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Report of the  
**Auditor General  
of Canada**  
to the Minister of Canadian Heritage

JUNE

Use of Public Funds by  
the Former Lieutenant-Governor of Quebec



Office of the Auditor General of Canada

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Auditor General of Canada  
Vérificatrice générale du Canada

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To the Honourable Speaker of the House of Commons,  
To the Honourable Minister of Canadian Heritage,

I have the honour to transmit herewith my Report on the audit that was conducted under section 11 of the *Auditor General Act* on the public funds provided to the former Lieutenant-Governor of Quebec.

A handwritten signature in cursive script that reads "Sheila Fraser".

Sheila Fraser, FCA  
Auditor General of Canada

OTTAWA, 12 June 2007





**Use of Public Funds by the Former  
Lieutenant-Governor of Quebec**



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# Use of Public Funds by the Former Lieutenant-Governor of Quebec

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## Main Points

### What we examined

Lieutenant-governors represent the Queen and are the heads of state of their provinces. They give force of law to policy determined by the government, by giving Royal Assent to laws passed in the legislative assembly, and by signing orders for, among other things, the holding of general elections and by-elections. In addition to their traditional role, holders of this Office have come to offer increasing encouragement to philanthropic works by, for example, participating in ceremonies and official events, as well as by supporting social and charitable organizations. The Honourable Lise Thibault was sworn in as Lieutenant-Governor of Quebec on 30 January 1997. She remained in this position until 7 June 2007.

Through the Department of Canadian Heritage, the federal government paid the former Lieutenant-Governor of Quebec's salary (\$114,000 in the 2006-07 fiscal year), and provided approximately \$150,000 a year to cover expenses incurred as part of her official duties. The Government of Quebec covered the cost of the Lieutenant-Governor of Quebec's accommodations, office expenses, staff, transportation, security, and other logistical items. This support cost a total of approximately \$1 million a year.

At the request of the Government of Canada, we examined whether the former Lieutenant-Governor of Quebec administered the allocated funds in accordance with the applicable guidelines and conditions. We examined whether the former Lieutenant-Governor's expenses were for activities involving her official duties. We also examined whether the required controls were in place to ensure that these expenses were incurred using sound management practices and in keeping with the applicable guidelines and conditions. We did not question the choice or type of official activity carried out by the former Lieutenant-Governor of Quebec in support of social or other causes. Nor did we express an opinion as to the amount of expenses incurred as part of her official duties. We met with the lieutenant-governors of five other provinces, or with their representatives, to obtain an understanding of their interpretation of certain concepts, and to determine which sound management practices their Offices had implemented.

Further to a request from the former Lieutenant-Governor of Quebec, the Government of Quebec asked the Auditor General of Quebec to carry out a similar examination. The Auditor General of Quebec will table his Report to the Quebec National Assembly.

### Why it's important

Lieutenant-governors are expected to maintain impartiality, adopting a strict duty of reserve, in order to avoid stirring up controversy. They must also show tact and judgment in all that they say and do. As heads of state of their provinces, and in keeping with the dignity and duties of their Office, incumbents are expected to fulfill their responsibilities following the highest ethical standards of integrity, objectivity, and impartiality. Lieutenant-governors must also demonstrate prudence, transparency, and sound administration in the use of the public funds entrusted to them.

### What we found

- A total of more than \$1.7 million was paid to the former Lieutenant-Governor of Quebec between 1 April 1997 and the end of March 2007. Of this amount, approximately \$1 million was spent on official duties. We were unable to determine whether the remainder, some \$700,000, was spent on official duties. One part of the remainder included expenses for accommodation and meals that were already covered by a grant from the Government of Quebec. A second part was used for personal expenses, but we have not been able to establish with certainty how much, because it was insufficiently documented. A further amount was considered by the former Lieutenant-Governor of Quebec to be supplementary remuneration, when it was in fact intended to cover expenses related to official activities in the provincial capital.
- The former Lieutenant-Governor of Quebec did not implement the financial and management controls required for the sound administration of public funds and did not account for these expenses in public reports.
- Canadian Heritage did not develop or provide clear guidelines for differentiating between a lieutenant-governor's personal and official expenses. Between 1 April 1997 and 31 March 2004, the Department authorized the reimbursement of questionable or inadequately supported expenditures on the part of the former Lieutenant-Governor of Quebec. In so doing, it implicitly approved these spending practices.

