Chapter 17

Canada Infrastructure Works Program

Phase II and Follow-up of Phase I Audit

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Canada Infrastructure Works Program

Phase II and Follow-up of Phase I Audit

Main Points

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

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

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

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

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

Background and other observations

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

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

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

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

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

Introduction

Objectives and structure of the Program

17.10 The Program was introduced in 1994 to help develop local infrastructure and create employment. The Canada Infrastructure Works Program was implemented as a temporary shared-cost program in 1994 with the objectives of assisting in the maintenance and development of infrastructure in local communities and the creation of employment. For the purposes of the Program, "infrastructure" was defined as "physical capital assets in Canada instrumental in the provision of public services."

17.11 The Program is a collaborative arrangement. The federal government is one of several program partners. The others include provincial and local governments, and, in some cases, the private sector. For the purposes of this program, the federal government entered into a separate agreement with each province and territory. Under these agreements, the federal government contributes up to one third of eligible project costs, and the provincial and local governments and other partners contribute the remainder. In the majority of cases, municipalities identified their priorities for infrastructure program funding based on local requirements, and submitted projects for provincial review. Provinces then forwarded projects selected to the federal government for review and approval.

17.12 While mostly similar in content, the federal-provincial agreements vary somewhat according to province or territory. Generally, they each set out the Program's purpose, the criteria for project selection, and the financial and operational responsibilities of the parties involved. The provinces are responsible for selecting, analyzing and proposing projects for funding. The federal government has the right to approve or reject individual projects proposed.

17.13 In accordance with the agreements, a joint federal-provincial management committee was established in each province to carry out the responsibilities of the federal and provincial governments. The management committees developed program guidelines for the implementation of the Program in their respective provinces.

17.14 Although developing and maintaining local infrastructure fall essentially under the jurisdiction of provinces and municipalities, over the years the federal government has frequently provided financial aid. This assistance has taken the form of loans, unconditional transfers of funds (grants) or conditional payments (contributions).

The federal government is one of several program partners investing a total of $8.3 billion.

17.15 The Canada Infrastructure Works Program is a contributions program. This means that the federal government pays if performance conditions and program requirements are met, as specified in the agreements. These requirements have important implications for the Program's accountability regime — in terms of accountability among the partners to the agreements and also accountability to Parliament for expenditures undertaken and results achieved.

17.16 Originally, the federal government agreed to contribute up to $2 billion, to be matched by $4 billion from provincial and municipal governments and other partners. In January 1997, the government announced a program extension (referred to as Phase II) whereby it provided an additional $425 million to support new infrastructure projects, to be matched by a further $850 million from the provinces and the other partners. Over the course of the two phases, all of the partners are expected to have invested a combined total of $8.3 billion. Under both phases, construction for most projects was scheduled to be completed on or before 31 March 1999.

17.17 Six federal departments and agencies take part in the Program. The lead minister, identified as the Infrastructure Minister, is the President of the Treasury Board. Within the Treasury Board Secretariat, an Infrastructure Office performs a co-ordinating and information-generating role. While each program within the provinces is fairly autonomous, all projects, regardless of the value of the federal contribution, require the formal approval of the Infrastructure Minister.

17.18 The federal regional development agencies — Western Economic Diversification Canada, Industry Canada, Canada Economic Development for Quebec Regions and the Atlantic Canada Opportunities Agency — implement the programs in their respective provinces. Representatives from each of these organizations sit as federal co-chairs on their respective management committees established under the federal-provincial agreements. In some provinces, while there can be several provincial implementing departments, only one provincial representative sits as the provincial co-chair. Thus, for each province there is a balanced federal-provincial representation, with one co-chair each. In Alberta, a third co-chair was appointed to represent municipalities in an ex officio role with no formal decision-making authority.

17.19 In addition to the above-mentioned agencies, the Canada Infrastructure Works Program includes the First Nations Infrastructure Initiative, which is administered entirely by Indian and Northern Affairs Canada and has no direct provincial government involvement. Hence, there are no federal-provincial agreements for this initiative; applications for projects are made directly to Indian and Northern Affairs Canada.

Exhibit 17.1

Federal Allocation of Funds Under Phase II

Recipient	Federal Allocation
British Columbia	$51,733,000
Alberta	34,739,000
Saskatchewan	11,584,000
Manitoba	13,688,000
Ontario	153,020,000
Quebec	111,645,000
New Brunswick	11,035,000
Nova Scotia	14,272,000
Prince Edward Island	2,373,000
Newfoundland	10,365,000
Northwest Territories	1,140,000
Yukon	408,000
Indian and Northern Affairs Canada (First Nations)	6,874,000
Total:	**$422,876,000***

**The difference from $425 million is due to administration costs.*

Source: Infrastructure Office

The allocation of responsibilities between the federal and provincial governments is based on their comparative expertise

17.20 The design of the Program recognizes that, in general, the provinces and municipalities are responsible for investments in local infrastructure. At the provincial and municipal levels, there is extensive experience in planning, financing and implementing such investments.

17.21 In both phases of the Program, federal funds were allocated to the provinces, territories and First Nations based on their respective shares of population and unemployment (see Exhibit 17.1 for Phase II allocations). In each province and territory, and in Indian and Northern Affairs Canada, funds were allocated in a manner that reflected local priorities. This resulted in a variety of allocation methods.

17.22 Based on their specific priorities and local requirements, individual municipalities and other organizations submitted project applications to the responsible provincial ministry or, in some cases, the joint federal-provincial secretariat. If approved at that level, applications were forwarded to the federal co-chair and the Infrastructure Minister for approval.

17.23 In general, once the Infrastructure Minister gave final approval for a project, a separate local agreement was made between the province or territory and the municipality or other organization. These local agreements are project-specific, dealing with such matters as eligible costs and contribution limits; they do not involve the federal government directly. First Nations projects are characterized by local agreements between Indian and Northern Affairs Canada and the relevant First Nations community.

Focus of the audit

17.24 This audit includes a follow-up to the observations and recommendations presented as lessons learned in the 1996 Report of the Auditor General on Phase I of the Program, as well as an audit of Phase II. Detailed testing for this audit was confined to the $425 million Phase II federal expenditure. Observations and conclusions relating to the follow-up component are clearly identified.

17.25 The follow-up component is a standard practice of our Office. We chose to undertake an additional audit of Phase II for several reasons. One important reason is the large expenditure involved — $425 million. As well, this audit takes into account experience gained since the first audit. In 1996, the Program had been under way for less than two years. At the time of our examination for this audit, the Program had been in place for more than four years. Finally, and perhaps most important, this audit is an opportunity to identify those practices that have worked well and those that require improvement.

