

Chapter 33

**Follow-up of Recommendations
in Previous Reports**

Table of Contents

	Page
Main Points	33–5
Introduction	33–7
Fisheries and Oceans — Sustainable Fisheries Framework: Atlantic Groundfish — 1997, Chapter 14, Rationalization and Renewal: Atlantic Groundfish — 1997, Chapter 15 and Managing Atlantic Shellfish in a Sustainable Manner — 1999, Chapter 4	33–10
Human Resources Development Canada — A Critical Transition Toward Results-Based Management — 1997, Chapter 17	33–16
Revenue Canada and Department of Finance — Understanding Changes in Tax Revenues: GST — 1997, Chapter 32	33–20
Revenue Canada — Awarding a Duty Free Shop Licence — 1997, Chapter 36	33–23
Revenue Canada, Department of Finance and Department of Justice — Interdepartmental Administration of the Income Tax System — 1998, Chapter 5	33–24
Population Aging and Information for Parliament: Understanding the Choices — 1998, Chapter 6	33–27
Federal Laboratories for Human and Animal Health Building Project — 1998, Chapter 7 and Canadian Security Intelligence Service — National Headquarters Building Project — 1996, Chapter 8	33–29
Promoting Integrity in Revenue Canada — 1998, Chapter 15	33–34
Management of the Social Insurance Number — 1998, Chapter 16	33–37
Financial Information Strategy — 1998, Chapter 18 and 1999, Chapter 21	33–40
Veterans Affairs Canada — Disability Pensions — 1998, Chapter 23	33–44
Revenue Canada — International Tax Directorate: Human Resource Management — 1998, Chapter 24	33–48
Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage — 1998, Chapter 27	33–52



Follow-up of Recommendations in Previous Reports

Main Points

33.1 This year's reports indicate that some entities have been more successful than others in implementing corrective action. We noted satisfactory progress in some areas by several entities, but we also noted numerous areas where progress is disappointing. Some entities have made a good start in implementing changes, but have slowed down in completing them. Few entities get a "well done" for speedy implementation. We urge all departments and agencies to make a greater effort to accelerate their implementation plans.

33.2 Our 1998 audit of selected grant and contribution programs of **Industry Canada** and the **Department of Canadian Heritage** identified weak management practices. Our follow-up found that Industry Canada is making reasonable progress in addressing our recommendations. However, we uncovered a new issue — a \$20 million payment in advance of need resulting in as much as \$5 million of interest costs to the government. We found that the Department of Canadian Heritage has not made sufficient improvement in the management of grants and contributions under its Multiculturalism Program. Program objectives remain unclear and there are still serious problems with due diligence. We plan to report again next year on the Department's progress in remedying these problems.

33.3 Our follow-up of three previous chapters on Atlantic fisheries management found that **Fisheries and Oceans** is moving forward with a plan for the development and approval of a sustainable fisheries framework and the development of a new approach to fisheries management for the Atlantic fisheries. While the plan appears to address our key recommendations, the Department still needs to finalize the policy and develop detailed processes, procedures and legislation to support the new approach to fisheries management. Only then can we conclude that our recommendations have been fully addressed.

33.4 Since our report on **Population Aging and Information for Parliament**, the budgetary process has become more transparent and forward looking. The adjustment of budget forecasts for "prudence" is now shown explicitly, rather than embedded in the revenue and expenditure projections. In addition, the fiscal outlook has been extended from two years to five years. This, however, still falls short of what is needed to show the impact of the impending demographic shift one to three decades ahead.

33.5 The departments and agencies responsible for the planning and construction of the **Canadian Security Intelligence Service headquarters** and the **federal laboratories for Human and Animal Health** have taken action on most of the original audit recommendations and observations. However, the laboratory facilities in Winnipeg remain significantly underutilized. The Treasury Board Secretariat has only recently initiated a review of its monitoring role and methodology to ensure an appropriate level of oversight over major Crown projects. Public Works and Government Services Canada has not resolved certain contracting issues such as the definition of errors and omissions in contract documents and introducing meaningful incentives for reducing costs.

33.6 After our audit of the management of the Social Insurance Number (SIN), the government took steps to improve the integrity of data in the Social Insurance Register. **Human Resources Development Canada** has increased the number of investigations of SIN fraud and abuse and actions to address other issues identified by our audit are under way. However, a comprehensive study of the impact and extent of use of the SIN is still needed to fully understand the practical, economic and political implications of its use.

33.7 The government has made progress in its efforts to implement its **Financial Information Strategy** but considerable work is needed to ensure that the financial systems and accrual accounting policies will be in place by the April 2001 deadline. The longer-term integration of better financial information into day-to-day management decision making remains a challenge.

33.8 In addition to those mentioned above, this chapter includes follow-up reports on the **Canadian Customs and Revenue Agency**, the **Department of Finance**, **Human Resources Development Canada** and **Veterans Affairs Canada**. Other follow-up work is reported in different chapters throughout our reports.

Introduction

33.9 It is our policy to make recommendations in all of our audits that are oriented toward correcting current or future problems and improving the management of government. We encourage entities that we audit to respond to our recommendations in writing, stating whether they agree with them, and how they plan to implement corrective action. We, in turn, publish their responses in our report to inform Parliament and the public.

33.10 Approximately two years after the initial audit, we return to determine what corrective action has been taken by the entity. This work forms the basis of our follow-up report.

33.11 It is important to understand what a follow-up is, and is not. Apart from a few unique situations, it is not a second audit of the same issues. Rather it is a report on what management tells us, or can demonstrate to us, about the progress it has made toward meeting our recommendations. We do not exhaustively seek or examine additional evidence to support or refute what management has told us, but we do review its claims for

reasonableness and report to Parliament accordingly.

33.12 This year we have included follow-up in each of our reports. In October, Chapter 16 contained the follow-up report on six previous audits. Other follow-up work is reported in different chapters throughout our reports (see Exhibit 33.1).

33.13 This chapter contains our follow-up reports on 16 chapters and one other audit observation, reported originally between 1996 and 1999. In addition, the status of 19 chapters reported between 1993 and 1998 and due for follow-up is outlined in Exhibit 33.2.

33.14 This year's reports indicate that some entities have been more successful than others in implementing corrective action. We noted satisfactory progress in some areas by several entities, but we also noted numerous areas where progress is disappointing. Some entities have made a good start in implementing changes, but have slowed down in completing them. Few entities get a "well done" for speedy implementation. We urge all departments and agencies to make a greater effort to accelerate their implementation plans.

Exhibit 33.1

Follow-up Work Reported in Other Chapters

Year and Chapter	Title	Responsible Auditor	Comments
1993			
22	Department of Transport – Airport Transfers	Basia Ruta	Included in Chapter 10, October 2000 Report.
1995			
5	Office of the Superintendent of Financial Institutions – Deposit-taking Institutions Sector	Jeff Greenberg	Reported in Chapter 16, October 2000 Report.
10	Crown Corporations – Fulfilling Responsibilities for Governance	Brian Strom	Included in Chapter 18, December 2000 Report.
24	Revolving Funds in the Parliamentary System: Financial Management, Accountability and Control	John Hodgins	Reported in Chapter 16, October 2000 Report.
1996			
3	Evaluation in the Federal Government	John Mayne	Included in Chapter 20, December 2000 Report.
5	The Reform of Classification and Job Evaluation in the Public Service	Katherine Elliott	Included in Chapter 22, December 2000 Report.
9	Agriculture and Agri-Food Canada – Animal and Plant Health: Inspection and Regulation	Neil Maxwell	Reported in Chapter 28, December 2000 Report. Further follow-up to Chapter 28, December 1998 Report.
14	Service Quality	Theresa Duk	Included in Chapter 1, April 2000 Report.
34	National Defence – Support Productivity	Peter Kasurak	Included in Chapter 33, December 2000 Report.
1997			
2	Financial Management: Developing a Capability Model	Bruce Sloan	An audit of five departments using the Financial Management Capability Model was reported in Chapter 13, October 2000 Report.
4	Control of the Transboundary Movement of Hazardous Waste	Rick Smith	Reported in Chapter 9, May 2000 Report of the Commissioner of the Environment and Sustainable Development.
5	Reporting Performance in the Expenditure Management System	John Mayne	Included in Chapter 19, December 2000 Report.
11	Moving Toward Managing for Results	John Mayne	Included in Chapter 20, December 2000 Report.
13	Health Canada – First Nations Health	Ronnie Campbell	Reported in Chapter 15, October 2000 Report.
19	Transport Canada – The Commercialization of the Air Navigation System	Hugh McRoberts	Air Navigation System component reported in Chapter 28, December 2000.
26	Canada Labour Relations Board	Jean Ste-Marie	Reported in Chapter 16, October 2000 Report.
27	Ozone Layer Protection: The Unfinished Journey	Rick Smith	Reported in Chapter 9, May 2000 Report of the Commissioner of the Environment and Sustainable Development.
30	Office of the Superintendent of Financial Institutions – Insurance and Pensions	Jeff Greenberg	Reported in Chapter 16, October 2000 Report.
1998			
3	National Defence – Equipping and Modernizing the Canadian Forces	Peter Kasurak	Reported in Chapter 16, October 2000 Report.
4	National Defence – Buying Major Capital Equipment	Peter Kasurak	Reported in Chapter 16, October 2000 Report.
13	National Energy Board	Roger Simpson	Reported in Chapter 28, December 2000 Report.
20	Preparedness for Year 2000: Government-Wide Mission-Critical Systems	Nancy Cheng	Included in Chapter 25, November 1999 Report.

Chapters Due for Follow-up

Year and Chapter	Title	Responsible Auditor	Comments
1995			
6	Federal Transportation Subsidies – <i>The Western Grain Transportation Act</i> Program	Hugh McRoberts	Deferred. Planned for 2001.
1996			
19	Revenue Canada – Child Tax Benefit and Goods and Services Tax Credit Programs	Basia Ruta	Deferred. Planned for 2002.
1997			
6	Contracting Performance	Shahid Minto	No follow-up is planned. Followed-up in part in Chapter 26, December 1998 Report.
10	Natural Resources Canada – Energy Efficiency	Rick Smith	Deferred. Planned for May 2001 Report of the Commissioner of the Environment and Sustainable Development.
25	Citizenship and Immigration Canada and Immigration and Refugee Board – The Processing of Refugee Claims	Liette Dumas-Sluyter	Deferred. Planned for 2001.
1998			
1	Expenditure and Work Force Reductions in the Public Service	Katherine Elliott	Deferred. Planned for 2001.
2	Expenditure and Work Force Reductions in Selected Departments	Katherine Elliott	Deferred. Planned for 2001.
8	Department of Finance – Effectiveness Measurement and Reporting	Jeff Greenberg	Deferred. Planned for 2001.
9	Reporting Government Financial Results: The Importance of Complying with Objective Accounting Standards	John Hodgins	No separate follow-up is planned. This was a study and will be followed up as part of ongoing attest audits.
10	Canadian Human Rights Commission – Human Rights Tribunal Panel	Alan Gilmore	Deferred. Planned for 2002.
11	Agriculture and Agri-Food Canada – Cash Advance Program	Neil Maxwell	Deferred. Planned for 2001.
12	Creation of the Canadian Food Inspection Agency	John Mayne	No separate follow-up is planned. This was a study and contained no recommendations.
14	Indian and Northern Affairs Canada – Comprehensive Land Claims	Grant Wilson	Deferred. Planned for 2001.
17	Patented Medicine Prices Review Board	Ronnie Campbell	Deferred. Planned for 2001.
19	Electronic Commerce: Conducting Government Business via the Internet	Nancy Cheng	Deferred. Planned for 2001.
21	Canadian International Development Agency – Geographic Programs	John Hitchinson	No separate follow-up is planned. This was the third installment of a phased follow-up reported in Chapter 13, 1995 Report and Chapter 29, 1996 Report.
22	The Federal Science and Technology Strategy: A Review of Progress	Peter Simeoni	No separate follow-up is planned. This chapter was a follow-up of Chapter 15, 1996 Report.
25	Transport Canada – Investments in Highways	Hugh McRoberts	Deferred. Planned for 2001.
26	Contracting Professional Services: Selected Sole-Source Contracts	Hugh McRoberts	Deferred. Planned for 2001.

Fisheries and Oceans — Sustainable Fisheries Framework: Atlantic Groundfish — 1997, Chapter 14, Rationalization and Renewal: Atlantic Groundfish — 1997, Chapter 15 and Managing Atlantic Shellfish in a Sustainable Manner — 1999, Chapter 4

Assistant Auditor General: Ronald C. Thompson

Director: Kevin Potter

Background

33.15 In our 1997 Report, we audited Fisheries and Oceans' management of the groundfish fisheries in Atlantic Canada. The groundfish fisheries had been sharply reduced following the near collapse of many of the commercial fisheries. In Chapter 14, we recommended that the Department identify the most likely relative contribution of the various factors related to the collapse of the groundfish stocks. We also recommended that the Department develop a strategy to further reduce capacity in the groundfish industry, establish measurable indicators and performance expectations, and develop a national fisheries policy framework related to sustaining the fisheries resource base. In addition, we recommended that the Department renew its efforts to have the government clarify fisheries objectives in legislation.

33.16 In Chapter 15 of our 1997 Report, we examined the Department's management of the licence buyback element of The Atlantic Groundfish Strategy (TAGS), its management of groundfish stocks, and its new partnership arrangements with fishers. We recommended that the Department ensure that accountability for conservation of stocks be an integral part of any arrangement with fishers, and that it improve key groundfish monitoring, control and surveillance systems and processes. We also observed that overcapacity continued to exist, even

though 545 groundfish licences had been removed.

33.17 In our 1999 Report, we audited Fisheries and Oceans' management of the lucrative Atlantic shellfish fisheries. In 1997, shellfish landings had a value of \$920 million, or 81 percent of the value of all landings in the region. We noted that serious deficiencies still existed in fisheries management. We recommended that the Department:

- develop a sustainable fisheries framework;
- have the government clarify its fisheries objectives in legislation;
- correct weaknesses in its shellfish monitoring, control and surveillance systems and processes;
- develop, over time and in consultation with fishers and other stakeholders, biological reference points and conservation guidelines as the basis for making recommendations on resource use; and
- clarify its objectives for co-management and, where necessary, seek parliamentary approval to implement this approach.

33.18 On 2 June 1999, the Standing Committee on Public Accounts issued its Thirtieth Report, based on its consideration of Chapter 4 of our 1999 Report. The Committee made nine recommendations to improve the Department's management of fisheries resources. Besides embracing our

recommendations, the Committee recommended that the Department:

- thoroughly study harvesting capacity in the Atlantic fisheries;
- obtain an independent, objective assessment of its science capacity; and
- report to the Committee on the measures implemented to ensure that its use of specified purpose accounts and other financial arrangements with third parties adhere faithfully to legislative and policy requirements.

Scope

33.19 Our observations in this follow-up are based on a review of documents provided to us and on interviews with departmental officials. The documents we reviewed included:

- the Government's Response to the Thirtieth Report of the Standing Committee on Public Accounts, October 1999;
- the Department's status report for Chapters 14 and 15 of our 1997 Report and Chapter 4 of our 1999 Report; and
- the final draft of *The Management of the Fisheries on Canada's Atlantic Coast — A Discussion Document on Policy Direction and Principles*, September 2000.

The draft discussion document is intended to be used for public input in the development of a sustainable fisheries framework for the Atlantic fisheries, and is part of the Department's Atlantic Fisheries Policy Review.

Conclusion

33.20 The Department is moving forward with a plan for the development and approval of a sustainable fisheries framework for the Atlantic fisheries. Public consultation on the draft discussion document, *The Management of the Fisheries on Canada's Atlantic Coast*, is a key part of this plan. However, no date has

been established for the development and implementation of the framework. The Department will have to work diligently to move the framework to full implementation.

33.21 The Department has informed us that legislative changes will not be considered until the sustainable fisheries framework has been fully developed and approved by Cabinet. We support this position.

33.22 Phase one of the Department's Atlantic Fisheries Policy Review (AFPR) is to define policy direction and goals. Phase two is to develop a new approach to fisheries management. The Department is moving forward with phase two while working on phase one. Even though the Department is in the early stages of developing its new fisheries management approach, *Objective-Based Fisheries Management*, we have noted that it appears to address recommendations in the Public Accounts Committee's report and our 1997 and 1999 reports.

