saved on proton pump inhibitors (PPI) by requiring the formularies to cover only the lowest-cost PPI, unless medically justified.

In addition, pharmacy audits did not always lead to recovery of identified overpayments. At Health Canada, $2.1 million has yet to be recovered for the period from 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

## 2004

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 about $2.52 billion to the program between 1994/95 and 2003/04. Only 30,000 students supported by the program graduated between 1994/95 and 2001/02, yet INAC reported that more than 25,000 First Nations and Inuit people received support in 2002/03 alone.

# 2005

### Governance and Strategic Management

Natural Resources Canada (NRC) did not have a corporate strategic plan and its strategic planning documents were inconsistent. Risk assessment was also 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 and found the following.

- Only 60 percent of files in the main inspection database for air and marine transportation security breaches were completely accurate.
- National Defence was implementing a High Frequency Surface Wave Radar System (HFSWR) and 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.

## 2005

In addition, Health Canada was allocated $501,000 in December 2001 to develop Health Emergency Response Teams. These federally trained medical teams were supposed 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.

### C4ISR—Command and Control, Communications, Computing, Intelligence, Surveillance, and Reconnaissance

The Department of National Defence's (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 DND officials often bypassed the C4ISR review committee prior to project approval. Since 1999, only six of 13 "enabler projects" (projects to enable the C4ISR Initiative) and two of 19 related projects were submitted to committee for funding approval. Also 72 percent 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 achieved without supporting measures. 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. It was found that government departments and agencies had not developed comprehensive IT security standards,

## 2005

including intrusion detection and incident management. In some departments, access to sensitive data and programs was 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 percent of departments in the survey had not completed an assessment in the last two years or had never completed one.

### Government Foundations

Insufficient information was being provided to Parliament on 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 1996/97 to 2003/04, the government transferred more than $9 billion to foundations.

### Foreign Aid

The Canada International Development Agency (CIDA) was awarding development contracts without competition. For example, 60 percent of large, sole-source contracts should have been open to competition since there may have been potentially qualified suppliers. CIDA also did not follow 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.

Less than 50 percent 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 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."

In addition, an unexpected increase in the issuance of grants from 1999/00 to 2002/03 was noted. In total, grants grew from $6 million to $148 million over this period. Many of the grants lacked proper accountability, required documentation, and the necessary approval from CIDA officers. The Auditor General expressed concern 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.

## 2005

### Crown Corporations

Crown Corporations made limited progress in addressing 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. Since the 2000 report, the Auditor General found a 20 percent rise in board members continuing to serve after their terms had expired and that many large Crown corporations operated without a permanent CEO.

In addition, 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 continue to be approved. While some improvements have been made by Crown corporation audit committees, 36 percent of these committees remain marginally effective.

### Management of Financial Information

Weaknesses in 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. One survey actually revealed deficiencies in the qualification of senior financial officers. For example, only 55 percent of incumbents were professional accountants whereas 80 percent 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 and information on program costs proved to be unreliable. As a result, financial statements were inaccurate and users were making decisions with incomplete information.

### Contract Policing

The Royal Canadian Mounted Police (RCMP), whose services are contracted by the government's department of public safety, failed to meet the 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 meant that peace officers were employed according to a province's willingness to pay, not according to the number of required resources needed. In addition, a dispute regarding the bill for police contracting between the RCMP and the Northwest Territories was unresolved after 12 years. The RCMP recognized that the slowness of the

## 2005

dispute resolution process meant that $6.9 million out of a possible $8.2 million owed to the RCMP was unlikely to be recovered. As a result, the RCMP abandoned its attempt to recover the $6.9 million.

The Auditor General also found gaps in mandatory training. Failures to requalify and recertify officers may be preventing the RCMP from meeting its clients' expectations of fully trained peace officers. Overall, the number of peace officers that met all six mandatory training requirements dropped from 57 percent in 2003 to 6 percent in 2004.

### Personal Income Tax Returns

The Auditor General investigated Canada Revenue Agency's (CRA's) ability to verify the accuracy of personal income-tax returns and found that, if taxpayers had been in full compliance with the rules of deductions and credits, revenues from personal income taxes for the fiscal year 2002/03 would have been $586 million higher.

The Auditor General also found deficiencies in the "matching program" (a program designed to identify potentially unreported income), which meant that 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 million and $250 million in income taxes.

Despite concerns expressed by the Auditor General in 1994 and 1997, CRA has still not taken steps to identify taxpayers who have made excess RRSP contributions. In fact, "the percentage of taxpayers claiming deductions and credits that they were not entitled to doubled from approximately 5 to 11 percent 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. All three initiatives generally suffered from a poor accountability framework. Reports sent to Parliament were incomprehensible and consequently corrective action could not be undertaken.

### Support to Cultural Industries

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—measures that help ensure that support programs meet their objectives of producing and distributing Canadian content.

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The Auditor General expressed concern about an inadequate delineation of duties within Canadian Heritage's agencies. Two boards of directors must approve the Equity Investment Program and, thus, two contracts are required to be submitted for a single application for production approval. Because gaining acceptance from two boards with different mandates and divergent concerns is time consuming, approval processes are inefficient.

### Administration of the Federal Electoral Process

For the 2004 election, Elections Canada spent $50 million on revision activities to update information on the preliminary lists of electors. But according to the Chief Electoral Officer's recommendation in a report to Parliament, revision costs could be reduced by half by eliminating unnecessary staffing. More broadly, the direct cost of election administration was on the rise, increasing by 41.5 percent from $150.1 million in 2000 to $212.4 million in 2004.

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.

### Treaty Land Entitlement Obligations

Indian and Northern Affairs Canada (INAC) made limited progress in converting Crown lands into reserve status. For example, only 12 percent of acres selected in Manitoba have been converted since 1994. Since the signing of the Manitoba Framework Agreement in 1997, only 2 percent of acres selected under the Framework Agreement have been converted to reserve status. In Saskatchewan, 58 percent 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 entails significant financial costs. The federal government has committed over $500 million since 1992 to meet obligations in Saskatchewan and Manitoba.

### Tsunami Relief

The Auditor General examined Canadian International Development Agency's efforts to deal with the tsunami disaster in Southern Asia and found that CIDA was unable to spend its initial tsunami funds before the end of 2004/05. To free up funding for the new fiscal year, CIDA spent $69 million intended for tsunami relief on non-tsunami-related activities in the 2004/05 fiscal year.

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## Management of Financial Information

Progress at various departments in addressing previously identified weaknesses on internal financial controls was 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 warned that these weaknesses in financial controls entail future risks of mismanagement.

## Military Recruiting, Staffing, and Retention

Recruitment problems persisted at the Department of National Defence (DND). The military population at the time of audit was approximately one-third lower than it was 13 years ago. Specific concerns related to staffing were highlighted:

- 29 occupations were understaffed by 10 percent 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 percent of positions in those 17 occupations are vacant); and
- attrition for medical reasons for non-commissioned members (those who are not officers) has almost doubled since 2001.

The Auditor General was also concerned about military staff retention since early attrition lowers the return on training investment. For example, 35 percent of army combat engineers leave after their fourth year in the military; 35 percent of army electrical and mechanical engineering officers leave the military after seven years of service (it costs about $200,000 to train these officers for the first seven years and DND accepts 35 recruits per year); and 71 percent of military physicians leave within ten years of service during which DND has subsidized their education for approximately five years.

## Pilot Training

The Auditor General examined a contract involving the Department of National Defence (DND) and Public Works 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 $2.8 billion but, with the participation of foreign nations, the cost of the contract increased to about $3.4

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billion. Despite concerns raised in a 2002 status report, the Auditor General found that student pilot training positions were underused. The total value of missed training was $89 million. In one case, DND paid for 654 student pilot training positions but used only 509 positions (78 percent). This unused training is estimated to have cost approximately $39 million.

### Canadian Firearm Information System

The accounting and reporting of 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 a separate case, DOJ under-reported the Canadian Firearms Centre's actual spending for 2002/03 by $39 million.

In addition, cost overruns resulted from 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. The total development cost for CFIS I was estimated at $94.5 million but swelled to almost $190 million. 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 2005/06.

### Canadian Firearms Program

The Canadian Firearms Centre's performance reports do not give Parliament a complete picture of how the licensing and registration activities are performing, and the Auditor General is concerned 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.

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

The Centre's contract management practices also need to be improved. In a sample of 147 contracts, the Auditor General found multiple contracts that were awarded without a proper competitive process. The Centre misused contracting tools like the Informatics Professional Services Marketplace to justify the retention of services of information technology contractors through a non-competitive procurement process. Under these arrangements, consultant costs increased by an average of 25 percent. The Auditor General also found questionable contracting practices by Public Works in a contract costing around $700,000 that should have cost about $150,000.

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### Management of Programs for First Nations

The Auditor General examined the progress of five federal organizations implementing 37 recommendations that were made between 2000 and 2003, and found 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. Health Canada also did not monitor the number of prescription-drug-related deaths of First Nations covered by its drug benefits program.

### Transfer Payments

Half of Indian and Northern Affairs Canada's (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 several deficiencies. INAC did 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. Finally, INAC did not reclaim unspent money from a project within a reasonable time frame, as required by the Policy on Transfer Payments when funding exceeds actual expenses.

### Acquisition of Leased Office Space

The Auditor General examined the acquisition of accommodation for a government agency by Public Works and Government Services Canada (PWGSC). PWGSC's non-competitive procurement and lack of adherence to established guidelines cost taxpayers an additional $4.6 million, and space in the acquired building remains unoccupied.

In general, the government does not always select the most cost-effective alternative to meet accommodation requirements for its client department. For example:

- In Hamilton, Ontario, Treasury Board approved a property lease for 15 years, which was the most expensive option, costing the Crown potentially an extra $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 a lease renewal for Centennial Towers in Ottawa, Ontario, PWGSC indicated that the present value of the cost of accommodation was $261 million, $81 million more than the most cost-effective alternative identified in 2001.

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- In a lease renewal for Jean Edmonds Towers in Ottawa, Ontario, the present value of the cost of accommodation was $158 million, which was $12.5 million more than the least-cost option identified in the financial analysis.

### Managing Information Systems

Public Works had yet to address weaknesses in its management of information systems. One report noted that the Department spends about $50 million on information systems annually even though these systems do not provide information that would enable managers to make well-informed decisions on managing the real-property portfolios.

### Collection of Tax Debts

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

### Risk Management

Risk management deficiencies persisted at the Canada Revenue Agency (CRA). For example, CRA's documentation of the automated risk-scoring module was poor, which meant the Auditor General was unable to determine how the risk scores were calculated and whether the riskiest files were given priority.

### Expenditure Management System

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 percent in years of deficits to 10.4 percent in years of surpluses.

The Auditor General also found 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.

The Auditor General found significant weaknesses regarding the role of departments in the EMS. For example, funding was not adequately aligned with program requirements, which had a negative effect on program delivery. At Canadian Heritage, 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.

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### Supplementary Estimates

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. 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 appropriations before receiving Parliamentary approval. The Auditor General remarked that "[t]his course of action undermines parliamentary control over public spending."

### Large Information Technology Projects

The Auditor General was denied access to documents needed to complete its audit of large information technology (IT) projects. Nonetheless, the Auditor General found a continued history of overspending, delays, performance shortfalls, and abandonment after major investments. 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 reported the following on specific, large IT projects:

- Agconnex, Agriculture and Agri-Food's attempt to build a fully integrated system for farmers, was a failed IT project and 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. It has operated at less than 50 percent of its capacity for a total cost of $196 million from its starting date in September 2004 to March 2006.
- Citizenship and Immigration Canada received budget increases for the Global Case Management System without submitting a revised business case to Treasury Board. The system's cost is now estimated to be $242.8 million, $48 million higher than the original estimate.
- The Treasury Board's Expenditure Management Information System demonstrated ineffective project management. The system had neither a performance measurement framework with clear reporting timelines, nor a detailed project plan with specific project milestones and deliverables.

### 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. Specifically, survey results indicated that:

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- 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 percent at Border Services to under 40 percent at the RCMP;
- only 40 percent 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; and
- fewer than 45 percent of Border Services employees said they believed their specific organizations would take reports of misconduct seriously and investigate them.

### Use of Acquisition Credit Cards

Misuses of acquisition credit cards at the Royal Canadian Mounted Police (RCMP) persisted. For example,

- 19 percent of cardholders used credit cards for vehicle operating and maintenance expenses, which were not allowed by Treasury Board policy;
- 17 percent of cardholders made IT purchases, which are prohibited without approval by the regional informatics 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 percent of cardholders had not certified that goods and services had been received as required; and
- only 25 percent of RCMP employees had received training in the use of acquisition cards.

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

Regulations at Border Services were not followed. For example, 98 percent of cardholders did not obtain three price quotes for purchases over $500 as was required; 17 percent of cardholders made purchases over the $5,000 transaction limit specified; and one individual made 61 questionable

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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.

At Correctional Service Canada, about one third of the cardholders had delinquency charges on their accounts for not making payment in a timely manner and 35 percent of cardholders did not review or sign-off for one or more transactions. Correctional Service allowed cardholders to sign on their own behalf that goods and services have been received but in one case the Auditor General found an inmate had signed for a purchase.

### Contracting

The Auditor General reviewed contract administration at three agencies within the Public Safety ministry. At the RCMP, which handled $255 million worth of contracts in 2004, 24 percent of contracts reviewed had compliance problems. In two sole-source contracts, there was no adequate reason for circumventing the competitive process. In five sole-source contracts, there was no proposal from the vendor identifying time goals, deliverables, and cost. In seven contracts, goods or services were delivered before the contract or its amendment was in place.

At Canada Border Services Agency, which handled $11 million worth of contracts in 2004, 34 percent of contracts examined had compliance problems. In one file, the Auditor General found that three individuals from the same firm were the only ones considered, even though 13 other consultants had been identified. The chosen consultants included an 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.

The Auditor General found similar problems at Correctional Service Canada, which handled $300 million worth of contracts in 2004. Twenty percent of sole-source contracts reviewed did not meet the criteria for exemption from competition. Overall, 42 percent of contracts had compliance problems.

### Contract Management

The Auditor General examined the Integrated Relocation Program, which was launched to provide a full range of relocation services to members of the Canadian Forces, Royal Canadian Mounted Police (RCMP), and other federal employees. The findings pointed to a wide gap between the program's actual business volumes and the volumes set out in the request for proposal (RFP). The RFP incorrectly stated the proportion of RCMP and federal government relocations using property management services. As a result, the government may have paid more than needed for the administrative services of a professional relocation company.

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In addition, there were concerns with Public Works' overseeing function. 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 not acted on.

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 required reconciliation. 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

Human Resources and Social Development Canada (HRSDC) did not have a nationally standardized quality-review procedure for Old Age Security (OAS) program-benefit applications. Since 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 Auditor General found 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.

The Auditor General's assessment of three processing centres revealed quality deficiencies in up to 40 percent of cases. These deficiencies led to payment errors in up to 7 percent of cases. An examination of 163 accounts listed in reports previously reviewed by service delivery agents found that the action taken in 10 percent of the cases was incomplete or incorrect, resulting in payment errors in seven accounts. In another 10 percent of the cases, the follow-up was not completed within the subsequent month.

Information required for the appropriate analysis of overpayments was not available. As a result, overpayments could not be managed adequately. As of March 2005, the amount outstanding in overpayments of OAS benefits was about $82 million. This represents overpayments that HRSDC had not yet recovered, written off, or forgiven.

The systems and procedures for recording and collecting overpayments were also inadequate. These deficiencies were initially reported in a 1993 audit but persisted despite recommendations. The current audit revealed that overpayments remained outstanding for longer periods. From March 2003 to March 2005, the proportion of outstanding overpayments older than five years increased from 14 percent to 21 percent. The Auditor General remarked that an "increase in older overpayments is of particular concern since they are harder to collect."

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### British Columbia Treaty Process

The Auditor General examined the progress made in the British Columbia (BC) treaty process. From 1993 to 2006, the federal government spent about $426 million on BC treaty negotiations while BC First Nations borrowed close to $300 million for the same purpose. As of 2006, no treaties had been signed under the BC treaty process and Indian and Northern Affairs Canada (INAC) did not have the management systems in place to estimate how much time and what resources would be needed to complete current negotiations. Two of the agreements reviewed have taken twice as long as their initial estimates and are over a year behind their original target dates for concluding a final agreement.

### Allocating Funds to Regulatory Programs

Health Canada did not track or monitor resource requirements, sources of funding, or performance targets to fulfil its resource allocation responsibilities for regulatory programs. 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 also found that funding by Cabinet and Treasury Board for special initiatives was not spent for the purposes intended. For example, in 2003/04, 12 percent of the $20.5 million for the Drug Products and Medical Devices programs was transferred to other programs. Similarly, in 2004/05, 6 percent of the $10.3 million for the Product Safety program was transferred to other programs.

In addition, 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 percent).

### Pension and Insurance Administration

In reviewing the Royal Canadian Mounted Police's (RCMP's) pension and insurance administration, the Auditor General cited an internal audit finding non-compliant staffing activities, improper contracting processes, and significant financial waste. The Auditor General cited a separate independent criminal investigation by the Ottawa Police Service (OPS) finding several problems involving abuse of the RCMP's pension and insurance plans, nepotism, wasteful spending, and instances of management overriding controls. Specific findings from both the internal audit and OPS investigation included the following.

- Normal staffing processes were ignored. 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.

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- Consulting contracts, valued at over $20 million, were established without competition and circumvented controls designed to ensure fairness, equity, and the lowest price. These breakdowns in control led to unnecessary or wasteful expenditures being charged to the pension plan.
- 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 budgetary pressure on managers responsible for these projects.

The Auditor General examined whether the criminal investigation between the RCMP and OPS was structured to avoid undue RCMP direction or bias, and found significant RCMP involvement in the OPS investigation. One RCMP member described the process as an RCMP investigation conducted with OPS assistance.

### Pension Plan Outsourcing

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, meaning there was no competition for a $4.6 million contract.

There were inconsistencies in outsourcing cost estimates for pension plan administration. In the original information provided to the Treasury Board Secretariat, expected costs were estimated at $2.8 million, in each 2002/03 and 2003/04, but the RCMP later increased its estimates to $5.9 million and $8.1 million, respectively.

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 2002/03 were $10.6 million, more than four times the original $2.4 million estimate.

### Award and Management of a Health Benefits Contract

The Auditor General examined the award and management of a health-benefits contract by Public Works and Government Services Canada (PWGSC) and Health Canada. The contract—which was 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 program. Since none of the bidders met the requirement of financial stability, the Auditor General concluded that PWGSC should not have awarded the contract. Moreover, Health Canada and PWGSC did not implement important

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terms and conditions of the contract and, as a result, Health Canada paid the contractor $4 million in unnecessary fees between 1999 and 2004.

Health Canada did not comply with requirements of the Financial Administration Act for its management duties over the period from 1998 to 2006. Health Canada did not have authorization to make payments out of the Consolidated Revenue Fund amounting to approximately $2.6 billion as of January 2006. Health Canada also 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. Finally, Health Canada certified 22 invoices at a total value of $5.5 million that had no documentation to support the volume of claims processed.

### 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 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. Examples of the former Correctional Investigator's inappropriate conduct included the following.

- There was no justification for consistent absence from the OCI business premises during business days. Over six years, the former Correctional Investigator was absent from the OCI premises for 319 business days.
- Annual leave was improperly cashed out for 157 days during the 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 over the 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.

Despite 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.

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### Human Resources Management

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. The OCI also 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.

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### Social Insurance Numbers

The Auditor General concluded that progress on previously identified problems with the SIN system was "unsatisfactory," largely because outstanding issues of concern had not been resolved. Progress on the Social insurance Registry (SIR), which contains the basic personal information used for the SIN, was inadequate and no goals had been established for its accuracy, completeness, or reliability. In addition, policies governing the use of the SIN were still not clear. The Auditor General noted some improvements in the SIN system but warned that monitoring was required. The number of usable SINs exceeding the Canadian population aged 30 years or older was about 2.9 million in 2006, a significant reduction from the 5 million in 2001.

### Advertising and Public Opinions Research

Human Resources and Social Development Canada continued to create advertising campaigns during general elections, contrary to the Government Communications Policy. In a sample of public opinion research contracts examined by the Auditor General, 20 percent did not contain a required statement of need and/or documentation of the research's intended use. Also contrary to policy, departments did not describe work to be done before contacting potential public opinion research firms in 60 percent of cases involving contracts over $200,000 and in 85 percent of cases involving smaller contracts.

### Conservation of Federal-Built Heritage

Heritage buildings at national history sites had not been restored and were closed to the public. For example, the Cap-aux-Diamants Redoubt in Quebec City was closed to visitors because it did not meet safety standards. At Fort Henry, more than $40 million of conservation work was required. In addition, the Auditor General noted that aspects of historic sites (i.e., archaeological

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sites or canals) were at risk because Treasury Board policy did not protect them. The Auditor General also noted that without objectives and reporting requirements, the conservation of heritage buildings was at "considerable risk."

### Management of Leading-Edge Research

Financial statements were not approved as intended in the statement of the National Research Council's (NRC's) new role. Basic information on 18 government research institute projects could not always be easily retrieved. The Auditor General examined nine institutes and found that six did not have documentation on the NRC's priority-setting framework. Six did not systematically assess risks or do a cost-benefit analysis of projects. One sent a project for external review but did not ensure the review was received. In addition, NRC performance reports lacked clear targets for major performance indicators.

### Managing the Coast Guard

The Auditor General found several problems with managing the Coast Guard. For example:

- A maintenance information management system was approved in 1997 to be completed by February 2000 for $7.9 million. However, it will likely not be completed until 2011 at an additional cost of more than $12.4 million.
- The Coast Guard committed to reducing its number of traditional navigation aids but had approximately the same number of aids deployed as in 2002.
- Some regions refused to use new technologies because of internal disputes. For example, the Coast Guard was developing an Automatic Identification System for maritime security but had not determined how to integrate the system with its existing vehicle traffic information system, largely because of internal disputes.
- The Coast Guard received $27 million in increased funding for surveillance and reconnaissance activities between 2001/02 and 2005/06, but the money was absorbed by regular fleet operations without directives on what was to be achieved with it.

### Coast Guard Maintenance

The Auditor General examined the Coast Guard's maintenance practices and found the following problems:

- The Coast Guard re-coated two vessels' potable water tanks, but insufficient guidance caused serious problems costing more than $1.6 million to repair.
- Coast Guard workers dismantled 16 fuel pumps on a ship's engine and reassembled them incorrectly. Afterward, the engine accelerated uncontrollably, which resulted in almost $6 million in further repairs.

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- Staff made emergency repairs to the turbocharger on a ship's engine but could not find the turbocharger's manual. Oil leaked into the engine's exhaust stack and started a fire which cost approximately $1.3 million.
- A ship's engine components came apart while it was at sea, resulting in $350,000 in repairs and $1.6 million to charter replacement vessels. It was later determined that certain engine parts were not tightened according to the manufacturer's recommendations.
- A Maintenance Information Management System was originally expected to cost $7.9 but was 11 years behind schedule and $7 million over budget. More than half its inventory was inaccurate and more than 70 percent of maintenance work the system was supposed to control was not recorded.

### Coast Guard Modernization Project

The Coast Guard estimated the modernization project would save $15 million, but could not support the estimate. The Coast Guard did not plan to eliminate or reduce redundant infrastructure and activities to achieve the savings, resulting in new technologies adding to costs rather than replacing older technologies and saving costs.

### Coast Guard and the Science Sector

The Coast Guard was not meeting the needs of Fisheries and Oceans' Science Sector, one of the Coast Guard's major clients. The cost of providing Science Sector services rose sharply even though the level and reliability of service decreased. New vessels expected to be ready by 2010 were delayed until 2011. And there were no mechanisms to make the Coast Guard accountable to users of its fleet service.

### Coast Guard Fleet Renewal

The Auditor General examined the Coast Guard's plans to renew its fleet and found that:

- Approximately 28 percent of vessels were beyond their estimated useful life and an additional 18 percent were within the last five years of their estimated useful life, affecting the Coast Guard's ability to be cost-effective.

- The Coast Guard was falling behind schedule of its Fleet Renewal Plan for 2006 to 2030.
- The plan called for icebreakers to be replaced when they are 40 to 48 years old, even though their estimated useful life is 30 years.
- The plan called for replacement of mid-shore patrol vessels with larger vessels that required more crew members, but it was not clear whether the Coast Guard could finance the vessels' higher operating and maintenance costs.

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### Passport Services

There were problems with passport services. Passport Canada had not completed a detailed risk assessment related to passport examinations and security functions as recommended in a 2005 audit. Duplicate, system, and generic user IDs for employees still existed. Some staff had access rights and profiles that allowed them to trigger production of a passport without authorization. Seven of 12 Passport Canada projects examined (58 percent) were behind schedule.

### International Taxation

The Canada Revenue Agency (CRA) did not make satisfactory progress on improving the information and analysis used for assessing international tax risks. CRA did not routinely use tax treaties to request and require taxpayer information, even though this issue was identified in a 2002 audit. The CRA's four offices in Greater Toronto lacked adequate international audit experience and progress in ensuring international auditors had proper industry-specific information on global business issues was unsatisfactory. CRA's progress on implementing improvements to electronic services for non-residents was also unsatisfactory.

### Use of Acquisition and Travel Cards

The Auditor General found problems with the management of travel and acquisition cards (credit cards used for government expenses). The Department of Fisheries and Oceans (DFO) and National Defence violated Treasury Board policy stipulating that acquisition cards be used only by an individual. Health Canada lacked mandatory forms acknowledging cardholder responsibility for 38 percent of cards examined and DFO lacked forms for 13 percent of cards examined.

Some acquisition card transactions were approved for payments that were not adequately verified and certified. Forty-five percent of National Defence cards, 21 percent of Health Canada cards, and 14 percent of DFO cards examined had one of these problems. At DFO, guidelines regarding credit limits were not followed. In one case, the Auditor General found that seven employees continued to use a former employee's acquisition card for a month.

At National Defence, 50 percent of inventory items examined were not recorded in the management system and 29 percent of "high-dollar-value transactions" involving acquisition cards did not have the necessary approval. National Defence only monitored delinquent travel card accounts that were at least 90 days overdue—after the time the government has become liable for the expenditures.

### Federal Loans and Grants for Post-Secondary Education

The Auditor General reviewed the Canada Student Loans program administered by Human Resources and Social Development Canada (HRSDC) and the bursary programs of the Canada Millennium Scholarship Foundation (CMSF).

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HRSDC could not determine if provinces were awarding the right amounts of money to the right students. HRSDC also lacked a sound performance measurement strategy for its goal to "maintain the government's commitment to access [to post-secondary education]." The Canada Student Loans Program Annual Report did not assess whether the program was meeting its goals.

### Human Resources Management

The Auditor General examined human resources management at the Department of Foreign Affairs and International Trade (DFAIT). Contrary to legislation, DFAIT did not have a strategic human resources plan and its human resources data contained errors. In March 2006, 35 of 116 (30 percent) non-executive employees acting in executive positions had not demonstrated competencies required to pass the first step for promotion to the executive level. Approximately one-third of rotational staff was in positions that did not match their classification level, with little or no documentation as to why they were selected. Only 16 percent of people in a position requiring foreign language proficiency met the requirement.

In addition, DFAIT did not have proper information to manage employees abroad. Some staff was recorded as working in the wrong mission, some staff did not have a record of taking a required oath of office or undergoing security checks, some missions did not have complete employment histories of their staff, and some missions did not fully track training.

### Canadian Agricultural Income Stabilization

The Auditor General found problems with Agriculture and Agri-Food Canada's processing of applications for the Canadian Agricultural Income Stabilization program, which provides support to farmers who experience unexpected drops in their income. For example:

- The Department's method of calculating payments is not clear to farmers. In 2004, the Department changed its processing procedures after processing 20 percent of applications but did not inform applicants.
- The Department did not limit its errors on payment to its target of three percent (approximately $20 million annually). The estimated error was $70 million (10.2 percent) in 2003 and $43 million (6.5 percent) in 2004.
- The Department processed applications in a time frame that was longer than the standard time requirement.
- The Department did not prepare its reconciliation audits before its deadline. No annual report or periodic compliance audits were conducted despite being required.
- Department employees who processed applications for farm income support payments also worked as private consultants to help farmers apply, a practice that contravened the Values and Ethics Code for the Public Service.

## 2007

### Management of Legal Services

Justice Canada needs better professional management; its strategic plan was out of date, its annual reports contained few meaningful performance measures, and information in the performance report was not aligned with its plans and priorities. In addition, Justice Canada did not have a human resources strategy, corporate retention strategy, or succession plan.

### Contracting Out Legal Services

The Auditor General examined files for 25 standing agents (lawyers who do prosecutions in locations not accessible to Justice Canada offices) and found no formal evaluations or evidence of corrective action when poor performance was noted. The Auditor General also examined files for 21 civil agents (lawyers who do civil litigation that Justice Canada lacks expertise in) and found numerous weaknesses: no documentation of an in-house search for qualified lawyers before contracting, no rationale for why the lawyer was selected, no consistent basic information, no consistent monitoring of costs, and no performance evaluation.

### Administration of Legal Services

The Auditor General found a number of problems with Justice Canada's administration of government legal services. For example, Justice Canada did not report on the overall cost for legal services, despite recommendations in a 1993 audit. Timekeeping was not done consistently; thus, Justice Canada had "difficulty understanding and controlling costs." Justice Canada's relationship with eight other departments was "overly complicated" with more than 100 financial arrangements for legal services. The administration of the agreements cost Justice Canada in excess of $2 million annually.

### Modernizing the NORAD System

Upgrades to Q-93, the air surveillance and control system formerly used by North American Aerospace Defence (NORAD), are expected to cost the federal government $156 million by the time of completion—79 percent more than the original budget of $93.4 million.

In September 2000, National Defence decided to modify its MASE system to be compatible with the Q-93 system, and to be used for air surveillance and control without seeking required government approval. Agreements with other agencies did not specify start or end dates for work, resulting in work not being treated as a priority by other agencies and the project getting delayed. Contrary to the Auditor General's expectations, National Defence could not provide evidence it assessed benefits, risks, or costs associated with the new system. National Defence expected the upgrades would result in annual savings of between $10 million and $16 million by 2004, but the conditions necessary to ensure savings had not been met and the savings did not materialize.

