Chapter 17

Other Audit Observations

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Other Audit Observations

Main Points

17.1 The *Auditor General Act* requires the Auditor General to include in his Reports matters of significance that, in his opinion, should be brought to the attention of the House of Commons.

17.2 The "Other Audit Observations" chapter fulfils a special role in the Reports. Other chapters normally describe the findings of the comprehensive audits we perform in particular departments, or they report on audits and studies of issues that relate to operations of the government as a whole. This chapter reports on specific matters that have come to our attention during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

17.3 The chapter normally contains observations concerning departmental expenditures and/or revenues. The issues addressed generally involve failure to comply with authorities, and the expenditure of money without due regard to economy.

17.4 Observations reported in this chapter cover the following:

- Space was leased at an excessive cost for a Canada Business Service Centre in Sydney, Nova Scotia that was never operated as intended;
- Inappropriate netting of benefit payments obscures the true size of government revenues and expenditures and complicates the evaluation of fiscal measures;
- Government programs and spending for Parc Downsview Park Inc. lack clear parliamentary authority;
- Non-recovery of expenditures for safe drinking water on Indian reserves affected by Manitoba Hydro development; and
- Significant risk that a $113 million relocation project will not adequately address the needs of the Innu.

17.5 Although the individual audit observations report matters of significance, they should not be used as a basis for drawing conclusions about matters we did not examine.

Introduction

17.6 This chapter contains matters of significance that are not included elsewhere in the Report and that we believe should be drawn to the attention of the House of Commons. The matters reported were noted during our financial and compliance audits of the Public Accounts of Canada, Crown corporations and other entities, or during our value-for-money audits.

17.7 Section 7(2) of the *Auditor General Act* requires the Auditor General to call to the attention of the House of Commons any significant cases where he has observed that:

- accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
- essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue, and to ensure that expenditures have been made only as authorized;
- money has been expended other than for purposes for which it was appropriated by Parliament;
- money has been expended without due regard to economy or efficiency;
- satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or
- money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

17.8 Each of the matters of significance reported in this chapter was examined in accordance with generally accepted auditing standards; accordingly, our examinations included such tests and other procedures as we considered necessary in the circumstances. The matters reported should not be used as a basis for drawing conclusions about matters not examined. The instances that we have observed are described in this chapter under the appropriate department headings.

This chapter contains a number of observations on matters of significance not included elsewhere in the Report.

Atlantic Canada Opportunities Agency and Public Works and Government Services Canada

Space was leased at an excessive cost for a Canada Business Service Centre in Sydney, Nova Scotia that was never operated as intended

In September 1995, Public Works and Government Services Canada (PWGSC) on behalf of the Atlantic Canada Opportunities Agency (ACOA) entered into a lease for space at 338 Charlotte Street in Sydney that was to be used as a Canada Business Service Centre (CBSC). The amount of space leased, the fit-up costs, the rental rate per square metre, and the number of parking spaces acquired were all higher than those of the other Canada Business Service Centres in the Atlantic region. The occupancy costs for the CBSC in Sydney were 20 to 30 percent (or about $200,000) higher than for buildings of superior quality in downtown Sydney.

In October 1995, ACOA sublet all of the space to the Enterprise Cape Breton Corporation, the Province of Nova Scotia and non-government organizations. ACOA is still responsible for the lease and continues to pay for shortfalls in the rent collected.

In our opinion, PWGSC and ACOA did not ensure that the acquisition of space in Sydney represented value for money, and they did not conduct the process in a transparent manner.

Background

17.9 Canada Business Service Centres (CBSC) are a federal initiative, aimed at streamlining government services and improving access to them by businesses. They are one-stop storefront centres that house business services delivered by all three levels of government. Each service centre provides an electronic information centre and a walk-in counselling service. The 1994 Budget announced CBSCs as a government priority to establish a network of 10 hub centres across Canada — one in a major urban area of each province. In Atlantic Canada, ACOA led the initiative on behalf of the federal government. Initially, the government approved the establishment of four CBSCs in Atlantic Canada — at Fredericton, Charlottetown, Halifax and St. John's. ACOA developed and implemented a work plan that co-ordinated the launch and promotion of CBSCs in all four provinces.

17.10 On 10 November 1993, senior officials of ACOA and the Minister responsible for both ACOA and PWGSC discussed establishing a Canada Business Service Centre in Sydney. The Sydney Centre was to share a number of features with the other centres in the national network: common information resources; staff with a comparable classification; national service standards and evaluation requirements; and interconnectivity with other sites. ACOA would share the Centre with seven other federal government organizations as well as provincial and municipal partners.

17.11 In September 1995, PWGSC signed a six-year, $1.1 million lease on ACOA's behalf, with two additional one-year options. The lease was for space at 338 Charlotte Street in Sydney to house a Canada Business Service Centre. On 1 October 1995, ACOA sublet the entire space to the Enterprise Cape Breton

Corporation, the Province of Nova Scotia and non-government organizations.

17.12 In April 1998, the Province of Nova Scotia entered into a 10-year lease with the property owner for part of the space it had sublet from ACOA. In September 2001 the Province will assume the lease for all of the rentable space in the building.

17.13 In his December 1999 Report, the Auditor General of Nova Scotia expressed concern about the lease arrangement signed by the Province in April 1998. He noted that the Province was paying 30 percent above market rate. It had bypassed the normal property management process to negotiate the lease and had made a future commitment to lease space for which it had no identified need. Because the Province had subleased this space from the federal government prior to signing its own lease, the Auditor General of Nova Scotia brought these concerns to our attention.

Issues

Unjustified space requirements

17.14 In March 1994, ACOA identified a need for 300 m^2 of office space for a Canada Business Service Centre in downtown Sydney. It asked PWGSC to obtain the space in a building at 338 Charlotte Street. This amount of space was comparable with that of other Canada Business Service Centres that ACOA had established in the Atlantic region. However, the call for tenders in June 1994 specified a need for 600 m^2. The tender call was amended one week later to increase the space requirement to 700 m^2 — the total rentable space in the three-storey building. The CBSCs in Halifax, Fredericton and St John's were already operating with 330 m^2, 392 m^2 and 300 m^2 respectively.

17.15 At ACOA's request, PWGSC included in the call for tenders a requirement for 50 parking places at the Sydney location. The other CBSCs established by ACOA have substantially fewer parking places — five in Fredericton, three in Charlottetown, eight in St. John's and none at the Centre in downtown Halifax. Eventually, ACOA accepted the landlord's offer to provide 25 parking places and later agreed to 12 on-site and 13 off-site parking places. Neither ACOA nor PWGSC could provide us with a reason why the Sydney CBSC required more parking than the four other CBSCs in the Atlantic region.

