

SENATE



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**FINAL REPORT ON THE  
2012-2013 MAIN ESTIMATES**

**Standing Senate Committee on  
National Finance**

**SEVENTEENTH REPORT**

*Chair*

The Honourable Joseph A. Day

*Deputy Chair*

The Honourable Larry Smith

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## **FINAL REPORT ON THE 2012–2013 MAIN ESTIMATES**

### **Introduction**

The 2012–2013 Main Estimates were tabled in Parliament on 28 February 2012 and referred to the Standing Senate Committee on National Finance. The Committee tabled a first interim report on the 2012–2013 Main Estimates in March 2012 and a second interim report on the 2012–2013 Main Estimates in June 2012. This document is the final report on the 2012–2013 Main Estimates. It presents the main evidence from the departments and agencies that appeared before the Committee since the second interim report was tabled.

Officials from the Public Service Commission of Canada (PSC) appeared on 24 October 2012: Anne-Marie Robinson, President; H el ene Laurendeau, Senior Vice-President, Policy; Denis Bilodeau, Vice-President, Investigations; and Elizabeth Murphy-Walsh, Vice-President, Audit and Data Services.

Officials from the Office of the Auditor General of Canada (OAG) appeared on 31 October 2012: Michael Ferguson, Auditor General of Canada; Ronnie Campbell, Assistant Auditor General; Wendy Loschiuk, Assistant Auditor General; Jerome Berthelette, Assistant Auditor General; and Richard Domingue, Principal.

On 12 February 2013, the Committee heard evidence from the Office of the Superintendent of Financial Institutions (OSFI), represented by Guy Arseneau, Managing Director, Finance and Corporate Planning Office, and evidence from the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), represented by H el ene Filion, Assistant Director and Chief Financial Officer, and Darlene Boileau, Deputy Director, Strategic Policy and Public Affairs Sector.

On 13 February 2013, the Committee heard evidence from the Treasury Board of Canada Secretariat (TBS) represented by Bill Matthews, Assistant Secretary, Expenditure Management Sector, and Sally Thornton, Executive Director, Expenditure Management Sector.

On 26 February 2013, the Committee closed its proceedings on the 2012–2013 Main Estimates by hearing evidence from the Office of the Auditor General of Canada, represented by Scott Vaughan, Commissioner of the Environment and Sustainable Development; Kimberley Leach, Principal; and Andrew Ferguson, Principal.

## **Study of the 2012–2013 Main Estimates**

### **1. Public Service Commission (PSC)**

In the 2012–2013 Main Estimates, the PSC projects net budgetary expenditures of \$92.7 million for 2012–2013; this includes gross budgetary expenditures of \$106.7 million and revenue of \$14.0 million from other departments.

The PSC officials explained to the Committee that the 2012–2013 Main Estimates did not reflect the PSC’s contribution to the strategic review of spending in Budget 2012. They said that the PSC’s budget will be reduced by \$8.9 million over the next three years, and 87 positions will be eliminated.

With regard to the mandate and activities of the PSC, the officials stated that, in general, deputy heads and managers in the public service are respecting their delegated authorities and meeting their responsibilities in an appropriate manner. Overall performance has improved and progress has been made, however, ongoing attention must be paid to three main areas in particular.

First, departments need more consistent monitoring of appointment processes. Effective monitoring of these processes allows organizations to determine areas for improvement and to detect and correct errors in a timely manner.

Second, there are still too many cases where departments do not provide the information necessary to demonstrate that the appointment made respects the merit principle. In some instances, inadequate assessment tools were used. In others, organizations do not provide key pieces of documentation such as the assessment results for the person appointed.

Third, departments and agencies need to ensure that priority persons are considered to fill vacant positions and appointed, if qualified. PSC audits have detected some inconsistencies in the application of priority entitlements. For example, some organizations use a more stringent statement of merit criteria for priority persons, while others are unable to demonstrate clearly that priority persons were considered in their staffing processes. The PSC officials also informed the Committee that the number of priority persons rose from 1,597 in 2010–2011 to 1,808 in 2011–2012 and to 2,744 as of 18 October 2012. Priority persons are in three main groups: surplus employees within an organization, employees on leave for more than one year and whose positions were indeterminately staffed during their absence, and persons who have been laid off.