## 2007

Plans for an above-ground facility housing the MASE system were approximately $38 million (or 533 percent) over budget.[6] Planning and approval for construction proceeded without proper understanding of the building's operational requirements; at the time of the audit, the building could not accommodate operations as planned. National Defence required a security review checklist be completed for new buildings but this was not done.

### Management of Forensic Laboratory Services

The RCMP's Forensic Laboratory Services (FLS) had trouble meeting deadlines. FLS missed the target turnaround time for routine forensic analysis requests 70 percent of the time. For routine DNA analysis, it missed the target 90 percent of the time. Moreover, FLS had weak performance measurement systems that had not improved since a 2000 audit.

In September 2005, the FLS started using robots in stages of DNA analysis, but this caused problems in 27 percent of cases with DNA samples since the robots were implemented. In one case, robots failed to find any DNA on two exhibits with more than 100 blood spots each (i.e., they clearly had DNA). The Auditor General noted that FLS scientists "were not concerned about errors in DNA profiles, once generated" and that the process should have undergone an external peer review and executive sign off. The FLS spent $9.4 million on DNA analysis in 2005/06.

### Safeguarding Government Information and Assets

The Auditor General found weaknesses in the $3 million per year Industrial Security Program, which was designed to safeguard government information when contracting out. For example:

- Public Works, National Defence, and the RCMP did not submit checklists for all contracting out projects, potentially resulting in "significant risks to the government and in diminished accountability."
- 28 percent of contracts were awarded before contractors had met security requirements.
- 93 percent of contracts with a delay clause did not specify a time frame as stipulated by the Government Security Policy. Contrary to government policy, the Industrial Security Program did not request threat and risk assessments for contracts with delay clauses.
- Public Works, National Defence, and the RCMP had not completed an audit of their security program, which was also contrary to policy.
- In 43 percent of the cases where contractors had been granted secret security clearance, at least one essential document was incomplete or not on file. Sixty percent of cases were not re-inspected once in the past year as required.

6 These cost overruns are included in the Q-93 upgrade costs and therefore are not considered to be a separate standalone cost failure.

## 2007

- The Treasury Board Secretariat's practices did not provide sufficient assurance that government's industrial security objectives were being achieved.

### Information Security in Contracts

National Defence's security policies were outdated. They did not require individuals with regular access to federal information or buildings to have the required minimum security clearance. In one case, unscreened contractors and workers had access to the plans and construction site for the NORAD Above Ground Complex, designed to house highly classified material. Because of these security concerns, National Defence spent more than a year conducting investigations into whether the building could be used for its original purpose; it concluded the building could be used if modified. National Defence knew a security checklist had not been completed, but went ahead anyway due to time and budget constraints.[7]

### Management and Control Practices

More rigour was needed in the management and control practices of the Canadian Industrial Relations Board, the Canadian Forces Grievance Board, and the Courts Administration Service. Most contracts lacked appropriate performance evaluation or documentation required by the Treasury Board, and many sole-source contracts (a contract where competitive bids are not sought) did not contain appropriate justification as to why they were not opened to competition.

The Courts Administration Service did not have a human resources plan. One regional office had to borrow staff from other offices because of a staffing shortage, resulting in $80,000 for travel expenses and more than $248,000 for overtime and compensatory time off.

### Inuvialuit Final Agreement

The Auditor General examined Indian and Northern Affairs Canada's (INAC's) implementation of the Inuvialuit Final Agreement signed in 1984. INAC inadvertently transferred land containing 18 structures belonging to the territorial government and an airport owned by Transport Canada. As a result, the Inuvialuit have been billing the territorial government for using the lands INAC erroneously transferred. In 1991, INAC agreed to identify lands to exchange with the Inuvialuit for the airport runway but did not provide selection criteria until 2002. Moreover, 12 government appointments or reappointments to co-management committees were delayed, with vacancies totalling more than 130 months, often because of waiting for ministerial or Government in Council appointments.

7 In a follow up audit in 2013, the Auditor General estimated that mitigating the failure of the NORAD Above Ground Complex initiative cost $2.3 million as of the follow up audit's release. The cost of this failure is listed in Appendix A under the 2013 year.

## 2007

### Military Health Care

The Auditor General examined National Defence's delivery of health care to Canadian Forces members and found that:

- Some mental health services could not meet demands.
- Some contract physicians were paid when clinics were closed or when they weren't there, or appear to have been double-billed.
- National Defence did not ensure practitioners maintained licences and certification with regulatory bodies.
- As of 2002, National Defence required physician assistants to take training and a certification exam, but fewer than 50 percent were trained and fewer than 20 percent were certified. Eighty percent of the physician assistants who attempted but failed the certification exam were providing direct patient care. Ninety percent of physician assistants hired through a third-party contractor were not certified and National Defence was aware of this.

### Marine Border Practices

The Auditor General reviewed marine border practices at the Canadian Border Services Agency (CBSA). From 2005/06 to 2006/07, 934 marine containers labelled "Do Not Load" were loaded without authorization. CBSA spent $29 million on an imaging technology called VACIS used to examine marine containers, but there was little relationship between a container's risk assessment and the decision on whether to examine it. And VACIS was used much less than CBSA's standards called for.

### Management of Border Risk

There were issues with risk assessment procedures at the border. Canadian Border Services Agency (CBSA) could not demonstrate that it conducted a risk assessment of all marine cargo before it arrived. There were no document readers for primary inspection at high-risk land border crossings. License plate readers were used instead, but the Auditor General noted they were "poor" and that a replacement was overdue. Auditors found unrestricted access to seizure rooms at two border locations. PAXIS, a system that identified high-risk air travelers on flights entering Canada, did not assess 27 percent of passengers between April 2006 and March 2007 because of problems with data. CBSA did not formally include risk management in strategic planning. CBSA spent $525 million on technology, but the projects were not guided by a strategic plan for information technology and were not based on adequate risk assessments. CBSA was spending $150 million on risk scoring tools.

### Secondary Inspection

The Auditor General found insufficient controls ensuring that people referred to secondary inspection, a process of more thorough examination, actually

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underwent the inspection. In May 2006, CBSA launched an automated program for tracking examinations at 40 locations but not all officers used the program and many found it cumbersome.

### Pre-approval Programs

The Canadian Border Services Agency (CBSA) had problems with pre-approval programs used to speed up the entry of low-risk people and goods. One evaluation found pre-approval programs were vulnerable to criminals. The Auditor General examined 12 NEXUS pre-approval members and found that seven were not risk-assessed annually as required. CANPASS Remote Area pre-approval permits were supposed to be valid for only one year but many permits were issued for two years and some individuals received more than one permit.

### Management of the 2006 Census

Problems were observed with the 2006 Census. Statistics Canada did not produce a clear response rate. The March 2007 release of Census data was not authorized by a formal record of decision. Contrary to the Auditor General's expectations, Statistics Canada did not prepare a comprehensive plan for managing data quality. Statistics Canada did not develop formal contingency plans for any high-probability or high-impact ongoing risks. For example, a shortage of field staff contributed to the first release of Census data being delayed one month. Contrary to government policy, there was no documented evidence that Statistics Canada's assessed its response to risks.

### Technical Training and Learning Practices

Much of the Canada Revenue Agency's (CRA's) training data had errors. For example, some employees were registered for courses that occurred at the same time or were registered more than once for the same course, preventing proper monitoring.

Each CRA employee was expected to complete an annual learning plan. However, approximately 30 percent of employees did not complete a plan in 2006/07. The CRA did not link the budget to learning needs identified in learning plans. As a result, the CRA did not know if it was spending the right amount on training.

## 2008

### Management of Fees

The Auditor General examined 13 government service fees and found that five were not based on the cost or value of a program, even though they should have been. For example, commercial fishing license fees were based

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on the price of seafood from the early 1990s, even though seafood prices had increased by 260 percent. Health Canada's medical marijuana fee was not determined by program cost even though it was supposed to be cost-neutral. Canada's consular services fee was based on the cost of services, but that cost was miscalculated, resulting in surpluses in three of the five years examined ($5.7 million in 2003/04, $17.2 million in 2004/05, and $25.3 million in 2005/06). The Auditor General noted that adult passport holders were essentially covering costs for activities they were not benefiting from.

### Afghanistan Supply Chain

The Auditor General found problems with the Canadian Forces supply chain that delivered supplies to Afghanistan. Approximately half of items shipped from Canada's main supply depot at CFB Trenton in Ontario did not reach Kandahar, Afghanistan within their expected time frame. More than 90 percent of items considered critical or essential were not received by their required delivery date. The Auditor General noted the Canadian Forces "can lose sight of supplies" in Kandahar, resulting in "surplus stocks, unnecessary delays, or wasted shipments." The Department of National Defence indicated that $7 million of inventory shipped to Afghanistan could not be located and identified $6.6 million worth of items in Afghanistan that were not listed in the mission's inventory.

### Aerial Vehicles

The Canadian Forces experienced problems with uninhabited aerial vehicles, which it reintroduced in February 2006 after they were taken out of commission in 2004 because of crashes and failures. Using the vehicles again resulted in crashes, frequent flight cancellations because of equipment problems, and shortages of spare parts.

### Air Transportation Safety

Transport Canada did not have objectives for how frequent traditional oversight activities should be during its transition to a new safety management system, and lacked short- and medium-term performance indicators including leading indicators, which measure conditions and events that often preceded accidents. Transport Canada also lacked a national human resources plan for implementing the transition. The Auditor General noted that the delay in hiring posed a risk that Transport Canada would be unable to recruit the right mix of skills. Fifteen percent of inspectors and engineers had not completed necessary training, while another 15 percent had not completed initial training.

### First Nations Child and Family Services Program

Indian and Northern Affairs Canada (INAC) spent $450 million in 2007 on its First Nations Child and Family Services Program. One program objective was to ensure that child welfare services for on-reserve First Nations be

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reasonably comparable with those provided off reserves to children in similar circumstances. However, in most audited provinces, many on-reserve children did not have access to provincially legislated services available to children off-reserve.

INAC did not determine if expenses being reimbursed were reasonable. INAC reimbursed a First Nations agency for transportation costs that were high enough to be "questionable." INAC officials also were not recovering non-allowable expenses. In one case, $100,000 should have been recovered from a First Nations agency but was not.

INAC's 20-year-old funding formula overcompensated agencies or provided extra funding to compensate for underfunding in some cases. INAC did not take funding from the Children's Special Allowance Act into account, resulting in approximately $17 million in duplicate payments. In addition, INAC did not have a consistent interpretation of what costs it would cover when provinces provided child welfare services. As a result, INAC made what British Columbia considered to be $2 million annually in duplicate payments but provided $4.7 million less than what it should have in Quebec.

### Surveillance of Infectious Diseases

The Public Health Agency of Canada's monitoring of infectious diseases lacked progress on past recommendations. The agency neither set long-term objectives and priorities for monitoring emerging diseases nor implemented a target-based approach to performance measurement. For surveillance of a particular infectious disease, fewer than half of the agency's data quality criteria were met. For HIV, West Nile virus, and influenza, the agency had not determined how well its reports anticipated and prevented public health threats. Moreover, the agency had not demonstrated that it complied with privacy laws and did not have clear legislative authority for routine data collection and for surveillance activities necessary to respond to emergencies.

### Conservation of Federal Official Residences

The Auditor General found several problems with official government residences, many of which were in poor or critical condition, which meant higher maintenance and operating costs.

### Detention and Removal of Individuals

The Auditor General examined the Canadian Border Services Agency's (CBSA's) detention and removal process of people who were in Canada illegally and found that there were procedures that were not followed, a lack of monitoring, inconsistent decision making, detention centres that were above capacity, and a lack of assurance that spending was efficient. Specifically:

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- In a random sample of permits issued to people deemed inadmissible due to serious criminality, 32 percent lacked a reason for issuing the permit, contrary to policy requirements.
- In 2004/05, 18 percent of cash bonds were forfeited because individuals violated their terms and the whereabouts of over half of these individuals were unknown. In some cases, individuals released on a bond committed violent crimes.
- As of September 2007, there were approximately 63,000 people with enforceable removal orders or outstanding immigration warrants for removal, but the whereabouts of 41,000 (approximately 65 percent) were unknown. Several thousand errors were found in immigration warrants.
- CBSA did not have a formal process to use when the number of detainees exceeded the capacity of a detention facility.

### Crown Corporations

The Auditor General reviewed Crown corporations and found significant deficiencies. For example, Atomic Energy of Canada Limited's proposed Advanced CANDU Reactor was redesigned to be built much larger than originally anticipated. The design change, as well as revised licensing requirements and a new project management approach, created significant cost increases. The Blue Water Bridge Authority paid $7.5 million over nine years to an American consulting firm. The contract was awarded without any competition, without specifying services to be performed, without regularly assessing the services received, and without the approval of the Authority's Board. The Authority finally terminated the contract in December 2006 during the Auditor General's examination. The Canadian Tourism Commission's corporate plan and annual report did not demonstrate how the Commission was fulfilling its mandate. There was a lack of clearly defined performance measures for every activity.

### Reporting Requirements

Central agencies and statutory requirements have placed a significant burden on small entities (federal organizations with fewer than 500 employees or annual approved expenditures of less than $300 million). Despite limited resources, small entities must complete more than 100 complex, labour intensive reports. The central agencies acknowledged this reporting burden in 2002, but no actions have been taken to substantially reduce it.

### Contracting Practices

While developing a supply arrangement, Public Works and Government Services Canada (PWGSC) asked only one company to submit a proposal and failed to conduct a competitive tender, which policy required. That company was then awarded a contract for $200,000. More generally, five percent of publicly tendered contracts from a random sample at PWGSC did not comply with regulations and policies.

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PWGSC also did not properly administer contracts after they were awarded. The Auditor General found problems in 30 of the 37 transactions that were audited. For example, a contract originally requesting 23 different skill sets was amended nine times in 20 months to include 18 new skill sets. Of the original 23 skill sets, nine were never used. At the time of audit, the contract's cost increased from $48 million to $81 million. In 21 of 37 transactions, contract terms and conditions were not fully enforced, representing a failure rate of 57 percent.

Moreover, PWGSC did not always control spending as stipulated in the original contracts. In one case, a contract exceeded its maximum spending limit by $8 million.

### Regulation of Imported Plants and Plant Products

The Canadian Food Inspection Agency is not adequately protecting Canada from invasive plants, seeds, plant pests, and plant diseases. A specific problem is the Agency's inability to deliver timely health risk assessments and pest surveys. In addition, plant inspection guidelines are not applied consistently by import service centre staff across the country.

There is also inadequate communication with Canada Border Services Agency, a key partner of the Canadian Food Inspection Agency. For instance, the Canadian Food Inspection Agency regularly publishes an alert called the "Notice to Importer" but does not systematically share it with the Canada Border Services Agency.

### Management of Information Technology Investments

The Canada Revenue Agency (CRA) demonstrated poor project management on their information technology investments. The Auditor General examined eight information technology projects totalling $97.7 million as of March 31, 2008. In 75 percent of the cases, CRA did not properly assess whether the benefits of an investment outweighed its costs. The Auditor General found that 63 percent of the investments did not contribute to CRA's objectives. In 38 percent of the cases, CRA did not assess the potential impact of risks. Finally, 71 percent of the investments lacked quantifiable benefits that could serve as milestones or indicators for a project's success.

The Auditor General also found problems with the CRA's implementation of a new Human Resource Management System. Notably, the new system lacked a clear process for assessing employees' competencies for promotion or transfer within the Agency.

### Managing Goods and Services

Correctional Services Canada (CSC) did not manage its purchasing of food, clothing, and cleaning products in an efficient, low-cost manner. For instance, each institution purchased food and cleaning products independently at the

## 2008

local level. As a result, the Auditor General determined that CSC was missing large opportunities for savings through higher-volume purchasing. In addition, CSC did not analyze whether cost savings could occur if food was prepared outside the institution.

### Staff Overtime

Staff overtime costs at Correctional Services Canada have escalated 42 percent between 2002/03 and 2007/08, even though the number of correctional officers, inmates, and violent incidents remained constant over the period. The Auditor General noted that little analysis or strategy was completed to control overtime costs and highlighted unrecorded leave as a cause of the growing overtime problem. Unrecorded leave allows for the same employee to take more leave than they are entitled to and exacerbates the overtime problem.

The Auditor General examined staff absences at Correctional Services Canada over a one-month period and found that between 3 percent and 35 percent of staff absences due to sickness or vacation went unrecorded by human resources. The Auditor General estimated that the cost of unrecorded leave for one month at Correctional Services Canada was $100,000 for eight of its 58 institutions, and noted that if this analysis was extended to all 58 institutions for a full year, the cost of unrecorded leave would be in the millions.

## 2009

### Government Intellectual Property

National Research Council of Canada, Health Canada, and Fisheries and Oceans Canada failed to properly manage the government's intellectual property. In addition, the Auditor General found that Health Canada and Fisheries and Oceans Canada violated Treasury Board rules by inappropriately claiming government ownership of intellectual property.

### Fire Safety Plans

Human Resources and Skills Development Canada (HRSDC) was tasked with ensuring that government buildings had the required and approved fire safety plan. No fire safety plan was submitted to HRSDC in 33 of the 52 buildings examined by the Auditor General. Of the submitted plans, 10 were accepted and nine were rejected and there was no follow up to ensure that rejected fire safety plans were resubmitted. HRSDC therefore failed to maintain an appropriate fire safety plan in 42 of 52 (81 percent) government buildings.

## 2009

### Corporate Income Tax Advance Deposits

Canada Revenue Agency (CRA) failed to take decisive actions to prevent corporations from inappropriately using Corporate Income Tax Advance Deposits as short-term investments. The official purpose of the Advance Deposits is to allow corporations to avoid the risk of paying interest on taxes owed after a tax reassessment, but CRA became concerned that the Advance Deposits were being used as short-term investments to take advantage of the high interest rate offered by CRA. The Auditor General conservatively estimated that CRA unnecessarily paid $30 million per year in interest costs from 2005/06 to 2007/08.

### Commercial Transportation Energy Efficiency and Fuels Initiative

The Auditor General found that Natural Resources Canada (NRCan) transferred $3.2 million to Canadian Energy Efficiency Alliance Transportation (CEEA-T), a private-sector company, that was in violation of the conditions specified under the government's Commercial Transportation Energy Efficiency and Fuels Initiative. For example, $2.4 million was given to CEEA-T despite sufficient evidence that they were insolvent. In addition, the Auditor General found that there was a conflict of interest since the president of CEEA-T had worked as a consultant to NRCan on the same program.

### Evaluating the Effectiveness of Programs

The Auditor General found that government departments were not adequately evaluating the effectiveness of programs with pre-defined or pre-agreed contribution conditions as required by the Federal Accountability Act. Effectiveness evaluations covered between 5 percent and 13 percent of the program expenses in the six departments examined by the Auditor General. In each department, evaluations were hampered by a lack of data, resources, and qualified, experienced staff. In fact, 17 of the 23 reviewed evaluations explicitly stated that insufficient data was available to make an effective evaluation.

### Management of Federal Skilled Worker Application Inventory

Citizen and Immigration Canada (CIC) was unable to manage the growth of applicants to the Federal Skilled Worker program. The inventory of applications grew from 330,000 in 1999 to 620,000 in 2008. Processing times for the applications increased from 25 months to 63 months (152 percent) over the same period.

### Temporary Foreign Worker Program Application Process

Human Resource and Skill Development Canada (HRSDC) spent 80 percent of a $150 million allocation in an effort to improve the consistency and

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fairness of a key part of the Temporary Foreign Worker Program application process, the Labour Market Opinion. The Auditor General found that HRSDC had failed to accomplish this task and that confusion existed between HRSDC and Citizenship and Immigration Canada about who is responsible for ensuring that job offers to Temporary Foreign Worker applicants are genuine. As a result, there is no systematic assessment and some permits could be issued where the job or employer does not exist.

### Income Tax Act

The Canada Revenue Agency (CRA) and Parliament failed to keep the Income Tax Act up to date with changes in technical interpretations that reflect recent court decisions. As a result, the law as written does not reflect the law as it is actually enforced. In addition, the CRA is not providing technical advice or clarifications to tax professionals and auditors in a timely manner, nor is it keeping up-to-date technical interpretations of tax law as required. The result is a lack of clarity about the Act, which costs taxpayers and government higher tax compliance and administrative costs.

### Acquiring Military Vehicles for Use in Afghanistan

The Auditor General examined four military vehicle procurement projects conducted by the Department of National Defence (DND), costing a total of $1.1 billion, and found that Treasury Board guidelines were not followed. Most of the required documentation was either not submitted or submitted incompletely. For example, the government approved the replacement of a light armoured vehicle fleet for $55 million, but DND did not inform the government that an additional $63 million would be required. At the same time, the Treasury Board failed to provide oversight by not adequately challenging the documentation.

### First Nations Reserve Land Management

Indian and Northern Affairs Canada (INAC) failed to achieve its targets of increasing First Nations' control over reserve land and improving First Nations land management capacity. Two programs were implemented to accomplish INAC goals: the Reserve Land and Environment Management Program (RLEMP) and the First Nation Land Management Act (FNLMA). RLEMP was meant to be widely available by 2006 but this had not been accomplished by the time of the audit. The Auditor General did not indicate how much was spent on RLEMP. FNLMA was to be operational on 75 reserves by 2007 but by 2009 only 22 First Nations were fully operational under FNLMA, meaning they had not achieved 70.1 percent of their goal. The government spent $100 million the first five years on FNLMA and then $16 million per year for the next five years.

## 2009

### Environmental Protection on First Nations Reserves

In 2002, Indian and Northern Affairs Canada (INAC) committed to increasing environmental regulations on First Nations reserves to be in line with provincial regulations but had failed to design or implement many of its proposed regulations in the set schedule. INAC also failed to fully enforce the regulations that were in place and clean up environmental contaminations that have been identified as high priority. The government's financial liability for the contaminated sites is projected to be $143 million.

### Government Coordination during a Major Emergency

The Auditor General found that Public Safety Canada (PSC) failed to improve its emergency management capacity despite spending $115 million for this purpose. Specific problems include:

- PSC had not established policies that would define its role during an emergency nor has it completed or updated the rules needed for a coordinated approach among federal departments.
- PSC has not ensured that risk assessments have been completed or are consistent across government agencies.
- PSC has not ensured that government departments have contingency plans in place to continue to operate during an emergency.

In addition, PSC spent $190 million to develop a plan for protecting critical infrastructure but the plan has not been completed and the critical infrastructure has not been identified.

### International Aid

The Canadian International Development Agency (CIDA) failed to deliver on its 2002 commitment to improve the effectiveness of its aid programs targeting specific countries. Administrative inefficiencies and constantly shifting priorities have undermined the effectiveness and long-term impact of CIDA's country-specific aid programs. CIDA's entire budget for country-specific aid was $1.8 billion in 2008/09.

## 2010

### Marine Atlantic Inc.

Marine Atlantic Inc. is a Crown corporation responsible for providing two ferry routes between Nova Scotia and Newfoundland. Marine Atlantic Inc. exceeded its operating budget in three years and failed to achieve its corporate

## 2010

goals to provide reliable services and to manage assets at the lowest possible cost. The Auditor General noted that the ferries were improperly managed, which led to breakdowns and unreliable services.[8]

### Acquisition of Military Helicopters

The Auditor General found considerable problems with the procurement of two military helicopter projects. The delivery of a $5.7 billion project replacing the current maritime fleet was delayed by seven years. As a result of the delay, the current active maritime helicopter fleet required an additional $168 million for repairs and overhaul. In addition, decision-makers were not provided with accurate or timely information regarding project risks and life-cycle costs. There was a five-year delay in a separate $1.4 billion project for acquiring medium- to heavy-lift helicopters, where National Defence and Public Works failed to comply with procurement rules. As a result, in the opinion of the Auditor General, the contracting process "was not fair, open, and transparent."

### Import Inspections and Import Taxes

The Canada Border Services Agency did not ensure the accuracy of information provided by merchant importers. Agency studies found that between seven percent and 21 percent of the information provided by importers for inspection purposes was inaccurate. Studies also showed many goods that passed through customs were not properly assessed for taxes owed. For example, between 17 percent and 30 percent of the goods were misclassified for tax purposes.

### Leasing Inspection Facilities

The Canada Border Service Agency was paying $547,000 each year from 2010 to 2012 for leasing inspection facilities that third-party owners of airports were legally obligated to provide for free.

## 2011

### G8 Legacy Infrastructure Fund

The Auditor General found a lack of transparency in the $50 million G8 Legacy Infrastructure Fund, established to support the 2010 G8 Summit, and was concerned the lack of transparency could lead to a misallocation of public funds.

8 For the costing of this failure, the authors consulted the Auditor General's report to the Marine Atlantic Inc.'s Board of Directors in addition to the Auditor General's report to Parliament. See Office of the Auditor General of Canada (2009) at <http://www.marine-atlantic.ca/uploads/file/MAI%20SPEX%20Report%202009%20(English).pdf>.

## 2011

The documents sent to Parliament made no actual mention of the Fund so it is unclear whether Parliamentarians were aware that they were being asked to approve it. No documentation exists on how the 32 approved infrastructure projects were selected and required consultations with Foreign Affairs did not take place. In one case, the Auditor General found that a $9.75 million facility expansion project was not used for the purpose originally intended.

### Security Screening Visa Applications

Canada Border Services Agency (CBSA) failed to properly conduct security screenings for visa applications. For permanent residence applications, 80 percent of reviewed security screenings did not include all the mandatory security checks. As part of the screening process, CBSA was supposed to gather information from, and consult with, the Canadian Security and Intelligence Services (CSIS) and the Royal Canadian Mounted Police (RCMP). But there was no systematic process to obtain organized crime intelligence from the RCMP and 20 percent of temporary residence applications were screened without consulting with CSIS.

### The Expenditure Management System

The Expenditure Management System is an information technology project designed to provide a comprehensive and centrally located overview of government finances. In 2007, the Treasury Board Secretariat restarted development after spending $53.7 million because the system proved unreliable.

### Water Quality on First Nations Reserves

Indian and Northern Affairs Canada (INAC) and Health Canada failed to fully monitor the quality of water on First Nations Reserves. Between 2006 and 2010, INAC conducted only 25 of the required 80 inspections and 47 of the required 80 risk evaluations.

### Policing Support Services

The RCMP did not properly manage the growing demand for policing support services. Between 2005/06 and 2009/10, spending on policing support services exceeded the allocated funding by $359.9 million. To pay for the extra spending, the RCMP reduced the budgets of most of its other programs (by 10.4 percent in 2010/11 alone). The RCMP also did not deliver police support services in a timely manner. For example, the backlog in updating criminal records increased from 186,018 pages in 2005/06 to more than 1.4 million pages in October 2010.

### Approving Medical Devices

Health Canada failed to approve medical devices for the Canadian market in a timely manner. For example, service standards state that approval for low-risk medical devices must achieve the targeted timeframe of 15 days for 90

## 2011

percent of the applications. But the target was achieved for only 56 percent of the applications. The Auditor General noted that delays in market access also delay the health benefits Canadians would gain from the medical devices.

## 2012

### The Single Window Initiative

The Canadian Border Service Agency (CBSA) received $10 million in 2005 for the Single Window Initiative, but the initiative failed to accomplish almost all of its goals including: improving identification of import goods; validating permits and authorizations; and providing a single venue for importers to submit information electronically. While the Single Window Initiative achieved some improved electronic communication with other agencies, the improvements were found in less than half of the participating partner agencies.

### F-35 Fighter Jet Procurement

The Department of National Defence (DND) failed to present a full life-cycle cost to decision-makers in procuring an F-35 fighter jet fleet. For example, DND did not include the cost of necessary upgrades. The cost of the upgrades was later estimated to be $1.2 billion, which means the cost was at least $1.2 billion more than projected.

### Oversight of Civil Aviation

Transport Canada committed itself to performing annual safety inspections on all aviation companies, but 70 percent of Canada's aviation companies were not inspected in 2010/11. Most of the inspections that took place did not follow the established methodology and Transport Canada lacks a quality assurance plan for the inspections. Transport Canada also failed to address safety issues identified by stakeholders in a timely manner, taking more than 10 years in some cases.

### Readiness to Defend Against Cyber-attacks

Public Safety Canada made little progress in preparing for a cyber-attack against critical infrastructure. After 11 years, a key component of the cyber-protection strategy is not yet effective. Also, Public Safety Canada did not continuously monitor and provide advice for cyber-threats. In addition, conflicting rules made roles and responsibilities in the event of a cyber-attack unclear. Public Safety Canada spent $20.9 million between 2001 and 2011 on cyber protection.

### Support for Military Personnel Transitioning to Civilian Life

The Department of National Defence (DND) and Veteran Affairs Canada failed to properly administer benefits and services to ill and injured Canadian Forces

## 2012

(CF) members who are transitioning to civilian life. The Auditor General estimated that these programs cost $500 million in 2010/11. Problems included:

- Decisions to release a CF member for medical reasons could take up to six years, causing some CF members to leave voluntarily thus forfeiting their veteran benefits.
- Key information for deciding eligibility for benefits and services was inconsistent between DND and Veteran Affairs Canada in nine of the 50 audited cases (18 percent).
- Seven of 54 (13 percent) of the audited outgoing CF members did not receive services key to ensuring access to benefits and other services.
- Confusion between similar programs in both departments caused CF members to miss deadlines or to act on inaccurate information
- Confusion in the bureaucracy of both departments meant that some bureaucrats were unclear about their own responsibilities and were concerned about providing inaccurate information or advice to CF members.

### National Defence Real Property

The Department of National Defence (DND) failed to properly maintain and develop its real property. A lack of comprehensive preventative maintenance programs was contributing to premature building and internal systems failure; only 11 of 21 audited military bases (52 percent) were engaging in preventative maintenance. Development of real property was also slow. The Auditor General examined 12 construction projects and found that they were all delayed by between 10 months and six years. A departmental study also found that the private sector was capable of completing equivalent construction projects in half the time it took DND. The department spent 3 percent of its $22.8 billion budget on real property in 2010/11.

## 2013

### Information Security in Contracts

A 2007 audit found that National Defence's security policies were outdated and flawed, causing concerns regarding the security of an installation designed to house highly classified material. The Auditor General revisited the issue in 2013 and found that National Defence had spent $2.3 million on security issues that had resulted from this failure.