17.26 **Objectives.** Specifically, this audit set out:

- to determine whether the projects undertaken in Phase II conform with the targeting and project selection requirements of the relevant Infrastructure Works agreements;
- to determine the adequacy of the financial and management regime for Phase II;
- to determine the extent to which Phase II conforms with the requirements of relevant environmental law; and
- to determine the extent to which the observations and recommendations made in the 1996 Report of the Auditor General, which could have been acted upon in the program extension, have been acted upon.

Some audit work was undertaken jointly with provincial audit offices.

17.27 **Joint undertaking.** We undertook some of our Phase II audit work jointly with the Offices of the Auditor General of Nova Scotia and the Provincial Auditor of Saskatchewan. As the Program is a shared federal-provincial responsibility, doing audit work jointly provided an excellent opportunity for a more comprehensive examination in these two provinces. The perspective developed also guided a more in-depth coverage of the Program in the other provinces where we carried out the audit. Along with our fellow members of the Canadian Council of Legislative Auditors, we believe that taxpayers are better served when a total audited picture of a program's expenditures is provided.

17.28 This chapter presents observations, conclusions and recommendations pertinent to the federal government, our specific jurisdiction. The reports of the Auditor General of Nova Scotia and the Provincial Auditor of Saskatchewan are expected to be tabled with their respective legislatures, and will deal with matters pertinent to the provincial governments concerned.

17.29 We supplemented the findings from our jointly undertaken audit work in Nova Scotia and Saskatchewan by focussing the rest of our audit on selected provinces. Overall, we selected British Columbia, Alberta, Saskatchewan, Ontario, Quebec and Nova Scotia for audit to ensure representation of all federal implementing departments. This coverage amounted to about 90 percent of the Program's expenditures. For the other provinces and territories, the findings from our audit do not necessarily apply due to possible program differences.

17.30 For the provinces covered by our audit, we examined a sample of federal project files and many of the corresponding provincial project files. As well, in selected cases, we broadened our review to include an examination of related project files held by municipal governments. We examined the First Nations Infrastructure Initiative in terms of its planning and approval process only.

17.31 Further details on the audit are presented in **About the Audit** at the end of the chapter.

Observations and Recommendations

Program Implementation

Some program differences exist between Phase I and Phase II

17.32 In design, structure and implementation, Phase II of the Program was a continuation of the basic approach developed in Phase I. However, Phase II did contain some modifications. Subsequent to our 1996 Report, federal-provincial agreements were amended in 1997 to add provisions for compliance audit. Stronger controls were added to ensure that federal environmental assessment requirements were met prior to federal approval. Further, in one of the provinces we audited, Phase II was targeted more clearly on traditional infrastructure.

17.33 Moreover, in Phase II the federal government significantly lowered its level of expenditures. The federal-provincial agreements authorizing additional funding for Phase II specified that construction activities had to be completed within one year. The period for project completion was subsequently extended to two years, compared with the five years allowed in Phase I. The shorter lead times in Phase II, coupled with a lengthy approval process (see paragraph 17.39), resulted in many projects receiving project approval after construction had begun.

Both phases of the Program were implemented quickly

17.34 As we observed in our 1996 Report, the speed with which Phase I of the Program was implemented compared favourably with similar collaborative arrangements. Phase II was also implemented quickly, with most provinces signing amending agreements within a few months of its announcement. When the new one-year time frame for completion of construction was seen to create difficulties for implementation, the Infrastructure Minister announced a one-year extension in August 1997. However, project contracts between the provinces and local municipalities could not reflect the new completion dates until the federal-provincial agreements were amended several months later.

Program officials view the program approach very positively

17.35 Provincial and federal program officials in every province that we audited declared the Program a success in creating positive federal-provincial relations and directing funds to needed infrastructure investment. From early 1994 to date, the Program has mobilized and co-ordinated the efforts and resources of three levels of government (as well as the other partners involved) to plan and implement more than 17,000 engineering and construction projects nationwide.

17.36 Officials believe that the Program's approach — combining the specific expertise of the two levels of government within an established framework of federal-provincial agreements — has been largely responsible for this achievement. The provincial governments are responsible for the day-to-day running of the Program, while the federal government has a less operational role. Consequently, the federal government has not become involved in project nomination or in second-guessing the decisions made at other levels on the screening and selection of initial project proposals.

17.37 Program managers we spoke to believed that there were significant savings as a result of reduced overlap and duplication of activities between the two levels of government. Such savings have not been measured to date. Moreover, any savings identified would need to take into account our assessment, as identified in this chapter, of the current financial management and control arrangements.

Effort was devoted to ensuring that participation of all partners was recognized

17.38 The federal-provincial agreements provided for the careful co-ordination of joint public announcements and the posting of signs identifying projects as joint federal-provincial ventures. Subsequently, considerable administrative effort was directed to ensuring that these provisions were carried out. This recognition of the partners' efforts has helped foster positive relationships.

17.39 In some provinces, each project nomination submitted to the Infrastructure Minister for approval was forwarded to the appropriate provincial and federal members of Parliament for their input. As well, in all provinces, final federal approval could not be given until environmental assessment requirements had been fully met. In the two provinces where we examined these processes in detail, we found that all of these requirements combined added approximately two months to the approval process.

The Program has mobilized the efforts and resources of three levels of government (and other partners) to implement more than 17,000 construction projects.

17.40 We were told that in some provinces applicants could proceed at their own risk prior to federal approval because of the tight time frames involved. However, if for any reason a project was not approved, the federal government's share would not be paid. For many of the projects we examined, approval was received after construction had already begun. In our opinion, the fact that construction can begin beforehand reduces the significance of the role of the federal approval process.

17.41 The lengthy project approval process frustrated program officials. In our view, it would have been reasonable to streamline the delegation of approvals based on risk and level of expenditure, so that the Infrastructure Minister need not have approved every project application. In all likelihood, this would have improved the turn-around time for approvals.

17.42 In future programs of this type, the project approval process should be based on a more streamlined approach, with delegation of authority for approvals based on risk and level of expenditure.

Treasury Board Secretariat's response: *In principle, streamlining of the project approval process is desirable. In practice, the process is one of the elements that must be negotiated with the other program partners and we would endeavour to do so.*

Funding, Targeting and Impacts of the Program

The construction of roads, bridges, and water and sewer networks has predominated in both phases of the Program.

Funds were spent largely on traditional infrastructure

17.43 The federal government has indicated that, with the additional funding under Phase II, overall infrastructure investments for the Program will exceed $8.3 billion — with the federal contribution amounting to $2.4 billion. As shown in Exhibit 17.2, the construction of roads, bridges, and water and sewer networks has predominated in both phases of the Program. However, there has been less emphasis on community, cultural and recreational services in Phase II. In both phases, there has been a diversity of project size and type. In Phase II, for example, the largest project is a $45.8 million renovation and addition to the Cummer Home for the Aged in Toronto, Ontario. At the other end of the spectrum, $322 was spent on picnic tables for the community of Birch Cove, Alberta.

