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—
Chair

The Honourable Shawn Murphy

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•(1210)

[English]

The Chair (Hon. Shawn Murphy (Charlottetown, Lib.)): Ladies and gentlemen, I want to welcome everyone here today. I welcome Sheila Fraser, the Auditor General of Canada, and my colleagues on the committee.

I understand, Ms. Fraser, you have some opening remarks to give. I'll invite you to give them, and perhaps you could also introduce the officials who are with you here today.

Ms. Sheila Fraser (Auditor General, Office of the Auditor General of Canada): Thank you, Mr. Chair. We are very pleased to be here today to present our fourth status report, which was tabled on May 16.

I am accompanied today by Ronnie Campbell, who is the Assistant Auditor General; and Peter Kasurak and Wendy Loschiuk, who are principals in our office.

Status reports are important because they tell parliamentarians and Canadians what the government has done in response to recommendations made in our past audits. In other words, status reports answer the question, did government take action in response to the Auditor General's reports?

We recognize that some of the issues are highly complex and that some recommendations are clearly more difficult to carry out than others. We take this into account, along with the amount of time that departments have had to act, when we assess whether progress has been satisfactory or unsatisfactory.

[Translation]

In our Status Reports, we give credit where there has been improvement and we call attention to areas where progress has not been satisfactory.

As you know, I have also provided Parliament with an additional report. I will come back to that report shortly. First, let me tell you about the government's actions in response to our past audits.

Taken as a whole, the eight chapters in this year's report paint a picture of mixed progress. For half the chapters, we conclude that overall progress has been unsatisfactory. For the other four, we report satisfactory progress. We also note some problems that have emerged.

We last reported on the management of grants and contributions in 2001. The government spends around \$17.5 billion a year on voted grants and contributions. Voted grant and contribution programs are those whose funding requires Parliament's approval each year.

This year I am reporting that for the most part, the government has made satisfactory progress in responding to our past concerns. We found that four of the five departments we audited had satisfactory controls to ensure that recipients of grants and contributions were eligible and were monitored according to risk.

We do note, however, that recipients have said the administrative burden imposed by the government's requirements is daunting. We believe departments should streamline their management of grants and contributions to address this problem.

[English]

I am pleased to see that National Defence has made satisfactory progress since 2002 at stopping the decline in the number of trained military members available for duty. Despite the progress, however, the current system of recruiting is not addressing the needs of the Canadian Forces. With growing numbers of people expected to leave in the next 10 years, I am concerned that plans to expand the forces are at risk. National Defence has established a new strategic direction for managing its military human resources more effectively; now it needs to ensure that its policies and practices reflect that new direction.

Concerning the NATO flight training program, we are reporting satisfactory progress in resolving some contract issues. The contractor and the government have reached a settlement for flight instruction that the department had paid for but not obtained in the early years of the program. However, we note that with the current slowdown in training, the department is still struggling to fill training spaces. It is now up to National Defence to make sure it uses the spaces it is paying for.

•(1215)

[Translation]

We found that the Canada Firearms Centre has made satisfactory progress since our 2002 audit in addressing our recommendation to improve its reporting of financial information to Parliament, except for an issue that I will return to in a few minutes.

I am also pleased to report that despite having inherited some serious problems, a new management team has established the organization and systems needed to operate as a government department.

The program's total net cost to March 2005 was reported by the government as \$946 million, a little under its earlier estimate of \$1 billion. But operational problems remain. For example, there are still problems in the registration database — the Centre does not know how many of its records are incorrect or incomplete.

As well, the information system it is developing is three years late, its costs have grown from the original budget of \$32 million to \$90 million, and it still is not operational.

[English]

Let me now turn to areas where we found unsatisfactory progress in implementing recommendations from previous reports. In fact, in the four areas I am about to mention, the problems are long standing.

Let's start with first nations issues. The federal government has obligations to first nations people that are set out in treaties, government policies, the Indian Act, and other legislation. Past audits have found that the government falls short of meeting these obligations.

This audit focused on 37 recommendations that we made to five federal organizations between 2000 and 2003. Some of these recommendations address serious issues that are important to health and well-being, including mould in houses on reserves and monitoring prescription drug use. Overall, we found unsatisfactory progress in addressing our recommendations, and in some key areas, little has been done.

Where our recommendations were implemented successfully, some of the critical factors appeared to be coordination of programs, sustained attention by management, and meaningful consultation with first nations. These lessons can guide the federal government as it moves forward in fulfilling its responsibilities to first nations people.

[Translation]

We found unsatisfactory progress by the Canada Revenue Agency in managing the collection of tax debts. While the vast majority of taxes are paid on time, the tax debt owed to the government by individuals and corporations totals over \$18 billion. The Agency has known for many years what it needs to do to improve its collection of tax debts, but its efforts have fallen short. And it still is not gathering critical information that it needs to understand and manage the growing tax debt.

The Agency has set ambitious goals in its strategic vision for the future of collections, but it has not specified how it intends to reach those goals. Without detailed planning and diligent attention by management, I am concerned that the Agency will have a hard time improving the way it manages collection.

The issue of financial information is a long-standing problem in the federal government, and we report that progress is unsatisfactory. I am disappointed that departments and agencies have been slow to improve the quality of their financial information, and I regret having to repeat this year after year.

In addition, we found that departments and agencies have been slow to correct weaknesses in key financial systems and controls. The federal government handles billions of our tax dollars every

year. To do this well, it is vital that it have good, complete financial information.

Departments and agencies are still not using accrual financial information as a regular management tool. If they were using it, they would have a very different and more accurate financial picture of their revenues, expenses, assets, and liabilities. When all the costs are visible, managers are more likely to consider those costs when making decisions.

• (1220)

[English]

Our observations on the leasing of office space demonstrate the need for good financial information. We are reporting unsatisfactory progress by Public Works and Government Services Canada in managing its leasing of office space for federal public servants. We found that the basic information needed by property managers still does not exist, is inadequate, or is difficult to get. To make the right strategic decisions, managers need information that is timely, accurate, and complete.

PWGSC shares responsibility for decisions on office accommodation with its client departments and the Treasury Board Secretariat. This, and the way government funding works, means that the most cost-effective option is not always the option chosen. The result can be additional cost to the taxpayer, as several examples in our report illustrate. The government should ensure that the system provides the right incentives for managing well, which includes selecting the most cost-effective option.

Finally, let me turn to the additional report that was tabled on Tuesday.

Departments and agencies need to give Parliament good estimates of their spending plans and to report their actual spending properly. In our opinion, significant costs incurred by the Canada Firearms Centre in 2003-04 were not properly reported to Parliament, and the government did not follow its own accounting policies. Had these costs been properly recorded, the centre would have exceeded its voted appropriation that year, unless it had been granted supplementary estimates. We consider this a serious matter for Parliament's attention, because the ability of the House of Commons to approve government spending is fundamental to Parliament's control of the public purse.

Mr. Chair, that completes our overview of the report. We would be pleased to answer any questions that members might have.

The Chair: I want to thank you for your report, Ms. Fraser.

We're on a tight timeframe here, with a steering committee at 2 o'clock. I plan to end the meeting at 2 p.m. sharp, so we can have a brief steering committee meeting, then all be back in the House for the Australian Prime Minister's address.

Mr. Wrzesnewskij, you have eight minutes for the first round .

Mr. Borys Wrzesnewskyj (Etobicoke Centre, Lib.): I'd like to go to chapter 2, which deals with recruiting and retention. I noticed in the report that some of the key categories have the lowest retention rates, for instance, engineers and doctors. I don't have it tabbed, but it appears that we end up losing 70% of the doctors soon after the armed forces train them. As well, there's a somewhat smaller, but very significant, number of engineers who depart once the component of learning their trade and profession is dealt with. We seem to have extreme difficulties in retaining those individuals.

How is that being addressed? There are many opportunities in those professions outside the armed forces; they're highly paid. We have a problem across the board, but in those particular professions, did you identify the reasons why the problem is that acute?

Ms. Sheila Fraser: Mr. Chair, that is absolutely right and it reflects well the problems we noted in attrition in the armed forces. There are certain categories in which the turnover rates are very high. In the armed forces overall, I think it's about 6%. But as we mentioned, there are some, such as the medical officers, where it's 71% within 10 years of joining the armed forces.

We did not get into the reasons behind this. I believe the armed forces themselves have done some preliminary work. I'll ask Ms. Loschiuk if she could expand upon what has been done and what's been planned.

• (1225)

Ms. Wendy Loschiuk (Principal, Office of the Auditor General of Canada): Mr. Chair, right now the department is looking at each of these individual occupations to try to understand why some have such a high turnover and others do not. It's quite an involved piece of work.