### Developing the Canadian Diabetes Strategy

The Public Health Agency of Canada was tasked with developing and implementing the Canadian Diabetes Strategy, a national strategy for preventing

## 2013

and controlling diabetes. The Auditor General found that after seven years, and a minimum of $12 million per year in spending, a national strategy had not been developed.

### Public Security and Anti-Terrorism Initiative

Between 2001 and 2009 various government departments and agencies were given $12.9 billion in funding for the Public Security and Anti-Terrorism Initiative, the purpose of which was to prevent terrorist attacks and protect Canada's infrastructure. The Auditor General was able to identify how $9.8 billion was allocated but was unable to find out how the remaining $3.1 billion had been allocated. The Treasury Board Secretariat was unable to explain what had happened to the missing funds.

### Employment Insurance Overpayments

In 2011/12, Human Resources and Skills Development Canada (HRSDC) transferred an estimated $578 million in undetected Employment Insurance overpayments. HRSDC also failed to recover all detected overpayments, mostly due to HRSDC's inability to recover overpayments within the set legal time period. In 2011/12 HRSDC had to write off $62 million in unrecovered detected overpayments, penalties, and interest.

# 3 Cost of Federal Government Failure

The previous section summarized reports by the Auditor General identifying problems with programs and initiatives delivered by the federal government. The overview revealed that federal government failure in Canada is systemic and, in many cases, costly. This section uses information provided by the Auditor General's reports over the period from 1988 to 2013 to calculate an estimate of the cost of government failure.

Given the nature and style of the Auditor General's reports, three methods were used to calculate an estimate of the cost of government failure. Each method is described below with examples. Additional details as well as references and lists of government failures by program or initiative are available in the appendices. Based on the three methods, the total estimated cost of federal government failure is between $158.3 billion and $197.1 billion.

## Method One—Costs Reported by the Auditor General

The first method used to calculate the cost of federal government failure is relatively straightforward. It uses cost estimates reported in the underlying reports of the Auditor General. These cases are summarized in **Appendix A**.

For example, a 2002 report by the Auditor General investigating satellite communications at 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 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, however, remains in storage. The cost of government failure in this case is the $174 million spent on the satellite communications system. This estimate was taken directly from the Auditor General's report.

A second example is from a 2005 report of the Auditor General examining 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 as a result of cost-overruns and the project's failure to achieve its stated objectives.

Cases where the Auditor General reported a specific estimate of the cost of government failure made up almost half of the cases (48.5 percent, 298 of 614) reviewed in the study. The total cost associated with these types of cases was between $44.7 billion and $45.1 billion over the period (see **Appendix A**).

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

The second method used to calculate the cost of federal government failure involved making calculations based on information in the Auditor General reports and drawing upon information from other statistical sources where necessary. This method was used when the Auditor General's analysis did not assign a specific cost to the failure but provided sufficient information for an estimate to be calculated.

For example, a review of the department of Foreign Affairs in 1997 concluded that the cost of embassy properties was over-estimated by $2.4 billion, which resulted in a 31.6 percent overcharge on the consular fee. The consular fee forms a portion of the passport fee, which is in part calculated based on the cost of these properties. Foreign Affairs charged a $25 consular fee on every passport purchase when it should have charged $19. A calculation was undertaken using the Public Accounts of Canada, which indicated that $34 million was collected in revenues in 1996/97 from consular fees. A 31.6 percent overcharge based on the $34 million in the Public Accounts resulted in an $8.2 million estimate for the cost of government failure.

A second example of this method of calculating the cost of government failure, and one that occurred over many years, is the review of Health Care for Veterans by the Auditor General in 1996. The Auditor General concluded that the government had not been negotiating cost-effective rates with health-care facilities and estimated that it could save $7 million annually and improve the quality of care by implementing improved controls. These savings represented 0.36 percent of departmental spending in 1995/96. Since no changes were undertaken or implemented, the 0.36 percent was applied to departmental spending in subsequent years to estimate the total cost of government failure linked to this program. This amounted to $174.6 million from 1996/97 to 2012/13.

There were 81 cases (13.2 percent of the total) in which sufficient information was provided by the Auditor General to allow for a reasonable calculation of the cost of government failure. Readers will note that in many cases the cost estimate is presented as a range. The total estimated cost of these types of failures is between $128.1 billion and $138.7 billion over the period. There were, however, 12 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 12 cases were excluded from calculations using method two, resulting in an overall cost of government failure associated with method two of between $107.8 billion and $115.7 billion over the period. Further information and references are provided in **Appendix B**.[1]

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

A third method was used to calculate the cost of government failure 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., 2007a),[2] there are serious and on-going challenges to the country's SIN system, which underpins many, if not most income-support programs.[3] This section summarizes the earlier study and provides a conservative estimate of the potential costs associated with problems of the SIN system.

The Social Insurance Number 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

1 Please note that several failures listed in Appendix B occur on an annual basis and include initial year costs, which were reported on by the Auditor General. These failures are listed in Appendix B (and not Appendix A) to reflect the fact that costs following the initial year are estimated by the authors using information both from the Auditor General and from external sources. This means that the total costs of failures directly reported on by the Auditor General in Appendix A are understated.

2 This section of the report and the underlying methodology used to determine potential costs associated with problems in the SIN system is based on Clemens et al. (2007a). For more detailed information on the problems in the SIN system, please see this publication and Office of the Auditor General (2007/February).

3 The Auditor General's 2013 spring report (April) provided evidence that problems with programs related to the SIN are indeed ongoing. In that report, the Auditor General examined Canada's Employment Insurance (EI) program and found that in 2011/12 there was an estimated $578 million in undetected EI overpayments and that $62 million in detected overpayments were unrecoverable.

the private sector, which uses SINs for identification (Clemens et al., 2007a: table 1). In 2012/13, the SIN underpinned some $143.9 billion in government spending, representing about one-fifth of all government expenditures in Canada (Statistics Canada, 2013b; calculations by the authors).

## 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 criticized the federal government in four audit reports for its management of the SIN system (see Office of the Auditor General, 1998; 2000; 2002; 2007).[4]

### *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 offered a number of possible explanations for these gaps, including errors as a result of people who had left the country, deaths that had not been reported to Human Resources Development Canada (HRDC), and fraud (AG, 1998: s16.30). The conclusion of the Auditor General's analysis was that unreported deaths was one of the main factors in the explaining the gap. The report specified 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: 16.31).[5]

4 There are a number of 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 system 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).

5 The report did note improvements 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 Auditor General also concluded that some 16.8 million SIN entries, representing roughly 51 percent 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 indicated 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. In three of the four areas examined, it was determined that "limited progress" had been made in dealing with the issues and problems identified in the 1998 report.

The 2002 report pointed out, however, 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 data obtained from Canada Customs and Revenue Agency on tax returns between 1993 and 1997. Although HRDC was now routinely undertaking investigations of SIN-related transactions in dormant accounts, the report noted 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. Overall, there are a little over 5.0 million more usable SINs than Statistics Canada calculates there are people. The Auditor General mentioned that even after accounting for dormant or inactive SINs, the discrepancy still stands at some 2.4 million SINs (AG, 2002: s1.71). In addition, the report revealed that there were still over 8.3 million usable SINs that have not been verified against personal identification and documentation. In fact, the majority of SINs issued since 1998 were not properly verified with the applicant's identity and citizenship status.

The report ended 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," largely because 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

**Table 1: Comparing the Social Insurance Registry (SIR) with Population (2001)**

| Age | Usable SINs in the SIR | Population based on Statistics Canada's 2001 Census | Difference |
|---|---|---|---|
| 20–29 | 4,378,563 | 3,854,010 | 524,553 |
| 30–39 | 5,390,632 | 4,619,595 | 771,037 |
| 40–49 | 5,838,149 | 4,912,295 | 925,854 |
| 50–59 | 4,656,062 | 3,679,995 | 976,067 |
| 60–69 | 2,899,245 | 2,407,405 | 491,840 |
| 70–79 | 2,153,021 | 1,822,880 | 330,141 |
| 80–89 | 1,102,428 | 797,925 | 304,503 |
| 90 + | 829,687 | 134,120 | 695,567 |
| **Total** | **27,247,787** | **22,228,225** | **5,019,562** |

Source: Office of the Auditor General, 2002: Exhibit 1.4.

the SIN, was inadequate and no goals had 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 unsatisfactory, there were a number of areas where 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.

The issue of excess SINs is critically important for calculating estimates for the cost of government's mismanagement of SINs. The Auditor General noted improvements in this area yet warned that "monitoring" was required (AG, 2007: s7.67). The Auditor General specifically stated that the number of usable SINs exceeding 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. Clearly, there has been an improvement by the federal government in the number of SINs relative to the population, but 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 improvements have been made in reducing both the number of SINs relative to the population and the level of uncertified SINs, the Auditor General stated that overall progress has been unsatisfactory and recommended additional efforts for continued improvement.

## 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. We should stress that the case studies presented here illustrate only a small portion of the programs exposed to potential fraud, mis-payments, and wasted resources since the Auditor General has examined only portions of the underlying programs. Below are summaries of some of these audits with a range of potential failures provided as a percentage of related program spending (where available). For further information on these program evaluations, please see Clemens et al. (2007a) 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 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 under the age of 65). The Department's estimate of annual overpayment for nearly 224,000 beneficiaries was $65.0 million. This represents a failure of roughly 3.6 percent on program spending of $1.8 billion. A subsequent 1996 audit of this program found that between 1986/87 and 1995/96, the number of CPP Disability beneficiaries grew by 93.0 percent (155,000 to almost 300,000), while the labour force grew by only 11.9 percent. 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 Auditor General 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 investigation contained no quantifiable estimates and very little information regarding the factors responsible for the increase.

Official estimates of overpayments in 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 million and $38.0 million. This represents between 0.7 percent and 1.3 percent of total CPP disability spending for 1994. This is an improvement from the previous estimate of overpayments calculated in 1992. Unfortunately, a

follow-up audit of the program published in November 1999 indicated that large mis-payments, including overpayments, persisted. The Department of National Health and Welfare estimated that mis-payments (including overpayments) in 1995/96 totalled $60.0 million, 2.0 percent of program spending in 1995.

### *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 percent of related program spending, to $148.0 million, representing 0.50 percent of related 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 children (born in 1993) had been improperly included on the 1994/95 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 of overpayments since the program's inception totalled $69.0 million as of March 31, 1996.

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 1992/93 to 1994/95 by 50 percent. Specifically, the number of total recipients grew by 8.0 percent while the benefits paid increased by 12.0 percent ($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 1994/95 benefit year. In total, the overpayments ranged from $25.7 million (0.32 percent) to $51.4 million (0.63 percent).

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, several significant problems 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, but the outstanding CTB overpayment (in 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 (now called Employment Insurance (EI)). The Auditor General determined that there was abuse of the 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 with spending of approximately $13.2 billion in 2008.

However, in an earlier report (April 2000), the Auditor General noted that incorrect payments (the sum of under- and over-payments) from the EI program totalled $656 million in 1998/99, representing 6.12 percent of related program spending that year ($10.7 billion). Incorrect EI payments actually increased both in value and as a proportion of program spending since 1995/96 from $459 million and 3.56 percent, respectively. Payment inaccuracies through the EI program were identified by the Auditor General long before the 2000 report, dating as far back as the mid-1980s (see Office of the Auditor General, 1989), but no corrective action had been taken.

### *Heating Expense Relief Program*

The Auditor General reviewed the Heating Expense Relief program in 2001 and found 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 found 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 the source of failures 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 1996/97, roughly 0.83 percent 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 percent 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 as a Result of SIN Mismanagement

The number of useable and non-dormant SINs in Canada in excess of the actual population is significant. The Auditor General has repeatedly voiced concerns about both the management of SINs and overpayments as well as the potential for 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 2012/13, the latest year for which data is available, about one fifth of all government spending, amounting to $143.9 billion, relied on SINs. The purpose of this section is to provide a reasonable cost estimate of the potential failures as a result of mismanagement of the SIN system as documented by the Auditor General.

### *Calculation*

Reviewing the case studies published by the Auditor General revealed a range of potential failures totalling between 0.32 percent and 2.0 percent of related program spending. These low- and high-level estimates are based entirely on information provided by the Auditor General.[6] Specifically, they

6 Excluded from consideration for this range were case studies where the Auditor General did not provide enough information to calculate the ratio of the failure's cost to related program spending or where the authors felt the ratio was too aggressive, which was the case with the heating expense relief program. In some cases where the authors relied on sources outside of the Auditor General's reports, the ratio of failure to spending actually greatly exceeded the range used for the overall SIN-related failure calculations. For example, based on a 2013 Auditor General report and Statistics Canada data, unrecovered Employment Insurance payments represented 3.97 percent of total EI benefits. Based on a 1993 Auditor General report and data from the Office of the Superintendent of Financial Institutions, Canada Pension Plan disability overpayments represented 3.61 percent of all CPP disability payments. It is important to note that because the authors in some cases relied on outside sources, not all of the ratios in this section will match those in Appendix B.

are taken from the GST Tax Credit review and the CPP Disability benefits review (1999), respectively. Applying this range of potential failures to the underlying spending based on the SIN system resulted in an overall cost of government failure over the period 1988/89 to 2012/13 of between $7.4 billion and $46.2 billion (**table 2**).

These cost estimates are incomplete, however, because they do not reflect improvements in the SIN system as noted by the Auditor General over time. For example, the Auditor General has noted that the number of SINs in excess of the population has declined from roughly 3.8 million in 1997 to 2.9 million in 2006.[7] In addition, the number of uncertified SINs has declined from 16.8 million in 1997 to 6.4 million in 2006. An adjustment series was created to reflect these improvements, thus lowering the cost estimates of government failure (table 2, column 5).[8] The adjusted estimates of failures from SIN-related problems from 1988/89 to 2012/13 amounted to between $5.8 billion to $36.3 billion, depending on which percentage is used.

### *Fraud Excluded from SIN-Related Estimate*

It should be noted that this cost estimate is conservative. First, it relies on the estimates calculated by the Auditor General, which are almost exclusively estimates of overpayments that do not include estimates of failures 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 failures.

### *Failures Not Included in the Cost Estimate*

There are also several 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 an estimate of the cost of government failure based on information provided by the Auditor General. **Appendix C** summarizes these cases, which are included in the Auditor General's report summaries section but not in the cost estimate of government failure. The omission of these failures means that the overall estimate of the cost of government failure is understated.

7 There was actually an increase in the number of excess SINs compared to population between 1997 (3.8 million) and 2001 (5.0 million). However, the overall number of excess SINs declined to 2.9 million by 2006.

8 The adjustment series was calculated by first estimating both the excess and uncertified SINs for years where the Auditor General did not provide data. Then, a ratio between that estimate and the 1997 baseline for both the number of excess and uncertified SINs was averaged to produce the adjustment series. Since there was no additional information provided by the Auditor General after 2006, the adjustment series was held constant thereafter.

## Table 2: Potential Costs ($ millions) from SIN-Related Programs

| | SIN-related spending | Low cost estimate: 0.32% | High cost estimate: 2.00% | Adjustment series | Adjusted low cost estimate: 0.32% | Adjusted high cost estimate: 2.00% |
|---|---|---|---|---|---|---|
| 1988/99 | 51,087 | 163 | 1,022 | 1.000 | 163 | 1,022 |
| 1989/90 | 55,119 | 176 | 1,102 | 1.000 | 176 | 1,102 |
| 1990/91 | 61,455 | 197 | 1,229 | 1.000 | 197 | 1,229 |
| 1991/92 | 68,790 | 220 | 1,376 | 1.000 | 220 | 1,376 |
| 1992/93 | 75,106 | 240 | 1,502 | 1.000 | 240 | 1,502 |
| 1993/94 | 80,344 | 257 | 1,607 | 1.000 | 257 | 1,607 |
| 1994/95 | 80,030 | 256 | 1,601 | 1.000 | 256 | 1,601 |
| 1995/96 | 79,197 | 253 | 1,584 | 1.000 | 253 | 1,584 |
| 1996/97 | 78,773 | 252 | 1,575 | 1.000 | 252 | 1,575 |
| 1997/98 | 78,544 | 251 | 1,571 | 1.000 | 251 | 1,571 |
| 1998/99 | 79,843 | 255 | 1,597 | 0.978 | 250 | 1,561 |
| 1999/00 | 80,075 | 256 | 1,602 | 0.955 | 245 | 1,530 |
| 2000/01 | 82,550 | 264 | 1,651 | 0.933 | 246 | 1,540 |
| 2001/02 | 87,892 | 281 | 1,758 | 0.910 | 256 | 1,600 |
| 2002/03 | 91,537 | 293 | 1,831 | 0.843 | 247 | 1,543 |
| 2003/04 | 94,804 | 303 | 1,896 | 0.776 | 235 | 1,471 |
| 2004/05 | 98,358 | 315 | 1,967 | 0.708 | 223 | 1,394 |
| 2005/06 | 101,750 | 326 | 2,035 | 0.641 | 209 | 1,305 |
| 2006/07 | 107,278 | 343 | 2,146 | 0.574 | 197 | 1,231 |
| 2007/08 | 113,427 | 363 | 2,269 | 0.574 | 208 | 1,302 |
| 2008/09 | 119,261 | 382 | 2,385 | 0.574 | 219 | 1,369 |
| 2009/10 | 130,580 | 418 | 2,612 | 0.574 | 240 | 1,498 |
| 2010/11 | 133,842 | 428 | 2,677 | 0.574 | 246 | 1,536 |
| 2011/12 | 137,605 | 440 | 2,752 | 0.574 | 253 | 1,579 |
| 2012/13 | 143,852 | 460 | 2,877 | 0.574 | 264 | 1,651 |
| **Total** | **2,311,099** | **7,396** | **46,222** | | **5,804** | **36,278** |

**Sources:** Office of the Auditor General, 2007: s6.61, s.6.63; Office of the Auditor General, 2002: Exhibit 1.4, s1.73; Office of the Auditor General, 1998: Exhibit 16.3, s16.36; Statistics Canada, 2013b; calculations by the authors.

**Notes: 1.** Figures are in nominal dollars. **2.** SIN-related spending in the second column will differ from that in the previous edition of this publication (Clemens et al., 2007b) because it uses a new Statistics Canada data series that replaced an old, terminated data series. **3.** The adjustment series reflects improvements in the number of excess and uncertified SINs in the population as outlined by Office of the Auditor General (2007, 2002, 1998). However, the Auditor General has not provided updated information on the status of SINs after the 2006 figure. The adjustment series was therefore held constant after 2006. **4.** SIN-related spending for the years 1988/99 to 1990/91 is not provided in Statistics Canada's new data series so spending for these years was estimated using the average ratio between the new Statistics Canada data series and the terminated data series that includes spending from 1988/89 to 1990/91. **5.** The ratios for the low- and high-cost estimates were selected based on audits of SIN-related programs by the Auditor General (Clemens et al., 2007a). Some ratios exceeded this range but were excluded since the Auditor General alone did not provide enough information to calculate the failure's cost share of total program spending. This means the range used (0.32% to 2.00%) is in fact conservative.

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, the custody of federal inmates. The Auditor General concluded that the number of escapes from minimum-security prisons had risen by 80 percent between 1988/89 and 1993/94. 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, we 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 contracting out 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 firms that provided value for money. 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 awarding 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 235 of these cases, representing 38.3 percent of the total. More information regarding these cases is available in **Appendix C**.

## Total Cost of Federal Government Failure

The combination of these three methods resulted in an overall cost estimate of federal government failure totalling between $158.3 billion and $197.1 billion (**table 3**).[9] This estimate is based on the Auditor General's reports from 1988 to 2013; it includes the costs actually provided by the Auditor General ($44.7 billion to $45.1 billion), the costs calculated using information provided by the Auditor General ($107.8 billion to $115.7 billion), and the costs related to problems observed in programs based on the SIN ($5.8 billion to $36.3 billion).

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.

**Table 3: Low and High Estimates of the Cost of Federal Government Failure**

| | Low estimate ($ millions) | High estimate ($ millions) |
|---|---|---|
| Costs provided by the Auditor General (Appendix A) | 44,652 | 45,114 |
| Costs calculated using information from the Auditor General (Appendix B) | 107,799 | 115,704 |
| Costs related to the Social Insurance Number (table 2) | 5,804 | 36,278 |
| **Total estimated cost of federal government failure** | **158,256** | **197,096** |

Note: The estimates above are based on information provided in the Auditor General's reports from 1988 to 2013 (up to the spring 2013 report).

Importantly, the estimate of the overall cost of federal government failure is conservative. First, the estimate is limited to failures identified by the Auditor General. In other words, it excludes potential failures in programs and initiatives over the 1988 to 2013 period that the Auditor General did not audit. Second, the definition of government failure in this report is narrower than typical definitions; it only counts as failures instances where the government failed to meet objectives and does not comment on the merits of programs or initiatives. Third, the estimate excludes 235 failures (38.3 percent) where information was not available to calculate a cost. Finally, the estimate is solely for the federal government and excludes the large number of failures at the provincial and local government levels.

# 4 Reducing Government Failure

In chapter one, we saw the inherent weakness of government identified by Public Choice analysis. We have also examined a large number of examples of government failure documented by the Auditor General of Canada and the cost of this failure. This section discusses mechanisms through which government failure can be reduced. These mechanisms range from simple bureaucratic and administrative changes, such as increasing oversight and improving public-sector incentives, to the outright elimination of government activities. Such reforms, however, are not easily implemented since they are constrained by the same type of public-choice limitations discussed earlier in this publication.

## Setting priorities

Perhaps the most important step in reducing government failures is setting priorities. By prioritizing objectives, government could better ensure that critical services are provided to citizens in a timely and cost-effective manner. A failure to prioritize goals and objectives leads to a misallocation of limited resources, resources being spread too thinly, and ultimately to an inability to achieve the desired goals and objectives. More concerning is the potential for the government to fail in providing vital services in which it has a central role, such as public safety and national defence.

## Other mechanisms for reducing government failure

### 1 Rationalization

Rationalizaton 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 unnecessary or inappropriate

for it to allocate investment capital, as the federal government does currently through various regional development and tax subsidy programs. The ideal response would be to eliminate such activities.

There are several 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 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.[1]

## 2 Privatization

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.[2] Economists William Megginson and Jeffry Netter, for

1 The prioritization process used by the federal government in the 1990s can serve as a model for future rationalization (see Veldhuis et al., 2011, for further explanation). Program Review, as the process was called, included a comprehensive examination of federal departmental spending in the 1994 budget. The review required ministers in each department to evaluate their programs using six tests: 1) serving the public interest, 2) necessity of government involvement, 3) appropriate federal role, 4) scope for public and private sector partnerships, 5) scope for increased efficiency, and 6) affordability. Ultimately, the exercise led to a significant structural change in the federal government's involvement in the Canadian economy.

2 The Fraser Institute has published a number of books, studies, and articles on various privatization initiatives and opportunities: Jones, 2003; Jones and Walker, 1997; Hepburn, 2001; Easton, 1998; Schafer, Emes, and Clemens, 2001; Walker, 1988; Lofgren, 2002b; West, 1997; Clemens and Esmail, 2002a, 2002b; Clemens and Miljan, 2001; Chittick, 2003; Lammam and Veldhuis, 2009. See also the important work of Butler, 1992.

example, provided a comprehensive review of privatization worldwide 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 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 political 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).

The survey by Megginson and Netter buttresses earlier work by Professor Megginson and colleagues published in the *Journal of Finance* (Megginson et al., 1994). There the authors examined over 60 privatized companies in 18 countries and 32 industries and found that, after privatization, companies increased profitability by 45 percent, efficiency by 11 percent, output by 27 percent, investment in plant and equipment by 44 percent, and employment by 6 percent—an overwhelming endorsement of the benefits of privatization (see also Ewing et al., 1997; Guislain, 1997; Pohl et al., 1997; and Sader and Megyery, 1997). More recent empirical work by Narjess Boubakri and colleagues confirms the benefits of privatization (Boubakri et al., 2009). These scholars analyzed the performance of 189 firms in 39 countries before and after privatization and found that "privatization is associated with significant improvements in profitability, operating efficiency, and capital expenditures spending" (Boubakri et al., 2009: 377).

Finally, and perhaps most insightful on the topic of privatization, are the conclusions of Harvard Professor Janos Kornai. As we saw in section 1, Kornai 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]

3 See Kornai, 1992, 2003. For a broad overview of budget constraints and their effects, please see Kornai et al., 2003.

### 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.[4] 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 establishes the desired outcomes and holds the private firm to account for achieving those outcomes. Harnessing the competitive advantages of the private sector can reduce the overall costs of the project while maximizing the potential benefits.[5] It is important to acknowledge, however, that P3 initiatives can go awry because of poor planning or poor contractual agreements.[6]

### 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 the academic literature. Domberger and Rimmer (1994), in a review of empirical studies on contracting out in public sectors from around the world, concluded that competitive tendering and contracting usually leads to substantial cost savings, in the order of 20 percent. 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 has considerable support.

4 For further information on P3s, please see Lammam et al. 2013. Also see two reports released by the Conference Board of Canada: Gill and Dimick, 2013 and Iacobacci, 2010.

5 Lammam et al. (2013) list six benefits of the P3 model: on-time and on-budget construction, improved value for money over the project's life, improved customer service, more innovation, improved care of public assets, and a government focused on outputs (ends) rather than inputs (means).

6 Lammam et al. (2013) discuss the conditions for a successful P3, which include a project with suitable characteristics to a P3 such as clearly definable and measureable goals, effective transfer of risk from the public to private partner, and a public partner capable of drafting an appropriate P3 contract and monitoring the private partner.

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. Domberger 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. Finally, Levin and Tadelis (2007) analyzed the contracting out of public services in US municipalities and found that private contracting reduced city costs. Specifically, they found cities that privately contracted 10 percent more of their services spend about 3 percent less per capita.[7]

It is also important to note that simply introducing competitive bidding can improve public-sector performance.[8] 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

7 Levin and Tadelis (2007) estimated that changing one service from provision by the city government to private contracting is associated with a 0.6 percent decline in per capita spending.

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

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

The findings from the case studies summarized earlier suggest that the resources of the Auditor General's Office be augmented[9] and the scope of available audits broadened to include Crown Corporations and government foundations. In addition, any program, department, or ministry under-going an audit review should be required to publish its response, including measurable plans to overcome difficulties identified 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, it is recommended that the Auditor General provide detailed cost estimates for all failures mentioned in the reports. This will improve the accuracy of the estimates in this study and give Canadians a more complete 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.