*The former Lieutenant-Governor of Quebec has replied. In accordance with our standard procedure, we asked the former Lieutenant-Governor of Quebec to bring to our attention any inaccuracy in the factual statements*

*made in our audit Report. The Honourable Lise Thibault sent us comments, which we took into account. We then asked her to provide us with an official response to be included in our Report. She has chosen not to do so, and has given us to understand that the absence of such a response on her part should not be interpreted as confirmation of any kind of the factual accuracy of the findings of our audit.*

**Canadian Heritage has responded.** *Canadian Heritage has agreed with our recommendations. Its detailed responses follow each recommendation throughout the Report.*



## Introduction

1. The Honourable Lise Thibault was sworn in as the 27th Lieutenant-Governor of Quebec on 30 January 1997. She held this office, which conferred special privileges and obligations, until 7 June 2007. During this time, she received public funds from two levels of government to pay those of her expenses that were related to her official duties. The Government of Canada asked the Auditor General of Canada to inquire into the use made of the public funds granted to the then Lieutenant-Governor of Quebec by Parliament, and to report on her findings.

### Duties of a Lieutenant-Governor

2. In our British-inspired parliamentary system, lieutenant-governors represent the Queen and are the heads of state of their provinces. This position and the authority associated with it are defined in the *Constitution Act, 1867*. Lieutenant-governors give force of law to policies passed by the government. They confirm members of Cabinet in their positions, and administer their oaths of office and secrecy. Lieutenant-governors oversee the opening and prorogation of legislative sessions. They give Royal Assent to laws passed in legislative assemblies, and ratify orders-in-council, including those for general elections or by-elections.

3. In addition to their traditional role, holders of this office have given increasing encouragement to philanthropic works by, for example, participating in ceremonies and official events, as well as by supporting social and charitable organizations. Through this support, lieutenant-governors can establish contacts and special relationships with citizens. During her tenure, the former Lieutenant-Governor of Quebec supported many charitable organizations, some of which advocate for the well-being of persons suffering from physical or intellectual disabilities.

4. Lieutenant-governors must maintain impartiality, adopting a strict duty of reserve, in order to avoid stirring up controversy. They must also show tact and judgment in all that they say and do. Lieutenant-governors are therefore expected, as heads of state of their provinces, and in keeping with the dignity and duties of their Office, to fulfill their responsibilities while following the highest ethical standards of integrity, objectivity, and impartiality. Lieutenant-governors must also demonstrate prudence, transparency, and sound administration in the use of the public funds entrusted to them.

**Provenance of public funds granted to lieutenant-governors**

5. The Parliament of Canada sets the salary and conditions for lieutenant-governors, who may benefit from the pension and insurance plans offered them by the federal government. Canadian Heritage also provides funds to lieutenant-governors on an annual basis, to cover the expenses incurred for their official duties. Each province determines what administrative support its lieutenant-governor will receive, but no standard has been established in this regard, and the financial support varies from one province to another.

6. Exhibit 1 shows the sums granted to the former Lieutenant-Governor of Quebec by both levels of government between April 1997 and the end of March 2007.

**Exhibit 1 Public funds provided to the former Lieutenant-Governor of Quebec between 1 April 1997 and 31 March 2007**

Fiscal year	Provincial government	Federal government*	Total
1997–1998	\$374,000	\$135,500	\$509,500
1998–1999	\$550,000	\$180,200	\$730,200
1999–2000	\$926,000	\$159,300	\$1,085,300
2000–2001	\$1,007,000	\$196,600	\$1,203,600
2001–2002	\$1,256,000	\$211,000	\$1,467,000
2002–2003	\$1,233,000	\$223,100	\$1,456,100
2003–2004	\$1,119,000	\$198,600	\$1,317,600
2004–2005	\$1,058,000	\$147,400	\$1,205,400
2005–2006	\$1,159,000	\$147,400	\$1,306,400
2006--2007	\$1,163,000	\$147,400	\$1,310,400
<b>Total</b>	<b>\$9,845,000</b>	<b>\$1,746,500</b>	<b>\$11,591,500</b>

\* Excluding the salary of the former Lieutenant-Governor of Quebec

Source: Department of Canadian Heritage (Government of Canada) and the Ministère du Conseil exécutif (Government of Quebec)

**Roles and responsibilities of the organizations concerned**

7. **Office of the lieutenant-governor.** The Office is responsible for managing the lieutenant-governor’s various activities, including scheduling, security, travel, and correspondence. The Office of the former Lieutenant Governor of Quebec had a staff of twelve

employees, including two full-time and two on-call body guards. The recruiting, hiring, compensation, and working conditions of Office staff are governed by a Quebec Treasury Board policy. According to this policy, the Lieutenant-Governor of Quebec had to structure her Office within her budgetary allowance. She also had to establish the hierarchy and compensation of Office staff according to standards and scales similar to those set for the Quebec public service.

