

2002 Report of the Auditor General of Canada - Chapter 10

Costs of Implementing the Canadian Firearms Program

Main Points

10.1 The Department of Justice Canada did not provide Parliament with sufficient information to allow it to effectively scrutinize the Canadian Firearms Program and ensure accountability. It provided insufficient financial information and explanations for the dramatic increase in the cost of the Program.

10.2 In 1995 the Department told Parliament that the Canadian Firearms Program would cost \$119 million to implement, which would be offset by \$117 million in fees. We requested the Department provide us with information on Program costs and revenues for the period 1995-96 to 2001-02. The information the Department provided states that by 2001-02 it has spent about \$688 million on the Program and collected about \$59 million in revenues after refunds. We believe that this information does not fairly present the cost of the Program to the government.

10.3 In 2000, the Department of Justice estimated that by 2004-05 it would spend at least \$1 billion on the Program and collect \$140 million in fees after refunds. This amount does not include all financial impacts on the government. The Department also did not report to Parliament on the wider costs of the Program as required by the government's regulatory policy.

10.4 The Department has offered many reasons for the cost escalation, including major delays in making regulations, provinces opting out of the Program, the need for additional initiatives, incorrect assumptions about the rate it would receive applications for licences and registrations, and an excessive focus on regulation and enforcing controls.

10.5 Complete and accurate financial information and explanations on Program costs and revenues should have been reported to Parliament annually in the Department's Report on Plans and Priorities and in its Departmental Performance Report. These formal documents are intended to provide information to Parliament in order to allow it to scrutinize departmental expenditures.

10.6 The Department of Justice should provide Parliament annually with complete and accurate information on all past, current, and forecasted expenditures and revenues relating to the Program; and it needs to disclose and explain any major changes in the Program.

Background and other observations

10.7 Under the 1995 Firearms Act the Department is responsible for the Canadian Firearms Program. This legislation requires that all owners and users of firearms be licensed by 1 January 2001 and that all firearms be registered by 1 January 2003. The federal government estimates that the total number of firearms owners is 2.46 million and the total number of firearms is 7.9 million.

Federal agencies have responded. Department of Justice Canada acknowledges that implementing this program across Canada was a significant logistical, technical, and management challenge. It states that in the interest of public safety, and in response to recommendations from the public and Parliament, changes were made to the initial program design that increased the design of the system and its cost.

The Treasury Board Secretariat notes that the Department of Justice faced significant challenges in implementing a program of this magnitude and originality. It also notes that it was always understood that original estimates would be revised in response to the demands of program implementation.

Introduction

10.8 The Department of Justice estimated that in 2001 there were about 2.46 million firearms owners and 7.9 million firearms in Canada. The Canadian Firearms Program focuses on controlling acquisition, possession, and ownership of firearms; regulating the availability of specific types of firearms; and deterring the misuse of firearms. The Program requires that all owners of firearms be licensed by 1 January 2001 and that all firearms be registered by 1 January 2003.

10.9 In December 1995, to establish the Canadian Firearms Program, Parliament passed the Firearms Act and associated Criminal Code amendments. The Criminal Code amendments came into force in January 1996 creating mandatory minimum prison sentences for firearms offences. The government announced that it would delay proclamation of the Act until January 1997 so that the Department could design, develop, and implement the information technology and service delivery systems needed to manage the licensing and registration program. The Department recognized that the Program presented significant challenges due to its political, technical and organizational complexities.

10.10 The Department told us that the proclamation of the Firearms Act was further postponed to December 1998 because of "broad and time-consuming consultations about the new regulations." This resulted in delays in making regulations needed to set fees, and establish specific requirements for licensing, storage and record-keeping. Regulations were finally adopted in March 1998 and officially came into force in December 1998.

10.11 The Department's 2002-03 Report on Plans and Priorities stated that the objectives of the Program are "to implement a practical approach to gun safety that works to keep firearms from those who should not have them while encouraging safe and responsible gun use by legitimate firearms owners."

Current ownership and registration requirements are more rigorous

10.12 Passed in 1995, the Firearms Act and associated amendments to the Criminal Code provide for

- * licensing all firearms owners;
- * registering and tracking all firearms and transfers of firearms;
- * controlling the import and export of firearms;
- * strengthening the offence and sentencing provisions of the Criminal Code, including mandatory minimum sentences for certain firearms offences; and
- * prohibiting additional specific firearms.

10.13 Individuals who only wanted to keep their non-restricted firearms had to apply before 1 January 2001 for a "possession only" licence. They also had to pass a review to determine that it was safe to give them a licence. Those who want to acquire a firearm must pass the Canadian firearms safety test, apply for a "possession and acquisition" licence, and pass a review that includes notification of spouse or partner. Owners must register each firearm that they possess.

10.14 As required by previous firearms legislation, owners and businesses must properly transport and store their firearms in accordance with the applicable regulations. Under the 1995 legislation they must also notify the government of any change in address and transfers of firearms to other licensees.

