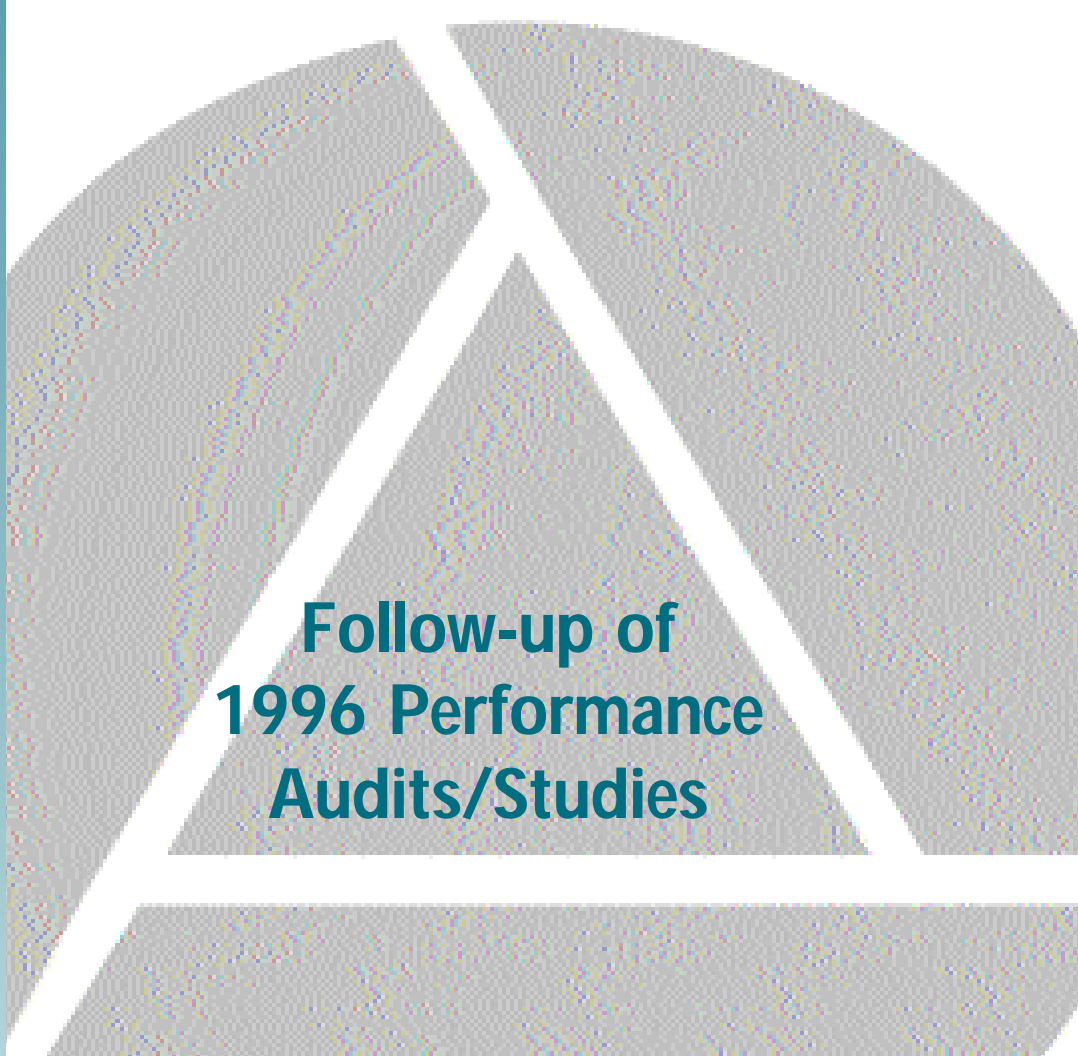


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OFFICE OF THE
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table of contents

Auditor General's Comments	1
Introduction	3
Follow-up Reports	
British Columbia Ferry Corporation	
Fleet and Terminal Maintenance Management	5
Operational Safety	21
Ministry of Finance and Corporate Relations	
Revenue Verification for the Social Service Tax	37
Ministry for Children and Families	
Management of Child Care Grants	51
Ministry of Transportation and Highways	
Vancouver Island Highway Project: Planning and Design	59
Insurance Corporation of British Columbia	
Trucking Safety	73
Crown Corporations Governance Study	89
Appendix	
Office of the Auditor General: Performance Audit Follow-up - Objectives and Methodology	101

auditor general's comments



This report presents the results of my Office's follow-up work on six performance audits and one study issued in 1996.