**8. Ministère du Conseil exécutif (Government of Quebec).**

The funds that the Government of Quebec provides to its lieutenant-governor are voted on in the Quebec National Assembly and are included in one of the programs of the Ministère du Conseil exécutif. This provincial department is responsible for accounting for funds that are provided to the Lieutenant-Governor with the principal purpose of covering employee salaries, costs for security, the use of vehicles, and the running of the Office. The Ministère du Conseil exécutif pays the expenses for the activities of a lieutenant-governor upon presentation of supporting documents.

**9. Canadian Heritage.** This Department administers programs that are designed to allow the Government of Canada to meet its responsibilities for lieutenant-governors. It handles their compensation cheques and benefits. It appoints an administrator to act as a replacement in those cases in which the provincial Chief Justice is unavailable to stand in for an absent lieutenant-governor. Canadian Heritage administers a grant program to assist lieutenant-governors in covering the expenses they must incur as part of their duties. Finally, Canadian Heritage provides advice on protocol, and also serves as a point of contact for offices of lieutenant-governors who need assistance from other federal departments in such matters as the issuing of diplomatic passports.

**Focus of the audit**

**10.** On 29 March 2007, following the recommendation of the Minister of Canadian Heritage, and pursuant to section 11 of the *Auditor General Act*, Her Excellency, the Governor General in Council, asked the Auditor General of Canada to

- inquire into the financial aid received by the [former] Lieutenant-Governor of Quebec for the period starting on 1 April 2000 and ending 31 March 2006, to establish whether she exercised due diligence and responsibility in implementing the financial and management processes and controls necessary for monitoring how these funds were spent, and

- provide a Report to the Minister of Canadian Heritage, releasing it to the public after its transmittal to the Minister.

11. On 14 February 2007, pursuant to Order in Council 98-2007, the Government of Quebec asked the Auditor General of Quebec to undertake a similar mandate, “to the extent [the Auditor General of Quebec] deemed appropriate, a special audit of the use of public funds provided to the [former] Lieutenant Governor since 30 January 1997, the date she took office, and to submit his report along with recommendations to the Government as soon as possible” [translation].

12. The mandates given to the two offices of the auditors general are separate and complementary. The two levels of government to which the offices belong operate in different areas of jurisdiction, and each provides resources for the duties of a lieutenant-governor of Quebec. The two offices of the auditors general thus agreed to coordinate their work and audit methods, and to share their data while following generally accepted auditing standards. We decided to examine the same period of time (1997 to 2007) as the Auditor General of Quebec, so as to provide a complete overview of the former Lieutenant-Governor of Quebec’s expenses. However, our two offices agreed to table separate reports on their findings.

13. We met with the lieutenant-governors of five other provinces, or with their representatives, to better understand their interpretation of certain concepts and the management practices they had implemented.

14. More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

## Observations and Recommendations

### The former Lieutenant-Governor of Quebec’s expenses

#### The federal government distinguished between expenses incurred inside City of Québec limits and those incurred elsewhere in the province

15. From 1 April 1997 to the end of March 2007, the federal government gave the former Lieutenant-Governor of Quebec \$1.7 million to cover expenses incurred as part of her official duties. These funds covered two types of expenses: those incurred in the provincial capital, and those incurred outside the city limits. To qualify for funding by the government, the expenses had to be associated with the duties of a lieutenant-governor. Expenses incurred in the



provincial capital included those associated with activities held within City of Québec limits by the former Lieutenant-Governor of Quebec. Expenses incurred outside the provincial capital mainly included hospitality expenses, accommodation, meals, and travel. Exhibit 2 gives a breakdown of these two types of expenses.