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

# Appendix A: Cost of Federal Government Failures as Reported by the Auditor General

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| **1988** | | | |
| Fisheries and Oceans | Canadian Saltfish Corporation | The Corporation inappropriately authorized $3.7 million in loan guarantees and $1.2 million in direct loans for fish producers. It also inappropriately sold $32.4 million worth of frozen fish products. | 37.3 |
| Agriculture and Agri-Food | Agricultural Stabilization Board | The Board lacked financial controls when it paid $186.8 million to agricultural producers. | 186.8 |
| Environment | Leased Property | Environment made approximately $12.7 million in rental payments for vacant land over 14 years. | 12.7 |
| Interdepartmental | Saint John Harbour Bridge Authority | The Saint John Harbour Bridge Authority received a continually increasing subsidy, even though its original stated intention was to provide a loan which was to be repaid. As of 1988, the debt to Canada totalled $30 million and foregone revenue was $12 million but projections indicated that these figures will reach $85 million and $100 million, respectively, by 2021. | 42.0 to 185.0 |
| Fisheries and Oceans | Compliance with Program Authorities | Fisheries and Oceans contributed to a salmon demonstration farm exceedingTreasury Board limits by more than $900,000 and approved a $600,000 contract contrary to a Treasury Board decision. | 1.5 |
| Fisheries and Oceans | Compliance with Program Authorities | Fisheries and Oceans did not demonstrate due regard for economy when it purchased four vessels, of which two represented an overpayment of at least $500,000 and potential excess payment of $910,000. | 0.5 to 0.9 |
| Industry | Regional Development | The Department did not pursue repayment of the estimated $115,000 it was owed. | 0.1 |
| Industry | Regional Development | The Department missed the opportunity to earn between $4.25 million and $6.05 million from short-term securities due to payments in advance of need. | 4.3 to 6.1 |
| Transport | VIA Rail | Transport overstated year-end capital payments to VIA Rail by $31.4 million from 1985/86 to 1987/88. | 31.4 |
| Agriculture and Agri-Food | Forestry Resource Development Agreements | Forestry resource development agreements did not meet one of their major objectives of reducing the backlog of unsatisfactorily restocked forest land. Approximately $160 million of these agreements was directed to reforestation. | 160.0 |
| Agriculture and Agri-Food | Forestry Resource Development Agreements | Agreement guidelines were inadequate and not consistently followed. For example, $10.5 million was spent on planting for sites that did not comply with distance guidelines. | 10.5 |
| Canadian International Development Agency | International Aid | CIDA signed a $13 million contract to study the feasability of building a dam in China, but the contract did not accomplish one of the two primary goals. | 6.5 |
| Canadian International Development Agency | International Aid | CIDA spent $2.2 million on rail in Indonesia that was not needed for purposes listed in the project's documentation. | 2.2 |
| Canadian International Development Agency | International Aid | A key activity for a $13 million contract involving the Canada-Tanzania wheat program was not accomplished a year after signing. | 13.0 |
| Canadian International Development Agency | International Aid | CIDA was over paying for potash by approximately $1.2 million. | 1.2 |
| Canadian International Development Agency | International Aid | CIDA did not achieve value for money from its $40 million Aid Information System | 40.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| Natural Resources | Canada-Nova Scotia Development Fund | The $200 million Canada-Nova Scotia Development Fund was supposed to finance infrastructure for exploring or developing offshore oil and gas in Nova Scotia, but up to $128.5 million was committed to projects with questionable relevance to the fund's objectives. | 128.5 |
| Natural Resources | Newfoundland Offshore Development Fund | The federal government provided $225 million for the Newfoundland Offshore Development Fund, which had no specific purpose and no evaluation of fund expenditures as required by Treasury Board. | 225.0 |
| Natural Resources | Mineral Development Agreements | A $50 million agreement with Quebec was required to have a clear plan for economic development but did not. | 50.0 |
| Natural Resources | Mineral Development Agreements | A $5 million agreement with British Columbia was required to have a clear plan for economic development but did not. | 5.0 |
| Fisheries and Oceans | Fishing License System | Delays in increasing foreign fishing license fees cost Fisheries and Oceans approximately $600,000 in lost revenues. | 0.6 |
| Fisheries and Oceans | Fishery Oversight | Due to incomplete information on costs and other factors, costs of arming fishery patrols rose from $610,000 to $3.7 million. | 3.1 |
| Fisheries and Oceans | Vessel Management | The available cost of vessel mismanagement totalled over $435,000. | 0.4 |
| Aboriginal Affairs and Northern Development Canada | Funding Arrangements | Management of funding arrangements with bands improved little over a 20 year period, resulting in debt and taking away funds for housing. In one region, 69 houses were forgone in order to use capital funds to reduce debt by $2.8 million. | 2.8 |
| National Defence | Munitions Supply Program | DND depots exceeded authorized levels of training ammunition by approximately $205 million. | 205.0 |
| National Defence | Inventory Management | DND's inventory management of repairable parts was based on deficient systems and practices. DND maintained excesses worth $250 million and shortage worth $20 million. | 270.0 |
| National Defence | Emergency Assistance | Provinces have not reimbursed DND for emergency assistance totalling $11 million. | 11.0 |
| Public Works and Government Services | Contract Audits | A contractor was unable to segregate some development costs that were eligible for reimbursement, resulting in an overpayment of over approximately $1 million. | 1.0 |
| Public Works and Government Services | National Defence Contracts | Two contracts worth a total of $38 million significantly deviated from technical standards. | 38.0 |
| Public Works and Government Services | National Defence Contracts | Late deliveries of landing gear parts for an aircraft resulted in claims of between $41,000 and $75,000. | 0.0 to 0.1 |
| Public Works and Government Services | National Defence Contracts | Inappropriate payment to fix a paint adhesion problem with helicopters totalled $162,000. | 0.2 |
| Human Resources and Skills Development | Canada Employment and Immigration Commission | The Commission made $76 million in overpayments and $57 million in underpayments because of problems with records of employment. Another $50 million in overpayments was made due to errors in calculating individuals number of insurable weeks of employment. | 183.0 |
| Public Works and Government Services | Edmonton Civil Service Building | Public Works had to pay approximately $100 million more for a building than the $80 million it cost to construct. | 100.0 |
| Agriculture and Agri-Food | Animal Diseases Research Institute | The Department paid $336,000 for consulting work, but could not use approximately $155,000 worth because of changes in the project's safety requirements. | 0.2 |
| Agriculture and Agri-Food | Animal Virus Laboratory | Up to $5.54 million would be paid for an animal virus laboratory that lacked Treasury Board authorization and formal competition, and had design costs that were higher than expected. | 5.5 |
| Fisheries and Oceans | Chartering a Helicopter | Fisheries and Oceans chartered a helicopter at a cost of $3.7 million but the helicopter did not meet primary operational requirements. | 3.7 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| Human Resources and Skills Development | Canada Student Loans | An information system that was supposed to be in operation by the end of 1986 was delayed indefinitely after being stopped in 1987, following seven years and approximately $5 million of work. | 5.0 |
| Foreign Affairs, Trade and Development | Trade Function | Billing financial institutions quarterly for recoverable costs, as opposed to the existing practice of twice per year, would have saved $900,000. | 0.9 |
| **1989** | | | |
| Industry | Prairie Farm Rehabilitation Administration | The Bassano Dam in Alberta was delayed by 11 years with project costs escalating by $12.2 million. | 12.2 |
| Canada Revenue Agency | Customs and Excise's Training Facility | Inadequate evaluation of a facility for training staff required an additional $35 million for renovations. At the time of audit, completion of the facility was expected to be delayed by two years | 35.0 |
| Fisheries and Oceans | Marine Sciences Research Institute | Due to poor planning and unrealistic timelines, the cost of constructing the Maurice Lamontagne Institute, originally reported to parliament at $17 million, was estimated to be $77 million. | 60.0 |
| Interdepartmental | Obtaining Parliamentary Approval | The federal government guaranteed $3.7 billion of Canadian Wheat Board's receivables (loans) without proper authority from Parliament. $3.2 billion of these loans were troubled and at least $1.5 billion would not be paid back. | 3,700.0 |
| Agriculture and Agri-Food | Contributions | Department of Agriculture made a $600,000 payment to the Government of Quebec too early according to Treasury Board guidelines. Due to this early payment, the Department incurred an unnecessary $50,000 interest cost. | 0.1 |
| Agriculture and Agri-Food | Tripartite Program | The Tripartite Program was not meeting the legal requirement of financial self-sustainability as stipulated by the Agricultural Stabilization Act. Departmental forecasts estimated that by 1988 the program will have accumulated a deficit of approximately $17 million. | 17.0 |
| Public Works and Government Services | Firefighting and Rescue Vehicles | Supply and Services took four years to deliver urgently required crash firefighting and rescue vehicles worth $22.1 million. Additional costs of $1.3 million were incurred due to poor contract negotiations with the vehicle suppliers. | 1.3 |
| Public Works and Government Services | Contracting Practices | Supply and Services and Fisheries and Oceans could have received an additional month of computer processing and support services for $50,000 but ended up paying $250,000 ($200,000 more). | 0.2 |
| Privy Council | Elections Canada | Elections Canada's outdated legislation unnecessarily required that each ballot box be made of some durable material at an extra cost of $500,000 for every election. | 0.5 |
| Finance | Management of Foreign Exchange Operations | Finance should have converted $7.8 billion in gold reserves into interest bearing securities, which would have produced $800 million in interest in 1989. | 800.0 |
| Canadian Coast Guard | Quality Assurance | The Canadian Coast Guard purchased cranes for use on six of their ships but the lack of quality assurance meant that several modifications had to be made to the cranes. One crane alone had modification costs exceeding $300,000. | 0.3 |
| Transport | Quality Assurance | Emergency vehicles delivered to Transport did not have proper central tire deflation systems. These systems had to be replaced for 21 vehicles at a cost of more than $30,000 per vehicle. | 0.6 |
| Canadian Coast Guard | Fleet Management | Crews at the Canadian Coast Guard were receiving full pay when the ships were not operational. For example, Edward Cornwalllis was not operational for 37 weeks but remained fully crewed at a weekly cost of $25,775. | 1.0 |
| **1990** | | | |
| Agriculture and Agri-Food | Farm Credit Corporation | The Department, on three occasions, entered into agreements that exceeded the $50,000 departmental authority without receiving the required Treasury Board approval. The excess totalled $1.7 million. | 1.7 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| Atlantic Canada Opportunities Agency | Business Assistance Programs | ACOA failed to adequately evaluate the commercial viability of a recipient of their contribution agreement and paid $2.2 million to the applicant before they entered into receivership. | 2.2 |
| Canadian International Development Agency | International Aid | CIDA provided $2.3 million to finance a coal-washing plant in Pakistan even though little value was obtained from the money spent. | 2.3 |
| Agriculture and Agri-Food | Agricultural Stabilization Board | Federal contributions exceeded $230 million even though the ASB was intended to be self-sustaining. | 230.0 |
| Environment | Lapsed Funds | Environment made payments before the funds were actually required, violating cash management guidelines and resulting in $127,000 in unnecessary interest costs. | 0.1 |
| Fisheries and Oceans | Lapsed Funds | Fisheries and Oceans improperly maintained and incorrectly used a trust account to prevent lapsing funds of $118,000 at year end. | 0.1 |
| Industry | Contributions | A contribution of $1.2 million was approved despite the project not meeting basic eligibility criteria. | 1.2 |
| Industry | Contributions | A $978,000 contribution was approved to support a project even though it did not meet eligibility criteria and would not create any permanent jobs. | 1.0 |
| Canadian Coast Guard | Icebreaker Modernization | Coast Guard scheduled the mid-life modernization of an icebreaker that was not needed. Costs eventually escalated to $125 million. | 125.0 |
| Transport | Parking at Lester B. Pearson Airport | Deferring restoration of a parking garage increased costs by between $28 million and $38 million and impacted the safety of the structure. | 28.0 to 38.0 |
| Finance | Late-Filing Penalties | By not applying the late-filing penalty to charities, $49 million had been foregone. | 49.0 |
| Public Works and Government Services | National Hydrology Research Centre | Poor project management during construction of the NHRC resulted in uneccessary costs totalling $1.15 million. | 1.2 |
| Public Works and Government Services | The Great Lakes Forestry Centre | A consultant's advice was not followed and no vapour barrier was installed in the renovation of the GLFC, causing significant water damage and $2 million in repairs. | 2.0 |
| Public Works and Government Services | Centre de Foresterie des Laurentides | Several problems (including poor cost management, outstanding construction claims, and an inadequate competitive bidding structure for contractors) led to cost overruns totalling $13.9 million. | 13.9 |
| Aboriginal Affairs and Northern Development Canada | School Construction | Problems constructing a new school required the services of a professional management firm to bring the project to an acceptable standard. As a result, costs increased by about $2 million. | 2.0 |
| Citizenship and Immigration | Refugee Backlog | $105 million was authorized to clear the entire backlog of 85,000 refugee claimants by April 1989. The deadline was extended but unlikely to be met. By March 31 1990, only approximately 10% of cases were completed of what should have been. | 105.0 |
| Natural Resources | Cost-Recovery on Digital Maps | Digital maps cost $25,000 more than conventional maps, but no analysis was performed to determine whether digital files would be more efficient than paper maps; 88 digital maps were created. | 2.2 |
| Aboriginal Affairs and Northern Development Canada | Land Management | Land use planning costs are estimated to have exceeded $20 million since 1981, but there were still no approved land use plans for any part of the North by 1990. | 20.0 |
| National Defence | Military Hospitals | National Defence failed to efficiently operate military hospitals, which cost $27.6 million more than an equivalent group of civilian hospitals. | 27.6 |
| Human Resources and Skills Development | Canada Student Loans | Proper options were not exercised which led to excesses of $264 million between 1985/85 and 1988/89. | 264.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| **1991** | | | |
| Atlantic Canada Opportunities Agency | Business Assistance Programs | ACOA violated internal policy when it advanced approximately $1.5 million to a manufacturer without the required environmental certification. The manufacturer subsequently went into receivership. The federal government may be required to pay an estimated $400,000 to clean up soil contamination caused by the manufacturer. | 1.9 |
| Atlantic Canada Opportunities Agency | Business Assistance Programs | ACOA violated the Action Program's policy by approving a $700,000 interest buy-down for a project that was already finished. | 0.7 |
| Atlantic Canada Opportunities Agency | Business Assistance Programs | ACOA approved $5.2 million in assistance to a company despite serious concerns about the viability of the project. ACOA was notified that the cost and size of the project were expected to rise, which warranted a full re-evaluation of the project. The minister was never notified and ACOA made payments to the company totalling $5.9 million. | 5.9 |
| Atlantic Canada Opportunities Agency | Business Assistance Programs | ACOA paid out $2.3 million more than was permitted. | 2.3 |
| Atlantic Canada Opportunities Agency | Business Assistance Programs | ACOA changed classification of funds given to a company to circumvent constraints. At the time of audit, $1.9 million had been given to the company that it was not eligible for. | 1.9 |
| Human Resources and Skills Development | Canada Employment and Immigration Commission | Close to $500 million was paid to a province without obtaining the required cost certifications. | 500.0 |
| Foreign Affairs, Trade and Development | Project Management | $53 million was spent on a system for classified communications but the project was two years behind schedule and could not yet be used for classified purposes. Some of the investment was obsolete. | 53.0 |
| Finance | Payment Collection | Finance paid $6 million in interest because the province of Quebec delayed repayment of the federal income tax abatement. | 6.0 |
| Finance | Tax Administration | National Revenue allowed taxpayers to claim a tax credit on their 1989 returns totalling about $600,000 even though the credit was still draft legislation. | 0.6 |
| Fisheries and Oceans | Project Management | Fisheries and Oceans spent $2.5 million on an information system that was abandoned. | 2.5 |
| Industry | Lapsed Funds | The Department of Industry spent $28 million more than it otherwise should have. | 28.0 |
| National Defence | Fleet Management | There were 12 too many vehicles in the VIP fleet, which cost $17,000 each for a total waste of $204,000. | 0.2 |
| Human Resources and Skills Development | Travel Payments | National Health and Welfare made inappropriate travel payments totalling $133,000 and did not report $59,000 of earned interest in the Public Accounts. | 0.2 |
| Health | Interest Payments | Over the past five years $2.5 million was paid on unnecessary interest payments. | 2.5 |
| Finance | Income Support Programs | Canada Assistance Plan overpayments totalled $489 million in 1990/91. | 489.0 |
| Human Resources and Skills Development | Canada Student Loans | Excess loans cost taxpayers $39 million. | 39.0 |
| Interdepartmental | Vehicle Fleet Acquisition and Disposal | Poor vehicle management at the RCMP and Transport resulted in foregone interest totalling $659,000. | 0.7 |
| Transport | Vehicle Fleet Utilization | Transport's vehicle fleets could be significantly reduced for a saving of about $8.75 million over two years. | 8.8 |
| Agriculture and Agri-Food | Vehicle Fleet Utilization | The Department of Agriculture could have saved $3.9 million on vehicle costs. | 3.9 |
| Health | Cost Recovery | The Department of National Health and Welfare failed to recover $90 million in costs for pre-market drug evaluations | 90.0 |
| Health | Cost Recovery | The Department of National Health and Welfare failed to recover $17 million in hospital operating costs. | 17.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| Agriculture and Agri-Food | Cost Recovery | Department of Agriculture failed to recover $255 million in costs involving inspection and regulation. | 255.0 |
| Agriculture and Agri-Food | Cost Recovery | Department of Agriculture failed to recover $3.4 million in overpayments. | 3.4 |
| Foreign Affairs, Trade and Development | Cost Recovery | The Department of External Affairs and International Trade failed to recover $42.6 million in costs. | 42.6 |
| Agriculture and Agri-Food | Western Grain Stabilization Program | The program accumulated a deficit of $1 billion but because no evaluation of the program had been done, it was not possible to assess what if any socio-economic benefits the deficit provided. | 1,000.0 |
| Public Works and Government Services | Management of Government Procurement | Poor project management led to several unnecessary design revisions and construction delays to a ship, resulting in increased costs of $1 million. | 1.0 |
| Public Works and Government Services | Management of Government Procurement | A $2.8 million contract was awarded in 1984 to engineer a system which was expected by August 1985 yet five years later the project was still not completed. | 2.8 |
| Public Works and Government Services | Management of Government Procurement | The Department wrongly awarded contracts for four ships without competitive bidding. The arrangement had a ceiling price of $946 million, but with cost overruns, the total came to $1.3 billion. | 354.0 |
| Public Works and Government Services | Management of Government Procurement | The Department awarded a contract to a supplier despite concerns that it did not have the technical expertise to fulfill the contract. This resulted in increased costs of $1.29 million | 1.3 |
| Public Works and Government Services | Management of Government Procurement | Poor contractual management led to a cost increase of $1.08 million. | 1.1 |

## 1992

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|---|---|---|---|
| National Defence | Search and Rescue | Development of the $2 million Search and Rescue Information System began in 1986 and was halted in 1991 due to a lack of consensus on the system's purpose. | 2.0 |
| National Defence | Search and Rescue | It would cost around $30.5 million to reduce beacon failures at federally managed lighthouses. This would reduce search time and lives lost. | 30.5 |
| Citizenship and Immigration | Job Creation Programs | Proposals for Community Initiatives Funds projects lacked proper planning. As a result, projects requiring investments of $5.6 million were only given $1.6 million. | 1.6 |
| Finance | Loan Guarantees | There was no risk sharing for the Canada Student Loans Program. The net claim for defaulted student loans was $78 million in 1990/91. | 78.0 |
| Natural Resources | Energy Megaprojects | 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. | 129.0 |
| National Defence | Industrial Development Initiatives | The industrial benefits of a contract amounted to $91.5 million despite the vehicles' limited ability to function in rough terrain and lack of compatibility with the existing fleet. | 91.5 |
| National Defence | The Canadian Forces Reserves | National Defence purchased two offshore vessels for about $10 million that were claimed to be in "excellent condition." But an extra $16 million in unplanned repairs was required and the vessels were out of service for almost a year. | 16.0 |
| Public Safety and Emergency Preparedness | Training Police Forces | Training and salary costs were almost $2 million for members who left the Force in 1989 and 1990 due to a poor recruitment process. | 2.0 |
| Agriculture and Agri-Food | Emergency Response | Department of Agriculture provided $17.3 million in unauthorized assistance to the provincial government. | 17.3 |
| Agriculture and Agri-Food | Farm Credit Corporation | The Farm Credit Corporation had been reimbursed for $160 million without documentation. | 160.0 |
| Industry | Contract Management | The Prosperity Secretariat violated contract regulations when it entered into 22 contracts totalling $3.3 million without the proper competition. | 3.3 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| Industry | Contract Management | For the purpose of receiving a discount, $2.5 million was paid to an Operating Agency but there was no savings to the Crown. | 2.5 |
| Health | Contract Management | Managers provided unauthorized payments totalling $5.6 million for contracts under the Income Security Programs project. | 5.6 |
| **1993** | | | |
| Atlantic Canada Opportunities Agency | Contributions | ACOA failed to evaluate, monitor, and control a repayable contribution agreement totalling $2.6 million for a facility in Newfoundland. | 2.6 |
| Human Resources and Skills Development | Canada Student Loans | 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. | 112.0 |
| Aboriginal Affairs and Northern Development Canada | Canadian Aboriginal Economic Development Strategy | 73 fully developed organizations received $20 million in funding in 1992. | 20.0 |
| Fisheries and Oceans | Northern Cod Adjustment and Recovery Program | Several problems existed with this program, including spending $587 million without the required legislative authority. | 587.0 |
| **1994** | | | |
| Fisheries and Oceans | 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, which has rarely been used, before conducting the appropriate analysis. | 4.2 |
| Public Works and Government Services | 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. | 11.4 |
| Transport | Information to Parliament | $875,000 in expenditures on air services were unaccounted for by Transport Canada. | 0.9 |
| Health | Federal Management of the Food Safety System | There was no accountability for $150 million spent on the Food Safety System from 1990 to 1994. | 150.0 |
| Agriculture and Agri-Food | Farm Income Protection | Farmers subscribing to the Saskatchewan Crop Insurance Program have accumulated a negative fund balance of $536 million as of March 31 1994. | 536.0 |
| Agriculture and Agri-Food | Farm Income Protection | The Net Income Stabilization Account was developed at a cost of $8 million and obsolete at the time of audit. In addition, 10% of files reviewed were in error, resulting in net underpayments of $500,000. | 8.5 |
| Agriculture and Agri-Food | Farm Income Protection | The National Tripartite Stabilization Program for two commodities were no longer financially self-sustaining and were terminated with respective deficits of $44.5 million and $8.4 million. | 52.9 |
| Correctional Service | Custody of Federal Inmates | Correctional Service could avoid one-time future capital costs of $135 million if it applied the "one-quarter target" to its present capacity. | 135.0 |
| Environment | Environment Partners Fund | The Environment Partners' Fund exceeded its limit by $250,000. | 0.3 |
| Foreign Affairs, Trade and Development | Financial Management of Foreign Missions | Around $146 million could have been avoided in oversized or underutilized properties and an estimated $13.3 million could be saved in lease costs. | 159.3 |
| Aboriginal Affairs and Northern Development Canada | Social Assistance on Native Reserves | Social dependency rates among on-reserve Indians increased by 7% despite $1 billion in funding meant to decrease Indian dependency on social assistance. | 1,000.0 |
| Aboriginal Affairs and Northern Development Canada | Social Assistance on Native Reserves | Ineligible reimbursement payments of about $100 million for social assistance were made. | 100.0 |
| National Defence | Information Technology Management | $700 million would have been avoided if 11 projects had been implemented on a priority basis. | 700.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| National Defence | Project Management | The Tactical Command, Control, and Communications System prematurely used up 70% of its $170 million contingency fund. Also the project office had to be kept open at least a year longer than planned, at a total cost of $12 million. | 131.0 |
| National Defence | Project Management | The Canadian Forces Supply System Upgrade spent over $16 million more than originally planned. | 16.0 |
| National Defence | Project Management | A $3.8 million project designed to correct long-standing deficiencies failed to correct the deficiencies. | 3.8 |
| National Defence | Project Management | A $16.9 million project intended to provide specialized support to departmental graphic artists and operations researchers did not provide a usable product. | 16.9 |
| National Defence | Infrastructure Management | DND ordered the construction of a $5 million headquarters despite the possibility the base would be closed. | 5.0 |
| National Defence | Infrastructure Management | The Fleet Maintenance Group facility was poorly planned and cost $13 million, three times the original estimate. | 8.7 |

## 1995

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|---|---|---|---|
| Environment | Managing the Legacy of Hazardous Wastes | The total potential clean-up cost for federally contaminated sites is at least $2 billion. | 2,000.0 |
| Interdepartmental | Federal Radioactive Waste Management | The federal government has spent $21 million on finding a disposal site for waste from the Port Hope nuclear refinery and has not been successful. | 21.0 |
| Human Resources and Skills Development | Systems under Development | The Public Service Compensation System was terminated before completion and after over $61 million (half of the budget) had been spent. | 61.0 |
| Industry | Business Assistance Programs | A company with $86 million in working capital was granted financial assistance of $972,623 for a biotechnology project costing $2.2 million. | 1.0 |
| Public Works and Government Services | Project Financing | 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. | 45.0 |
| Interdepartmental | Regional Economic Development Programs | Despite the $4 billion spent on economic development programs (in the past 8 years), there was no clear consensus on results. | 4,000.0 |
| Industry | Regional Economic Development Programs | 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. | 2.2 |
| Atlantic Canada Opportunities Agency | Regional Economic Development Programs | ACOA did not consider the net economic benefit to the region for 23% of projects delivered through the Fisheries Alternatives Program worth $91 million and, in some instances, local providers could actually have been hurt by ACOA's support of a project. | 20.9 |
| Western Economic Diversification Canada | Western Economic Diversification | An assessment of the $1 billion program found success rates in only one third of the cases examined. | 666.7 |
| Aboriginal Affairs and Northern Development Canada | Native Reserve Capital Facilities Maintenance | The department's reference level for capital facilities and maintenance was $100 million more than estimated. | 100.0 |
| Aboriginal Affairs and Northern Development Canada | Native Reserve Capital Facilities Maintenance | 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. | 0.3 |
| Aboriginal Affairs and Northern Development Canada | Native Reserve Capital Facilities Maintenance | The department advanced about $1 million for a design proposal that was eventually rejected after costs had been incurred. | 1.0 |
| Aboriginal Affairs and Northern Development Canada | Native Reserve Capital Facilities Maintenance | 45% of projects costing $100 million had no evidence that options and alternatives had been assessed to ensure the lowest cost. | 45.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| **1996** | | | |
| Canadian Heritage | Community Transition | Around $2.7 million in government funding was spent before an annual budget and business plan had been drafted. | 2.7 |
| National Defence | Peacekeeping | National Defence could not find adequate documentation for downward adjustments of inventory totalling $80 million in unexplained losses. | 80.0 |
| Public Safety and Emergency Preparedness | Canadian Security Intelligence Service | Vague contracts produced $2.37 million in extra costs at Canadian Security Intelligence Service's new headquarter. | 2.4 |
| Correctional Service | Federal Rehabilitation Programs for Offenders | Correctional Service's operations had become unsustainable and netted losses over a three-year period of $7.3 million. | 7.3 |
| Veterans Affairs | Health Care for Veterans | The federal department paid around $50 million for health benefits that were normally provided by provincial health care programs. | 50.0 |
| National Defence | Material Management | National Defence kept about $1.7 billion more inventory than was required over four years. | 1,700.0 |
| Transport | Canadian Automated Air Traffic Systems | Transport Canada paid $500 million for $282 million of hardware and services. | 218.0 |
| Industry | Canada Infrastructure Works Program | About $145 million spent in the first year simply replaced local spending and did not add to overall investment. | 145.0 |
| National Defence | Productivity | National Defence could save $600 million by re-engineering projects. | 600.0 |
| **1997** | | | |
| Interdepartmental | Credit Cards for Public Servants | The credit cards of public servants were not paid on time, resulting in unnecessary interest costs totalling $80,000 over four months. | 0.1 |
| Foreign Affairs, Trade and Development | Property Management | An official received over $32,000 for unused housing benefits and $22,900 was spent unnecessarily on non-standard furniture. | 0.1 |
| Foreign Affairs, Trade and Development | Property Management | An ambassador refused to leave his previous residence worth $12 million even though costs of $650,000 for alternative arrangements had already been incurred. | 0.7 |
| Transport | Air Navigation System | The reduced sale price of Canada's air navigation system was characterized as an unnecessary subsidy that could range up to $1 billion. | 1,000.0 |
| Transport | Contracting | Contracts provided no clear link between work done and the amounts paid, resulting in extra costs totalling $3.56 million. | 3.6 |
| **1998** | | | |
| Interdepartmental | Reductions in the Public Workforce | Total restructuring costs for the public workforce exceeded the original estimate by $900 million. | 900.0 |
| Interdepartmental | Health Laboratories | The Animal Virus Laboratory in Nepean was cancelled after $5.5 million was spent on planning. | 5.5 |
| Health | Health Laboratories | A Health Canada facility was cancelled after $10 million was spent on planning. | 10.0 |
| Health | Health Laboratories | $12 million was spent on a laboratory that was never used. | 12.0 |
| Interdepartmental | Health Laboratories | Poor project management for integrating Health Canada and Agriculture Canada's laboratory facilities resulted in about $34 million in cost overruns. | 34.0 |
| Human Resources and Skills Development | Social Insurance Numbers | Income tax errors represented $36 million in corrections. | 36.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| **1999** | | | |
| Fisheries and Oceans | Atlantic Fishery | Fisheries and Oceans spent $15 million to support social objectives, which directly contradicted the Fishery of the Future Strategy of encouraging conservation. | 15.0 |
| Interdepartmental | The Atlantic Groundfish Strategy | 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. | 1,900.0 |
| **2000** | | | |
| Public Safety and Emergency Preparedness | Laboratory Services | An RCMP laboratory took almost six months to submit its report and involved $1 million in avoidable investigation costs. | 1.0 |
| Public Safety and Emergency Preparedness | Facilities Management | Despite an apparent overcapacity, the RCMP opened a new $12 million facility in Regina. | 12.0 |
| Public Safety and Emergency Preparedness | Facilities Management | The RCMP unnecessarily replaced a forensic laboratory in Ottawa at a cost of $21 million. | 21.0 |
| Royal Canadian Mounted Police | Firearms Registry | An RCMP study on the Firearms Registry noted almost $18 million in productive time lost. | 18.0 |
| Transport | Airport Transfers | Airport transfer leases did not adhere to key directions and resulted in a cost of about $474 million ($342 net present value) to the government in foregone rent. | 342.0 |
| Human Resources and Skills Development | Transitional Jobs Fund | Projects received $300 million in funding from the TJF over the three years ending in 1999/00 but 63% of projects ($189 million) would have gone ahead without the funding. | 189.0 |
| Human Resources and Skills Development | Grants and Contributions | 29% of Social Development Partnerships Program's project proposals were inadequate. SDPP's budget was $15 million in 1999/00. | 4.4 |
| Human Resources and Skills Development | Grants and Contributions | Projects received $110 million in 1999/00 in funding from the Canada Jobs Fund but 75% of projects ($82.5 million) would have gone ahead without this funding. | 82.5 |
| Human Resources and Skills Development | Grants and Contributions | $600,000 of funding for the The Auberge des Gouverneurs project was announced before it had been approved and the project created only two-thirds of the jobs expected. | 0.2 |
| Atlantic Canada Opportunities Agency | Office Space | The fit-up and occupancy costs for office space in Nova Scotia were roughly $342,500 higher than other locations in the Atlantic region. Also in the same building, ACOA paid $116,903 in rent for space it did not use. | 0.5 |
| Fisheries and Oceans | Fleet Management | The Cornwallis vessel was not operational except for about two weeks in 1999/00, yet it incurred $1.2 million in salaries and operating costs. | 1.2 |
| Fisheries and Oceans | Fleet Management | Maintaining the Franklin vessel in lay-up status cost $440,000 but the vessel was eventually disposed. | 0.4 |
| **2001** | | | |
| Atlantic Canada Opportunities Agency | Business Development | Over 10% of projects reviewed received funding in excess of ACOA's long-term limit of three years. The value of the reviewed projects was $266.6 million. | 26.7 |
| Atlantic Canada Opportunities Agency | Business Development | $12 million of contributions through the Business Development Program have been written-off. | 12.0 |
| Interdepartmental | Heating Expense Relief | 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. | 1,050.0 to 1,150.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| **2002** | | | |
| Health | Contract Management | Health Canada did not meet contracting-out rules when it spent $25 million on the Canadian Health Network and is considering alternative software after four years of use. | 25.0 |
| Public Works and Government Services | Contract Management | Public Works awarded contracts worth $24.4 million that did not reflect Treasury Board's Policy principles and requirements. An extra $1 million was used for surveys that were issued using standing offers. | 25.4 |
| National Defence | Satellite Communications | National Defence took eight years to develop a $174 million satellite communications system that remains in storage. | 174.0 |
| National Defence | Management of Contracts for Pilot Training | National Defence awarded a 20-year contract without competition and paid about $65 million for training that was not obtained. | 65.0 |
| National Defence | Management of Contracts for Pilot Training | National Defence paid over $31 million for aircrafts that were delivered late and that could not be used for training. | 31.0 |
| National Defence | Management of Contracts for Pilot Training | National Defence paid a contractor $15 million for pilot training even though the first four courses had to be cancelled. Eventually $2.5 million was reimbursed but $12.5 million is still outstanding. | 12.5 |
| National Defence | Management of Contracts for Pilot Training | Payments were made for unused training capacity. The unused capacity was 57% of a $40 million fixed price contract. | 22.8 |
| Industry | Small Business Loan Guarantees | Failure to issue loans on a cost recovery basis amounted to $155 million in losses and potentially in excess of $200 million. | 155.0 to 200.0 |
| Fisheries and Oceans | Marine Navigation | Between 1998 and 2003, Treasury Board committed $85 million to maintain unnecessary staffing at lighthouses. | 85.0 |
| Canadian Space Agency | Canadian Space Program | Delays at NASA cost the Canadian government an additional $13 million in maintenance costs. | 13.0 |
| Canadian Space Agency | Canadian Space Program | Project delays in launching RADARSAT-2 Satellite cost taxpayers an additional $167 million. | 167.0 |
| Public Works and Government Services | Acquisition of Office Space | Public Works paid $2.7 million in rent for an unoccupied building. | 2.7 |
| Justice | Firearms Registry | The Firearm Registry rose from an estimated net cost of $2 million in 1995 to over $860 million in 2004. | 860.0 |
| Aboriginal Affairs and Northern Development Canada | Mail Food Program | Spending on the Mail Food Program exceeded the yearly cap by $8.9 million in 2001/02. | 8.9 |
| Interdepartmental | Downsview Park | 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. | 20.0 to 100.0 |
| **2003** | | | |
| Interdepartmental | Financial Information Strategy | The government invested over $600 million in the FIS but 90% of the managers interviewed do not access the system. | 540.0 |
| Aboriginal Affairs and Northern Development Canada | Housing on Reserves and Loans to First Nations | $74 million was spent because the Ministry was under pressure to spend the money before fiscal year end. | 74.0 |
| Aboriginal Affairs and Northern Development Canada | Housing on Reserves and Loans to First Nations | About $10 million of outstanding loans to First Nations had yet to be recovered as of March 2002. | 10.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| Interdepartmental | Job Classification in the Public Service | $200 million was spent on restructuring the public service job classification system, a project that has since been abandoned. | 200.0 |
| Public Works and Government Services | Sponsorship Program | $250 million was spent on the Sponsorship Program from 1997 until March 2003. | 250.0 |
| National Defence | Purchase of Challenger Aircraft | A contract to purchase two aircrafts for VIP travel was worth about $100 million, did not demonstrate due regard for economy, bypassed expected practices, and circumvented proper review. | 100.0 |
| Canadian Heritage | National Historic Sites of Canada Cost-Sharing Program | About $30 million in financial aid was endorsed for work on the preservation of historic sites which has not been fulfilled. | 30.0 |
| **2004** | | | |
| Interdepartmental | 2001 Anti-Terrorism Initiative | $45 million was allocated to projects unrelated to their stated purpose of combatting terrorism. | 45.0 |
| Canada Revenue Agency | Small and Medium-sized Enterprise Tax Services | $247 million were found in overstated GST/HST claims. | 247.0 |
| Canada Revenue Agency | Small and Medium-sized Enterprise Tax Services | In a group of files considered to present little or no risk, 16% contained overstated claims that amounted to $1 million. | 1.0 |
| Interdepartmental | Management of Federal Drug Benefits Program | $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. | 26.0 to 28.0 |
| Interdepartmental | Management of Federal Drug Benefits Program | Health Canada has yet to recover $2.1 million in overpayments while Veteran Affairs Canada has $700,000 outstanding. | 2.8 |
| **2005** | | | |
| Public Safety and Emergency Preparedness | National Security | National Defence was given $43.1 million for a project that would only perform to expectations during daylight and calm weather. The expected cost of this project is $220 million. | 220.0 |
| Public Safety and Emergency Preparedness | National Security | 40% of the $10 million allocated to fighting terrorist threats went to areas considered low risk for a terrorist attack. | 4.0 |
| Health | National Security | Health Canada was allocated around $1.75 million over three years for emergency medical teams that have not been created. | 1.8 |
| Canadian International Development Agency | Foreign Aid | There was a $142 million unexpected increase in the issuance of grants lacking the proper accountability, required documentation, and necessary approval from CIDA officers. | 142.0 |
| Canadian International Development Agency | Foreign Aid | Less than 50% of files contained proper justification and documentation for release decisions of contract adjustments. These files are worth $33.5 million. | 16.8 |
| Royal Canadian Mounted Police | Contract Policing | Long delays in resolving a dispute over bills for contract police services led the RCMP to abandon attempts to recover $6.9 million. | 6.9 |
| Canada Revenue Agency | Personal Income Tax Returns | The Matching Program failed to recover between $200 million and $250 million in income taxes. | 200.0 to 250.0 |
| Interdepartmental | Administration of the Federal Electoral Process | Costs related to revision activities could be reduced by half if unnecessary staffing was eliminated. Elections Canada spent $50 million on revision activities for the 2004 election alone. | 25.0 |
| Interdepartmental | Administration of the Federal Electoral Process | The REVISE system incurred costs of $11.1 million, was incompatible with the current system, and produced significant backlogs. | 11.1 |
| Canadian International Development Agency | Tsunami Relief | CIDA spent $69 million intended for tsunami relief on non-tsunami-related activities to free up funding for the new fiscal year. | 69.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| **2006** | | | |
| National Defence | Pilot Training | The NFTC program was originally projected to cost $2.8 billion but eventually increased by about $600 million. | 600.0 |
| National Defence | Pilot Training | The under-utilization of student pilot training positions resulted in $89 million in missed training. | 89.0 |
| Justice | Canadian Firearm Information System | CFIS I incurred $95.5 million in cost overruns. | 95.5 |
| Public Works and Government Services | Canadian Firearms Program | Public Works awarded a questionable contract worth about $550,000 more than it should have. | 0.6 |
| Aboriginal Affairs and Northern Development Canada | Transfer Payments | 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. | 0.0 |
| Public Works and Government Services | Acquisition of Leased Office Space | Public Works' procurement process for contracting out was non-competitive and did not adhere to established guidelines. This cost taxpayers an additional $4.6 million. | 4.6 |
| Treasury Board | Acquisition of Leased Office Space | Treasury Board approved the lease of a property that was the most expensive option, costing the Crown an additional $13 million. | 13.0 |
| Public Works and Government Services | Acquisition of Leased Office Space | Public Works recommended the second-best option for a building, which was $4.4 million more than the least expensive option. | 4.4 |
| Public Works and Government Services | Acquisition of Leased Office Space | The present value of the cost of accommodation for Centennial Towers was $81 million more than the most cost-effective alternative. | 81.0 |
| Public Works and Government Services | Acquisition of Leased Office Space | The present value of the cost of accommodation for the Jean Edmonds Towers was $12.5 million more than the least-cost option. | 12.5 |
| Agriculture and Agri-Food | Large Information Technology Projects | Agconnex, a failed IT project, was discontinued after the government had already spent $14 million. | 14.0 |
| Public Works and Government Services | Large Information Technology Projects | Secure Channel operated at less than 50% of its capacity, which resulted in an additional cost of $196 million. | 196.0 |
| Citizenship and Immigration | Large Information Technology Projects | Citizen and Immigration received budget increases for the GCMS without submitting a revised business case to Treasury Board. GCMS is now $48 million more than originally estimated. | 48.0 |
| Royal Canadian Mounted Police | Contracting | There were compliance problems in 24% of contracts reviewed at the RCMP, which handled $255 million worth of contracts in 2004. | 61.2 |
| Canada Border Services Agency | Contracting | There were compliance problems in 34% of the contracts examined at Border Services, which handled $11 million worth of contracts in 2004. | 3.7 |
| Correctional Service | Contracting | There were compliance problems in 42% of the contracts audited at Correctional Service, which handled $300 million worth of contracts in 2004. | 126.0 |
| Aboriginal Affairs and Northern Development Canada | British Columbia Treaty Process | The federal government spent about $426 million on BC treaty negotiations between 1993 and 2006 but no treaties have been signed. | 426.0 |
| Health | Allocating Funds to Regulatory Programs | A total of $3.08 million in funding for special initiatives was not spent on the purposes intended. | 3.1 |
| Health | Allocating Funds to Regulatory Programs | The full program cost for medical devices is $21.8 million but Health Canada only recovered $7.4 million. | 14.4 |
| Public Safety and Emergency Preparedness | Pension and Insurance Administration | Consulting contracts valued at over $20 million were established without competition and circumvented controls designed to ensure fairness, equity, and the lowest price. | 20.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| Royal Canadian Mounted Police | Pension and Insurance Administration | The RCMP charged $1.3 million to pension and insurance plans for work of little value. A portion valued at $270,000 was eventually reimbursed. | 1.0 |
| Royal Canadian Mounted Police | Pension Plan Outsourcing | The RCMP persuaded an insurance carrier to subcontract work to a second firm. As a result, there was no competition for a $4.6 million contract. | 4.6 |
| Royal Canadian Mounted Police | Pension Plan Outsourcing | Inconsistencies in the outsourcing costs for pension plan administration increased expected costs by $8.4 million. | 8.4 |
| Royal Canadian Mounted Police | Pension Plan Outsourcing | Forecasts for the RCMP's administration omitted significant projects and underestimated costs, resulting in a revised estimate that was $8.2 million greater than the original. | 8.2 |
| Interdepartmental | Award and Management of a Health Benefits Contract | Public Works and Health Canada awarded a health benefits contract valued at $161.4 million over nine years that should not have been awarded. | 161.4 |
| Health | Award and Management of a Health Benefits Contract | Health Canada made $2.6 billion in unauthorized payments out of the Consolidated Revenue Fund. | 2,600.0 |
| Health | Award and Management of a Health Benefits Contract | Health Canada made $24 million in payments that exceeded the value of a contract. | 24.0 |
| Health | Award and Management of a Health Benefits Contract | Health Canada certified invoices worth $5.5 million that had no documentation to support the volume of claims processed. | 5.5 |
| Public Safety and Emergency Preparedness | Office of the Correctional Investigator | The former Correctional Investigator made improper payments totalling $325,000. In addition, around $127,000 was cashed out as improper annual leave. | 0.5 |
| Public Safety and Emergency Preparedness | Human Resources Management | Over $260,000 in improper payments marked as overtime were paid out to employees. | 0.3 |

