

2006



Report of the
**Auditor General
of Canada**
to the House of Commons

NOVEMBER

Matters of Special Importance—2006
Main Points—Chapters 1 to 12
Appendices



Office of the Auditor General of Canada

The November 2006 Report of the Auditor General of Canada comprises Matters of Special Importance—2006, Main Points—Chapters 1 to 12, Appendices, An Overview of the Federal Government's Expenditure Management System, and 12 chapters. The main table of contents for the Report is found at the end of this publication.

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Auditor General of Canada
Vérificatrice générale du Canada

To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my annual Report of 2006 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(3) of the *Auditor General Act*.

Sheila Fraser, FCA
Auditor General of Canada

OTTAWA, 28 November 2006

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**Matters of Special
Importance—2006**



Sheila Fraser, FCA
Auditor General of Canada

My Sixth Annual Report

I am pleased to present my sixth annual report to Parliament.

Among the issues discussed in this report are three in particular that I believe are of special importance to Parliament:

- the government's Expenditure Management System,
- specific instances of unethical behaviour that continued for an unacceptable length of time, and
- limitations placed on my access to information for audit purposes.

Expenditure Management System

Demands on government are unlimited, but the resources available to meet them are not. Governments must have some means of deciding how much they can afford to spend, what to spend it on, and how to get the best results for the money. The policies, processes, and practices the federal government follows to act on these questions constitute the Expenditure Management System (EMS). The Budget, the Estimates, and the Public Accounts (announcing the surplus or the deficit for the year) are the most visible elements of the government's EMS.

The EMS is at the heart of the operation of government. It touches everything the government does, since all government activities involve spending. A system that works well promotes efficient, responsive, and accountable government. Without a good system, nothing departments and agencies do individually will result in sound overall management of government spending. An effective EMS is essential to getting the results the government wants and to being accountable to Canadians for what is done on their behalf.

The government is reviewing its Expenditure Management System

The current Expenditure Management System was designed in the mid-1990s when, facing budget deficits, the government was trying to reduce its spending. Departments and agencies had to operate in a fiscal environment that restricted new funding as much as possible. However, a system suited to times of fiscal restraint is not necessarily the best one for periods of fiscal abundance—for example, a budget surplus. Changes in the scale and nature of government spending will call for corresponding changes in how spending is managed.

In the May 2006 Budget Plan the government announced its intention to review the EMS. Based on our examination of the EMS, there are some key areas where we have made recommendations that I encourage the government to consider.

The challenge function needs improvement

One key element of the system is the challenge and review of spending proposals. Currently, the system focuses on challenging new spending proposals and, in effect, ignores ongoing spending. The government does not systematically review and challenge ongoing programs to determine whether they are still relevant, efficient, and effective.

Instead, existing programs are reviewed usually when a government wants to cut spending. The three departments we discuss in Chapter 2, Expenditure Management System in Departments, have not developed the capacity to respond to reallocation requests from the centre of government. The lack of a systematic approach limits their ability to carry out this type of exercise effectively.

Even though new spending proposals are subject to review and challenge, the existing approval process does not ensure that decisions to fund the proposed initiatives are well informed. Under the current EMS, departments may seek Cabinet approval in principle for spending initiatives without specifying how the initiative will be funded or put into effect. Cabinet committees often approve proposals without this information.

The details on the design and implementation of proposed initiatives are included later, in the department's submission to the Treasury Board for its approval. At this stage, the Treasury Board Secretariat's review of these submissions has little impact on resource allocation, because the decision to fund the initiative has already been made. What is typically decided at the Treasury Board submission stage is how the allotted money will be spent, not how much should be allotted. This restricts the ability of the Treasury Board Secretariat to meaningfully challenge the departments' proposals.

Lack of alignment of funding may jeopardize program delivery

Another element of the EMS that I encourage the government to look at is whether the amount of funding allocated to a program, the length of the funding period, and the distribution of funding over that period (the funding profile) are aligned with what is needed to deliver the program and achieve its objectives.

In Chapter 2, Expenditure Management System in Departments, we discuss a number of alignment problems. For example, temporary funding may be allocated to a program whose objectives can be achieved only over the longer term. Another alignment problem occurs when the funds are not distributed over the period of funding in the amounts needed for each year of the program.

These alignment problems affect program delivery. For example, some programs are set up to fund multi-year projects, but they receive temporary funding; the officials running such a program do not know if there will be adequate funding for the next year. As a result, they may be uncertain that the program can provide continuing support to individuals and groups that rely on it. Related difficulties include recruiting and retaining staff when only temporary positions are available. The pressures caused by alignment problems may lead to short-term solutions that can jeopardize long-term objectives.

Increased use of Supplementary Estimates limits parliamentary scrutiny

A key element of the EMS is the Main Estimates, which support the government's annual request to Parliament for authorization to spend money. In addition to the Main Estimates, Supplementary Estimates are usually presented twice during the year—in the fall and again toward the end of the fiscal year.

Since 1997, the proportion of spending proposals made through Supplementary Estimates, rather than through the Main Estimates, has increased significantly. While Supplementary Estimates are necessary in certain circumstances, I am concerned by their routine use for spending that could be proposed in the Main Estimates. What is troubling about the increased reliance on Supplementary Estimates is that it limits parliamentarians' opportunity to examine the full range of proposed government spending.

I am also concerned about the approval of Supplementary Estimates late in the fiscal year. Departments start to spend on programs and initiatives and charge the expenditures against the existing appropriations by "cash managing" until the Supplementary Estimates are approved. This puts program spending at risk, because Parliament could reduce or reject the Supplementary Estimates. It also undermines parliamentary control of government spending because the money is spent before Parliament has examined and approved the spending proposal.

I encourage the government to consider these issues in any plans it develops as a result of its own review.

Standards of ethical behaviour have been breached

While a strong expenditure management system is essential to good financial management, good systems in themselves are not enough. They must be applied correctly and ethically, as the government has recognized in its *Values and Ethics Code for the Public Service*.

The Code states that public servants shall endeavour to ensure the proper, effective, and efficient use of public money. Further, “public servants shall act at all times in a manner that will bear the closest public scrutiny, an obligation that is not fully discharged by simply acting within the law.”

Unfortunately, in this report, I present a case in which a senior public servant has not met the expected standards of ethical behaviour. Chapter 11, Protection of Public Assets, details how a senior government appointee abused his position for substantial personal benefit.

To Canadians who may find these matters discouraging, I would say that, in my experience, the vast majority of the 350,000 public servants do adhere to the high standards expected of them. I therefore caution readers not to generalize isolated examples to the public service as a whole.

What particularly disturbs me about these cases is that while only a few individuals were behaving improperly, others knew about it and failed to act on that knowledge. Further, senior management knew or should have known what was going on, but took no action.

In Chapter 4, Proper Conduct of Public Business, we note the results of a survey indicating that 70 to 80 percent of employees in three public security agencies—the RCMP, Correctional Service Canada, and the Canada Border Services Agency—said they would report misconduct. However, they had significant doubts about their co-workers’ willingness to do the same. This same survey indicated that a high number of employees disagreed that public servants who report misconduct in the workplace are generally respected.

The survey further indicated that employees’ confidence in management support, peer support, and confidentiality for reporting wrongdoing ranges from moderate at the RCMP to low at Correctional Service Canada and the Canada Border Services Agency. Since this confidence is an important factor in an employee’s willingness to report misconduct, these results are troubling.

Continued emphasis on ethics and values training is important to ensure that public servants are aware of their responsibilities, both of acting within the law, but more importantly as guardians of public trust.

Addressing this issue will take more than training. It will take visible, sustained commitment by senior management in each of their organizations to support the reporting of misconduct by assuring confidentiality and taking any action warranted. A lack of leadership by senior management can allow problems to grow and become persistent, leading to cynicism and mistrust.

Denial of access to information

Two chapters of this report note that we were unable to audit certain aspects of government operations managed by the Treasury Board Secretariat, because we were denied access to information we needed.

I consider our access to information a very serious matter and essential to meeting the standards necessary to comply with my statutory reporting duties to Parliament. In turn, Parliament's ability to hold the government to account for its stewardship of public funds depends on obtaining all the relevant information. The *Auditor General Act* requires that when access to documents or information is denied, I must inform Parliament.

My right of access to information, documents, and individuals to fulfill my audit responsibilities is entrenched in legislation, specifically section 13(1) of the *Auditor General Act*. This section provides that my right of access to information cannot be restricted except by a specific statutory provision to the contrary. The Act also clearly indicates that it is the auditors who determine what information they need to conduct and complete their audits and examinations.

The two audits for which we were denied access to information concerned the Expenditure Management System at the government centre and large information technology projects. In these audits we attempted to determine whether the Treasury Board Secretariat had adequately fulfilled its challenge and oversight responsibilities. In both audits, we were denied access to the analyses conducted by the Treasury Board Secretariat on the basis that they were Cabinet confidences of a type that is excluded from our right to access.