At the time of the audit, they were trying to get down into that a little more. They were focusing some retention surveys. They were working with people who had been assigned specifically to understand the occupations. But they haven't completed that work for all areas yet. What we do point out in the chapter is a lot more needs to be done to really understand why individual groups have such a high turnover and to figure out ways to address those problems.

Mr. Borys Wrzesnewskyj: Without getting into multi-year studies, which tends to happen in departments, and trying to figure...I think it's pretty simple, and the average person would understand what the problem is. You have a profession that's very highly paid, and there's a great demand for those professions outside the armed forces.

Besides studying the problem, are they proposing solutions in terms of how they contract the people they will educate and on whom they will expend a tremendous amount of our armed forces' resources? I think I read that with the engineers, for instance, the average training cost is \$250,000, and then we lose a very significant proportion of these people soon after training. To my mind, it doesn't require a great deal of study. What it requires is a change in the contracting with people who are using the armed forces to receive their education. Then they salute, say good-bye, and off they go to the private sector.

Ms. Sheila Fraser: Mr. Chair, I would refer the member to paragraph 2.52, showing that National Defence did in fact conduct

surveys. There are a number of reasons mentioned there. Interestingly enough, salary does not appear to be one of the main issues.

So it would seem that the problem is more complex, when they talk about things like "uncertainty about the future of the Canadian Forces", "leadership and bureaucracy", and "lack of fairness". That's why we're recommending that they need to do much more in-depth probing to be able to actually understand what the issues are.

Mr. Borys Wrzesnewskyj: You've referenced paragraph 2.52. This was across the board, right, not specific to those particular professions?

Ms. Sheila Fraser: That's right, it was across the board.

Mr. Borys Wrzesnewskyj: My questions were specific to those professions. They do not match what's happening across the board; the numbers seem to skew very significantly in those particular professions.

If you go back to paragraph 2.50, you talk about motivators and the age groups that we'd like to motivate. For instance, 6% of young males have maybe some interest, but when you throw in the component of the potential of being offered free education, that jumps to some 30% who would consider a career. Obviously there's a motivator for people to go into the armed forces, to be trained in a career that will in the future provide tremendous benefits. So the motivators are there, but we don't have the specifics.

I just think it's pretty simple to connect the dots on that, and it's an issue that should be addressed, especially if we're going to take on—after last night's vote—war missions. We know that those categories, engineers and especially medical doctors....

I'd hate to think that we have this huge hole in the armed forces when it comes to doctors, when we're sending our soldiers into harm's way.

Ms. Sheila Fraser: All I can say is that I think that sums up pretty well the findings of the audit, that there is a significant issue. If the various categories required for deployment cannot be filled, that deployment cannot occur. There have to be doctors and technicians and so on to support the deployment or it can't be done.

So there is a very significant issue, as we mentioned here, in certain of the categories. Already the turnover is very high. Going forward, if there is to be an increase in the armed forces, then the whole approach to recruiting and retention has to be reworked.

• (1230)

Mr. Borys Wrzesnewskyj: So it could well be, especially in those categories, where a number of years' training is required...and these are key individuals. When we're sending our soldiers into harm's way, we may not be providing them with the type of personnel, with professional personnel as backup, to allow them to enter these difficult zones, knowing and being confident that should they be in harm's way and injured....

There are unnecessary, serious consequences or risks that we're putting our soldiers—

Ms. Sheila Fraser: I would hate for the committee to arrive at that conclusion. When there is a deployment, the people required for that deployment must have the training or certification or whatever is required for what they have to do, or else they wouldn't go.

So it's not that they would leave without the proper level of technicians. It's just that if there were no technicians available, they wouldn't be able to deploy.

The Chair: Thank you very much, Mr. Wrzesnewskyj. That concludes your portion of the round.

Monsieur Nadeau, huit minutes, s'il vous plaît.

[Translation]

Mr. Richard Nadeau (Gatineau, BQ): Thank you, Mr. Chairman. Good afternoon, Ms. Fraser, ladies and gentlemen.

I am going to proceed randomly, according to the chapters that affect me the most and that concern me given my parliamentary duties.

I would like to ask you a question about recruitment in the armed forces. Historically, the Canadian Forces have not been very tender towards Quebecers and French-speaking Canadians, during their training. I am talking about providing services in French to soldiers, so that they develop a sense of belonging in the armed forces, which is their own, and where it should be just as normal to speak French as it is English. That is the theory, but not necessarily the practice.

Did this attitude show up as an aspect that could explain problems with recruitment?

Ms. Sheila Fraser: That is not an issue that we looked at, Mr. Chairman. Instead, we examined some of the communities that were targeted, such as the aboriginals, women and visible minorities. We did not make a distinction among the linguistic communities.

Mr. Richard Nadeau: Is it an ongoing problem? Can it be said that the Canadian Forces, for one reason or another, have always had some problems recruiting, or has it worsened in the past five or ten years? Has recruitment become a problem recently, or is it an ongoing one?

Ms. Sheila Fraser: I am going to ask Ms. Loschiuk to answer.

[English]

Ms. Wendy Loschiuk: Mr. Chair, we found that in effect the Canadian Forces were able to show some improvement. There was difficulty trying to get their trained effective strength up and to meet recruiting targets. You can compare the figures from our previous chapter in 2002 on recruiting targets with their targets now. We found they were doing a bit of a better job in being able to meet their targets. One of the big issues we had in 2002 was that they were not getting close to their targets; now they are at least getting close to the targets they needed to bring in.

[Translation]

Mr. Richard Nadeau: Last night, during the debate on Afghanistan, the Minister of National Defence told us that the Canadian Forces' mission in Afghanistan would be extended by two years, in response to the requirements as expressed by the Afghan head of state and NATO. The minister also stated that Canada would nevertheless be in a position to respond to other situations elsewhere. He said that Canada could provide support in Darfur, which would be no easy task, and even Haiti.

Considering that we have been in Afghanistan for four years, and given the situation that you noted, would Canada, as a responsible state, be in a position to carry out new missions elsewhere in the

world at the request of the UN, specific countries or NATO, in accordance with its military or international development alliances?

• (1235)

Ms. Sheila Fraser: Unfortunately, Mr. Chairman, it is impossible for us to answer that question, since we did not conduct that kind of analysis in this audit. However, if the committee were to decide to hold a hearing on this audit, that would be the kind of question to put to the officials from National Defence.

I am going to go back to one of our concerns. As was said earlier, in these missions, there are some key employment categories where turnover is very high. We are concerned with the Canadian Forces' ability to recruit and retain these people. That could have an impact on the Canadian Forces' ability to carry out missions in the future.

Mr. Richard Nadeau: I would like to ask one final question on the Canadian Forces. I have the impression that we are now seeing more soldiers returning here in caskets than during the period that preceded the conflict in Afghanistan. Perhaps my perception is wrong and there were as many before, with the peacekeepers, but I doubt it. Is that not hindering recruitment? Are there not talented people, quality people who could fill those positions, but who, seeing these caskets...

Ms. Sheila Fraser: We cannot answer that question either. It is up to the Canadian Forces to comment on that.

Mr. Richard Nadeau: Let's now move on to the first nations. You audited the funds that the department spends on programs for aboriginal people. We are talking about \$8 billion. You said that it was difficult to see how the money had been allocated.

In my riding, there are aboriginal people living off-reserve. There are serious conflicts among certain groups that I will not name. Based on what you are telling me, the way the money is distributed to the aboriginal groups living off-reserve is set out in a treaty or an agreement, but once the money is handed over to the group leaders, the situation becomes less clear.

Is it out of fear, because we do not want to interfere or out of political correctness that no one looks into what happens to the money for off-reserve housing? People are complaining. The situations on reserve also exist off-reserve. These situations are deplorable.

Does the department face any constraints when it comes time to do the audit?

Ms. Sheila Fraser: We conducted several audits, namely in the areas of housing and education. We even conducted a study on the fact that first nations must provide a lot of information and reports to the department. If I am not mistaken, the Treasury Board Secretariat did a study that shows that the Department of Indian and Northern Affairs receives 60,000 reports per year.

However, during our audits, we noted that the department does not do much with these reports. Very little analysis is done. In the end, the first nations provide a lot of information, but little analysis is subsequently done. The financial statements of all first nations are audited. The penalty for those that do not produce financial statements is very harsh: their funding for the following year is cut. The system strongly encourages first nations to produce these reports.

In the chapter on grants and contributions, we indicated that the performance of four or five departments was satisfactory. The performance of the Department of Indian and Northern Affairs was deemed unsatisfactory, because its management and analysis of programs are inadequate, despite the fact that it has substantial information. On several occasions, we have recommended that the department simplify its reporting requirements. Programs should also be consolidated, so that the department can better manage them.