33.23 In our opinion, the Department's AFPR is a significant step toward addressing our key recommendations. However, the Department still needs to finalize the policy and develop detailed processes, procedures and legislation to support the new approach to fisheries management before we can conclude that our recommendations have been fully addressed.

33.24 The Department has been less successful in addressing the Public Accounts Committee's recommendation to have an independent, objective assessment of the Department's science capacity completed and reported to the Committee by 31 March 2000. The government responded to this recommendation by informing the Public Accounts Committee that it would conduct a review that would include an overview of science capacity in other countries with significant fisheries, and it would focus on the science required to support the Department's mandate. A consultant, under contract to the

Fisheries and Oceans will have to work diligently to move the sustainable fisheries framework to full implementation.

Department's Review Directorate, is currently completing this review. In our opinion, the initial draft review does not meet the government's commitments to the Public Accounts Committee.

Observations

Phase One — The Atlantic Fisheries Policy Review and a new sustainable fisheries framework

33.25 In its draft discussion document, *The Management of the Fisheries on Canada's Atlantic Coast*, the Department proposes a policy framework that changes its role in fisheries management from "micro-manager, heavily involved in day-to-day operations, to policy and strategic direction-setter." While the discussion document does not endorse any one direction, it addresses four areas of fishery management: conservation, economic and social viability, access and allocation, and governance.

33.26 The Department proposed to have public consultations on the discussion document during the fall of 2000. Once consultations are finished, the Department plans to complete the development of its sustainable fisheries framework and seek Cabinet approval. The Department has informed us that if elements of the framework cannot be implemented within existing legislation, legislative change will be proposed.

Phase Two — The Atlantic Fisheries Policy Review and implementation of the framework

33.27 While not prejudging the outcome of phase one, the Department has begun detailed design work to implement some aspects of the sustainable fisheries framework. It plans to establish long-term conservation objectives or biological reference points, as a starting point for the management of individual fisheries. The Department will then set short- or medium-term conservation targets as part

of the Objective-Based Fisheries Management approach.

33.28 Other key aspects of the new fisheries management approach include:

- risk management principles as the basis for management strategies;
- the precautionary approach (to err on the side of caution when making decisions);
- the ecosystem approach (to take into account inter-species relationships and habitat conditions); and
- monitoring, control and surveillance systems and processes that support management strategies.

The Department plans to pilot this new fisheries management approach for certain fisheries in the 2000–01 fishing season.

33.29 The Department has recently begun to develop a performance management framework that uses individual fisheries and Objective-Based Fisheries Management as its building blocks. This framework will inform the public and Parliament about the Department's conservation and sustainable use objectives and achievements by providing summary data for each fishery. The Department's draft Performance Report for the period ending 31 March 2000 refers to the development of a conceptual framework for measuring conservation outcomes. The implementation of the performance management framework depends on the implementation of the Objective-Based Fisheries Management approach for each of the 160 or more fisheries across the country.

33.30 The Department has responded to many of the recommendations raised in Chapter 14 of our 1997 Report, Chapter 4 of our 1999 Report and the Thirtieth Report of the Standing Committee on Public Accounts. However, the Department has much work to do to

develop and implement a sustainable fisheries framework for Atlantic fisheries.

The Department is refocussing its monitoring, control and surveillance efforts

33.31 The Department has indicated that it is taking a more “strategic and integrated approach to traditional fisheries surveillance and enforcement.” While this new approach has not yet been implemented, we observed several initiatives under way that do respond to our recommendations:

- The Department has developed new information systems to assist fisheries enforcement.
- The Department is piloting new techniques to integrate data from multiple sources (air- and sea-based enforcement, at-sea observers and dockside monitoring programs), in realtime, to better understand enforcement risks.
- The Department is considering using technology — for example, satellite-based technology — to streamline monitoring.
- The Department has created new positions and made new funding available to implement these initiatives.

33.32 Effective 1 January 1999, the regulations governing the dockside monitoring program were amended. The amendments were meant to strengthen the control environment surrounding the companies carrying out the dockside monitoring and to support more accurate and timely recording of landing information. Such regulatory change is important and responds to our recommendations. In addition, the Department has contracted an independent organization to assess the dockside monitoring companies’ documentation and implementation of quality systems against standards developed by the Department. However, the Department has not yet implemented a process to assure

itself that the dockside monitoring program is operating effectively.

Harvesting capacity is still being studied

33.33 We raised concerns about the limited impact of the Department’s initiatives to reduce harvesting capacity, and about subsequent decisions to permit increased capacity in the crab and shrimp fisheries. The Public Accounts Committee recommended that the Department prepare a study on the harvesting capacity in the Atlantic fisheries, which would clarify the Department’s definition of harvesting capacity, develop means to determine trends, and provide for harvesting capacity to be addressed in the Department’s Performance Report, beginning with the report for the period ending 31 March 2000.

33.34 In March 1999, the United Nations Food and Agriculture Organization Council of Ministers approved the International Plan of Action to achieve efficient, equitable and transparent management of fishing capacity, preferably by 2003 and no later than 2005. The government’s response to the Public Accounts Committee’s recommendation indicated that Canada has pledged to become one of the first nations to complete a plan of action for the management of fishing capacity.

33.35 The Department has established a working group to develop Canada’s plan of action. The measures to be developed that are relevant to the Public Accounts Committee recommendation include:

- developing a process to systematically measure the harvesting capacity of Canadian fisheries by the end of 2001;
- consulting with industry and the provinces during 2001 on harvesting capacity levels and options for an action plan; and
- developing plans to manage surplus capacity, if necessary, by the end of 2002.

The government's response to the Public Accounts Committee indicated that it would provide a status report on these initiatives in the Department's Performance Report for the period ending 31 March 2000. However, the draft Performance Report that we reviewed did not provide information on the status of these initiatives.

Further fishery restructuring and adjustment measures

33.36 On 19 June 1998, the government announced a series of measures designed "to provide individuals with options for their future, to help fishing communities diversify their economies and to encourage and capitalize on opportunities in a new economy." Some of these measures under the Canadian Fisheries Adjustment and Restructuring (CFAR) program apply to communities and individuals not only in Atlantic Canada and Quebec but also on the West Coast.

33.37 The CFAR objectives that pertain to Atlantic Canada are:

- to bring closure to TAGS;
- to continue the restructuring of the Atlantic groundfish fishery;
- to assist individuals and communities with adjustment; and
- to ensure balance and equity between regions.

The government has said that these objectives are to be achieved in consultation with provincial governments, where required.

33.38 A total of \$760 million was allocated to implement the measures in Atlantic Canada. The measures offer a variety of initiatives to help people who permanently exit the fisheries to take advantage of new opportunities. These measures focus on long-term strategies for human resource and community economic development. The goal is to equip

individuals and communities with the skills and assistance they need to prepare for life beyond the fishery.

33.39 Fisheries and Oceans is administering the CFAR groundfish licence retirement measure. At 1 August 2000, the Department had retired 1,902 groundfish licences at a cost of \$167 million. A further 302 licences had been retired through early retirement measures administered through Human Resources Development Canada.

33.40 The removal of these groundfish licences is important to the management of the groundfish fishery. However, as we noted in paragraph 33.35, the Department is still developing the means to measure and, if needed, manage surplus harvesting capacity. Therefore, the Department does not know the impact of these measures on harvesting capacity.

Shellfish licences continue to be issued in Newfoundland

33.41 Our April 1999 Report commented on the potential adverse impact of new temporary shrimp and snow crab licences in the Newfoundland Region. Subsequent to that report, the Department issued an additional 59 temporary shrimp licences and 209 temporary snow crab licences to fishers in the Newfoundland Region. We continue to be concerned about the potential impact of these additional temporary licences on harvesting capacity.

Co-management arrangements: no change in status

33.42 Our recommendations concerning co-management arrangements with fishers focussed on the need to clarify the objectives for co-management and, if necessary, to seek legislative change to approve this approach. In addition, the Public Accounts Committee recommended that the Department outline the measures it has adopted to ensure that its use of specified purpose accounts and

financial arrangements adhere faithfully to legislation and policy requirements.

33.43 The Department has not accepted the need to implement these recommendations. Its position is that it has sufficient legislative authority for all of its current co-management arrangements and activities. However, the Department has stated that its specified purpose accounts do not “operate strictly” within Treasury Board policy. The Department has indicated that it is awaiting Treasury Board clarification of its policy subsequent to an internal review.

33.44 The Department is still managing its co-management arrangements in the manner that we observed in 1999. However, it is reviewing its arrangements with fishers and their participation in fisheries management as part of the Atlantic Fisheries Policy Review. Therefore, it is possible that the review will address our concerns.

Science capacity review progress not adequate

33.45 The Public Accounts Committee recommended that the Department conduct an independent, objective assessment of the Department’s science capacity and report the results to the Committee by 31 March 2000. The government’s response to this recommendation informed the Public Accounts Committee that it would conduct a review using an external independent body. The review would include an overview of science capacity in other countries that have significant fisheries and it would focus on the science required to support the Department’s mandate.

33.46 A consultant under contract to the Department’s Review Directorate is currently completing the science capacity review. The initial draft review does not

meet the government’s commitments to the Public Accounts Committee.

33.47 Fisheries and Oceans’ Science Branch has informed us that it is also conducting its own review of its stock assessment and other fisheries science capabilities.

The factors contributing to the collapse of cod stocks

33.48 An ongoing project of the Science Branch has been to “identify and weigh the relative contribution of the various components of cod mortality in the years leading to the collapse of the stocks.” In the report *Accounting for Mortality of Cod in the Canadian Atlantic*, the Science Branch concludes that fishing during the years leading to the collapse was very high. Also, it concludes that natural mortality was at least twice the assumed value used in departmental stock assessments. However, in the end, the Science Branch cannot account for roughly one half the total cod mortality during the period that preceded the collapse of the cod stocks.

33.49 The report concludes:

First, uncertainty is with us to stay, and resource use must be precautionary in light of both an uncertain present and a more uncertain future. Second, monitoring carefully and consistently many aspects of cod stocks, and many parts of ecosystems, is vital to understanding (and sometimes reducing) the uncertainty. Third, we need to integrate our information across stocks, geographic areas, and scientific disciplines, and then apply the integrated insights in scientific advice and resource management.

33.50 We believe that the Department’s work on the issue of cod mortality adequately addresses our concerns.

Human Resources Development Canada — A Critical Transition Toward Results-Based Management — 1997, Chapter 17

*Assistant Auditor General: Maria Barrados
Principal: Theresa Duk*

Background

33.51 In 1997, we reviewed the information provided to Parliament on the results achieved by the Department's two largest programs: the Canada Pension Plan (CPP) and the Employment Insurance (EI) Account. Our audit focussed on two specific activities of Human Resources Development Canada (HRDC) — management of accounts receivable and protection of public funds against fraud and abuse.

33.52 We found that HRDC had made progress in implementing results-based management in the two activities we examined. But we noted that the information it provided to Parliament on the results of the CPP and the EI Account was incomplete.

Scope

33.53 In our follow-up work, we reviewed the progress reports prepared by HRDC in response to our 1997 recommendations and related recommendations of the Standing Committee on Public Accounts. We also conducted interviews and examined relevant documents.

Conclusion

33.54 HRDC has made good progress toward results-based management in the two activities we had examined — managing accounts receivable and protecting public funds against fraud and abuse. However, we strongly encourage the Department to finish developing and implementing harmonized policies and its Departmental Accounts Receivable

System in order to improve its results in recovering accounts receivable.

33.55 We found that information to Parliament is still incomplete. HRDC has made little improvement in the annual report on the Canada Pension Plan. And there is no single, comprehensive annual report on the Employment Insurance Account. The Chief Actuary's 1998, 1999 and 2000 reports on employment insurance premium rates are available on demand and can be accessed on HRDC's Web site. However, we believe the tabling of the actuarial analyses of the Chief Actuary would contribute to a better understanding by parliamentarians and the public of some of the factors used in setting premium rates.

33.56 We found that the Department's selected key performance indicators have remained relatively stable over the past three years. However, none of them measure costs and efficiency. Further, the Department needs to take steps to enhance the credibility of performance data.

Observations

Management of accounts receivable

33.57 **Progress toward fully integrating and harmonizing the management of accounts receivable.** In 1997, we recommended that HRDC finish implementing its strategy for integrating and harmonizing the management of accounts receivable.

33.58 Our follow-up found that the Department has made good progress in responding to the recommendations. However, it needs to give high priority to developing and implementing harmonized policies for all accounts receivable. It also

Human Resources Development Canada (HRDC) has made good progress toward results-based management in managing accounts receivable and protecting public funds against fraud and abuse.

needs to complete as soon as possible its new Departmental Accounts Receivable System (DARS), its accounts receivable sub-ledger. Employment Insurance and Old Age Security accounts receivable are scheduled to be transferred to DARS in 2001–02. About 80 percent of the total value of the accounts receivable portfolio has been transferred to date.

33.59 The Department recently drafted policies for review and approval on key issues in the recovery of accounts receivable such as collecting in cases of hardship and charging interest. The Treasury Board Secretariat's Interest Regulations have provided for the charging of interest on accounts receivable since April 1996. However, the charging of interest on EI and Income Security Programs (ISP) accounts receivable is not scheduled to begin until fiscal years 2001 and 2003 respectively.

33.60 HRDC has made progress in consolidating the management of collection activities and moving it to the Financial and Administrative Services (FAS) Division. However, program staff are still managing a large proportion of EI accounts, despite the fact that a recent analysis showed better cost recovery by specialized FAS collection agents.

33.61 Performance indicators and expectations used for a large proportion of the portfolio's total value. In 1997, we noted that not all key aspects of managing the accounts receivable portfolio had performance indicators and targets. Our follow-up found that HRDC has developed performance indicators for a large proportion of the portfolio's total value and has used the information from them to improve collection practices. It has established objectives for recovery of defaulted student loans, and the EI and ISP accounts, that are managed by its collection centres. However, there are no dollar value targets for recovery of the EI and ISP accounts managed by program staff.

33.62 Enhanced analysis of performance. In 1997, we noted that the Department was not fully analyzing changes in the cost effectiveness of collection activities and the quality of the accounts receivable portfolio. In our follow-up, we noted that HRDC evaluated the cost effectiveness of some collection methods such as using private collection agencies. It analyzed the trends in the aging of accounts receivable and in annual recovery rates, and it investigated the causes of changes in performance. It carried out a review of the portfolio's quality that led to significant write-offs. HRDC has informed us that an automated accounts receivable report it is developing will enable it to conduct more timely and thorough analysis of performance.

33.63 Improvements in collection practices. We recommended in 1997 that HRDC strengthen its collection practices in the EI program and ISP in order to make management more results-based. Management informed us, in our follow-up, that collection priorities for both EI and ISP accounts are based on debtor risk and profile. Further, in EI accounts collection, the debtor's assets are considered in assessing capacity to pay. However, this is not the case with ISP accounts. Amounts to be recovered from benefit payments before they are issued to debtors are predetermined by ISP, even if the debtor's assets would permit immediate recovery of the full debt or a large proportion of it.

Protection of program integrity

33.64 One of the Department's main objectives is to protect public funds against fraud and abuse — that is program integrity — in order to ensure that payments are made to all those applicants and only those applicants who are entitled to them. HRDC has activities in place to prevent, detect and deter fraud and abuse in the Employment Insurance Program and the Income Security Programs (ISP).

HRDC needs to give high priority to developing and implementing harmonized policies for all accounts receivable and to completing as soon as possible its new Departmental Accounts Receivable System.

Unlike those Employment Insurance and Income Security Programs accounts managed by its collection centres, HRDC has no dollar value targets for the recovery of the accounts managed by program staff.

The 1998-99 annual report of the Canada Pension Plan contained minimal information about its mandate, little linking of objectives to strategies, and little comparison of performance with expectations.

33.65 Protecting the integrity of Income Security Programs: Progress in measuring results and defining expectations. In our follow-up, we found that management has made good progress in establishing performance measures and defining expectations for the activities related to protecting the integrity of ISP. However, it has not yet developed a comprehensive single report that compares results with performance expectations. Management informed us that ISP is developing a quality management framework and quality monitoring processes, which are expected to make the management of the programs more results-based.