In response to senators' questions about the recruitment of former Canadian Forces members by federal departments and agencies, the PSC officials explained that Canadian Forces members released for medical reasons are registered in the PSC's priority system once they have been declared fit to work. However, an evaluation done by the PSC has shown that, unlike other priority persons, most Canadian Forces veterans have not previously applied for jobs under the Public Service Employment Act.

The PSC officials said that their 2011 survey on the political impartiality of the public service showed that federal employees are increasingly aware of their rights and responsibilities, since 69% of them reported a moderate to great level of awareness in 2011, compared with 63% in 2010.

The PSC officials reported that public service hiring declined by 10.3% in 2011–2012 compared with 2010–2011.

In response to a series of senators' questions about the process whereby federal employees can stand as candidates in an election, the PSC officials replied that the PSC had recently made a change to the Political Activities Regulations to facilitate that process by better defining the time frames involved when federal employees request permission to seek nomination. The PSC officials then explained to the Committee that the Public Service Employment Act stipulates that federal employees who are elected in a provincial or federal election lose their public servant status.

Certain senators expressed concern at the low appointment rates for persons with disabilities within the federal public service. The PSC officials also admitted to concern about the persistence of this phenomenon. The appointment rate for persons with disabilities was 2.6% of those obtaining a job in 2011–2012, compared with a workforce availability rate of 4%. The PSC officials told the Committee that they were currently trying to make departments aware of certain shortcomings in their appointment processes with respect to persons with disabilities.

## **2. Office of the Auditor General of Canada**

In his evidence before the Committee of 31 October 2012, the Auditor General of Canada informed the senators of the findings from his audit report tabled in Parliament on 23 October 2012. The Auditor General of Canada said that the Department of Public Works and Government Services, the Department of Health and the Department of Human Resources and Skills Development plan their needs for employees and contractors separately. He said that this hampers their ability to assess whether they have the best mix of employees and contractors to meet their objectives. In response to questions from certain senators on this matter, he expressed the opinion that the departments should determine what they need in terms of human resources and then figure out the best way to get those resources, either as employees or as contractors.

The Auditor General of Canada assessed whether the Government has adequately implemented its action plan and noted that the Government has done so.

The Auditor General of Canada also said that the federal government had made significant progress in implementing the 2008 action plan to reform grant and contribution programs, and that it should now determine if the actions taken have had concrete impacts for recipients.

The Auditor General of Canada told the Committee that the federal government had made progress in protecting its computer and telecommunications systems and in building partnerships to protect Canada's critical infrastructure against cyber threats. He then said that the federal government should now ensure that the sector networks are in place and working with the Cyber Incident Response Centre.

The Auditor General of Canada noted that National Defence and Veteran Affairs recognize the need to work together on solutions and have accepted his recommendations to streamline their processes to make programs more accessible.”

Next the Auditor General of Canada said that the programs to help ill or injured former Canadian Forces members and veterans make the transition to civilian life are complex, and that their clients are faced with a long and difficult process. Furthermore, not all cases are managed the same way and there are problems with sharing information between departments.

With regard to management of the real property of National Defence, the Auditor General of Canada expressed concern at the fact that National Defence is not managing its property adequately. For example, the approval process for construction projects is cumbersome and slow, and it takes an average of six years to approve projects valued at over \$5 million. National Defence has not met its spending targets for maintenance, repair and recapitalization. These weaknesses could jeopardize the Canadian Forces’ ability to carry out their missions.

Industry Canada has done a good job administering programs that deliver industrial research and development, the next step remains the measuring and reporting of progress towards program objectives.

Finally, the Auditor General of Canada drew the Committee’s attention to the fact that the Department of Finance is not publishing its analyses of the long-term impact of federal economic policies. He said that these analyses would help parliamentarians and Canadians better understand the fiscal challenges facing the federal government.

In response to questions from certain senators about one revenue stream of the OAG, the Auditor General of Canada told the Committee that this revenue was for the OAG’s work as auditor of the International Labour Organization (ILO), a specialized UN organization.

Some senators asked about the reductions of the OAG’s expenditures. The Auditor General of Canada responded that the OAG’s budget would be reduced by about 8% over the next three years, and its workforce would fall from 620 to 580 employees.