We appreciate the importance, in our system of government, of maintaining the confidentiality of free and frank Cabinet discussions. Since 1986, successive governments have provided us with access to

certain Cabinet confidences under the authority of an order-in-council dated December 1985. By this order, we can review Treasury Board submissions and decisions, decisions of the whole Cabinet, and certain explanations and analyses of problems or policy options contained in a memorandum or discussion paper presented to the Cabinet.

Since the completion of these two audits, officials from my Office and I have had numerous discussions on this matter with government officials. Our discussions have led to a mutually satisfactory resolution, reflected in a new order-in-council issued 6 November 2006 that clarifies my access to key information—in particular, the analyses performed by Secretariat officials from February 2006 onward. At the same time, the new order-in-council continues to respect the constitutional convention of confidentiality of Cabinet discussions. We recognize that our access to Cabinet confidences does not change their essential nature, and we are very careful in the way we treat this information.

Another aspect of this constitutional convention requires maintaining the confidentiality of the Cabinet papers of a previous ministry. Ministers of one government are not entitled to examine or release the Cabinet documents of a predecessor government, unless permission is given by the previous ministry. Accordingly, my access to Cabinet confidences that were created prior to February 2006 will continue to be governed by the 1985 order-in-council. Because the nature of our audits is to look back over time, it is possible that I may encounter similar problems in future audits. Should this situation arise, I would again report to Parliament a denial of access to information necessary to audit government activities and spending.

Nonetheless, with the new order-in-council, the government has clearly acknowledged my need for access to the analysis performed by the Treasury Board Secretariat.

I thank the government for responding to our concerns and for the resolution of this issue by the new order-in-council.

Conclusion

This year has proven to be another challenging and rewarding year. I would like to thank parliamentarians for their continued confidence in, and support for, our work. I look forward to continuing to work with parliamentary committees as they review the results of our audits. I would also like to recognize the enthusiasm and dedication of the staff of my Office, who make these reports possible.



Main Points—Chapters 1 to 12



Expenditure Management System at the Government Centre

Chapter 1 Main Points

What we examined

The Treasury Board Secretariat, the Department of Finance, and the Privy Council Office (“central agencies” of the federal government) have key roles and responsibilities in the government’s Expenditure Management System (EMS). These include providing Cabinet with information to support spending allocation decisions and monitoring spending to ensure that it complies with authority and achieves the intended results. We examined the processes and procedures used by the central agencies to carry out their roles in the management of government spending. The main focus of the audit was the Treasury Board Secretariat, given its central role in the overall management of government resources.

However, we could not fully audit how the Treasury Board Secretariat reviews and challenges new spending proposals submitted to the Treasury Board. The Secretariat denied us access to the information and analysis it collects and prepares, citing Cabinet confidence of a type that cannot be disclosed to us. The government has effectively imposed a limitation on the scope of the Auditor General’s examination.

Why it’s important

The EMS is at the heart of government operations. The processes and procedures by which the central agencies of government support Cabinet in allocating and managing government spending are key components of the EMS. They are designed to help align resources with priorities, oversee spending, and establish the policies that departments will follow to manage and deliver their programs.

A sound and effective system for managing spending is central to the government’s ability to carry out its fiscal responsibilities, fund its programs, control spending, and report financial and performance information to Parliament and the public. A system that works well promotes efficient, responsive, and accountable government. Without a good system, nothing that individual departments and agencies can do will result in sound overall management of government spending.

What we found

- Spending levels for existing programs and for new spending initiatives are approved on two separate tracks, making comparisons difficult. Spending on ongoing programs normally continues as a matter of course; new spending proposals are ranked among themselves without reference to existing programs. As a result, potential trade-offs and reallocation of resources between existing and new programs are not normally considered, except through ad hoc reviews of programs.
- The annual update of reference spending levels for ongoing programs is primarily a technical exercise that incorporates new spending approvals and adjustments for certain cost changes. It is not designed to review whether existing programs are still relevant, efficient, and effective.
- Under the current process, in effect since the late 1990s, departments may submit for Cabinet approval their proposals for new spending without specifying how the spending will be funded or put into effect. Cabinet committees therefore often approve spending initiatives without having this information before them. It is the Prime Minister and the Minister of Finance who subsequently decide on the funding of those initiatives. Details on program design and implementation are decided at the Treasury Board submission stage. The opportunity to affect spending levels at that stage is limited, however, because allocation decisions have already been made.
- The Expenditure Management System is not fully integrated with performance results. The current EMS does not require that departments submit data to demonstrate that they have used their funding effectively. The Treasury Board Secretariat has a limited capacity to monitor departments' compliance with the conditions and allotments imposed by the Treasury Board.

The government has responded. The Treasury Board Secretariat, the Department of Finance, and the Privy Council Office are in general agreement with our recommendations. Their detailed response follows each recommendation throughout the chapter. The government's overall response, included at the end of the chapter, indicates that the findings are generally consistent with its view of the present Expenditure Management System.



Expenditure Management System in Departments

Chapter 2 Main Points

What we examined

In the federal government, departments decide on the mix of resources that is appropriate to deliver programs efficiently and effectively within the amounts voted by Parliament and the policies issued by the Treasury Board.

We examined the Expenditure Management System in three selected departments: Agriculture and Agri-Food Canada, Canadian Heritage, and Public Works and Government Services Canada. We also carried out a survey of officials in ten other departments. We examined selected programs to determine whether the program managers had adequate funding over a long enough timeframe to deliver the program. We examined how departments reallocate resources—specifically, how they respond to central expenditure review—and how they comply with conditions set by the Treasury Board for funding. We also examined whether the Treasury Board Secretariat provides clear guidance on the use of Supplementary Estimates, whether departments follow the guidance, and how departments use the Supplementary Estimates process.

Why it's important

The Expenditure Management System touches everything the government does, since all government activities involve spending. A sound and effective system for managing spending is central to the government's ability to carry out its fiscal responsibilities, fund its programs, control spending, and report financial and performance information to Parliament and the public. A system that works well promotes efficient, responsible, and accountable government. Without a good system, nothing that individual departments and agencies can do will result in sound overall management of government spending.

Departments play a key role in the Expenditure Management System, with primary responsibility for managing the resources allocated to them and achieving the results expected of their programs.

What we found

- In the programs we looked at there were significant examples of funding that was not adequately aligned with what was needed to deliver the programs and achieve their objectives, in terms of the

amounts allocated, timeframes, and funding profiles (the distribution of funding over a period of time). This affected how the programs were delivered, including their ability to recruit and retain staff. Alignment problems and pressures of the annual appropriations process also led departments to rely on cumbersome ad hoc measures to meet spending commitments.

- The capacity to respond to some elements of government-wide reallocation exercises was insufficient in the three departments we examined. In the case of the 2004 Expenditure Review Committee exercise, they responded largely with financial information that was not adequately combined with information on performance. The lack of a systematic government approach to central expenditure reviews is an underlying cause of these problems.
- In recent years, an increasing proportion of spending items has appeared in Supplementary Estimates rather than in Main Estimates. This limits parliamentarians' opportunity to scrutinize the full range of proposed government spending. The Treasury Board Secretariat has recognized the need to consolidate spending items in the Main Estimates. However, little has been done to reduce departments' reliance on Supplementary Estimates. In addition, departments start to spend on items in the Supplementary Estimates using existing authorities but before Parliament has voted on the Estimates. This practice undermines parliamentary control of government spending and exposes program funding to the risk that Parliament might reduce or reject the Supplementary Estimates.

The government has responded. The government considers that the issues raised in the chapter are generally consistent with those that a new Expenditure Management System should address, including the objective of reducing the use of Supplementary Estimates. It is reviewing the issue of alignment in order to identify areas of improvement, and agrees with the need to redesign the process for central expenditure review.



Large Information Technology Projects

Chapter 3 Main Points

What we examined

The many large information technology projects now under way across the federal government are no longer only about introducing new computer hardware, software, or systems. They are meant to help departments change the way they do business—for example, by introducing new processes and modernizing work practices.

We examined a sample of seven large IT projects from four perspectives:

- **Governance.** Did the processes used by the government to approve and manage large IT projects increase the project's likelihood of success?
- **Business case.** Did the department or agency proposing the project clearly define the business needs it expected the project to meet?
- **Organizational capacity.** Did the department have people with the needed skills and experience to manage a large IT project and did the organization have the ability to use all of a system's capabilities to improve the way it does business?
- **Project management.** Did the department follow accepted best practices in managing the project?

We also attempted to examine the role the Treasury Board Secretariat played in the challenge and oversight of these large information technology projects. However, we could not audit this role because we were denied access to most of the information and analysis it collects and prepares. The government has effectively imposed a limitation on the scope of the Auditor General's examination.

Why it's important

Few departments today can deliver their business without the support of their IT. Governments must deliver successful IT projects if they are to provide their services to the public economically, efficiently, and effectively. Large IT projects are becoming more complex than ever and often involve a growing number of players across government.

In the last three years, the federal government has approved funding of \$8.7 billion dollars for new business projects with significant use of IT.