17.44 Projects undertaken by First Nations communities differed somewhat from those in the rest of the country, owing to distinct community differences. There are over 600 First Nations, 75 percent of which are located in communities of less than 1,000 people. Most of these communities can be described as rural or remote, with vastly different infrastructure needs from those of other Canadian communities. First Nations projects often focussed on building or expanding their community's basic infrastructure.

Most project files we examined lacked persuasive evidence to support the claims of project applicants relating to selection criteria.

Program targeting is weak

17.45 As we did for Phase I, we examined the basis on which federal officials recommended the approval of individual projects. Specifically, we looked for evidence that federal officials had obtained assurance that their provincial counterparts were receiving and analyzing supporting information to help ensure that the projects approved were in line with the Program's objectives.

17.46 As we found in 1996, the project selection criteria most frequently cited in support of project proposals related to providing additional infrastructure facilities in response to local needs, upgrading existing infrastructure to meet community standards, and creating short-term employment (see Exhibit 17.3). In 1996 we noted that the meanings of many of the terms relating to these and other selection criteria were not clear. We found that situation unchanged.

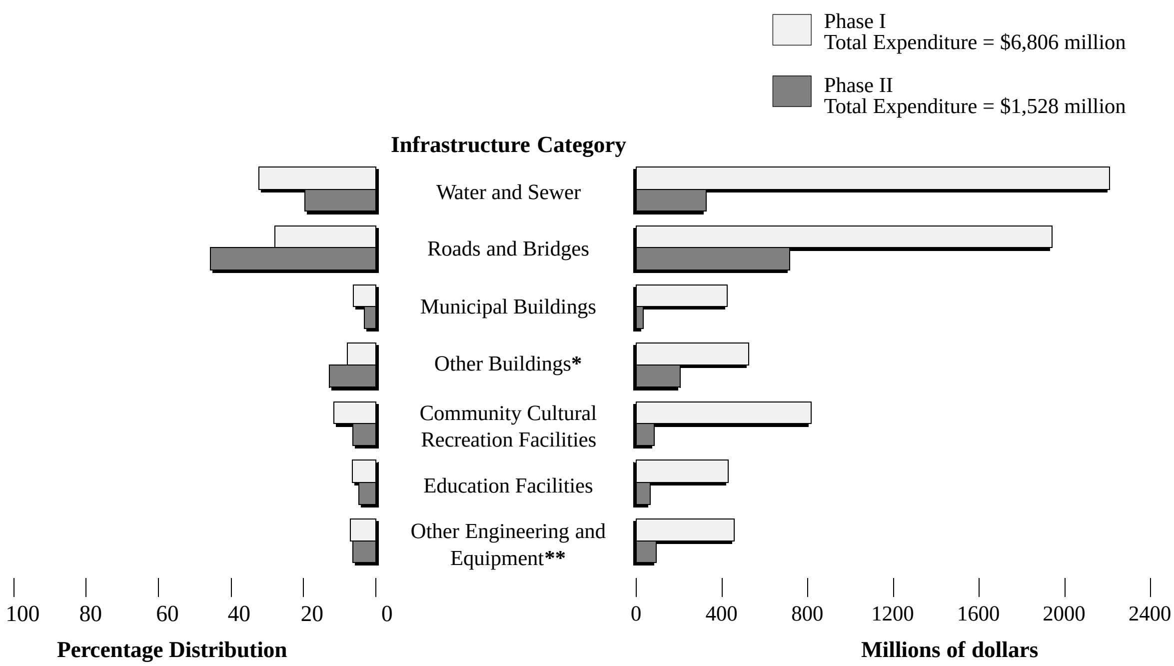
17.47 We found that the operational definition of the term "incremental investment" can differ across provinces and is not always fully in line with the Program's overall objectives. Similar concerns apply to the meaning of "employment creation". We found no clear identification of what "community standards" mean in practice or how such standards could be assessed in applying project selection criteria. Finally, as noted in paragraph 17.54, even the term "infrastructure", which determines the basic scope of the Program, would benefit from clarification.

17.48 Most of the federal and provincial project files we examined lacked persuasive evidence to support the claims of project applicants relating to selection criteria. Although some files for large and complex projects contained more detailed analyses, most applications were prepared in qualitative and often vague terms, with no information, other than certifications by project applicants, to back up claims that criteria were being met. In most cases, federal officials endorsed provincial assessments without ensuring that provincial officials had received and analyzed the appropriate information or requiring direct supporting information themselves.

17.49 In our view, the federal government accepted the responsibility for approving projects and is accountable to Parliament for program results.

Exhibit 17.2

Total Expected Investments by Type of Infrastructure: Phase I and Phase II



* Other Buildings includes various structures such as research and development centres, agricultural facilities, labs, hospitals, day-care centres and women's shelters.

** Other Engineering and Equipment includes docks, piers, dams, landfills, recycling bins, emergency vehicles, communications systems, and other works.

Examples of Small and Large Phase II Investments Under the Agreements Examined

Small

- Replacement of picnic tables in recreational area, Birch Cove, Alberta ($322)
- Repair of a well, Duff, Saskatchewan ($500)
- Rehabilitation of a gravel street, Highgate, Ontario ($1,211)
- Band office addition, West Point, Indian and Northern Affairs Canada ($39,690)
- Repair of Trunk Road Bike Route, Maple Ridge, British Columbia ($2,563)
- Assessment of water and sewer systems, St-Adolphe-d'Howard, Quebec ($10,640)
- Extension of waterline to South River serving a commercial area, Antigonish, Nova Scotia ($18,000)

Large

- Widening and rehabilitation of Idylwyld Drive in Saskatoon, Saskatchewan ($3.7 million)
- Water and sewer site development, Peguis, Indian and Northern Affairs Canada ($4.9 million)
- Design and alignment of a collector road, Halifax, Nova Scotia ($4.7 million)
- Rehabilitation of residential roads, sidewalks and curbs, Edmonton, Alberta ($7.7 million)
- Purchase of rapid transit buses, BC Transit, British Columbia ($21 million)
- Re-construction of the Dorval traffic circle, Dorval, Quebec ($36 million)
- Renovations and additions to Toronto's Cummer Home for the Aged, Ontario ($45.8 million)

Source: Infrastructure Office, January 1999

Consequently, there was a need for federal officials to make recommendations on proposals either on the basis of assurance that their provincial counterparts had carried out a review of adequate supporting information or on the basis of their own review. While some measure of assurance would be required for every project, the depth and detail of review could be expected to vary, depending on risk and the level of expenditure for a particular project.

17.50 In future programs of this type, the government should ensure that project selection criteria are clearly defined, and that persuasive information and analyses are available and have been assessed to support recommendations for project approval.