16. From 1 April 1997 to the end of March 2004, expenses incurred outside the city limits of a provincial capital were reimbursed by Canadian Heritage after a claim for those expenses was submitted by a lieutenant-governor. There was no limit on the maximum amount that the former Lieutenant-Governor of Quebec could claim annually during that period. Expenses incurred within the city limits of the provincial capital were covered by a grant. Since 1 April 2004, Canadian Heritage has been paying lieutenant-governors an annual grant, which covers both types of expense.

17. A grant is an unconditional transfer payment to individuals or organizations who meet established eligibility requirements. Grant recipients are not required to provide supporting documents for their expenses, nor are they subject to audit. Certain tax rules apply if a grant is not used for the specified purpose, or if the entire sum is not spent. In both of these cases, the recipient must declare as annual income the remainder of the grant, or the portion used for other purposes, on his or her income tax return.

**Exhibit 2 Breakdown of public funds granted by the Government of Canada to the former Lieutenant-Governor of Quebec between 1 April 1997 and 31 March 2007**

Public funds	Amount
• Expenses incurred in the provincial capital	\$343,200
• Expenses incurred outside the capital city limits	\$1,403,300
Receptions	\$694,700
Accommodations	\$286,100
Meals	\$199,400
Travel and other expenses*	\$223,100
<b>Total</b>	<b>\$1,746,500</b>

\* Other expenses include the purchase of gifts, airplane tickets, tips, and money given to aides-de-camp and photographers, as well as expenses that we were unable to examine because supporting documents were unavailable or illegible, or because of the length of time that had passed.

**Uncertainty surrounds the purpose and use of grants to cover expenses incurred in the Quebec provincial capital**

18. During her term of office, the former Lieutenant-Governor of Quebec received grants totalling \$343,200 from Canadian Heritage to cover expenses incurred in fulfillment of her official duties in the provincial capital. From April 1997 to the end of March 2003, the grants provided annually for this purpose rose from \$22,800 to \$28,800. For the fiscal year 2003-04, an adjustment of \$16,800 was paid to the former Lieutenant-Governor, and as of 1 April 2004, this type of expense was covered in a single \$45,600 grant.

19. When we examined the grants totalling \$343,200, we were unable to find any supporting document certifying that the amount of \$219,000 had indeed been used to cover expenses by the former Lieutenant-Governor of Quebec's official duties. For the remainder of the grants, some \$124,200, we found cheques written to a number of suppliers, but we were unable to identify a clear link between these suppliers and the official duties of a lieutenant-governor.

20. We found that the purpose of giving grants, and their use for expenditures in the province's capital city, were unclear. The former Lieutenant-Governor of Quebec and some of the other lieutenant-governors with whom we met said they thought these grants were a form of supplemental, tax-exempt compensation, and that they therefore did not need to retain supporting documents to account for their use of these public funds. Others felt that the grants had to be used solely to cover expenses incurred as part of their official duties.

21. Nevertheless, the grant terms and conditions approved by the Treasury Board of Canada clearly contain no words stating that the grant can be considered as supplementary compensation or a tax-exempt allowance. No official document supporting such an interpretation of this grant was supplied to us.

22. As mentioned above concerning grants, lieutenant-governors are not required to submit documents supporting the eligibility of their expenses to Canadian Heritage. However, when they apply for the grant, lieutenant-governors undertake to maintain an accountability framework, and to certify, at the end of each fiscal year, the amount of their expenses. They also undertake to confirm that their expenses were incurred as part of their official activities. We expected the former Lieutenant-Governor of Quebec to retain supporting documents that would make it possible to establish the official nature of her expenses and to account for them publicly. We did not find any such supporting documents.

**Approximately three-quarters of expenses outside the provincial capital involved official duties**

23. When the former Lieutenant-Governor of Quebec participated in an activity, her personnel would enter it into her agenda and prepare a “scenario,” a document describing how and where the event was to take place. In the agenda, they noted the date, the location, and the nature of the activity. The scenario detailed the logistical aspects of the former Lieutenant-Governor of Quebec’s participation, including the names of the persons she met. These documents made it possible for us to determine if an expense by the former Lieutenant-Governor of Quebec was related to her official duties.