Despite their importance to departments, large IT projects have had a history of overspending, delays, performance shortfalls, and abandonment after major investments. Understanding why some projects have succeeded while others have failed would better position the government to plan and manage IT projects for success, maximizing the benefits of its investment in information technology by giving departments effective tools for delivering services.

What we found

- Only two of the seven projects we looked at: the 2006 Census Online and My Account, My Business Account projects met all of our audit criteria for well-managed projects.
- Overall, the government has made limited progress since our last audit of IT projects in 1997. Although since 1998 the Treasury Board Secretariat has established a framework of best practices for managing IT projects, many of the problems we cited in past reports have persisted.
- The quality of governance varied widely from project to project. In four of the seven projects we found that governance responsibilities were not carried out adequately because key issues that impacted project performance were either not reported or not resolved.
- Five of the seven projects we looked at were allowed to proceed with a business case that was incomplete or out-of-date or contained information that could not be supported.
- Four of the projects were undertaken by departments that lacked the appropriate skills and experience to manage the projects or the capacity to use the system to improve the way they deliver their programs.
- Depending on the project, the quality of project management ranged from good to seriously flawed. In two cases, poor project management led to long delays and large cost overruns.

The government has responded. The Treasury Board Secretariat, on behalf of the government and the federal organizations we audited, agrees with all of our recommendations. In its responses, the Secretariat describes the actions they will take to address the recommendations.



Proper Conduct of Public Business

Public Safety and Emergency Preparedness Agencies

Chapter 4 Main Points

What we examined

When public business is conducted properly, public servants comply with laws and policies and use public funds and other assets entrusted to them to benefit the public and not themselves.

We examined key aspects of the proper conduct of public business in three agencies: the Royal Canadian Mounted Police (RCMP), Correctional Service Canada, and the Canada Border Services Agency. We looked at whether each agency has values and ethics programs that promote good behaviour and has internal disclosure (or “whistle-blowing”) policies that support the reporting of wrongdoing. We also examined the role that internal audit plays in verifying compliance with laws, policies, and regulations.

We looked at three areas where we believe a risk of abuse is present—contracting, use of acquisition (credit) cards, and use of overtime and leave.

We did not look at issues such as the use of excessive force, harassment, or security breaches.

Why it’s important

Misuse and abuse of public resources has become a major concern to Parliament and to Canadians in general. Over the last five years, the federal government has made a major investment in values and ethics programs, has introduced whistle-blower legislation in Parliament, and has begun strengthening internal audit in departments and agencies.

The three public safety agencies we audited employ a total of about 40,000 public servants and spend a total of about \$5.6 billion each year, making them a significant factor in the conduct of the federal government overall.

What we found

- Although the two-year-old Canada Border Services Agency is still developing its programs, all three agencies generally have in place programs of values and ethics, internal disclosure, and internal audit. However, only about 20 percent of employees report having received training in values and ethics. Our survey of 400 non-management

employees in the three agencies showed that no more than half are familiar with agency values and ethics programs.

- Our analysis found that having programs in place is not enough alone to encourage employees to report wrongdoing by colleagues. They also need to know that management will follow up on their reports and will preserve their confidentiality, and that their peers will continue to respect them. While 70 to 80 percent of employees said they themselves would report misconduct, they had significant doubts about their co-workers' willingness to do so. The extent to which management was perceived to take reports of wrongdoing seriously and investigate them ranged from 60 percent at the RCMP to a low of 45 percent at the Border Services Agency.
- We found few cases of abuse of leave in order to generate excessive overtime.
- We found that all three agencies had improperly sole-sourced contracts, to the detriment of fairness and equal access—two principles that government agencies are required to apply in the proper conduct of their contracting activities. The Canada Border Services Agency and Correctional Service Canada did not have adequate quality assurance practices in place for contracting activities.
- We found outright abuse of acquisition cards in only a small number of cases. Nevertheless, the RCMP and the Canada Border Services Agency had high levels of non-compliance with the rules. We also found that purchase limits had been exceeded, and purchases were sometimes split into two bills to evade controls. There was poor control at all three agencies, with individuals allowed to verify their own purchases and documentation frequently lacking. The Treasury Board's policy explicitly forbids the use of acquisition cards for vehicle operations and maintenance, but the Treasury Board Secretariat has allowed it in practice. This has led to a "grey area" in how agencies view the rules and has reduced value for money in some cases.

The agencies have responded. The agencies generally agreed with our findings and most recommendations.



Relocating Members of the Canadian Forces, RCMP, and Federal Public Service

Chapter 5 Main Points

What we examined

The Integrated Relocation Program was designed to improve the quality of life of transferred members of the Canadian Forces, the RCMP, and the federal public service. It does this by providing flexible relocation benefits and reimbursing reasonable relocation expenses. We examined how the government awarded the current contracts. We looked at each stage of the process to determine whether government contracting policies and regulations had been respected. We also examined the extent to which the Treasury Board Secretariat and the departments involved had established appropriate measures of the contracts' performance.

While this chapter includes the names of various contractors, it must be noted that our conclusions about management practices and actions refer only to those of government departments. The rules and regulations we refer to are those that apply to public servants; they do not apply to contractors. We did not audit the records of the private sector contractors. Consequently, our conclusions cannot and do not pertain to any practices that contractors followed. We did not assess individual expense claims made by relocated employees or activities related to the moving of household goods.

We conducted our audit in response to a November 2005 request by the Public Accounts Committee.

Why it's important

The relocation program handles about 15,000 relocations a year across the government, the RCMP, and the Canadian Forces, at a cost of about \$272 million in 2005.

The government has said that the purpose of the relocation program is to improve the quality of life for transferred employees and reduce the detrimental effects of relocation on departmental operations. Knowing how to gauge the program's success at meeting these goals is important for the government in a contract of this size. Ensuring that the public servants involved in awarding the contract have diligently followed the rules and applied the principles of fairness and transparency is vital to the credibility of the government's procurement process.

What we found

- We have concluded for two reasons that the contracts were not tendered in a fair and equitable manner. First, some of the business volumes incorporated into the request for proposal by the Treasury Board Secretariat, the Canadian Forces, and the RCMP contained materially incorrect information. Second, although PWGSC followed its established processes, these steps were not sufficient—particularly when concerns had been raised—to offset an unfair advantage the incumbent bidder had attained through its work on a prior contract and to ensure that all bidders in the tendering process had access to correct and complete information.
- Except for an inappropriate comparison of bids during the evaluation process, the evaluation of the technical portion of the bids was conducted in accordance with the Treasury Board Contracting Policy.
- Neither the Treasury Board Secretariat nor departments have developed performance measures to demonstrate whether the Integrated Relocation Program is achieving its objectives or has realized any cost savings.
- National Defence has not established adequate controls to ensure that amounts reimbursed to the contractor for relocation services provided to transferred Canadian Forces members represent valid payments and are consistent with the relocation policy.
- Members of the Canadian Forces have been charged amounts for property management services in excess of rates established in the contract.

The Treasury Board Secretariat and the departments have responded. The Treasury Board Secretariat, the RCMP, National Defence (Canadian Forces), and Public Works and Government Services Canada have agreed with our recommendations. Their detailed responses follow the recommendations in the chapter.



Old Age Security

Human Resources and Social Development Canada and Service Canada

Chapter 6 Main Points

What we examined

The Old Age Security program pays three benefits to seniors, each with its own eligibility conditions—the Old Age Security (OAS) pension, the Guaranteed Income Supplement (GIS), and the Allowance. Human Resources and Social Development Canada and Service Canada manage the program. We examined whether these organizations provide adequate access to program benefits, have reasonable assurance that correct benefits are paid to eligible beneficiaries, and record and collect overpayments in accordance with legislation and policy.

The reporting of the audit, originally scheduled for April 2006, was deferred because of changes to the parliamentary calendar as a result of the federal election. To update our observations, in August 2006 we obtained information from both organizations on any action they may have taken to address the observations and recommendations in this chapter. We have provided that information under **Subsequent events**.

Why it's important

The Old Age Security program provides a basic income for its beneficiaries, many of whom have little other income. The number of beneficiaries is expected to double in the next 25 years. It is important that the program be managed in such a way that everyone who is entitled to benefits is able to apply for and receive them.

More than 4 million people receive OAS benefits amounting to a total of about \$28 billion each year—14 percent of the federal government's total yearly spending. With so many current beneficiaries and still more to come in the future, errors that affect even a small proportion of clients or payments can involve relatively large numbers of individuals or large amounts of money. To demonstrate good stewardship of public funds, those who deliver the program need to understand and manage the risks involved.

What we found

- Human Resources and Social Development Canada and Service Canada have improved seniors' access to program benefits by simplifying the application process and by implementing initiatives to

increase the take-up of GIS. However, the organizations lack adequate information on these and other aspects of their service to clients, and do not give Parliament a complete picture of program performance.