Treasury Board Secretariat's response: *We agree that project selection criteria should be clear in any further program and that projects would need to be assessed against them.*

17.51 In the case of Indian and Northern Affairs Canada, program officials told us that there was a requirement that the First Nations Infrastructure Initiative should accelerate the implementation of supported projects by at least three years — the incrementality requirement. Once approved, First Nations infrastructure projects were administered under existing departmental capital program activities.

The implications of private-sector-related projects need to be addressed

17.52 As noted earlier, for the purposes of the Program, "infrastructure" means "physical capital assets in Canada instrumental in the provision of public services." Under Phase I, this broad definition was occasionally used to justify investment assistance to firms and corporations involved in private sector and quasi-private-sector activities. Under Phase II, this definition of infrastructure has continued to be applied. This has resulted in support for some projects involving private sector partnerships and other linkages to the private sector.

17.53 As part of our audit of Phase II, we conducted a review of project descriptions in the Infrastructure Office database, and examined project files where the description indicated possible private sector connections. In addition, we obtained management representations on the nature and extent of such investments. We extended our examination to any files identified by this means.

17.54 We found that federal government program expenditures in support of the projects we identified were approximately $10 million. This included funding such diverse projects as the

Exhibit 17.3

Frequency of Program Criteria Selected and of Claims Supported by Documentation Under Phase II

Criteria	Applications Where Claimed (percent)	Claims with Supporting Documentation (percent)
Short-term job creation	98	3
Modernization of infrastructure/ brings up to community standards	90	5
Investment is accelerated/incremental	85	4
Improve environmental stability/quality	40	12
Increase economic competitiveness	34	5
Long-term job creation	17	17
Innovative financing used	16	7
Long-term worker skills enhanced	10	0
Innovative technologies used	5	22

The project criteria included above comprise the full range of criteria for the Program as a whole. However, it should be noted that some of the provinces did not incorporate all of the criteria in their programs as established by the federal-provincial agreements.

Source: Office of the Auditor General of Canada; File review (federal and provincial project files) construction of a research laboratory and tourist facilities (including the construction of a convention centre and an artificial lake), and upgrading a road leading to a mine (see Exhibit 17.4). Although these investments made up only about two percent of total federal funding under Phase II, in our judgment the design of the Program would have benefited from more precise clarification at the outset of the coverage of infrastructure assistance that was intended, as well as possible implications.

17.55 For example, our examination raised the possible issue of unfair competition resulting from direct or indirect assistance to some firms and not to others. Such government assistance may unfairly tilt the playing field against other competing firms that do not benefit from the assistance provided by the Program. In our examination of the program guidelines and federal-provincial agreements, and our interviews with program officials, we did not find any evidence that program designers had considered these or other implications of funding projects involving private sector partnerships and other linkages to the private sector.

17.56 In future programs of this type, the government should clearly define the coverage of the term "infrastructure". If that coverage allows for support of projects involving private sector partnerships and other private sector linkages, the government should ensure that program guidelines specifically address related implications.

Treasury Board Secretariat's response: *The recommendation implies that the term "infrastructure" was not clearly defined. It was, and it did allow for support of private sector initiatives. However, care was taken to ensure that none of the projects that had private sector*

Exhibit 17.4

Phase II Projects Involving Private Sector Partnerships and Other Private Sector Linkages

British Columbia:

- B.C. Telephone Company: installation of basic cable telephone service using fibre optic feeder and copper distribution cables. Canada: $121,500, B.C.: $121,500, B.C. Telephone: $550,000 to be partly offset by a surcharge to residents. (Note: There are five other B.C. Telephone projects valued at $3.2 million.)

Ontario:

- Agrium Mines Limited: 40-km road upgrading to provide access initially for construction of a phosphate mine/mill and for personnel access and service vehicles during operation. Canada: $1.7 million, Ontario: $1.7 million, Agrium: $1.7 million.
- Sunnybrook Health Science Centre: construction and renovation of two floors of an existing facility with a private-sector partner to build research laboratory facilities to develop cancer vaccines. Canada: $3 million, Ontario: $3 million, Sunnybrook Health Science Centre: $3 million.

Quebec:

- Centre Nouvel-air Matawinie Inc.: development of a recreational tourist facility on Lake Taureau including the construction of an artificial lake, buildings, pathways and trails, and parking facilities. Canada: $1.3 million, Quebec: $1.3 million, Centre Nouvel-air Matawinie Inc.: $1.3 million.
- Place de la Cité Internationale Phase III Inc.: construction of two underground passages to the Cité Internationale de Montréal. Canada: $3.2 million, Quebec: $3.2 million, Cité Internationale: $2.1 million.
- Société structurante de Shawinigan inc.: construction of a convention centre in the City of Shawinigan to assist tourism sector. Canada: $657,678, Quebec: $657,678, City of Shawinigan: $431,290, Société structurante de Shawinigan inc.: $400,000.

Nova Scotia:

- Meat Cove Fisherman's Association: wharf repairs. Canada: $8,333, Nova Scotia: $8,333 and Meat Cove Fisherman's Association: $8,333.

Source: Office of the Auditor General of Canada; File review and Infrastructure Office *involvement (i.e. two percent of federal funding under Phase II) resulted in unfair competition.*

Incentives exist to substitute Canada Infrastructure Works Program funds for regular, ongoing provincial infrastructure expenditures

17.57 Besides the assistance provided under the Canada Infrastructure Works Program, provincial governments have been providing, through their own programs, ongoing financial support to municipalities for local infrastructure investment. During the 10-year period before the introduction of the Program, ongoing construction and repair expenditures at the local municipal level averaged $5.6 billion annually.

17.58 Exhibit 17.5 outlines examples of provincial government programs providing ongoing assistance to municipalities for infrastructure investment, based on programs in place

Exhibit 17.5

Local Infrastructure Investment Assistance
Provincial Government Cost-Share Ratio (%) Under Canada Infrastructure Works Program
and Other Selected Provincial Capital Assistance to Municipalities
1993–1999

	Provincial Government Cost-Share Ratio			
	Canada Infrastructure Works Program *		**Selected Provincial Government Infrastructure Programs**	
		(percent)		(percent)
Government of Alberta	Canada–Alberta Infrastructure Works	33	Basic Capital Grants	75
			Street Improvement Program	75
			Secondary Highway Partnership Program	65–85
			Municipal Water/Waste Water	Up to 75
Government of Ontario	Canada–Ontario Infrastructure Works	33	Municipal Affairs Unconditional Grant	100
			Homes for Aged	50
			Elderly Persons Centres	30
			Educational Capital Grants	60–75
			Grants for Hospital Construction/Renovation	66
			Northern Ontario Industrial Infrastructure	75
			Roads/Bridges	50–80
Government of Quebec	Canada–Quebec Infrastructure Works	33	Culverts/Sewage	50
			Water Purification	50–85
Government of Nova Scotia	Canada–Nova-Scotia Infrastructure Works	33	Provincial Capital Assistance Program	50
			Unconditional Capital Grants	100

* Projected contribution — actual contribution by provincial government may be somewhat higher or lower.