• (1240)

Mr. Richard Nadeau: Thank you very much.

[English]

The Chair: Merci beaucoup, Mr. Nadeau.

Mr. Fitzpatrick, eight minutes.

Mr. Brian Fitzpatrick (Prince Albert, CPC): Thank you.

Madam Fraser, I'm sure you'll be surprised, but I'm going to ask questions about chapter 2.

In your report, you mention that in March 2003 the minister made a commitment to limit expenditures to \$1.2 million. Do you know who the minister was at that time?

Ms. Sheila Fraser: It would have been Minister Cauchon.

Mr. Brian Fitzpatrick: The way I understand it, if that overexpenditure was truly reported and recorded as 2002 and 2003 expenditures—that's your position—it would have exceeded the minister's commitment to Parliament in the amount of \$21.8 million. Is that correct?

Ms. Sheila Fraser: The \$21.8 million is the expenditures that weren't recorded the subsequent year. The \$100 million would have been exceeded by \$17 million. I would note, in their response to the chapter, the government also agrees the \$39 million was an error.

Mr. Brian Fitzpatrick: The department, through some imaginative or creative accounting, found a way to carry this overexpenditure into 2003-04? Is that what occurred?

Ms. Sheila Fraser: At the end of March 2003, \$39 million of development costs had been incurred—we estimated \$39 million—by the contractor. Work had been done, but the accounts payable, in simple terms, were not recorded in the books. We see no evidence of a decision not to record them. We believe it could have simply been an error; that those costs were not recorded that year. Because they weren't recorded as a payable, when they were actually paid to the contractor in the following year, that's when the expense was recorded.

Mr. Brian Fitzpatrick: From your audits, when was the decision made to record them in 2003-04?

Ms. Sheila Fraser: When they came to pay the \$39 million they realized there had been an error; it probably should have been recorded the previous year, but to be quite frank, we wouldn't go back and open the financial statements of the Government of Canada for a \$39 million error. We're talking about a financial statement that has expenses of \$200 billion, so \$39 million is not considered significant in that respect. The costs get recorded in the next year, and I would say that that happens with some frequency in any organization.

Mr. Brian Fitzpatrick: Who was the minister in charge of the department at that time?

Ms. Sheila Fraser: It would have been...do you mean in March 2003 or in...?

Mr. Brian Fitzpatrick: At the time they decided to carry it on into 2004.

Ms. Sheila Fraser: I don't know. There could have been a change of minister. I don't know the exact date it may have occurred. The department might be able to tell you.

I would presume there were discussions with the Treasury Board Secretariat and the Comptroller General, and it was decided that those costs would be recorded simply as when they were paid, which was in the following year.

Mr. Brian Fitzpatrick: I'm going to jump into what we'll call accounting error number two. I had better premise my question on the idea that it was not an error; the officials knew they had some accounting problems with error number two, and it wasn't just a simple matter of omission or misunderstanding of the events.

On page 104, you mention that this would cause it to "blow the vote". What's the significance of that reference?

Ms. Sheila Fraser: Blow the vote—that's Ottawa terminology. You are correct. When we come to March 2004, there was a decision made not to record \$21 million of costs. If those costs had been recorded, the expenditures for the Canada Firearms Centre would have exceeded the appropriations—the amounts that had been authorized by Parliament—unless they had gone back and obtained supplementary estimates. That's what we call blowing the vote; it's exceeding the amounts that have been authorized.

• (1245)

Mr. Brian Fitzpatrick: When was the decision made by the government not to record the overexpenditure in the 2003-04 period and to employ that complicated accounting to deal with this issue?

Ms. Sheila Fraser: It was essentially made in February 2004. That was when the decision was made not to go forward to request supplementary estimates. We see some back and forth even after that with the Comptroller General and the Canada Firearms Centre about the accounting, but essentially the decision was made when there was a recommendation made not to go for supplementary estimates.

Mr. Brian Fitzpatrick: There was probably some dithering going on after that about how they were going to account for it if they weren't going to include it in the 2003—

Ms. Sheila Fraser: We can see indication of some disagreement about the accounting, yes.

Mr. Brian Fitzpatrick: Who was the minister at that time, when the decision was made not to record it?

Ms. Sheila Fraser: By then the firearms program had transferred from the Minister of Justice. It became a stand-alone department, and it reported to the Minister of Public Safety and Emergency Preparedness Canada, who was Mrs. McLellan.

Mr. Brian Fitzpatrick: Would the minister of the department have made the decision not to record it?

Ms. Sheila Fraser: This was a recommendation that was made by bureaucrats.

Mr. Brian Fitzpatrick: It was a deliberate decision made by the department and other officials not to record that.

Ms. Sheila Fraser: That's correct.

Mr. Brian Fitzpatrick: You referred to it as "an error" in your report, Madam Fraser. In my view, errors are the result of accidents. It seems to me this was a deliberate, calculated decision made by somebody in the government, and in that sense it gets more into the area of a conscious decision rather than an error.

Ms. Sheila Fraser: There was a decision made. There was a conscious decision not to record the costs. The government believes it has reasons that justify that decision. We indicate, in the additional report, why we do not feel those reasons in fact justify it, and why we take exception to each one of them, but I'm sure the government, if ever they come to a hearing, will tell you they felt they were entitled to make that decision.

Mr. Brian Fitzpatrick: During their deliberations and dithering on this issue, they sought legal advice. I understand they obtained a legal opinion as to their status. Is my understanding correct—that you were not given access to it, on the basis of solicitor-client privilege?

Ms. Sheila Fraser: No. We obtained the legal opinion. We generally obtain all legal opinions that we request. These are what are called "privileged documents" and cannot be disclosed, so unless the department receiving the opinion waives that privilege—

Mr. Brian Fitzpatrick: Which department?

Ms. Sheila Fraser: It would be the Canada Firearms Centre.

Mr. Brian Fitzpatrick: They could waive that, right?

Ms. Sheila Fraser: Actually, it was Public Safety and Emergency Preparedness Canada that received the legal opinion. That department would have to waive the privilege.

Mr. Brian Fitzpatrick: They're the client. They could waive it.

Ms. Sheila Fraser: They could waive the privilege, but they have not in this case, as is their right. So we have seen the legal opinion and we have discussed it with the government; we just cannot cite it, though in fact the Canada Firearms Centre itself presented the substance of the legal opinion in its departmental performance report and we have shown the extract of that performance report in our report. It's just that we feel bound not to discuss the legal opinion.

The Chair: Thank you very much, Mr. Fitzpatrick.

We'll move on now to Mr. Christopherson, for eight minutes.

• (1250)

Mr. David Christopherson (Hamilton Centre, NDP): Thank you very much, Chair.

Welcome again to the auditing team and Madam Fraser.

I want to start with chapter 5, management of programs for first nations. We've been here before on some issues, and it's deeply troubling to see that this is back again. And it's the same kind of problem, in that we've had original audits with recommendations, commitments from the ministry to do something, and then a follow-up audit shows that it wasn't done.

If I remember correctly—and somebody please stop me if I'm wrong—this was exactly the same ministry we ran into with exactly

the same problem I remember launching two or three times. The reason I know that is because I could start to feel the same feelings. I'm sitting here thinking, "You know, I've felt this before about this ministry. What is it? What is the issue here?"

It's one thing to find out you're not doing something, or you're doing it wrong, or it's inadequate, or it's not meeting the requirements, and to be taken to the woodshed on it, and then you clean things up. That's one thing. But with this business of us doing the audit and getting all kinds of promises and then nothing is done, that is what's maddening.

I say to new members, pay attention to this, because it happens more often than you want to believe, and it's terribly frustrating.

What I find most upsetting is that where there was some movement in the areas you audited, where we had been, where there had been improvement, it was on the administrative side. It was inside the beltway, inside baseball, one department and another moving paperwork. These things are important, but what didn't get done—if I'm reading this correctly—are the things that make a difference in improving the quality of life of our first nations people. Those are the issues that didn't get fixed.

I hope this is another one, Chair, where once again we call this ministry, and we have to stay on top of this ministry until this gets turned around.

The first thing I want to do is to speak to the issue of the treaties. Hamilton is a stone's throw from Caledonia. We all know what's going on in Caledonia right now. I can tell you, the frustration level on both sides is just incredible.

I find here that you're speaking to the fact that it's taking up to 29 years. I have to say, I don't know yet, and I hope we bring them in to ask them, whether or not the issues you dealt with are directly related to Caledonia—in other words, whether that would be one of the ones identified that didn't get movement or not.

Ms. Sheila Fraser: No, it is not.