17.16 **Our concern.** The amount of office space and the number of parking places acquired for the Sydney location greatly exceeded those of other CBSCs in the Atlantic region.

The amount of office space and the number of parking places acquired for the Sydney location greatly exceeded those of other Canada Business Service Centres in the Atlantic Region.

Excessive costs

17.17 A market survey of the Sydney area that PWGSC had already conducted indicated that the building acquired for the CBSC had a rental rate, including client fit-up renovations, that was 20 to 30 percent higher than buildings of superior quality in downtown Sydney. The annual rental rate, excluding client fit-up renovations and business occupancy taxes, was $280 per square metre ($26.01 per square foot). PWGSC calculated that client fit-up and occupancy taxes added an additional $88 per square metre ($8.17 per square foot) to the annual cost of the lease.

Canada Business Service Centre at 338 Charlotte Street, Sydney, CBSC undergoing initial building renovations (see paragraph 17.17).

17.18 The client fit-up renovation costs of $190,000 for the Sydney location, although significantly lower than the $275,000 originally estimated by the landlord, were three to five times higher than the fit-up costs for other CBSC locations in the Atlantic region. The Auditor General of Nova Scotia noted that in 1998 the Province spent an additional $189,000 for the fit-up renovation of space in the same building.

17.19 **Our concern.** PWGSC determined prior to acquiring the space that the occupancy costs for this building significantly exceed the rates for other space of superior quality in the same area, by 20 to 30 percent (or roughly $200,000).

Use of the leased space

17.20 Having sublet the building space, ACOA is responsible for any shortfall between the rents it receives for the sublet space and the amount stipulated in its lease with the landlord. Thus, from September 1995 to March 2000, ACOA paid $116,903 in rent shortfalls for space it did not use.

17.21 The facility was never used for the purpose indicated in the documents justifying the acquisition of space — to operate a full-service Canada Business Service Centre. The CBSC was to be a shared arrangement with seven other federal government organizations as well as provincial and community partners. Seven of the eight federal government organizations that had initially been identified never occupied the premises. According to our information, at most only two federal employees were ever located at this site.

17.22 **Our concern.** Although ACOA has continued to pay a portion of the rent, the facility has never operated as a full-service CBSC.

Lack of openness, fairness and accountability

17.23 We found that throughout the leasing process neither PWGSC nor ACOA ensured that the process was conducted, and was seen to be conducted, openly and fairly.

17.24 In its original request, ACOA indicated to PWGSC that there was an urgent need to have the site suitable for occupancy within four months — by 1 June 1994. However, the lease was not signed until September 1995, 18 months after ACOA told PWGSC it needed the space. ACOA indicated orally to PWGSC that the Minister supported the location of the Business Service Centre on Charlotte Street. At least twice in March 1994, PWGSC wrote to ACOA requesting confirmation of ministerial support; ACOA neither confirmed nor refuted such support in writing.

17.25 PWGSC informed ACOA that its request for the Sydney location did not allow enough lead time for a public tender call. In order to proceed, approvals within PWGSC would be needed to exceed the standard office costs and renovations and to limit the geographic area eligible for public tenders. Furthermore, PWGSC said it expected that the rental rate would be above market rate.

17.26 Files for the four other CBSCs established by ACOA include reports indicating the buildings that were considered, a comparison of costs, other considerations, and recommendations for the selection, with supporting rationales. We could find no comparative analysis or rationale to support the rejection of other sites in Sydney.

17.27 In June 1994, a public notification of the call for tenders was posted by PWGSC and placed on the Open Bidding Service and the Government Business Opportunities bulletin boards. This call for tender initially specified a need for 600 m2 of space and an unusually high requirement of 50 on-site parking places. It also restricted the eligible location to a five-block section along a single street. The only bid received in response to the

tender was deemed non-compliant since the bidder could not provide the on-site parking.

17.28 We reviewed documentation indicating that two other parties subsequently contacted PWGSC. One advised that it had not submitted a bid because it could not supply the required parking. The other indicated that it would be interested in bidding if the project were to be retendered. We found that after the initial call for tenders, no further public notifications followed, notwithstanding that in subsequent negotiations with the sole bidder the space requirements increased, the parking requirements were reduced, and the occupancy dates were changed.

17.29 In August 1994 the Deputy Minister's office advised the PWGSC Atlantic region that the Minister's office supported negotiating directly with the lone bidder, and officials should proceed with the negotiation immediately and report on their progress.

17.30 Throughout the leasing process, PWGSC challenged ACOA about the limits on the geographic area open to competition, the continuing changes to requirements, and the excessive rental and renovation rates. PWGSC indicated its concern that the process would not obtain the best value for the taxpayer or allow an opportunity for the public to participate in the tendering process. However, at no time did PWGSC halt the leasing or the renovation process.

17.31 Both PWGSC, as the central government leasing agent, and ACOA, as the client, had an obligation to ensure that the amount of space to be occupied was the minimum necessary for effective program delivery and represented the most economical use of government resources. The leasing process for the building in Sydney proceeded in the face of PWGSC's concerns about ACOA's request to negotiate a sole-source contract for the property at 338 Charlotte Street, its contention that an in-service date of 1 June 1994 was urgently needed, and the amount of space it said it required.

17.32 **Our concern.** In our view, this acquisition did not meet the objective of the Treasury Board Open and Fair Real Property Transactions Policy: "To ensure that real property transactions are, and are seen to be, conducted with openness and fairness." Consequently it was not carried out in a manner that would stand the test of public scrutiny in matters of prudence and probity.

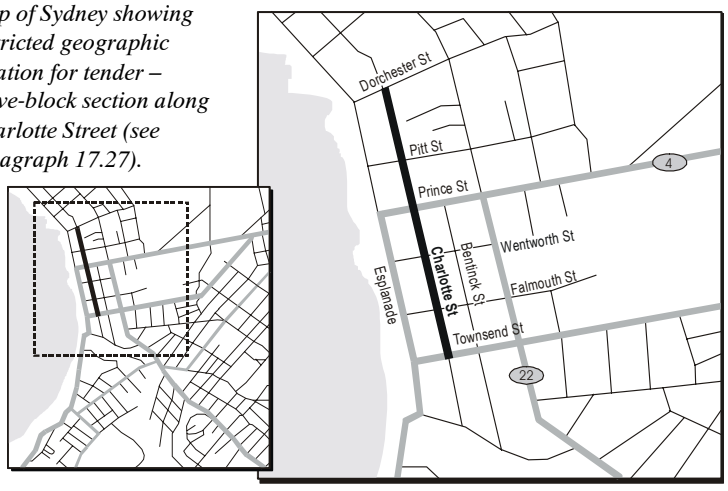
In our view, this acquisition did not meet the objective of the Treasury Board Open and Fair Real Property Transactions Policy.