33.66 Protecting the integrity of the Employment Insurance Program: Improved analysis of performance. In 1997, we recommended that HRDC thoroughly analyze discrepancies between actual and expected results of the Investigation and Control Directorate of the Employment Insurance program and also analyze changes in the cost effectiveness of the investigative methods used. The Directorate is responsible for protecting income benefits payouts, under Part I of the *Employment Insurance Act*, against fraud and abuse. In our follow-up, we found that HRDC is now providing managers with information on the causes of discrepancies between actual and expected results and indicating where corrective action is needed, although the thoroughness of analysis varies. However, HRDC has not assessed the cost effectiveness of each investigative method because it lacks the necessary information on their costs. It has yet to complete other actions cited in its 1997 initial response to this recommendation, namely, a survey of front-line staff and an evaluation study. The evaluation study is now under way, and it is to identify the nature and extent of abuse and misuse of the EI Program. The Department plans to report the evaluation results in 2004.

Information to Parliament

33.67 Little improvement in the annual report of the Canada Pension Plan. In 1997, we recommended that the annual report of the CPP reflect the program's mandate, objectives and strategies. We also said that it should include more future-oriented information and, as soon as available, more complete information comparing performance with expectations. We found that HRDC has made little progress in acting on our recommendation. For example, the 1998-99 annual report contained minimal information about the CPP's mandate, little linking of objectives to strategies, and little comparison of performance with expectations. Further, the report contained little future-oriented information; for example, the impact of the aging population. HRDC is planning to improve the CPP's 1999-2000 annual report.

33.68 No single annual report on the Employment Insurance Account. In 1997, we recommended that HRDC produce a report providing complete, relevant and timely information on the major activities related to the EI Account. The Standing Committee on Public Accounts recommended that the *Employment Insurance Act* be amended to require that HRDC prepare an annual report to the House of Commons on the EI Account. HRDC informed us that information on the Account's activities, results and resource management can be found in its annual departmental performance reports and the reports on plans and priorities. In addition, it indicated that its Web site now provides all relevant information on the EI Account, from various sources. However, the information is fragmented, making it difficult to assess the Account's financial and operational performance. Given the importance of the EI Account, we believe that Parliament would benefit from having all important information available in a single report.

33.69 Chief Actuary's reports of the EI Account are made public. In 1997 we noted that the actuarial analyses necessary for setting the premium rate of the Employment Insurance Account were not tabled in Parliament, unlike those of the Canada Pension Plan. Our follow-up found that they are still not tabled in Parliament. However, HRDC informed us that the Chief Actuary's 1998, 1999 and 2000 reports are available on demand and can be accessed on the Department's Web site. We believe that the tabling of the actuarial analyses of the Chief Actuary would contribute to a better understanding of some of the factors used in setting premium rates.

Results-based management

33.70 The Department's selected key performance indicators have remained relatively stable. In 1997, we recommended that the selected key performance indicators remain in place long enough for the Department to assess performance over time and that the choice

of key indicators takes costs into account. We also reported that HRDC needs to ensure the quality of performance data to increase the credibility of the performance indicators.

33.71 We found that the Department's selected key performance indicators have remained relatively stable over the past three years. However, none of them provide information on costs and efficiency. In its response to the recommendations of the Standing Committee on Public Accounts concerning our 1997 chapter, HRDC had agreed to report additional data to Parliament on cost and efficiency so as to provide for a more comprehensive picture of the Department's performance. In this follow-up, we found that costing methodologies were being piloted in the Employment Insurance program and Income Security Programs to establish the cost of processing applications and claims. We also encourage HRDC to take the necessary steps to enhance the credibility of its performance data.

HRDC's selected key performance indicators have remained relatively stable over the past three years. However, none of them provide information on costs and efficiency.

Revenue Canada and Department of Finance — Understanding Changes in Tax Revenues: GST — 1997, Chapter 32

*Assistant Auditor General: Shahid Minto
Principal: Jamie Hood*

The Canada Customs and Revenue Agency and the Department of Finance have taken many steps to address our recommendations.

Background

33.72 Our 1997 chapter explored whether there were opportunities for Revenue Canada (now the Canada Customs and Revenue Agency) and the Department of Finance to improve their analysis of GST revenue movements. Good analysis can increase the government's ability to identify errors, its awareness of new economic trends and the accuracy of its forecasts of tax revenues, surpluses and net borrowing needs; it can thereby also enhance the credibility of the financial information reported to Parliament. Good analysis of revenue movements would also support the Agency's programs and initiatives to identify tax avoidance techniques used by GST registrants and to note changes in registrant compliance. In 1997 we made a number of observations and recommendations for an appropriate analysis process and use of timely and reliable data for analysis.

Scope

33.73 Our follow-up consisted of reviewing a status report prepared by the Canada Customs and Revenue Agency and the Department of Finance on the actions taken to address our 1997 recommendations. We also reviewed supporting documentation provided to us by both the Agency and the Department, and we held discussions with officials of both organizations.

Conclusion

33.74 The Canada Customs and Revenue Agency and the Department of Finance have taken many steps to address

our recommendations. Progress has been made in re-engineering the GST system and implementing the government's move to accrual accounting, but much still needs to be done.

Observations

Following an appropriate analytical process

33.75 In 1997 we recommended that when analyzing GST revenue movements Revenue Canada and the Department of Finance, as a minimum, adjust for bookkeeping errors and distortions caused in using the cash basis of accounting, and then assess the extent to which further analysis is required. We noted in our follow-up that in preparing the revenue reports used for analysis, the Agency now adjusts for the cash basis of accounting by including in the month under review the receipts from the first two banking days of the following month.

33.76 The analysis of revenue is, of necessity, a combined effort. No one unit has all the expertise and information needed for the task. In 1997 we recommended that Revenue Canada ensure a sufficient, proactive, timely and co-ordinated effort by its various units to analyze GST revenue. In its 1999 guide on revenue analysis, the Canada Customs and Revenue Agency briefly described the roles and responsibilities of its units and those in the Department of Finance that perform the analysis of the revenue streams. In the guide the Agency confirmed its Revenue Accounting and Reporting Division as the focal point to co-ordinate the analysis by identifying variances and requesting explanations from other program branches at the head

office. The Agency's guide specifies the thresholds for variances beyond which an explanation is required. These variances and explanations are discussed at the joint Agency/Finance Fiscal Monitor Committee. In addition, information is exchanged outside the formal meeting process.

33.77 Since 1997, there have been a number of improvements in the process used for revenue analysis, including more detailed analysis sheets. However, we noted in our follow-up that the established process is not always followed. Throughout the past year the Division did not receive explanations for all variances that exceeded the thresholds, nor were all the required variances identified for explanation. The Agency informed us that officials exercise judgment in determining variances that need explaining. We believe that revenue analysis could produce more useful and timely information for both organizations if they followed the process more thoroughly.

Having and making appropriate use of reliable and timely data

33.78 Good data are key to analyzing revenue. We recommended in 1997 that Revenue Canada and the Department of Finance continue to work toward improving the reliability and timeliness of the GST data, and make more use of available and reliable data to the extent called for at each step of the analytical process. In this follow-up we noted that the Canada Customs and Revenue Agency is working to re-engineer its various information systems for taxes and duties, starting with the corporate tax system and including a move to standardized accounting. The Agency completed an analysis of the present GST system that identified the operational processes using the GST system, problems in the system and desired enhancements. It is now working on a complex proposal for specific changes to the GST system, but

has not set a date for implementation. In the meantime, the Agency has revised its monthly revenue report to include a little more detail from its present system for analysis of GST revenue, and it is working to break down the revenue data in additional ways.

33.79 In 1997 we recommended that Revenue Canada find ways to reconcile the net of GST declared and input tax credits claimed with the net of cash receipts and refunds. The Canada Customs and Revenue Agency now prepares on a quarterly basis a high-level comparison between net GST declared and net cash receipts. The Agency considers that a detailed reconciliation is complex and would require system changes. Along with re-engineering its GST system, the Agency is working on a method to record all its revenue, including the GST, on an accrual basis by the fiscal year 2001-02 as part of the government's overall financial information strategy.

33.80 In our 1997 chapter, we recommended that if, after improving the reliability and timeliness of the available information and making better use of it, Revenue Canada and the Department of Finance could still not adequately explain GST fluctuations, they consider requesting additional information from some or all registrants. We noted in this follow-up that both the Agency and the Department are in the early stages of a process that could result in their obtaining additional information from GST registrants in general or in specific sectors, such as financial institutions. They will need to maintain a balance between their need for more information for analysis and compliance purposes and the increased burden it places on registrants to provide the information and on the Agency to capture and store it. The organizations have made no decisions yet on what information to request and how that information will be obtained.

The Agency is working to re-engineer its various information systems for taxes and duties.

The Agency is working on a method to record all its revenue on an accrual basis by 2001-02 as part of the government's strategy.

33.81 To provide better data for analysis of changes in GST revenue, the organizations have undertaken two long-term projects — re-engineering of the GST system and accrual accounting — and are considering requesting more information from registrants. We urge the organizations to complete these projects as soon as possible to improve the timely analysis of GST revenue.

Revenue Canada — Awarding a Duty Free Shop Licence — 1997, Chapter 36

Assistant Auditor General: Shahid Minto

Principal: Jamie Hood

Background

33.82 In 1997 we reported that Revenue Canada (now the Canada Customs and Revenue Agency) had departed from departmental standards and practices in awarding a duty free shop licence (paragraphs 36.81 to 36.109). We found that the standards and practices used in the award of a particular duty free shop licence differed significantly from those used in other licence awards at land border crossings. For example, there was no national tender call in the award of the initial licence in 1995 or in the new licence issued in 1997. Furthermore, Revenue Canada did not have sufficient information to determine whether the applicants met the qualifications to operate a duty free shop at a land border crossing.

33.83 We were concerned that the precedents set might undermine the transparency and credibility of the process for awarding duty free shop licences. We were also concerned that the licence awards were not consistent with the intent of the Duty Free Shop Regulations that beneficial owners be Canadian citizens or permanent residents.

33.84 The Department responded that the decision to award the licences without recourse to an open tendering process was in full conformity with the law, reflected appropriate judgment in light of the unique circumstances of the case, and in no manner compromised the integrity of the duty free shop program. However, it undertook to award any future duty free shop licence at that site through an open, competitive process. It also undertook to pursue a full review of the Duty Free Shop Regulations, in concert with the

Department of Finance, commencing in January 1998.

Scope

33.85 Our follow-up this year consisted of reviewing a status report prepared by the Canada Customs and Revenue Agency on the actions it has taken in response to our audit observation.

Conclusion

33.86 The Office intends to re-examine this matter once the regulatory review is completed.

Observations

33.87 The Agency has informed us that its regulatory review of the duty free shop program is still under way. To date, it has had consultations with key stakeholders about the future of the program, has held information sessions in key centres, and has developed a series of program models for the purpose of comparative analysis.

33.88 The Agency advised us that during the regulatory review, it adopted the practice that all duty free shop licences that expired prior to the completion of the review would be renewed for a maximum one-year term. Therefore, the duty free licence at the land border crossing referred to in our audit observation was renewed for a one-year term that will expire in July 2001. The Agency also advised us that at the end of the one-year extension, it intends to tender the licence unless the results of the regulatory review dictate otherwise or the Minister decides at that time, for other reasons, that a tendering action is not appropriate.

Revenue Canada, Department of Finance and Department of Justice — Interdepartmental Administration of the Income Tax System — 1998, Chapter 5

Assistant Auditor General: Shahid Minto
Principal: Barry Elkin

Some improvement is required in ensuring that procedures designed to protect the tax base are rigorously and consistently applied.

Background

33.89 In our 1998 audit, we reported that, to prevent possible erosion of the tax base, the Department of Finance (Finance), the Department of Justice (Justice) and Revenue Canada (now the Canada Customs and Revenue Agency) needed to work together more effectively in managing two specific areas — threats to the tax base resulting from the appeals process and those resulting from identified deficiencies in tax legislation. Weaknesses in managing these threats can lead to impacts such as loss of tax revenue and/or loss of confidence in the integrity of the tax system.

33.90 We observed that legislative deficiencies were not always corrected on a timely basis. We made a number of recommendations to improve the identification and management of threats to the tax base. These included improving the quantification of amounts at risk, increasing the transparency of settlement agreements, reaching more timely settlement of disputes, and planning better for the use of Justice litigation services.

Scope

33.91 Our observations here are based on interviews and a review of documents provided to us, including the status reports presented by Finance, Justice and the Canada Customs and Revenue Agency on progress in implementing our 1998 recommendations.

Conclusion

33.92 A fundamental structure has been put in place for managing risk to the tax base when dealing with the appeals process. The key elements of this structure include early identification and monitoring of high-risk cases; transparency in settlement agreements; a joint process for ensuring adequate resources for litigation; and consultation to prioritize legislative deficiencies for corrective action. Action has been taken on the majority of our recommendations that deal with these key elements. Some improvement is required in ensuring that procedures designed to protect the tax base are rigorously and consistently applied.

Observations

Determining amounts at risk

33.93 The Canada Customs and Revenue Agency has put in place a process to identify and track high-risk cases, from the notice of objection by the taxpayer through litigation of the case. A case may be classified a high risk because of the amount it involves, or because it challenges important principles of law, tax administration or social programs. A case may also be a high risk when its outcome has a potential impact on other taxpayers with similar issues. High-risk cases are tracked on either an “important issues list” or a “groups list”, prepared by Agency headquarters with input from appeals officers in the field. These lists are reviewed by a senior interdepartmental Risk Management Committee, to assess

the risk to the Agency and ensure that appropriate action is taken.

33.94 The amount involved is a major factor in determining whether a case is high risk. In 1998 we noted that appeals officers did not have a clear understanding of how to determine tax at risk. Headquarters has since issued a directive to all appeals officers on how to calculate taxes and interest in dispute and their potential impact on the tax base. However, a post-implementation review of that directive revealed problems in its application. They included difficulties in determining how many related cases existed in the field and the extensive time appeals officers had to spend on complex calculations to determine the amounts involved. An Agency working group will address these concerns in the fall of 2000.

Transparency in settlements

33.95 In 1998 we noted that a settlement is reached in 34 percent of the appeals that proceed to the Tax Court of Canada. Our audit raised concerns about the transparency of these settlements. We observed that Justice prepared written reasons for larger settlements involving more than \$12,000 in federal tax. However, it did not always do so for settlements below \$12,000. We recommended that Justice complete a reporting letter for all settlements. This was discussed at a Justice regional and headquarters management meeting in May 1998. It was agreed that a brief reporting letter would be prepared for all settlements under \$12,000, and that managers would communicate this requirement to their staff. Justice has not yet updated its standards of service to reflect the need to prepare a reporting letter for all settlements it proposes to the Canada Customs and Revenue Agency.

Reaching agreement earlier

33.96 In 1998 we found that the principal reason for reaching settlements was the provision of new information by

the taxpayer. As each step in the dispute resolution process took additional time and effort from Revenue Canada and the Department of Justice, we recommended that Revenue Canada promote earlier disclosure of information by taxpayers. In response to that recommendation, the Canada Customs and Revenue Agency is piloting an “enhanced acknowledgement letter,” to be sent to the taxpayer within 30 days after an objection is filed. In the letter, the appeals officer requests specific documents and information to help support the taxpayer’s position, where appropriate. It is hoped that this will expedite a dialogue with the taxpayer about the objection. At the time of our follow-up, the enhanced acknowledgement letter was being used at 12 pilot locations and expansion of its use to all appeals locations was expected by December 2000.

33.97 In 1998 Revenue Canada was considering techniques of alternative dispute resolution (ADR) to facilitate earlier resolution of taxpayer disputes. ADR normally allows the use of mediation, negotiation or arbitration to settle disputes. We expressed concern that without appropriate transparency safeguards, there could be increased risk of compromise solutions that were inconsistent with the law. The Canada Customs and Revenue Agency has acted on our concerns and is proceeding with mediation at the objection stage in one pilot location only. It plans to assess the effectiveness of this technique before proceeding further.

Improving the administration of the dispute resolution process

33.98 In 1998 we made several recommendations to facilitate the administration of the dispute resolution process. We recommended that Justice and Revenue Canada plan better for the use of Justice litigation services. Since that time, a computerized case management and resource-tracking system called Caseview has been implemented in

The amount involved is a major factor in determining whether a case is high risk.

The Department of Justice has not yet updated its standards of service.

all Justice tax litigation offices. The Caseview reports are used in a national planning exercise to review the use of litigation resources and project resource needs for the coming year. This exercise includes consultation with the Appeals Branch of the Canada Customs and Revenue Agency. In addition, Justice is developing a protocol for managing large cases that involve a team of lawyers. This should strengthen planning and ensure that funds are available for major litigation.