Federal and provincial governments were expected to share responsibilities

10.15 The federal government envisioned that the Chief Firearms Officers appointed by provincial governments would screen applications for possession licences with the federal

government reimbursing them for these costs. Chief Firearms Officers are responsible for ensuring that the issue of a licence does not jeopardize public safety.

10.16 The Registrar in the Royal Canadian Mounted Police (RCMP) is responsible for registering firearms, and establishing and maintaining the Canadian Firearms Registry. The RCMP are also responsible for maintaining the interface with its Canadian Police Information Centre and the Registry. Legislation currently before Parliament proposes to transfer the Registrar to the Department of Justice.

10.17 The RCMP, and provincial and municipal police are responsible for enforcing specific provisions of the Firearms Act. The RCMP also acts as a provincial police force in certain jurisdictions. Correctional Service Canada and the National Parole Board must administer the sentences of offenders serving mandatory and longer sentences as a result of the new firearms legislation. In addition, provincial correctional agencies must handle firearms offences relating to the legislation.

10.18 The federal government expected existing federal/provincial co-operation on firearms control would continue under the Firearms Act. Provinces and territories supported the provisions of the new legislation that deterred crime, toughened sentences for firearms offences, and targeted weapons smuggling. However, several provinces believed that licensing all owners and registering all firearms was an unproven and ineffective means to reduce violent crime. They also believed that legislating these requirements was beyond the constitutional power of the federal government. In September of 1996, the Province of Alberta announced that it would challenge the constitutionality of provisions of the new law. Five provinces and two territories subsequently supported Alberta in this challenge. The Supreme Court upheld the constitutionality of the provisions of the Firearms Act in June 2000.

10.19 The Firearms Act permitted provinces to opt-out of administering the Program. Alberta, British Columbia, Manitoba, Newfoundland and Labrador, and Saskatchewan, opted out. As a result, the RCMP and the Department, as authorized by the Firearms Act, set up a federal administrative system in jurisdictions that opted-out and incurred the costs directly. As part of this system, the Minister of Justice appointed "federal" Chief Firearms Officers for provincial jurisdictions.

10.20 The Supreme Court's judgment noted that Aboriginal Canadians who are concerned that this law does not address their particular needs could bring their claims to Parliament or the courts in a separate case. Certain Aboriginal groups are challenging the legislation in court, based on self-government and treaty rights to hunt.

Focus of the audit

10.21 Parliamentarians and the public have expressed concerns to us about the cost of the Canadian Firearms Program. Consequently, our audit focussed on the expenditures and revenues of the Program and we asked the Department of Justice to prepare a statement of these expenditures and revenues for the Program. We did not audit Program efficiency or whether it is meeting its objectives. Our audit objectives were as follows:

- * To assess whether the statement of financial information prepared by the Department on the Canadian Firearms Program presents fairly the expenditures and revenues of the Program for the period 1995-96 to 2001-02 on a basis consistent with the framework used by the Department to obtain Government approval of Program funds.
- * To provide Parliament with information on the changing costs and scope of the Program since its inception.

10.22 More details appear in About the Audit at the end of the chapter.

Observations

Obstacles to accountability

Single point accountability for the Program was not implemented

10.23 The Department of Justice is responsible for the Canadian Firearms Program, including the Canadian Firearms Registration System project. In early 1996 the Department of Justice established a division called the Canadian Firearms Centre. The Department and the Treasury Board designated it the "single point of responsibility and accountability to implement the Canadian Firearms Program." The importance of this single point responsibility and accountability was emphasized in the 1997 Project Charter the Department provided to the Treasury Board Secretariat. The Charter stated the following:

Given the scope and complexity of the Canadian Firearms Program and its projects, and the importance of delivering in accordance with approved time lines and budgetary allotments, it was critical that a single point of authority and accountability be established.

The Canadian Firearms Centre provides this single point of accountability in order to manage and ensure that the government's objectives are achieved via the full implementation of the Firearms Act.

10.24 The Charter also stated that

The Canadian Firearms Centre, in its lead role, must provide centralized management and coordination for the Canadian Firearm Program as a whole. In this central management role, the Canadian Firearms Centre must

- * facilitate and support management efforts of the partners;
- * establish, to the extent practical, standard management practices and procedures; and
- * be responsible for representing the overall program to external agencies such as the Treasury Board.

10.25 Furthermore, the Department told the Government in February 2001 that under the Firearms Act the Minister of Justice is politically and financially accountable for the administration of the Program. More recently, the Department's July 2002 Strategic Plan provided to the Treasury Board Secretariat stated that the Minister of Justice is responsible for the Firearms Act, is answerable to Parliament for any issues related to the Act, and is responsible for seeking Parliament's authority to spend public money for the purposes described in the Act.

10.26 The single point of responsibility and accountability concept was not implemented. The Centre reports only expenditures that it incurs or reimburses, and not the full costs to the government of the Program.