Previous internal reviews

17.33 PWGSC and ACOA conducted internal reviews of this lease. The reviews were limited to preliminary surveys and did not identify issues for further audit.

17.34 In 1995 the Minister's Office asked PWGSC to review the events leading up to and including the acquisition of the leased accommodations. The focus of that review was not on value for money but on assessing the extent to which PWGSC had followed central agency and departmental policy and procedures in procuring space and had provided an appropriate response to the space requirement identified by ACOA.

Map of Sydney showing restricted geographic location for tender – a five-block section along Charlotte Street (see paragraph 17.27).



17.35 We reviewed the PWGSC audit files and the preliminary survey report from that review. It had concluded that:

- PWGSC had followed the government contracting regulations;
- the decision to proceed with negotiations with the sole bidder had been appropriate and consistent with government contracting practices;
- PWGSC had been mindful of the requirements to demonstrate prudence and probity in contracting;
- ministerial letterhead had been used inappropriately by a senior departmental employee assigned to the Minister's office to convey information in August 1994 that was the basis for proceeding with direct negotiation;
- no evidence was found of direction by the Minister or the Minister's staff; and
- there were no material issues that warranted further examination.

17.36 ACOA's internal audit division reviewed the documentation related to the Agency's involvement in the tendering and awarding of the contract for the lease of the Sydney space for a CBSC. The results of that review were incorporated into the PWGSC report. ACOA's internal audit review concluded that the Agency had acted prudently in providing information to PWGSC. The review found that in the tendering process, the determination of space requirements and the identification of the eligible area, the Agency's approach to the Sydney tender was consistent with its approach at other Atlantic Canada locations of Canada Business Service Centres it administers. ACOA has not supplied us with any working papers to support its conclusions.

17.37 **Our concern.** Our conclusions differ from some of those reported by PWGSC and ACOA.

Conclusion

17.38 In our opinion, the lease to acquire the space at 338 Charlotte Street does not represent value for money, because:

- the facility never operated as a full CBSC, although that was the original justification for the space requirements;
- the rental rate was higher than the market rate for space of superior quality;
- the stated requirements for space and parking exceeded requirements to operate a CBSC; and
- the urgency of the need for the space was not justified.

17.39 Space for the CBSC in Sydney was not acquired in a way that would meet the test of public scrutiny in matters of prudence and probity and ensure that "real property transactions are, and are seen to be, conducted with openness and fairness," because the process:

- focussed on one building from the beginning;
- continued despite the bidder's non-compliance with the requirements; and
- continued with frequent and significant changes to the requirements.

Public Works and Government Services Canada's response: *Public Works and Government Services Canada is fully supportive of achieving value for money in the procurement process. However, the focus of the internal review was not value for money, and accordingly did not present a conclusion on the value-for-money issues addressed by the Auditor General.*

Atlantic Canada Opportunities Agency's response: *The creation of the Canada Business Service Centres network was publicly announced as a federal government priority. However, it was a priority that often depended on the participation of many partners — up to 15 organizations had expressed an interest to participate in the Sydney undertaking. While the Agency is disappointed that many potential partners eventually decided not to offer their services from a shared location, the Agency was successful in signing substantial subleases that reflect changed circumstances and that limit the federal government's losses until its lease expires in less than a year.*

The Agency recognizes the need for all real estate transactions to be conducted in a manner that not only is, but may be seen to be, able to meet the tests of probity, prudence, openness and fairness.

Audit Team

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Government Financial Reporting

Inappropriate netting of benefit payments obscures the true size of government revenues and expenditures and complicates the evaluation of fiscal measures

The government's Budget and certain financial statements in the Public Accounts and the Annual Financial Report show revenues and expenditures net of payments for the GST credit and the Canada Child Tax Benefit. These payments constitute cash transfers to individuals and should be recorded as part of government spending. Offsetting them against revenues (in effect, treating them as tax reductions) results in confusing and misleading financial disclosure. Over time, this practice results in showing both tax revenues and program spending as much lower amounts than they really are. In the current year, the difference is approximately $9.5 billion.

Background

17.40 The GST credit and the Canada Child Tax Benefit (CCTB) are programs that provide cash payments to low- and middle-income Canadians. GST credit payments are made quarterly and CCTB payments monthly. They are delivered through the tax system: the Canada Customs and Revenue Agency determines eligibility and sends out payments based on returns filed by beneficiaries. Amounts paid are based on family composition and income.

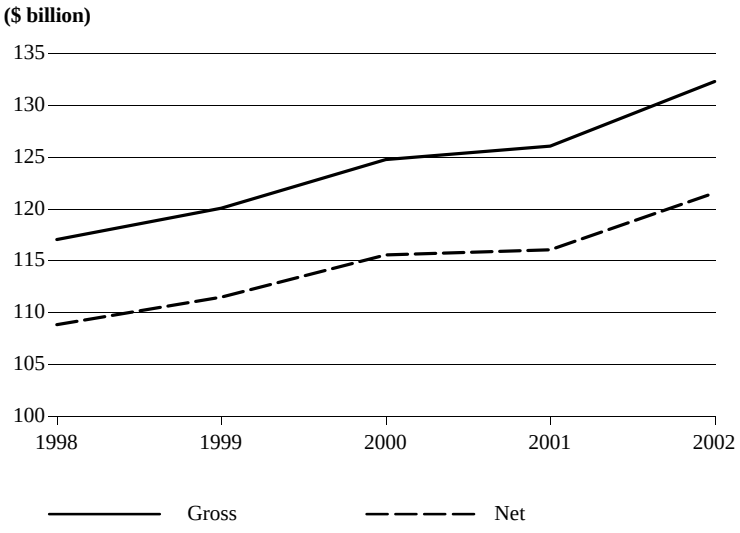
17.41 Budget documents and some financial statements in the Public Accounts and the Annual Financial Report show these payments as reductions in taxes. As a result, at times the government's financial statements show aggregate spending and tax revenues lower by the amount of these payments (see Exhibit 17.1).

17.42 The amounts involved are significant and growing. In 1990–91, Child Tax Credit payments amounted to $2.1 billion. This year, payments under CCTB (the successor to the Child Tax Credit and family allowances) are estimated at some $6.5 billion and by 2004 are projected to exceed $9 billion. Sales tax credits have grown from $700 million 10 years ago to roughly $3.0 billion today.

17.43 For a number of years, this Office has expressed concern about the government's practice of netting GST credit payments and CCTB payments against revenues. While the practice has no impact on the government deficit or surplus (since both revenues *and* expenditures are reduced by the same amount), it results in confusing and even

Exhibit 17.1

Program Spending — Net and Gross of GST Credit and CCTB



misleading financial information. The problem has become more serious over the years, as reliance on the tax system to deliver social transfers has increased.