Mr. David Christopherson: Okay, how does that fit in, then? If that dispute is not in the category of unresolved treaties, what category is it in?

Ms. Sheila Fraser: Well, it would be, obviously, in the category of unresolved disputes; it's just not one of the ones we would have looked at specifically as part of our audit.

Mr. David Christopherson: Right, and we don't want to get too close to that because it's an ongoing issue, and I respect how difficult it is. But by the same token, we know one of the claims from the natives in that dispute is that they weren't getting their treaty issues dealt with in at least an acceptable timeframe, let alone an acceptable resolution. So I hope we follow up on that one.

There are two others in here that are really upsetting. On the prescription drugs analysis, Health Canada had made commitments that it would liaise with the provinces and the territories and, if I understand correctly, do an analysis of the number of prescriptions and then compare that to some standards to determine whether or not there may be some potential abuse. The ministry used to do it and then they stopped. It would appear that they then recommitted to get back into the business, and nothing has happened, at least not the kind of action that you'd expect and that you were given assurances would happen. Is that correct?

Mr. Ronnie Campbell (Assistant Auditor General, Office of the Auditor General of Canada): In that particular case, it's a situation where they're not yet able to demonstrate the results. We saw the results in previous audits. When they stopped doing it, those numbers changed. Now that they've restarted doing it, they haven't yet been able to demonstrate to us the effects.

Mr. David Christopherson: What I'm pointing out here is that the one issue deals with treaties. I'm pointing out that Caledonia may not be directly related, but it's still on the same issue of treaties not being resolved in a timely fashion.

We know there are serious drug issues on reserves, on first nations lands. For this not to be a priority, having already been identified, is what's maddening. It's fine that there are some nice administrative processes that are working better than they used to, but the lives of first nations people are not being improved.

This segues me over to mould, which sounds like a rather interesting subject. You state on page 163, just to set this up, that mould is a fungus that under certain conditions produces poisonous substances that can cause headaches, dizziness, and nausea. Again, we have visited this before as a country, and from what I can determine, there were some meetings held, which was the first step, but nobody at any of those meetings took responsibility to actually make sure something happened. Therefore, at the end of the day, we may have had some meetings happen, but if I'm reading this correctly, your impression is that nothing else is taking place. It still isn't happening. So as we sit here, paperwork movement is being made more efficient, but poison that's inside the homes of Canadians is not being addressed.

•(1255)

Ms. Sheila Fraser: You've put that very eloquently and absolutely accurately.

Mr. David Christopherson: I would hope that's a slam dunk for bringing in the ministry, and that we keep doing that until this gets turned around, because that's just unacceptable.

Chair, I don't know how much time I've got, but I want to quickly—

The Chair: You have a minute and a half.

Mr. David Christopherson: Thank you.

I'd like to move quickly to the acquisition of space. Obviously I'm a member of the committee, but one of the examples you use of \$13 million lost was right in the heart of my riding, what we call the new federal building. Apparently, and I'll leave it to you to tell me if I'm right, they were given a number of options—"they" meaning the government—in terms of whether they should build it or lease it.

They did an investment analysis report, and in that report the most expensive option was the one they took. Had they taken the one that was recommended, we would have saved \$13 million of Canadian taxpayers' money.

I know you can't speak to political motives, but is there anything outside of politics that can speak to why they would make that choice?

Ms. Sheila Fraser: One issue we raise here is the way funding is given to the department. If the department acquires a building, it records the whole amount of the purchase cost in that year. And government and all the appropriations—and this ties into another chapter—are still on that cash basis, so they would show the cash outlay all in one year, whereas if they rent, under leasing they show a very small portion, so they stay within their appropriations.

We really believe the way funding occurs is also influencing the fact that they're not acquiring buildings. There could be other policy decisions, but we saw no evidence or any documentation that would indicate that government has a policy of leasing rather than purchasing. Certainly, as Auditor General, unless we see that, we would obviously always go to the least-cost option.

The Chair: Thank you very much, Mr. Christopherson.

Thank you very much, Ms. Fraser.

Ms. Ratansi, eight minutes.

Ms. Yasmin Ratansi (Don Valley East, Lib.): Thank you, Mr. Chair.

Thank you, Madame Auditor General. You have such a wonderful job.

Ms. Sheila Fraser: I do.

Ms. Yasmin Ratansi: Comprehensive accounting, performance management—you see it and are able to point out what people are doing well and what people are not doing well. The underlying theme that I see from your report is that information systems, performance systems, do not seem to give the information for proper decision-making.

As I looked at one of the chapters on information systems... departments seem to have various information systems. Some have SAPs, some have other systems, and some are using CFIS I and II. Could you tell me, are there scientists in departments who decide they want these individual systems? Are these systems talking to each other? What is the issue?

Going forward, how can these systems or the bureaucracy do a better job of ensuring that systems give the information they are supposed to? For example, is the proper needs analysis being done? Is the contingency planning being done? Is there flexibility within the system? Why are systems producing reports that perhaps nobody uses? You made an allusion that in the first nations there are 60 reports being given. Why are there so many reports? Are the report requirements too onerous?

We have to bring some simplicity. I know government is not simple; it's very complex. If you could highlight something on that, I'd appreciate it.

•(1300)

Ms. Sheila Fraser: I'd be glad to, because I think you've raised an important issue that is recurrent in many of our audit findings. Of course, in government, given its complexity, there are a multiplicity of systems. Some are used for financial information—the SAPs, Oracles, and whatever.

In 1999, just before the year 2000, the government required that all government departments move to one of seven authorized financial systems at the time, I believe, and it has recently indicated its preference for all departments to move to one financial system, which is SAP. These are obviously very expensive and very time-consuming exercises to move from one system to another. I presume it will take several years before everyone actually moves to SAP, if everyone eventually does.

In addition to the financial information systems, there are also a number of operating systems. For example, CFIS, which you mentioned, is the database for the weapons registry. That is obviously not linked to a financial information system, but it should be linked to other systems—the police information system and others.

We've noted in many of the reports, and in particular the work that Mr. Kasurak has done on public safety, that many of the systems, or I would say probably most of the systems, do not talk to each other. It's because the departments still very much work in a stovepipe fashion and develop the systems for their own needs. I think we even said at the time that especially when you get into law enforcement, the security agencies are very jealous about protecting their information. It will quite frankly take a change in culture before they start sharing it with ease.

Information systems are an issue. They probably don't get the attention they need. I think part of it is that when you come to priorities, are you going to develop and spend money on systems or are you going to spend it on programs? That's part of the issue.

On the reports, you were absolutely right. In several audits on the first nations we raised the fact that there were far too many reports. We mentioned in this report that recipients of grants and contributions are also now saying that the reporting requirements are too onerous. I think if you take each individual program, in and of itself, it looks appropriate. It's when you add them all up that it suddenly doesn't make any sense.

In the case of first nations, we said that the government really needed to streamline programs and to better coordinate programs, and it needs to do the reporting on a risk basis. Quite frankly, the Department of Indian Affairs and Northern Development is dealing with about 630 communities. Why can't there be a reporting of all programs by community, rather than each program having all its own reports? I think there are ways to do this in a more streamlined and less onerous fashion for the recipients of those funds.

Ms. Yasmin Ratansi: Whose decision is it to purchase a system off the shelf or to get it off the shelf and then modify it to suit their needs? Is it a decision by program managers? Is it a decision by the deputy minister? How much do those systems cost?

Ms. Sheila Fraser: I hesitate to get into this, because we haven't really looked at it. I believe it is the department concerned, along

with the Treasury Board Secretariat. The chief information officer is still at the Treasury Board Secretariat, I believe, and there is some oversight approval given by the Treasury Board Secretariat on any system work that is done.

Ms. Yasmin Ratansi: For example, if SAP was purchased and then modified for agriculture and agrifood, would the Department of Agriculture and Agri-Food need to have consensus from the Treasury Board?

Ms. Sheila Fraser: I say with all reserve that we would really have to ask the departments or the Treasury Board Secretariat. I believe that is the case.

There is also an identification of what are believed to be high-risk projects; they call that major capital projects. An entire special monitoring goes on around those projects as well, and a very large computer program development is often included in that.

•(1305)

Ms. Yasmin Ratansi: How much would a computer program development generally cost in large departments?

Ms. Sheila Fraser: It would cost a lot.

Ms. Yasmin Ratansi: The reason I ask you that is.... Everybody jumps onto systems. I would have taken agriculture and agrifood, because it was not a contentious issue; nobody bothered with it.

But logically, systems, when you're trying to blend them together to provide the information you need in a complex government department or environment, do have their hiccups. And as they go through their hiccups with legislative changes, etc., we seem to find issues around those systems. That's why I wanted to see, from your perspective, what ballpark a system can go through.