- Quality reviews by Service Canada staff in processing centres, as well as our own testing, suggest that errors in establishing monthly payment amounts at the time of application occur at relatively low rates. However, because payment accuracy is not measured systematically, there is no assurance that this will be sustained. Moreover, the quality of application processing is not monitored adequately, and quality deficiencies occur at significantly varying rates from one quality review to another. Quality deficiencies—failures to follow processing policies and procedures—can lead to payment errors. Practices for updating accounts and assessing continuing eligibility are also not consistent from one processing centre to another.
- Human Resources and Social Development Canada and Service Canada do not have the consolidated information they need to properly manage overpayments. They lack a consistent approach to collecting overpayments across all processing centres. Further, the two organizations do not charge interest on OAS overpayments, despite a legislative requirement to do so.
- Information provided in August 2006 by Human Resources and Social Development Canada and Service Canada indicates that they have begun action to strengthen their management of the OAS program. They indicated that, by the end of 2007, they will have collected and reported improved information on client satisfaction and services, implemented a national quality review system, and improved information on overpayments. They also plan to issue a revised policy on managing overpayments.

Human Resources and Social Development Canada and Service Canada have responded. Human Resources and Social Development Canada and Service Canada have agreed with each of our recommendations and have committed to take action. Their responses are included throughout the chapter.



Federal Participation in the British Columbia Treaty Process

Indian and Northern Affairs Canada

Chapter 7 Main Points

What we examined

The British Columbia treaty process is intended to reconcile claimed Aboriginal rights and title to land with the Crown's assertion of sovereignty. The resulting treaties are aimed at settling uncertainty about the use, management, and regulation of land and resources and the laws that apply to the land and the people. Indian and Northern Affairs Canada (INAC) represents the federal government in the B.C. treaty negotiations. First Nations (individual communities or groups) and the Province of British Columbia are the two other parties in these negotiations.

We examined INAC's participation in the treaty process and the results of its activities. We looked at the management procedures and processes and the resources used to develop and implement federal policies that apply to treaty negotiations; our audit also covered, where relevant, support provided to the treaty process by other federal departments. We interviewed officials of INAC and of other departments and reviewed relevant files and documents; we also sought the views of First Nations communities and organizations and of the British Columbia Treaty Commission.

Why it's important

From 1993 to 2006 the federal government has spent about \$426 million on B.C. treaty negotiations, and B.C. First Nations have borrowed close to \$300 million for the same purpose. To date, no treaties have been signed under the B.C. treaty process, although two final agreements are seen as imminent, with a third close behind. The costs to Canada and First Nations for negotiations continue to grow.

Settling the uncertainty associated with unresolved land claims in British Columbia is important for all Canadians. It can help First Nations people living in B.C. narrow the gap between their standard of living and that of other British Columbians. In addition, studies have indicated that this uncertainty results in lost economic opportunities.

What we found

- While some treaties are expected to be signed in the near future, most negotiations are either inactive or are making limited progress. Moreover, about 40 percent of First Nations (*Indian Act* bands) are not participating in the treaty process, and there is a growing number of activities outside the process that are being used to deal with questions related to Aboriginal rights and title.
- Although the policy process has been able to respond to some issues raised during negotiations, several other issues remain to be addressed. For example, due to changes in the legal environment, dealing with overlapping claims may make concluding treaties more complex.
- In 1991 the federal government expected that all land claims in B.C. would be resolved by the year 2000. As of 2006, no treaties have been signed under the B.C. treaty process and INAC does not have the management systems in place to be able to estimate how much time and what resources will still be needed to negotiate treaties with First Nations and groups presently in the process.

The Department has responded. Indian and Northern Affairs Canada has accepted all of the Auditor General's recommendations and has committed to take action. The Department's responses follow the recommendations throughout the chapter.



Allocating Funds to Regulatory Programs

Health Canada

Chapter 8 Main Points

What we examined

Health Canada is responsible for regulating the safety and use of a wide range of items that Canadians commonly use. We examined both the process by which Health Canada decides what resources to allocate to each of its branches and the information used as the basis for resource allocation. We looked in particular at how branches allocate resources to three regulatory programs: product safety, drug products, and medical devices. We examined the impact of the Department's resource allocation process on its ability to carry out its regulatory responsibilities in these areas. The audit focused on fiscal years 2003–04 and 2004–05.

Why it's important

When Canadians use products regulated by Health Canada—whether household products such as cribs, medical devices such as blood test kits, or prescription drugs—they expect that as long as they follow directions, the product will be safe to use. Programs that regulate these products need enough resources to ensure that Canadians are adequately protected from risks to their health and safety. Health Canada, as a regulator, needs to be able to demonstrate that it is fully meeting its regulatory responsibilities.

What we found

- Program managers have indicated to branch management that some core compliance and enforcement activities are insufficient to protect Canadians' health and safety. While the total funding allocated to two of the three audited programs has remained constant, all three programs audited received less funding for core activities in 2005–06 than in 2003–04. Meanwhile, the complexity of programs and the growing demands on programs could significantly affect Health Canada's ability to meet its regulatory responsibilities.
- Health Canada has not set performance targets for all of the compliance and enforcement activities of the programs we audited. It has not determined the level of activities the programs must carry out to meet the Department's regulatory responsibilities, or the level of resources they would need to do so. Therefore, it does not know if it is fully meeting its responsibilities as the regulator of drug products, medical devices, and product safety.

- Program managers do not always have complete information to decide on how best to allocate their resources. There is limited information on the required level of program performance and the funding needed for the programs to meet its legislative requirements. There is also limited information on the results achieved for the funding received by the programs. This makes it difficult for program managers to determine the level of funding each activity needs if it is to provide Canadians with the appropriate level of protection.
- In the absence of a baseline, program managers use their experience and knowledge of their programs to report to branch management on funding shortfalls and unfulfilled regulatory responsibilities. Furthermore, the Departmental Executive Committee does not routinely receive information on how well Health Canada is fulfilling its core role as regulator, even though the Committee is the only group in Health Canada that can address cross-branch funding issues.
- Health Canada is taking steps to improve its resource allocation process. The Department has redesigned the operational planning process that will be implemented in 2006–07. This is intended to standardize the process, document decisions, and communicate to senior management the expected results based on the funding approved.

Health Canada has responded. Health Canada agrees with our recommendations. Its detailed responses follow the recommendations throughout the chapter.



Pension and Insurance Administration

Royal Canadian Mounted Police

Chapter 9 Main Points

What we examined

In 2003, allegations of fraud and abuse in the management of the Royal Canadian Mounted Police's pension and insurance plans triggered an internal audit, which was followed by a criminal investigation by the Ottawa Police Service (OPS). In June 2005, the OPS announced that its 15-month investigation had found abuses of the pension and insurance plans, nepotism, wasteful spending, and override of controls by management. Significant unnecessary or wasteful expenditures resulted, including money spent for work of little value. The Crown counsel advised that there was "no reasonable prospect of conviction on criminal charges". However, two senior officials of the Royal Canadian Mounted Police (RCMP) resigned, and the RCMP considered disciplinary action against others.

We examined whether the RCMP has responded adequately to the findings of the internal audit and the criminal investigation. We examined certain amounts spent on pension and insurance administration. We also examined additional allegations that were brought to our attention during the course of our audit. Finally, we looked at whether the OPS investigation was independent of, and conducted without undue direction or bias by, the RCMP.

While this chapter refers to certain organizations outside the Government of Canada, it must be noted that our conclusions about management practices and actions refer only to those of public servants. We did not audit the records of the external organizations. Consequently, our conclusions cannot and do not pertain to any practices that they followed.

The RCMP pension plan is separate from the Public Service pension plan. It is governed by the *RCMP Superannuation Act* and provides pension benefits to all employees classified as regular or civilian members of the RCMP. The RCMP is responsible for both the management of the plan and the preparation of its financial statements. The Pension Fund, created in April 2000, along with the RCMP Superannuation Account, had a total balance of \$12.3 billion

at the time of our audit. It costs the RCMP from \$6 million to \$14 million a year for pension administration.

The RCMP also provides group life and disability insurance benefits to its regular and civilian members, based to a large extent on members' contributions. The various insurance plans have roughly \$30 million on deposit and cost a little over \$2 million a year for the RCMP to administer.

Why it's important

RCMP members serve and provide their contributions with the expectation of receiving pension benefits upon retirement in accordance with the *RCMP Superannuation Act*. In addition, insurance contributions represent an investment by members in their future financial security. RCMP plan administrators have an obligation to manage the plans with due diligence, in good faith and in accordance with public service ethics and values. Sound staffing and contracting controls and corporate oversight of senior officials' actions are essential to ensuring that these obligations are met.

What we found

- The RCMP responded adequately to its internal audit and the OPS investigation, but there are still matters that remain unresolved.
- The OPS told us that its investigation was not directed or influenced in any way by the RCMP. The Ottawa Police investigators had direct access to their own senior management and to Crown counsel throughout the investigation. However, the terms of reference for the investigation stated that the lead OPS investigator on the case reported directly to an assistant commissioner of the RCMP. This did not give the investigation an appearance of independence. We found that the RCMP does not have an established policy for ensuring that external investigations of its actions at its request are performed, and are seen to be performed, in an independent and unbiased manner.
- The RCMP reimbursed or credited about \$3.4 million to the pension plan for expenses charged to the plans improperly, and it has taken measures to prevent inappropriate charges in the future. It has also taken steps to strengthen controls over staffing, contracting, and review of business cases and information provided to the Treasury Board.
- An estimated \$1.3 million was charged to the pension and insurance plans to pay for commissions or products that provided little or no value, and for excessive payments to employees' friends and family members hired as temporary staff. The pension plan has been reimbursed or credited \$270,280 of those unnecessary or wasteful expenditures.