Issues

17.44 Financial statements that reflect the government's financial situation clearly and fairly are essential to an informed citizenry and to democratic accountability. The netting of GST credit payments and CCTB payments against revenues obscures the true size of government and complicates the scrutiny and evaluation of the government's performance.

17.45 In the government's view, treating GST credits and CCTB payments as tax reductions is appropriate because, as argued in *The Budget Plan 2000*, they "are integral parts of the tax system. These programs are administered through the tax system. They are thus netted from tax revenues for budgetary purposes".

17.46 The government is saying, in effect, that the medium is the message. But why should the method of delivery trump substance in classifying a program? Transfers made under the GST credit and CCTB programs differ little from other transfer payments: they provide cash benefits to individuals and households that satisfy certain criteria for eligibility. Administering them through the tax system does not convert these transfers into tax reductions. Recipients qualify on the basis of income and demographic characteristics. That is the same basis, for example, on which OAS/GIS benefits are also delivered. Should we offset those payments against taxes as well?

17.47 Objective accounting principles place GST credit payments and CCTB payments squarely on the expenditure side of the government's ledger. As specified in the International Monetary Fund's *A Manual on Government Finance Statistics*, any payments to taxpayers (other than reimbursements for incorrect collections), "whether referred to as tax refunds, tax credits, or by any other term, are classified as government expenditure". Similarly, in the Canadian System of National Accounts (patterned closely after the international standard described in the UN publication *System of National Accounts*), Statistics Canada treats both GST credit payments and CCTB payments as government spending and reports government revenues and expenditures gross of these amounts. This treatment conforms to principles enunciated by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, which require that revenues and expenditures be disclosed on a gross basis.

17.48 Some presentations in the government's Annual Financial Report and in the Public Accounts show revenues and expenditures both gross and net of GST credit payments and CCTB payments. This creates confusion — needlessly, since, as argued here, netting these payments against revenues is inappropriate.

17.49 For the most part, budget documents report revenues and expenditures on a net basis only. An annex to *The Budget Plan 2000*, tabled by the Minister of Finance with his Budget last February, shows the CCTB and several other tax credits as both tax reductions and expenditure increases. However, in the rest of that document, and in other budget papers as well, the GST credit and CCTB payments are treated as tax reductions only and are netted against revenues. In our opinion, this results in misleading financial disclosure. To illustrate: Appropriately accounted for, projected reductions in personal income taxes under the February 2000 Budget's five–year tax–reduction plan would be shown as $32.5 billion, not $39.5 billion as reported in the Budget (since roughly $7 billion of the reported "tax reductions" consist of CCTB payment increases); the ratio of spending increases to tax

Transfers made under the GST credit and Canada Child Tax Benefit programs differ little from other transfer payments.

decreases (over the period 2000–03) from initiatives announced in that Budget would be close to 50:50, not 40:60 as budget figures imply; and program spending this year as a proportion of GDP would be shown at 12.6 percent, not 11.6 percent.

Conclusion

17.50 Payments made under the GST credit and CCTB programs constitute government spending, similar to that of other income-tested transfer payments to individuals. For reasons of efficiency and effectiveness, they are delivered through the tax system. They are not thereby transformed into tax reductions: they remain expenditure items. Consistent with that fact and in compliance with objective accounting principles, they should be reported in the government's books as government expenditures. The practice of treating them as tax reductions and netting them against revenues results in confusing and misleading financial disclosure, and should be discontinued.

Department of Finance's response: *There are strong policy arguments in favour of netting the CCTB and GST credit, as explained below. And, as the Auditor General's observation states, the accounting practice has "no impact on the government's deficit or surplus." Furthermore, information on both a gross and net basis is presented in the Annual Financial Report and the Public Accounts of Canada, and the 2000 Budget presented the impact of the tax expenditure initiatives both as a tax reduction and a spending initiative. Given that information is presented both on a gross and a net basis, it is therefore difficult to see how the presentation in the financial statements can be "misleading."*

The issues involved are much more complex than those indicated in the Report. For example, is it the mechanism used to deliver a benefit or the intent that should determine the classification? This is especially applicable with respect to the low–income GST credit, which was introduced at the same time as the GST was implemented. The low–income GST credit replaced the federal sales tax (FST) refundable credit, which was introduced in the mid–1980s when the FST rate was increased and its base expanded. The intent was to compensate lower–income Canadians for the incremental price effect of replacing the manufacturer's sales tax with the GST. One way this could have been done would be to assign special cards to these Canadians, giving them a lower rate at the time of purchase and thereby reducing revenues in the same way as netting. This is in fact what is being done for new house purchases where the rate is about 4.5 percent rather than 7 percent and the rebate is netted against GST revenues. Another option would be to have these people remit receipts of amounts of GST paid and provide applicable rebate. This is what is done for foreign visitors, which again is netted against GST revenues. It is also what is done for municipalities and not–for–profit organizations. However, from an administrative perspective, these options to deliver a lower rate or rebate to low–income Canadians would be extremely difficult and costly to administer and open to abuse. So instead, the lower rate or rebate is being delivered through a refundable tax credit, which is netted against GST revenues, in the same manner as the other lower rates and rebates. This was done out of administrative convenience but the intent is clear. There are similar issues with respect to the Canada Child Tax Benefit, which is provided to a significant number of Canadians who do pay income tax.

The audit observation deals only with the CCTB and GST credit, implying that these are the only items involved. However, there are also issues surrounding the recording of revenues from consolidated Crown corporations, revenues received by departments/agencies for services provided and revenues earned from past

and previous borrowings. The issues involved are different from those concerning the CCTB and GST credit, which are not addressed in the observation.

The Report implies that the government is misleading Canadians on the impact of its Five–Year Tax Reduction Plan. However, this is not an issue about accounting. The government has been very clear on what is included in the Plan and what is not, irrespective of the accounting conventions used. It is about what impacts average Canadians, whether they pay taxes or not.

Audit Team

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Parc Downsview Park Incorporated

Parliamentary control of programs and spending

Our recent annual Auditor's Reports on the financial statements of Canada Lands Company Limited and its subsidiary, Parc Downsview Park Incorporated, refer to the fact that the Government of Canada has not requested — and accordingly, to date, Parliament has not provided — clear and explicit authority for the creation and operation of an urban park, nor has Parliament authorized the related spending of public funds.

In our view, if the Government of Canada wishes to set up an urban park and invest more than $100 million of public funds therein, it should have clear and explicit approval from Parliament to do so.

Downsview Park was incorporated in July 1998 and began operations in April 1999.

Background

17.51 In its 1994 Budget, the government announced the closure of Canadian Forces Base Toronto at Downsview. The National Defence Budget Impact Paper, referred to in the Budget, went on to say "[the] Downsview site will be held in perpetuity and in trust primarily as a unique urban recreational green space for the enjoyment of future generations."