I can only go by the example I know of, in the province of Ontario, where a social assistance review system went into a huge overrun because proper planning was not done.

Therefore, I'm trying to get a handle on what happens in a department ten times the size of the province of Ontario, for example. What do we see?

Thank you.

The Chair: Ms. Fraser.

Ms. Sheila Fraser: We have done some work in the past on systems under development, but it goes back quite a few years, so I would hesitate to give a lot of comments on that.

Obviously, the whole planning, the rigour of the estimates initially, and the control over all the changes that people make are essential to the success of the project.

Ms. Yasmin Ratansi: Thank you.

The Chair: Thank you very much, Ms. Ratansi. Thank you very much, Ms. Fraser.

Mr. Watson, eight minutes.

Mr. Jeff Watson (Essex, CPC): Thank you, Mr. Chair. I appreciate that.

Ms. Fraser and staff, thank you for being before the committee today.

I believe the proceedings are being televised today. Just for some context on this audit, the audit we're considering today was done on the previous Liberal government before the election. Is that correct?

Ms. Sheila Fraser: All of the audit work that we are reporting in this report was completed, for the most part, in December 2005.

Mr. Jeff Watson: Okay. It was before the change of government.

So presumably the responses to the recommendations, also included in here, are from the previous government?

Ms. Sheila Fraser: No. The responses were received from the current government. The deputy minister provided us with responses before we printed, which was actually into March. But I think most of the responses were received around the end of February or beginning of March.

Mr. Jeff Watson: Very good.

Going back to your 2002 audit for just a moment, your 2002 audit indicated—I'm coming back to the gun registry here—that between 1995-96 and 2001-02, I believe 70% of the Department of Justice's funding for the firearms program, which is about \$525 million out of \$750 million, was obtained through supplementary estimates.

Is this a usual or unusual practice for a single program in such a short time period?

Ms. Sheila Fraser: That would be an unusual practice.

I don't know if Peter wanted to add something, but at the time we raised it because it was a concern that so much of the funding was actually coming through supplementary estimates.

Mr. Jeff Watson: You also reported in that audit that there were serious shortcomings in financial reporting to your office. In fact, they were serious enough to keep you and your team from continuing a critical portion of the audit.

Is that true?

Ms. Sheila Fraser: That's correct.

We had to curtail the audit because we weren't able to get all of the financial information, in particular the costs that had been incurred by other departments. There was not a system in place.

We're reporting in this audit that we tabled on Tuesday that there has been satisfactory progress made in addressing that recommendation.

Mr. Jeff Watson: It seems the previous government shifted secrecy from your office to Parliament after that.

Returning to the present audit, in 2002-03, there's evidently a high-level conspiracy by senior government officials to hide critical financial information on the true and full costs of the gun registry.

You talked about a meeting of high-level government officials to discuss what to do with the spending that exceeded by \$17 million what Parliament appropriated that year.

Ms. Sheila Fraser: No.

I would just make the comment that the previous comments are Mr. Watson's comments and are not what is reflected in our audit report.

Mr. Jeff Watson: Certainly. I asked only the question about the meeting.

Ms. Sheila Fraser: In March 2003 there was \$39 million of costs that were not recorded, for which we see no decision not to record. It was a commitment made by the minister that the costs would not exceed \$100 million. If those costs had been recorded, the total cost would have been \$117 million.

The \$39 million gets recorded in the following year, which then, of course, affects the centre's financial results. And there is a decision at the end of that year not to record \$21 million of costs.

• (1310)

Mr. Jeff Watson: What I am saying is there was a meeting to discuss what to do with the spending amount that exceeded the appropriation for that year.

Ms. Sheila Fraser: That's correct. That meeting occurred in February 2004.

Mr. Jeff Watson: And it was poorly recorded. Is that a violation of government policy on documenting meetings?

Ms. Sheila Fraser: We would have expected that meeting to have been documented, minutes to have been taken, and the rationale for the decision, yes.

Mr. Jeff Watson: Presumably at a meeting a number of options would have been discussed. One of them would be approaching Parliament for supplementary estimates. Correct?

Ms. Sheila Fraser: In fact, the Canada Firearms Centre came forward before that time and made a recommendation to ask for supplementary estimates.

Mr. Jeff Watson: Certainly that's not something that they...or was common practice. Seventy percent of their previous spending was obtained through supplementary estimates, so it's not unusual in a meeting of this type to consider supplementary estimates. I would imagine, especially since there was a majority government at the time, it would have been no problem to achieve those estimates.

But instead a meeting is held, not documented, that seeks a legal opinion—clearly the ultimate decision is going to be a very deliberate one if a legal opinion is involved—that decides to kick the expenditure into a following year.

The way estimates are done clearly conceals that type of critical information from Parliament. Is that safe to say?

Ms. Sheila Fraser: Yes.

I should clarify a couple of issues. The reason a legal opinion was obtained is the Financial Administration Act was involved and there was a discussion around what gets charged to an appropriation or not. So there is a legal aspect to this; that was why the legal opinion was sought.

The government gave its reasons for justifying why that \$21 million shouldn't have been recorded, and the Canada Firearms Centre indicated an unrecorded liability of \$21 million in its departmental performance report, so they felt they had made the appropriate disclosure under the circumstances.

Mr. Jeff Watson: Maybe this is asking an opinion here, but the true and full cost of the registry in that year was not known to Parliament. Is that fair to say?

Ms. Sheila Fraser: In our opinion, that \$21 million should have been recorded in that year.

Mr. Jeff Watson: Flipping ahead here in report 2005, now a minority Parliament, not a majority Parliament, with the Liberal government obviously teetering on the brink of collapse....

Three budgets in one year and they go ahead and list a \$15 million expenditure for firearms program development. They spread it out over 15 years, not in the election year. Is that correct?

Ms. Sheila Fraser: That was in the year ended March 2006. That's right. They had \$15 million of development cost. They signed an agreement with a contractor to spread it out over 15 years and were intending to record it as the payments were made, rather than recording the costs as they were incurred, which they should do.

Mr. Jeff Watson: So once again costs were not fully disclosed to Parliament in that given year. Is that a correct conclusion to come up with or not?

Ms. Sheila Fraser: That year is not closed off yet. Let's just say I would expect them to record that correctly, because the financial statements are not completed yet, nor is the audit done.

Mr. Jeff Watson: Thank you, Mr. Chair.

The Chair: Thank you very much, Mr. Watson.

Thank you very much, Mrs. Fraser.

Right now, colleagues, we're starting round two. As I indicated when we started the meeting, we are under a fairly tight timetable here, and I propose to give everyone an opportunity by reducing the second round from five minutes to four and a half. I hope nobody will take offence.

Mr. Holland.

Mr. Mark Holland (Ajax—Pickering, Lib.): I have to cut short, Madam Fraser, saying how happy I am to see you and go straight to questions.

I want to continue on chapter 4, if I could, Madam Fraser. My principal concern is this. When I was elected in 2004, I had a great deal of concern about the costs related to the gun registry program and felt they needed to be rectified. In the audit just referred to, which came out two years prior, in 2002, there were a number of deficiencies stated and some clear and rather systemic problems noted that needed to be changed.

The problem I'm having today is that ostensibly the problems then are being used as the rationale to cancel the program today, by and large. Yet what I'm largely seeing—correct me if I'm wrong in this—in the audit today is significant progress, both in terms of curtailing those costs and of following through on a variety of the recommendations that were made. If I look in chapter 4, on page 103 in exhibit 4.2, at the items that are listed as showing satisfactory progress, we see that there is significant progress now.

My concern is this. We clearly have policy differences. This is something you obviously can't speak to. If the current government goes to the House and there's a majority of members in the House

who don't believe in a gun registry for long arms, then that's a policy decision. But if the rationale is that this is a poorly managed program today that is not headed in a good direction and is in a bad spot, then that concerns me.

In my own constituency, for example—I used to be a member of the Durham Regional Police Services Board—I would talk to officers regularly and to our chief about how valuable the firearms registry was in conducting their work on a day-to-day basis. I would talk to chiefs of police in many other jurisdictions around the area as I participated in events relating to my job on that police services board, and I know how valuable it is.

I guess the part you can speak to in this debate is whether you feel the progress being made is encouraging and leads you to believe this is heading in the appropriate direction and that your recommendations are being listened to, or would you concur with the assertion, which I really feel is being made on the basis of past problems, that basically it's so poorly managed it shouldn't continue?

• (1315)

The Chair: That was short, for Mark.