## 2007

| | | | |
|---|---|---|---|
| Canadian Coast Guard | Managing the Coast Guard | A maintenance information management system was approved in 1997, to be completed by February 2000 for $7.9 million, but will likely not be completed until 2011 at an additional cost of more than $12.4 million. | 12.4 |
| Canadian Coast Guard | Managing the Coast Guard | The Coast Guard received $27 million in increased funding for surveillance and reconnaissance activities between 2001/02 and 2005/06, but the money was absorbed by regular fleet operations without directives on what was to be achieved with it. | 27.0 |
| Canadian Coast Guard | Coast Guard Maintenance | The Coast Guard re-coated two vessels' potable water tanks, but insufficient guidance caused serious problems costing more than $1.6 million to repair. | 1.6 |
| Canadian Coast Guard | Coast Guard Maintenance | Coast Guard workers dismantled 16 fuel pumps on a ship's engine and reassembled them incorrectly. Afterward, the engine accelerated uncontrollably which resulted in almost $6 million in further repairs. | 6.0 |
| Canadian Coast Guard | Coast Guard Maintenance | Staff made emergency repairs to the turbocharger on a ship's engine but could not find the turbocharger's manual. Lubricating oil leaked into the engine's exhaust stack and started a fire which cost approximately $1.3 million. | 1.3 |
| Canadian Coast Guard | Coast Guard Maintenance | A ship's engine components came apart while it was at sea, resulting in $350,000 in repairs and $1.6 million to charter replacement vessels. The Coast Guard determined that certain engine parts were not tightened according to the manufacturer's recommendations. | 2.0 |
| Canadian Coast Guard | Coast Guard Maintenance | A Maintenance Information Management System was originally expected to cost $7.9 million but was 11 years behind schedule and $7 million overbudget. More than half its inventory was inaccurate and more than 70% of maintenance work the system was supposed to control was not recorded. | 14.9 |
| Canadian Coast Guard | Coast Guard Modernization Project | Coast Guard estimated its modernization project would save $15 million, but could not support the estimate. The Coast Guard did not plan to eliminate or reduce redundant infrastructure and activities to achieve the savings, resulting in new technologies adding to costs. | 15.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| Agriculture and Agri-Food | Canadian Agricultural Income Stabilization | Income stabilization payments had an estimated error of $70 million in 2003 and $43 million in 2004, despite a target error of approximately $20 million per year, which meant errors were $73 million more than what they should have been. | 73.0 |
| National Defence | Modernizing the NORAD System | Upgrades to the air surveillance and control system formerly used by NORAD are expected to cost the federal government $62.6 million more than originally budgeted. | 62.6 |
| Royal Canadian Mounted Police | DNA Analysis | The Forensic Laboratory Service used robots in some stages of DNA analysis, causing problems in 27% of cases; $9.4 million was spent on DNA analysis in 2005/06. | 2.5 |
| Interdepartmental | Management and Control Practices | The Courts Administration Service did not have a human resources plan. One office had to borrow staff because of a staffing shortage, resulting in $80,000 for travel expenses and more than $248,000 for overtime and compensatory time off. | 0.3 |
| Canada Border Services Agency | Marine Border Practices | Canada Border Services Agency spent $29 million on an imaging technology used to examine marine containers, but there was little relationship between a container's risk assessment and the decision on whether to examine it. The technology was used much less than CBSA's standards called for. | 29.0 |
| Canada Border Services Agency | Management of Border Risk | Canada Border Services Agency failed to provide adequate risk assessment procedures at the border but was spending $150 million on risk scoring tools. | 150.0 |

## 2008

| | | | |
|---|---|---|---|
| Foreign Affairs, Trade and Development | Management of Fees | Miscalculation of the value of the cost of providing consular services resulted in fee surpluses of $79.5 million from 2002/03 to 2005/07. | 79.5 |
| National Defence | Afghanistan Supply Chain | $7 million of inventory shipped to Afghanistan could not be located. | 7.0 |
| Aboriginal Affairs and Northern Development Canada | First Nations Child and Family Services Program | The department made $17 million in duplicate payments. | 17.0 |
| Aboriginal Affairs and Northern Development Canada | First Nations Child and Family Services Program | The department failed to recover $100,000 from a First Nations agency. | 0.1 |
| Aboriginal Affairs and Northern Development Canada | First Nations Child and Family Services Program | The department's funding inconsistencies resulted in underfunding of $4.7 million to First Nations agencies in Quebec. | 4.7 |
| Interdepartmental | Crown Corporations | The Blue Water Bridge Authority paid $7.5 million for a consulting contract that was awarded without any competition, without specifying services to be performed, without regularly assessing the services received, and without its board's approval. | 7.5 |
| Public Works and Government Services | Contracting Practices | Public Works violated federal contract regulations and policies by awarding a $200,000 contract without a competitive tender. | 0.2 |
| Public Works and Government Services | Contracting Practices | Public Works did not properly administer contracts after they were awarded. One contract, originally valued at $48 million, experienced several administrative failures and as a result increased in value to $81 million. | 33.0 |
| Public Works and Government Services | Contracting Practices | Public Works did not always control spending as stipulated in the original contracts. In one case, a contract exceeded its maximum spending limit by $8 million. | 8.0 |
| Canada Revenue Agency | Management of Information Technology Investments | CRA spent $97.7 million on eight information technology projects as of March 31, 2008 but 63% of the projects did not contribute to the CRA's objectives. | 61.6 |
| Public Safety and Emergency Preparedness | Staff Overtime | The cost of unrecorded leave for one month at Correctional Services Canada was $100,000 for eight of its 58 institutions yet the Auditor General noted that if this analysis was extended to all 58 institutions for a full year, the cost of unrecorded leave would be in the millions. | 0.1 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| **2009** | | | |
| Canada Revenue Agency | Corporate Income Tax Advance Deposits | Between 2005/06 and 2007/08, CRA unnecessarily paid $30 million annually in interest payments for Corporate Income Tax Advance Deposits. | 90.0 |
| Natural Resources | Commercial Transportation Energy Efficiency and Fuels Initiative | NRCan transferred $3.2 million to a private sector company that violated stipulated conditions of the initiative. | 3.2 |
| Human Resource and Skill Development | Temporary Foreign Worker Program | HRSDC failed to ensure that labour market decisions were consistent and fair despite spending 80% of $150 million for that purpose. | 120.0 |
| National Defence | Acquisition of Military Vehicles | DND did not use the proper procurement procedure in the purchasing of four types of military vehicles. In one case DND did not inform the government that an additional $63 million would be required. | 63.0 |
| Aboriginal Affairs and Northern Development Canada | First Nations Reserve Land Management | The government spent a total of $180 million, but did not achieve 70.1% of the goals for the First Nation Land Management program. | 126.2 |
| Aboriginal Affairs and Northern Development Canada | Environmental Protection | The department failed to cleanup high priority environmental contaminations resulting in a liability of $143 million. | 143.0 |
| Public Safety and Emergency Preparedness | Government Coordination During a Major Emergency | PSC failed to improve its emergency management capacity despite spending $115 million for this purpose. | 115.0 |
| Public Safety and Emergency Preparedness | Government Coordination During a Major Emergency | PSC failed to develop a plan to protect critical infrastructure despite spending $190 million for this purpose. | 190.0 |
| **2010** | | | |
| Interdepartmental | Acquisition of Military Helicopters | The delay of the marine military helicopter fleet procurement project resulted in an extra cost of $168 million. | 168.0 |
| Canada Border Services Agency | Leasing Inspection Facilities | The government paid $547,000 annually over three years for inspection facilities that third party owners were legally obligated to provide for free. | 1.6 |
| **2011** | | | |
| Infrastructure | G8 Legacy Infrastructure Fund | The G8 Legacy Infrastructure Fund lacked transparency and spent at least $9.75 million on a project that was not used for its original purpose. | 9.8 |
| Treasury Board | Expenditure Management System | Development was restarted by the Treasury Board Secretariat because the system proved unreliable after $53.7 million had been spent. | 53.7 |
| **2012** | | | |
| Canadian Border Service Agency | The Single Window Initiative | The Canadian Border Service Agency failed to accomplish almost all of the goals of the $10 million Single Window Initiative. It did, however, improve electronic communications with 50% of the participating agencies. | 5.0 to 10.0 |
| National Defence | F-35 Fighter Jet Procurement | A new fighter jet fleet will cost at least $1.2 billion more than projected. | 1,200.0 |
| Public Safety and Emergency Preparedness | Readiness to Defend Against Cyber-attacks | Public Safety Canada made little progress in preparing for a cyber-attack against critical infrastructure despite spending $20.9 million. | 20.9 |
| Interdepartmental | Support for military personnel transitioning to civilian life | National Defence and Veteran Affairs failed to properly administer $500 million worth of benefits and services to ill and injured military personnel who are transitioning to civilian life. For example, 13% of cases did not receive key services and in 18% of the cases data for deciding program eligibilities was inconsistent between departments. | 65.0 to 90.0 |

| Ministry/Agency | Program/Initiative (title from section 2) | Description of Failure | Cost ($ millions) |
|---|---|---|---|
| **2013** | | | |
| National Defence | Information Security in Contracts | National Defence's security policies were outdated and did not require individuals with regular access to federal information or buildings to have the required minimum security clearance. In one case it cost the government $2.3 million to mitigate security concerns. | 2.3 |
| Public Health Agency Canada | Canadian Diabetes Strategy | A national strategy for diabetes prevention and control was not developed over seven years despite a minimum of $12 million per year in spending. | 84.0 |
| Interdepartmental | Public Security and Anti-Terrorism Initiative | The government was unable to explain how $3.1 billion in funding had been allocated. | 3,100.0 |

## Grand total

| | |
|---|---|
| Low estimate | 44,652 |
| High estimate | 45,114 |

Note 1: Please note that several failures listed in Appendix B occur on an annual basis and include initial year costs, which were reported on by the Auditor General and thus are not estimates. These failures are listed in Appendix B (and not Appendix A) to reflect the fact that costs following the initial year are estimates by the authors using information both from the Auditor General and from external sources. This means that the total cost of failures directly reported on by the Auditor General and listed in Appendix A is understated.

Note 2: During the period covered by this study there were various changes to the configuration and names of government ministries and agencies. The ministries and agencies identified in the appendix reflect the current names and responsibilities.

Note 3: The figures in the cost column may not reflect exactly what is presented in the description due to rounding. The grand total is calculated based on the figures before rounding.

Note 4: For the 1993 student loans failure listed under Human Resources and Skills Development, an estimated failure for future years was not calculated since annual data on student loan ceilings was not available.

Note 5: For the 1994 farm income protection failure listed under Agriculture and Agri-Food, to clarify a "negative fund balance" occurs when farmers do not repay their loans.

Note 6: For the 1997 contracting failure listed under Transport, 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, which is the average rate in 1997 as reported by the Bank of Canada (2006).

Note 7: The Grant and Contribution failure in 2000 listed under Human Resources and Skills Development involving the Canada Jobs Fund was placed in Appendix A and not Appendix B because the Fund was cancelled shortly after the release of the Auditor General Report (CBC, 2000, Nov. 10).

Sources: Office of the Auditor General (various issues); Bank of Canada (2006); calculations by the authors.

# Appendix B: Estimated Cost of Federal Government Failures Based on Information Provided by the Auditor General

click to view whole table

| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| **1988** | | | |
| Treasury Board | Group Surgical Medical Insurance Plan | Several changes in the administration of the Group Surgical Medical Insurance Plan could have resulted in improved cash flow and annual cost savings between $7.51 million and $7.81 million in 1987/88, representing between 0.0180 and 0.0187, respectively, of Treasury Board's budget. Subsequent Treasury Board budgets were multiplied by these ratios to calculate estimates of the cost of government failure. However, the plan was financially reorganized and turned into the Public Service Health Care Plan in August 1991, making the insurance plan self-insured and partly dealing with the Auditor General's objection. The cost of government failure estimates were terminated after 1990/91. | Low estimate<br>• 0.0180 = ($7.51M / $418M)<br>• Low estimated cost = (Treasury Board's budget in year t) × (0.0180)<br><br>High estimate<br>• 0.0187 = ($7.81M / $418M)<br>• High estimated cost = (Treasury Board's budget in year t) × (0.0187) |
| National Defence | Munitions Supply Program | National Defence was overspending by $50 million annually on ammunition costs in 1987/88, representing 0.0047 of the ministry's budget. Subsequent National Defence budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0047 = ($50M / $10,650M)<br>• Estimated cost = (National Defence's budget in year t) × (0.0047) |
| Human Resources and Skills Development | Canada Employment and Immigration Commission | $4.5 million could be saved annually on the cost of Employment Insurance processing claims in 1987/88, representing 0.0004 of total EI benefits paid in 1987. Subsequent EI spending was multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0004 = ($4.5M / $10,369M)<br>• Estimated cost = (EI spending in year t) × (0.0004) |
| Agriculture and Agri-Food | Animal Diseases Research Institute | Annual life cycle costs could be reduced by up to $350,000 in 1987/88, representing 0.0001 of Agriculture and Agri-Food's budget. Subsequent Agriculture and Agri-Food's budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0001= ($350,000/ $3,387M)<br>• Estimated cost = (Agriculture and Agri-Food's budget in year t) × (0.0001) |
| **1989** | | | |
| Environment | Administration of the St. Roch Historic Site | Environment Canada should not have been spending $200,000 annually on Vancouver's St. Roch Historic Site in 1988/89, representing 0.0002 of the ministry's budget. Subsequent Environment Canada budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0002 = ($200,000 / $827M)<br>• Estimated cost = (Environment Canada's budget in year t) × (0.0002) |
| Finance | Accounting Records | Annual cost savings of $100,000 could be realized at either the Department of Finance or the Bank of Canada in 1988/89 by eliminating redundant accounting records. These savings represented 0.000002 of Finance's budget. Subsequent Finance Canada budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.000002 = ($100,000 / $41,047M)<br>• Estimated cost = (Finance Canada's budget in year t) × (0.000002) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 7.5 | 6.2 | 9.1 | 10.1 | | | | | | | | | | | | | | | | | | | | | | | 32.9 |
| 7.8` | 6.5 | 9.4 | 10.5 | | | | | | | | | | | | | | | | | | | | | | | 34.2 |
| 50.0 | 52.5 | 54.4 | 57.8 | 55.2 | 56.0 | 56.6 | 55.5 | 53.8 | 49.7 | 47.9 | 48.2 | 54.1 | 53.9 | 57.6 | 58.4 | 62.0 | 65.5 | 69.0 | 73.7 | 82.4 | 90.2 | 93.4 | 95.5 | 96.3 | 99.2 | 1,688.8 |
| 4.5 | 4.3 | 4.6 | 5.2 | 6.9 | 7.5 | 7.0 | 6.0 | 5.2 | 4.7 | 4.3 | 4.3 | 4.1 | 3.8 | 4.5 | 5.1 | 5.3 | 5.3 | 5.2 | 5.0 | 5.0 | 5.3 | 7.5 | 7.2 | 6.4 | 6.2 | 140.7 |
| 0.4 | 0.4 | 0.3 | 0.2 | 0.4 | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 8.2 |
| | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.7 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.3 | 0.4 | 6.2 |
| | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 3.4 |

click to view whole table

| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| Interdepartmental | Management and Use of Telecommunications | The federal government could have realized annual cost savings of between $30 million and $45 million in 1988/89 through efficient coordination of data services across departments, representing between 0.0003 and 0.0005 of total federal government program spending. Subsequent federal government program spending was multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.0003 = ($30M / ($98,764M)<br>• Low estimated cost = (Federal government program spending in year t) × (0.0003)<br><br>High estimate<br>• 0.0005 = ($45M / ($98,764M)<br>• High estimated cost = (Federal government program spending in year t) × (0.0005) |
| Canadian Coast Guard | Fleet Management | The Canadian Coast Guard's navigation fleet could be reduced by five ships. The replacement cost of the extra ships were $169.1 million. Each ship required $10 million in annual operating costs. Thus, the Coast Guard could save $50 million annually in 1988/89, representing 0.0715 of Fisheries and Oceans' budget. The failure cost for 1988/89 is the combined costs of $169.1 million and $50 million. The cost for subsequent years is estimated by multiplying the ratio with subsequent Fisheries and Oceans' budgets. | • 0.0715= ($50M / $699M)<br>• Estimated cost = (Fisheries and Oceans' budget in year t) × (0.0715) |
| ■ Human Resources and Skills Development | Unemployment Insurance Account | $135 million in Unemployment Insurance overpayments were identified in 1988/89. From these overpayments, $26 million in penalties was imposed. Assuming the $26 million in penalties was repaid to the Canada Employment and Immigration Commission, the cost of government failure is estimated as the value of overpayments less the value of penalties used to compensate for overpayments. Data provided by the Auditor General for the years 1984/85 to 1988/89 show that the proportion of cases resulting in overpayment is roughly constant. Thus, this failure is considered to occur annually as there is no indication from future Auditor General reports that the problem has mitigated. The failure, $109 million, represents 0.0101 of total employment insurance benefits in 1988. Subsequent EI spending was multiplied by this ratio to calculate estimates of the cost of government failure. Note that the Auditor General later reviewed the employment insurance program in 1998 and 2000 and new estimates were calculated beginning in 1995/96. | • 0.0101 = ($109M / $10,781M)<br>• Estimated cost = (EI spending in year t) × (0.0101) |
| Finance | Tax Loophole | The Department of Finance failed to plug a loophole in the Excise Tax Act which had cost the government between $300 million and $350 million annually in lost revenue in 1988/89, representing between 0.0073 and 0.0085 of Finance's budget. Since the Auditor General noted that the loophole problem would be eliminated with the introduction of the Goods and Services Tax on January 1, 1991, only Finance's 1989/90 budget was multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.0073 = ($300M / ($41,047M)<br>• Low estimated cost = (Finance's budget in year t) × (0.0073)<br><br>High estimate<br>• 0.0085 = ($350M / ($41,047M)<br>• High estimated cost = (Finance's budget in year t) × (0.0085) |