17.52 In November 1995, the government approved the following principles for development of the park:

- Retain more than one-half of the site as parkland.
- Be "self-financing" from sources outside federal appropriations (with some limited exceptions) including the ability to raise limited debt from the private sector.
- Be capable of raising and retaining other qualifying revenues, and forming corporate relationships with third parties for this purpose.
- Operate on the principle of a "trust concept" recognizing the special nature of these lands.
- Accommodate a continuing military presence.

17.53 In April 1997, the government issued an order-in-council authorizing Canada Lands Company Limited to set up a subsidiary corporation to develop the park.

17.54 Canada Lands Company Limited, originally named Public Works Lands Company Limited, was incorporated under the *Companies Act* in 1956. Its charter, continued under the *Canada Business Corporations Act*, specifies the following purposes and objects: to acquire, purchase, lease, hold, improve, manage, exchange, sell, turn to account or otherwise deal in or dispose of real or personal property or any interest therein. Canada Lands Company Limited (Canada Lands) was listed as a parent Crown corporation in 1984 in Part I of Schedule III of the *Financial Administration Act (FAA)*.

17.55 Canada Lands incorporated Parc Downsview Park Inc. (Downsview Park) as a wholly owned subsidiary Crown corporation in July 1998, and Downsview Park began operations in April 1999.

Issues

17.56 In order to implement its intentions for Downsview Park, the government has:

- issued an order-in-council authorizing Canada Lands to incorporate a new Crown corporation, Parc Downsview Park Inc., as a subsidiary of Canada Lands

pursuant to paragraph 91(1)(a) of the *Financial Administration Act*;

- transferred control and responsibility, as well as the benefits from management of the Downsview lands, to Canada Lands and subsequently to Downsview Park under a management agreement with National Defence, while National Defence continues to hold title to the lands;

- provided initial funding of Downsview Park from an existing National Defence vote; and

- issued an order-in-council authorizing the transfer of the first parcel of land (about 32 acres) to Downsview Park pursuant to paragraph 16(1)(a) of the *Federal Real Property Act*.

17.57 Also, in contrast to the normal practice when the government transfers properties to Canada Lands, the proceeds from the development and operation of properties transferred to Downsview Park will not be deposited in the Consolidated Revenue Fund; rather, they will be spent on the development and operation of the park.

17.58 Parliamentary authority was not sought for any of the above-noted activities.

No parliamentary approval to develop the Downsview Park

17.59 Downsview Park, a unique, urban recreational green space owned and operated by the Government of Canada, represents a significant departure from national parks. Rather than a wilderness that needs to be protected, Downsview Park is an urban site that is being transformed into a park.

17.60 Despite some similarities, there are significant differences in mandates and operating characteristics between Canada Lands, the parent corporation (commercial property disposal) and its subsidiary (non-commercial park management).

17.61 Normally, when a new Crown corporation is established with unique operating characteristics, it receives a mandate from Parliament through legislation establishing a parent Crown corporation. In this case, the government chose to set up Downsview Park as a subsidiary. It required only an order-in-council to accomplish its purpose.

No parliamentary approval to spend funds on the Park

17.62 In August 1998, the government confirmed its intentions for Downsview Park:

- Land intended for residential and commercial development would be transferred to Downsview Park and the net proceeds of the subsequent development would accrue to the Park.

- Leasing revenues generated by interim management of the site would accrue to Downsview Park.

17.63 Downsview Park was capitalized by $2.9 million of surplus funds generated by property management activities at the Downsview Park base up to 31 March 1999. Leasing revenues for the next four years are expected to exceed $20 million.

17.64 Half the land (300 acres) will be used for commercial or residential development. The other 300 acres will be developed as a park. Downsview Park expects that commercial and residential development will generate more than $145 million over the next 15 years for developing and operating the park.

17.65 In August 1999, the Treasury Board approved the first transfer of land for commercial development and acknowledged that Downsview Park would not be in a position to pay anything for the land for “decades.”

17.66 Normally, the government acquires land to meet its needs to deliver a program, such as National Defence. When the land is no longer needed for program

The government chose to set up Downsview Park through an order-in-council.

Proceeds from the development of Downsview Park will not be deposited in the Consolidated Revenue Fund.

purposes, it is declared surplus and is sold. The proceeds from the sale are returned to the Consolidated Revenue Fund (CRF). Parliament then votes on its program priorities and appropriates money from the CRF through the Estimates process. This process is intended to ensure that spending of public money is authorized by Parliament.

17.67 In the case of Downsview Park, the government has, in substance, transferred assets to another entity and, by developing those assets, intends to fund new program activities. Parliament was not asked to appropriate funds for development of the park and for park activities.

The government needs to get clear and explicit approval from Parliament for Downsview Park.

Other problems due to the mechanisms used to create Downsview Park

17.68 The government's choice of the subsidiary corporation legal form has led to difficulties in achieving its vision of the Downsview Park and to a number of other difficulties.

17.69 During 1999–2000, National Defence spent approximately $4.8 million for Downsview Park operations and development. It expects to spend $4.5 million annually on Downsview Park for the next three years. To date, these expenditures have been charged to National Defence's Vote 1, which Parliament has authorized to be used for the Department's operating expenditures. In our view, the expenditures related to the development of the Downsview Park site (approximately $2 million of the $4.8 million) are not a valid charge against National Defence Vote 1.

17.70 Downsview Park, like its parent, is a taxable Crown corporation. The "trust" concept for the new park contemplated that Downsview Park would be eligible to receive charitable donations. Canada Lands was authorized to incorporate Downsview Park Foundation to solicit charitable donations in support of the park. However, under the *Income Tax Act*, the Foundation may donate its funds only to a "qualified donee". Downsview Park is not a "qualified donee" for income tax purposes. Canada Lands has recognized this problem and has proposed setting up an additional charitable organization to receive donations collected by the Downsview Park Foundation.

17.71 Downsview Park's taxable status introduces complexities to the acquisition of property. If property is acquired at no cost, it results in higher income taxes when the property is sold and it can also result in capital taxes. This has added to the delay in transferring properties, as taxes would absorb funds meant for the park.

Conclusion

17.72 Each step in the founding and development of Downsview Park was completed in accordance with the relevant governing legislation — except for the payment of $2 million, as described in paragraph 17.69. However, the individual steps together had the effect of leaving Parliament out of the decision-making process.

17.73 In our view, if the Government of Canada wishes to set up an urban park and invest more than $100 million of public funds therein, it should have clear and explicit approval from Parliament to do so.