The audits and the study included a number of recommendations. Our recommendations are designed to improve public sector performance, and are an important value-added component of my Office's work. We conducted this follow-up to provide the Legislative Assembly and the public with timely information on the progress of management in implementing the recommendations.

We asked management of the organizations with responsibility for the matters examined in the audits and the study to provide us with written reports describing action taken with respect to the recommendations. We also asked for documentation and interviewed staff to substantiate those actions. My staff then reviewed this information and the written reports to determine if the information reported was presented fairly, in all significant respects. I am pleased to say that, for each report we reviewed, we concluded that it was.

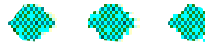
In this report, we provide a summary of each of the original audits and the study and our overall conclusions from them, followed by each organization's response to our request for an accounting of progress.

I found that some action has been taken to implement most of the recommendations we made in our audits and the study although, in some cases, the work is proceeding slowly. I recognize that government continues to undergo reorganization and downsizing, both of which affect the availability of resources. Nevertheless, I believe it is important that work in implementing these recommendations continue.

I wish to express my appreciation to the staff and executives of the government organizations concerned for their cooperation in preparing the follow-up reports, providing the appropriate documentation and assisting my staff throughout our reviews.

George L. Morfitt, FCA
Auditor General

Victoria, British Columbia
May 1998



introduction

This report provides information about the extent to which the recommendations arising in the performance audit reports and one study issued during 1996 have been implemented by the organizations responsible.

The audits were:

- British Columbia Ferry Corporation
(1995/96 Report 2)
**Fleet and Terminal Maintenance Management
Operational Safety**
- Ministry of Finance and Corporate Relations
(1995/96 Report 4)
Revenue Verification for the Social Service Tax
- Ministry of Women's Equality
(1996/97 Report 1)
Management of Child Care Grants
- Ministry of Transportation and Highways
(1996/97 Report 3)
**Vancouver Island Highway Project:
Planning and Design**
- Ministry of Transportation and Highways
(1996/97 Report 4)
Trucking Safety

The study was:

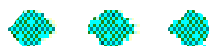
- (1996/97 Report 2)
Crown Corporation Governance Study

Our approach was to ask management of each of the government organizations with responsibility for the matters examined in our original audits and the study to provide us with a written report describing their progress in implementing the recommendations they had agreed to when the audits were first done.

We sent our requests to management for follow-up reports in December 1997 and, in February and March of 1998, reviewed each of the written responses we received to ascertain whether they were factually correct and fair. Our objective was to assess whether the progress being reported was plausible in the circumstances (Appendix).

These examinations were reviews rather than audits and so they provide a moderate rather than a high level of assurance. They were, however, all carried out in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted of enquiry, document review, and discussion.

In all the reports we reviewed, nothing came to our attention to cause us to believe that the reports did not present fairly, in all significant respects, the progress each organization had made in implementing the recommendations arising from our original audits and the study.



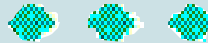
British Columbia Ferry Corporation: fleet and terminal maintenance management

British Columbia Ferry Corporation: fleet and terminal maintenance management

The British Columbia Ferry Corporation has 40 vessels and 43 terminals that have to be properly maintained in order to provide a safe and reliable service. To be able to provide a service that is not only safe and reliable, but also cost-effective, the corporation needs an asset maintenance program that is both effective and efficient.

In February 1996, we reported the results of our audit which assessed the adequacy of the corporation's maintenance program and the extent to which it measured the achievement of intended results, including obtaining value for money. We carried out the audit between October 1994 and January 1995.

In December 1997, we asked the corporation to provide us with a report on its progress in implementing the recommendations arising from the audit. The corporation's response and our review comments follow.



summary of original audit report

Audit Purpose

The purpose of this audit was to assess the adequacy of the corporation's maintenance program and the extent to which the corporation measured achievement of the program's intended results, including obtaining value for money.

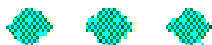
We defined maintenance as those activities that are required to ensure that capital assets—vessels and terminals—are safe and reliable from an operational point of view, and reasonably protected from loss of value resulting from “wear and tear” associated with use. We looked at the preventive maintenance, repair, refit and minor rehabilitation components of the corporation's maintenance program.