Some senators asked a series of questions about the action plan to reform the grant and contribution programs. The Auditor General of Canada answered that the departments audited had made some significant changes to and reductions in the number of forms and work that needed to be done in certain areas.

### **3. Office of the Superintendent of Financial Institutions (OSFI)**

The Committee learned that the OSFI relies on an annual budget of roughly \$127 million. Those funds come primarily from membership premiums and fees paid by the financial institutions regulated, while \$910,000 is derived from parliamentary budget authorities.

Some senators asked about how the OSFI bills its services to the financial institutions it regulates. One OSFI official answered that billing takes place twice per year. Regulated organizations such as banks, insurance companies and pension plans pay their portion of the regulatory costs based on allocation of human resources and the time those resources spend on the various industry files.

In response to questions from some senators about the sufficiency of budgetary authorities to supervise the financial institutions, one OSFI official told the Committee that he was confident that human and financial resources were sufficient for his organization to discharge its mandate.

Some senators wanted to know whether the OSFI regulates the banks that operate on the Internet. The OSFI official responded that the institutions that his organization regulates and oversees may have a website that permits their clients to carry out transactions online. However, the OSFI's work is concerned with the solvency, liquidity, security and stability of the institutions, and not their online presence. Those institutions include banks, trust and loan companies, cooperative credit and retail associations, life insurance companies, comprehensive insurance companies and fraternal benefit societies.



#### **4. Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)**

The FINTRAC officials said that in 2012–2013 their organization had forecast spending of \$56.2 million under the main and supplementary estimates. Of that amount, \$40.5 million would be allocated to staff costs and \$15.7million to the Centre’s operations costs.

The FINTRAC officials told the Committee that FINTRAC receives a total of 18.5 million reports, most of them from approximately 32,000 reporting entities.

Some senators wanted more details about an amount of \$16.2 million related to the National Initiative to Combat Money Laundering. FINTRAC told the Committee that this increase in spending was for the renewal of that initiative, which requires about 92 employees at FINTRAC.

The officials reminded the Committee that FINTRAC is an analytic and not an investigative organization. It is situated at the front end of the process, providing financial intelligence that helps investigators in other organizations, such as the RCMP. For example, last year FINTRAC provided 796 case disclosures to law enforcement agencies. That financial intelligence supported investigations of suspected drug trafficking, fraud, tax evasion, corruption, human trafficking and illegal gambling.

The FINTRAC officials informed the Committee that they were planning to consolidate their three offices in Ottawa within a single building at 234 Laurier Street in Ottawa. Next they explained that FINTRAC pays about \$8.3 million per year from its budget to lease offices for its employees.

Some senators asked about FINTRAC’s regional offices. The officials answered that FINTRAC has three regional offices, in Montréal, Toronto and Vancouver. Its 30 to 40 employees who work in these regional offices are primarily concerned with the compliance of information provided by the reporting entities.

In response to questions from some senators about the main methods used by criminals to launder money, the FINTRAC officials explained to the Committee that criminals are very creative in this area, and their list of methods is endless. For example, some criminals have

begun using prepaid credit cards and PayPal accounts to launder money from drug sales, fraud or other crimes.

Some senators wanted more information about the methods used by FINTRAC to combat money laundering. The FINTRAC officials responded that they use two methods, one reactive and the other proactive.

The reactive method involves FINTRAC receiving requests from its partners to check its databases for information about a specific transaction or individual.

The proactive method involves FINTRAC running regular searches based on the priorities of security agencies and other partners.

The FINTRAC officials explained that many groups of individuals or sectors are subject to the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. These include accountants and notaries from British Columbia, casinos, dealers in precious metals and stones, financial entities, lawyers, brokerage firms, life insurance agents, financial services companies, real estate brokers and sales representatives, and stockbrokers.

In response to questions from some senators about the criteria used by FINTRAC to assess the performance of its activities relative to expenditures incurred, the FINTRAC officials explained that they base themselves mainly on feedback from the partners with which they share financial information. Some senators asked about the number of reporting entities that have been imposed an administrative penalty for submitting information not in compliance with the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. The FINTRAC officials responded that between six and eight reporting entities received an administrative penalty in 2011–2012. The officials also promised to provide the Committee with the total value of these administrative penalties in writing.