Source: Alberta: Ministry of Transportation and Utilities
Ontario: Provincial Financial Assistance to Municipality Boards and Commissions 1992–93
Quebec: Ministère des Affaires municipales
Nova Scotia: Nova Scotia Department of Housing and Municipal Affairs

for either some or all of the period from 1993 to 1999. This covers the period immediately before and during the implementation of the Canada Infrastructure Works Program. In most cases, the provinces' own programs require provincial governments to outlay half or more of the eligible costs of municipal infrastructure investments. However, when projects are funded under the Canada Infrastructure Works Program, provincial government expenditures average only about one third of the total investment. Because of the different provisions of federal and provincial programs, we believe there are financial incentives for provincial governments to transfer their budgetary resources away from their own regular programs to the national infrastructure program.

17.59 The Canada Infrastructure Works Program is meant to encourage additional investments in local infrastructure — a condition necessary to increase infrastructure development and create employment. For this reason, if provinces simply switch funds between programs, the national program's intended effects are reduced.

17.60 The government's own 1996 evaluation of the Program expressed concerns about the lack of effort to enforce the requirement to encourage additional investment levels. The evaluation identified this as a "program weakness". We believe that the possibility of program substitution deserves attention as a key part of this issue.

17.61 Identifying the actual extent of program substitution that may have occurred is an extremely difficult task, and one that the current audit could not address in the absence of detailed data from other program partners. However, in our examination of project files, we found evidence that some projects approved under the Canada Infrastructure Works Program may have been funded under programs that would have been more costly for the provinces involved. Although we would not have expected project files automatically to contain such information, we found specific cases where projects that would likely otherwise have received approval for funding under existing provincial programs, or had actually received approval, were ultimately funded under the Canada Infrastructure Works Program. We believe that this file evidence, coupled with the financial incentives identified in Exhibit 17.5, suggests that program substitution is an issue that needs to be addressed in program design.

There are financial incentives for provincial governments to transfer budgetary resources from their own regular programs to the national infrastructure program.

17.62 The period during which the program functioned featured a lot of general budget cuts by provincial governments, including cuts in provincial capital assistance programs. At the same time, however, the federal initiative was attempting to increase levels of infrastructure investment. In this context, substitution would represent a rational response by provinces to the national infrastructure program. It does not represent a violation of the Program's terms and conditions; rather, it responds to a design element that program developers may not have sufficiently considered beforehand. To the extent that it occurs, program substitution directly affects the achievement of the Canada Infrastructure Works Program's primary objectives: infrastructure development and employment creation that would not have occurred otherwise at that time.

Program substitution directly affects the achievement of the Program's primary objectives: infrastructure development and employment creation.

Safeguards are needed to limit program substitution

17.63 We examined the provisions established within federal and provincial programs to identify those that could act as safeguards to limit substitution between federal and provincial programs. We found such provisions to be the exception rather than the rule.

17.64 The types of provisions used in Quebec and by the Saskatchewan Association of Rural Municipalities in

Phase I of the Program provide examples of safeguards that can deter program substitution. In 1996, we reported that Program expenditures in Quebec had to be in addition to a minimum level of ongoing investment that municipalities were required to maintain in order to be eligible for assistance under the Program. In these circumstances, we believe that substitution would be necessarily limited.

17.65 In future programs of this type, the government should ensure that there are safeguards to limit the substitution of program expenditures for expenditures that would otherwise have been undertaken by the programs' partners.

Treasury Board Secretariat's response: *While not disagreeing with the recommendation per se, the government disagrees with the implication that there were no safeguards to limit substitution in Phases I and II. There were and they worked: after two audits and one follow-up, no evidence of significant substitution has been presented.*

Continuing questions about job creation estimates

How much job creation can be attributed to the Program's activities remains unclear.

17.66 The federal government claims that about 130,000 short-term jobs have been created since the Program began in 1994; 24,000 of these are associated with Phase II. The estimate of the short-term employment impacts is basically derived from Statistics Canada's data on the employment effects associated with given levels of investments. The Statistics Canada figures are based on the historical track record of investment expenditures in generating direct employment, both on-site (where the infrastructure is being developed or upgraded) and off-site (supplies and services provided).

17.67 Our 1996 audit recognized a number of strengths derived from the application of the Statistics Canada employment estimation model. However, we also questioned whether it was appropriate to rely on this approach alone. We noted that the assessment of the Program's employment impact would be more balanced if more than one estimation approach were used, particularly for individual projects at the local level.

17.68 We found that the government has not taken any steps either to improve the estimates of employment actually created by the Program, or to clearly set out the limitations of employment estimates in reporting them to Parliament. The Treasury Board Secretariat's Performance Report to Parliament for the period ending 31 March 1998 indicates simply that over 128,000 jobs have been generated by the Program. It provides no information about such matters as the source of the estimates, the duration of the jobs or whether all these jobs can be attributed to the Program.

17.69 The answer to the question of how much job creation can be attributed to the Program's activities remains unclear. If, for example, the Program's funding of infrastructure investment resulted in part in substituting Canada Infrastructure Works Program expenditures for regular, ongoing provincial program expenditures, then the Program's net job creation effects would be correspondingly reduced.

17.70 At the time of our examination, we noted a project where Canada Infrastructure Works Program funds were supplemented by another federal program. Yet until we brought this to the attention of program management, all of the estimates of employment benefits were attributed to the Canada Infrastructure Works Program alone. Subsequent changes were made to the project that dealt with the issue we identified. Where other programs contribute to an infrastructure project, the employment associated with that project cannot be attributed solely to the Canada Infrastructure Works Program.

17.71 In our judgment, the absence of a more thorough assessment of the Program's job creation effects is a crucial omission. The lack of such an assessment erodes the reliability of program performance information, which is essential for adequate accountability to Parliament and Canadians. Furthermore, without adequate performance information there is a risk that program design features of questionable effectiveness will be repeated, should any decision be made to undertake a similar initiative in the future.

17.72 In its Performance Report, the Treasury Board Secretariat should provide Parliament with information on the employment effects of the Canada Infrastructure Works Program that clearly sets out its sources and limitations.

Treasury Board Secretariat's response: *We agree that Parliament should be provided with complete information on the employment effects of the Canada Infrastructure Works Program.*

Financial and Management Controls

Insufficient attention to ensuring control

17.73 As noted earlier, the Canada Infrastructure Works Program is a contributions program. The payment of federal funds is therefore dependent on performance conditions being met and on compliance with program requirements, which include conformity with program targeting and appropriate control of public funds.