Program cost estimates have risen from \$119 million to over \$1 billion

10.27 In November 1994, prior to the introduction of the Firearms Act, the Department of Justice estimated that the net cost of the new Program would be about \$2 million. It also estimated that it would take five years to implement. During this period, it said expenditures of about \$119 million were expected to be offset by licensing and registration fees of approximately \$117 million.

10.28 In May 2000 the Department told the House of Commons Standing Committee on Justice and Human Rights that it had spent at least \$327 million on the Program. However, at about the same time the Department informed the Government that it estimated that the cost of development and implementation would be over \$1 billion by 2004-05.

10.29 Further, in its Regulatory Impact Analysis Statements the Department of Justice did not provide Parliament with an estimate of all the major additional costs that would be incurred. This disclosure was required by the government's regulatory policy. The costs incurred by the provincial and territorial agencies in enforcing the legislation were not reported. In addition, costs that were incurred by firearms owners, firearms clubs, manufacturers, sellers, and importers and exporters of firearms, in their efforts to comply with the legislation were not reported.

Contrary to the original announcement, fees will not cover expenditures

10.30 One of the reasons why the cost to taxpayers has risen significantly is that revenues from fees that were intended to cover most of the Program's expenditures have fallen far short of original expectations.

10.31 The Firearms Act authorizes the Governor in Council to prescribe, by regulation, the fees charged for firearms licensing, registration, and other services. For example, in December 1998, regulations came into force that established fees for over 50 types of licensing, registration, and other transactions. The fees ranged from \$10 to \$1,250.

10.32 In April 1995 the Department told Parliament that the Program would be essentially self-financing through licensing and other fees. In reality, revenues were reduced through a series of fee reductions and refunds to owners of firearms. We note that the full effect of the fee reductions on keeping the Program self-financed was not disclosed to Parliament. Information on refunds is necessary because if these funds were retained they would have reduced Program costs. Program costs increased because the fees were refunded. For example, in 2000-01 the Department refunded about \$2 million in fees, increasing Program costs by that amount.

10.33 The information on cost recovery provided to the Government changed as the Program developed. For example, at the start of the Program in 1994 the Government was told that the Program would be self-financing by 1999-2000. However, in 1996 the Department told the Government that it would take more than 10 years (from 1995-96 to 2005-06) for the Program to become self-financing.

10.34 In April 1998, the Department again revised its estimated break-even point. The Government was told that it would take until 2012-13 for revenues from fees to cover all costs associated with developing, implementing, and operating the Program since 1995-96. The revised break-even point was based on the assumptions that the Program would collect about \$419 million in fees by 2002-03 and about \$828 million by 2007-08.

From the start insufficient financial information was provided to Parliament

10.35 The Department of Justice did not provide sufficient information to Parliament to allow it to fully scrutinize the Program. The Department also provided inadequate information to Parliament on the escalating Program costs from the start of the Program.

10.36 For example, in 1994, the Department told the Government that Correctional Service Canada and the National Parole Board would also incur costs to implement the Program. These costs would result from expected increase in workload associated with longer mandatory sentences for firearms offences, and the Government earmarked \$126 million to cover these costs. However, in April 1995, the Department of Justice did not tell Parliament that these costs could be incurred by Correctional Service Canada and the National Parole Board as part of the Program. If these additional costs had been reported, the original estimated expenditure for implementing the new Program over five years would have totalled about \$245 million before revenues instead of the reported \$119 million.

10.37 Correctional Service Canada and the National Parole Board received \$5 million and \$2 million, respectively, of the \$126 million allocated to them to cover their Program costs. The Government authorized the redirection of approximately \$119 million of the original \$126 million to the Department of Justice for the Program.

10.38 The Department has provided only piecemeal financial information to parliamentarians rather than complete, systematic, and authoritative information. For example, until 2002-03, the Department's annual reporting to Parliament on its plans and priorities and departmental performance contained little financial information on the Program. This most recent reporting continues to fall well short of the government's reporting principles. These annual reports are key sources of information that enable Parliament to scrutinize expenditures and performance.

10.39 Furthermore, the entire Program was designated as a Major Crown Project. Treasury Board policies require departments, at a minimum, to annually report the following types of information to Parliament:

- * description of the program,
- * leading and participating departments and agencies,
- * total expenditures to date and planned expenditures for future years to the completion of the project,
- * prime and major sub-contractors,
- * major milestones, and

* progress reports and explanations of variances.

The Department has not fully reported this information.

Supplementary estimates were inappropriately used

10.40 Departments obtain funding through main annual appropriations from Parliament. If they need additional funds during a given year they request these through further appropriations called "supplementary estimates." Between 1995-96 and 2001-02, the Department obtained only about 30 percent of \$750 million in funds for the Program through the main appropriations method; in comparison, it obtained 90 percent of funding for all of its other programs through the main appropriations. Little additional information was given to explain the need for major supplementary estimates for the Program other than the required brief one-line statement that identified that the funds were for the Program.