33.99 We noted in 1998 that Justice lawyers located in tax litigation offices did not have access to the database of legal opinions maintained by Justice Legal Services at Revenue Canada headquarters. We said that access to those opinions would improve efficiency and consistency in preparing for litigation. Justice has since informed us that the confidential and sensitive nature of the information would make it too costly or inefficient to develop a secure common link between it and the Agency. It has explored an alternative, which would involve transferring relevant opinions to the Justice intranet site. This option has also been hindered by security concerns. Management has stated that it is a priority to obtain the necessary security to make the intranet a viable tool for sharing legal opinions and other sensitive information.

33.100 We observed in 1998 that there were often delays at Revenue Canada in deciding whether to pursue appeals filed to the Federal Court of Appeal from adverse decisions by the Tax Court of Canada. We noted that the final decision to proceed with the appeal had to be made by the Policy and Legislation Technical Sub-Committee. In response to our observation, the Sub-Committee has been meeting more often. When a particular case cannot be discussed at one of the meetings, documents are circulated and members asked to provide their views.

Prioritizing legislative deficiencies for corrective action

33.101 In 1998 we noted cases where Finance, in the face of significant risk to the tax base, had moved quickly to introduce legislative change. We noted other situations where Finance had been slow to act. We recommended that it regularly consult the interdepartmental committee of assistant deputy ministers for advice on which deficiencies should be given priority for corrective action.

33.102 Since 1998, the interdepartmental committee that represents the Agency, Justice and Finance has met regularly to discuss legislative priorities. For example, the committee was instrumental in recommending the inclusion of third party penalties in the 1999 Budget and harassment protection for Agency collectors in the 2000 Budget, among other items. These were high-priority issues for the Agency.

33.103 The committee also plays a supervisory role in directing priorities for technical changes, supplemented by meetings at the working level. The work in this regard has led Finance to release a package of draft technical amendments in November 1999; a motion to implement them was tabled in the House of Commons on 5 June 2000.

33.104 In 1998 we noted a number of constraints to proposing legislative change, such as the overburdened agenda of Parliament, the need to consult with stakeholders, and limits on the volume of legislative change that can be absorbed by taxpayers and tax practitioners. Given these constraints, it is important that current procedures be maintained to secure the views of the Agency and Justice on prioritizing legislative deficiencies for corrective action.

Transferring relevant opinions to the Department of Justice intranet site has been hindered by security concerns.

Population Aging and Information for Parliament: Understanding the Choices — 1998, Chapter 6

Assistant Auditor General: John Wiersema

Director: Basil Zafiriou

Background

33.105 Canada's population is aging. The proportion of the total population who are elderly will grow sharply during the second and third decades of this century, as successive waves of baby boomers reach age 65. By the year 2030, Canada's elderly will represent 22 percent of the total population, compared with just over 12 percent at present. Today, for every Canadian 65 years or older, there are five of working age; in three decades, there will be half as many.

33.106 This demographic shift, a product of the high fertility of the early postwar years and the rising life expectancy of Canadians, has far-reaching implications for our economy and our public finances. In particular, an aging population implies increasing pressures on government spending, stemming from higher pension payments and increased demands for health care services. At the same time, given existing employment patterns, the growth of the labour force will slow to a crawl, reducing the rate of economic growth and hence the rate of growth in government revenues as well. Together, these forces can put enormous pressures on government finances when their impact begins to be felt in 10 years or so, particularly if our debt burden and tax levels remain high.

33.107 Chapter 6 of our 1998 Report sought to illustrate the fiscal implications of the impending demographic shift and to draw attention to the need for a long-term perspective on budget planning. We contended that the government ought to produce long-term financial projections to help parliamentarians and the public gain a better appreciation of the fiscal challenges looming ahead. We pointed out

that several other advanced countries are already doing this.

Scope

33.108 For this follow-up, we reviewed recent Budget documents, the fall fiscal update of the Minister of Finance over the past three years, and analyses and studies of demographic issues prepared by the Department of Finance.

Conclusion

33.109 The government's budgetary process has become more forward-looking since we reported in 1998. The Budget planning framework remains at two years. But in its fall fiscal update, the Department of Finance now provides five-year forecasts of revenues and expenditures, based on an average of private sector forecasts. Extending the fiscal outlook from two years to five is an important step in the right direction, but still falls short of what is needed to show the impact of the impending demographic shift one to three decades ahead.

Observations

The Standing Committee on Public Accounts endorsed the need to report information on the fiscal implications of population aging

33.110 The House of Commons Standing Committee on Public Accounts held hearings on our 1998 chapter in June 1998; the Auditor General and the Deputy Minister of Finance appeared as witnesses. In a report tabled on 8 October 1998, the Committee stressed the importance of taking demographic trends into account in budget planning, and called on the Department of Finance to devise appropriate means for the government to "disseminate long-term

Extending the fiscal outlook from two years to five is an important step, but still falls short of what is needed to show the impact of the demographic shift one to three decades ahead.

Budget decisions continue to be made within a two-year planning horizon, but the longer fiscal outlook now provides additional context for viewing and assessing the government's targets.

demographic and fiscal information that would ensure transparency and greater understanding of the issue.”

33.111 In its response to the Committee, the Department of Finance noted that the government's two-year rolling budget plans had been effective in lowering the debt-to-GDP ratio, and argued that long-term projections could undermine “the importance and urgency of addressing immediate problems.” However, the Department did leave the door open for such projections at some later date, once the government had accumulated more annual surpluses and there was less political and media focus on short-term targets.

The budgetary process has become more transparent and forward looking

33.112 The government's approach to budget planning has been to set two-year rolling fiscal targets and to balance the budget or maintain a small surplus, so that the debt-to-GDP ratio will remain on a permanent downward track. With the *Economic Statement* released last October, the Minister of Finance introduced a new element in the government's Debt Repayment Plan. From now on, the Minister said, each fall the government will announce whether more of that year's surplus should be used for debt repayment, depending on the circumstances at that time.

33.113 To ensure that its budget targets are met, the government sets aside a \$3 billion “contingency reserve” to cushion against unforeseen developments. The targets also contain an additional “prudence” factor to allow for the risk of higher-than-expected interest rates or lower economic growth. In the past, this prudence was embedded in the Budget forecasts; that is, the projected revenues were lower and expenditures higher by the amount of the prudence factor. Beginning with the *Economic and Fiscal Update* of November 1999, this extra prudence is shown explicitly in the Budget forecasts.

33.114 Also for the first time, the 1999 *Economic and Fiscal Update* provided five-year forecasts of government revenues and expenditures, based on an average of private sector forecasts. Budget decisions continue to be made within a two-year planning horizon, but the longer fiscal outlook now provides additional context for viewing and assessing the government's targets. Nevertheless, five-year projections confine the fiscal outlook to a period when the demographics remain favourable. They do not capture the effect of the sharp increases in the elderly population that will occur during the second and third decades of this century.

Canada's fiscal condition has improved, but the need for information on the long term remains

33.115 Canada experienced a remarkable turnaround in its fiscal condition over the past three years. After nearly three decades of continuous deficits and mounting debts, the government recorded small surpluses in 1997–98 and 1998–99, and a much larger surplus — \$12.3 billion — last year. Additional surpluses are projected over the next several years as well.

33.116 The improved fiscal condition strengthens our ability to establish structures that can withstand the demographic pressures looming ahead. This requires information on how serious those pressures are. The Department of Finance has been conducting extensive research on demographic trends and analyzing their economic and fiscal implications. It reports the results of that work in departmental publications and at various professional meetings attended by Finance officials. This work is not easily accessible to non-specialists, however. Thus, there is still a need for the government to translate this technical work into clear long-term projections of Canada's fiscal prospects and to report them to Parliament, either as part of the annual budget presentation or during pre-budget consultations in the fall.

Federal Laboratories for Human and Animal Health Building Project — 1998, Chapter 7 and Canadian Security Intelligence Service — National Headquarters Building Project — 1996, Chapter 8

Assistant Auditor General: David Rattray
Principal: Hugh McRoberts

Background

33.117 In April 1998, we reported to Parliament on the Federal Laboratories for Human and Animal Health Building Project located in Winnipeg, Manitoba, now called the Canadian Science Centre for Human and Animal Health (CSCHAH). In May 1996, we reported to Parliament on the National Headquarters Building Project of the Canadian Security Intelligence Service located in Ottawa, Ontario. Overall, both audits concluded that the projects were successfully implemented. However, stronger management and control practices would have reduced costs to the Crown. The facilities also contained space exceeding program requirements. In summary, our observations and recommendations were aimed at addressing several key issues. These included:

- ensuring that surplus space capacity in both facilities is fully utilized;
- strengthening the roles and reporting relationship of the Biosafety Offices in Health Canada and the Canadian Food Inspection Agency;
- strengthening the Treasury Board Secretariat's project monitoring role; and
- strengthening certain management, control and contracting practices of Public Works and Government Services Canada for planning and delivering future major Crown projects.

33.118 On 4 June 1998, the Standing Committee on Public Accounts held a hearing on the results of the audit of the Canadian Science Centre for Human and

Animal Health, and a report was tabled in the House of Commons on 21 October 1998. The report reaffirmed the audit recommendations and stressed the need for all departments and agencies to do everything in their power to rectify the problems and deficiencies noted in our 1998 Report. The Public Accounts Committee also requested that Health Canada prepare a plan to address the issue of space utilization at the Winnipeg facility and urged the Auditor General to review the plan. On 18 March 1999, the Minister of Health tabled a government response to the seventeenth report of the Standing Committee on Public Accounts. On 28 April 1999, the Deputy Minister of Health Canada provided the Public Accounts Committee with a copy of the "Overview of the Health Canada Winnipeg Laboratories Plan", together with the Auditor General's comments thereon.

Scope

33.119 This follow-up is largely based on discussions with departmental, agency and Treasury Board officials on progress since the audits, written assertions they have made in this regard and a review of supporting documentation. Our work also included visits to both facilities as well as to Health Canada's other laboratory facility in Winnipeg.

Conclusion

33.120 The departments and agencies concerned have taken action on most of the audit recommendations and observations. However, several important issues remain that need to be addressed

The departments and agencies concerned have taken action on most of the audit recommendations and observations.

Several important issues remain that need to be addressed more rigorously by senior management.

more rigorously by senior management. First, there is the question of optimizing the use of laboratory space in Winnipeg. While there has been a significant increase in the approved number of positions at the Canadian Science Centre for Human and Animal Health compared with the number of staff originally planned, many key scientific and management positions remain unstaffed. Furthermore, since our audit, there has been a high turnover of the facility's key program management personnel. At the time of our field work, senior laboratory officials estimated that more than 50 percent of the Centre's potential was not being realized. We also noted that Health Canada is using only 30 percent of available laboratory space at its other facility in Winnipeg.

33.121 At the time of our field work, the Treasury Board Secretariat considered that the level of project monitoring it was performing for major Crown projects was appropriate. The Secretariat maintained that it provided Treasury Board ministers with reasonable assurance that departmental submissions and progress reports comply with policy in all material respects. Both audits, however, identified significant deficiencies in the completeness and accuracy of information submitted for project and funding approval by the Treasury Board. The Treasury Board Secretariat has recently informed us that it is currently reviewing its monitoring role and methodology to ensure an appropriate level of oversight.

33.122 Over the last two years, Public Works and Government Services Canada has initiated several strategies to improve project delivery. However, we are concerned that the Department has not yet resolved the long-standing issue of clearly defining what constitutes "design errors and omissions", assigning responsibilities for managing each, and incorporating them in project contracts. The Department also needs to intensify its efforts to introduce meaningful incentives in

contractual agreements for reducing project costs or, at the very least, introduce measures that will remove disincentives to cost reduction.

Observations

Excess capacity

33.123 Winnipeg laboratories. In April 1998, we reported that the constructed space in the Canadian Science Centre for Human and Animal Health Building exceeded approval and requirements, with no strategy to optimize use. We noted that about 70 positions remained to be filled, comprising 40 percent of the staff that the client departments had originally planned for the facility. We recommended that the departments conduct a space utilization study of the new facility to determine how much surplus space was available and develop a comprehensive business plan and strategy to ensure that its capacity would be fully used. We also reported that Health Canada had another laboratory facility in Winnipeg that was built in 1987 at a cost of about \$12 million. We noted that the facility included a chemical containment laboratory that had never been commissioned or operated.

33.124 Health Canada and the Canadian Food Inspection Agency have informed us that a space utilization study has been initiated. The development of a comprehensive business plan for the CSCHAH facility was also in the conceptual planning phase; however, it has been delayed and placed on hold while Health Canada completes its realignment and transformation exercise that is expected to be completed by spring 2001.

33.125 Since our 1998 Report, we noted that several new Health Canada programs have emerged, such as the Blood and Food Safety initiative. Other options are being considered that could generate new space requirements for the Winnipeg laboratories. As at 20 June 2000, Health Canada officials in Winnipeg had

identified an urgent need for 182 positions, which represents an increase of about 50 percent compared with the number of staff Health Canada had originally planned for the facility. We noted, however, that 56 positions had not been staffed. Staffing actions were under way for 42 positions while 14 positions were on hold pending availability of funding and senior management's approval. We also noted that the Bureau of Microbiology has been without a permanent Director since October 1999, and there have been many vacant positions in key scientific programs. The Department informed us that a permanent Director for the Bureau of Microbiology has been hired effective October 2000, at which time extensive planning of program development and assessment of space utilization will be given a high priority.

33.126 The other laboratory facility in Winnipeg is a two-storey building comprising a total gross area of over 5,900 square metres. The facility was completed in October 1987 with annual operating costs of about \$450,000. Health Canada informed us that the building is a multi-purpose facility. The office part of the building is currently used at 60 percent capacity and the chemical laboratory part of the building is being used at 30 percent capacity. According to Health Canada officials, the unused capacity of this laboratory has been and continues to be reviewed as part of the overall study of regional and program laboratory needs. Progress on completing this study has been complicated by the continuing discussions on the transfer of the regional laboratories in Dartmouth, Nova Scotia and Burnaby, British Columbia to the Canadian Food Inspection Agency.

33.127 Level 4 laboratories. On 28 April 2000, the ministers of Health and Agriculture and Agri-Food announced jointly that the Canadian Science Centre for Human and Animal Health received the clearances necessary to begin work on a number of critical, highly infectious

diseases. At the time of our field work, Health Canada had begun its level 4 program that studies some of the most deadly viruses known. Health Canada has two research scientists and a senior technician trained in working with level 4 viruses. The Department hopes to hire two additional research scientists and another highly skilled technician by the end of the year.

33.128 The Canadian Food Inspection Agency plans to develop a level 4 program using a phased-in approach following the initial experience with level 4 operations in Health Canada. However, the Agency plans to use its level 4 laboratory only as needed, subject to the Animal Health program requirements.

33.129 Canadian Security Intelligence Service (CSIS) building. In May 1996, we reported that since the start of construction, CSIS had been subject to government budget cuts and staff reductions that resulted in underutilized office space. In the latter part of 1996, CSIS completed a space utilization survey of the national headquarters complex that resulted in better use of areas within the building. Since then, increased staffing for new operational initiatives and requirements to satisfy new technologically driven needs have consumed all the spare office capacity. At the time of our field work, the number of people working in the building exceeded design occupancy detailed in CSIS accommodation documents.

33.130 CSIS is currently studying alternatives to provide additional office accommodation within its national headquarters building.

Laboratory safety functions

33.131 In April 1998, we reported that the roles and responsibilities of Health Canada's Office of Biosafety and the Biohazard Containment and Safety Unit in the Canadian Food Inspection Agency needed to be strengthened. We

Health Canada has begun its level 4 program that studies some of the most deadly viruses known.

recommended that these offices needed to be independent of program managers in order to minimize any real or perceived conflict of interest. We also suggested that these offices systematically review all laboratories dealing with infectious agents and formally attest that the relevant biosafety guidelines are being followed.

33.132 Since the audit, the independence of the safety offices has been strengthened and further action is planned. Health Canada's Office of Biosafety now reports to the Executive Director of the Emergency Services Centre within the new Population and Public Health Branch. The Biohazard Containment and Safety Unit of the Canadian Food Inspection Agency now reports directly to the Executive Director, Laboratories Directorate. Plans are also under way to strengthen the Office of Safety and Environmental Services in CSCHAH by hiring two additional experts in containment safety.