17.74 Our current audit has confirmed and extended the findings from our 1996 Report: from an overall federal perspective, the Program is essentially "running on trust", with insufficient attention given to ensuring adequate control of public funds. In several of the provinces we examined, public moneys have been released to municipalities for work undertaken without provincial officials demanding invoices or proof of payment (see Exhibit 17.6). Without this documentation, it is impossible to determine whether claims have been made for expenditures specifically disallowed by the Program, or even whether the expenditures were actually made.

17.75 In every province examined, we observed that federal officials relied on provincial and municipal certifications that the projects were implemented and that costs were claimed in accordance with the federal-provincial agreements and guidelines. The implementation of compliance audits, which represent a means of verifying certifications, has been slow. Compliance audits have almost always taken place after all projects were approved, and in many cases after projects were completely constructed and funds paid out.

From an overall federal perspective, the Program is essentially "running on trust", with insufficient attention given to ensuring adequate control of public funds.

Implementation of compliance audits has been slow

17.76 In our view, timely compliance audits are required to provide assurance to federal and provincial/territorial partners that appropriate financial and management controls are in place and working as intended. Although we recognize that resources are inevitably limited, we believe that timely audit is particularly important where the up-front activities of a program are based on certification only. Federal Treasury Board policy, with respect to terms and conditions for contributions, states: "5.2 (b) Where less control is required, the description of allowable expenditures may be more general and audited assurance such as an audit report may be substituted for receipts and detailed statements of expenditures."

17.77 With the exception of Quebec, and to a lesser extent British Columbia, the Phase II compliance audits are scheduled for completion only after a considerable amount of time has passed

Compliance audits that have been undertaken illustrate the value of a timely and rigorous audit regime.

since the start of the Program. Their completion averages approximately two and one-half years into the Program — six months before most final payments are scheduled to have been processed. In our view, this delay creates two problems. First, if the audits were to identify required changes in program approach, the opportunity to implement these changes might be missed altogether. Second, we are in agreement with some program officials who maintain that if the audits were to identify ineligible costs paid out, it would be more difficult to recover these moneys, as the final payments (including the release of the holdback) would likely have occurred for many of the projects.

17.78 Compliance audit work that had been undertaken for both phases of the Program at the time of our audit illustrates the value of a timely and rigorous audit regime. For example, a provincial compliance audit of a Phase II project identified $121,000 of $516,000 in expenses claimed as potentially ineligible. Upon resolution by the applicable management committee, including subsequent changes to the original project approval date, $49,000 was determined to be ineligible. In still another case, auditors raised questions about $279,000 of $1 million in expenses claimed. As a result of this, the auditors recommended that the provincial ministry concerned

Exhibit 17.6

Compliance Procedures Used Under Phase II

Province	**Payment of Claims**		**Compliance Audit of Phase II**
	Assurance (Federal)	Verification of Invoices (Provincial)	
British Columbia	No	No	Ongoing; completed for selected projects as time and resources permit
Alberta	No	Only small communities; large communities that represent 65% of expenditures are not verified	Planned completion: Fall 1999
Saskatchewan	No	No	Planned completion: Fall 1999
Ontario	Detailed claim form for most projects provides information on cost eligibility	No for most projects; however, varies by implementing department	Planned completion: Fall 1999
Quebec	No	Yes for all projects; ineligible expenses deducted from claims. In addition, compliance audit of a sample based on risk and materiality	Ongoing; completed prior to final payment for selected projects
Nova Scotia	No	Yes for all projects; ineligible expenses deducted from claims	Planned completion: Summer 1999

Source: Office of the Auditor General of Canada; File reviews, interviews and review of departmental audit plans request supporting documentation for the next claim.

17.79 During our own examination of Phase II project files, we noted that both levels of government had paid for some regular, ongoing provincial and municipal worker salaries. Under the Program, for these salaries to be eligible, it had to be demonstrated that these government workers would have been laid off or that they were hired specifically as a result of the project approved. However, in 25 of 167 projects examined, approximately $2.5 million in salaries was paid out without adequate assurance that they were incremental.

17.80 In our view, the federal partner needs assurance that all costs claimed and paid out are eligible as specified in the federal-provincial agreements and program guidelines established for each of the provinces. Because it may be more difficult to recover funds once they have been paid out in full, we urge that a timely review take place in much the same manner as undertaken by the Province of Quebec. In this province, a sample of projects is selected based on risk and materiality, and is audited prior to the final payment. If an adjustment is required, the amount is deducted from the final payment.

17.81 In future programs of this type, the government should ensure that agreements among partners make adequate provision for rigorous and timely compliance audits. Such provisions should clearly assign responsibilities among partners, and specify the coverage, timing and reporting of audits, along with resource levels to be allocated to the compliance audit function.

Treasury Board Secretariat's response: *Compliance audits are a requirement in Phase II and are either completed or under way in all provinces. As Canada Infrastructure Works Program payments are made from one order of government to another, and as these governments have a range of ongoing financial transactions, the risk of not being able to recover any overpayments is minimal.*

Insufficient assurance of value for money

17.82 We found little evidence in the project files we reviewed to indicate that federal officials had looked for assurance that assessments of the technical and financial feasibility of project proposals had been completed by provincial officials. Such assessments would help to establish the technical feasibility of the infrastructure project proposed and to determine whether there are lower-cost alternatives and whether the cost estimates provided in the application are reasonable. In short, such assessments would help ensure value for money.

In all the provinces examined, environmental assessments were undertaken before final project approval.

17.83 The federal-provincial agreements have provisions that limit the possibility of cost overruns being paid. However, we observed several cases where amendments had been made to cover such extra costs. These cases may point to a lack of adequate costing in project proposals. In still another instance, an internal audit identified an approved project with construction standards that were beyond provincial standards. In this case, the issue was dropped, as matters relating to construction standards were not identified during the approval stage. With an up-front assessment, these costs might well have been avoided.

17.84 When we raised these issues with program officials, they claimed that establishing such controls for all projects would add significantly to program operating costs. A possible solution would be to use a selective assessment process tied to the value of the projects concerned, along with a risk assessment based on the individual municipality's track record for infrastructure investment. We do not suggest that the federal government needs to carry out the assessments itself; rather it needs assurance that a system is in place and operating adequately.

17.85 The federal-provincial agreements specify that contracts must be awarded and administered according to provincial administrative, management and contract procedures. This may or may not include the requirement that all contracts be tendered. Among the provinces we examined, only Saskatchewan had guidelines requiring project contracts to be tendered.

17.86 In the majority of the federal and provincial files we examined, we found no information to indicate whether tendering had taken place. In a limited number of cases, however, partial or indirect references in file material showed that the projects had been tendered. Overall, except in the case of one Ontario government implementing department, the project files provided little information about whether or not this control was implemented.

17.87 In future programs of this type, the government should ensure that project proposals are assessed to provide an adequate level of assurance with respect to technical feasibility and financial requirements.