Ms. Sheila Fraser: I would just comment, Mr. Chair, that we note satisfactory progress in addressing the recommendation that was made in 2002, except for the issue of the costs that weren't recorded in the right year. But that recommendation was essentially limited to financial accounting and reporting, because that was the problem at the time. We have noted, as I said, satisfactory progress in dealing with that. We also note in this report that there were many contract issues in the early years of the program and that the current management team has done a lot of work to correct the issues there.

So we have seen progress. There are still, though, remaining issues, and I would say one of the major issues in this whole discussion about the future of the registry is that the firearms centre does not give Parliament performance information. There are no outcome measures. There are no indicators of how effective the program is or what the program is accomplishing. Without those, quite frankly, I think it's hard to make an evaluation of the program.

The centre agreed with us that these needed to be in place and that they were going to begin working on them. That is a major gap at this point in time—as well as, obviously, such operational issues as the quality of the data, and the verifiers' network, and all that. The whole performance measurement is a big issue.

The Chair: Thank you, Mr. Holland.

Thank you, Ms. Fraser.

We'll move on now to Mr. Sweet for four and a half minutes.

Mr. David Sweet (Ancaster—Dundas—Flamborough—Westdale, CPC): In fact, it was really set up to fail, if you look at management principles about trying to be clear on what your goals are, your outcomes, performance standards; they just were non-existent. For years this was in place and there was no way to tell if there was any progress at all.

Ms. Sheila Fraser: Well, that is right. There are no performance measures for outcomes, and those should be in place for every government department and agency.

•(1320)

Mr. David Sweet: It wouldn't be an overstatement to say that it was set up to fail from the beginning, if there's no way at the end of every year to tell whether your services are making any impact based on any kind of performance standards you have set.

Ms. Sheila Fraser: That's probably a harsh judgment. And if you were to apply that judgment, it would apply to many government departments and agencies.

Mr. David Sweet: We have some work to do, then.

In the postponement of funds that was recorded—I think there was \$39 million and \$21 million; there were two figures that were batted around. It hasn't been made clear if you saw any evidence, in those cases, that there was any ministerial direction.

Ms. Sheila Fraser: In the first case, no, we see no indication of a decision being made. In the second case, we see evidence where senior bureaucrats made a recommendation not to get supplementary estimates.

Peter, do you want to add anything more?

Mr. Peter Kasurak (Senior Principal, Public Safety and Emergency Preparedness, Office of the Auditor General of Canada): Yes.

In the second instance, the chronology is that the centre alerts their minister to the prospect of supplementary estimates because they see an overrun looming. After that, senior officials at the board, as well as at Public Safety, get involved, and there is a determination at the bureaucratic level that supplementary estimates are not desirable.

So we can see that there were discussions. The written record is very scant, but we didn't find any evidence of ministerial direction. After that, the officials determined the course of events, as far as the record goes, on their own.

Mr. David Sweet: But the minister was well apprised of the situation.

Mr. Peter Kasurak: Yes.

Mr. David Sweet: And there was no initiative or intervention in order to bring that to Parliament's—

Mr. Peter Kasurak: Quite frankly, Mr. Chair, we can't say what happened, because the record is far from complete.

Mr. David Sweet: Going back to the quality of the gun registry, the long-gun registry, you also mentioned the quality of data that is there. We see for the verifiers that the network was poor; there was a very low degree of training. In our questions before we were saying that we weren't even cognizant of whether they were aware of the Privacy Act or anything. Could you expand on that for me?

Ms. Sheila Fraser: Sure. I'll ask Mr. Kasurak to expand on that.

Mr. Peter Kasurak: The quality has been impaired for a couple of reasons. One is that when they brought in the restricted weapons data, it needed to be cleaned up, and it never was, and there are still faulty records there. Also, in an effort to reduce the burden on people, they allowed weapons to be registered without being verified. When they started to verify weapons, we noted 10% to 12% inaccuracy in the records. And the final and perhaps most significant inaccuracy we noted was inaccuracy in addresses, which of course is

a critical component of the database, and it's never been checked against other government address databases.

Those are the areas that we commented on, plus the weakness in the volunteer verifiers.

The Chair: Okay.

Mr. Ménard.

[*Translation*]

Mr. Serge Ménard (Marc-Aurèle-Fortin, BQ): Good afternoon, Ms. Fraser. It is always a pleasure to welcome you.

I come here by choice, as my professional interests are entirely different, but each time, I end up wiser. That was the case last time, when you clearly explained the difference between cash-based accounting and accrual accounting. I would like to complete my understanding of accrual accounting. In my professional life, I managed a corporation of some importance in my life, the Barreau du Québec. I was president of the bar, and I was also vice-president of the bar prior to that. The budget was nevertheless \$6 million.

Because our financial health was good, I realized that when it came time to replace equipment, we could purchase or lease it. I was convinced that by purchasing it, I would be spending less money. However, if I had decided to lease it, I could have had more financial leeway at the end of the year. I imagine that I am not the only one to have discovered that, and that officials have done so too.

I am trying to understand what happened in 2003-2004 and 2004-2005. If I understand correctly, we need to use accrual accounting. Cash-based accounting is basic and does not provide as good a picture of the situation.

Ms. Sheila Fraser: Indeed.

Mr. Serge Ménard: Accrual accounting is based on the assumption that when the financial commitment is made, it is recorded that year.

•(1325)

Ms. Sheila Fraser: The government has, for a long time, used accrual accounting for amounts payable. When a contractor does work for the government or where an asset is acquired, the amount due must be recorded, whether it is paid or not.

Mr. Serge Ménard: If you hire someone for work that will last 18 months, you simply need to record what you have to pay him as the work is being completed.

Ms. Sheila Fraser: That's right. You must estimate the value of what has been done at the end of the fiscal year and record that amount.

Mr. Serge Ménard: Obviously, that was not done, and you piously call that an accounting error. Others use other terms, but you leave that to them.

So the accounting error consisted of carrying the entire amount forward to the following year, but a problem arose the following year, because the amount needed to be recorded somewhere. The problem was carried forward, but part of the amount was nevertheless recorded the following year. In other words, amounts were recorded for work that had been done the previous year.

Ms. Sheila Fraser: That is correct. The \$39 million corresponded to the value of the work that had been done to develop a system as of March 31, 2003. That sum was not recorded until the following year, when the amount was paid. That creates a problem, because the Canadian Firearms Program became a separate department with its own budget. So it no longer had the flexibility, so as to speak, that the Department of Justice had. The \$39 million had a significant impact on the authorized amount. That is why they realized in February that they would be exceeding the authorized amount.

Mr. Serge Ménard: I want to make sure that what was carried forward in 2004-2005 and that they tried to spread over 15 years is in part the amount that was carried forward in 2002-2003 and in part something else.

Ms. Sheila Fraser: No. The \$21 million amount was recorded the following year. That is another agreement.

Mr. Serge Ménard: But by recording it the following year, they had less money to record another amount, and they had to carry that other amount forward.

Ms. Sheila Fraser: What is spread over 15 years is part of the financial statements for the year ending March 2006, and we have not yet audited that.

Mr. Serge Ménard: When programs are set up — and I understand the importance of spending money rigorously, otherwise the government would not have money for any new programs — the objectives are very difficult to establish. For example, if the purpose of a program is to save lives or to reduce a type of crime, that is probably the most important factor to consider.

From that viewpoint, can you judge the need for the Canadian Firearms Program?

Ms. Sheila Fraser: No. As I mentioned earlier, the centre does not provide outcome measures in its report. They say that the ultimate objective is to improve public safety, and in the report, they indicate that they must produce what they call a results chain, in other words, some performance measures that lead toward public safety. There is no direct link between the two, and because of several factors, it would be very difficult to say if the registry has a direct impact on public safety, but there could be other indicators, such as use of the registry by police forces or a survey of police forces on the usefulness of the registry. They could provide examples of situations where the registry was helpful to them. Unfortunately, no such indicators were established. They recognize that they must establish some, and will start working on that. That is a major aspect that currently does not exist.

• (1330)

Mr. Serge Ménard: Thank you very much.

[English]

The Chair: Thank you very much, Ms. Fraser.

Mr. Lake, you have four and a half minutes.

Mr. Mike Lake (Edmonton—Mill Woods—Beaumont, CPC): It seems as though we've got a little bit of a theme going on here today, whether we talk about the long-gun registry or about the leased office space and the native issues: poor planning in terms of structure, in terms of systems, combined with a total lack of any semblance of stewardship or respect for tax dollars.

I want to talk a little bit about the acquisition of leased office space. In section 7 you refer to gaps in the financial and management information systems. You refer to accrual versus cash accounting as a real problem there. The one that gets me is the blurred responsibility here, the responsibility for office accommodation shared between Public Works, client departments, and the Treasury Board. It seems to me that this would be a recipe for a lot of problems of accountability, right?