- Even though an RCMP disciplinary investigation found that proceeding with disciplinary action was warranted against four of its regular and civilian members, the RCMP decided not to take action as too much time had elapsed.

The RCMP has responded. The Royal Canadian Mounted Police has agreed with each of our recommendations and is in the process of taking corrective action.



Award and Management of a Health Benefits Contract

Public Works and Government Services Canada and Health Canada

Chapter 10 Main Points

What we examined

Health Canada is responsible for providing non-insured health benefits such as drugs and medical supplies to eligible First Nations people and Inuit. In 1997, Public Works and Government Services Canada (PWGSC) awarded a contract to First Canadian Health Management Corporation Inc. to provide claim processing services for Health Canada's Non-Insured Health Benefits (NIHB) program. We looked at whether PWGSC complied with the government's contracting policy when it awarded the contract and whether Health Canada exercised adequate control over public funds spent on the program.

We did not audit claimants' eligibility for the program because we had concluded in an earlier audit (November 2004 Report, Chapter 4, Management of Federal Drug Benefit Programs) that Health Canada had an adequate process to confirm the eligibility of clients and the validity of the drug benefits before approving payments. During that audit, the government's contract with First Canadian Health Management Corporation Inc. came to our attention and we decided to audit the contract the following year.

The reporting of this audit, originally scheduled for April 2006, was deferred because of changes in the parliamentary calendar as a result of the federal election. To update our observations, in August 2006 we obtained information from both organizations on any action they may have taken to address the observations and recommendations in this chapter. We have provided that information at the end of the chapter under **Subsequent Events**.

Our conclusions about contract management practices and actions refer only to public servants and not to any actions by the contractor. The rules and regulations we refer to apply to public servants; they do not apply to contractors. We did not audit the records of the contractor.

Why it's important

From the start of the contract in 1998 until January 2006, Health Canada spent about \$104 million on fees to process claims for about \$2.6 billion worth of drugs and dental and medical supplies and

equipment delivered to eligible First Nations people and Inuit. Given the importance of the goods and services being provided, as well as the cost of delivering them, it is essential that in contracting for these services, officials at PWGSC and Health Canada protect the interests of the Crown by ensuring that they comply with applicable acts and regulations, including sections 32, 33, and 34 of the *Financial Administration Act*. These sections ensure that the money to pay for the services is available (s 32), that the charge is lawful (s 33), and that the government received what it paid for (s 34).

What we found

- PWGSC could not demonstrate that any of the bidders for the contract had provided evidence of financial stability, even though it was one of the mandatory requirements. Therefore, PWGSC should not have awarded the contract to any of the bidders.
- From 1998 to January 2006, Health Canada did not comply with provisions of the *Financial Administration Act* by making payments of about \$2.6 billion to First Canadian Health Management Corporation Inc. (FCH) without the certification required under sections 33 and 34 of the Act.
- Between 1998 and 2003, Health Canada annually tracked payments made to FCH for processing claims. However, it did not track the payments cumulatively over the life of the contract, as section 32 of the *Financial Administration Act* requires. Although the services Health Canada paid for were delivered, payments exceeded the initial value of the contract by \$24 million. Since 2003, Health Canada has been tracking payments on a multi-year basis in compliance with section 32 of the Act.
- Our audit work to update our observations found that PWGSC and Health Canada have resolved the contract management issues raised in this chapter. Nonetheless, our mandate requires that we bring to Parliament's attention any matters whose nature and significance warrants it. We are reporting these issues because of their seriousness and the length of time during which some basic financial management controls relating to this contract were lacking.

The departments have responded. PWGSC and Health Canada responded positively to our recommendations and have taken corrective actions. Their responses are included in this chapter.



Protection of Public Assets

Office of the Correctional Investigator

Chapter 11 Main Points

What we examined

The Office of the Correctional Investigator (OCI) acts as an ombudsman for federal offenders. It investigates complaints of individual offenders and tries to resolve them by making recommendations to Correctional Service Canada.

We examined whether the former Correctional Investigator's and OCI managers' personal leave, absences, cash-out of annual leave (vacation leave), and travel and hospitality expense claims complied with the *Financial Administration Act* and applicable Treasury Board policies, and whether they were managed with prudence and probity. Further, we examined whether the OCI's human resources management practices complied with Public Service Commission policies and applicable Treasury Board policies and practices. Our audit covered the period from 1 April 1998 to 31 March 2004; however, some transactions relating to annual leave were examined back to an earlier date. The audit included current and former OCI employees at the executive level, as well as the former Correctional Investigator who headed the agency during the audited period.

We also examined whether Public Safety and Emergency Preparedness Canada (formerly the Department of the Solicitor General), in providing the OCI with financial and human resources services, complied with the *Financial Administration Act*, applicable Treasury Board policies and practices, and Public Service Commission policies. We examined whether the Treasury Board Secretariat, the Public Service Commission, and the Privy Council Office carried out adequate oversight of the OCI.

Why it's important

To maintain the public's trust and confidence in government, agency heads and senior management are required to discharge their responsibilities in accordance with the highest ethical standards of integrity, objectivity, and impartiality. Their conduct and their actions are expected to exemplify the values of the public service.

Appropriate comptrollership and management are essential in any federal organization to manage financial risks and protect against

fraud, financial negligence, violations of financial rules or principles, and losses of assets or public money.

What we found

- The former Correctional Investigator and head of the OCI, Mr. Ronald Stewart, committed serious abuses and wrongdoing, some of which resulted in substantial personal benefit. For example, he received improper payments in the form of unearned salary and reimbursement of travel and hospitality expenses unrelated to OCI business.
- The former Correctional Investigator did not report a single day of annual leave (vacation leave) for 14 years. He received payments for the full amount of his annual leave entitlements for 14 years. During the 6-year audit period, he was frequently absent from the OCI premises during business days without undertaking OCI business.
- Poor and inappropriate human resources management practices at the OCI had serious financial implications. For example, the former Correctional Investigator authorized improper payments to employees that were recorded as overtime.
- The Executive Director of the OCI was aware of some of the improper activities but took no action to stop them.
- Public Safety and Emergency Preparedness Canada did not challenge questionable expenditures and reimbursements, and problematic human resources classification and staffing practices approved by the former Correctional Investigator.
- The Privy Council Office and the Treasury Board Secretariat issued general guidance material to deputy heads (agency heads) and managers of departments and agencies, but did not carry out appropriate oversight of the OCI that could have enabled them to identify and stop the improper activities.

The organizations have responded. The organizations agreed with all of our recommendations. Detailed responses follow the recommendations throughout this chapter.



Role of Federally Appointed Board Members

Sustainable Development Technology Canada

Chapter 12 Main Points

What we examined

Sustainable Development Technology Canada (SDTC) is a not-for-profit foundation established by the federal government to support the development and demonstration of technologies related to climate change, clean air, clean soil, and clean water. The government has provided it with \$550 million under three successive funding agreements with Natural Resources Canada and Environment Canada.

In the third funding agreement, signed in March 2005, the government introduced a change that affected the role of those members of the SDTC Board of Directors who were federally appointed. This raised certain concerns about the governance of the Foundation, which we decided to examine.

Why it's important

In a “board-centred” model of governance, the board of directors is responsible for the supervision of the business and affairs of the organization. The government has acknowledged that federally appointed members of the boards of directors of foundations such as SDTC are obliged, like every other board member, to act in the best interests of the organization.

What we found

- Seven of the fifteen members of SDTC’s Board are appointed by the federal government. The government’s change to its funding agreement with the Foundation prevents the Board from making any decisions in a meeting where a majority of members present are government appointees. To resolve this problem, the Board passed a by-law providing for a subsequent vote by the other board members, but directors told us that the process is inefficient and hampers the Board’s ability to operate. Given that the Board generally meets only four times a year, the change in the funding agreement makes it difficult for the Board to govern the Foundation’s affairs.
- The government’s change in the funding agreement interfered with the ability of federally appointed directors to carry out their duties.

The government has responded. Natural Resources Canada and Environment Canada agreed with our recommendation on behalf of the government. They have undertaken consultations with the Treasury Board Secretariat and the Privy Council Office regarding restrictions on the participation of federal appointees on the SDTC Board.