10.41 To enable Parliament to maintain control over the public purse, departments ask for approval of supplementary estimates only for unanticipated expenditures not approved by the Treasury Board in the normal business cycle or for those which cannot be estimated in advance. We note that it has been clear for some time that fees collected have not covered Program costs and that the Department should have told Parliament that this was the case rather than maintaining that cost recovery was feasible and continuing to use supplementary estimates.

Accountability for all Program costs was not maintained

10.42 In September 2001, we asked the Department to provide us information on expenditures and revenues for the Program since 1995-96, for audit purposes. We requested that this information be prepared on a basis consistent with the framework used by the Department to obtain the Government's approval of Program funds. We made this request because, in our view, it would allow for clear and consistent accountability to Parliament and the Government for the use of funds. Program management at the time of our audit was not aware of the approach previously used by the Department to obtain Government approval for funding. We provided this framework in October 2001 in response to the Department's request.

10.43 The approach that the Department had used to obtain the Government's approval for funding is called "activity based costing." This approach linked expenditures to particular activities, such as Program management, training, communication, and the Canadian Firearms Registry System. It also showed how much money was provided to the RCMP and to each Chief Firearms Officer for Program activities.

10.44 In 1996, the Department of Justice emphasized to the Government the usefulness of using an activity based costing framework. It told the Government that the financial implications of the Program were being analyzed through a detailed activity based costing exercise. It also assured the Government that it would prepare a detailed and accurate evaluation of the costs involved in setting up the Program once this analysis was completed.

10.45 In February 2000, the Department informed the Treasury Board Secretariat that it would continue to develop and implement a Program-wide "Activity Based Costing/Activity Based Management/Activity Based Budgeting" system. The Department made this statement in response to the Secretariat's requirements and departmental management's need for accurate costing and budgeting information. To achieve this goal, the Department told the Treasury Board Secretariat that in January 1999 it had established a team consisting of two consultants, one senior financial analyst, and four financial analysts. The Department issued contracts to develop and expand its activity based costing framework. Between 1998 and 2000 it spent over \$560,000 on these contracts.

10.46 However, during our audit, the Department's Canadian Firearms Centre told us that it could not readily provide the Program cost information in a way that was consistent with the framework. This was because the approach "is not currently used by [the Centre's] management for reporting purposes and therefore is not readily available through its existing Financial Management System." Centre officials also said that they were searching their files and contacting former employees to find out whether clear definitions of the cost categories previously used were available.

10.47 In June 2002, after much discussion, the Department gave us what it called its "best and final" effort to prepare information on expenditures and revenues as we requested. The Department agrees that it had difficulties in providing information in a manner consistent with the approvals given by Government. However, it also stated that it saw "little merit" in doing this since it believes that the information was not useful for managing the Program.

The financial information provided does not fairly present all costs

10.48 In our view, the financial information provided for audit by the Department does not fairly present the cost of the Program to the government. Our initial review found significant shortcomings in the information the Department provided. Consequently we stopped our audit of this information that because we did not believe that a detailed audit would result in substantially different findings.

10.49 The shortcomings that we identified include the following:

- * The Department provided information only on costs incurred by the Department's Canadian Firearms Centre, not the total cost of developing, implementing, and delivering the Program. The information provided by the Department indicated that between 1995-96 and 2001-02 about \$688 million had been recorded in its accounts as spent on the Program.

- * Potential significant costs were not included for services provided without charge by the Department and other federal government departments and agencies, including such items as all litigation costs relating to the constitutional court challenges, total accommodation costs, and full employee benefit costs.

- * The Department did not provide the financial information in a framework that is consistent with that used to obtain Government approval of funding.

- * The Department had major difficulties in distinguishing between expenditures for project implementation and ongoing operations. This problem particularly affected two of the largest categories of costs: communications activities and the development and implementation of computer systems supporting the Canadian Firearms Registration System. The amounts allocated to these areas in various official documents differ significantly from one another. For example, one document provided to us stated that for 1997-98 the cost of the Canadian Firearms Registration System was about \$13.5 million. However, the document provided to us for audit purposes stated that this amount was about \$20 million.

- * The Department had not yet conducted audits of claims worth about \$135 million made for reimbursement of Program expenditures by third parties such as the RCMP and provincial governments. These audits are the responsibility of the Department under agreements with such parties and would have provided assurance on whether the claims were appropriate. Further, a preliminary departmental review of one province's claims indicated that the province was not able to locate supporting documentation for the amounts claimed and subsequently paid by the Department.

10.50 Additional reasons why we decided to stop our audit of the Department's expenditure and revenue information included the following:

- * there have been major changes to the Departmental financial systems since 1998;
- * changes in financial staff since 2000 have resulted in a lack of corporate knowledge for past years; and

- * Departmental internal audits found significant weaknesses in how the Department manages Program revenues.