Public Works and Government Services Canada's response: *Following approval of the Downsview Park initiative as part of the 1994 Budget, the establishment of the urban park and the subsidiary corporation to manage the park's development, Parc Downsview Park Inc., has been undertaken in a manner that respected both the role and the authority of Parliament, as expressed through the legislative framework governing Crown corporations.*

Although the Auditor General acknowledges that each step in the founding and development of Downsview Park was completed in accordance with the relevant governing legislation, the Auditor General has expressed the opinion that clear and explicit parliamentary authority should have been sought for the project. The mandate and purposes of Parc Downsview Park Inc. are fully consistent with those of the parent corporation, Canada Lands Company Limited, and the other current and past subsidiary corporations of the parent, for example, the CN Tower and the Old Port of Montreal.

It is further noted that the development of Downsview Park has been conducted in an open and transparent manner, with ongoing opportunities for consultation and review by Parliament through the annual tabling of legislated reports.

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Indian and Northern Affairs Canada

Non-recovery of expenditures for safe drinking water on Indian reserves affected by Manitoba Hydro development

In the 1970s, five Indian reserves that were home to over 7,500 Cree Indians were adversely affected as a result of hydro-electric development by the Manitoba Hydro-Electric Board (Manitoba Hydro).

Under a 1977 agreement to compensate the communities for the effects of the hydro-electric development, Indian and Northern Affairs Canada undertook to ensure the continuous availability of potable water to the residents of the five reserves. Manitoba Hydro undertook to reimburse the Department for 50 percent of the expenditures it incurred for this purpose, to the extent that those expenditures were attributable to the adverse effects of the hydro projects.

The development began over two decades ago, and by June 2000 the Department's water, sewer and related expenditures for the five affected First Nations had reached about $151 million. However, the Department has not recovered any portion of these expenditures from Manitoba Hydro.

Background

17.74 In December 1977, the Northern Flood Agreement (NFA) was entered into by four parties to provide a framework for compensating five Indian communities, home to over 7,500 Cree Indians, for the adverse effects of hydro-electric development projects by Manitoba Hydro, a provincial Crown corporation. The development projects involved the diversion of the Churchill River into the Nelson River so that generating stations along the Nelson could produce more hydro-electric power. By 1977, Manitoba Hydro had diverted up to 90 percent of the Churchill River into the Nelson River.

17.75 The four parties to the agreement were the Government of Manitoba (Department of Northern Affairs), the Manitoba Hydro-Electric Board (Manitoba Hydro), the Northern Flood Committee Inc. (an Indian corporation representing the five affected communities) and the Government of Canada (Indian and Northern Affairs Canada).

17.76 Under the 1977 NFA, Indian and Northern Affairs Canada undertook to ensure the continuous availability of safe drinking water to the five affected communities. Under the same agreement, Manitoba Hydro undertook to reimburse the Department for 50 percent of the expenditures incurred in providing such water, to the extent that the Department's expenditures were attributable to the adverse effects of Hydro projects.

17.77 The agreement provides for the arbitration of disputes that cannot be settled directly by the parties. It further provides for the removal of the arbitrator upon agreement of three of the four parties.

17.78 Claims were filed with the arbitrator by the affected communities in 1982 and by the Department in 1984. The disputes centred on the communities' allegations that the Department was not meeting its obligation to ensure a continuous supply of potable water, as well as the Department's allegations that Manitoba Hydro was failing to pay its share as required under the agreement. Multi-party negotiations to settle these claims, including direct negotiations

between the communities and Manitoba Hydro, continued at various times during this period through to 1988 and beyond. However, no monetary resolution was reached.

17.79 In May 1988, the Department, without the participation of Manitoba Hydro, entered into an agreement with the five communities and other parties to satisfy its obligation for potable water. Under this agreement, the Department was to provide $88.5 million to a contractor, authorized by the affected communities; the contractor was to implement a major water system development project to service 90 percent of the homes. The Department agreed to transfer any expenditures it recovered from Manitoba Hydro to the contractor to expand the scope of the water system development, although specific projects to be funded by the recoveries were not identified. According to the Department, the project was substantially completed by March 1992.

17.80 At July 2000, Manitoba Hydro, in consultation with the Department and the affected First Nations, was in the preliminary stages of planning additional hydro-electric development projects.

17.81 In 1992 (Chapter 15) and 1994 (Chapter 2), we reported our audit findings on selected issues concerning Indian and Northern Affairs' implementation of the Northern Flood Agreement.

Scope

17.82 This audit assesses the Department's application of the expenditure recovery provisions in the December 1977 Northern Flood Agreement and the related May 1988 agreement respecting its obligation to ensure a continuous supply of potable water to the communities.

17.83 We did not attempt to establish the amount that was spent to provide potable water and how much, if any, should be recoverable. That responsibility belongs to Indian and Northern Affairs Canada. Although there are necessary references to other parties, our observations are directed to the Department as the Crown's custodian of the reserve lands.

Issues

A lingering dispute

17.84 In our 1992 audit, we observed that a major dispute had developed regarding the determination and recovery of Indian and Northern Affairs Canada expenditures from Manitoba Hydro. The expenditures pertained to the Department's obligation under the Northern Flood Agreement to ensure a continuous supply of safe drinking water. The Department considered that Manitoba Hydro owed up to $80 million, as of 1988, for its share of the new water system and related operating costs. Manitoba Hydro disagreed and made no reimbursement to the Department.

The issue of non-recovery of expenditures has lingered for over 20 years.

17.85 In our current review of this case, Indian and Northern Affairs Canada reported that it had provided $151 million for capital and operating costs for water-related projects in the five communities between 1976 and June 2000. These expenditures include $65 million for costs of water systems and related items incurred under the 1988 agreement.

17.86 The Department indicated that Manitoba Hydro and the Department remain far apart on what portion of the expenditures should be recoverable from Manitoba Hydro. At July 2000, more than two decades since the hydro-electric development, no settlement had been reached. The Department has not recovered any expenditures under the 1977 Northern Flood Agreement, and consequently no additional funds have been transferred to the communities'

contractor as provided for under the 1988 agreement.

Why the Department has not recovered Manitoba Hydro's share of expenditures

17.87 Several factors have contributed to the Department's lack of recovery. The following are some of them, based on departmental information.

About $151 million has been spent on water-related projects.

17.88 Deficiencies in the Northern Flood Agreement. The Department signed an ambiguous agreement, thereby contributing to the dispute. For example, the NFA provides for Manitoba Hydro to reimburse Indian and Northern Affairs Canada for the adverse effects of the hydro-electric projects, but does not indicate what would constitute adverse effects, how they would be identified and evaluated, or how they would be attributable to Hydro's projects.

17.89 The NFA fails to set out an agreed-upon course of remedial action respecting the adverse effects and the supply of potable water. In addition, the agreement does not indicate the criteria and methodology to be used for calculating costs of significant obligations and deadlines for performance and payment.