Appendices

Appendix A Auditor General Act

	Short Title
Short title	1. This Act may be cited as the <i>Auditor General Act</i> .
	Interpretation
Definitions	2. In this Act,
“appropriate Minister”	“appropriate Minister” has the meaning assigned by section 2 of the <i>Financial Administration Act</i> ;
“Auditor General”	“Auditor General” means the Auditor General of Canada appointed pursuant to subsection 3(1);
“category I department”	“category I department” means <ol style="list-style-type: none"> (a) any department named in Schedule I to the <i>Financial Administration Act</i>, (b) any department in respect of which a direction has been made under subsection 24(3), and (c) any department set out in the schedule;
“Commissioner”	“Commissioner” means the Commissioner of the Environment and Sustainable Development appointed under subsection 15.1(1);
“Crown corporation”	“Crown corporation” has the meaning assigned to that expression by section 83 of the <i>Financial Administration Act</i> ;
“department”	“department” has the meaning assigned to that term by section 2 of the <i>Financial Administration Act</i> ;
“funding agreement”	“funding agreement”, in respect of a corporation, means an agreement in writing under which the corporation receives funding from Her Majesty in right of Canada, either directly or through an agent or mandatary of Her Majesty, including by way of a loan, but does not include a construction contract, a goods contract or a service contract;
“not-for-profit corporation”	“not-for-profit corporation” means a corporation no part of whose income is payable to or otherwise available for the personal benefit of any of its members or shareholders;

“recipient corporation”	<p>“recipient corporation” means any not-for-profit corporation, or any corporation without share capital, that has, in any five consecutive fiscal years, received a total of \$100,000,000 or more under one or more funding agreements, but does not include any such corporation that is</p> <ul style="list-style-type: none"> (a) a Crown corporation, (b) a departmental corporation as defined in section 2 of the <i>Financial Administration Act</i>, (c) a municipality, (d) a cooperative, other than a non-profit cooperative, (e) a corporation that receives, on an ongoing basis, at least half of its funding from a municipality or the government of a province or of a foreign state, or from any agency of a municipality or any such government, (f) a corporation that is controlled by a municipality or a government other than the Government of Canada, or (g) an international organization;
“registrar”	<p>“registrar” means the Bank of Canada and a registrar appointed under Part IV of the <i>Financial Administration Act</i>;</p>
“sustainable development”	<p>“sustainable development” means development that meets the needs of the present without compromising the ability of future generations to meet their own needs;</p>
“sustainable development strategy”	<p>“sustainable development strategy”, with respect to a category I department, means the department’s objectives, and plans of action, to further sustainable development.</p>
Control	<p>2.1 (1) For the purpose of paragraph (f) of the definition “recipient corporation” in section 2, a municipality or government controls a corporation with share capital if</p> <ul style="list-style-type: none"> (a) shares of the corporation to which are attached more than fifty per cent of the votes that may be cast to elect directors of the corporation are held, otherwise than by way of security only, by, on behalf of or in trust for that municipality or government; and (b) the votes attached to those shares are sufficient, if exercised, to elect a majority of the directors of the corporation.

Control (2) For the purpose of paragraph (f) of the definition “recipient corporation” in section 2, a corporation without share capital is controlled by a municipality or government if it is able to appoint the majority of the directors of the corporation, whether or not it does so.

Auditor General of Canada

Appointment and tenure of office 3. (1) The Governor in Council shall, by commission under the Great Seal, appoint a qualified auditor to be the officer called the Auditor General of Canada to hold office during good behaviour for a term of ten years, but the Auditor General may be removed by the Governor in Council on address of the Senate and House of Commons.

Idem (2) Notwithstanding subsection (1), the Auditor General ceases to hold office on attaining the age of sixty-five years.

Re-appointment (3) Once having served as the Auditor General, a person is not eligible for re-appointment to that office.

Vacancy (4) In the event of the absence or incapacity of the Auditor General or if the office of Auditor General is vacant, the Governor in Council may appoint a person temporarily to perform the duties of Auditor General.

Salary 4. (1) The Auditor General shall be paid a salary equal to the salary of a puisne judge of the Supreme Court of Canada.

Pension benefits (2) The provisions of the *Public Service Superannuation Act*, other than those relating to tenure of office, apply to the Auditor General except that a person appointed as Auditor General from outside the Public Service may, by notice in writing given to the President of the Treasury Board not more than sixty days after the date of his appointment as Auditor General, elect to participate in the pension plan provided for in the *Diplomatic Service (Special) Superannuation Act* in which case the provisions of that Act, other than those relating to tenure of office, apply to him and the provisions of the *Public Service Superannuation Act* do not apply to him.

Duties

Examination 5. The Auditor General is the auditor of the accounts of Canada, including those relating to the Consolidated Revenue Fund and as such shall make such examinations and inquiries as he considers necessary to enable him to report as required by this Act.

- Idem** 6. The Auditor General shall examine the several financial statements required by section 64 of the *Financial Administration Act* to be included in the Public Accounts, and any other statement that the President of the Treasury Board or the Minister of Finance may present for audit and shall express his opinion as to whether they present fairly information in accordance with stated accounting policies of the federal government and on a basis consistent with that of the preceding year together with any reservations he may have.
- Annual and additional reports to the House of Commons** 7. (1) The Auditor General shall report annually to the House of Commons and may make, in addition to any special report made under subsection 8(1) or 19(2) and the Commissioner's report under subsection 23(2), not more than three additional reports in any year to the House of Commons
- (a) on the work of his office; and,
 - (b) on whether, in carrying on the work of his office, he received all the information and explanations he required.
- Idem** (2) Each report of the Auditor General under subsection (1) shall call attention to anything that he considers to be of significance and of a nature that should be brought to the attention of the House of Commons, including any cases in which he has observed that
- (a) accounts have not been faithfully and properly maintained or public money has not been fully accounted for or paid, where so required by law, into the Consolidated Revenue Fund;
 - (b) essential records have not been maintained or the rules and procedures applied have been insufficient to safeguard and control public property, to secure an effective check on the assessment, collection and proper allocation of the revenue and to ensure that expenditures have been made only as authorized;
 - (c) money has been expended other than for purposes for which it was appropriated by Parliament;
 - (d) money has been expended without due regard to economy or efficiency;
 - (e) satisfactory procedures have not been established to measure and report the effectiveness of programs, where such procedures could appropriately and reasonably be implemented; or
 - (f) money has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

Submission of annual report to Speaker and tabling in the House of Commons

(3) Each annual report by the Auditor General to the House of Commons shall be submitted to the Speaker of the House of Commons on or before December 31 in the year to which the report relates and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Notice of additional reports to Speaker and tabling in the House of Commons

(4) Where the Auditor General proposes to make an additional report under subsection (1), the Auditor General shall send written notice to the Speaker of the House of Commons of the subject-matter of the proposed report.

Submission of additional reports to Speaker and tabling in the House of Commons

(5) Each additional report of the Auditor General to the House of Commons made under subsection (1) shall be submitted to the House of Commons on the expiration of thirty days after the notice is sent pursuant to subsection (4) or any longer period that is specified in the notice and the Speaker of the House of Commons shall lay each such report before the House of Commons forthwith after receiving it or, if that House is not then sitting, on any of the first fifteen days on which that House is sitting after the Speaker receives it.

Inquiry and report

7.1 (1) The Auditor General may, with respect to any recipient corporation, inquire into its use of funds received from Her Majesty in right of Canada and inquire into whether

- (a) the corporation has failed to fulfil its obligations under any funding agreement;
- (b) money the corporation has received under any funding agreement has been used without due regard to economy and efficiency;
- (c) the corporation has failed to establish satisfactory procedures to measure and report on the effectiveness of its activities in relation to the objectives for which it received funding under any funding agreement;
- (d) the corporation has failed to faithfully and properly maintain accounts and essential records in relation to any amount it has received under any funding agreement; or
- (e) money the corporation has received under any funding agreement has been expended without due regard to the environmental effects of those expenditures in the context of sustainable development.

- Report** (2) The Auditor General may set out his or her conclusions in respect of an inquiry into any matter referred to in subsection (1) in the annual report, or in any of the three additional reports, referred to in subsection 7(1). The Auditor General may also set out in that report anything emerging from the inquiry that he or she considers to be of significance and of a nature that should be brought to the attention of the House of Commons.
- Special report to the House of Commons** 8. (1) The Auditor General may make a special report to the House of Commons on any matter of pressing importance or urgency that, in the opinion of the Auditor General, should not be deferred until the presentation of the next report under subsection 7(1).
- Submission of reports to Speaker and tabling in the House of Commons** (2) Each special report of the Auditor General to the House of Commons made under subsection (1) or 19(2) shall be submitted to the Speaker of the House of Commons and shall be laid before the House of Commons by the Speaker of the House of Commons forthwith after receipt thereof by him, or if that House is not then sitting, on the first day next thereafter that the House of Commons is sitting.
- Idem** 9. The Auditor General shall
- (a) make such examination of the accounts and records of each registrar as he deems necessary, and such other examinations of a registrar's transactions as the Minister of Finance may require, and
 - (b) when and to the extent required by the Minister of Finance, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities authorized to be destroyed under the *Financial Administration Act*,
- and he may, by arrangement with a registrar, maintain custody and control, jointly with that registrar, of cancelled and unissued securities.
- Improper retention of public money** 10. Whenever it appears to the Auditor General that any public money has been improperly retained by any person, he shall forthwith report the circumstances of the case to the President of the Treasury Board.
- Inquiry and report** 11. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Governor in Council so requests, inquire into and report on any matter relating to the financial affairs of Canada or to public property or inquire into and report on any person or organization that has received financial aid from the Government of Canada or in respect of which financial aid from the Government of Canada is sought.