History of cost escalation

In 1996 the Department recognized that funding assumptions were unrealistic

10.51 By November 1996, the Department had concluded that its 1994 estimate for required funds and expected revenues were based on a series of assumptions that were no longer realistic. At this point it asked for and the Government approved another year in which to implement the Program. It estimated that it would need an additional \$193 million to implement its part of the Program from 1996-97 to completion in 1999-2000. It was given an increase of approximately \$166 million. This figure included

- * increased funding of about \$71 million from the Treasury Board;
- * a \$40 million "loan" from the Treasury Board that had to be repaid with interest by 2005-06, but which was forgiven in 2000; and
- * a reallocation of about \$55 million to the Department of Justice from funds earmarked for Correctional Service Canada and the National Parole Board.

10.52 The Department told the Government that it needed the additional funding because major delays in making regulations made it impossible to implement the Canadian Firearms Registration System until early 1998. It also stated that if needed the extra funds because several provinces announced that they would opt-out of implementing the Firearms Act. Furthermore, it noted that funding for several needed initiatives was lacking. These initiatives included

- * combating trafficking in firearms;
- * increasing screening of applicants and notifying former and current spouses of an application as required by amendments to the Firearms Act;
- * covering lost revenue due to proposed waiving of licensing and registration fees resulting from Aboriginal and treaty rights protected by the Canadian Constitution (the regulations waived fees for sustenance hunters whether or not they were Aboriginal peoples);
- * establishing a central licence and registry processing site in New Brunswick;
- * training police, customs officers, wildlife officers, prosecutors, and the judiciary on the provisions of the Firearms Act;
- * obtaining international co-operation and providing international leadership on firearms control;
- * co-ordinating policy development with several other federal departments; and
- * registering firearms imported and exported by non-residents and businesses.

10.53 The Department also stated that it needed additional money because its original estimates of \$5.50 for processing owner licences and \$4.60 for processing firearms registrations were too low. These estimates were revised to \$23.75 for processing licences and \$16.28 for registering a first firearm. As a result of this, the Department estimated that it needed approximately \$60 million in additional funds.

10.54 The Department reiterated the need to provide funds to Correctional Service Canada and the National Parole Board. It also noted that project costs could be unpredictable; for example, it could not estimate the expenditures needed to ensure that the information in the Canadian Firearms Registration System and related systems was accurate. Finally, the Department noted that unpredictability about compliance with the Program could have a large impact on costs.

In May 1998, program costs were estimated to be \$544 million

10.55 In May 1998, the Department obtained Effective Project Approval for the Canadian Firearms Registration System from the Treasury Board and a total of about \$544 million was allocated to the Program for the period 1995-96 to 2002-03. The Department told the Treasury Board Secretariat that the overall Program would achieve its objectives with the approved resources. In November 1998, the Department told the Treasury Board Secretariat that, although certain planning assumptions had changed, the project was going well, and would still be delivered on time and within the approved resource limits.

10.56 However, within weeks of starting to accept applications in December 1998, the Department again concluded that many of its underlying assumptions about funding estimates for the Canadian Firearms Registration System were invalid. It informed the Treasury Board Secretariat of this problem in February 2000.

By February 2000, program cost estimates had increased to \$764 million

10.57 In February 2000, the Treasury Board approved further increases to Program funding, bringing the total estimated costs to about \$764 million for the period 1995-96 to 2002-03. However, this estimate did not include all Program costs.

10.58 The Department explained to the Government that the increase of \$220 million for the period 1999-2000 to 2002-03 was needed because costs for developing and implementing the Program were more than expected. The Department stated that the increase stemmed from significant differences between actual experience and planning assumptions. More specifically,

- * a large percentage of businesses had decided to register individual firearms when sold rather than register their inventories before the Program implementation date;
- * **about 90 percent of the licence and registration applications contained errors or omissions, which was higher than the predicted 20 percent for licences and 40 percent for registrations; and**
- * **initially the Department had predicted that most applications could be handled on paper without having to contact owners; however, high error and omission rates led to it having to contact many more owners than expected.**

10.59 The Department also noted that its assumptions about the rate at which it would receive applications for licences and registrations were incorrect. By 1999, only about six percent of an initially estimated three million owners had applied for a licence, and less than three percent of an initially estimated seven million firearms had been registered. Given that so few people were applying for licences, the Department predicted a major backlog would occur just before the 1 January 2001 deadline for licensing. It expected that dealing with the expected backlog would be very difficult, given that it had already had trouble efficiently processing the relatively small number of applications it had received before February 2000.

10.60 The Department concluded that cost recovery could not be achieved as planned. Its actual experience was very different from its assumptions, and revenues were down as a result of low participation. The Department also concluded that revenues would be lower given that it had reduced its estimate of firearms owners by almost 1 million (from 3.0 million to 2.2 million) and firearms by over 1 million (from 7 million to 5.9 million).