24. We analyzed the former Lieutenant-Governor of Quebec’s expenses by comparing the information in the supporting documentation with the information in the agenda, in the scenarios, and in all other relevant documents. For the purposes of the audit, we defined as legitimate those expenses that were incurred by the former Lieutenant-Governor of Quebec for any of her official duties. We did not question the choice or type of official activity carried out by the former Lieutenant-Governor of Quebec (such as support for social causes). Nor did we express an opinion as to the amount of the expenses incurred as part of her official duties.

25. The former Lieutenant-Governor of Quebec received approximately \$1.4 million for expenses incurred outside the provincial capital. We were able to establish that 74% of these expenses, or \$1,035,300, was spent as part of the former Lieutenant-Governor of Quebec’s official duties. However, we were unable to establish a similar link for the remaining \$368,000. The reasons for this are given below.

**The former Lieutenant-Governor of Quebec submitted a claim for accommodation and meal expenses to the federal government, despite the fact that the Government of Quebec was providing her with an allowance for this purpose**

26. In December 1996, before the swearing in of the former Lieutenant-Governor of Quebec, the Government of Quebec decided, in an effort to reduce government spending, to proceed with the sale of the official residence of the Lieutenant-Governor. The Government of Quebec decided to compensate for this situation by paying out monthly allowances. Starting in 1997, the Government of Quebec paid the former Lieutenant-Governor of Quebec a lump-sum housing allowance of \$4,000 and an allowance of \$800 to cover expenses related to her official activities. Over ten years, these allowances reached totals of \$480,000 for housing and \$96,000 for official duties.

The former Lieutenant-Governor of Quebec nonetheless submitted a claim to Canadian Heritage for a reimbursement of accommodation or meal expenses incurred just outside the City of Québec limits. In total, Canadian Heritage reimbursed her for over \$129,000 for accommodation (\$90,000) and meals (\$39,000). In our opinion, the allowances paid by the Government of Quebec covered these expenses, and the former Lieutenant-Governor of Quebec should therefore not have submitted a claim for reimbursement to the Government of Canada.

**Expenses totalling \$239,000 could not be linked to the official duties of the former Lieutenant-Governor of Quebec**

27. During our audit, we identified \$239,000 in expenses that were either for personal activities, or for which the supporting documents provided did not make it possible to establish a link with the official duties of the former Lieutenant-Governor of Quebec.

28. Based on our analysis of the supporting documents provided to us, we found that some of these expenses were for personal activities, such as family gatherings, trips, and shows. Here are some examples:

- A reception to celebrate the birthday of a member of the former Lieutenant-Governor of Quebec's family (\$4,000);
- Two meals at a restaurant in the Québec City area (of a private nature, according to her agenda), (\$2,800);
- Fishing trips (\$3,700);
- A five-day trip to Ontario during which no official duties were listed in her agenda (\$2,300); and
- A three-day trip to New Brunswick during which golfing was the only scheduled activity (\$1,600).

29. We noted that a sum of \$3,500 was paid directly to the former Lieutenant-Governor of Quebec without submission of supporting documentation.

30. We also identified many expenses, which were mainly for accommodations and meals during which no activity justifying these expenses was listed in the agenda, or for which no scenario had been prepared. The supporting documentation that the former Lieutenant-Governor of Quebec submitted to claim reimbursement did not list the names of people with whom she met, nor did it mention the activity involved. We found a wide range of situations in this category of expense, such as

- a number of hotel stays for which there were no supporting documents indicating that the former Lieutenant-Governor of Quebec was carrying out official duties. For example, five nights at Mont Tremblant for accommodation and meals, and another four-night stay during which the only activity entered in the agenda was “skiing.” These two excursions cost \$2,400 and \$2,200 respectively;
- meals taken near the former Lieutenant-Governor of Quebec’s personal residence, for which we could not find any link to official duties, and for which the total cost was \$14,000; and
- a reception for which no reason was given nor any scenario developed (\$4,500).

**31. Recommendation.** Canadian Heritage should initiate discussions with the former Lieutenant-Governor of Quebec, to identify expenses that were ineligible for the grant, and which should be reimbursed to the Department.

*The Department has responded.* The Department of Canadian Heritage will determine if there is an amount owed to the Department, and if such should prove to be the case, will undertake to follow the procedures necessary to recover the sums to be reimbursed. A detailed audit, guided by the results of the present audit, will be necessary.