## **5. Treasury Board of Canada Secretariat (TBS)**

The TBS officials explained to the Committee that the documents presenting planned expenditures and the corresponding documents presenting actual expenditures always use the same basis of accounting. For example, the federal budget and volume I of the Public Accounts

of Canada use accrual accounting,<sup>1</sup> while the main estimates, supplementary estimates and volume II of the Public Accounts of Canada use cash accounting.<sup>2</sup>

The TBS officials informed the Committee that the federal government would table a plan in Parliament to address the accrual accounting / cash accounting issue by 31 March 2013.

The TBS officials reminded the Committee that the federal government is legally obligated to table the main estimates every year before the first of March. However it is not obligated to table a new budget every year.

The TBS officials said that the quarterly financial reports<sup>3</sup> are a source of useful information for senators and MPs who are wondering whether a particular department or agency will spend all of its budgetary authorities and who want to make comparisons with the previous year.

The TBS officials also said that the monthly Fiscal Monitor published by the Department of Finance provides an excellent picture of the financial situation of the federal government.

The TBS officials suggested that the Debt Management Report and the Debt Management Strategy are two good sources of information on the costs of the federal debt.

The TBS officials reminded the Committee that departments and agencies are not obliged to spend all of the budget authority received, which is just a maximum amount of expenditure.

In response to questions from certain senators about the re-profiling of capital expenditures at the Department of National Defence, the TBS officials explained that National Defence, like all the other departments and agencies, has to obtain authority from Parliament to spend money for which a previous authority expired at the end of a fiscal year.

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<sup>1</sup> Accrual accounting consists in recognizing revenue only when it is earned and expenses only when they are incurred.

<sup>2</sup> Cash accounting consists in recognizing revenue only when it is received and expenses only when they are paid.

<sup>3</sup> The quarterly financial reports consist of tables comparing, for each department and agency, planned and actual expenditures for both the quarter and the year-to-date, as well as comparative information for the preceding fiscal year.

However, the capital expenditures of the Department of National Defence are not managed the same way as those of other departments and agencies, because they have a significant impact on the budgetary balance of the federal government. First of all, the Department of National Defence plans major capital expenditures over multiple years, and yet it obtains funding from Parliament on an annual basis. Consequently, the Department of Finance closely tracks the impact of the multi-year capital spending of the Department of National Defence. Second, National Defence can carry forward only 5% of its capital expenditures, compared with 20% at other departments and agencies.

Some senators wanted to learn more about how TBS's central votes work. The TBS officials answered that the central votes are votes allocated by the Treasury Board to certain departments and agencies for various reasons. For example, Treasury Board vote 5, called the government contingencies vote, is added to other votes to provide the government with sufficient flexibility to cover urgent or unforeseen expenses when there is a legitimate need for cash before the supply period. The authority granted by the central vote continues until parliamentary approval is obtained in the form of a transfer from the department that received the central vote to the Treasury Board.

In response to questions from certain senators about the special warrants of the Governor General of Canada, the TBS officials explained to the Committee that these special warrants permit the funding of essential government expenditures. When Parliament is dissolved for a general election, but not prorogation, the appropriate minister attests to the urgency of the payment and its necessity in the public interest, and the president of Treasury Board issues a report attesting to the absence of any vote that can authorize the payment.

## **6. Commissioner of the Environment and Sustainable Development**

The Commissioner of the Environment and Sustainable Development explained to the Committee that, given the essential role that natural resources play in the Canadian economy, it is essential that measures to protect the environment keep pace with economic development, and then went on to express his concern at the fact that this was presently not the case.

The Commissioner of the Environment and Sustainable Development emphasized the importance of protecting commercial fisheries and marine species like whales and turtles, as well as their habitats, in order to relieve the growing pressures on our oceans and ecosystems. He said that, over the past 20 years, the federal government has made limited progress on the commitment that Canada made to protect 10% of its marine areas by 2020 when it signed the United Nations Convention on Biological Diversity. Fisheries and Oceans Canada and Parks Canada have established 10 marine protected areas, but the network that is needed to safeguard marine species and ecosystems still does not exist. In fact, Canada has protected less than 1% of its marine areas.