By May 2000, the Program cost estimates rose to more than \$1 billion

10.61 In May 2000, the Department told the Government that it was implementing a Program Improvement Plan and that it would take another two years, until 2004-05, to fully implement the Canadian Firearms Program. It also estimated that it would need \$680 million to implement the Program during the period 2000-01 to 2004-05. The Government approved both the funding increase and the time extension. Together with previous expenditures of \$327 million from 1995-96 to 1999-2000, the total forecasted expenditure for the Program was over \$1 billion. The Department currently estimates that this expenditure will be offset by \$140 million in revenue after refunds by 2004-05.

10.62 The Department stated that the Program Improvement Plan would enable it to license most firearms owners by the 1 January 2001 deadline. Key components of the plan included an aggressive advertising campaign, an outreach initiative, a simplified application form, streamlined processing, an upgrading of the Canadian Firearms Registration System computer system, and the issuing of temporary licences to meet the licensing deadline.

10.63 The Government approved postponing achieving complete cost recovery until the Program was fully operational. This postponement included reducing and waiving some fees. The Department estimated that the Program will be implemented by 2004-05 at a cost of over \$1 billion, significantly more than the original estimate of \$119 million. It no longer expects fees to cover the cost of developing and implementing the Program since it estimates that it will have collected only about \$140 million in revenues after refunds by 2004-05.

In February 2001, a new plan to restructure the Program was approved

10.64 In February 2001, the Government approved a new plan to restructure the Program. The Department told the Government that the Restructuring Plan would reduce future costs by \$180 million from 2001-02 to 2004-05. July 2001 departmental documentation indicates that the Department revised downward its estimate of potential savings to a range of \$88 million to \$128 million. It is unclear whether the Department conducted analyses to justify these estimates of savings, or whether they were simply established targets.

10.65 The Department's March 2002 Report on Plans and Priorities to Parliament indicated that during 2002-03 to 2004-05, planned Program spending would total about \$289 million. However, in February 2001 the Government was told that the Restructuring Plan would reduce spending during this period to about \$170 million.

10.66 The Plan consisted mainly of the following elements:

- * reducing excessive regulation,
- * replacing the Canadian Firearms Registration System by outsourcing key Program components, and
- * consolidating some Program responsibilities located in other departments under the Department.

The program became excessively regulatory

10.67 In February 2001, the Department told the Government it had wanted to focus on the minority of firearms owners that posed a high risk while minimizing the impact on the overwhelming majority of law-abiding owners. However, the Department concluded that this did not happen. Rather, it stated that the Program's focus had changed from high risk firearms owners to excessive regulation and enforcement of controls over all owners and their firearms. The Department concluded that, as a result, the Program had become overly complex and very costly to deliver, and that it had become difficult for owners to comply with the Program.

10.68 The Department said the excessive regulation had occurred because some of its Program partners believed that

- * the use of firearms is in itself a "questionable activity" that required strong controls, and**
- * there should be a zero-tolerance attitude toward non-compliance with the Firearms Act.**

10.69 In March 2001, the Department told the Treasury Board Secretariat that it was having discussions with police representatives about the enforcement of the licensing requirements. It stated that, in particular, police agencies will be encouraged to exercise discretion case by case, focussing on instances of licensing omissions where there is a clear criminal intent.

10.70 To further reduce the burden and complexity of the Program's requirements and increase the registration rate, the Government authorized substantially reducing the amount of required information and allowing owners to file applications through the Internet. The Department concluded that the amount of information required from applicants exceeded what was needed to classify most types of firearms being registered.

10.71 The Department indicated that owners were having trouble providing all the information needed by the RCMP to properly classify their firearm. The Department told the Government that the registration form discouraged compliance and promoted a high number of errors or omissions, in part because questions were not clear and easily understood. In July 2002, the Department told us the information required on the registration form was "simply reduced to that required by the Firearms Act in response to client preference." However, the Department told the Government in March 2001 that the deleted information was not required by the Firearms Act.

10.72 About 85 percent of registration applications had to be manually processed because of incomplete information. To deal with this problem, the Government approved a more flexible standard for classifying firearms and directed that the emphasis should be placed on properly classifying firearms that might be restricted or prohibited.

Restructuring involves replacing an expensive, three-year-old computer system

10.73 As previously noted, to control the development of the Program, the Treasury Board designated the entire Program as a Major Crown Project. A major element of the Program is the computer system for the Canadian Firearms Registration System. The scope of the computer system projects were well beyond the Department's previous experience. The Department's internal audits indicate that there were several major project management problems, including a lack of a formal financial reporting framework until the project was well underway, and a high number of orders for changes in the design of the system. For example, the Department told the Treasury Board Secretariat that by 1999 the number of orders for changes for the system was over 1,000.

10.74 In 2001, the Department told the Government that the three-year-old Canadian Firearms Registration System was not working well; its technology was expensive, inflexible, out-of-date, and could not be modified at a reasonable costs to support future operations. Construction and maintenance costs of the existing system were exceptionally high and without radical change, these would represent over 60 percent of future operating costs. This would be significantly higher than the industry norm of 10 percent to 20 percent.