## Control environment

**32.** To ensure that public funds are used properly, a proper control environment needs to be established. We expected the Department of Canadian Heritage to have clearly defined grant eligibility rules for the expenses incurred as part of a lieutenant-governor’s official duties, and to provide lieutenant-governors with sufficient information and support to this effect. We also expected the former Lieutenant-Governor of Quebec and her Office to have sound management and accountability practices, and an expense policy that was in keeping with established guidelines.

### **Neither the former Lieutenant-Governor of Quebec nor her Office implemented the proper financial and management controls**

**33. Absence of an expense policy.** Along with their offices, lieutenant-governors of any province play an important role in the management of the public funds entrusted to them. Our audit of the former Lieutenant-Governor of Quebec and her Office showed that they had not adopted a clear expense policy on the use of the public funds entrusted to them.

**34.** The fact that there was inadequate documentation for a sizeable portion of these expenses is evidence, along with other examples provided in this report, that the controls implemented by the former Lieutenant-Governor of Quebec and her Office were insufficient.

**35.** This situation was not remedied over time, despite the fact that in 2002, Canadian Heritage gave the former Lieutenant-Governor of Quebec and her Office instructions to increase the number and quality of the supporting documents presented with a claim for reimbursement of expenses. The Department asked them to provide, for instance, the date, city, name, or description of the event, and the name of staff members accompanying the former Lieutenant-Governor of Quebec. Without such information, the Department cannot determine whether an expense is linked to a lieutenant-governor's official functions. We found that the Department had reimbursed expenses claimed by the former Lieutenant-Governor of Quebec, even when the Department had not received the supporting documents that it requested. For example, the Department provided reimbursement for purchases of gifts worth \$45,000, even though the former Lieutenant-Governor of Quebec had not submitted a list of the names of persons who received gifts purchased. In our opinion, these purchases should have been better documented, as sound management practices demand, and reimbursement should have been made only after supporting documents had been submitted. By agreeing to reimburse these expenses without supporting documents, the Department implicitly approved questionable spending practices.

**36.** Our work allowed us to identify other cases demonstrating gaps in the control environment, such as insufficient monitoring of the use of credit cards, especially for receipt signatures and gasoline purchases by bodyguards, the purchase of meals and accommodation on dates that did not correspond to activities listed in the former Lieutenant-Governor of Quebec's agenda, and the lack of an inventory system for goods purchased and received. Other cases are described in the Report of the Auditor General of Quebec.

**37.** During our discussions with some lieutenant-governors, a desire was expressed for more guidance, to help them establish clear, simple, and effective rules for expenses incurred as part of their official duties. Some of the lieutenant-governors had adopted sound management practices such as the following:

- billing a lieutenant-governor for personal expenses and reimbursement by him or her for these same expenses;
- appointing an office director from the provincial public service,

- asking an office director to manage the public funds provided,
- accounting for federal and provincial public funds separately,
- having a gift-purchasing policy,
- maintaining an inventory of gifts purchased and received, and
- using a per diem as a guideline for the reimbursement of meal expenses.

**38. Lack of accountability.** To obtain grants from Canadian Heritage, since April 2004, the former Lieutenant-Governor of Quebec had undertaken to implement an accountability framework in accordance with generally accepted accounting practices, toward production of annual financial statements intended for public disclosure. Our audit showed that the former Lieutenant-Governor of Quebec did not fulfill this commitment. The former Lieutenant-Governor of Quebec did not account for her expenses in a public report. On her website, there was only a short description of her role and duties, and of the social causes that she supported during her tenure.

**Canadian Heritage did not establish clear expectations for financial and management controls**

**39.** Until March 2004, lieutenant-governors had to submit an expense claim that was accompanied by supporting documents before they could obtain a reimbursement from the government. This kept the Department aware of their spending practices. Since April 2004, lieutenant-governors have not been required to provide supporting documents for their expenses, because Canadian Heritage transfers funds to them through grants. The Department imposes on lieutenant-governors only two conditions for eligibility, namely, that they submit an annual budget proposal indicating how much they plan to spend as part of their duties both inside and outside their provincial capital. At the end of the fiscal year, they must also certify the actual amount of their expenditure, and they must confirm that their expenses were incurred as part of their duties.

**40.** There is a risk involved in giving out these grants, because the Government of Canada cannot require an accounting for their use. However, if the Government of Canada wants to simplify the administration of its transfer payments in cases where financial risks are relatively low and recipients are credible and well-known individuals or organizations, then it is acceptable and reasonable to give out such grants.