The Commissioner of the Environment and Sustainable Development said that the Canada–Nova Scotia offshore petroleum board, the Canada–Newfoundland and Labrador offshore petroleum board and the federal entities responsible are not adequately prepared to respond to a major spill. That said, the boards do not have primary responsibility for first response to a spill, the operating companies have that responsibility under contracts with the boards.

The Commissioner also pointed out that the limits for which companies are liable in cases of spills from offshore oil platforms and nuclear incidents are out of date and significantly lower than those set by other countries. The Commissioner estimates that the operating companies have given financial guarantees of approximately \$11.6 billion to the audited federal entities.

As a member of the G20, Canada has formally recognized that the subsidies to the fossil fuel sector were detrimental to efforts to combat climate change and energy wastage, market distortions, and barriers to investment in clean energy. The Commissioner of the Environment and Sustainable Development told the Committee that the federal government has taken action in line with this commitment by reducing the total amount of subsidies to fossil fuels and directing the majority of the remaining subsidies to green technologies. However, the Commissioner emphasized that the federal government continues to support the fossil fuel sector through tax expenditures incurred under the Income Tax Act. According to Finance Canada, the cost of tax expenditures expressly attributable to fossil fuels reached \$1.47 billion between 2006–2007 and 2010–2011.

The Commissioner of the Environment and Sustainable Development told the Committee that he had received 23 petitions on a wide variety of environmental topics of concern to Canadians. For example, certain petitioners have expressed concern over the lack of federal regulation governing chemicals used to extract oil and gas by hydraulic fracturing in Canada. The Commissioner then explained that these chemicals were exempt from federal regulations on pollutant releases, despite the fact that there are over 200,000 hydraulic fracturing wells in Canada and that number is expected to double over the next 20 years.

In response to questions from some senators on the number of names required to submit an environmental petition, the Commissioner of the Environment and Sustainable Development answered that there were no requirements as to the number of names needed to file a petition. In fact a petition might have only one signatory. The Commissioner then mentioned that federal departments and agencies had a period of 120 days to respond to a petition.

Other senators wanted to learn more about petitioners' level of satisfaction with the responses of the federal government. The Commissioner of the Environment and Sustainable Development replied that nearly 70% of the petitioners surveyed said they were not satisfied with the responses they received. However, most of those surveyed said they were satisfied with the petition process.

Some senators sought to find out whether the federal government generally took action on the recommendations of the Commissioner of the Environment and Sustainable Development. The Commissioner responded that the federal government generally implemented most of his recommendations. For example, last year the federal government increased the budget of the National Energy Board so that it could carry out more inspections, in line with the Commissioner's recommendations.

In response to senators' questions about the number of employees assigned to the environmental audits of the Office of the Auditor General of Canada, the Commissioner of the Environment and Sustainable Development answered that he had a total of 40 full-time employees to assist him in his audits.

Some senators wanted to know how the Commissioner of the Environment and Sustainable Development chose the topics of his audits. He explained to the Committee that the audit topics were determined according to a series of strategic planning processes based on the principal environmental risks.

Some senators wanted more details about the liability limits in case of an oil spill in Canadian waters. The Commissioner told the Committee that the liability limits for an oil spill were \$75 million in the United States compared with \$30 million in Canada. He considers these limits insufficient in light of the \$70-billion price tag for cleaning up the BP oil spill in the Gulf of Mexico.

In response to a series of senators' questions about the external consultants hired by the Commissioner of the Environment and Sustainable Development for environmental audits, the Commissioner of the Environment and Sustainable Development informed the Committee that the average cost of external consultants is about \$20,000 per audit. The names of these consultants are not made public, since most of them prefer to remain anonymous on account of their work or the function they fill. For example, certain outside consultants are experts, professors, former deputy ministers or ex-premiers.

Some senators wanted to know how the Office of the Auditor General of Canada ensured that the advice provided by external consultants does not bias the conclusions of its environmental audits. The Commissioner of the Environment and Sustainable Development answered that each audit has a rigorous, fact-based methodology which gives consideration to as many viewpoints as possible.