## 1990

| | | | |
|---|---|---|---|
| National Defence | National Defence Training | Annual training costs were $165 million but 27% was redundant and an additional 35% was irrelevant to common tasks. Thus, $102.3 million in annual training costs were unnecessary in 1989/90, representing 0.0088 of National Defence's budget. Subsequent National Defence budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • $102.3M = [($165M) × (0.27)] + [($165M) × (0.35)]<br>• 0.0088 = ($102.3M / $11,583M)<br>• Estimated cost = (National Defence's budget in year t) × (0.0088) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30.0 | 29.6 | 31.1 | 32.6 | 34.4 | 36.7 | 36.7 | 37.0 | 36.3 | 33.4 | 34.4 | 34.9 | 35.6 | 39.2 | 40.9 | 44.0 | 46.1 | 52.9 | 52.6 | 56.5 | 59.8 | 62.4 | 73.4 | 71.9 | 72.1 | 1,114.4 |
| | 45.0 | 49.4 | 51.9 | 54.3 | 57.3 | 61.1 | 61.2 | 61.6 | 60.4 | 55.7 | 57.4 | 58.2 | 59.4 | 65.3 | 68.1 | 73.3 | 76.8 | 88.2 | 87.6 | 94.1 | 99.7 | 103.9 | 122.4 | 119.8 | 120.2 | 1,852.3 |
| | 219.1 | 52.1 | 56.5 | 54.1 | 69.1 | 75.6 | 55.9 | 89.7 | 94.7 | 82.4 | 95.4 | 98.6 | 109.3 | 108.1 | 108.8 | 102.0 | 105.3 | 106.9 | 117.9 | 115.6 | 124.9 | 141.7 | 142.5 | 134.5 | 125.4 | 2,585.9 |
| | 109.0 | 115.6 | 132.5 | 175.0 | 188.3 | 177.7 | 151.6 | | | | | | | | | | | | | | | | | | | 1,049.7 |
| | 300.0 | 347.9 | | | | | | | | | | | | | | | | | | | | | | | | 647.9 |
| | 350.0 | 405.0 | | | | | | | | | | | | | | | | | | | | | | | | 755.0 |
| | | 102.3 | 108.2 | 103.4 | 104.8 | 105.9 | 103.8 | 100.7 | 93.0 | 89.6 | 90.3 | 101.4 | 100.9 | 107.8 | 109.4 | 116.1 | 122.6 | 129.3 | 138.1 | 154.3 | 168.9 | 174.8 | 178.7 | 180.3 | 185.8 | 2,970.5 |

click to view whole table

| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| **1991** | | | |
| ■ Human Resources and Skills Development | Income Support Programs | Mispayments of the Guaranteed Income Supplement (GIS) were between $47 million and $88 million in 1990/91, representing between 0.0119 and 0.0223 of total GIS spending in 1990. Subsequent spending on GIS was multiplied by these ratios to calculate estimates of the cost of government failure. Note that this program was audited again in 1993. Thus, a new ratio was subsequently used. | Low estimate<br>• 0.0119 = ($47M / ($3,954M)<br>• Low estimated cost = (GIS spending in year t) × (0.0119)<br><br>High estimate<br>• 0.0223 = ($88M / ($3,954M)<br>• High estimated cost = (GIS spending in year t) × (0.0223) |
| Office of the Superintendent of Financial Institutions | Recouping Expenses | OSFI could save between $1 million and $2 million per year in 1990/91 by preparing interim assessments more frequently, representing between 0.00002 and 0.00004 of Finance's total budget. Subsequent Finance budgets were multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.00002 = ($1M / ($51,466M)<br>• Low estimated cost = (Finance's budget in year t) × (0.00002)<br><br>High estimate<br>• 0.00004 = ($2M / ($51,466M)<br>• High estimated cost = (Finance's budget in year t) × (0.00004) |
| Interdepartmental | Vehicle Fleet Acquisition and Disposal | Poor communication between National Defence and Supply and Services regarding vehicle replacement cost an estimated $1 million in lost revenue per year in 1990/91, representing 0.00006 of National Defence's and Public Works' combined budget. Subsequent combined National Defence and Public Works budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.00006 = ($1M / $15,735M)<br>• Estimated cost = (Sum of National Defence's and Public Works' budget in year t) × (0.00006) |
| Public Works and Government Services | Fleet Management Information System | Supply and Services' FMIS cost $1.5 million annually to operate in 1990/91 but did not provide useful reports. This unnecessary cost represented 0.0004 of Supply and Services (now Public Works and Government Services) budget. Subsequent Public Works' budgets were multiplied by this ratio. | • 0.0004 = ($1.5M / $3,445M)<br>• Estimated cost = (Public Works' budget in year t) × (0.0004) |
| Transport | Fleet Management Information System | Transport's FMIS cost between $80,000 and $100,000 annually to operate in 1990/91, yet still remained unreliable and unused. This represented unnecessary costs of between 0.000026 and 0.000033 of Transport's budget. Subsequent Transport budgets were multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.000026 = ($80,000 / $3,019M)<br>• Low estimated cost = (Transport's budget in year t) × (0.000026)<br><br>High estimate<br>• 0.000033 = ($100,000 / ($3,019M)<br>• High estimated cost = (Transport's budget in year t) × (0.000033) |
| Secretary of State | Official Languages and Translation | The Secretary of State translated 313 million words in 1990/91, of which 65% were in-house. Thus, it translated 203.45 million words in-house in 1990/91. In-house translation costs are 41.6 cents per word while the private sector's cost ranges from 21 cents to 24 cents. The savings of having words translated in the private sector is in the range of 17.6 cents to 20.6 cents per word. If the department had in-house translations done by the private sector, it would have saved between $35.8 million and $41.9 million. | Low estimate<br>• Low savings per word from private sector services = (41.6 cents) - (24 cents)<br>• Low estimated cost = (203.45 million) × (0.176)<br><br>High estimate<br>• High savings per word from private sector services = (41.6 cents) - (21 cents)<br>• High estimated cost = (203.45 million) × (0.206) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 47.0 | 48.8 | | | | | | | | | | | | | | | | | | | | | | 95.8 |
| | | | 88.0 | 91.5 | | | | | | | | | | | | | | | | | | | | | | 179.5 |
| | | | 1.0 | 1.0 | 1.0 | 0.9 | 1.1 | 1.2 | 1.4 | 1.3 | 1.4 | 1.4 | 1.5 | 1.4 | 1.3 | 1.4 | 1.5 | 1.6 | 1.5 | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 | 1.7 | 31.6 |
| | | | 2.0 | 2.0 | 1.9 | 1.9 | 2.1 | 2.3 | 2.8 | 2.6 | 2.8 | 2.8 | 3.0 | 2.8 | 2.7 | 2.8 | 2.9 | 3.2 | 2.9 | 3.3 | 3.1 | 3.1 | 3.4 | 3.4 | 3.4 | 63.2 |
| | | | 1.0 | 0.9 | 0.9 | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.9 | 0.9 | 0.9 | 1.0 | 0.9 | 0.9 | 1.0 | 1.0 | 1.1 | 1.2 | 1.3 | 1.4 | 1.4 | 1.4 | 1.5 | 24.3 |
| | | | 1.5 | 1.3 | 1.5 | 1.7 | 1.7 | 1.6 | 1.6 | 1.5 | 1.6 | 1.5 | 1.7 | 1.8 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 0.9 | 1.0 | 1.1 | 1.2 | 1.4 | 1.7 | 31.4 |
| | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 2.1 |
| | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 | 0.2 | 0.3 | 2.6 |
| | | | 35.8 | | | | | | | | | | | | | | | | | | | | | | | 35.8 |
| | | | 41.9 | | | | | | | | | | | | | | | | | | | | | | | 41.9 |

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| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| **1992** | | | |
| National Defence | Project Initiation and Implementation | National Defence was overspending by $20 million annually on military equipment in 1991/92, representing 0.0017 of the ministry's budget. Subsequent National Defence budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0017 = ($20M / $11,751M)<br>• Estimated cost = (National Defence's budget in year t) × (0.0017) |
| Royal Canadian Mounted Police | Efficient use of Police Resources | Police resources employed in contract police services were not being used efficiently. The net cost of providing contract police services (costs minus cost recovery) was between $300 million and $350 million in 1991/92. Dividing the low and high bounds of this range by the number of employed officers produces a cost per officer ranging between $30,612 and $35,714. The Auditor General noted that reducing inefficiencies at the RCMP by only 4% would free up 280 officers. Thus, potential annual savings would be between $8.6 million and $10.0 million in 1991/92, representing between 0.0073 and 0.0085 of the RCMP's total budget. Subsequent RCMP budgets were multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• $30,612 = ($300M / (9,800 officers)<br>• $8.6M = ($30,612) × (280 officers)<br>• 0.0073 = ($8.6M / $1,176M)<br>• Low estimated cost = (RCMP's budget in year t) × (0.0073)<br><br>High estimate<br>• $35,715 = ($350M / 9,800 officers)<br>• $10.0M = ($35,715) × (280 officers)<br>• 0.0085 = ($10.0M / $1,176)<br>• High estimated cost = (RCMP's budget in year t) × (0.0085) |
| Royal Canadian Mounted Police | Training Police Forces | The RCMP could save $1.45 million annually in 1991/92 by changing the prerequisites used in the recruitment process. These savings represented 0.0012 of the RCMP's budget. Subsequent RCMP budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0012 = ($1.45M / $1,176M)<br>• Estimated cost = (RCMP's budget in year t) × (0.0012) |
| Royal Canadian Mounted Police | Promoting Police Officers | The RCMP could realize $15 million in annual productivity gains in 1991/92 if it replaced its current promotion practices. These savings represented 0.0128 of the RCMP's budget. Subsequent RCMP budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0128 = ($15M / $1,176M)<br>• Estimated cost = (RCMP's budget in year t) × (0.0128) |
| ■ Human Resources and Skills Development | Canada Pension Plan | Annual overpayments on CPP disability benefits in 1991/92 totalled $65 million, representing 0.0361 of total CPP disability benefits paid in 1991. Subsequent CPP disability spending was multiplied by this ratio to calculate estimates of the cost of government failure in 1992/93 and 1993/94. Note that a review of the program was undertaken in 1994. | • 0.0361 = ($65M / $1,800M)<br>• Estimated cost = (CPP disability spending in year t) × (0.0361) |
| **1993** | | | |
| Justice | Legal Advisory and Litigation Services | Justice spends $40 million annually in 1992/93 on Crown agents, which results in reduced managerial flexibility and resources not being allocated according to priorities. The cost of using Crown agents represented 0.0543 of the Justice ministry's budget. Subsequent Justice budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0543 = ($40M / $736M)<br>• Estimated cost = (Justice's budget in year t) × (0.0543) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 20.0 | 20.3 | 20.5 | 20.1 | 19.4 | 18.0 | 17.3 | 17.4 | 19.6 | 19.5 | 20.8 | 21.1 | 22.4 | 23.7 | 25.0 | 26.7 | 29.8 | 32.6 | 33.8 | 34.5 | 34.8 | 35.9 | 533.2 |
| | | | | 8.6 | 8.7 | 9.1 | 9.3 | 9.3 | 9.2 | 9.5 | 9.0 | 9.8 | 10.8 | 11.9 | 13.5 | 13.8 | 14.3 | 14.9 | 16.8 | 17.9 | 21.1 | 24.2 | 22.7 | 21.7 | 20.6 | 306.6 |
| | | | | 10.0 | 10.1 | 10.6 | 10.9 | 10.8 | 10.7 | 11.0 | 10.5 | 11.4 | 12.6 | 13.9 | 15.7 | 16.1 | 16.7 | 17.4 | 19.5 | 20.9 | 24.6 | 28.2 | 26.4 | 25.3 | 23.9 | 357.0 |
| | | | | 1.5 | 1.4 | 1.5 | 1.5 | 1.5 | 1.5 | 1.6 | 1.5 | 1.6 | 1.8 | 2.0 | 2.2 | 2.3 | 2.4 | 2.5 | 2.8 | 2.9 | 3.5 | 4.0 | 3.7 | 3.6 | 3.4 | 50.4 |
| | | | | 15.0 | 15.2 | 15.9 | 16.4 | 16.3 | 16.1 | 16.6 | 15.7 | 17.2 | 18.9 | 20.9 | 23.6 | 24.2 | 25.1 | 26.2 | 29.4 | 31.4 | 37.1 | 42.4 | 39.8 | 38.1 | 36.1 | 537.6 |
| | | | | 65.0 | 76.6 | 78.2 | | | | | | | | | | | | | | | | | | | | 219.8 |
| | | | | | 40.0 | 40.3 | 40.8 | 40.6 | 42.1 | 45.0 | 53.6 | 58.1 | 68.3 | 74.6 | 75.2 | 78.9 | 76.8 | 78.5 | 82.8 | 72.7 | 78.6 | 83.6 | 82.4 | 83.9 | 83.6 | 1,380.4 |

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| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| ■ Human Resources and Skills Development | Programs for Seniors | Combined annual overpayments on OAS, CPP (excluding CPP disability benefits), and GIS in 1992/93 were estimated at between $110 million and $148 million, representing between 0.0037 and 0.0050 of the sum of OAS, CPP (minus disability benefits), and GIS spending in 1992. The sum of subsequent spending on OAS, CPP (minus disability benefits) and GIS was multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.0037 = ($110M / ($14,292M + ($13,077M - $2,123M) + $4,227M))<br>• Low estimated cost = (Sum of OAS, CPP (minus disability benefits), and GIS spending in year t) × (0.0037)<br><br>High estimate<br>• 0.0050 = ($148M / ($14,292M + ($13,077M - $2,123M) + $4,227M))<br>• High estimated cost = (Sum of OAS, CPP (minus disability benefits), and GIS spending in year t) × (0.0050) |
| Health | Programs for Seniors | Overpayments on pension programs spending increased administration costs annually by more than 50%. Administrative costs for pension programs totalled $260 million in 1992/93, representing an additional annual cost of $86.7 million as a result of overpayments. This additional cost represented 0.0041 of the sum of OAS, CPP, and GIS spending in 1992. The sum of subsequent spending on OAS, CPP, and GIS was multiplied by this ratio to calculate estimates of the cost of government failure. | • $86.7M = $260 - ($260/1.5)<br>• 0.0041 = ($130M / ($13,077M + $14,292M + $4,227M))<br>• Estimated cost = (Sum of OAS, CPP, and GIS spending in year t) × (0.0041) |
| Health | Programs for Seniors | Pension overpayments produced debts owed to the Crown ranging between $120 million and $220 million per year in 1992/92. These debts represented between 0.0041 and 0.0075 of the sum of OAS, CPP (minus disability benefits), and GIS spending. The sum of subsequent spending on OAS, CPP (minus disability benefits) and GIS was multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.0041 = ($120M / ($14,292M + ($13,077M - $2,123M) + $4,227M))<br>• Low estimated cost = (Sum of OAS, CPP minus disability benefits, and GIS spending in year t) × (0.0041)<br><br>High estimate<br>• 0.0075 = ($220M / ($14,292M + ($13,077M - $2,123M) + $4,227M))<br>• High estimated cost = (Sum of OAS, CPP minus disability benefits, and GIS spending in year t) × (0.0075) |

## 1994

| | | | |
|---|---|---|---|
| Environment | Leased Property | The Auditor General reported that the federal government spent $26.6 million on unproductive rental payments and has still not resolved the issue. An official from Environment Canada confirmed via e-mail on August 27, 2008 that approximately $110 million has been spent to date. The cost of the failure as of 1988 was $12.7 million (see Appendix A), so the additional cost of the failure is $97.3 million. | • $97.3M = ($110M) - ($12.7M) |
| Human Resources and Skills Development | Unemployment Insurance | Changes to the UI program in the 1970s added two percentage points to the level of unemployment, with each half percentage point costing the government $500 million. These additional costs ($2 billion) in 1993/94 represented 0.1137 of total UI benefits paid in 1993, the year the Auditor General identified this failure. Past and subsequent UI (now EI) spending was multiplied by this ratio to calculate estimates of the cost of government failure. | • $2B = ($500M) × (4)<br>• 0.1137 = ($2,000M / $17,591M)<br>• Estimated cost = (EI spending in year t) × (0.1137) |
| Public Safety and Emergency Preparedness | Custody of Federal Inmates | The annual cost of placing inmates in prisons with higher security than necessary was $6 million in 1993/94, representing 0.0060 of Correctional Service Canada's budget. Subsequent CSC budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0060 = ($6M / $997M)<br>• Estimated cost = (CSC budget in year t) × (0.0060) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 110.0 | 116.2 | 120.4 | 123.1 | 127.1 | 132.2 | 140.7 | 144.1 | 149.8 | 157.7 | 165.1 | 172.8 | 180.4 | 188.5 | 198.2 | 208.3 | 218.2 | 229.7 | 237.5 | 252.0 | 269.9 | 3,642.0 |
| | | | | | 148.0 | 157.1 | 162.7 | 166.3 | 171.8 | 178.7 | 190.1 | 194.7 | 202.4 | 213.1 | 223.2 | 233.5 | 243.8 | 254.7 | 267.8 | 281.5 | 294.8 | 310.5 | 321.0 | 340.5 | 364.8 | 4,921.0 |
| | | | | | 86.7 | 94.0 | 99.2 | 102.2 | 106.2 | 110.2 | 114.2 | 116.9 | 121.3 | 126.7 | 132.6 | 138.6 | 144.8 | 151.2 | 158.9 | 166.6 | 174.4 | 183.6 | 189.7 | 201.1 | 215.1 | 2,934.2 |
| | | | | | 120.0 | 128.8 | 133.4 | 136.4 | 140.9 | 146.5 | 155.9 | 159.7 | 166.0 | 174.8 | 183.0 | 191.5 | 199.9 | 208.9 | 219.6 | 230.8 | 241.8 | 254.6 | 263.2 | 279.2 | 299.1 | 4,033.9 |
| | | | | | 220.0 | 235.6 | 244.1 | 249.5 | 257.7 | 268.0 | 285.1 | 292.1 | 303.7 | 319.7 | 334.7 | 350.3 | 365.8 | 382.1 | 401.7 | 422.3 | 442.2 | 465.7 | 481.5 | 510.7 | 547.1 | 7,379.5 |
| | | | | | | | | | | | | | | | | | | | | 97.3 | | | | | | 97.3 |
| | 1,225.8 | 1,301.3 | 1,491.6 | 1,969.6 | 2,120.3 | 2,000.0 | 1,706.9 | 1,465.5 | 1,348.4 | 1,236.4 | 1,218.1 | 1,154.1 | 1,093.2 | 1,291.7 | 1,459.6 | 1,519.1 | 1,508.7 | 1,470.9 | 1,421.0 | 1,428.2 | 1,509.4 | 2,132.4 | 2,037.0 | 1,833.3 | 1,775.9 | 38,718.4 |
| | | | | | | 6.0 | 6.2 | 6.6 | 6.6 | 7.0 | 7.5 | 8.2 | 8.0 | 9.1 | 9.2 | 9.2 | 9.5 | 9.9 | 11.2 | 11.8 | 13.4 | 13.6 | 14.3 | 16.0 | 18.2 | 201.5 |

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| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| Correctional Service | Custody of Federal Inmates | Correctional Service Canada could save $34 million annually in operating expenses in 1993/94. These savings represented 0.0341 of CSC's budget. Subsequent CSC budgets were multiplied by this ratio to calculate estimates of the cost of government failure. In 1997, the Auditor General reported that CSC had made the required changes. | • 0.0341 = ($34M / $997M)<br>• Estimated cost = (CSC budget in year t) × (0.0341) |
| National Defence | Tradespeople Productivity | Poor productivity of tradespeople working at National Defence resulted in additional annual costs of $50 million in 1993/94, representing 0.0042 of the ministry's budget. Subsequent National Defence budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0042 = ($50M / $12,032M)<br>• Estimated cost = (National Defence's budget in year t) × (0.0042) |
| Public Works and Government Services | Management and Operation of Crown-Owned Office Buildings | Public Works could save $12 million annually in 1993/94 by reducing and simplifying administration practices. These savings represented 0.0029 of Public Works' budget. Subsequent Public Works budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0029 = ($12M / $4,195M)<br>• Estimated cost = Public Works' budget in year t) × (0.0029) |
| **1995** | | | |
| Transport | Transportation Subsidies | The Western Grain Transportation Act failed to meet objectives. Thus, the sum of all payments made to railway companies under the Act in 1988, 1989, 1990, 1991, 1992, 1993, and 1994 was used to estimate the cost of government failure. Payments made prior to 1988 were omitted because they fell outside the studied period. The program was terminated in 1995. | • $5,039M = ($777M) + ($569M) + ($645M) + ($1,049M) + ($722M) + ($633M) + ($644M) |
| Interdepartmental | Travel and Hospitality | Federal government departments did not budget for indirect travel expenditures of between $170 million and $250 million annually in 1994/95, representing between 0.0013 and 0.0019 of total federal government program spending. Subsequent federal government program spending was multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.0014 = ($170M / $123,238M)<br>• Low estimated cost = (Federal government program spending in year t) × (0.0013)<br><br>High estimate<br>• 0.0020 = ($250M / $123,238M)<br>• High estimated cost = (Federal government program spending in year t) × (0.0019) |
| Interdepartmental | Regional Economic Development Programs | 30% of projects receiving financial aid totalling $200 million would have gone ahead without government assistance. Thus, the Federal Office of Regional Development could save $60 million annually in 1994/95 by cutting back on such aid, representing 0.2247 of their total $227 million budget. Subsequent budgets for Federal Office of Regional Development (later Economic Development Agency of Canada for the Regions of Quebec) were multiplied by this ratio to calculate estimates of the cost of government failure. | • $60M = ($200M) × (0.30)<br>• 0.2247 = ($60M / $227M)<br>• Estimated cost = (Federal spending on Federal Office of Regional Development in year t) × (0.2247) |
| ■ Human Resources and Skills Development | Employee Development Training Program | Duplication of indicators on unemployment conditions cost the training program an extra $60 million annually in 1994/95, representing 0.0040 of total EI benefits paid. Subsequent EI spending was multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0040 = ($60M / $15,012M)<br>• Estimated cost = (EI spending in year t) × (0.0040) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 34.0 | 35.5 | 37.5 | 37.7 | | | | | | | | | | | | | | | | | 144.7 |
| | | | | | | 50.0 | 49.6 | 48.0 | 44.4 | 42.8 | 43.1 | 48.4 | 48.2 | 51.5 | 52.2 | 55.4 | 58.5 | 61.7 | 65.9 | 73.6 | 80.6 | 83.4 | 85.3 | 86.0 | 88.7 | 1,217.4 |
| | | | | | | 12.0 | 12.3 | 11.8 | 11.9 | 10.9 | 11.4 | 11.1 | 12.5 | 12.9 | 7.6 | 7.1 | 6.9 | 7.3 | 7.5 | 6.8 | 7.1 | 7.7 | 8.9 | 10.0 | 12.5 | 196.3 |
| | 777.0 | 569.0 | 645.0 | 1,049.0 | 722.0 | 633.0 | 644.0 | | | | | | | | | | | | | | | | | | | 5,039.0 |
| | | | | | | | 170.0 | 169.2 | 155.9 | 160.7 | 163.0 | 166.3 | 182.8 | 190.7 | 205.4 | 215.1 | 246.9 | 245.3 | 263.6 | 279.3 | 291.0 | 342.7 | 335.4 | 336.6 | 351.4 | 4,471.2 |
| | | | | | | | 250.0 | 241.7 | 222.7 | 229.6 | 232.9 | 237.5 | 261.1 | 272.5 | 293.4 | 307.4 | 352.7 | 350.4 | 376.5 | 399.0 | 415.7 | 489.6 | 479.2 | 480.8 | 502.0 | 6,394.6 |
| | | | | | | | 60.0 | 84.5 | 86.5 | 81.1 | 73.9 | 58.0 | 52.4 | 58.6 | 82.5 | 86.5 | 74.8 | 75.0 | 82.0 | 75.5 | 65.8 | 89.4 | 107.9 | 68.7 | 69.4 | 1,432.7 |
| | | | | | | | 60.0 | 51.6 | 47.4 | 43.5 | 42.9 | 40.6 | 38.5 | 45.4 | 51.3 | 53.4 | 53.1 | 51.7 | 50.0 | 50.2 | 53.1 | 75.0 | 71.7 | 64.5 | 62.5 | 1,006.5 |

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| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| Treasury Board | Management of Receivables | Treasury Board's mismanagement of non-tax receivables cost the government up to $17 million annually in foregone interest charges in 1994/95. This represented 0.0050 of the total of non-tax receivables. Subsequent totals of non-tax receivables were multiplied by this ratio to calculate estimates of the cost of government failure. In November 1996 the Auditor General reported that the government had begun to charge interest. | • 0.0050 = ($17M / $3,382M)<br>• Estimated cost = (Total of non-tax receivables in year t) × (0.0050) |

## 1996

| Ministry/Agency | Program/Initiative | Method of Calculation | Calculations |
|---|---|---|---|
| Interdepartmental | Classification and Job Evaluation | The Universal Classification Standard program, developed in 1991, was deemed to be overly expensive and was abandoned in 2003. The program incurs an annual cost to government departments between $65 million and $200 million in 1991/92, representing between 0.0006 and 0.0017 of total federal government program spending. Subsequent federal government program spending was multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.0006 = ($65M / $114,544M)<br>• Estimated low cost = (Federal government program spending in year t) × (0.0005)<br><br>High estimate<br>• 0.0017 = ($200M / $114,544M)<br>• Estimated high cost = (Federal government program spending in year t) × (0.0016) |
| Veterans Affairs | Health Care for Veterans | Veterans Affairs could save $7 million annually in 1995/96 and improve the quality of care by implementing improved controls. These savings represented 0.0036 of the ministry's budget. Subsequent Veterans Affairs budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0036 = ($7M / $1,937M)<br>• Estimated cost = (Veteran Affairs' budget in year t) × (0.0036) |
| ■ Human Resources and Skills Development | Management of Canada Pension Plan for Disability | Annual overpayments on CPP disability benefits were estimated at between $21 million and $38 million in 1994/95, representing between 0.0073 and 0.0133 of total CPP disability benefits paid in 1994. A second review of the program was undertaken in 1995 and reported on by the Auditor General in 1999. | Low estimate<br>• 0.0073 = ($21M / $2,864M)<br>• Low estimated cost = (CPP disability spending in year t) × (0.0073)<br><br>High estimate<br>• 0.013 = ($38M / $2,864M)<br>• High estimated cost = (CPP disability spending in year t) × (0.013) |
| ■ Canada Revenue Agency | Income Support Tax Credits | Combined annual overpayments on Child Tax Benefits and GST credits in 1994/95 were estimated at between $25.7 and $51.4 million, representing between 0.0032 and 0.0064 of the sum of CTBs and GST credits paid in 1994. The sum of subsequent spending on CTBs and GST credits was multiplied by these ratios to calculate estimates of the cost of government failure. | Low estimate<br>• 0.0032 = ($5.9M + $19.8M) / ($5,259M + $2,833M)<br>• Low estimated cost = (Sum of spending on CTBs and GST credits in year t) × (0.0032)<br><br>High estimate<br>• 0.0064 = ($31.6M + $19.8M) / ($5,259M + $2,833M)<br>• High estimated cost = (Sum of spending on CTBs and GST credits in year t) × (0.0064) |
| Canadian Heritage | Management of Historic Canals | Canadian Heritage could save $10 million annually in 1995/96 operating, maintenance, and administration costs for its canals, representing 0.0033 of the ministry's budget. Subsequent Canadian Heritage budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0033 = ($10M / $2,989M)<br>• Estimated cost = (Canadian Heritage's budget in year t) × (0.0033) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 17.0 | 24.6 | | | | | | | | | | | | | | | | | | 41.6 |
| | | | | 65.0 | 73.3 | 73.4 | 73.9 | 72.5 | 66.8 | 68.9 | 69.9 | 71.3 | 78.3 | 81.7 | 88.0 | | | | | | | | | | | 883.0 |
| | | | | 200.0 | 207.7 | 207.9 | 209.5 | 205.5 | 189.3 | 195.1 | 197.9 | 201.9 | 222.0 | 231.6 | 249.4 | | | | | | | | | | | 2,517.7 |
| | | | | | | | | 7.0 | 6.8 | 7.0 | 7.2 | 7.5 | 7.6 | 8.1 | 8.9 | 9.3 | 9.7 | 10.4 | 10.9 | 11.5 | 12.1 | 12.3 | 12.7 | 12.6 | 13.1 | 174.6 |
| | | | | | | | 21.0 | | | | | | | | | | | | | | | | | | | 21.0 |
| | | | | | | | 38.0 | | | | | | | | | | | | | | | | | | | 38.0 |
| | | | | | | | 25.7 | 25.7 | 25.9 | 26.3 | 27.3 | 28.4 | 30.6 | 33.5 | 35.1 | 36.2 | 38.1 | 40.5 | 41.7 | 41.9 | 42.1 | 43.7 | 46.0 | 47.7 | 48.5 | 684.8 |
| | | | | | | | 51.4 | 51.4 | 51.8 | 52.6 | 54.6 | 56.8 | 61.1 | 67.1 | 70.2 | 72.4 | 76.1 | 80.9 | 83.4 | 83.8 | 84.2 | 87.4 | 92.0 | 95.4 | 96.9 | 1,369.6 |
| | | | | | | | | 10.0 | 9.2 | 8.6 | 9.0 | 9.6 | 10.3 | 11.2 | 11.9 | 10.6 | 10.8 | 11.1 | 11.2 | 11.3 | 11.6 | 11.6 | 11.1 | 10.9 | 10.7 | 190.9 |

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| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| Aboriginal Affairs and Northern Development Canada | Funding Arrangements for First Nations | The department had not estimated the total value of all its funding arrangements with 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 1994/95, representing 0.0381 of the department's budget. Subsequent Indian Affairs budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0381 = ($190M / $4,982M)<br>• Estimated cost = (AANDC's budget in year t) × (0.0381) |
| National Defence | Productivity | National Defence could save $197 million annually in 1995/96 by streamlining maintenance operations, among other things. These savings represented 0.0172 of the ministry's budget. Subsequent National Defence budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0172 = ($197M / $11,440M)<br>• Estimated cost = (National Defence's budget in year t) × (0.0172) |
| **1997** | | | |
| Foreign Affairs and International Trade | Property Management | Foreign Affairs overestimated the cost of its properties by $2.4 billion, resulting in a 31.6% overcharge on the consular portion of passport fees in 1996/97. Passport fees are in part calculated based on the cost of these properties. According to the Public Accounts of Canada, revenues from consular fees totalled $34 million in 1996/97. The estimate of the cost of government failure is $8.2 million, the difference between what was collected in consular fees ($34 million) and what should have been collected ($25.84 million). | • $8.2M = ($34M) - ($34M/1.316) |
| Foreign Affairs and International Trade | Property Management | The annual cost of keeping unused furniture in warehouses and of unauthorized employee accommodations was $79,000 in 1996/97, representing 0.000024 of Foreign Affairs' budget. Subsequent Foreign Affairs budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.000024 = ($0.079M / $3,313M)<br>• Estimated cost = (Foreign Affairs' budget in year t) × (0.000024) |
| Interdepartmental | Moving Costs | Federal departments (National Defence, the RCMP, and Public Works) could save $1.5 million annually in 1996/97 on relocating costs for government employees. These savings represented 0.000094 of the sum of budgets at National Defence, the RCMP, and Public Works. The sum of subsequent budgets at National Defence, the RCMP, and Public Works was multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.000094 = ($1.5M) / ($10,573M + $1,258M + $4,103M)<br>• Estimated cost = (Sum of budgets at National Defence, RCMP, and Public Works in year t) × (0.000094) |
| **1998** | | | |
| Agriculture and Agri-Food | Cash Advance Program | The Cash Advance Program did not contribute to orderly marketing, had a minimal incremental effect, and displaced private credit financing. The Auditor General reported the amount of cash advances made between 1992 and 1998 was $5,573 million. The sum of these advances represented 0.3890 of Agriculture and Agri-Food's budget over the same period. Subsequent Agriculture and Agri-Food budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.3890 = ($5,573M / $14,328M)<br>• Estimated cost = (Agriculture and Agri-Food's budget in year t) × (0.3890) |
| ■ Human Resources and Skills Development | Social Insurance Numbers | Annual overpayments on Employment Insurance claims in 1996/97 were $102 million, representing 0.0086 of total EI benefits paid in 1996. Subsequent EI spending would have been multiplied by this ratio to calculate estimates of the cost of government failure but the Auditor General, in 2000, provided revised estimates of both under- and over-payments on EI claims for 1995/96 and 1998/99. These revised estimates were used to calculate estimates of the cost of government failure. | • 0.0086 = ($102M / $11,859M) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 190.0 | 199.0 | 162.8 | 173.6 | 187.7 | 179.0 | 194.6 | 196.0 | 204.6 | 208.0 | 213.4 | 222.2 | 240.7 | 297.0 | 265.4 | 283.1 | 314.6 | 301.3 | 320.1 | 4,353.2 |
| | | | | | | | | 197.0 | 181.9 | 175.2 | 176.4 | 198.2 | 197.3 | 210.8 | 213.8 | 227.0 | 239.6 | 252.7 | 269.9 | 301.6 | 330.2 | 341.7 | 349.3 | 352.3 | 363.1 | 4,577.9 |
| | | | | | | | | | 8.2 | | | | | | | | | | | | | | | | | 8.2 |
| | | | | | | | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 2.3 |
| | | | | | | | | | 1.5 | 1.4 | 1.4 | 1.6 | 1.6 | 1.7 | 1.6 | 1.6 | 1.7 | 1.8 | 1.9 | 2.1 | 2.3 | 2.4 | 2.5 | 2.5 | 2.7 | 32.5 |
| | | | | | | | | | | 5,573.0 | 614.6 | 937.9 | 1,064.3 | 1,142.1 | 1,246.7 | 2,019.7 | 1,531.5 | 1,556.4 | 1,640.4 | 1,616.6 | 1,272.5 | 1,307.9 | 1,335.8 | 1,297.2 | 1,382.0 | 25,538.6 |
| | | | | | | | | | | | | | | | | | | | | | | | | | | n.a. |