33.133 Health Canada informed us that it is pursuing the issue of strengthening the overall system of certifying and monitoring laboratories that deal with infectious agents. This is being done in conjunction with the movement of the Human Pathogens Importation Regulations (HPIR) to the new *Canada Health Protection Act*. It is anticipated that the new Act, together with changes to the HPIR, will better articulate the responsibility to formally attest that all laboratories handling infectious agents are following relevant biosafety guidelines. A memorandum of understanding is also being developed with the Biohazard Containment and Safety Unit of the Canadian Food Inspection Agency to clarify and define the respective roles for the control of pathogens affecting both humans and animals. These initiatives are expected to be completed sometime in 2001.

Treasury Board Secretariat

33.134 The Treasury Board Secretariat states that its primary role in the planning and implementation of capital projects is to provide a high-level strategic policy framework within which departments and agencies are responsible and accountable for results. The Secretariat asserts that it has been monitoring departmental compliance with the intent and the specifics of the relevant policy through the review of project approval submissions and project progress reports. The Secretariat maintains that it provides Treasury Board ministers with reasonable assurance that departmental submissions and progress reports comply with policy in all material respects. At the time of our field work, it considered that the level of project monitoring was appropriate, given available resources and that significantly increasing monitoring levels would be neither cost-effective nor affordable.

33.135 We agree with the Treasury Board Secretariat that its roles and responsibilities should complement rather than duplicate work done by departments; they should focus on providing broad direction and leadership in government rather than dealing with transactional matters. We also concur that departments are ultimately responsible and accountable for results. However, our audits identified several material instances of departmental non-compliance with policy, which the Secretariat did not detect. We believe that the Secretariat needs to be more proactive and systematic as it reviews project submissions and as projects are ongoing. In our opinion, the strength of the Secretariat's monitoring role should depend on the circumstances. A few critical variables could determine the extent to which the Secretariat should play a stronger role. These might include, for example, public safety, cost, level of risk, degree of political sensitivity, and degree of change/innovation.

We believe that the Treasury Board Secretariat needs to be more proactive and systematic as it reviews project submissions and as projects are ongoing.

33.136 In summary, we believe that the Treasury Board Secretariat has a real role in expenditure management relating to major Crown projects. There are many activities it can undertake that would not duplicate work already done by departments and that would support its own overall responsibilities. We reaffirm our belief that the Secretariat needs to strengthen its monitoring role so that it can indeed provide ministers with reasonable assurance that departmental submissions comply with policy. A stronger, more involved role by the Secretariat in future major Crown projects would help prevent many of the problems identified in our past audits of Crown projects. The Treasury Board Secretariat has recently informed us that it is currently reviewing its monitoring role and methodology to ensure an appropriate level of oversight.

Project management

33.137 The 1996 and 1998 audits contained several recommendations aimed at strengthening the way that Public Works and Government Services Canada manages and controls Crown projects. For example, we recommended that the Department tailor consultant contracts to specific projects and that it improve its monitoring of contractor performance. We also recommended that the Department clarify the definition and responsibility for design errors and omissions and that it revise its contracting practices to provide incentives for cost savings within approved budgets but without compromising project objectives.

33.138 Since our audits, the Department has initiated several strategies to improve project delivery. For example, it has developed a National Standard template for contracts and requests for proposals to ensure a consistent approach to requests

for proposals and contracts. The template captures specific requirements and expectations at the beginning of the project so that deliverables are clear and precise and costed accordingly. The Department has also formalized a Procurement and Risk Management process to identify potential risks and contract allowances prior to seeking contract approval on both consultant and construction contracts. The process encompasses reviewing the upcoming project, identifying potential risk areas, preparing a risk response and identifying the potential impact on the project from both a monetary and delivery perspective. Formal training has been provided to staff involved in this process and is ongoing on a national basis. A Change Order Centre and a Claims Prevention Management group have also been established to assist project managers with project issues, including claims and disputes.

33.139 The Department has informed us that it has had some discussions with the consultant industry and their insurance companies on clearly defining what constitutes design errors and omissions and introducing meaningful incentives for reducing costs where feasible. The insurance companies have committed to provide a definition of errors and omissions that would open discussions on including this definition in the contract documents of Public Works and Government Services Canada. However, a time frame has not been established for these potential discussions. The consultant industry does not agree that incentives can be introduced in a meaningful way without compromising project objectives. In early 1999, the Deputy Minister of Public Works and Government Services suggested that the issue be investigated further to identify a solution that would be agreeable to all parties.

Public Works and Government Services Canada has initiated several strategies to improve project delivery.

Promoting Integrity in Revenue Canada — 1998, Chapter 15

Assistant Auditor General: Shahid Minto

Principal: Jamie Hood

Background

33.140 The success of Revenue Canada's (now the Canada Customs and Revenue Agency) tax, transfer payment, customs and trade administration functions depends primarily on the voluntary compliance with the applicable laws by individuals and businesses. One of the many factors affecting the likelihood of voluntary compliance is the way individuals and businesses perceive the conduct of Revenue Canada's staff. An organization like Revenue Canada, with its decentralized operations and the extensive exercise of judgment by employees, must take adequate precautions to minimize the risk of employee misconduct.

33.141 In Chapter 15 of our 1998 Report, we looked at various means that the Department employed to promote integrity among its employees. We found that Revenue Canada had the foundation for the promotion of integrity, but there were areas for improvement that would help it to reinforce and build on that sound foundation. We made a number of observations and recommendations about training, corrective action, information for staff, the application of discipline, monitoring of staff knowledge of expected conduct, and creation of a position of ethics advisor.

Scope

33.142 Our follow-up consisted of reviewing the status report prepared by the Canada Customs and Revenue Agency on its progress on our recommendations, reviewing supporting documentation and holding discussions with its officials.

Conclusion

33.143 The Agency is making good progress; however, to date, few recommendations are fully implemented. The Agency is improving information to staff, taking a more preventive approach to misconduct and establishing monitoring programs in areas more vulnerable to misconduct. The security handbook was revised in April 1999 and is now available electronically to staff; the Code of Ethics and Conduct and discipline policy were revised in September 2000. The Agency plans to issue a single reference document on ethical behaviour with the revised Code of Ethics and Conduct. An orientation manual, available electronically to all employees, also addresses the issue of conduct. In addition, the Agency is in the process of reviewing the role of an ethics advisor. Further, it is planning to monitor disciplinary sanctions and to develop a system to monitor staff knowledge of expected conduct.

Observations

Application of discipline

33.144 To obtain the maximum deterrent effect, it is necessary that disciplinary action be applied fairly and consistently and in a timely manner. In 1998, the departmental guidelines on discipline dated from before the 1994 administrative consolidation of Revenue Canada. A consolidated discipline policy was distributed effective with the creation of the Canada Customs and Revenue Agency in November 1999. This policy was recently revised.

33.145 At the time of our 1998 audit, Revenue Canada was planning to capture

The Canada Customs and Revenue Agency is making good progress, however, few recommendations are fully implemented.

information on all disciplinary actions, analyze it and report on it to senior management. As the first step in this process, the revised discipline policy requires that a copy of each notice of disciplinary action be sent to Corporate Staff Relations and Compensation. At the time of our follow-up, the Agency had not started capturing or analyzing the data.

33.146 During our 1998 audit, we found that in 45 percent of the cases we reviewed with no grievances, final disciplinary action was imposed more than 30 days after completion of the investigation of misconduct. We recommended that Revenue Canada study the disciplinary process to increase the proportion of cases in which the final discipline is imposed within 30 days of completing the investigation. The 2000 revised discipline policy states that it is imperative that the delegated manager take timely disciplinary action and make every reasonable effort to render disciplinary action within 30 working days of the conclusion of the investigation. The Agency is planning to monitor disciplinary sanctions and analyze the factors that inhibit the timely imposition of discipline. It plans to eliminate, where possible, practices that prevent the speedy imposition of disciplinary sanctions.

Taking corrective action

33.147 In addition to taking disciplinary action for misconduct, it is often necessary to correct weaknesses in security, procedures or training. In 1998 we found that while management's responses to rectify observed weaknesses were for the most part appropriate, at times the responses were very slow and narrowly focussed. We recommended that for those incidents that have significant national implications, Revenue Canada ensure that remedial action is applied to all organizational units that are at risk.

33.148 In this follow-up, we noted that the Agency is becoming more proactive in

detecting and preventing misconduct. Investigation reports on misconduct include a section on procedural deficiencies and are sent to the applicable head office functional area for their information and action. In addition, as a result of trend analysis, senior management has given security officials the mandate to monitor the use of electronic networks and to establish a fraud detection program.

Information for staff

33.149 Information is important not only in permitting the Agency to correct systemic weaknesses but also in conveying the Agency's expectations to individual employees. In 1998 Revenue Canada was updating the standards of conduct and security booklets. The security booklet was revised in April 1999 and is available electronically. At the time of our follow-up, the standards of conduct booklet, now the Code of Ethics and Conduct, had been revised. The revised code links expected conduct with corporate values using plain language. It provides reasons for and situational examples of expected behaviour.

33.150 We recommended in 1998 that Revenue Canada provide information on values and conduct to its employees in the form of a brief, easy-to-understand overview ethics document. The Agency plans to issue a single reference document with the revised Code of Ethics and Conduct.

Ethics training

33.151 Providing written information is not a sufficient strategy on its own to ensure that employees understand what is expected of them. This strategy needs to be supplemented by training. During our 1998 audit, we found that most employees interviewed had received some formal training on ethics; however, the training coverage was uneven and was conducted on a program-by-program basis. We recommended that Revenue Canada

The Agency is becoming more proactive in detecting and preventing misconduct.

The revised Code of Ethics and Conduct links expected conduct with corporate values using plain language.

The Agency is still studying the merits of creating the position of ethics advisor.

ensure that all new employees are given uniform training on departmental values and standards of conduct and that veteran employees are given uniform refresher training at appropriate intervals on departmental values and standards of conduct.

33.152 In this follow-up, we noted that the Canada Customs and Revenue Agency has implemented an electronic self-study orientation manual for all employees. This manual has also been used in formal orientation programs. The manual contains information on the mission, vision and core values of the organization as well as employee responsibility and conduct. The Agency has also developed the learning framework for a multi-year leadership program planned for experienced and newly appointed managers. This program will focus on leadership consistent with the core values of the Agency and of the Public Service.

33.153 Following the distribution of the revised Code of Ethics and Conduct, managers will be required to conduct employee awareness sessions, at which staff will be able to discuss the policy and their responsibilities.

Monitoring staff knowledge of expected conduct

33.154 Providing information and training to employees does not guarantee that they will understand and do what is expected of them. During our 1998 audit, we found that Revenue Canada had taken

few steps to determine the level of employees' understanding of the standards of conduct. We recommended that Revenue Canada monitor employee knowledge of the Department's expectations for conduct, through the use of staff surveys or other suitable means.

33.155 Following the distribution of the revised Code of Ethics and Conduct and discipline policy, the Agency plans to develop a process to assess employee knowledge of Agency expectations. However, at the time of our follow-up, the Agency had not yet started to develop this process.

Reporting incidents of misconduct

33.156 There are two reasons why employees may not report incidents of misconduct. First, they may lack information on what and to whom to report; second, their working environment may not be supportive of such reporting — especially if their supervisor or other higher-level co-worker were exhibiting the inappropriate behaviour. The revised Code of Ethics and Conduct emphasizes that if employees have any doubts on what and to whom to report, they are to seek guidance from their manager.

33.157 In 1998 we recommended that Revenue Canada study the merits of creating the position of ethics advisor, whom all departmental employees could consult on questions of values and conduct. At the time of our follow-up, the Agency was still working on this study.

Management of the Social Insurance Number — 1998, Chapter 16

Assistant Auditor General: Maria Barrados

Principal: Theresa Duk

Background

33.158 In our 1998 audit of the management of the Social Insurance Number (SIN), we made a number of observations and recommendations. They focussed on the importance of the SIN, processing and control of the SIN, integrity of data in the Social Insurance Register (SIR), investigations of fraud and abuse related to the SIN, impacts on other users, and the legal and policy framework for managing the SIN.

Scope

33.159 Our follow-up examined reports by Human Resources Development Canada (HRDC) on its progress in implementing our recommendations. Also, we discussed with HRDC officials action plans for upcoming initiatives.

Conclusion

33.160 After our 1998 audit, the government took several measures to improve the management of the SIN. HRDC improved the integrity of the SIR by adding new information about deaths and flagging inactive SINs. It also increased the number and quality of SIN investigations. These measures were implemented within HRDC's current operational framework. Other measures planned will further improve the integrity of the SIR and inform Canadians about the purpose of the SIN and how it is to be used. HRDC is planning to request additional funding for these last measures. All these measures, both implemented and planned, fall within the current legal and policy framework for managing the SIN.

33.161 Our follow-up reports on progress made to date. It also indicates the issues

we believe will require the most government attention to complete implementing our recommendations.

33.162 The management of the SIN is an important public issue that has attracted the attention of two parliamentary standing committees. Given that the government has not yet implemented all of our 1998 recommendations, we believe that a second follow-up is necessary.

Observations

Much work has been done since our 1998 audit

33.163 In response to our 1998 audit, the government, under the leadership of HRDC, developed an action plan and set up five working groups to study the implementation of our recommendations. Also, the Standing Committee on Public Accounts and the Standing Committee on Human Resources Development and the Status of Persons with Disabilities held several hearings to examine issues from our audit and tabled their reports. In June and December 1999, the government responded to those reports.

HRDC took steps to improve the integrity of the Social Insurance Register

33.164 HRDC reports that it improved the integrity of data in the SIR by comparing it with Canada Pension Plan and Old Age Security databases. This process validated the identities, deactivated the files and recorded the deaths of a number of SIN holders. According to the Department, some 5.4 million SINs were updated. Also, HRDC also reports that it put in place mechanisms to update SIR data regularly.

Human Resources Development Canada reports that it improved the integrity of data in the Social Insurance Register by comparing it with Canada Pension Plan and Old Age Security databases.

33.165 Departmental efforts have already improved the reliability of the SIR. HRDC reports that nearly 3 million SINs have been marked “inactive” or “deceased”. The gap of 3.8 million that existed in 1998, between the number of active SINs and the number of people aged 20 or over, has been reduced to approximately 800,000. The Department also reports that the number of active SINs held by people aged 100 or over has dropped from 311,000 to 8,000. In 275,000 other cases, the birth date of the SIN holder has been corrected.

HRDC has increased the number of investigations of SIN fraud and abuse

33.166 HRDC developed an action plan containing four initiatives to deter SIN fraud and abuse:

- develop new fraud prevention and detection programs;
- improve the integrity of data in the SIR by investigating possible fraud and abuse;
- introduce measures to increase the number and improve the quality of SIN investigations; and
- improve communication with federal departments and agencies, other levels of government and the private sector.

33.167 The Department has begun to implement this action plan but has indicated its needs for additional resources. For the moment, HRDC reports that a new investigation unit dedicated to the SIN has tripled the number of SIN investigations over last year. HRDC is also pursuing discussions with Treasury Board to redefine its performance indicators in this area.

Other initiatives are under way

33.168 Other initiatives are under way in response to our 1998 audit recommendations. For example, HRDC is consulting with provincial and territorial

agencies to obtain information on births, deaths and name changes more easily. This would make it possible to validate the information needed to issue a SIN, and prevent entering false data into the SIR. Also, the Department is developing a way to better control the risks associated with issuing temporary SINs. Finally HRDC, in cooperation with its partners, is preparing an education campaign aimed at SIN holders and users. HRDC states that the completion of these initiatives depends on additional resources being obtained.

A comprehensive study on the impact and extent of use of the SIN is needed

33.169 In 1998, we recommended that the government assess the impact and extent of use of the SIN. To date, HRDC, Industry Canada and Statistics Canada have held consultations on how to best measure the impact and extent of public and private sector use of the SIN. Their results are to be published in the fall of 2000. In our view, the departments need to complete a comprehensive study and publish the results as soon as possible.

Roles, objectives and use of the SIN

33.170 In its fourth report, the Standing Committee on Human Resources Development and the Status of Persons with Disabilities recommended creating legislation to regulate the use of the SIN. Also, it asked HRDC to prepare a report on options to improve or replace the SIN system.

33.171 In December 1999, the government provided the Committee with a report that set out three options:

- improve the management of the SIN within the current legal and policy framework;
- enact legislation that restricts the use of the SIN; and
- create a national identification system.