Advisory powers 12. The Auditor General may advise appropriate officers and employees in the federal public administration of matters discovered in his examinations and, in particular, may draw any such matter to the attention of officers and employees engaged in the conduct of the business of the Treasury Board.

Access to Information

Access to information 13. (1) Except as provided by any other Act of Parliament that expressly refers to this subsection, the Auditor General is entitled to free access at all convenient times to information that relates to the fulfilment of his responsibilities and he is also entitled to require and receive from members of the federal public administration such information, reports and explanations as he deems necessary for that purpose.

Stationing of officers in departments (2) In order to carry out his duties more effectively, the Auditor General may station in any department any person employed in his office, and the department shall provide the necessary office accommodation for any person so stationed.

Oath of secrecy (3) The Auditor General shall require every person employed in his office who is to examine the accounts of a department or of a Crown corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department or Crown corporation.

Inquiries (4) The Auditor General may examine any person on oath on any matter pertaining to any account subject to audit by him and for the purposes of any such examination the Auditor General may exercise all the powers of a commissioner under Part I of the *Inquiries Act*.

Reliance on audit reports of Crown corporations 14. (1) Notwithstanding subsections (2) and (3), in order to fulfil his responsibilities as the auditor of the accounts of Canada, the Auditor General may rely on the report of the duly appointed auditor of a Crown corporation or of any subsidiary of a Crown corporation.

Auditor General may request information (2) The Auditor General may request a Crown corporation to obtain and furnish to him such information and explanations from its present or former directors, officers, employees, agents and auditors or those of any of its subsidiaries as are, in his opinion, necessary to enable him to fulfil his responsibilities as the auditor of the accounts of Canada.

Direction of the Governor in Council

(3) If, in the opinion of the Auditor General, a Crown corporation, in response to a request made under subsection (2), fails to provide any or sufficient information or explanations, he may so advise the Governor in Council, who may thereupon direct the officers of the corporation to furnish the Auditor General with such information and explanations and to give him access to those records, documents, books, accounts and vouchers of the corporation or any of its subsidiaries access to which is, in the opinion of the Auditor General, necessary for him to fulfil his responsibilities as the auditor of the accounts of Canada.

Staff of the Auditor General**Officers, etc.**

15. (1) The officers and employees that are necessary to enable the Auditor General to perform his or her duties are to be appointed in accordance with the *Public Service Employment Act* and, subject to subsections (2) to (5), the provisions of that Act apply to those officers and employees.

Public Service Employment Act—employer and deputy head

(2) The Auditor General may exercise the powers and perform the functions of the employer and deputy head under the *Public Service Employment Act* within the meaning of those terms in subsection 2(1) of that Act.

Public Service Employment Act—Commission

(3) The Auditor General may, in the manner and subject to the terms and conditions that the Public Service Commission directs, exercise the powers and perform the functions of that Commission under the *Public Service Employment Act*, other than its powers and functions in relation to the hearing of allegations by a candidate under sections 118 and 119 of that Act and its power to make regulations.

Delegation

(4) The Auditor General may authorize any person employed in his or her office to exercise and perform, in any manner and subject to any terms and conditions that he or she directs, any of his or her powers and functions under subsections (2) and (3).

Sub-delegation

(5) Any person authorized under subsection (4) may, subject to and in accordance with the authorization, authorize one or more persons under that person's jurisdiction to exercise any power or perform any function to which the authorization relates.

Appointment of Commissioner

15.1 (1) The Auditor General shall, in accordance with the *Public Service Employment Act*, appoint a senior officer to be called the Commissioner of the Environment and Sustainable Development who shall report directly to the Auditor General.

Commissioner's duties

(2) The Commissioner shall assist the Auditor General in performing the duties of the Auditor General set out in this Act that relate to the environment and sustainable development.

Responsibility for human resources management	16. The Auditor General is authorized, in respect of persons appointed in his or her office, to exercise the powers and perform the functions of the Treasury Board that relate to human resources management within the meaning of paragraph 7(1) (e) and section 11.1 of the <i>Financial Administration Act</i> , as well as those of deputy heads under subsection 12(2) of that Act, as that subsection reads without regard to any terms and conditions that the Governor in Council may direct, including the determination of terms and conditions of employment and the responsibility for employer and employee relations.
Delegation	16.1 (1) The Auditor General may authorize any person employed in his or her office to exercise and perform, in any manner and subject to any terms and conditions that he or she directs, any of his or her powers and functions in relation to human resources management.
Sub-delegation	(2) Any person authorized under subsection (1) may, subject to and in accordance with the authorization, authorize one or more persons under that person's jurisdiction to exercise any power or perform any function to which the authorization relates.
Contract for professional services	16.2 Subject to any other Act of Parliament or regulations made under any Act of Parliament, but without the approval of the Treasury Board, the Auditor General may, within the total dollar limitations established for his or her office in appropriation Acts, contract for professional services.
Classification standards	17. Classification standards may be prepared for persons employed in the office of the Auditor General to conform with the classifications that the Auditor General recognizes for the purposes of that office.
Delegation	18. The Auditor General may designate a senior member of his staff to sign on his behalf any opinion that he is required to give and any report, other than his annual report on the financial statements of Canada made pursuant to section 64 of the <i>Financial Administration Act</i> and his reports to the House of Commons under this Act, and any member so signing an opinion or report shall indicate beneath his signature his position in the office of the Auditor General and the fact that he is signing on behalf of the Auditor General.
	Estimates
Estimates	19. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by Parliament for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.
Special report	(2) The Auditor General may make a special report to the House of Commons in the event that amounts provided for his office in the estimates submitted to Parliament are, in his opinion, inadequate to enable him to fulfil the responsibilities of his office.

Appropriation allotments

20. The provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments do not apply in respect of appropriations for the office of the Auditor General.

Audit of the Office of the Auditor General**Audit of the office of the Auditor General**

21. (1) A qualified auditor nominated by the Treasury Board shall examine the receipts and disbursements of the office of the Auditor General and shall report annually the outcome of his examinations to the House of Commons.

Submission of reports and tabling

(2) Each report referred to in subsection (1) shall be submitted to the President of the Treasury Board on or before the 31st day of December in the year to which the report relates and the President of the Treasury Board shall lay each such report before the House of Commons within fifteen days after receipt thereof by him or, if that House is not then sitting, on any of the first fifteen days next thereafter that the House of Commons is sitting.

Sustainable Development**Purpose**

21.1 The purpose of the Commissioner is to provide sustainable development monitoring and reporting on the progress of category I departments towards sustainable development, which is a continually evolving concept based on the integration of social, economic and environmental concerns, and which may be achieved by, among other things,

- (a) the integration of the environment and the economy;
- (b) protecting the health of Canadians;
- (c) protecting ecosystems;
- (d) meeting international obligations;
- (e) promoting equity;
- (f) an integrated approach to planning and making decisions that takes into account the environmental and natural resource costs of different economic options and the economic costs of different environmental and natural resource options;
- (g) preventing pollution; and
- (h) respect for nature and the needs of future generations.

Petitions received

22. (1) Where the Auditor General receives a petition in writing from a resident of Canada about an environmental matter in the context of sustainable development that is the responsibility of a category I department, the Auditor General shall make a record of the petition and forward the petition within fifteen days after the day on which it is received to the appropriate Minister for the department.

- Acknowledgement to be sent** (2) Within fifteen days after the day on which the Minister receives the petition from the Auditor General, the Minister shall send to the person who made the petition an acknowledgement of receipt of the petition and shall send a copy of the acknowledgement to the Auditor General.
- Minister to respond** (3) The Minister shall consider the petition and send to the person who made it a reply that responds to it, and shall send a copy of the reply to the Auditor General, within
- (a) one hundred and twenty days after the day on which the Minister receives the petition from the Auditor General; or
 - (b) any longer time, where the Minister personally, within those one hundred and twenty days, notifies the person who made the petition that it is not possible to reply within those one hundred and twenty days and sends a copy of that notification to the Auditor General.
- Multiple petitioners** (4) Where the petition is from more than one person, it is sufficient for the Minister to send the acknowledgement and reply, and the notification, if any, to one or more of the petitioners rather than to all of them.
- Duty to monitor** 23. (1) The Commissioner shall make any examinations and inquiries that the Commissioner considers necessary in order to monitor
- (a) the extent to which category I departments have met the objectives, and implemented the plans, set out in their sustainable development strategies laid before the House of Commons under section 24; and
 - (b) the replies by Ministers required by subsection 22(3).
- Commissioner's report** (2) The Commissioner shall, on behalf of the Auditor General, report annually to the House of Commons concerning anything that the Commissioner considers should be brought to the attention of that House in relation to environmental and other aspects of sustainable development, including
- (a) the extent to which category I departments have met the objectives, and implemented the plans, set out in their sustainable development strategies laid before that House under section 24;
 - (b) the number of petitions recorded as required by subsection 22(1), the subject-matter of the petitions and their status; and
 - (c) the exercising of the authority of the Governor in Council under any of subsections 24(3) to (5).