17.90 The deficiencies in the NFA have given the individual parties the opportunity to interpret the agreement to their respective advantages, thereby prolonging an old dispute.

17.91 Lack of linkage of development impacts to remedial action and costs. It is not evident that baseline information on water conditions, necessary for determining the impacts of the hydro projects, was gathered and assessed before the projects began. Consequently, it has become arguable whether the remedial action and associated expenditures are consistent with the parties' intent when the Northern Flood Agreement was signed in 1977.

17.92 In addition, no agreement was obtained among the parties as to what would constitute recoverable costs as a result of the hydro development. Currently, studies and the completion of a database on water flows and water quality are in progress, with the involvement of the Department. It is expected that these will help to determine the impact of the hydro-electric projects on potable water.

17.93 Lack of finalization of the Department's claim. In June 2000, Indian and Northern Affairs Canada updated its analysis of expenditures for water-related projects. This analysis, totalling approximately $151 million, is still under review.

17.94 We noted that the NFA imposes a "reverse onus" requirement on Manitoba Hydro; that is, Hydro must establish that its projects did not cause or contribute to an adverse effect where any claim arises by virtue of an actual or purported adverse effect of the projects. Since the Department routinely funds various types of capital projects on reserves, a major unresolved issue is the extent to which its expenditures for potable water are attributable to the adverse effects of the hydro-electric projects.

17.95 Use of arbitration. The Northern Flood Agreement provides that disputes may be settled by arbitration. In 1984, the Department filed a claim with an arbitrator for the recovery of expenditures incurred for potable water. This claim, however, did not specify the amounts to be recovered from Manitoba Hydro. Although some arbitration decisions have been made over the years, the arbitrator has made no monetary quantification of this claim. In addition, the Department suspended active pursuit of the claim when it chose to negotiate broader NFA implementation agreements with the affected First Nations.

17.96 In our view, the Department has a responsibility to assess the progress of arbitration; this includes the reasons for delays caused by any party, including

itself. The Department and other parties could have applied at any time during the past 16 years to the appropriate courts for relief from undue delays if an assessment of progress indicated that this was warranted.

Current status of the Department's claim

17.97 According to the Department, its intention in recent years was to recommence a formal hearing process on the claim in 1998. The planned hearing date was deferred to the fall of 1999 and again in 2000 to spring 2001. Reasons cited for the lengthy process include the complexity of the case and the information needs that must still be met.

17.98 In addition, the Department is currently developing a negotiating protocol that it believes may lead to further discussions with Manitoba Hydro.

Conclusion

17.99 We are concerned that for over 20 years, Indian and Northern Affairs Canada has not made any recoveries from Manitoba Hydro pursuant to the Northern Flood Agreement. The potential amount is substantial.

17.100 We believe that the Department has taken an unreasonably long time to finalize the information necessary to complete and support its claim for reimbursement. We urge the Department to use its experience in this case to avoid similar problems in future hydro-electric projects that are currently being planned.

Indian and Northern Affairs Canada's response: *Indian and Northern Affairs Canada acknowledges the observations made in regard to challenges in implementing the Northern Flood Agreement (NFA) and in particular to the recovery of a portion of departmental expenditures from Manitoba Hydro for the provision of a safe supply of water to the five affected NFA communities. Accordingly, the Department is further intensifying its efforts to effect recoveries from Manitoba Hydro.*

The Department, in consultation with the five NFA communities, continues to refine its strategy to deal with the outstanding issues arising from the recovery provisions of the NFA. The need to be clear on obligations and how roles and responsibilities of the parties will be discharged continues to be a critical factor in the development of this strategy. The Department notes the point made in regard to avoiding problems associated with a lack of clarity when entering into similar agreements in the future.

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Indian and Northern Affairs Canada

Significant risk that a $113 million relocation project will not adequately address the needs of the Innu

For many years, the island community of 600 Mushuau Innu of Davis Inlet in Labrador has experienced substandard living conditions, poor health, suicides, substance abuse and the erosion of the traditional way of life, with little indication or hope of a remedy.

In 1994, the federal government responded to the situation with commitments to relocate the Innu residents to the mainland, as they desired. In so doing, the Department agreed in 1996 to provide $82 million for a major infrastructure development project in the new location. The relocation, together with other intended measures involving the Department, was seen as a remedy to the long-standing social pathologies.

We found that success has been jeopardized because, among other things, there is little evidence that the Department fully identified, adequately planned and effectively implemented the necessary measures to remedy the social pathologies. Consequently, there is a significant risk that the causes of these conditions will not be adequately addressed through the relocation. In this event, suffering will continue and substantial sums will have been spent without achieving intended results.

In addition, the infrastructure development project is at least one year behind its five-year schedule and the estimated total costs to completion have increased to $113 million, or about 35 percent above the initial authorization.

Background

The problem

17.101 The plight of the residents of Davis Inlet has surfaced periodically over many years. Reports of suicides and attempted suicides, severe unemployment, substandard living conditions, substance abuse, poor health and fatal fires have painted a dismal picture of life in the community. Their state of affairs brought the community to national and international attention, and the issue of responsibility was raised. In July 1992, the community brought a complaint to the Canadian Human Rights Commission against the Government of Canada and the Government of Newfoundland and Labrador.

17.102 The complaint alleged that Canada had failed to exercise its constitutional responsibility in respect of the Innu, with a consequential failure to provide the Innu with the level and quality of services received by other Aboriginal peoples in Canada. The complaint also asserted that the Mushuau Innu had been subjected to two relocations since 1947, with the knowledge or involvement of Canada and of Newfoundland and Labrador. These moves had contributed to a high level of social dysfunction caused by inadequate housing and impediments against traditional hunting pursuits. As well, there were several indications that the health of the Innu residents of Davis Inlet was cause for serious concern.

17.103 The Innu also claimed unquantified compensation from Canada for its alleged failure since 1949, when

Newfoundland joined Canada, to recognize the constitutional status of the Innu, and for the government's alleged breach of its fiduciary duty to them. Among other allegations, the Innu expressed their belief that the government had discriminated against them and had infringed on their rights.

17.104 In November 1992, the Canadian Human Rights Commission engaged an independent investigator to examine the grievances of the Innu and to recommend corrective measures where warranted. The resulting report in August 1993 generally supported the Innu. However, in the opinion of the Commission, the case did not fall within its jurisdiction and therefore it never formally decided the Innu claim.

The remedy

17.105 By February 1994, the Government of Canada recognized the Mushuau Innu as being Indians within the meaning of the *Constitution Act, 1867*. In doing so, the Department announced its support for the relocation of the Innu, as desired by them, from the Davis Inlet site. The intention was that the relocation would contribute to an effective remedy to the residents' unsatisfactory socio-economic situation by assisting in the longer-term renewal of the health, culture, society and economy of the Mushuau Innu people.