After briefly analysing the options, the government concluded that by adopting administrative improvements and enforcing the *Personal Information Protection and Electronic Documents Act*, its present policy was still valid. It also rejected the option of creating legislation to restrict the use of the SIN.

33.172 Since our 1998 audit, much has been said and written about the management and future of the SIN. However, we believe that only the results from the study on impact and use of the SIN, when published, (see

paragraph 33.169) will provide essential information to help government and parliamentarians make sound decisions about the future of the SIN, the advisability of restricting its use, data matching and privacy protection. We believe that a more in-depth analysis of SIN options is needed. It would help parliamentarians to fully understand the practical, economic, and political implications of different options. Such an analysis would provide parliamentarians with the information to determine the stakes, as well as the advantages and disadvantages of each option.

We believe that a more in-depth analysis of SIN options is needed to help parliamentarians to fully understand the practical, economic, and political implications of different options.

Financial Information Strategy — 1998, Chapter 18 and 1999, Chapter 21

*Assistant Auditor General: John Wiersema
Director: David Willey*

**The April 2001
deadline to implement
the Financial
Information Strategy
(FIS) is approaching
rapidly.**

**In February 2000, the
Public Accounts
Committee expressed
concern with the slow
pace of consultations
on implementing
accrual-based
appropriations.**

Background

33.173 The April 2001 deadline to implement the government's Financial Information Strategy (FIS) is approaching rapidly. Under FIS, the government is introducing accrual accounting; putting into place modern financial systems that support this new basis of accounting; and integrating the financial and operational information into day-to-day decision-making. FIS is a key prerequisite to introducing modern comptrollership in the federal government.

33.174 In September 1998, we reported on the broader issues surrounding FIS and discussed three strategic challenges facing the government:

- integrating FIS into departmental management;
- moving to accrual-based appropriations; and
- obtaining departmental "buy-in" to FIS.

33.175 Our November 1999 chapter examined departmental readiness to implement FIS and reviewed the central leadership demonstrated by the Treasury Board Secretariat. In general, we found that serious departmental planning for FIS had just started despite being less than 20 months from the implementation deadline. Public Works and Government Services Canada had successfully implemented the FIS central systems while the Secretariat needed to strengthen its project management practices to move the project ahead.

33.176 The Standing Committee on Public Accounts (PAC) met in February 2000 to consider our

November 1999 chapter on FIS. The Committee was concerned with the slow pace of consultations on implementing accrual-based appropriations. It recommended that the Secretariat complete its consultations as soon as possible and inform the PAC of its final decision and recommendation. The Committee also expressed an interest in the status of departmental implementation of FIS and recommended that the Secretariat develop statistical indicators, to be published on the Secretariat's Web site starting in May 2000. In addition, the Secretariat was asked to submit an annual report on the status of departmental connections to the FIS central systems, starting in June 2000.

Scope

33.177 For this follow-up we reviewed documentation of the Treasury Board Secretariat and Public Works and Government Services Canada on the status of FIS implementation. We interviewed officials of these central agencies and conducted a survey on the status of departmental implementation. The follow-up is based on information received before mid-September 2000.

Conclusion

33.178 Our November 1999 chapter stated that it was time for the government to "turn up the heat" in its efforts to implement FIS. In the past year, departments have made progress in connecting to the FIS central systems and are in the final stages of preparing their financial systems to support the new accrual accounting requirements under FIS. The Treasury Board Secretariat has made progress on the development of accounting policies but could be further

ahead at this stage to permit departments to finalize the configuration of their systems prior to the start of the next fiscal year.

33.179 The Secretariat has improved its project management practices of the overall FIS implementation. For example, it has established a monthly progress reporting framework and the FIS Assistant Deputy Minister Steering Committee. It has also implemented the FIS Forum, where departmental FIS representatives meet to discuss issues and to share best practices. The Secretariat, with the assistance of FIS Forum working groups, has produced a number of important documents, including an accounting manual and guidance on change management and communication.

33.180 The government needs to continue its effort to successfully implement FIS systems and policies by April 2001. While that is an important milestone, departments and agencies need to ensure that improved financial information is integrated into day-to-day management decision making. This is crucial for government to develop the financial management environment needed under modern comptrollership. Change management is a critical component in achieving this.

Observations

Departments have made progress in connecting to the FIS central systems

33.181 The FIS central systems were implemented successfully in April 1999. In addition to providing payments, receipts and payroll services, these systems capture summary financial information from departments for use in preparing government-wide reports and financial statements. Thirty-five departments and agencies have already connected to these central systems. The remaining 63 departments and agencies are in the process of preparing their

financial systems for the April 2001 deadline.

33.182 Public Works and Government Services Canada (PWGSC) is managing the FIS central systems and is co-ordinating the connection of the departmental systems. It continues to make extensive use of risk and project management techniques to minimize the risks associated with a large number of connections occurring at the same time. For example, PWGSC has insisted that departments and agencies sign memoranda of understanding, clearly indicating the roles, responsibilities, and milestones that need to be met to successfully connect to the central systems. These memoranda indicate that a large number of departments plan to carry out interface testing in the period ending January 2001, which is only two months before the implementation deadline. PWGSC is monitoring the departmental implementation closely, particularly in departments with extremely tight implementation schedules. Decisions on contingency plans will be made in November 2000.

The Treasury Board Secretariat has made progress with its accrual accounting policies but work still needs to be done

33.183 With less than seven months, as of September 2000, before the implementation of FIS systems and policies, the government needs to have a clear understanding of its accrual accounting policy requirements. Due to the complexity of modern financial systems, it is important that departments and agencies have this information now to configure their systems before April 2001. While the Secretariat has made progress in this area, work still needs to be done. For example, under FIS, departments will be required to produce a set of accrual-based financial statements. Revised requirements for these financial statements were issued for comments in August 2000 and are in the process of

The Secretariat implemented the FIS Forum, where departmental FIS representatives meet to discuss issues and to share best practices.

Public Works and Government Services Canada continues to make use of techniques to minimize system implementation risks.

The Secretariat has made progress with its accrual accounting policies, but work still needs to be done.

The Secretariat expects to complete its accounting manual in October 2000.

being finalized. Draft policies in other areas, such as transfer payments, prepaid expenses and environmental liabilities, have been issued for comments.

33.184 In his observations on the financial statements of the government, published in the Public Accounts of Canada, the Auditor General indicated that the Secretariat and departments appear to be spending considerable effort on developing accounting policies that are not currently required by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants; for example, inventories for consumption and intangible assets. He noted that many departments, particularly the smaller ones, already have their hands full capitalizing tangible capital assets without the added complexity of these additional policies.

The Secretariat has obtained \$60 million in additional funding for FIS that will be allocated to departments and agencies over the three-year implementation period.

33.185 The Secretariat, with the help of the FIS Forum, is developing an accounting manual to help departments and agencies interpret and implement accrual accounting in their organizations. While we recognize that much progress has been made in a short period of time, as of September 2000, the manual is still not finished. The Secretariat expects to complete the manual in October 2000.

The Treasury Board Secretariat has improved its FIS project management

33.186 In our November 1999 Report, we noted that the Secretariat needed to improve its FIS project management practices. Specifically, we recommended that the Secretariat:

- maintain a fully integrated master plan;
- obtain documented commitment from departments;
- obtain and review departmental FIS implementation plans;
- establish a reporting framework to monitor departmental progress;

The Secretariat has instituted a monthly reporting framework, which will form the basis of FIS progress and readiness indicators.

- consider providing additional resources to departments where needed; and
- develop a comprehensive communications plan and provide guidance on change management.

33.187 The Secretariat maintains a high-level FIS master plan that is reviewed at the monthly meetings of the FIS Assistant Deputy Minister Steering Committee.

33.188 In the past year, the Secretariat has obtained \$60 million in additional funding for FIS that will be allocated to departments and agencies over the three-year implementation period. In exchange, it obtained documented commitments from departments and their deputy ministers to implement FIS by April 2001.

33.189 The Secretariat also instituted a monthly reporting framework where departments report their progress on a number of key FIS implementation milestones. These reports will be summarized to form the basis of FIS progress and readiness indicators that were to be published in September 2000.

Integrating improved financial information into day-to-day decision making remains a challenge

33.190 Departments and agencies are working hard to implement their new financial systems and the accrual accounting policies required under FIS. While these are two key building blocks in the move to modern comptrollership in the government, the integration of better financial information into day-to-day management decision making is the ultimate goal. As we reported in our chapters, this represents a significant change management challenge, which requires planning, effort and most of all, time.

33.191 The Secretariat, with significant assistance of the FIS Forum, has recently

produced a number of documents related to change management — a framework for change and guidance on developing change strategies and plans.

33.192 Many departments and agencies have expressed difficulty in obtaining manager buy-in to the need for FIS. These managers say that they cannot see the benefits. This indicates that a significant change management and communication challenge exists. Yet there are few departments that have developed change management strategies to move their organization to the new financial management environment. Many departments indicated that they plan to develop such strategies in the future.

33.193 Under FIS, departments will have greater responsibility for their accounting records. This means that the quality of the government's overall financial statements will rely heavily on the quality of the summary information of these departments. A strong financial management environment would help ensure the quality of the information maintained and used by departments in their day-to-day activities as well as the quality of the summary information provided to the centre for government-wide reporting purposes.

33.194 In this regard, our work on the financial management capability of departments, as reported in Chapter 13 of our October 2000 Report, found that gaps remain between current expectations for financial management and the existing capabilities of each of the departments we reviewed. We also reported that departments are at the initial stages of

developing the capabilities needed for the Information Level of the Financial Management Capability Model. These capabilities are essential to many of the current initiatives of the federal government, including FIS and modern comptrollership. Change management is a critical component in achieving these goals.

The Treasury Board Secretariat has not yet finalized its consultations on implementing accrual-based appropriations.

33.195 The Public Accounts Committee has asked the Secretariat twice to complete its consultations and to submit its recommendations on moving to accrual-based appropriations. The consultations were initially scheduled for completion in November 1999 and then postponed to the fall of 2000. They are now expected to be completed and a decision with respect to the feasibility of implementing accrual-based appropriations made by the end of the current fiscal year.

33.196 Given the timetable for Parliament and the estimates process, the earliest realistic date to introduce accrual-based appropriations would be for the 2003–04 fiscal year. The requirement to maintain and report information under two different bases of accounting for at least three years adds a level of complexity in a critical period of change. However, if managed well, departmental managers and members of Parliament could use this time to adapt to accrual accounting practices before accrual-based appropriations are introduced.

Few departments have developed change management strategies to move to the new financial management environment.

A strong financial management environment would help ensure the quality of the information maintained and used by departments.

A decision on the feasibility of implementing accrual-based appropriations is now expected to be made by the end of the current fiscal year.

Veterans Affairs Canada — Disability Pensions — 1998, Chapter 23

Assistant Auditor General: John Wiersema

Director: Marilyn Rushton

Background

33.197 In our 1998 audit of Veterans Affairs Canada, we reported on the provision of disability pensions to veterans and other eligible recipients and on the changing nature of the Department's clients. The objective of our audit was to determine whether the Veterans Affairs Portfolio, which includes Veterans Affairs Canada and the Veterans Review and Appeal Board, was managing the disability pension program in a way that ensured that high-quality decisions were being made consistently and in a timely manner.

33.198 The audit noted that the Veterans Affairs Portfolio had been successful in meeting its commitment to significantly reduce turnaround times for processing disability pensions. We concluded that the Portfolio needed to continue enhancing this process by taking the steps necessary to improve the consistency, efficiency and overall quality of disability pension decisions.

33.199 The key areas of concern we raised in 1998 dealt with improving the services provided to applicants for disability pensions and the need for a strategy to address the changing nature of clients at Veterans Affairs Canada.

33.200 We made several observations and recommendations on the disability pension program. Our concerns included the need for:

- standard guidance materials in the preparation of applications;
- guidance materials to make entitlement decisions and to assess the extent of disability for pension purposes;

- regular analyses of the reasons for decisions that are overturned on review or appeal; and

- opportunities to make greater use of the departmental review process.

33.201 In addition, our 1998 chapter recommended that, in reporting to Parliament through its Report on Plans and Priorities, Veterans Affairs Canada explain the role it plays in relation to the peacetime members of the Canadian Forces, the changes expected in its client base and its strategy for adapting to these changes.

Scope

33.202 Our follow-up consisted of a review of actions taken by Veterans Affairs Canada in response to our recommendations. It involved enquiry, discussion and review of various documents supplied by the Veterans Affairs Portfolio. Our work was designed to provide Parliament a moderate level of assurance that our findings were addressed.

Conclusion

33.203 The Department has expended considerable effort to respond to our recommendations. It has taken action in each area discussed in our 1998 chapter and completed the corrective action for certain recommendations. Several initiatives, including the planned revisions to the table of disabilities and greater use of the departmental review process, are under way. In addition, the Department is working on a number of initiatives that address the needs of its Canadian Forces clients. These initiatives focus on meeting the needs of these clients under existing legislation. In January 2000, a joint

**Veterans Affairs
Canada has taken
action in each area
discussed in our 1998
chapter.**

VAC–DND (Veterans Affairs–National Defence) Task Force was established to examine the way in which Veterans Affairs Canada does business and to redefine programs and services for Canadian Forces clients. This task force is scheduled in May 2001 to provide options for the Minister to take to Cabinet. It is too early to determine whether the expected results of the above-noted initiatives will be achieved in a timely manner.

Observations

Preparation of first applications

33.204 In 1998 we recommended that Veterans Affairs Canada develop service standards for its role in preparing a first application for disability pension benefits. The Department's response in 1998 stated that it chose not to include service standards on the time to carry out these services, because most of the activities involved in case preparations lie outside the Department's control, either with outside agencies or applicants.

33.205 However, since 1998, the Department has implemented internal performance standards to ensure active follow-up and case management in the collection of documentation for disability pension applications.

Preparation of disability pension applications

33.206 In 1998 we recommended that the Department improve the services provided to applicants in the preparation of disability pension applications by:

- improving standard national guidance materials and manuals;
- ensuring that new pension officers receive appropriate initial training on a timely basis; and
- re-examining workload distribution.

33.207 We found that the Department has developed a Pension Officer Reference Manual to meet the need for a standardized information and procedures manual, and has developed standardized procedures for the first application process. The Department also provides a training workshop by qualified personnel for new pension officers as soon as operationally possible.

33.208 The improved guidance materials and the training workshop will assist the Department in providing consistent quality service to disability pension applicants.

33.209 The Department has conducted a study on workload and related allocation of resources for its district and regional offices. As a result of the study, some resources were reallocated to meet workload requirements.

Adjudication of first applications

33.210 In 1998 we recommended that Veterans Affairs Canada improve guidance materials used in making entitlement decisions and in assessing the extent of disability for pension purposes. We also recommended that guidance materials be revised periodically to reflect the trends of disability pension claims.

33.211 The Department has developed a Pension Adjudication Reference Manual. The manual provides a comprehensive resource so that all adjudicators have access to identical and current information.

33.212 The Department is presently undertaking an extensive revision of the table of disabilities, which is the instrument used in assessing the extent of disability for pension purposes. The project is scheduled for completion in March 2001. While the Department has made good progress on our recommendation, it is important that resources remain available for this project to ensure a timely completion.

33.213 In 1998 we recommended the Department document the reasons for assessment decisions and provide these reasons to applicants. We found that the reasons for assessment decisions in hearing loss claims are provided to applicants; however, for psychological cases, the reasons are documented in a memo to file but are not provided to the applicant in the decision letter.

33.214 When the Department completes the revision of its table of disabilities, it will be able to better articulate the reasons for assessment decisions. In the meantime, the Department has taken steps to sensitize staff of the need to provide the clearest rationale possible, subject only to the limitations imposed by the existing guidance materials.

Overturned decisions during the review and appeal process

33.215 In 1998 we recommended that to improve the quality and efficiency of decision making, the Veterans Affairs Portfolio carry out regular analyses of the reasons for decisions that are overturned by the Veterans Review and Appeal Board.

33.216 We found that the Department has carried out monthly reviews of decisions rendered by the Veterans Review and Appeal Board. A sample of review and appeal decisions are reviewed to determine the basis for overturning the first-level decisions, the policy direction of the Board, the need for departmental policy or legislative changes, and the need for training. Monthly reports are generated to identify issues with respect to policy, operations, medical assessments and training. Ad hoc reports are prepared on specific Board decisions that may require follow-up action or discussion, and a selection of Board decisions are circulated for training purposes.