41. We made the following observations based on our examination of conditions for providing grants:

- In our opinion, there is an artificial distinction between expenses incurred inside versus outside the city limits of a provincial capital. This distinction leaves the door open to questionable spending practices. It would be better to require the submission of information that could be used to establish a link between all the expenditures of a lieutenant-governor, regardless of where the expense was made, and the lieutenant-governor's duties.
- The current condition for eligibility does not encourage lieutenant-governors to implement the financial and management controls required to meet their public fund management and accountability responsibilities. This condition for eligibility should be enforced by requiring, for example, that lieutenant-governors and their offices adopt spending policies that promote sound management of public funds.
- Grant cheques are made out to the lieutenant-governors themselves. However, these public funds are provided to cover expenses incurred in fulfillment of their duties, and not to cover their personal expenses. Any confusion in this regard could be eliminated if cheques were made out to the offices of the lieutenant-governors.

42. **Operational support.** On some occasions, Canadian Heritage provides operational support to lieutenant-governors. When new lieutenant-governors take office, the Department provides them with briefing books, and with information on their role as well as on their constitutional and ceremonial obligations. When lieutenant-governors hold their annual conference, Canadian Heritage also provides them, on demand, with administrative information for their annual conference.

43. Based on our examination, there is no chapter in the briefing book on the administrative components of a lieutenant-governor's duties. For example, the book provides no specific explanation of what is considered a personal expense, nor any indication of what amount is considered acceptable. It provides little in the way of explanation for such things as to how to maintain an inventory of gifts that a lieutenant-governor receives, or the tax treatment for a grant.

44. The lieutenant-governor's office plays a key role not only in the management of daily activities, but also during periods of transition between terms of office and for important events that lieutenant-



governors are required to attend. Employees who work in an office are usually experienced, having essential knowledge both of how to make arrangements for official duties, and of financial management. They can therefore provide useful advice and guidance to new lieutenant-governors at the beginning of their terms or for special events. We did not find any documentation or correspondence describing the Department's expectations concerning management of public funds by offices of lieutenant-governors.

**45. Recommendations.** Canadian Heritage should

- review its conditions for grant eligibility, including the application form and the guidelines for issuing cheques;
- establish, with the directors of the offices of lieutenant-governors, the policies governing personal spending and expenses incurred as part of the duties of a lieutenant-governor;
- update the *Lieutenant-Governor Briefing Book*, adding a section on financial management and tax treatment of grants, and providing lieutenant-governors and their offices with training on this topic;
- ensure that lieutenant-governors account for the use of the funds provided to them, publicly and in a timely manner.

**The Department has responded.** *Canadian Heritage agrees with this recommendation and provides specific responses for each aspect of the recommendation below.*

*Review grant conditions.* A more formal and elaborate grant agreement is being considered (with the goal of replacing the current simple exchange of letters). The agreement will stipulate which expenses are allowable for the official duties of a lieutenant-governor, and will also stipulate accountability obligations. This approach will allow the Department to provide clearer accounting for the categories of expenses prescribed in the Main Estimates.

*In accordance with the nature of the corporation sole, in which the holder of the office and the office itself are one and the same thing, the rules for issuing cheques have a limited influence on the use of these funds. However, the Department of Canadian Heritage will require grant recipients to establish a bank account that is separate from their personal activities and from provincial financing. This will make it possible to administrate the designated grant separately.*

*Review policies governing expenses and update Briefing Book.* A thorough revision of the Briefing Book is underway. The new material will guide the orientation of the new Lieutenant-Governor of Quebec. The new content will cover allowable expenses for the designated grant in detail. It will also

*cover in detail the creation of foundations in the name of a lieutenant-governor, support for social and charitable causes, the funding campaigns, and gifts given and received.*

*Discussions with the Canada Revenue Agency have begun, with the goal of clarifying the tax treatment of the designated grant, and of including this information in the administrative manual.*

*Since January 2007, the Department of Canadian Heritage has been implementing concrete methods to enhance the administrative capacity of lieutenant-governors' private secretaries (administrators). These efforts are already resulting in improved sharing of best practices, administrative tools, and knowledge.*