Ms. Sheila Fraser: We make the comment in the report that there really are no incentives in the system for departments to manage their office space well. The cost of office space is attributed to departments at the end of the year as a service provided without charge, so it doesn't really come into the budgets they manage, unless they acquire additional space over the standards of Public Works. We've recommended to government that they need to rethink how they do this sharing of responsibility, because Public Works sees itself as providing a service. So at the end of the day, who is incented to reduce office space?

Mr. Mike Lake: Exactly.

There's a sample used in here. I imagine this is just one of the samples you found. I imagine there are many more like this. It's 800 Place Victoria in Montreal, referred to on page 215. Apparently, there is a tendering process there. This is the building they're already in. They rank fourth in the evaluation process, and then to quote:

Two weeks after the tendering process had closed and the winning bidder had been selected, the Secretary of State for the Agency sent a letter to the Minister of PWGSC

—this is the Economic Development Agency—

asking him to renew the lease at Place Victoria. The Minister of PWGSC approved the renewal of the lease at Place Victoria.

This was the fourth-place bidder. It's obviously unacceptable, it seems to me.

Several questions arise. Who owns the building? Have you any idea who owns that building?

Ms. Sheila Fraser: We don't know who owns it.

Mr. Mike Lake: Can you tell me the ministers who were involved in that?

Ms. Sheila Fraser: The Secretary of State was Mr. Claude Drouin, the Minister of Public Works at the time the request was made was Mr. Boudria, and the Minister of Public Works who finally approved it was Mr. Goodale.

Mr. Mike Lake: Ultimately, in terms of the decision taken there, whose responsibility is it for what is clearly...is it Public Works? This is, I guess, what comes down to this shared decision-making.

Ms. Sheila Fraser: It is shared decision-making. We don't see any rationale given as to why the request was made to stay there. There may have been reasons provided verbally, but I guess it comes back to the issue that if there were valid reasons to stay there, then the government shouldn't have started a bidding process and then been committed to renting space, because they ended up having to obviously rent the space of the person who won the bid.

Mr. Mike Lake: That's what it says. Further to this it says that "Renewing the lease at Place Victoria cost \$2.5 million more than the winning bid in the tendering process...". So there's \$2.5 million, and then it says we actually paid \$2.1 million to take the other space that we didn't even have anybody to put in yet.

Ms. Sheila Fraser: That's correct.

Mr. Mike Lake: Is that space fully rented yet?

Ms. Sheila Fraser: No. At the time of this audit it was not fully rented.

Mr. Mike Lake: So the total cost to taxpayers there was \$4.6 million that we shouldn't have been spending.

Ms. Sheila Fraser: That's correct.

Mr. Mike Lake: This was just a random sample, was it?

Ms. Sheila Fraser: I'm not exactly sure how we picked them, but we would have looked at a number of leasing transactions.

Mr. Mike Lake: Thank you.

The Chair: Thank you very much, Mr. Lake.

Thank you, Ms. Fraser.

We'll move on now to Mr. Christopherson.

• (1335)

Mr. David Christopherson: Thank you very much, Chair.

I'd like to pick up where Mr. Lake left off. I just did a quick add of the four examples in here and it came to \$110.9 million. It's almost 50% of the cost of the sponsorship scandal money. It seems to me, at the very least, given that we're the public accounts committee—this is where the accountability happens—this is one where we should be calling them in and asking them why: Why did you just make straight-up decisions, black and white, that cost the Canadian taxpayers \$110.9 million wasted dollars that didn't need to happen? Why?

We owe it to the Canadian taxpayers to ask that question.

If I can, I would make a pitch to include the issues around first nations again, simply because this does seem to be a pattern. There are real problems here, and I can't think of anything more important than...we're dealing with the environment, the quality of life of not only Canadians but Canadian children, too, and again it's the second go-round.

If the Auditor General is to feel like her work matters...she can only take it to a certain point and bring it here. It then only really gets traction when we take it from here and make something happen—either stop bad things or start doing the right things. In this ministry it would be a shame to let this go by and send a signal that it's okay if we find out, audit after audit, that you're not dealing with things that affect first nations peoples' health. I just find that unacceptable.

I would make a pitch, Chair, respectfully to my colleagues, that we would include at least one of the other chapters that we might bring in.

If I have any time left, I have one question on the—

The Chair: Of course, you realize that those decisions are made by the steering committee, and you're a member of the steering committee, as is Mr. Fitzpatrick.

Mr. David Christopherson: I know, but I also know that when we disagree on the steering committee, the decision is ultimately made here. So I'm trying to line up my votes now, Chair. I'll leave exposing my strategy to just that, but thank you for your assistance.

Under revenue, your report today says: "The Agency has known for many years what it needs to do to improve the collection of tax debts, but its efforts have fallen short".

What aren't they doing that they should be doing?

Ms. Sheila Fraser: Essentially we're saying they need to have more sophisticated management over this very large sum of unpaid taxes. The people doing the collection need to have much better information available to them. They need to use more risk approaches earlier in identifying the accounts that are likely to be lost, and start the procedures earlier. They also have to have better information.

For example, we note in here that the tax debt is growing faster than total taxes, but the agency can't explain why. There is a very large component that is due to self-employed individuals. Why is this population not paying taxes more rapidly, and are there measures they should be taking?

Finally, they have various tax collection systems and practices. They need to evaluate which of those are working well in what cases, so when they have an account they can target better where it should be going.

Mr. David Christopherson: Is some of this a second go-round for you on that agency?

Ms. Sheila Fraser: We actually last audited the collection of tax debts in 1994, and many of the recommendations are the same as the ones in 1994.

Mr. David Christopherson: Really? Wow. So that might indeed be another problem. There's a lot of good stuff in here, but that might be another one. When you get over almost a decade and a half of things not happening... That's why we're here—to kick-start those things.

Thanks, Chair.

The Chair: Thank you very much, Mr. Christopherson.

We'll move on now to Mr. Wrzesnewskyj, for four and a half minutes.

Mr. Borys Wrzesnewskyj: Thank you, Chair.

A couple of days ago a decision was made for a major expansion of a military mission. We had a vote on that last night. We should call it what it is: we're engaged in a war in Afghanistan, a country that's—

The Chair: We have a point of order, Mr. Wrzesnewskyj. I have to acknowledge Mr. Williams.

Mr. John Williams (Edmonton—St. Albert, CPC): On a point of order, Mr. Chairman, I would not characterize the debate last night, or the vote last night...or our development in Afghanistan in any way, shape, or form as a war. I would ask that he retract that statement.

The Chair: Mr. Williams, that's not a point of order; that's a matter of debate.

Mr. Borys Wrzesnewskyj: I hope that doesn't take up any of my time. You may deduct it from Mr. Williams, since that wasn't a point of order.

It's a country that's chewed through armies over the centuries, that has a history of it. We've upgraded equipment, especially for these sorts of missions in the recent past. But I'm more worried about our human resources and the issues you raised about recruitment. Equipment is only as good as the people who use it—we have now made a multi-year commitment—and a chain of command is only as good as all the links.

Now the mid levels within the armed forces are “hollowed out” and we have some real challenges there. I'd really like to talk about recruitment. You say that “The department has stated...”—and I'm quoting 2.45—“...the quality of recruits takes precedence over quantity.” The Department of National Defence does their own recruiting so they make this blanket statement, and then we go to 2.41, where it says, “However, we found that the assessment interview used to measure the nine personal attributes has not been validated.” The department is not able to demonstrate that its assessment interview adheres to generally recognized technical and professional standards.

The department could not provide evidence that the personal attributes they're measuring—to determine whether or not these are the people they want in the armed forces—were valid predictors of military suitability, nor that the interview was a valid assessment tool.

Then we take a look at the aptitude testing. You refer to that in 2.35. We lose about 28% of those recruits because forms get lost. In fact, it appears that only 50% of applicants are given an aptitude test in the first 21 days, as they should be. For the rest, it can take from 90 days to a year. In fact, we lose over a quarter and not quite a third of those applicants.

So you have the department making this blanket statement. They want “quality not quantity”. We're obviously going to put pressure on quantity. We have this new mission. We have a hollowing out of the mid levels. We're losing key individuals, people being trained as doctors and engineers. We seem to have a real problem with recruitment and with matching that to commitments that this government has now made—commitments to military intervention, to a war in Afghanistan.

• (1340)

Ms. Sheila Fraser: It is correct that we noted in the report that the assessments of the various attributes have not been done, and they haven't ensured that the attributes are appropriate or that they are good predictors of people. As well, another issue we raise is that for the increased number of recruits who have to come in, they don't know how many are just meeting the minimum standards. We would think that would be important information for them to have, so that

they have a better sense of the quality of the recruits coming into the forces, and that they have better tracking over their career as well, to identify whether these are the right people they're bringing in and whether they need to change their selection criteria.