10.75 According to the Department, the Canadian Firearms Registration System information technology was modified several times before and after licensing and registration began in December 1998. The technology was developed in parallel with repeated changes to Program forms, rules, and processes, and before legislation and regulations were finalized. The Department stated that the complexity of the system increased unnecessarily because

- * many of the design assumptions were invalid;
- * the system was intended to capture detailed information about firearms for criminal investigations and process licence and registration applications; however, the information needed for criminal investigations was well beyond the administrative needs of the Program; and
- * small changes, such as modifications in data entry on a form, required major changes in the whole system because of its size and complexity, and these changes typically took three to six months to implement at a cost of millions of dollars.

10.76 The Government approved outsourcing the Canadian Firearms Registration System as part of the Restructuring Program Plan. Outsourcing involved freezing its development, looking for a more cost-effective replacement, and trying to make it more flexible to user needs. A contractor started work in April 2002 to develop a solution. The contractor's proposal involves replacing the System's computer software with existing private sector approaches. The eventual cost of the solution is still to be determined by the Department.

Some responsibilities are being moved to the Department of Justice

10.77 As part of the Restructuring Plan, the Government decided to consolidate some additional statutory authority for the Program under the Minister of Justice. Proposed amendments to the Firearms Act will create a Commissioner of Firearms within the Department and transfer the Registrar from the RCMP to the Department. The legislation had not been passed at the time of writing.

10.78 These steps are being proposed because the Department stated it was having trouble maintaining a consistent policy. It stated that it did not have direct control over key functions that resided with other jurisdictions and federal departments, and that its only available lever for maintaining consistent policy was controlling funding. The Department stated that its lack of direct control was a major cause of the Program implementation difficulties, and the reason why the Program focussed on regulation and enforcement of controls rather than on high-risk owners.

Failure to follow Treasury Board's approval processes contributed to problems

10.79 Since the Program is a Major Crown Project, the Department of Justice was expected to follow an approval process for it, intended to minimize the risk of failure and overspending. The Department should have first obtained a Preliminary Project Approval from the Treasury Board and then an Effective Project Approval. With each step, it was expected to provide more complete and definitive information. The project should not have been started until the Effective Project Approval was obtained from the Treasury Board. Subsequent regular reports on implementation were expected, including the use of a framework that allowed comparison of the actual expenditures to those authorized by the Government.

10.80 Contrary to Treasury Board policy, the Department began implementing the Program in December 1995, more than two years before receiving either Preliminary or Effective Project Approval. The Department informed the Treasury Board Secretariat of this in March 1998 when it sought Preliminary Project Approval and the Treasury Board gave its approval in April 1998.

The Department also stated that it would implement an accountability structure and properly identify and manage risks. In addition, a Firearms Control Project Interdepartmental Steering Committee was established. Co-chaired by the Deputy Secretary of the Treasury Board and the Department, this Committee was expected to meet monthly, or even more frequently, to address issues and concerns and report to a Government committee. In May 1998, the Treasury Board gave the Department Effective Project Approval.

Poor management contributed to the escalation of costs

10.81 Internal audits conducted by the Department indicated deficiencies such as:

- * lack of sufficient strategic planning;
- * lack of a national workload management process to balance workloads;
- * long-standing problems among the Canadian Firearms Centre and the processing sites involving communications, staff relations, and the need to adapt to changes in direction from the Centre; and
- * unilateral decision-making by the Centre even when this was in apparent opposition to the interests of its partners.

10.82 These problems and their implications were not reported to the Government; however, we believe they contributed to the increase in Program costs. The Department told us that the most of the cost increases were due to the reasons that had been reported to the Government.

There were deficiencies in the management of revenues and refunds

10.83 Department of Justice internal audits conducted in 2000 and 2001 raised serious concerns about the control of revenues and refunds. For example, a December 2001 internal audit report identified deficiencies such as the following:

- * information on revenue in applicant files was inaccurate, and revenue and licenses could not be reconciled;
- * financial information supplied by the Canadian Firearms Centre to the Receiver General for reporting purposes was not timely and complete;
- * processing of refund requests was handled manually because the supporting documentation was often incomplete; and
- * revenue deposits had gaps in sequentially assigned deposit numbers.

10.84 In April 2002, Program management indicated that it generally agreed with the internal audit observations and that it would take corrective action. Management also stated that a financial capability would be developed as part of contracting out the Canadian Firearms Registration System to manage revenues and refunds.

Conclusion and Recommendation

10.85 The Department of Justice did not provide Parliament with sufficient information to allow it to effectively scrutinize the Canadian Firearms Program and ensure accountability. It provided little financial information and insufficient explanations for the dramatic increase in the cost of the Program. In 1995 the Department told Parliament that the Program would cost \$119 million to implement, which would be offset by \$117 million in revenues. The Department states that by 2001-02 it has spent about \$688 million and collected about \$59 million in net revenues after refunds. However, implementation is not yet complete.