*The Department of Canadian Heritage will develop teaching modules for lieutenant-governors and their private secretaries. These modules will guide the orientation sessions that will be held during regular meetings between Canadian Heritage and the private secretaries, or alongside the annual conference of the lieutenant-governors. Among the priority topics are the development of a module covering general ethical principles and conflicts of interest for the federal government. With the Canada Revenue Agency, the Department of Canadian Heritage is also developing a module on the tax treatment of the designated grant.*

*Ensure accountability. Treasury Board of Canada policies on the implementation of designated grants describe transfer payments as being exempt from audits and accountability. However, since the 2004-05 fiscal year, the Department of Canadian Heritage has required lieutenant-governors to maintain an accounting framework for producing annual financial statements. The Department is currently exploring the possibility of asking lieutenant-governors to develop a policy of voluntary proactive disclosure. The Department of Canadian Heritage will also produce an annual report on lieutenant-governors' spending of federal designated grants. This report will be published on the website of the Department of Canadian Heritage. The format of the report will be developed in collaboration with the offices of lieutenant-governors, and will be made available at the latest by 1 June following the end of the fiscal year constituting the object of the report.*

## Conclusion

46. The former Lieutenant-Governor of Quebec did not establish the financial or management mechanisms and controls that could have guided her in the use of public funds and that would have made her spending decisions transparent. Between April 1997 and the end of March 2004, Canadian Heritage reimbursed the former Lieutenant-Governor of Quebec for questionable or unsupported expenses. In so doing, the Department implicitly approved her spending practices. It provided neither adequate functional support, nor clear guidance, when the new grants program was introduced in 2004.

## About the Audit

### Objective

On 29 March 2007, the following request was made to the Auditor General of Canada by Her Excellency, the Governor General in Council on the recommendation of the Minister of Canadian Heritage and pursuant to section 11 of the *Auditor General Act*:

- that the Auditor General of Canada examine the financial assistance provided to the [former] Lieutenant-Governor of Quebec, from 1 April 2000 to 31 March 2006, in order to determine whether she had diligently and responsibly ensured that the proper financial and management control mechanisms were in place to monitor how these funds are spent; and
- that the Auditor General of Canada prepare a report on this examination for the Minister of Canadian Heritage and that she release this report to the public after submitting it to the Minister.

The Government of Quebec gave the Auditor General of Quebec a similar mandate. On 14 February 2007, pursuant to Order in Council 98-2007, the Government of Quebec asked the Office of the Auditor General of Quebec to conduct, “to the extent [the Auditor General of Quebec] deemed appropriate, a special audit of the use of public funds provided to the [former] Lieutenant-Governor of Quebec since 30 January 1997, the date she took office, and to submit his report along with recommendations to the Government as soon as possible” [translation].

The objective of this audit was to verify that the public funds that had been provided to the former Lieutenant-Governor of Quebec since 30 January 1997 were administered in keeping with the applicable rules and conditions, and with sound management practices.

### Scope and approach

The mandates given to the two offices of the auditors general are separate and complementary. The two levels of government to which our offices belong have different areas of jurisdiction. Each of our offices provides resources for the duties of a lieutenant-governor. We thus agreed to coordinate our work and to share audit methods that follow generally accepted auditing standards. The Office of the Auditor General of Canada decided to examine the same period of time (1997 to 2007) as that examined by the Auditor General of Quebec, with the intention of providing a complete overview of the former Lieutenant-Governor of Quebec’s expenses. The two offices of the auditors general have agreed to table separate reports.

We at the Office of the Auditor General of Canada focused our work on the Office of the former Lieutenant-Governor of Quebec and on the Department of Canadian Heritage. We did not question the type or choice of official activity carried out in support of social or other causes. Nor did we express an opinion as to the amount of expense incurred for such activities. We met with the lieutenant-governors of five other provinces, or with their representatives, to better understand their interpretation of certain concepts and the sound management practices they have implemented.

**Criteria**

We expected that

- the former Lieutenant-Governor of Quebec would administer the funds received in a manner that was in keeping with the applicable rules and conditions,
- these expenses would have been incurred for activities that were part of the official duties of a lieutenant-governor, and
- the required controls would have been implemented to ensure that the expenses were incurred in keeping with sound management practices, and following the applicable guidelines and conditions.

**Audit work completed**

The audit work for this chapter was substantially completed on 18 May 2007.

**Audit team**

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