- Submission and tabling of report** (3) The report required by subsection (2) shall be submitted to the Speaker of the House of Commons and shall be laid before that House by the Speaker on any of the next fifteen days on which that House is sitting after the Speaker receives it.
- Strategies to be tabled** 24. (1) The appropriate Minister for each category I department shall cause the department to prepare a sustainable development strategy for the department and shall cause the strategy to be laid before the House of Commons
- (a) within two years after this subsection comes into force; or
 - (b) in the case of a department that becomes a category I department on a day after this subsection comes into force, before the earlier of the second anniversary of that day and a day fixed by the Governor in Council pursuant to subsection (4).
- Updated strategies to be tabled** (2) The appropriate Minister for the category I department shall cause the department's sustainable development strategy to be updated at least every three years and shall cause each updated strategy to be laid before the House of Commons on any of the next fifteen days on which that House is sitting after the strategy is updated.
- Governor in Council direction** (3) The Governor in Council may, on that recommendation of the appropriate Minister for a department not named in Schedule I to the *Financial Administration Act*, direct that the requirements of subsections (1) and (2) apply in respect of the department.
- Date fixed by Governor in Council** (4) On the recommendation of the appropriate Minister for a department that becomes a category I department after this subsection comes into force, the Governor in Council may, for the purpose of subsection (1), fix the day before which the sustainable development strategy of the department shall be laid before the House of Commons.
- Regulations** (5) The Governor in Council may, on the recommendation of the Minister of the Environment, make regulations prescribing the form in which sustainable development strategies are to be prepared and the information required to be contained in them.

Schedule

(Section 2)

Atlantic Canada Opportunities Agency
 Canada Revenue Agency
 Canadian International Development Agency
 Economic Development Agency of Canada for the Regions of Quebec
 Parks Canada Agency

Appendix B Reports of the Standing Committee on Public Accounts to the House of Commons, 2005–06

The following reports have been tabled since our November 2005 Report went to print. They are available on the Web site of Canada's Parliament (www.parl.gc.ca).

38th Parliament, 1st Session

Report 20—Bill C-277: An Act to amend the *Auditor General Act* (audit of accounts) (presented to the House 5 October 2005; concurred in by the House 18 October 2005)

Report 21—Public Accounts of Canada 2005 (presented to the House 31 October 2005)

Report 22—Chapter 3, Passport Office—Passport Services of the April 2005 Report of the Auditor General of Canada (presented to the House 22 November 2005)

39th Parliament, 1st Session

Report 1—Public Accounts of Canada 2005 (presented to the House 17 May 2006)

Report 2—Chapter 3, Passport Office—Passport Services, of the April 2005 of the Auditor General of Canada Report (presented to the House 17 May 2006)

Report 3—Main Estimates 2006-2007: Vote number 20 under Finance (presented to the House 17 May 2006)

Report 4—Consideration of the Government response to the Tenth Report of the 38th Parliament (presented to the House 16 June 2006)

Report 5—2006–2007 Estimates and Performance of the Office of the Auditor General of Canada (presented to the House 16 June 2006)

Report 6—Chapter 5, Management of Programs for First Nations, of the May 2006 Report of the Auditor General of Canada (presented to the House 21 June 2006)

Report 7—Chapter 8, Canada Revenue Agency—Collection of Tax Debts, of the May 2006 Report of the Auditor General of Canada (presented to the House 21 June 2006)

Report 8—Chapter 7, Acquisition of Leased Office Space, of the May 2006 Report of the Auditor General of Canada (presented to the House 3 October 2006)

Appendix C Report on the audit of the President of the Treasury Board's report *Tabling of Crown Corporations Reports in Parliament*

Tablings in Parliament for parent Crown corporations: Annual reports and summaries of corporate plans and budgets

Section 152 of the *Financial Administration Act* requires the President of the Treasury Board to lay before each House of Parliament a report on the timing of the tabling, by appropriate ministers, of annual reports and summaries of corporate plans and of budgets of Crown corporations. The President of the Treasury Board's report on the timing of tablings is included in the *2006 Annual Report to Parliament—Crown Corporations and Other Corporate Interests of Canada*, which must be tabled by 31 December.

The Act requires the Auditor General to audit the accuracy of the President of the Treasury Board's report on the timing of tablings and to present the results in her annual report to the House of Commons.

At the time that our annual report was going to print, we were unable to include the results of the above audit, since the President of the Treasury Board's report had not yet been finalized. The auditor's report, which is required by the Act, will therefore be included in the next Report of the Auditor General to the House of Commons. It will also be appended to this year's report of the President of the Treasury Board.

Appendix D Costs of Crown corporation audits conducted by the Office of the Auditor General of Canada

The Office is required under section 147 of the *Financial Administration Act* to disclose its costs incurred in preparing annual audit and special examination reports on Crown corporations.

An annual audit report includes an opinion on a corporation's financial statements and on its compliance with specified authorities. It may also include reporting on any other matter deemed significant. See Exhibit D.1 for the costs incurred.

A special examination determines whether a corporation's financial and management control and information systems and its management practices provide reasonable assurance that

- assets have been safeguarded and controlled;
- financial, human, and physical resources have been managed economically and efficiently; and
- operations have been carried out effectively.

In 2005–06, the Office completed the special examination of eleven Crown corporations. The costs incurred were:

Canadian Broadcasting Corporation	\$1,807,052
Canadian Dairy Commission	\$514,653
Canadian Museum of Civilization Corporation	\$878,522
Canadian Tourism Commission	\$773,000
Cape Breton Growth Fund Corporation	\$294,188
Laurentian Pilotage Authority	\$389,070
National Gallery of Canada	\$563,404
Old Port of Montreal Corporation Inc.	\$637,540
Queens Quay West Land Corporation	\$99,254
Ridley Terminals Inc.	\$377,957
Royal Canadian Mint	\$617,591

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2006

Crown corporation	Fiscal year ended	Cost
Atlantic Pilotage Authority	31.12.05	\$ 83,081
Atomic Energy of Canada Limited (joint auditor)	31.03.06	359,030*
Blue Water Bridge Authority	31.08.05	87,921
Business Development Bank of Canada (joint auditor)	31.03.06	498,529*
Canada Council for the Arts	31.03.06	151,262*
Canada Deposit Insurance Corporation	31.03.06	140,052*
Canada Development Investment Corporation (joint auditor)	31.12.05	99,037*
Canada Lands Company Limited (joint auditor)	31.03.06	230,647*
Canada Mortgage and Housing Corporation (joint auditor)	31.12.05	567,877*
Canadian Air Transport Security Authority	31.03.06	399,550*
Canadian Broadcasting Corporation	31.03.06	789,656*
Canadian Commercial Corporation	31.03.06	194,667*
Canadian Dairy Commission	31.07.05	106,660
Canadian Museum of Civilization	31.03.06	158,124*
Canadian Museum of Nature	31.03.06	127,546*
Canadian Tourism Commission	31.12.05	239,707*
Cape Breton Development Corporation	31.03.06	104,045*
Cape Breton Growth Fund Corporation	31.03.06	92,371*
Defence Construction (1951) Limited	31.03.06	57,386*
Enterprise Cape Breton Corporation	31.03.06	105,072*
Export Development Canada	31.12.05	930,631*
Farm Credit Canada	31.03.06	503,155*
Federal Bridge Corporation Limited, The	31.03.06	58,838*
Freshwater Fish Marketing Corporation	30.04.05	207,922
Great Lakes Pilotage Authority	31.12.05	121,160*
International Development Research Centre	31.03.06	140,312*
Jacques Cartier and Champlain Bridges Incorporated, The	31.03.06	96,769*
Laurentian Pilotage Authority	31.12.05	144,556*
Marine Atlantic Inc.	31.12.05	197,887
National Arts Centre	31.08.05	165,152
National Capital Commission	31.03.06	207,698*
National Gallery of Canada	31.03.06	118,053*
National Museum of Science and Technology	31.03.06	112,591*
Old Port of Montréal Corporation Inc.	31.03.06	206,383*
Pacific Pilotage Authority	31.12.05	50,689
Parc Downsview Park Inc.	31.03.06	105,455*
Queens Quay West Land Corporation	31.03.06	33,755*
Ridley Terminals Inc.	31.12.05	92,240*
Royal Canadian Mint	31.12.05	404,660
Seaway International Bridge Corporation Limited, The	31.03.06	57,486*

Exhibit D.1 Cost of preparing annual audit reports for fiscal years ending on or before 31 March 2006

Crown corporation	Fiscal year ended	Cost
Standards Council of Canada	31.03.06	53,223*
Telefilm Canada	31.03.06	196,393*
VIA Rail Canada Inc. (joint auditor)	31.12.05	352,958*

*Preliminary costs subject to year-end adjustments

Report of the Auditor General of Canada to the House of Commons—November 2006

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