The Chair: Thank you very much, Mr. Wrzesnewskyj.

Thank you very much, Ms. Fraser.

Mr. Williams, you have four and a half minutes.

Mr. John Williams: Thank you, Mr. Chairman.

Of course, thank you, Madam Fraser for, unfortunately, another litany of problems under the Liberal government, but we'll let that comment stand on its own.

I want to talk about 800 Place Victoria in Montreal. This really concerns me, because we went through the sponsorship scandal in which we had ministerial involvement in the administration of the department—Public Works, no less—and here we have a letter from the secretary of state to a minister about getting involved in the administration and bypassing the low bid, the accepted bid, and staying where they are.

My first question is whether it is acceptable for the secretary of state and the minister to get involved in directing contracts.

Ms. Sheila Fraser: I find that a very broad question. In directing contracts—

Mr. John Williams: The question is whether you consider the ministerial decision to award a contract to the current landlord when the bureaucracy had already accepted a lower bid to go somewhere else to be an appropriate use of political and ministerial authority.

• (1345)

Ms. Sheila Fraser: We see no justification in the files as to why the lowest bid would not have been accepted in this case.

Mr. John Williams: And you don't know who owns 800 Place Victoria.

Ms. Sheila Fraser: No.

Mr. John Williams: You mentioned that Mr. Goodale was the minister at the time, after the short tenure of Mr. Boudria, who unfortunately left under a cloud from the Ministry of Public Works. I seem to recall that Mr. Goodale was in the House of Commons saying that everything would be run by the book and done by the book, and it would be clean as a whistle and nothing would be untoward under his administration.

Do you think that this type of administration and involvement by the politicians, for no documented reason whatsoever, in overturning a decision by the bureaucracy is an appropriate use of ministerial authority?

Ms. Sheila Fraser: I believe that Mr. Goodale signed on the recommendation of his deputy minister. The senior bureaucrat of Public Works did make a recommendation that the lease be continued, but we don't know the rationale behind that and the department might want to be asked why that occurred.

Mr. John Williams: It sounds as if we're back to Mr. Ran Quail and Mr. Alfonso Gagliano all over again. While they were talking about everything being squeaky clean from that point forward, they were still doing the same old stuff under the table, just as we find in the gun registry.

It is quite shocking that the Canadian government would say one thing to the Canadian public—yes, don't worry, we're cleaning up our act—as they continue with Public Works and the gun registry and who knows where else to keep Parliament in the dark, to take taxpayers' money and then misuse taxpayers' money for their own benefits.

We will have to find out who owns 800 Place Victoria in Montreal and we will have to ask the deputy minister why, with no justification, he overrode the recommendations of his own bureaucracy to tell the minister, “Why don't they stay where they are? Don't worry, the taxpayer isn't getting hosed and they're going to pick up the tab.” But somebody is going to come out of this with a lot of money.

I also noticed in another place, one of the other buildings, the same thing—was it Centennial Towers in Ottawa? No, it was Jean Edmonds Tower in Ottawa, where we have been a tenant since 1974—the sole tenant—and we haven't bought the place. We could have bought it for a song in 1974 and yet we're still paying rent because we passed over lease purchase options.

Would you agree that the whole leasing issue and ownership and management of property in Public Works needs a serious look by the public accounts committee?

Ms. Sheila Fraser: I'm not sure that Mr. Williams really expects an answer to all of that, but I would say it would be probably very worthwhile to have a hearing on this chapter, yes.

The Chair: That decision will of course be made by the steering committee.

I thank you very much, Mr. Williams.

I have a few areas, Ms. Fraser, that I want to cover. I want to ask you about your supplemental report, which deals with government allocations, Parliament oversight. This of course is the very heart of why we're here. If we are getting inaccurate information presented to us, that really is a very, very serious situation.

I have read your report. I have read the response from the Treasury Board Secretariat. It seems to me we're dealing with a difference of interpretation. I see three possible scenarios. If you're right, we're dealing with a situation about which the Treasury Board Secretariat, the Canada Firearms Centre, and the Comptroller General are wrong and they are in violation of the Financial Administration Act and Treasury Board guidelines. It has always been my position that if any public service in Ottawa violates some of these acts on purpose, they should be fired. That's been my view, and I hold that strongly.

The second possible scenario could be that we are dealing with an honest dispute as to the actual interpretation of how the financing is handled. I would never want to see a situation in which a departmental accountant deals with an issue in a certain way and then it's subsequently overruled by your department and that accountant's career is compromised or terminated because of that.

We wouldn't want to see that situation. You know that even in private practice and as the Auditor General, there are disputes as to interpretation.

Of course, the third scenario—I dread to suggest it—is they could be right and you could be wrong, but I don't think that's the case, because you put a lot of work and effort into your report, obviously, after the fact.

Do you have anything to add as to what exactly we're dealing with here?

• (1350)

Ms. Sheila Fraser: I would agree with you. We obviously believe this is a very significant issue, or we wouldn't have issued this report.

The Chair: It is a significant issue.

Ms. Sheila Fraser: We believe the policies and the Financial Administration Act are absolutely clear on how this transaction and these costs should have been reported.

Government arrived at a different conclusion. They can say this is their interpretation based on a legal opinion, but of course they won't disclose publicly what the legal opinion is, so we have tried to take the arguments they have given us and have shown why, in the case of each of the arguments, it doesn't hold water for us.

We also see indications, as we note in the report, that even after the decision was made not to request supplementary estimates, there was still disagreement within government as to how the accounting should have occurred.

So I don't think government itself was totally in agreement on this issue. A decision was taken, and we believe the accounting and the subsequent effects were incorrect.

The Chair: Mr. Kasurak.

Mr. Peter Kasurak: Let me add to this that we also didn't see any subsequent change in the government's application of its conclusions about this case to any other case. That once again tends to cloud the issue, from our point of view.

The Chair: Again I can't speak for the steering committee, but I hope we have those officials come before this committee to answer those specific questions.

The second area I want a comment on is following up on Mr. Christopherson's comment dealing with the Department of Indian Affairs and Northern Development. They have been before this committee on many occasions. There have been a lot of problems, I would suggest, over the years, and they don't seem to be getting any better.

One of the biggest problems this committee has found, and we've made it part of our recommendation, is the turnover in the deputies. I think they've had about five deputies in the last eight years, and even the last deputy just seemed to be getting going in the department. I heard last week that the government has taken the deputy who's there, after about a year and three quarters or a two-year tenure, and moved him to Environment, and they have moved in someone who has never been a deputy in Ottawa before and has had no experience with Indian Affairs and Northern Development. Obviously he's now getting briefed and is finding out where the washrooms are, and this is going to take a six- or eight-month period. He's going to come before this committee to talk about the wonderful things he's going to do, so I just see the whole cycle repeating itself.

Do you have any comment? You've lived through this over the last five years, Ms. Fraser, but do you have any comments? This is not the way the private sector would operate their businesses. Do you have any comment as to how this evolution of deputies compromises the effective administration of a department?

Ms. Sheila Fraser: We note in the report, when we look at the critical factors for success in implementing recommendations, that one of them—I think the first one we mention, in fact—is sustained management attention; that it takes a clear commitment from senior management to work on these issues.

It's probably a personal opinion, but I would say the Department of Indian and Northern Affairs is certainly one of the most complex departments in the Government of Canada. There are 630 first

nations spread across the country. The department is in fact almost like, and provides the services of many.... It's like the equivalent of a provincial government. It provides water, education, social programs, housing, economic development...the list goes on and on. It is an extraordinarily complex department. When you have senior management that is turning, I think it is a serious issue. It is no wonder, perhaps, that actions aren't sustained and that progress is difficult to achieve.

The Chair: Thank you very much, Ms. Fraser.

We're coming close to the end of our allotted time. Do you have any closing remarks you want to make, you or any of your officials?

Ms. Sheila Fraser: I'd just like to thank the committee for its interest in our reports, and I look forward to future hearings on the specific audits that are contained in this one.

The Chair: Before I close, I want to thank you, Ms. Fraser, and your officials.

Before you leave—this is for the members of the committee—we've been invited by the Auditor General and her staff for dinner at the parliamentary restaurant on Monday evening, May 29, at 6:30, so put that in your calendars. That's our first day back.

Before we adjourn, Members, there's a steering committee meeting afterwards, for Monsieur Nadeau, Mr. Christopherson, and Mr. Fitzpatrick.

The meeting is adjourned.

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