Treasury Board Secretariat's response: *The program design takes advantage of the fact that local and provincial governments have much experience in carrying out infrastructure projects and that they are paying two thirds of the costs. Thus they are both competent and motivated to obtain value for money. Further detailed monitoring by the federal partner would be unlikely to improve the return on the taxpayers' investment.*

Improvements made in fulfilling federal environmental obligations

Selective verification of the implementation and effectiveness of mitigation measures would provide additional assurance.

17.88 Unless excluded under the Exclusion List regulations of the *Canadian Environmental Assessment Act,* all projects recommended for approval are subject to a federal environmental assessment in accordance with that Act. For the purposes of the Canada Infrastructure Works Program, an environmental assessment involves examining the proposed project to ensure that its potential impacts on the environment are identified. In those cases where potential negative impacts are identified, the process requires project proponents to specify the measures they will take to mitigate them. The federal authorities are responsible for ensuring that these assessments are undertaken, including the identification and monitoring of mitigation measures.

17.89 More than half of all Phase II projects did not require environmental assessments. Where they were required, the federal project files in all of the provinces we examined contained evidence that they were undertaken before final federal project approval. As we found in 1996, procedures and documentation varied among the departments. However, for the most part, we noted considerable improvements in the thoroughness of documentation and analysis undertaken for Phase II projects. Unfortunately, we also observed weaknesses in the identification and monitoring of mitigation measures.

17.90 Mitigation measures are designed to deal with potentially harmful environmental effects. Incorporating these measures during the construction of infrastructure projects increases the likelihood that risks to the environment are effectively mitigated. Their implementation is a necessary condition for the receipt of federal funds, and requires monitoring. Mitigation measures need to be clearly specified, along with the project applicant's responsibility for implementing them.

17.91 The results of our examination vary by province, with some project files containing little or no information on mitigation efforts required and others providing very complete information.

Project proponents were asked to certify, either directly or indirectly, that mitigation measures had been implemented. However, we found no evidence in the project files we examined to show that federal authorities had verified whether these measures were put in place and were effective. We believe that such verification, carried out selectively, would provide additional assurance that irreparable damage has not been done to the environment. In this context, we note that in most of the provinces we reviewed, compliance audits do not address matters relating to the implementation of mitigation measures.

17.92 We observed several projects where construction began before federal approval was given, and before an environmental assessment was completed. Because of the short time frame in which Phase II of the program had to be implemented, some provinces informed applicants that they could go ahead with construction. However, the applicants would be responsible for all costs, including any environmental clean-up costs, if the project was not approved. In half of the Ontario projects we examined that required mitigation measures, construction began before the environmental assessment was completed. Two of these projects were entirely constructed before the environmental assessments had been completed. As the mitigation measures had not been specified when construction began, their identification and implementation were left solely to the discretion of the project proponents.

17.93 Beginning construction before federal environmental assessment and project approval does not contravene the provisions of the *Canadian Environmental Assessment Act*. However, it contravenes the spirit of the Act, as irreparable environmental degradation effects are possible. We are concerned that, in many cases, environmental assessments have not occurred early enough in the project planning and approval process to be an effective means of preventing environmental damage. As we observed in 1996, it may be difficult to withdraw support for projects once funding commitments — albeit conditional — have been made.

17.94 In future programs of this type, the government should ensure that:

- **environmental assessments are completed early enough to be taken into account in the project planning and approval process;**
- **necessary mitigation measures are clearly identified; and**
- **a system for obtaining assurance of the implementation of mitigation measures is in place.**

Treasury Board Secretariat's response: *We agree that going beyond the specific requirements of the* Canadian Environmental Assessment Act *is desirable, and that the design of any future program should facilitate that. However, the project approval process would need to retain sufficient flexibility to accommodate special situations.*

Response to 1996 Audit

The government has made limited progress in responding to the recommendations of our 1996 audit of Phase I.

Limited progress on the recommendations of the 1996 Phase I audit

17.95 We concluded that the government has made limited progress in responding to the recommendations of our 1996 audit of Phase I (see Exhibit 17.7). While some changes were introduced as part of the Program's operational guidelines, weaknesses remain with respect to the definition of key program terms and specification of responsibilities. Although federal-provincial agreements were amended to establish provisions for compliance auditing, the results have been disappointing. For the most part, audit activities still have not produced timely information on compliance with the

Exhibit 17.7

Assessment of Program Response to the 1996 Report of the Auditor General

Recommendations Presented as Lessons Learned	Reasonable to Expect a Change in Phase II	Follow-Up Assessment
26.132 A limited role by the federal government in the day-to-day implementation of shared-delivery programs should be balanced in relevant agreements by a strong emphasis on: • a clear statement of objectives and well-defined program criteria consistent with their achievement; • clear and comprehensive delineation of the roles and responsibilities of parties to the agreement; • arrangements to help ensure that the federal government has the means to meet its responsibilities and accountability obligations; and • built-in flexibility to permit efficient administrative changes as required.	Yes	• Limited changes were made to the federal-provincial agreements. • Operational processes and procedures remained essentially unchanged for Phase II except with respect to environmental assessment obligations. • Some positive indicators of change included the following: – Ontario changed project priorities to ensure that projects approved were for traditional infrastructure only; no major changes were observed in other provinces examined. – The construction period was extended to two years when the one-year time frame became problematic. – Environmental assessment obligations were fulfilled prior to federal government project approval but improvements related to mitigation measures were needed.
26.133 The Canada Infrastructure Works Program Office, in consultation with implementing departments, should assess the issues related to additional investment requirements and, where appropriate, develop recommendations for future program initiatives of this type.	Yes	• No changes were made to the federal-provincial agreements, reflecting the findings from the Public Accounts Committee Report, where emphasis was on lessons learned for future programs. • Except for the modification to incrementality provisions in Quebec linked to planned investment levels, no major changes were observed for operational process and procedures for Phase II. • The Treasury Board Secretariat best practices forum acknowledged that incrementality can be measured at the municipal level through a more rigorous technique based on comparing actual expenditures with past spending averages. • The government made a commitment to the Public Accounts Committee that incrementality would be taken into consideration for future programs.
26.136 Where the federal government enters into shared-delivery arrangements, it should ensure that it has the information it needs to exercise its responsibilities and accountability obligations on a timely basis.	Yes	• Changes were made to all of the federal-provincial agreements to include a requirement for compliance audit. • Implementation has been slow, resulting in concerns about timeliness in some provinces examined.
26.141 Program managers should identify, and use as appropriate, multiple sources of evidence when estimating the employment effects that can be attributed to programs such as the Canada Infrastructure Works Program. In addition, information on employment effects provided to Parliament should clearly set out its limitations.	Yes	• Reliance continues to rest solely on the Statistics Canada method for employment creation estimates. • Reports on employment effects do not set out limitations.
26.142 Responsible departments should ensure that evaluations of this and similar programs produce credible findings on key impacts and effects.	No	• A reasonable expectation would be that evaluation activities occur once every five years; hence, it would be unreasonable to have expected that another evaluation would have been undertaken at the time of this audit.