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| | Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|---|
| ■ | Human Resources and Skills Development | Social Insurance Numbers | Annual GST credits paid to individuals without legal status in 1994/95 totalled $8.2 million, representing 0.0029 of total GST credits paid in 1994. Subsequent spending on GST credits was multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0029 = ($8.2M / $2,833M)<br>• Estimated cost = (Spending on GST credits in year t) × (0.0029) |
| **1999** | | | | |
| ■ | Human Resources and Skills Development | Management of Canada Pension Plan for Disability | Annual overpayments and total mispayments on CPP disability benefits in 1995/96 were between $29 million and $60 million, representing between 0.0090 and 0.0190, respectively, of total CPP disability benefits paid in 1995. Subsequent spending on CPP disability benefits was multiplied by these ratios to calculate estimates of the cost of government failure from 1995 onward. | Low estimate<br>• 0.0090 = ($29M / $3,237M)<br>• Low estimated cost (of overpayments) = (Spending on CPP disability benefits in year t) × (0.0090)<br><br>High estimate<br>• 0.0190 = ($60M / $3,237M)<br>• High estimated cost (of mispayments) = (Spending on CPP disability benefits in year t) × (0.0190) |
| **2000** | | | | |
| ■ | Human Resources and Skills Development | Employment Insurance Claims | Incorrect payments (the sum of under- and over-payments) from the EI program totalled $656 million in 1998/99, representing 0.0612 of total EI benefits paid in 1998. Incorrect EI payments actually increased from $459 million in 1995/96, when they represented 0.0356 of total EI benefits paid in 1995. EI spending from 1996/97 to 1997/98 was multiplied by 0.0356 to calculate estimates of the cost of government failure while EI spending after 1998/99 was multiplied by 0.0612. The EI program was audited again in 2013 and subsequently a new estimate is made for 2011/12 onwards. | • 0.0356 = ($459M / $12,889M)<br>• Estimated cost (from 1996/97 to 1997/98) = (EI spending in year t) × (0.0356)<br>• 0.0612 = ($656M / $10,713M)<br>• Estimated cost (after 1998/99) = (EI spending in year t) × (0.0612) |
| | Human Resources and Skills Development | Grants and Contributions | Sectoral Partnerships Initiative was launched in 1993 and has annual expenditures of $30 million but 16% of SPI projects sampled in 1999/00 were not eligible for funding under the specified criteria. Thus, the estimated cost of government failure was $4.8 million, representing 0.00018 of Human Resources and Skills Development's budget. Past and subsequent HRSD budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • $4.8M = ($30M) × (0.16)<br>• 0.00018 = ($4.8M / $26,159M)<br>• Estimated cost = (HRSD's budget in year t) × (0.00018) |
| **2001** | | | | |
| | Atlantic Canada Opportunities Agency | Business Development | ACOA spent $4.5 million in 2000/01 with a projected impact on employment that would create 180 full-time jobs but only 60 jobs were created, representing a failure rate of 0.6666. This ratio was multiplied by the amount spent on the initiative to estimate the cost of government failure. | • 0.6666 = 1 – [(60 jobs created) / (180 intended jobs created)]<br>• $3M = ($4.5M) × (0.6666) |
| | Atlantic Canada Opportunities Agency | Business Development | ACOA spent $2.8 million in 2000/01 with a projected impact on employment that would create 112 full-time jobs but ACOA's documentation showed that only 22 full-time jobs would be created, representing a failure rate of 0.8036. This ratio was multiplied by the amount spent on the initiative to estimate the cost of government failure. | • 0.8036 = 1 – [(22 jobs created) / (112 intended jobs created)]<br>• $2.25M = ($2.8M) × (0.8036) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | 8.2 | 8.1 | 8.3 | 8.4 | 8.5 | 8.5 | 8.6 | 9.0 | 9.1 | 9.5 | 9.7 | 10.1 | 10.3 | 10.4 | 10.7 | 11.4 | 12.4 | 13.5 | 13.9 | 188.8 |
| | | | | | | | | 29.0 | 32.2 | 32.6 | 25.0 | 25.1 | 25.5 | 23.6 | 24.4 | 25.3 | 26.5 | 27.5 | 28.6 | 28.9 | 30.0 | 31.2 | 32.1 | 33.6 | 34.9 | 515.9 |
| | | | | | | | | 60.0 | 68.1 | 68.7 | 52.9 | 53.0 | 53.9 | 49.8 | 51.6 | 53.4 | 55.8 | 58.0 | 60.3 | 61.0 | 63.3 | 65.9 | 67.7 | 70.9 | 73.6 | 1,087.9 |
| | | | | | | | | 459.0 | 422.2 | 387.1 | 656.0 | 621.2 | 588.4 | 695.3 | 785.6 | 817.7 | 812.1 | 791.7 | 764.9 | 768.7 | 812.4 | 1,147.8 | 1,096.5 | | | 11,626.6 |
| | | | | | | | 6.0 | 6.1 | 4.4 | 4.5 | 4.5 | 4.8 | 4.9 | 5.0 | 5.1 | 5.3 | 5.9 | 6.1 | 6.8 | 7.5 | 7.5 | 8.1 | 8.9 | 8.6 | 9.2 | 119.1 |
| | | | | | | | | | | | | | 3.0 | | | | | | | | | | | | | 3.0 |
| | | | | | | | | | | | | | 2.3 | | | | | | | | | | | | | 2.3 |

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| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| **2004** | | | |
| Aboriginal Affairs and Northern Development Canada | Post-Secondary Student Support Program for First Nations | The department did not ensure that students supported by the Post-Secondary Student Support Program graduated. Only 30,000 students supported by the program graduated between 1994/95 and 2001/02, yet 25,000 students received support in one year alone, representing a failure rate of 0.8500. This ratio was multiplied by the amount spent on the program between 1994/95 and 2003/04 ($2.52 million) to estimate the cost of government failure. | • 0.8500 = 1 – [30,000 students graduated) / ((25,000) × (8))]<br>• $2.14M = ($2.52M) × (0.85) |
| **2006** | | | |
| National Defence | Military Recruiting, Staffing, and Retention | National Defence had problems with military staff retention: 35% of army electrical and mechanical engineering officers leave the military after seven years of service. The cost of training an officer for the first seven years is $200,000 and the department accepts 35 recruits per year. Thus, over the seven year period ending in 2005/06, National Defence could expect to lose $17.15 million in training investment. | • $17.15M = ($200,000) × (35 recruits per year) × (7 year period) × (0.35) |
| Justice | Canadian Firearm Information System | Development of CFIS II is expected to incur $55 million in cost overruns. Furthermore, annual payments for CFIS II rose by $15 million in 2005/06 due to outstanding work and delay costs, representing 0.0104 of the Justice ministry's budget. The 2005/06 cost is calculated by adding together $55 million and $15 million. Cost estimates in later years were calculated by multiplying the ratio by subsequent Justice budgets. | • 0.0104 = ($15M / $1,446M)<br>• Estimated cost = (Justice's budget in year t) × (0.0104) |
| Public Works and Government Services | Managing Information Systems | Public Works spends about $50 million annually on information systems in 2005/06 that do not provide the information necessary to make well-informed decisions on managing the real property portfolios. This spending represented 0.0198 of Public Works' budget. Subsequent Public Works budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0198 = ($50M / $2,528M)<br>• Estimated cost = (Public Works' budget in year t) × (0.0198) |
| **2007** | | | |
| National Defence | Modernizing the NORAD System | National Defence failed to realize annual savings of between $10 million and $16 million in 2004/05 when it upgraded its air surveillance system. This missed opportunity for savings represented between 0.0007 and 0.0011 of National Defence's budget. Subsequent National Defence budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | Low estimate<br>• 0.0007 = ($10M / $13,932M)<br>• Low estimated cost = (National Defence's budget in year t) × (0.0007)<br>High estimate<br>• 0.0011 = ($16M / $13,932M)<br>• High estimated cost = (National Defence's budget in year t) × (0.0011) |
| **2008** | | | |
| Aboriginal Affairs and Northern Development Canada | First Nations Child and Family Services Program | The department provided more than $2 million annually in 2005/06 to BC for the provision of child welfare services, but this money was considered a duplicate payment, representing 0.0003 of Indian Affairs' budget in 2005/06 (the first year examined by the Auditor General). Subsequent Indian Affairs budgets were multiplied by this ratio to calculate estimates of the cost of government failure. | • 0.0003 = ($2M / $5,832M)<br>• Estimated cost = (AANDC's budget in year t) × (0.0003) |

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)

| 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 | 95/96 | 96/97 | 97/98 | 98/99 | 99/00 | 00/01 | 01/02 | 02/03 | 03/04 | 04/05 | 05/06 | 06/07 | 07/08 | 08/09 | 09/10 | 010/11 | 11/12 | 12/13 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | | | | 2.1 | | | | | | | | | | 2.1 |
| | | | | | | | | | | | | | | | | | | 17.2 | | | | | | | | 17.2 |
| | | | | | | | | | | | | | | | | | | 70.0 | 15.9 | 13.9 | 15.0 | 16.0 | 15.8 | 16.1 | 16.0 | 178.7 |
| | | | | | | | | | | | | | | | | | | 50.0 | 51.5 | 46.5 | 48.7 | 52.8 | 61.0 | 68.2 | 85.0 | 463.8 |
| | | | | | | | | | | | | | | | | | 10.0 | 10.3 | 11.0 | 12.3 | 13.4 | 13.9 | 14.2 | 14.3 | 14.8 | 114.2 |
| | | | | | | | | | | | | | | | | | 16.0 | 16.2 | 17.3 | 19.3 | 21.1 | 21.9 | 22.3 | 22.5 | 23.2 | 179.8 |
| | | | | | | | | | | | | | | | | | | 2.0 | 1.9 | 2.3 | 2.1 | 2.2 | 2.5 | 2.4 | 2.5 | 17.9 |

click to view whole table

| Ministry/Agency | Program/Initiative (title from section 2) | Method of Calculation | Calculations |
|---|---|---|---|
| Canada Border Services Agency | Detention and Removal of Individuals | Contrary to policy, officers did not document a reason for issuing temporary residence permits to 32% of people in a random sample of files inadmissable due to past serious criminality. Since 639 permits were issued in 2006 to people inadmissable due to serious criminality at a cost of $200 per permit, the cost of government failure was calculated by multiplying 639 by 0.32 and by $200. | • Estimated cost = (639) × (0.32) × ($200) |
| **2010** | | | |
| Transport | Marine Atlantic Inc. | Improper management at Marine Atlantic Inc. led to budget overruns and unreliable services. The Auditor General's audit took place in 2008/09 and according to the Public Accounts, the federal government contributed $117.5 million to Marine Atlantic Inc. in that year. | • Estimated cost = $117.5M |
| **2012** | | | |
| National Defence | Real Property | The Department of National Defence failed to properly maintain and develop its real property which consumed 3% of $22.8 billion in 2010/11. Equivalent private sector real property development projects took half the time as National Defence projects and about half of the military bases were not engaging in preventative maintenance. The cost of the failure is estimated as being half the 2010/11 spending on real property. | • $684M = ($22,800M) × (0.03)<br>• $342M = ($684M) × (0.5) |
| **2013** | | | |
| ■ Human Resources and Skills Development | Employment Insurance Overpayments | In 2011/12 there was an estimated $578 million in undetected EI overpayments and the government had to write off $62 million in unrecovered detected overpayments, penalties, and interest. The ratio of the combined figure ($640 million) to total EI spending in 2011 ($16,124 million) is 0.0397. Subsequent EI spending was multiplied by this ratio to calculate estimates of the cost of government failure. | • $640M = ($578M) + ($62M)<br>• 0.0397 = ($640M) / ($16,124M)<br>• Estimated cost after 2011/12 = (EI spending in year t) × (0.0397) |

## Totals

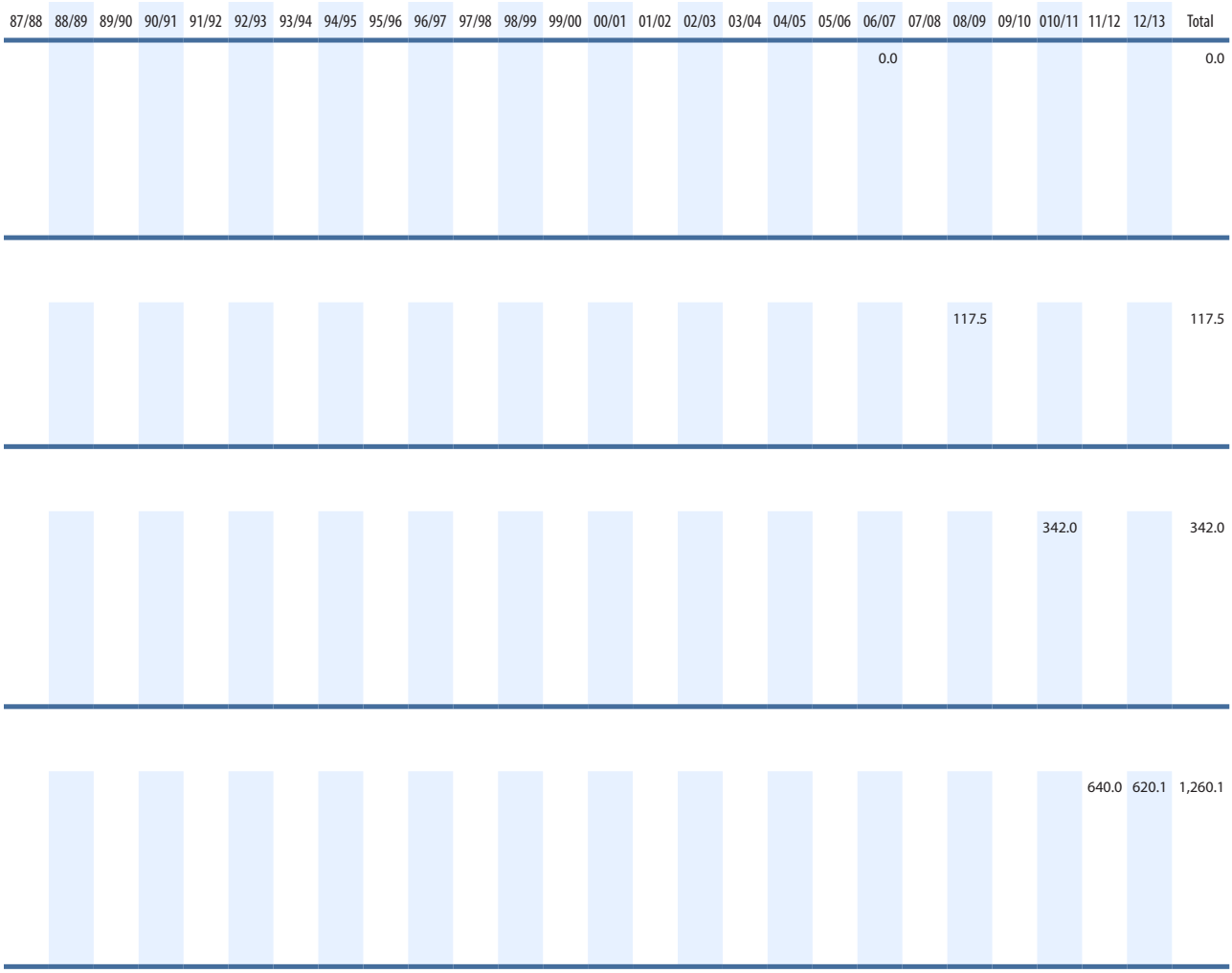
Note 1: Please note that several failures listed in Appendix B occur on an annual basis and include initial year costs, which were reported on by the Auditor General and thus are not estimates. These failures are listed in Appendix B (and not Appendix A) to reflect the fact that costs following the initial year are estimates by the authors using information both from the Auditor General and from external sources. This means that the total cost of failures directly reported on by the Auditor General and listed in Appendix A is understated.

Note 2: During the period covered by this study there were various changes to the configuration and names of government ministries and agencies. The ministries and agencies identified in the appendix reflect the current names and responsibilities.

Note 3: For the 1995 management of receivables failure listed under Treasury Board, the cost estimate for the year 2012/13 is based in part on the average growth of accounts receivables over the previous five years.

■ = failure related to Social Insurance Number (SIN)

Estimates of the Cost of Government Failure ($millions)




| | |
|---|---|
| Low estimate | 128,110 |
| High estimate | 138,651 |
| Low estimate SIN-related | 20,311 |
| High estimate SIN-related | 22,947 |
| Low estimate minus low SIN-related | 107,799 |
| High estimate minus high SIN-related | 115,704 |

Note 4: For the 2008 detention and removal of individuals failure listed under Public Safety and Emergency Preparedness, the cost estimate is $40,896. Data in this table is presented in millions of dollars to the tenth decimal place, which is why this failure is presented as 0.0.

Sources: Canada, Ministry of Finance (2013); Canada, Ministry of Finance (2012); Canada, Ministry of Public Works and Government Services (2013); Canada Treasury Board of Canada Secretariat (1992) Office of the Auditor General (various issues); Office of the Superintendent of Financial Institutions, Office of the Chief Actuary [OSFI-OCA] (various issues); Statistics Canada (2013a); calculations by the authors.

# Appendix C: Federal Government Failures Reported by the Auditor General but with Insufficient Information to Calculate Costs

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
|---|---|---|
| **1988** | | |
| Interdepartmental | Government Financial Statements | Summary financial information in government financial statements was based on inappropriate accounting policies and difficult to understand. |
| Atomic Energy of Canada Limited | Government Financial Statements | Atomic Energy recorded a current asset of $16.4 million related to its CANDU 300 reactor program on its balance sheet although it represented government funding that had not been approved by Parliament. |
| Fisheries and Oceans | Compliance with Program Authorities | Revenue from a sale of a salmon farm was not deposited into the government's Consolidated Revenue Fund as required by the Financial Administration Act. |
| Interdepartmental | Information to Parliament | There were several problems with the information presented to Parliament. For example, information did not provide an extensive description of government plans, policy objectives, or initiatives. |
| Agriculture and Agri-Food | Canadian Forestry Service | Operations at the Canadian Forestry Service were problematic. For instance, documents produced by CFS contained some factual errors, misleading statements, and inconsistent data from prior years. |
| Agriculture and Agri-Food | Food Production and Inspection Branch | Operations at the Food Production and Inspection Branch suffered many shortcomings that exposed Canadians to human health risks. |
| Fisheries and Oceans | Resource Management and Fish Inspection Programs | Problems of overcapacity in the Atlantic fishery persisted despite earlier recommendations. |
| Fisheries and Oceans | Fishing License System | Fisheries and Oceans was not consistent in how it awarded licenses, in one instance issuing licenses to people who failed to meet required criteria. |
| Fisheries and Oceans | Fishery Oversight | The department had multiple communication systems in use, resulting in incompatibilities and patchy coverage in some areas. |
| Aboriginal Affairs and Northern Development Canada | Post-Secondary Education Assistance | Assistance delivered by Indian Affairs differed from one region to another, contrary to policy and despite the department's knowledge of inconsistencies. In addition, several student files contained errors. |
| Aboriginal Affairs and Northern Development Canada | Social Policy Programs | A number of problems with social policy programs were found at Indian Affairs. |
| Public Works and Government Services | Contract Audits | Supply and Services did not audit about 65% of reimbursable contracts valued at $2.1 billion per year and performed virtually no independent audits on fixed time rate contracts valued at almost $700 million per year. |
| Human Resources and Skills Development | Canada Employment and Immigration Commission | Canada Employment Centres did a poor job enforcing unemployment insurance rules. The Auditor General noted that less money would be paid out in unemployment insurance if more effort was made to help beneficiaries return to work. |
| Interdepartmental | Fraud Reporting Procedures | Departments did not have required procedures for reporting fraud and violations of the Financial Administration Act, and some cases of suspected fraud were not reported. |
| Interdepartmental | Special Air Services | There were no government-wide directives or guidelines on the management of aircraft and "distinct weaknesses" in planning for the acquisition of aircraft or special aircraft service. Several aircraft acquired through lease-purchase arrangements cost more than an outright purchase would have cost. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
|---|---|---|
| National Research Council | Computerized Aircraft Maintenance | A computer program for managing the maintenance of nine aircrafts could not provide a reliable, accurate figure for the value of its spare parts inventory and did not provide a ready accumulation of costs per aircraft. As a result, the Council did not know the true costs of aircraft operation and maintenance to use in performance evaluations. |
| Interdepartmental | Business Subsidies | In a sample of 21 programs that included 114 contributions (subsidies) worth a total of $55.3 million, five funding recipients received contributions from multiple departments for the same, or closely-related, projects. In three of these cases, the donor departments were not aware of the other department's funding. |
| Canada Border Services Agency | Customs Canada | Operation activities at Customs Canada ports had issues. For instance, inspectors applied professional judgement to carry out some directives, even though directives did not permit professional interpretation. |
| Canadian Heritage | Canadian Human Rights Commission | Contrary to expectations, the Commission addressed complaints on a first-come first-served basis, rather than handling some complaints on a priority basis. |
| Correctional Services | Planning in Correctional Services | Problems persisted at Correctional Service of Canada. For instance, a cost-effectiveness analysis of the Long Range Accommodation Plan was not completed. The Industries Program lacked clear definitions of key terms and lacked measures to assess effectiveness. |

## 1989

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| Industry | Export Development Corporation | The EDC held $4.7 billion in sovereign loans in 1988 and recorded an allowance for losses of $107.8 million on its balance sheet, which was "significantly understated." In general, the EDC failed to adhere to generally accepted accounting principles. |
| Agriculture and Agri-Food | Accountability and Parliamentary Control | Section 5 of the Department of Agriculture Act was used excessively to circumvent parliamentary control to create new programs. |
| Interdepartmental | Information Requests | The federal government refused to provide the Auditor General with access to ministers' receipts and written requests for use of VIP fleet aircraft so that it could audit the travel expenses claimed by ministers. |
| Parks Canada Agency | Canadian Parks Service | Problems at Canadian Parks persisted, including no strategic plan to guide the allocation of the Parks' budgetary resources to meet objectives. Natural resource management procedures also were not being implemented, putting high priority plants and animals at risk. |
| Foreign Affairs and International Trade | Assistance and Protection to Canadians Living and Travelling Abroad | External Affairs was failing to properly aid Canadians who live or travel abroad. For example, it failed to develop contingency plans to protect Canadians caught in foreign crisis situations. The Department's training process was also inadequate. |
| Human Resources and Skills Development | Canada Assistance Plan | The federal government failed to investigate and confirm the values provinces spent on social services, and the Auditor General uncovered several cases where provinces did not meet CAP conditions. |
| Interdepartmental | Quality Assurance | The federal government spent in excess of $5 billion in 1988 on an array of goods that it failed to assure the quality of, impairing the government's ability to operate efficiently. |
| Interdepartmental | Federal Regulatory Review Process | The federal government failed to adequately report key information on regulations, such as commercial benefits to private sector firms and the cost to the government. Government departments also failed to provide all interested parties equal and consistent opportunities for consultation on proposed regulations. |
| Canada Revenue Agency | Customs and Excise | Several weaknesses were found in the Excise Branch's administration of the federal sales tax. The information on tax performance and compliance was inadequate and data were not used by the Excise Branch's administration of efficiency. |
| Public Works and Government Services | Services to Government Agencies | Supply and Services failed to provide timely and low-cost services to government agencies. A survey of clients showed contracting problems, delayed deliveries, quality issues, and value for money problems. |
| Fisheries and Oceans | Protecting Mariners' and the Public's Interests | The Coast Guard performed few random inspections to detect or prevent unsafe operating practices on fishing vessels, unsafe transportation of dangerous goods, or the use of unqualified seamen. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
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| **1990** | | |
| Agriculture and Agri-Food | Farm Credit Corporation | Financial statements were not presented in accordance with generally accepted accounting principles. |
| Canadian Intellectual Property Office | Patent Office | The Patent Office had been decreasing in efficiency and service level even though the amount of resources had not significantly decreased. |
| Aboriginal Affairs and Northern Development Canada | Mineral Royalties | The methods for calculating the department's royalties were based on outdated analysis and data and should have been reviewed and revised. |
| Interdepartmental | Cooperating to Enforce the Law | There was a lack of formal agreement between Canada Customs and the RCMP, which may have impaired the ability to disband large-scale drug operations. |
| Royal Canadian Mounted Police | Canadian Police Information Centre and Information Sharing | There were problems with the CPIC; and the RCMP failed to have a complete recovery plan in the event the CPIC is affected by a disaster. |
| **1991** | | |
| Finance | Tax Administration | Tax deductions for child raising was given to relatives who were 18 years and older when deductions were supposed to go to relatives 21 years and older. |
| Transport | Land Lease Agreement | The Department broke its own standards when it did not ensure a developer had done a feasibility study for a 41-year, $20 million land-lease agreement. |
| Public Works and Government Services | Purchase of Office Buildings | Required life-cycle cost analysis was not done for two building purchases, which were in breach of the National Fire and Building Codes. |
| Agriculture and Agri-Food | Vehicle Maintenance Standards | Maintenance standards for vehicles at government departments were poor. |
| Foreign Affairs and International Trade | Reports to Parliament | Information provided to Parliament did not give a realistic picture of Canada's multilateral activities and did not justify the resources used for Canada's extensive participation in various organizations. |
| Fisheries and Oceans | Habitat Policy | Fisheries and Oceans was slow in implementing the Habitat Policy, which suffered other shortcomings as well. |
| Aboriginal Affairs and Northern Development Canada | Accountability | The Department had many accountability problems. For example, it lacked an accountability framework and had no procedures to ensure that bands were accountable for the funds they received. |
| Canada Revenue Agency | Customs Commercial System | The Customs Commercial System, an automated system which supports the processing of commercial cargo, failed to adequately inspect hazardous materials at ports of entry. |
| Canada Revenue Agency | Taxpayer Services | The Department of National Revenue had to provide responses to taxpayer queries that were 100% accurate, but in 1990 only 68% of answers to test questions were correct and in 1991 only 80% were correct. |
| Public Works and Government Services | Office Accommodation Planning and Leasing | The Department's planning and leasing of office buildings was ineffective and short sighted. |
| **1992** | | |
| Aboriginal Affairs and Northern Development Canada | Reserve Land Forest Management | 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. |
| National Defence | Project Initiation and Implementation | The Defence Program Management System created an enormous workload for National Defence staff. Only 3.3% of projects went through the complete process. |
| National Defence | The Canadian Forces Reserves | Training programs for Canadian Forces Reserves were deficient. |
| National Defence | The Canadian Forces Reserves | Primary reserve readiness was low, and militia units lacked performance standards and had poor turnout rates. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
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| Canada Revenue Agency | Goods and Services Tax | 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. |
| Interdepartmental | Emergency preparedness | Two major reports on emergency preparedness faced delays due to interdepartmental jurisdictional disputes, misallocation of resources, and problems coordinating with the provinces. |
| Environment | Emergency preparedness | Department of the Enviroment failed in its oversight of hazardous materials installations. |
| Citizenship and Immigration | Immigration | There was a high rate of adjournment in refugee-status hearings. In 1992, 40% of first hearings and 29% of second hearings were adjourned because legal counsel was not ready to proceed. |
| **1993** | | |
| Interdepartmental | Federal Expenditures | Predetermined spending by the Federal government had almost doubled since 1952/53, thereby reducing the discretionary funds necessary for maintaining fiscal manoeuvrability. |
| Natural Resources | Accounting Principles | The magnitude of Atomic Energy of Canada Limited's liabilities and deficit could not be determined because of inappropriate accounting practices. |
| Canadian International Development Agency | Bilateral Economic and Social Development Programs | 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. |
| Human Resources and Skills Development | Program for Seniors | The inquiry system used for CPP medical appeals had been in decline for several years and was severely backlogged and inefficient. |
| **1994** | | |
| National Defence | Follow-up of recommendations | National Defence acted on only 56% of the recommendations made by the Auditor General between 1990 and 1994, and implementation took longer than most other departments. |
| Industry | Management of Activities | 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 program objectives or priorities. |
| Interdepartmental | Federal Property Management | 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. |
| Health | Federal Management of the Food Safety System | Health Canada was not exercising its responsibility for food safety consistently and the Food and Drugs Act was not being applied effectively. |
| Natural Resources | National Standards and Regulatory Policy of Nuclear Facilities | There was a lack of clear authority in establishing and enforcing national standards relating to the use of nuclear energy. |
| Natural Resources | National Standards and Regulatory Policy of Nuclear Facilities | The regulatory policy on the decommissioning of nuclear facilities was applied inconsistently. |
| Correctional Services | Custody of Federal Inmates | The number of escapes from minimum-security prisons rose by 80% between 1988/89 and 1993/94, and 28 of the 390 escapees committed serious offences while at large from April 1992 to March 1994. |
| Parole Board of Canada | Paroling Offenders | Management of the Board was considered poor. For instance, Board members spent more time on short-sentence non-violent offenders than on longer-sentence violent offenders. |
| Correctional Services | Supervision of Released Offenders | There was a lack of focus on identifying high-risk offenders and Correctional Services was inconsistent in its management of offenders. |
| Foreign Affairs and International Trade | Financial Management of Foreign Missions | Accountability was unclear at foreign missions. For example, many mission budgets did not reflect the full cost of running the mission. |
| National Defence | Management Plans for the Canadian Forces | Management plans were unaffordable and contained gaps. Only approximately 25% of the DND's management plans provided adequate cost information. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
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| National Defence | Information Technology Management | IT projects took too long to implement. In one case an IT project was scheduled to be implemented two decades after the need had been identified. |
| National Defence | Project Management | The 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 |
| Canada Revenue Agency | Data Collection | Practices for collecting income-tax details had not kept pace with private-sector practices in key areas of data collection; automatic risk scoring of delinquent accounts was ineffective; and the Agency did not have profiles of tax debtors. |
| Canada Revenue Agency | GST Audits and Special Investigations | Audit coverage of the GST and the number of investigations and prosecutions were low. |
| Canada Revenue Agency | Tax Assistance for Retirement Savings | 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. |