10.86 The Department currently estimates that by 2004-05 it will spend at least \$1 billion on the Program. This amount does not include all financial impacts on the government. The Department also did not report to Parliament the wider costs of the Program as required by the government's regulatory policy.

10.87 The Department has offered many reasons for the cost escalation, including major delays in passing regulations, provinces opting out of the Program, the need for additional initiatives, wrong assumptions about the rate it would receive applications for licences and registrations, and an excessive focus on regulation and control.

10.88 We requested information from the Department of Justice on Program expenditures and revenues for audit purposes prepared consistent with the reporting framework used by the Department to obtain Government approval of funds for the Program. We stopped our audit when an initial review indicated that there were significant shortcomings in the information provided. We did not believe that a detailed audit would result in substantially different findings. We concluded that the information does not fairly present the cost of the Program to the government.

10.89 Recommendation. The Department of Justice, using a meaningful activity-based reporting framework should annually provide Parliament in its departmental performance report complete, accurate, and up-to-date financial and management information on the following:

- * the full costs to develop, implement and enforce the Canadian Firearms Program;
- * all revenues collected and refunds made;
- * forecast costs and revenues to the point at which the Department expects the Program to become fully operational, including details on outsourcing major components of the Canadian Firearms Registration System and moving certain headquarters functions to Edmonton; and
- * complete explanations for changes in costs and revenues, and changes to the overall Program.

Department of Justice Canada's response. The Department of Justice accepts all four recommendations of this audit.

The Department of Justice acknowledges that implementing this program across Canada was a significant logistical, technical and management challenge. In the interest of public safety, and in response to recommendations from the public and Parliament, changes were made to the initial program design that increased its cost. Other factors that contributed to the increased cost include: the development of a complex computer system, the withdrawal of some provinces and territories leaving the federal government to assume responsibilities for administration, and the waiver or reduction of fees to encourage compliance.

The implementation of a restructuring plan, which included a simplified application process and a redesigned system, has already yielded cost reductions. The government has tabled amendments to the Firearms Act (C-10) that would further improve program efficiency and allow for alternative means of program delivery.

The licensing and registration phases of the program are nearing completion. Improvements to reporting for this program have already been included in the Report on Plans and Priorities and the Departmental Performance Report. Working with other federal departments and agencies, the department of Justice will provide further information to Parliament on the full costs of the program to the federal government. For example, steps have been taken to report to Parliament in the Main Estimates of 2003-04 and on an annual basis thereafter about program costs.

Public safety is the objective of this initiative, and costs have to be viewed in relation to increased safety achieved with this program. It is worth noting that under the new program, 50 times more license revocations from potentially dangerous individuals have occurred as compared to the last five years of the old program.

The Treasury Board Secretariat's response. The Secretariat notes that the Department of Justice faced significant challenges in implementing a program of this magnitude and originality. More

specifically, the program was an unprecedented undertaking marked by significant logistical, policy, design, and legislative challenges.

With regard to program costs, the Secretariat is aware that it was always understood that original estimates would be revised in response to the demands of program implementation. Moreover, the \$1 billion estimate for program costs is a forecast through to 2004-05, not a reflection of costs to date.

About the Audit

Objectives

The purpose of this chapter is to present the results of our audit of expenditures and revenues associated with the Canadian Firearms Program. Our specific objectives were as follows:

- * To assess whether the statement of financial information prepared by the Department of Justice on the Canadian Firearms Program presents fairly the expenditures and revenues of the Program for the period 1995-96 to 2001-02, on a basis consistent with the framework used by the Department to obtain Government approval of funds for the Program.
- * To provide Parliament with information on the changing costs and scope of the Program since its beginning.

Scope

The audit scope includes an examination of information on expenditures and revenues relating to the Canadian Firearms Program, including relevant planning, recording, and reporting aspects that may have financial implications. We did not examine the efficiency and performance of the Program.

Our examination took into account the major events surrounding the development and implementation of the Canadian Firearms Program since 1995-96. We examined information obtained from the Department of Justice, the Royal Canadian Mounted Police, Correctional Service Canada, the National Parole Board, and other federal departments and agencies.

Criteria

We assessed the information on expenditures and revenues relating to the Canadian Firearms Program based on the following audit criteria. The Department of Justice, with respect to expenditures and revenues of the Program, should

- * report to Parliament, and the Government complete and accurate financial and related information on expenditures and revenues for the period 1995-96 to 2001-02 on a basis consistent with the reporting framework used by the Department to obtain Government approval of funds for the Program;
- * comply with relevant legislation, regulations, and Government decisions and directives;
- * have in place the necessary systems and practices to ensure proper financial management, control over transactions, and the reporting of financial information provided to Parliament and others; and
- * prepare and report estimates of resource requirements based on complete and accurate information.

Audit team

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