Overall Conclusion

We concluded that the corporation's vessels, related equipment, and terminal assets—specifically, marine structures—were maintained so that they were operationally safe and reliable. However, we could not determine whether the corporation's maintenance activities were cost-effective because the corporation did not have the information necessary to permit such an assessment.

The corporation's maintenance program lacked several elements required to enable the corporation to ensure that vessels and terminals were being maintained in a cost-effective manner. The corporation needed to define clearly the objectives for its maintenance program, and to establish standards for asset condition, cost, and maintenance practices. In addition, the corporation did not have an adequate information system by which the costs and results of maintenance activities could be measured.

The corporation recognized the need for better information about its maintenance program and had been developing a maintenance management system to address the problem. In view of the corporation's commitment to implement such a system, we planned to follow-up the results of this undertaking.



follow-up

Office of the Auditor General Review Comments

Information provided by the British Columbia Ferry Corporation regarding progress in implementing the recommendations included in our 1996 audit report is set out below (in color). We reviewed this information to see if it is fairly stated, in all significant respects.

We carried out our review during February and March 1998. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the corporation's progress report does not present fairly, in all significant respects, the progress made in implementing the recommendations reported in our 1996 audit report.

British Columbia Ferry Corporation Progress Report General Comments

The British Columbia Ferry Corporation welcomed the opportunity to work with the Auditor General in undertaking the audit of the Management of Fleet and Terminal Maintenance.

This area continues to be a corporate priority and the Auditor General's overall assessment and recommendations for improvement have been accepted by the Corporation and used in its ongoing strategic and operational planning.

Organizationally, the Corporation is currently undergoing a significant restructuring into two business units, one of which will operate the major routes and one the minor routes. This is designed to allow us to better manage our affairs and to achieve our commercial objectives while maintaining our safety and public policy mandates.

Overall, the Corporation believes it has made significant progress in responding to the recommendations in the original audit report. However, the Corporation has been operating under financial constraints and some actions have been delayed.

At the time of the maintenance audit the Corporation had already begun a major maintenance management initiative. Considerable progress has been made, including the successful introduction of a new inventory system and the initial phased introduction of the new maintenance system into Deas Dock, the fleet and terminal maintenance offices. The Corporation remains committed to this initiative but its implementation timetable has been delayed as a result of financial restraint.

Managing the Maintenance Process

Financial Accountability for Maintenance

In the original audit report we had noted:

Although responsibility and authority for fleet maintenance had been adequately established, financial accountability was not clear.

The budgeting process was fragmented. Each of three Area Engineering Managers was responsible for operational and financial management of the 11 to 17 vessels assigned to their area. The operating cost of each vessel was charged to the Area Engineering Manager's budget but refit costs were shared between the budgets of the three Area Managers and the Manager-Deas Dock Refit Complex.

If maintenance work was carried out by a vessel's crew, the costs were charged to the Area Engineering Manager's budget. If the work was carried out by Deas Dock staff, the costs were charged to the Deas Dock budget, although it was reported as a charge to an individual vessel. In both cases, the Senior Chief Engineer of the vessel was responsible for the quality of the work, but had limited control over—and was not held accountable for—the costs.

The Area Engineering Managers who oversaw the refit work did not control, and were not responsible for the refit costs charged to their vessels for work done by Deas Dock personnel. Also, costs were charged to the engineering budget for maintenance work carried out for the Deck and Catering Departments. These departments requested work but were not responsible for the costs.

We had recommended:

The corporation should develop an appropriate budgeting process that clearly allocates financial accountability.

Corporation Response

The Corporation acknowledges the need for greater financial accountability for vessel maintenance costs. The process of devolving on-board maintenance budgets to Senior Chief Engineers has already begun. Prior to full devolution/delegation of budgets, however, the Corporation recognizes the need to provide further financial training to all of its Senior Chief Engineers.

It is our view that such training will ultimately lead to Senior Chief Engineers assuming full responsibility for both the development and the subsequent monitoring of all vessel maintenance costs and budgets.

In the meantime, the Business Manager for Engineering and Construction liaises closely with the Area Engineering Managers to review and monitor all budgets and costs relative to vessel maintenance.