## 1995

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| Interdepartmental | Crown Corporations | Crown Corporations lacked clearly articulated mandates, measurable objectives, and adequate reporting of results. |
| Interdepartmental | Ethics and Fraud Awareness | Results from a survey of senior managers in government departments and agencies revealed a high likelihood of civil servant fraud. |
| Transport | Transportation Subsidies | The Atlantic Region Freight Assistance program was disbanded in 1995 due to inefficiency and poor service. Subsidized carriers were using their advantage to undercut other independent carriers and charge their affiliated companies more. |
| Human Resources and Skills Development | Systems under Development | Human Resources used up its entire contingency for scheduled slippage 15 months into a 35-month contract. |
| Industry | Business Assistance Programs | In Ontario, 44% of recipients of aid from the Microelectronics and Systems Development Program and Strategic Technologies Program applied for financial support from multiple government funding programs for the same projects. |
| Aboriginal Affairs and Northern Development Canada | Native Reserve Capital Facilities Maintenance | Despite replacement costs being estimated at $7 billion, maintenance funds for on-reserve assets were being diverted to other areas. |
| Aboriginal Affairs and Northern Development Canada | Native Reserve Capital Facilities Maintenance | The department's estimates of access to adequate water on reserves did not contain accurate information. |
| Interdepartmental | Revolving Funds | Revolving funds had little parliamentary oversight. $4.3 billion flowed through 11 revolving funds in 1993/94 alone. |

## 1996

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| Interdepartmental | Evaluation Processes | Twelve expenditure programs totalling about $5 billion and two tax assistance initiatives totalling about $16 billion did not include information on effectiveness. |
| Interdepartmental | Internal Audit in Departments and Agencies | Four of seven departments did no follow-up on audit recommendations as required by the Treasury Board. |
| 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. |
| Canada Revenue Agency | 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. |
| Canada Revenue Agency | 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. |
| Foreign Affairs and International Trade | Promoting Exports and Foreign Trade | Activities designed to promote Canadian exports were resulting in needless expenses for the Canadian government. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
|---|---|---|
| Correctional Services | 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. |
| Canadian Heritage | National Parks | 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. |
| National Defence | Productivity | Training productivity fell by 40% at National Defence. Meanwhile, 43% of business plans lacked cost and output data. |
| National Defence | Productivity | National Defence under-used its vehicles at an average rate of 41%. In addition, vehicle vehicle maintenance could have been reduced significantly by taking advantage of warranties on vehicles. |
| **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 drug prescriptions to First Nations. |
| Human Resources and Skills Development | Atlantic Fishery | The federal government encouraged over-capacity in the Atlantic fishery by subsidizing the income of fishermen through Employment Insurance (EI). As a result, EI payments for fishers rose from $20 million in 1972 to $270 million in 1988. |
| **1998** | | |
| National Defence | Equipment for the Canadian Forces | Operations and maintenance costs exceeded 30% of departmental funding, thereby impairing equipment modernization. |
| Human Resources and Skills Development | Social Insurance Numbers | A number of concerns were raised regarding the SINS. For example, there were 3.8 million more SINs for Canadians 20 years and older than people in that age group. |
| Interdepartmental | Sole-source Professional Service Contracts | There were problems with the awarding process of sole-source contracts; some contracts were exempt from the competitive bidding process. |
| Transport | Sole-source Professional Service Contracts | Funding was sought for highways that were well above acceptable standards. |
| **1999** | | |
| Canada Revenue Agency | Underground Economy Initiative | 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. |
| National Defence | Hazardous Materials | DND personnel did not meet their legal and policy requirements governing hazardous materials. About 25% of DND staff came into contact with hazardous chemicals on a daily basis. |
| Health | National Health Surveillance System | Coordination among provincial authorities in the detection and prevention of communicable diseases was lacking. |
| Interdepartmental | Canada Infrastructure Works Program | Information on the source and duration of employment attributed to the Canada Infrastructure Works Program was questionable. |
| Public Works and Government Services | Property Management | 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. |
| National Defence | Diesel Purchases | National Defence personnel accepted cash rebates from retail service stations for 88% of their diesel purchases. |
| Public Works and Government Services | Sole-source Professional Service Contracts | 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. |
| **2000** | | |
| Human Resources and Skills Development | Employment Insurance Claims | 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%. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
|---|---|---|
| Immigration | Canadian Immigration Program | Selection criteria were inadequate and raised false hopes among immigrants. The list of occupations that received additional consideration did not reflect Canada's current labour market. In addition, there were no major penalties for applicants that submitted false statements and fraudulent documents. |
| Aboriginal Affairs and Northern Development Canada | First Nations Education | There was no process or mechanism to measure and assess whether the needs of First Nation students were being served. |
| Canada Revenue Agency | Border Control | 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. |
| Canada Revenue Agency | Border Control | CANPASS was supposed to reduce costs but anticipated savings had not yet materialized. |
| Canada Revenue Agency | R&D Tax Credits | The R&D tax credit program produced on-going court challenges and extra spending on multiple science reviews. |
| Justice | Firearms Registry | Only 13% of the firearms license applications were completed at the time of the audit. |
| Transport | Airport Transfers | There were significant weaknesses in the way that airports were privatized from 1992 to 1999. |
| Human Resources and Skills Development | Grants and Contributions | Only 5% of projects had been properly assessed for eligibility under the 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. |
| Interdepartmental | Crown Corporations | Directors of Crown Corporations lacked key skills and capabilities. About 25% of Chairs and CEOs of Crown Corporations were selected according to "political criteria." |
| Public Works and Government Services | Contracting Out | 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. |
| Fisheries and Oceans | Fleet Management | One region mothballed a 14-year-old icebreaker for lack of funding at the same time that another region was using 41-year-old and 33-year-old icebreakers. |
| Human Resources and Skills Development | Employment Insurance | HRDC officials had been aware of alleged EI fraud for over 20 years but no prosecutions had been made. |
| **2001** | | |
| Human Resources and Skills Development | Grants | HRDC grants lacked accountability. |
| Canada Revenue Agency | Verification of Commercial Shipments | Periodic verification of shipments achieved little at great cost. After four years, the program completed only 28% of planned verifications. |
| National Defence | Servicing National Defence Equipment | National Defence's maintenance units suffered overall vacancy rates of 13%, and only 15% of the personnel had the qualifications their ranks required. |
| Canada Revenue Agency | Income Support Tax Credits | There were more children enrolled in the Child Tax Benefit program than the eligible child population; 30% of child deaths in Alberta and British Columbia went unreported; and in some cases inappropriate payments continued until the child reached age 18. |
| Interdepartmental | Sole-Source Contracting | In 1999, only 11% of sole-sourced professional service contracts met the conditions stipulated by the government. |
| **2002** | | |
| Interdepartmental | Accounting Principles | Foundations distorted the accurate portrayal of government financial performance. |
| Canada Revenue Agency | Tax Administration | CRA's registry did not record the reasons given for tax forgiveness rulings. In one case, a nation-wide service provider received three different rulings from seven regional tax authorities for the same tax issue. |
| Human resources and skills Development | Social Insurance Numbers | There were 5 million more SINs for people over the age of 20 than there were Canadians of those ages. In addition, 8.3 million usable SINs were never verified by personal identification. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
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| Aboriginal Affairs and Northern Development Canada | First Nations Reporting | Populations on reserves are unknown because the "Indian Registry System" was not designed properly. As a result, the exact proportional impact of reserve spending is unknown. |
| Public Works and Government Services | Acquisition of Office Space | Key planning documents at Public Works were outdated or missing which lead to vacant buildings and poor client service. |
| Public Works and Government Services | Acquisition of Office Space | 14% of purchases and leases were missing investment analysis reports and 21% lacked market analysis reports. |
| Justice | Canadian Firearms Program | There were serious concerns regarding the accuracy and completeness of the Canadian Firearms database. |
| **2003** | | |
| Citizenship and Immigration | Immigration Control | 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. |
| Citizenship and Immigration | Immigration Control | Around 40% of the permits issued to immigrants (50% for applicants with a criminal background) did not have the proper justification. |
| Citizenship and Immigration | Immigration Control | Visa documents were outdated and easy to falsify because offices did not reconcile documents on a daily basis. |
| Citizenship and Immigration | Immigration Control | Citizen and Immigration attracted only 43% of the number of skilled workers their performance reports claimed. |
| Aboriginal Affairs and Northern Development Canada | Land Claim Agreements | Two land-claim settlements outlined government obligations that have not been measured or assessed in 10 years. |
| **2004** | | |
| National Research Council | Management of Leading-Edge Research | The National Research Council was unable to provide basic information on the total number and costs of current projects. |
| Health | Regulation of Medical Devices | Medical devices testing by Health Canada was inadequately monitored; there was little follow-up to ensure that approved products were safe. |
| Interdepartmental | The 2001 Anti-Terrorism Initiative | Clearance was given to restricted areas at airports without a criminal record check. |
| Interdepartmental | The 2001 Anti-Terrorism Initiative | Intelligence sharing among federal departments could not address a possible terrorist attack. Information was often sent to the wrong location or in duplicate form. |
| Citizenship and Immigration | The 2001 Anti-Terrorism Initiative | There was no standard quality control mechanisms for monitoring immigrants 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. |
| Interdepartmental | Internal Audit in Departments and Agencies | Internal audits within government departments and agencies lacked independence. The Treasury Board had not established a strategy for addressing and directing internal audits within government. |
| National Defence | Defence Upgrades | In 1992, the DND decided to upgrade its fleet of CF-18 fighter jets. However, the upgrade was not expected to be complete until 14 years after the need was identified. |
| Interdepartmental | Management of Federal Drug Benefits Program | Health Canada was unable to explain why the number of clients receiving 50 or more prescriptions a year tripled between 1999 and 2003. |
| **2005** | | |
| Natural Resources | Governance and Strategic Management | Management at Natural Resources Canada did not have a corporate strategic plan. In addition, risk assessment was inadequate. |
| National Defence | National Security | Around 40% of files in the main inspection database were inaccurate. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
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| Public Safety and Emergency Preparedness | National Security | No threat or risk assessment was carried out before $190 million was allocated to the protection of critical infrastructure. |
| Passport Canada | Passport Services | The system of control over the issuance of passports was inadequate. For instance, 74% of passport applications showed no evidence of the required processes to determine the eligibility of applicants. |
| National Defence | C4ISR—Command and Control, Communications, Computing, Intelligence, Surveillance, and Reconnaissance | Only 46% of C4ISR projects and 11% of related projects were submitted to a committee for funding approval. |
| National Defence | C4ISR—Command and Control, Communications, Computing, Intelligence, Surveillance, and Reconnaissance | National Defence spent $2.9 billion on projects that did not have approved documentation. |
| Interdepartmental | Information Technology Security | Departments and agencies had not developed comprehensive IT security standards. In some departments, access to sensitive data and programs were not controlled and networks were not secure. |
| Interdepartmental | Government Foundations | The outcomes of activities funded by grants to foundations were not recorded and resulted in poor accountability. The government transferred more than $9 billion to foundations between 1996/97 and 2003/04. |
| Canada International Development Agency | Foreign Aid | 60% of large, sole-source contracts should have been open to competition since there may have been potentially qualified suppliers. |
| Canada International Development Agency | Foreign Aid | Only one case in the 24 contracts and contribution agreements examined had the appropriate withdrawal provisions included. |
| Interdepartmental | Crown Corporations | There was a 20% rise in board members serving after their terms had expired. |
| Interdepartmental | Management of Financial Information | Only 55% of public sector employees were professional accountants whereas 80% of their private sector counterparts held the appropriate accreditations. |
| Royal Canadian Mounted Police | Contract Policing | Several problems existed with the RCMP's contracting of police services to lower level governments. For example, the number of peace officers that met all six mandatory training requirements dropped from 57% in 2003 to 6% in 2004. |
| Interdepartmental | Managing Horizontal Initiatives | A number of government agencies had produced reports to Parliament that were incomprehensible. Consequently, corrective action could not be taken. |
| Canadian Heritage | Support to Cultural Industries | Canadian Heritage's performance reports lacked key data on targets, strategies, required resources, timetables, and commitments. |
| Aboriginal Affairs and Northern Development Canada | Treaty Land Entitlement Obligations | The department made limited progress in converting Crown lands into reserve status, resulting in significant financial costs. |

## 2006

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| Interdepartmental | Management of Financial Information | Many departments continue to use the cash-based method of accounting, which provides incomplete and inaccurate financial information. |
| National Defence | Military Recruiting, Staffing, and Retention | Recruitment problems persisted at DND; some occupations were understaffed while others had personnel in excess. |
| Justice | Canadian Firearms Program | 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. |
| Justice | Canadian Firearms Program | 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. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
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| Health | Management of Programs for First Nations | Health Canada was slow in intervening when inappropriate use of prescription drugs was observed. In addition, Health Canada did not monitor the number of prescription drug-related deaths of First Nations. |
| Aboriginal Affairs and Northern Development Canada | Transfer Payments | The department did not require recipients who received more than $100,000 for a project to provide a statement on other sources of funding. |
| National Defence | Military Recruiting, Staffing, and Retention | 35% of army combat engineers leave the military after their fourth year and about 71% of military physicians leave within ten years of service. |
| Public Works and Government Services | Canadian Firearms Program | Consultant costs increased by 25% on average because the Canadian Firearms Program used contracting tools inappropriately to justify the retention of information technology contractors through a non-competitive procurement process. |
| 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 was considered doubtful accounts and not collectible. No strategy has been developed to collect the outstanding debts. |
| Canada Revenue Agency | Risk Management | CRA's documentation of the automated risk-scoring module was poor which meant the Auditor General was unable to determine how risk scores were calculated and whether the riskiest files were given priority. |
| Interdepartmental | Expenditure Management System | Program delivery suffered because EMS funding was inadequately aligned with program requirements. |
| Interdepartmental | Expenditure Management System | The Treasury Board approved around $130 billion in Direct Program Spending for which there was insufficient information available to perform proper expenditure oversight. |
| Interdepartmental | Supplementary Estimates | Government departments were spending their appropriations before they received Parliamentary approval. |
| Interdepartmental | Support of Proper Conduct | A survey of three agencies covering 400 non-management employees revealed that overall employee knowledge on internal disclosure programs was poor. |
| Royal Canadian Mounted Police | Use of Acquisition Credit Cards | Misuses of acquisition credit cards at the RCMP persisted. For example, 19% of RCMP cardholders used their cards for vehicle operating and maintenance expenses, which violated Treasury Board policy. |
| Canada Border Services Agency | Use of Acquisition Credit Cards | 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). |
| Correctional Services | Use of Acquisition Credit Cards | About 33% of the cardholders at Correctional Service Canada had delinquency charges on their accounts for not making payments in a timely manner. |
| Public Works and Government Services | Contract Management | The government may have overpaid for administrative services from a professional relocation company. |
| Human Resources and Skills Development | Old Age Security | HRSD did not have a nationally standardized quality review procedure for OAS program benefit applications. |
| Human Resources and Skills Development | Old Age Security | Assessment of three processing centres revealed quality deficiencies in up to 40% of cases, resulting in payment errors in up to 7% of cases. |
| Human Resources and Skills Development | Old Age Security | Overpayments were managed inadequately because the information required for appropriate analysis was unavailable. |

## 2007

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| Human Resources and Skills Development | Advertising and Public Opinions Research | HRSDC created advertising campaigns during elections, contrary to the Government Communications Policy. Departments did not describe work to be done before contacting as required by policy in more than 60% of cases. |
| Canadian Heritage | Conservation of Federal Built Heritage | The Cap-aux-Diamants Redoubt in Quebec City was closed to visitors because it did not meet safety standards. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
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| Canadian Heritage | Conservation of Federal Built Heritage | More than $40 million of conservation work was required at Fort Henry. |
| National Research Council | Management of Leading-Edge Research | National Research Council financial statements had not been approved as intended. One institute sent a project for external review but did not ensure the review was received. NRC performance reports lacked clear targets for major performance indicators. |
| Canadian Coast Guard | Managing the Coast Guard | The Coast Guard committed to reducing its number of traditional navigation aids but deployed approximately the same number of aids. |
| Canadian Coast Guard | Managing the Coast Guard | Some Coast Guard regions refused to use new technologies because of internal disputes. |
| Canadian Coast Guard | Coast Guard and the Science Sector | The Coast Guard was not meeting the needs of Fisheries and Oceans Canada's Science Sector, one of its major clients. The cost of providing Science Sector services rose sharply even though the level and reliability of service decreased |
| Canadian Coast Guard | Coast Guard Fleet Renewal | There were problems with the Coast Guard's plans to renew its fleet. For example, approximately 28% of Coast Guard vessels were beyond their estimated useful lives, which affected the Coast Guard's ability to be cost-effective. |
| Passport Canada | Passport Services | Passport Canada had not completed a detailed risk assessment related to passport examinations and security functions. Some staff had access rights and profiles that allowed them to trigger production of a passport without authorization. Seven of 12 Passport Canada projects examined (58%) were behind schedule. |
| Canada Revenue Agency | International Taxation | CRA did not make satisfactory progress on improving the information and analysis used for assessing international tax risks. |
| Interdepartmental | Use of Acquisition and Travel Cards | Problems were found on the management and use of acquisition and travel credit cards at several departments. For example, 45% of National Defence, 21% of Health Canada, and 14% of Fisheries and Oceans acquisition card transactions were approved for payments that were not adequately verified and certified. |
| Human Resources and Skills Development | Federal Loans and Grants for Post-Secondary Education | HRSDC could not determine if the right students received the right amounts of money and the Canada Student Loans Program Annual Report did not assess whether the program was meeting its goals. |
| Foreign Affairs and International Trade | Human Resources Management | DFAIT had several problems with human resource management. For example, it did not have a strategic human resources plan and its human resources data contained errors. Staff were placed in positions for which they did not meet all reqiurements. In addition, DFAIT did not have proper information to manage employees abroad and its Locally Engaged Staff Services Bureau was unable to fully meet its mandate |
| Justice Canada | Management of Legal Services | Justice Canada's strategic plan was out of date, its annual reports contained few meaningful performance measures, and it did not have a human resources strategy, corporate retention strategy or succession plan. |
| Justice Canada | Contracting Out Legal Services | There were no formal evaluations of standing agents or evidence of corrective action when poor performance was noted, and a lack of documentation for civil agents. |
| Justice Canada | Administration of Legal Services | Justice Canada did not report overall costs for government legal services, did not practice timekeeping consistently, and had overly complicated financial arrangements with other government departments. |
| Royal Canadian Mounted Police | Management of Forensic Laboratory Service | The Forensic Laboratory Services missed the target turnaround time for routine forensic analysis requests 70% of the time. For routine DNA analysis, it missed the target 90 per cent of the time. |
| Public Works and Government Services | Safeguarding Government Information and Assets | The Industrial Security Program was designed to safeguard government information in contracts, but had significant weakness such that it was not known if government information was exposed to risk. |
| Interdepartmental | Management and Control Practices | More rigour was needed in the management and control practices of the Canadian Industrial Relations Board, the Canadian Forces Grievance Board and the Courts Administration Service. |
| Aboriginal Affairs and Northern Development Canada | Inuvialuit Final Agreement | The department transferred land containing 18 structures and an airport it didn't own. In 1991, the department agreed to identify lands to exchange for the airport runway, but did not provide selection criteria until 2002. In addition, 12 government appointments or reappointments to co-management committees were delayed. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
|---|---|---|
| National Defence | Military Health Care | National Defence could not meet demands for all mental health services, paid contract physicians when clinics were closed or when they weren't at work, did not ensure practitioners maintained licences and certification, and knowingly employed physician assistants who failed a required certification exam. |
| Public Safety and Emergency Preparedness | Secondary Inspection | There were insufficient controls to ensure that people referred to secondary inspection, a process of more thorough examination, actually underwent the inspection. |
| Canada Border Services Agency | Pre-approval Programs | The Canada Border Services Agency had problems with pre-approval programs used to speed up the entry of low-risk people and goods. |
| Statistics Canada | Management of the 2006 Census | There were a number of problems with the 2006 Census, including a lack of a clear response rate, data quality management plan, and formal contingeny plans for high-risk threats. In addition, a data release not properly authorized. |
| Canada Revenue Agency | Technical Training and Learning Practices | CRA's employee training practices had problems. Training data contained errors and 30% of employees did not complete a required learning plan. |

## 2008

| | | |
|---|---|---|
| Interdepartmental | Management of Fees | Examination of 13 government service fees found that five were not based on the costs or value of a program, even though they should have been. For example, Health Canada's medical marijuana fee was not determined based on the program's cost, even though it was supposed to be cost-neutral. |
| National Defence | Afghanistan Supply Chain | Approximately half of items shipped from Canada's main supply depot did not reach Afghanistan within their expected time frame. More than 90% of crticial or essential items were not received by their required delivery date. |
| National Defence | Aerial Vehicles | Reintroducing uninhabited aerial vehicles resulted in crashes, frequent flight cancellations, and shortages of spare parts. |
| Transport | Air Transportation Safety | Transport Canada lacked a human resources plan and 15% of inspectors and engineers had not completed required training, while another 15% had not completed initial training. |
| Aboriginal Affairs and Northern Development Canada | First Nations Child and Family Services Program | The department did not fulfill its commitment of providing comparable child welfare services for on-reserve First Nations children as those off reserve. |
| Public Health Agency | Surveillance of Infectious Diseases | The Public Health Agency had not set long-term objectives and priorities for monitoring emerging diseases and had not implemented a target-based approach to performance measurement. |
| Public Health Agency | Surveillance of Infectious Diseases | For surveillance of a particular infectious disease, fewer than half of the Public Health Agency's data quality criteria were met. For HIV, West Nile virus, and influenza, the Public Health Agency had not determined how well its reports anticipated and prevented public health threats. |
| Public Health Agency | Surveillance of Infectious Diseases | The agency had not demonstrated that it complied with privacy laws and did not have clear legislative authority for routine data collection and for surveillance activities necessary to respond to emergencies. |
| Inderdepartmental | Conservation of Federal Official Residences | There were several problems with official government residences. Many residences were in poor or critical condition, which meant higher maintenance and operating costs. |
| Canada Border Services Agency | Detention and Removal of Individuals | There were problems with CBSA's detention and removal process, including procedures not followed, lack of monitoring, inconsistent decision making, detention centres above capacity, and a lack of assurance that spending was efficient. |
| Interdepartmental | Crown Corporations | Nine of 37 crown corporations audited by the Auditor General had at least one significant deficiency. |
| Interdepartmental | Reporting Requirements | Central agencies and statutory reporting requirements have placed a significant burden on small entities (federal organizations with fewer than 500 employees or annual approved expenditures of less than $300 million). |
| Canadian Food Inspection Agency | Regulation of Imported Plants and Plant Products | The Canadian Food Inspection Agency is not adequately protecting Canada from invasive plants, seeds, plant pests, and plant diseases. A specific problem is the Agency's inability to deliver timely health risk assessments and pest surveys. |

| Ministry/Agency | Program/Initiative (title from section 2) | Failure |
|---|---|---|
| Correctional Services | Managing Goods and Services | Correctional Services Canada did not manage its purchasing of food, clothing, and cleaning products in an efficient, low cost manner. |
| Public Safety and Emergency Preparedness | Staff Overtime | Little analysis or strategy was completed to control overtime costs and unrecorded leave was highlighted as a cause of the growing overtime problem. |
| **2009** | | |
| Interdepartmental | Government Intellectual Property | Federal departments were not properly managing government intellectual property. |
| Human Resources and Skill Development | Fire Safety Plans | HRSDC failed to ensure adequate fire safety plans in 42 out of 52 (81%) government buildings. |
| Interdepartmental | Evaluating the Effectiveness of Programs | Government departments are not adequately evaluating the effectiveness of programs with pre-defined or pre-agreed contribution conditions as required by the Federal Accountability Act. |
| Citizen and Immigration | Federal Skilled Worker Program | CIC was unable to manage the growth of applicants to the Federal Skilled Worker program; processing times increased 152% from 25 months in 1999 to 63 months by 2008. |
| Interdepartmental | Income Tax Act | CRA and Parliament's failure to clarify interpretations of the Income Tax Act led to increased compliance and administrative costs. |
| Aboriginal Affairs and Northern Development Canada | First Nations Reserve Land Management | The Reserve Land and Environment Management Program was meant to be widely available to First Nations by 2006, but this was not achieved by the time of the audit. |
| Aboriginal Affairs and Northern Development Canada | Environmental Protection | The department committed to bringing enviromental regulations on reserves in line with provincial regulations but failed to design or implement many of its proposed regulations in the set schedule. |
| Canadian International Development Agency | International Aid | CIDA failed to improve the effectiveness of its aid programs targeting specific countries which cost $1.8 billion in 2008/09. |
| **2010** | | |
| Interdepartmental | Acquisition of Military Helicopters | There was a five year delay in procuring a replacement fleet of medium to heavy lift helicopters and the procurement process was deemed unfair. |
| Canada Border Services Agency | Import Inspections and Import Taxes | The Canada Border Services Agency did not assure the accuracy of information to assess the need for inspection and import taxes owed. |
| **2011** | | |
| Canada Border Services Agency | Security Screening Visa Applications | Canada Border Services Agency failed to properly conduct security screenings for visa applications |
| Interdepartmental | Water Quality on First Nations Reserves | Aboriginal and Northern Development and Health Canada failed to fully monitor the quality of water on First Nations Reserves. |
| Royal Canadian Mounted Police | Policing Support Services | The RCMP has failed to keep up with the increasing demand for policing support services. |
| Health | Approving Medical Devices | Health Canada failed to approve medical devices for the Canadian market in a timely manner. |
| **2012** | | |
| Transport | Oversight of Civil Aviation | Transport Canada failed to adequately perform safety inspections of the aviation industry and address safety concerns in a timely manner. |

Note: During the period covered by this study there were various changes to the configuration and names of government ministries and agencies. The ministries and agencies identified in the appendix reflect the current names and responsibilities.

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

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# About the Authors

## Jason Clemens

Jason Clemens is the Fraser Institute's Executive Vice-President. He held a number of positions with the Fraser Institute between 1996 and 2008, including Director of Research Quality, Director of Budgeting and Strategic Planning, and Director of Fiscal Studies. He most recently worked with the Ottawa-based Macdonald-Laurier Institute (MLI) as Director of Research and held a similar position with the San Francisco-based Pacific Research Institute for over three years. Mr. Clemens has an Honours Bachelors Degree of Commerce and a Masters Degree in Business Administration from the University of Windsor as well as a Post-Baccalaureate Degree in Economics from Simon Fraser University. He has published over 70 major studies on a wide range of topics, including taxation, government spending, labour market regulation, banking, welfare reform, health care, productivity, and entrepreneurship. He has published nearly 300 shorter articles, which have appeared in such newspapers as the *Wall Street Journal*, *Investors' Business Daily*, *Washington Post*, *Globe and Mail*, *National Post*, and a host of other US, Canadian, and international newspapers. In 2012, the Governor General of Canada on behalf of Her Majesty the Queen, presented Mr. Clemens with the Queen Elizabeth II Diamond Jubilee Medal in recognition of his contributions to the country.

## Charles Lammam

Charles Lammam is Resident Scholar in Economic Policy at the Fraser Institute. Since joining the Institute, Mr. Lammam has published over 25 research reports and 100 original commentaries on a wide range of economic policy issues including taxation, government finances, investment, entrepreneurship, income mobility, labour, pensions, public-private partnerships, and charitable giving. His commentaries have appeared in every major Canadian newspaper including the *National Post*, *Globe and Mail*, *Ottawa Citizen*, *Toronto Sun*, *Montreal Gazette*, *Calgary Herald*, and *Vancouver Sun*. He is a frequent contributor to *Fraser Forum*, the Fraser Institute's flagship policy magazine. Mr. Lammam also regularly gives presentations to various groups, comments in print media, and appears on radio and television broadcasts across the country to discuss the Institute's research. He has appeared before committees of the House of Commons as an expert witness. Mr. Lammam holds an M.A. in public policy and a B.A. in economics with a minor in business administration from Simon Fraser University.

### Hugh MacIntyre

Hugh MacIntyre is a Policy Analyst in the Fraser Institute's Centre for Tax and Budget Policy. He has authored and co-authored numerous commentaries appearing in various media outlets including the *National Post* and the American Enterprise Institute's prestigious magazine, *The American*. He is also a regular contributor to *Fraser Forum*, the Fraser Institute's flagship policy magazine. Mr. MacIntyre holds an M.Sc. in Political Science from the University of Edinburgh.

### Milagros Palacios

Milagros Palacios is a Senior Research Economist at the Fraser Institute. Since joining the Institute, Ms. Palacios has been the author or coauthor of over 40 research studies on a wide range of public policy issues including taxation, government finances, investment, productivity, labour markets, and charitable giving. She has co-written three books and is a regular contributor to *Fraser Forum*, the Fraser Institute's policy magazine. Her recent commentaries have appeared in major Canadian newspapers such as the *National Post*, *Toronto Sun*, *Windsor Star*, and *Vancouver Sun*. Ms. Palacios holds a B.A. in Industrial Engineering from the Pontifical Catholic University of Peru and an M.Sc. in Economics from the University of Concepcion, Chile.

### Niels Velduis

Niels Velduis is Fraser Institute President. He has written six books and more than 50 comprehensive studies on a wide range of economic topics including taxation, banking, productivity, investment, entrepreneurship, labour markets, and government finances. His latest book, *The Canadian Century: Moving out of America's Shadow*, is a national bestseller published by Key Porter in May 2010. Mr. Velduis appears regularly on radio and television programs across Canada and the United States. He has written more than 200 commentaries that have appeared in over 50 newspapers including the *Globe and Mail*, *Wall Street Journal*, and *Economist*. He holds a Bachelor degree in Business Administration and a Master degree in Economics from Simon Fraser University. In 2010, he was named one of Vancouver's Forty under 40 by *Business in Vancouver* and in 2011 led a discussion between former presidents Bill Clinton and George W. Bush at the Surrey Economic Forum.

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