33.217 The Veterans Review and Appeal Board, in addition to reviewing the

comments contained in the Department's review, has completed several initiatives in response to our 1998 recommendations. The Board's initiatives include:

- the analyses of federal court cases;
- the development of The Consistency Guideline for format, style and language use in the Board's decision document;
- a Peer Review of Members' Decisions pilot project; and
- the Veterans Review and Appeal Board Client Survey, conducted in the spring of 2000.

Opportunities for greater use of the departmental review process

33.218 In 1998 we recommended that to improve the efficiency and timeliness of decision making in the disability pension program, Veterans Affairs Canada examine opportunities to make greater use of the departmental review process.

33.219 The Department has developed a directive on the use of departmental reviews for inclusion in its Pension Officer Reference Manual. The purpose of the directive is to clarify the process or remedy to use in different circumstances. As well, as part of the Department's project to review decisions overturned by the Veterans Review and Appeal Board, cases that could have been handled through departmental reviews rather than by the Board are being identified for training purposes.

33.220 In August 2000, the Department began a pilot project on the use of departmental reviews for clients still serving in the Canadian Forces. The purpose of the project is to determine whether a co-operative effort can increase significantly the number of favourable decisions earlier in the pension process and thereby create greater client satisfaction and reduce review hearings by the Veterans Review and Appeal Board at the pilot sites.

Information on the changing nature of clients

33.221 In our 1998 audit, we noted that in reporting to Parliament through its Report on Plans and Priorities, Veterans Affairs Canada had not explained the role it plays in relation to the peacetime members of the Canadian Forces, nor had it explained the changes expected in its client base and its strategy for adapting to these changes.

33.222 We found that the recent Report on Plans and Priorities and the Portfolio Performance Report included several sections describing the active role of the Department in relation to the career and support of current and former peacetime members of the Canadian Forces.

33.223 The Department has embarked on several initiatives, including the Review of Veterans' Care Needs Project and the Veterans Affairs Canada-Canadian Forces Project, to further study the impact of the shift in client composition on program delivery and to develop strategies for effecting change as required. In April 1999, the DND-VAC Centre for the

Support of Injured and Retired Members and Their Families was opened.

33.224 The Review of Veterans' Care Needs — Phase III, a study of issues related to the relevancy and appropriateness of care and support of Canadian Forces clients and families, was completed in March 2000. The findings of the study will be used in the Joint VAC-DND "Continuum of Service Project". This project will determine options for the Department's future program development and delivery to Canadian Forces clients.

33.225 We believe that the Department has made good progress in gathering information on the changing nature of the its clients, particularly the Canadian Forces. It is now ready to develop options to meet its clients' needs.

33.226 Any significant changes required in programs, services and benefits to meet the needs of Canadian Forces clients will be considered in the Continuum of Service Project scheduled for completion in May 2001. Subsequent implementation of changes will depend on government approval and funding.

Revenue Canada — International Tax Directorate: Human Resource Management — 1998, Chapter 24

Assistant Auditor General: Shahid Minto

Principal: Barry Elkin

The International Tax Directorate has moved forward on a number of human resource initiatives, but it is too early to judge their success.

Background

33.227 In our 1998 audit, we noted that the International Tax Directorate of Revenue Canada (now the Canada Customs and Revenue Agency) required a stable work force of highly skilled professionals to properly manage the risk to the tax base in this complicated, knowledge-intensive area. However, both at headquarters and in Tax Services Offices, we found a high rate of staff turnover, low average levels of experience, and the use of secondments, redeployments and acting assignments to fill many key positions. Coupled with long delays in the staffing process, this gave rise to a lack of continuity and stability in the Directorate. We recommended that analysis, planning and implementation of needed human resource initiatives be carried out as soon as possible and that databases be enhanced to provide managers with better information for human resource planning.

Scope

33.228 Our follow-up work involved reviewing the status report provided by the International Tax Directorate on its progress in implementing our 1998 recommendations. Our observations here are based on a review of this and other documents provided to us and on interviews with Directorate officials. These documents included an internal evaluation assessment study conducted by the Corporate Affairs Branch of the Canada Customs and Revenue Agency, reported in January 1999. The study noted, among other things, that the Directorate's activity structure needed a comprehensive review to ensure that the program delivery framework was effective

and efficient. The study also found that the Directorate was not providing adequate direction to field offices.

Conclusion

33.229 Significant change has occurred in the Directorate since our 1998 audit. It has moved forward on a number of human resource initiatives in response to concerns raised in our report and in the 1999 evaluation assessment study and to the new issues emerging in the field of international taxation. Many of the initiatives are in their preliminary stages and it is too early to judge their success. Some are broad corporate initiatives that are not directly under the control of the International Tax Directorate. All are long-term initiatives, and the challenge will be to maintain their momentum over time to fully address our recommendations.

Observations

Staff stability

33.230 The most notable change in the Directorate is the increase in staff numbers at headquarters and in the ratio of permanent staff to staff on loan. In response to our recommendation, the Directorate prepared comprehensive staffing plans for both 1999 and 2000. In 1998 there were 80 staff at headquarters, and by 30 April 2000 this had risen to 146 (see Exhibit 33.3). The staff increases were due to legislative changes and the anticipated increase in workload to deal with advance pricing agreements, double taxation cases and exchange of information with Canada's treaty partners.

33.231 In 1998 we were concerned that 48 percent of the Directorate's staff at

Agency headquarters were on loan from other directorates, including 12 of the 32 senior auditors. At 30 April 2000, only 18 percent were on loan, including 3 of the 48 senior auditors.

33.232 The Directorate is also taking action to stabilize its senior management cadre. In 1998 we noted that only one of the four divisions at headquarters had a director who was permanent in the position, and the director general position had been vacant for an extended period of time. Currently, the director general, a deputy director general and a director are permanent in their positions. The two acting directors are expected to be made permanent in the near future.

33.233 Given this period of transition, many of the Directorate's staff at headquarters do not have extensive experience in the international tax field — only 2.5 years on average. In 1998 we noted that the Directorate was having difficulty retaining staff because of the demand elsewhere for their special expertise. Due to the number of departures in the 20 months since our audit, 113 people were hired to achieve a staff increase of 66 (see Exhibit 33.3).

33.234 In response partly to the evaluation assessment study and partly to the growth and change in the field of

international taxation, the Directorate is implementing a new organizational structure at headquarters. This structure is designed to strengthen functional guidance to the field offices while grouping the corporate functions of policy, budgeting and strategic planning. Greater emphasis will be placed on transfer pricing as an element distinct from double taxation cases, advance pricing agreements and exchange of information. The new structure will also allow the Directorate to handle all tax procedures involving film and television production, a growing and important industry. A fifth Division, Competent Authority Services, has been added to the Directorate.

33.235 At Tax Services Offices (TSOs), the number of international staff has remained stable at about 395. The average experience has increased slightly from less than 3 years in 1998 to 3.75 years at May 2000. However, the percentage of international tax employees who are permanent in their positions has declined from 87 percent in 1998 to 76 percent in May 2000. Moreover, only 62 percent of senior tax auditors are permanent in their positions. The Directorate has informed us that some TSOs rotate their staff to acquire experience in all tax programs, which means that a high percentage of staff are on loan at any given time.

Many of the Directorate's staff at headquarters do not have extensive experience in the international tax field — only 2.5 years on average.

Division	Total Employees August 1998	New Staff	Departures	Total Employees April 2000
Director General's Office	9	14	5	18
Special Projects	2	1	3	0
International Tax Strategy	3	12	4	11
Transfer Pricing and Competent Authority	25	34	5	54
International Audit	19	22	15	26
Non-Resident Assessing and Withholding	22	30	15	37
Total	80	113	47	146

Exhibit 33.3
International Tax Directorate – Staff Resources at Headquarters

Source: Canada Customs and Revenue Agency

The Canada Customs and Revenue Agency is currently building a competency-based human resource management system for Agency-wide use.

The staffing process

33.236 In 1998, we noted that there were long delays in the staffing process and it took an unusually long time to mark examinations and establish eligibility lists. This was due in part to the cumbersome rules governing human resource management in the public service and in part to the external appeals process. On 1 November 1999, the Canada Customs and Revenue Agency was established as a separate employer under the *Public Service Staff Relations Act*. The Agency believes that the staffing flexibility it now has will allow it over time to accelerate staffing actions considerably.

33.237 On 23 March 1999, the Agency presented an action plan to the Public Accounts Committee to address the concerns raised in our 1998 chapter. The action plan included conducting a demographic study, developing competency profiles, offering a variety of training initiatives, and establishing prequalified pools of candidates for forecast vacancies. The Agency's Business Plan and its Performance Report for that year included elements of this action plan.

33.238 The demographic report was completed 26 March 1999. It presents a snapshot of the Compliance Programs Branch work force as a whole. The Directorate is part of this Branch. The report notes that the highest proportion of employees eligible for retirement in the next 10 years is in the auditor group, particularly the middle to senior auditor group, 48 to 78 percent of whom may retire. It also notes that the highest proportion of employees eligible for retirement will be at headquarters — 51.44 percent. The report states that a sound strategy is essential to recruit, maintain and develop highly competent staff. The Branch intends to update the information in this demographic study and use it to prepare staffing plans.

33.239 The Canada Customs and Revenue Agency is currently building a competency-based human resource management system for Agency-wide use. The Human Resources Division has developed a catalogue of competencies that identifies the skills, knowledge, abilities or behaviours that contribute to successful job performance. Many of the competency profiles, which define the level of proficiency required in each competency in order to do a job well, have also been developed for positions in the International Tax Directorate. The majority of the Directorate's management and administrative support positions have not yet been addressed because they are to be established across the Agency.

33.240 All training and learning activities in the Branch have been listed and plans are to match these with the competency profiles. The result will be a competency profile and a corresponding learning profile for each job. Managers and employees will then be able to develop individual learning and development plans for specific positions and for career development.

33.241 The standardized assessment of established competencies will provide the basis for prequalification of candidates for promotional opportunities. The extent to which this will speed up the staffing process is not known at present. Headquarters is still resolving outstanding appeals of competitions run previously under the *Public Service Employment Act*.

33.242 The action plan presented to the Public Accounts Committee included three trainee programs to ensure a well-qualified and well-trained work force. One of the programs was to recruit and train basic auditors for the field, not specifically for the International Tax Directorate. At present, there are about 58 participants in the program. The two other programs were to prepare auditors for anticipated vacancies at more senior levels. With the introduction of a competency-based human resource

management approach, neither initiative has gone forward.

33.243 As many of the activities in the action plan are now being implemented and are long-term in nature, it is too early to judge their effectiveness in attracting and retaining highly skilled people.

Human resource information system

33.244 In 1998 we noted the need for reliable human resource information systems to provide key information on employees. The Directorate needs to maintain information on employees' work location, occupational group and level, and years of experience, among other things. At that time, Revenue Canada indicated that a department-wide project was under way, called the Corporate

Administration System (CAS). The human resources component of CAS was to provide enhanced human resource information. A portion of this component was implemented in July 1999. It allows for the recording of basic data on employees, such as job classification and compensation. However, currently it does not provide information on employee experience or performance and does not allow for the roll-up of information on the number of employees acting in positions or on loan from other areas. The use of CAS to track employee training varies from office to office, and the training module is not fully operational. The development and implementation of future human resource modules depends on the needs definition that emerges from the competency-based approach to human resource management.

Grants and Contributions: Selected Programs in Industry Canada and Department of Canadian Heritage — 1998, Chapter 27

*Assistant Auditor General: Richard Flageole
Principal: Peter Simeoni*

Background

33.245 In 1998 we reported on selected grant and contribution programs in Industry Canada and the Department of Canadian Heritage. In Industry Canada, we audited contributions under the Ontario Base Closure Adjustment Program (OBCAP), and the contributions to the Canadian Network for the Advancement of Research, Industry and Education (CANARIE Inc.) and to the Pre-Competitive Applied Research Network (PRECARN Associates Inc.). In Canadian Heritage, we audited grants and contributions under the Multiculturalism Program.

33.246 Our report had the following three messages:

- Our audits of grant and contribution programs over the past 21 years have demonstrated a long series of persistent problems.
- Significant opportunities exist to improve the management of Industry Canada's OBCAP and Canadian Heritage's Multiculturalism Program.
- Industry Canada could strengthen accountability for performance for its contribution programs delivered by the third parties, CANARIE and PRECARN.

33.247 We suggested that there were many reasons why these problems persisted, some of which had to do with situations where decision makers simply have not followed the rules on grants and contributions. There were also other, more systemic reasons having to do with weak management practices — in particular, failures to set clear, attainable goals, to

exercise due diligence, and to measure performance. In short, concern for results was inadequate.

33.248 The Standing Committee on Public Accounts considered our report and made a number of recommendations, which were tabled in the House of Commons. In particular, the Committee recommended that Industry Canada and Canadian Heritage report the objectives for all their grant and contribution programs in their departmental performance reports, beginning in 1999. The Committee also recommended that they report actual outcomes against expected results for these programs, beginning in 2000. In its response to the Committee's report, the government undertook to remedy the problems identified in the audit as expeditiously as practical. The Committee further recommended that the Office of the Auditor General consider undertaking a comprehensive audit of the management of grant and contribution programs and report its conclusions and recommendations to Parliament. In response to this recommendation, the Office is undertaking a government-wide audit and will report its findings in the fall of 2001.

33.249 In summarizing the problems that have persisted in the management of grant and contribution programs since 1977, we suggested that weak management practices was a reason for some of the difficulties. As promised in our report, we have provided guidance on risk identification for grant and contribution programs. This guidance results from our experience in value-for-money audits of grant and contribution programs, the

advice of managers in Industry Canada, and managers from many other departments. It is intended to provide managers and staff of grant and contribution programs with a tool to identify risk. It complements and reinforces government policy and direction by helping managers assess and improve their current practices.

Scope

33.250 We reviewed the status of commitments made by Industry Canada and the Department of Canadian Heritage in response to our recommendations and those of the Public Accounts Committee (see Exhibit 33.4). We also reviewed the status of commitments made by each department in subsequent correspondence with the Chair of the Public Accounts Committee.

33.251 We conducted interviews with program staff in Ottawa and Toronto from Canadian Heritage's Multiculturalism Program, and in Ottawa from Industry Canada's OBCAP, CANARIE and PRECARN programs. We reviewed supporting documentation and status reports, as well as recent internal audits of the Multiculturalism Program.

Conclusion

33.252 We are satisfied that Industry Canada is making reasonable progress in addressing our recommendations and those of the Public Accounts Committee; however it is too early to assess the results of measures put in place to establish annual performance expectations for CANARIE and PRECARN.

33.253 Our follow-up work uncovered a new accountability problem in the funding of PRECARN. In 1999 PRECARN requested \$20 million in government funding for a six-year research program. In April of this year, PRECARN received the \$20 million as a one-time grant as part of the 2000 federal budget. Because PRECARN will need to spend the money

only as it incurs research costs, it has invested the \$20 million and is earning interest. We have three concerns:

- Paying the money before it was actually needed results in additional interest costs to the government, which we estimate at about \$5 million.
- PRECARN could earn \$3.6 million on the \$20 million it has invested, and the Department could not explain why PRECARN will receive more money than it had actually requested.
- There is no accountability to the Department for how this additional funding will be used.

33.254 We have concluded that the Department of Canadian Heritage has not yet made sufficient improvement in the management of grants and contributions in its Multiculturalism Program. The Department has undertaken a number of initiatives to address the problems we found and to strengthen due diligence across the Department. However, a recent internal audit of projects approved between January and May 2000 shows that the results of those initiatives have not yet been reflected in the demonstration of a minimum standard of due diligence in the assessment and approval of grants and contributions. We plan to report on the Department's progress in addressing these problems again next year.

Observations

Industry Canada

33.255 OBCAP. The Ontario Base Closure Adjustment Program was launched in 1994 to help communities affected by military base closures. The program was assigned a budget of \$11.8 million over seven years. At the time of our audit in 1998, 19 projects had been funded and about \$945,000 was left to be distributed over the final three years. The final date to submit new applications was 31 March 1999. Three projects were

Industry Canada is making reasonable progress in addressing our recommendations. However, our work uncovered a new accountability problem.

Canadian Heritage has not yet made sufficient improvement in the management of grants and contributions in its Multiculturalism Program.