17.106 The Innu voted on five possible relocation areas. Their overwhelming choice was to adopt Little Sango Pond, Natuashish, located on the mainland of Labrador, some 15 kilometres away from their current island site at Davis Inlet. According to departmental information, the Innu believed that this site would provide sufficient fresh water and meet other essential needs of the community.

17.107 Canada (Indian and Northern Affairs Canada), Newfoundland and Labrador and the Mushuau Innu Band Council signed the Mushuau Innu Relocation Agreement (MIRA) in November 1996. Under the MIRA, the Government of Newfoundland and Labrador provided the land for the new community site by means of a lease with the Innu for 20 years at a cost of $1. The lease provides for its renewal or possible transfer of land title to the Innu.

The Department is providing substantial funding for the relocation of the Innu.

17.108 Indian and Northern Affairs provided funding for relocation planning, design, construction and other related items at an estimated cost of $82 million in 1996, later increased to $113 million. The cost elements include water and sewer systems, roads, power station, school, nursing station, airport, wharf, post office, housing, offices, police and fire facilities and other infrastructure items, as well as decommissioning of the existing site. Payments pursuant to the MIRA are made under annual contribution arrangements between the Department and the Mushuau Innu Band Council. At March 1999, $47 million had been spent toward the relocation.

Scope

17.109 The history of the Mushuau Innu records at least two previous relocations prior to the current one in progress. They have occupied their current site at Davis Inlet since 1967.

17.110 Given the current state of affairs, it is evident that any relocation can pose a great risk to the well being of the community. It therefore becomes especially important that relocation initiatives include careful consideration by the Department of all the elements required to successfully address the known social pathologies.

17.111 Our review focussed on whether the Department had taken adequate steps to ensure that the relocation would achieve the intended results.

Issues

Addressing social pathologies

17.112 The objectives of the MIRA are to provide for the relocation of the Mushuau Innu from Davis Inlet for the purpose of assisting in the longer-term renewal of their health, culture, society and economy. The Department's main responsibilities were to ensure that the relocation was properly managed, while also ensuring that the socio-economic needs of the community in their chosen location would be effectively addressed.

The relocation agreement seeks to help improve the Innu way of life.

17.113 Accordingly, we expected the Department, as project leader, together with the Mushuau Innu, to have fully identified, planned and implemented the measures needed to remedy the social pathologies. In this regard, the Department possessed several socio-economic studies submitted by the Innu between 1992 and 1995.

17.114 In December 1995, the Innu reported their social reconstruction plan to the Department to meet a condition of the Department's 1994 commitment to address their needs.

The Department does not have a plan to address the specific socio-economic needs.

17.115 The social reconstruction plan identified many socio-economic needs and listed 131 intended initiatives as solutions. These included projects on Innu culture, health and social services, education and training, justice, and traditional and non-traditional economies. The plan also referred to numerous other reports on social and technical matters that the Innu had provided previously to the Department.

17.116 However, we found little evidence that the Department had adequately assessed the December 1995 Innu social reconstruction plan to determine its potential contribution to an effective remedy. Nor did the Department have an overall action plan to specifically address the reported issues, despite its requirement that the Innu conduct and report such studies to it. The Department indicated in August 2000 that a plan for remediating the health and social ills will be developed in concert with other federal and provincial departments. The delay in developing a plan is particularly disturbing since the issues have been well known to the Department for many years.

17.117 We believe that a significant risk remains that the pathologies afflicting the Innu community will simply be transferred to the new location at Little Sango Pond, despite spending some $113 million.

Development of the relocation infrastructure

17.118 The MIRA designates the Department as the project leader for the relocation. In this capacity, the Department has the authority for all decisions pertaining to Canada's interest in all matters relating to the planning, design and construction of the project.

17.119 The overall implementation of the project is being carried out under the control and direction of the Mushuau Innu, through a project manager selected by the Innu in consultation with the Department. The powers and duties of the project manager are determined jointly by the Innu and the Department. These include implementing the project, reviewing and updating cost estimates, monitoring project cost, quality and progress and, where appropriate, recommending corrective action to the Mushuau Innu and the Department. We noted that the Department had not evaluated the capacity of the Innu to manage such a large and complex project prior to establishing the roles of the parties under the MIRA.

17.120 Further, we are concerned that although the Department estimated in 1996 that the relocation costs could reach about $110 million, it started the project with financing of $82 million, the maximum amount initially authorized.

This approach, in our view, is not consistent with sound project management.

17.121 We found that as at July 1999, the estimated cost had escalated to $113 million. The Department attributes most of this increase of $31 million, or about 35 percent, to higher project management and related project costs, including:

- capacity building for the Innu through their participation as an integral part of the project management and construction teams;
- an increase of 33 percent in the number of houses to be built;
- changes in technical standards for sewage lagoons and energy needs;
- increased costs of telecommunication services; and
- changes in standards and needs for various municipal and other buildings.

17.122 While it is not unusual for the initial cost estimates of certain components to be revised as better information becomes available, the costs of capacity building, housing needs and some other items attributed to the cost escalation should have been better anticipated.

17.123 Departmental information also showed that the project was one year behind its five-year schedule as of April 2000. The reported reasons for delays include problems relating to the selection of a project manager, disagreement over tendering practices for construction, redesigns arising from requests for larger facilities and strained relations among some of the parties.

17.124 Any delay means that the Innu continue to live in substandard conditions while they remain exposed to social risks. The Department has noted that the planned relocation date of fall 2001 is at risk.

Conclusion

17.125 The Department needs to take adequate steps to ensure that the relocation will achieve the intended results of remedying the known social pathologies in the Innu community. In addition, it needs to ensure the timely completion of the physical relocation within approved cost levels. Finally, we believe that the Department needs to become more actively involved with the project to help ensure success, while supporting the role of the Innu.

Indian and Northern Affairs Canada's response: *In responding to the social problems experienced by the Mushuau Innu of Davis Inlet, the federal government shared the Innu's objective of restoring a healthy, productive, independent society. The relocation project was, and still is, a key element in achieving this objective. Since 1999, federal and provincial partners have insisted on increased accountability by Innu leadership for funds provided for construction, healing and social projects.*

The various federal and provincial agencies recognize the Department's leadership role and are anxious to see this community rejuvenated. To increase its capacity to respond, Indian and Northern Affairs Canada's Atlantic Region has recently created a new directorate to manage all Newfoundland and Labrador files, including the Davis Inlet Relocation Project. One of the key priorities of this organization will be to enhance healing and capacity measures by working jointly with the Mushuau Innu. Concurrent with organizing the directorate, a new plan for remediating the health and social problems will be developed, in concert

with the Mushuau Innu and federal and provincial departments.

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