Loss of Productivity

In the original audit report we had noted:

Deas Dock was the point of assembly for employees who carried out the majority of the maintenance work required at Horseshoe Bay and Tsawwassen terminals. Some of this work took place in the extensive shops at Deas Dock, but many of the staff traveled from Deas Dock every day. Once travel time was deducted, staff who serviced Horseshoe Bay were left with only about three or four hours per day for actual work. Staff who serviced Tsawwassen had somewhat more time available for work. A feasibility study done in 1991 indicated that relocation of the point of assembly for some employees from Deas Dock to North Vancouver would generate approximately \$100,000 net savings per year after a first year transition loss of approximately \$75,000. At the time of our audit, the corporation had not changed the point of assembly as proposed in the feasibility study.

We had recommended:

The corporation should address, without further delay, the loss of productivity associated with having staff, who perform terminal maintenance at Horseshoe Bay and Tsawwassen terminals, assembling at Deas Dock.

Corporation Response

The Corporation is in the process of rectifying this situation. Tsawwassen Maintenance Crews have relocated to Tsawwassen terminal thereby achieving significant improvements in crew productivity.

The Corporation also plans to relocate its Horseshoe Bay Maintenance Crews. A facility at Horseshoe Bay will be necessary to accommodate its Terminal Maintenance personnel. Several options have been identified and these are presently being evaluated.

Maintenance Objectives and Performance Standards

In the original audit report we had noted:

To be able to assess the effectiveness of its maintenance program, the corporation must determine what it hopes to achieve from that program.

Until shortly before our audit, cost-effectiveness of maintenance had not been a major issue for the corporation. The dominant goal of all maintenance activities had been to maintain service and to ensure that assets were safe and functional.

In general, we found a culture in the organization that was geared towards adequate maintenance of assets. Nevertheless, to ensure that maintenance activities were better focused and that value for money was obtained, we believed the corporation should more specifically define its maintenance objectives. First, the general objectives of safety, reliability, and value for money needed to be translated into measurable objectives. Second, standards needed to be developed to translate these into measurable indicators of success or failure.

Standards translate the broad statements describing the objectives of the corporation's maintenance program into clear and measurable indicators of success or failure. They describe what the characteristics of a successful maintenance program are, how those characteristics will be measured, and what the minimum acceptable level of performance will be. Maintenance standards could be expressed in terms of optimum operating status and acceptable variances, responses to equipment failure, or other performance-related criteria.

Because the corporation had not adequately defined its maintenance objectives, it had been unable to establish standards or benchmarks of performance in terms of asset condition, cost, or maintenance process. For example, although the corporation values safety, reliability, and efficiency, it was not clear as to how these attributes would be measured or what the minimum levels of acceptable performance would be.

We had recommended:

The corporation should establish clear, measurable results-based objectives for its maintenance program, and include performance standards relating to those objectives.

Corporation Response

The following are the results-based objectives of the Maintenance Management Project (MMP):

- One common and standardized maintenance management system
- Establishment of a “business management system” to provide total maintenance accountability
- Further develop personnel skills and improve employee motivation through education and skills enhancement
- Focus on “fundamental maintenance practices” that will facilitate achieving the maintenance management mission.
- Enhance the execution of maintenance tasks and improve management’s ability to evaluate performance through the implementation of modern information management technologies

Maintenance performance measures that reflect these objectives have been developed and are currently under review by the MMP Steering Committee. They include indices related to:

- Cost
- Work Order
- Planning and Scheduling
- Stores/Material Control
- Staffing
- Contractors
- Equipment

Standardization of Preventive Maintenance Procedures

In the original audit report we had noted:

Although a number of sister ships shared similar maintenance requirements, required procedures had not been standardized. Emphasis on preventive maintenance was also different in each of the five Terminal Maintenance areas.

We believed that a more consistent approach to maintenance of similar assets would enable the corporation to identify and apply the most effective and efficient processes.

We had recommended:

The corporation should develop consistent maintenance procedures for performing similar maintenance activities on similar asset groups.

Corporation Response

To achieve this objective the Corporation has decided to replace the existing manual systems with a new computer-assisted, maintenance management program, which considerably expands capacity to do multi-year planning and scheduling while at the same time harmonizing both vessel and terminal maintenance records. The new Computerized Maintenance Management System (CMMS) is onboard only one ship at the moment, the Skeena Queen, which was selected to permit tracking of lifetime costs for a new vessel. The continuing implementation schedule is outlined in the next section.