Exhibit 33.4

Status of Selected Public Accounts Committee Recommendations

Recommendation	Industry Canada	Department of Canadian Heritage
<p>1. That the departments clarify all grant and contribution program objectives, and include them in their annual Performance Reports to Parliament for the period ending 31 October 1999.</p>	<p>Industry Canada included the objectives for all its active grant and contribution programs as at 31 July 1999 in the Performance Report released in the fall of 1999.</p>	<p>The Department informed us that in preparing its Performance Report for the period ending 31 October 1999, it realized that it would be impractical, within the constraints of the Treasury Board format, to include over 45 programs' objectives. Rather than present only the Multiculturalism Program's objectives, the Department undertook to identify, for subsequent reports, appropriate means to report equally on all programs.</p>
<p>2. That the departments begin to report actual outcomes against the expected results in their performance reporting to Parliament, beginning for the period ending 31 March 2000.</p>	<p>We reviewed a draft of the relevant section of Industry Canada's 1999–2000 Performance Report, which presented actual results of active grant and contribution programs up to 31 March 2000. The text referred the reader back to the previous year's Performance Report for information on the objectives of the programs. While the presentation of results was more in the form of outputs than outcomes and not necessarily linked to expected results, we conclude that the Department has made a good start in responding to this recommendation.</p>	<p>We reviewed an advance copy of Canadian Heritage's Performance Report. It presents a list of the transfer payment programs with transfers in excess of \$5 million (per the requirement of the government's new Policy on Transfer Payments) with page references to sections of the report where more information on the program is presented. The information provided varied widely for the different programs and included statements of purpose, activity levels, or some outputs and outcomes where they could be linked to departmental strategic objectives.</p>
<p>3. That the departments review the decision-making processes for all grant and contribution programs and that they ensure that all eligible applications for funding are assessed against the criteria approved by the Treasury Board.</p>	<p>Following our audit, Industry Canada directed that submissions requesting approval of projects clearly demonstrate how the proposal meets all relevant program authorities and how the project will contribute to attaining the objectives of the program. The submissions should also address how the project meets the eligibility criteria and how the project has been assessed against the assessment criteria. These requirements were also added to the pre-approval integrity review conducted on all contributions greater than \$500,000, and to the post-approval review conducted at year end on a sample of contributions less than \$500,000.</p>	<p>The findings of Canadian Heritage's internal audit show that the Department's decision-making processes for the Multiculturalism Program did not at the time of the audit ensure that applications were assessed against the criteria approved by the Treasury Board. The Department implemented remedial actions, including mandatory due diligence training for all staff and managers who have grant and contribution responsibilities, a new grant and contribution information management system, and clarified accountabilities.</p>
<p>4. That the departments audit periodically all their grant and contribution programs and report the results of these audits in their annual performance report to Parliament, beginning fiscal year 2000–01.</p>	<p>Industry Canada's management control framework produced in March 2000 indicates the status of audits (completed or under way) for all its grant and contribution programs.</p>	<p>The Department's 2000–01 review plan targets a selection of grant and contribution programs for audits of recipient compliance with program terms and conditions, use of funds, and, where deemed appropriate, an examination of program management and delivery.</p>

approved since our 1998 audit, bringing the total number of projects supported under the program to 22. Of the 22 projects, 13 were studies representing 27 percent of the funding, and nine were economic development projects, representing 73 percent of the total contributions approved. As of September 2000, Industry Canada records indicated that three active projects could submit potential claims of about \$655,000 before 31 March 2001, when the program ends.

33.256 In 1998 we found little or no information on file to indicate that Treasury Board criteria had been considered in the decision to fund several of the projects we audited. Moreover, there was little information on project results. We recommended that Industry Canada ensure that the projects it funds in its contribution programs represent value for money to both the applicant and the program. In particular, the Department had to apply the terms and conditions approved by the Treasury Board for its grant and contribution programs, and document assessments to properly justify the decision to fund or not to fund a project.

33.257 Although OBCAP is nearing its end, the Department acted to correct these deficiencies and to apply lessons learned to future programs. Following our audit, the management of the program was transferred to a unit within the Department that manages the winding down of programs.

33.258 In addition, the following measures were undertaken in response to our audit of OBCAP:

- a review of the Project Summary Form used in the review and approval of new OBCAP projects to ensure that Treasury Board criteria are considered and documented; and
- a review of project files throughout the remaining mandate of the program.

33.259 The Department reviewed all projects approved as of May 2000 (21 of 22 projects). The findings corroborated our 1998 conclusions, identified additional issues for management's attention, and presented recommendations to generally improve grant and contribution program management in the Department.

33.260 Our 1998 audit had noted the lack of performance information on projects. There were no reports in the files of visits to the sites of the larger projects we audited, and final reports on projects we audited did not contain information on the fulfilment of program objectives. In response to these observations, staff have conducted and documented on-site visits to all OBCAP economic development projects. The Department has received reports for 14 of 19 completed projects and is making a concerted effort to obtain the rest. Officials told us that the results of an evaluation of OBCAP were expected to be reported at the end of November 2000.

33.261 CANARIE and PRECARN. CANARIE and PRECARN are examples of indirect or third party program delivery mechanisms. With this approach, Industry Canada provides funding to an organization outside the federal government, which, in turn, decides on the ultimate recipients of the money and manages the funding agreements.

33.262 CANARIE is a not-for-profit organization, created in 1993 as a collaborative venture involving industry, research and education communities, and the federal government. Its mission is to facilitate the development and application of advanced Internets in Canada and thereby contribute to the competitiveness of Canada's information and communications technology sector, as well as to the application of this technology in critical parts of the public sector. In August 1999, a new contribution agreement totalling \$78 million was signed for the Phase 3 program

Industry Canada acted to correct deficiencies in the Ontario Base Closure Adjustment Program (OBCAP) and to apply lessons learned to future programs.

Industry Canada has taken appropriate steps to monitor due diligence processes in CANARIE Inc. and has set the stage for improved performance management.

(1999–2004). Of this amount, \$10 million was subcontracted to PRECARN.

33.263 PRECARN is a not-for-profit industry-led organization created in 1987. Its purpose is to foster collaborative, pre-competitive research in smart systems designed for applications that hold high potential economic benefits for Canadian firms. Phases 1 and 2 of the PRECARN program were supported by non-repayable contributions (Phase 1 – \$16 million; Phase 2 – \$19.4 million). In March 2000, the Treasury Board approved a single payment grant in the amount of \$20 million to PRECARN in support of Phase 3 (2000–06).

33.264 In 1998 we recommended that Industry Canada:

- obtain assurance that CANARIE and PRECARN exercise due diligence in selecting and managing projects;
- set clear annual performance expectations for its contributions; and
- assess performance annually.

33.265 In assessing the Department's response to our recommendations, it is necessary to understand the phased nature of the operations of CANARIE and PRECARN. In general terms, once Cabinet approves federal support, Industry Canada works with each organization to establish a funding agreement that outlines the objectives that the Department expects to achieve through the research that will be funded by the organization. The organization then identifies priority areas for support that address the Department's objectives and issues requests for proposals to the community of eligible applicants. The organization selects research projects for support from those proposed and then can develop annual performance expectations to address the Department's objectives and to report annually on outcomes relative to these expectations.

33.266 CANARIE. The contribution agreement for Phase 3 of CANARIE came

into force on 1 April 1999. The new agreement specifically addresses our observation on improving accountability for program performance by requiring CANARIE to provide the Department with a comprehensive annual report on program progress and on performance. In April 2000, the Minister approved an operational plan identifying the priority areas for funding and the criteria for evaluating proposals for support. The first call for proposals was issued in the fall of 1999 for research projects in one of the priority areas, and the selection of projects was completed in May 2000.

33.267 CANARIE submitted a draft of its first annual program progress report by July 1, as required. This report describes the first year of Phase 3 activities. The first annual performance report required by Industry Canada is due at the end of September 2000. Using the performance framework that CANARIE developed jointly with Industry Canada earlier in the year, CANARIE is expected to report on results relating to the design and launch of Phase 3 and to identify expected results for the coming year for research activities. Future reports will discuss annual and cumulative performance.

33.268 In 1998, we also recommended that Industry Canada take steps to increase its assurance that due diligence is being performed. As a result, Industry Canada staff are assessing the peer review processes under Phase 3.

33.269 We concluded that Industry Canada has taken appropriate steps to monitor CANARIE's due diligence processes and has set the stage for improved performance management of Phase 3. Time constraints prevented us from assessing whether the expected results being developed by CANARIE will address our recommendation for clear annual performance expectations.

33.270 PRECARN. Industry Canada took steps with Phase 2 of PRECARN to address our observation that greater assurance was needed to ensure funds

were being used for the purposes agreed. The Department introduced a project-level analysis of claims to ensure projects are progressing satisfactorily relative to strategic program objectives. This led to the provision of more detailed guidance on the Department's expectations for reporting under Phase 3.

33.271 The funding agreement for Phase 3 requires PRECARN to submit a framework for the implementation of Phase 3 by the end of September 2000. The framework is expected to specify how PRECARN will monitor the performance of participants. PRECARN is also expected to submit an annual review of progress to ensure that the program's objectives are being met. In response to our recommendation that the Department take steps to assure itself that PRECARN's due diligence meets expectations, Industry Canada staff reviewed the first peer review process conducted under Phase 3 in August 2000.

33.272 We concluded that Industry Canada has taken appropriate action to assure itself that funds are being used for the purposes intended and that due diligence meets departmental expectations. It has also taken steps to set the stage for stronger performance management under Phase 3 of PRECARN. Again, we were unable to assess whether the implementation plan under development will address our recommendation on clear annual performance expectations because of time constraints.

33.273 Payment made in advance of need and accountability is weak. In 1999, PRECARN had requested \$20 million in government funding for a six-year research program. Funding for PRECARN was announced in the February 28, 2000 federal Budget, payable in full in fiscal year 1999–2000. In order to implement the Budget decision, Industry Canada obtained Treasury Board approval for a one-time

payment of \$20 million as a grant. We are concerned by the shift from contribution funding (used in Phases 1 and 2) to grant funding for Phase 3. We would have expected that, given the Department's recent efforts to strengthen accountability for performance in response to our 1998 audit, and the history of contribution funding for PRECARN, a contribution agreement would have continued to be the appropriate funding instrument.

33.274 The cash management provisions of the Treasury Board's Policy on Transfer Payments require that grants should not be paid to recipients in advance of need and that payments should be timed to correspond as closely as practicable to recipients' cash flow requirements. Funds advanced earlier than actually required by the recipient to meet imminent expenditures result in additional interest costs to the government. We estimate that the added cost to the government of this \$20 million payment in advance of need could be as much as \$5 million. The Department obtained Treasury Board approval for an exemption to the policy to allow it to make a one-time advance payment to PRECARN and thus implement the original Budget decision.

33.275 The Department informed us that PRECARN has invested the \$20 million, and that it could earn an additional \$3.6 million in interest on the grant over the next six years. Accordingly, we expected to find clear direction in the funding agreement with PRECARN on the use of these additional funds earned as interest, as well as a requirement for PRECARN to report on the disposition of these funds. We found no such requirements in the funding agreement, nor were departmental officials able to satisfactorily explain why PRECARN received more funding than it had requested.

Industry Canada's response: As part of the budgetary process, the 2000 Federal Budget provided for a one-time grant of

The funding agreement with PRECARN Associates Inc. did not give clear direction on the use of additional funds earned as interest.

\$20 million in fiscal year 1999–2000 to PRECARN.

From the government's perspective, the provision of a grant was deemed the most effective method for pursuing Phase 3 of PRECARN's Research Program, as it provides the necessary flexibility to negotiate the best arrangements needed to maximize the leverage provided by government funds. It also ensures that research and development will be a timely and effective vehicle for development and adoption by Canadian firms, in the context of rapid technological change.

The Funding Agreement negotiated with PRECARN required that it submit a comprehensive Implementation Framework that would detail all financial, administrative and operational plans. The Department worked with PRECARN to ensure that provisions for the management of the interest were put in place. The Draft Implementation Framework, submitted to Industry Canada in September 2000, provides for the allocation of interest in the same manner as funds for the whole Program.

Canadian Heritage — Multiculturalism Program

33.276 The Multiculturalism Program uses a number of approaches to achieve its objectives, one of which is grants and contributions. In 1999–2000, the budget for grants and contributions was \$16.47 million.

33.277 In our 1998 audit of this program, we found ambiguity surrounding the results expected from funded projects in relation to the program objectives, a lack of due diligence in 30 percent of the cases we reviewed, and inadequate monitoring of project performance. We recommended that the Department of Canadian Heritage:

- further clarify the objectives of the Multiculturalism Program by defining clear, attainable goals and expected annual results;

- ensure that due diligence is exercised in the review and approval of grants and contributions under the Program; and

- ensure that recipients provide the required performance information.

33.278 In its response, the Department acknowledged the importance of further clarifying program objectives. It stated its intention to renew its emphasis on the rigorous application of assessment criteria in the review and approval of grants and contributions, and to monitor results in order to assess their impact and effectiveness.

33.279 Following its hearing on our report, the Public Accounts Committee obtained commitments from the Department to a series of corrective actions. Since November 1999, the Departmental Review Committee has received reports on actions now under way in response to our audit and the Public Accounts Committee's recommendations.

33.280 Program objectives remain unclear. We cannot conclude that progress has been reasonable in clarifying program objectives by defining goals and expected results. The Department produced a first draft of a program performance framework in March 2000. When completed, the framework is intended to identify expected results (direct outcomes and ultimate impacts) and key performance measures. The Department informed us that program managers will finalize the performance framework and provide it to program staff in November 2000. We could not assess the extent to which the framework addresses our expectations as it was not complete when we finished our work. Management informed us that the development of a performance framework for the Multiculturalism Program was necessarily delayed by a 1999 exercise to set new strategic objectives for the Department. However, in our view, the ability of Multiculturalism staff to exercise due diligence in selecting projects hinges on a clear understanding of what the Program

We cannot conclude that Canadian Heritage has made reasonable progress in clarifying the Multiculturalism Program objectives.

is intended to achieve. Therefore, we expected that identifying expected results for the Program would have been done more expeditiously.

33.281 Due diligence has not improved sufficiently. In 1998 we could not assure ourselves that departmental officials had exercised due diligence in approving about 30 percent of the projects we audited. In 2000 we found that while some remedial action is under way, there are still serious problems with due diligence.

33.282 The Department accelerated action on our recommendations and the government's commitments to the House of Commons in the latter part of 1999 and early 2000. A limited scope internal audit of projects funded under the program between October 1998 and 31 March 1999, identified a number of continuing weaknesses in due diligence. The Department used the audit findings as the basis for due diligence training sessions developed and delivered throughout the Department between January and May 2000. The Department also implemented a new management information system, which is designed to support due diligence in the management of all departmental grants and contribution programs.

33.283 The Department recently conducted a second, broader internal audit of grant and contribution projects approved between January 2000 and May 2000. The audit report concludes that 19 percent of the files reviewed did not meet the minimum standard of due diligence; that is, assessments still did not take into consideration all of the criteria set by the Treasury Board and the assessment practices expected by the Department. A further 37 percent of files were rated as only "borderline acceptable". The audit observed a number of problems — for example, projects not linked to one of the five program objectives, unclear objectives and expected outcomes, no plans to assess impacts and evaluate results, and

insufficient information on project budgets. The audit also found that three of the sampled projects included ineligible activities, and identified four projects where the Department had improperly used grants and contributions where contracts for services were the required vehicle.

33.284 Based on our review of the findings of the internal audit and management's actions to date, we concluded that the Department's response to the recommendation of our 1998 audit is unsatisfactory. We intend to follow up again in one year to assess the impact of more recent remedial actions on the actual performance of due diligence.

33.285 Project reporting still needs improvement. Our third recommendation was that the Department ensure that recipients provide the required information on project performance. In 1998 we found that one third of the files we audited did not contain the required final reports. The recent internal audit examined 30 grants where reporting had been imposed. The audit found that the conditions had been met in 79 percent of the files.

Department of Canadian Heritage's response: When the internal audit revealed that the results of departmental due diligence initiatives were not sufficiently reflected in audited files, a Management Improvement Action Plan was established. This Management Improvement Action Plan completes the Performance Management Framework (implementation through a national workshop in November 2000), the revision of management controls and structures, and an exhaustive centralized monitoring of project files for National Review Committee recommendation. A set of directives addresses specific deficiencies identified during the audit. These measures will be fully implemented prior to follow-up by the Auditor General in 2001.

There are still serious problems with due diligence in the Multiculturalism Program.