Source: Office of the Auditor General of Canada

Program's terms and conditions. There has been no progress on our 1996 recommendation relating to the need to improve the measurement and reporting of job creation effects. Improvements have been made in fulfilling federal environmental obligations, but more work remains to be done.

Improvements are needed in federal-provincial agreements

17.96 The federal-provincial agreements play a pivotal role in the implementation of the Program. We assessed the adequacy of the current agreements in the context of the problem areas identified through our audit, and also based on a comparison with the provisions of other types of federal-provincial agreements.

17.97 We concluded that in any future program activities of this type, the agreements could be improved in several areas. First, the term "infrastructure" could be defined more clearly. Also, project selection criteria need to be clarified, particularly in support of objectives relating to generating additional infrastructure investment and creating employment.

17.98 Further, continuing concerns with the timeliness and coverage of compliance audits indicate that a more explicit delineation of the responsibilities of the federal and provincial partners is needed in these areas.

17.99 Finally, we recognize that the federal government took important steps during Phase I to implement a program evaluation. However, despite evidence of deficiencies from this source, as well as from our 1996 audit and compliance audits, program management has not made the necessary adjustments. Hence, we believe there is a need to incorporate more rigorous and formal provisions within agreements to address problems revealed by feedback on performance.

Conclusion

17.100 This audit and our 1996 audit confirm that both phases of the Canada Infrastructure Works Program were implemented quickly. There is no doubt that participants and managers alike view the Program very positively.

17.101 In this audit, we were particularly concerned to determine whether the Phase II projects conformed to the targeting and project selection requirements of the relevant federal-provincial agreements. Our conclusion is that, overall, there is a lack of clarity in a number of key targeting requirements established as part of the Program's design, including what actually constitutes infrastructure or an incremental investment for the purposes of the Program.

17.102 The Program's approach may well have produced several benefits; however, there is still a need for adequate financial control and timely, reliable performance information. We have concluded that financial and management controls for this program are inadequate.

17.103 Grants are unconditional payments made by the federal government to individuals and organizations, whereas the payment of a contribution is subject to performance conditions that are specified in a contribution agreement. The recipient must show that these conditions are being met in order to be reimbursed for specific costs over the life of the agreement. The government can also audit the use of contributions, whereas this is usually not a requirement for a grant. While there can be some blending of the requirements involved, the accountability requirements for contributions are generally more onerous than for grants.

17.104 The government specifically chose the option of contributions over that of grants as a means of delivering the Canada Infrastructure Works Program. However, we have found that, from an overall federal perspective, the Program is essentially "running on trust", with little confirmation that performance conditions are being met.

17.105 Although the positive features of the present program approach cannot be ignored, we believe that certain controls need to be put in place to provide assurance that public funds are spent economically, efficiently and effectively, and that accountability for results is achieved. We do not suggest that the federal government itself needs to exercise up-front controls. It does, however, need assurance that controls are in place and working adequately. In this regard, a rigorous compliance audit function needs to be implemented in a timely manner.

Certain controls need to be put in place to provide assurance that public funds are spent economically, efficiently and effectively.

17.106 The absence of adequate financial and management controls for this program is not the first case where we have identified such problems. Our December 1998 Report, Chapter 25 Transport Canada — Investments in Highways, identified similar concerns. We believe that if the government puts in place a set of conditions, it is reasonable to expect it to institute mechanisms to ensure adherence to those conditions.

17.107 We found that progress has been made in the extent to which Phase II of the Program conforms to the requirements of the *Canadian Environmental Assessment Act*. We have concluded that the requirements of the Act are being met with respect to assessments of environmental impacts. However, where negative environmental effects have been identified, requirements for specifying and monitoring the implementation of mitigation measures are inadequate.

17.108 The government has made limited progress in responding to the recommendations of our 1996 audit of Phase I of the Program. Most of our Phase I recommendations addressed issues that could have been pursued under Phase II, but were not. In view of the size of the expenditures involved in Phase II operations, this lack of progress is a source of concern.

Treasury Board Secretariat's response: *Commencing in 1994, Canada Infrastructure Works was at the leading edge of intergovernmental collaboration in the effective delivery of a trilateral program. It has resulted in $8.3 billion being invested in over 17,000 projects across Canada, and involved hundreds of governmental organizations each adding their particular strengths to keep administration costs to a minimum. All of this was accomplished without any financial mismanagement.*

Unfortunately, the auditors have approached their review as if Canada Infrastructure Works was a standard federal contribution program requiring the traditional amount and type of supervision above and beyond meeting the legal requirements. This fails to recognize that each of the three orders of government involved had investments at stake, each was competent to effect its part of the collaborative program delivery and that each had audit and evaluation capabilities as well as political oversight.

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

About the Audit

Objectives

Our objectives were:

- to determine whether the projects undertaken in Phase II conform with the targeting and project selection requirements of the relevant Infrastructure Works agreements;
- to determine the adequacy of the financial and management regime pertaining to Phase II;
- to determine the extent to which Phase II conforms with the requirements of relevant environmental law; and
- to determine the extent to which the observations and recommendations made in the 1996 Report of the Auditor General, which could have been acted upon in the program extension, have been acted upon.

Scope and Approach

We selected British Columbia, Alberta, Saskatchewan, Ontario, Quebec and Nova Scotia for audit in order to ensure geographic representation and coverage of 90 percent of the program's federal expenditures. We examined a sample of federal files and the corresponding provincial files. As well, in selected cases, we broadened our review to include an examination of the corresponding municipal project files. All projects that received a federal contribution of greater than $1 million (56) were examined, with the remainder selected at random and stratified by project class to ensure a comprehensive sample. Altogether, we reviewed 167 federal, 107 provincial and 12 municipal project files.

In addition, because of its unique features, we examined the First Nations Infrastructure Initiative strictly in terms of its planning and approval processes. We did not examine project files.

Criteria

Our audit was based on the following criteria:

- Actions should have been taken on recommendations made in the 1996 Report of the Auditor General that apply to Phase II of the Program.
- Financial and management control of program expenditures should comply with relevant federal policies.
- Program management should ensure that a program accountability framework is developed and clearly communicated, including assignment of responsibility for the achievement of results.
- Program management should set out clear operational objectives that define "success" and provide the basis for program implementation.
- Program management should measure, monitor and clearly report on results achieved to legislators and within and among federal/provincial partners.
- Program management should be supported by reliable, relevant and timely information on program needs, operations and performance.
- Program processes and procedures and their implementation should further the achievement of program objectives and comply with the terms of the agreements, while controlling costs.

- Program management should ensure that each project has been assessed for potential environmental concerns.
- The Program should be implemented in conformity with the requirements of *The Canadian Environmental Assessment Act*, where applicable.

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