Standards for the asset management of terminal facilities are well underway and are expected to be completed by the end of this fiscal year.

Maintenance Information

In the original audit report we had noted:

The corporation did not have the information that would enable it to ensure that its maintenance activities were carried out cost-effectively.

The corporation's financial information system was primarily a budget-expenditure tracking system. It did not provide the type of information that senior management needed to manage a maintenance program. Several recent reviews conducted by the corporation had concluded that the corporation's information systems did not effectively support operations. Missing were data collection and analysis processes that it needed to determine whether its maintenance program was effective, economical, and efficient. The corporation recognized this as a critical management issue and had launched the Maintenance Management Project to address it.

The primary goal of the Maintenance Management Project was to create a corporate system that would achieve the optimum amount of maintenance at the appropriate value, in order to maximize cost-effectiveness. A second goal of the project was to provide the foundation for an effective and efficient asset management program.

The corporation had earmarked \$10 million for the development of this system over three years. Implementation of the system was targeted for completion by mid-1997.

We had recommended:

The corporation should continue its efforts to develop an adequate maintenance management information system—one that is capable of providing appropriate information to operational managers in the corporation, as well as information required for accountability reporting.

Corporation Response

The Maintenance Management Project has been significantly delayed due to financial restraints but is still seen as a priority within the Corporation.

The following summarizes the status of tasks to date:

A stand-alone computerized maintenance management system (CMMS) database was developed for the Skeena Queen during its construction phase. The application software has been operating on the vessel since June 1997. System functionality is limited to the work order module at present.

Development of the central database for all fleet vessels was initiated in May 1997 with base profiles for each vessel in the equipment module. As of January 1998, the surveyable equipment for 15 major vessels has been registered.

The Corporate networked CMMS is installed at the Deas Dock Refit Complex. The work order module has been operating since June 1997. The CMMS materials and purchasing modules replaced the existing Materials Management Information System (MMIS) in December 1997. The CMMS electronically interfaces with the existing corporate financial system.

The CMMS has been installed in the Area Engineering Manager's office at Tsawwassen. This system will also be installed in the Area Engineering Manager's office at Horseshoe Bay before the end of the 1998 fiscal year.

A wireless ship to shore communication system was successfully tested in January 1998. The CMMS will be operating on the Queen of Cowichan before the end of the 1998 fiscal year. The remaining 'C' class vessels will receive the system during the 1999 fiscal year. Conversion of the stand-alone CMMS on the Skeena Queen to the corporate networked CMMS will be done when the wireless communication system is available in that area. The Fast Ferry will receive the system at the appropriate time during its construction schedule.

Replacement of the existing maintenance management systems in the Terminal Maintenance areas is scheduled to begin during the 1999 fiscal year.

Inventory Management

In the original audit report we had noted:

To ensure that necessary repairs could be made to the corporation's equipment, the corporation maintained an inventory of spares and replacement parts. In total, these inventories represented a significant investment.

Most of the corporation's inventory was held at Deas Dock and included capital spares (items of high value that normally have low turnover ratios, and items repaired and serviced by the trades as part of the repair/exchange program), and consumables (items that must be replaced on an ongoing basis). The Materials Management Department had a computerized inventory system that tracked quantity, location, and cost of inventory at Deas Dock. At the time of our audit, approximately \$10 million in capital spares and \$5.4 million in consumables were located there. A further \$5–7million of inventory was held on board the 40 vessels, and \$1.2 million was held at the five terminal maintenance yards. These values for inventories held on board the vessels and at the terminal yards were only estimates because there were no complete records and they were not included in the financial statements of the corporation.

Each vessel was expected to have the correct spares on board for all propulsion and energy systems, as required for the effective operation of the vessel and as required by the Canadian Coast Guard and the classification societies. We found that each vessel had an inventory of parts and consumables on board but better inventory records were needed to properly manage these inventories.

Similarly, inventory held by Terminal Maintenance was neither tracked nor controlled, and no comprehensive inventory management system or inventory records existed. Instead, each area had a different and informal process for tracking inventory, with most using simple generic organization of inventory and a visual survey.

We concluded, therefore, that the corporation's inventory management system needed improvement. At the time of our audit, the corporation could not ensure that its inventories were managed effectively or efficiently.

We had recommended:

The corporation should develop an appropriate inventory management process, and implement it throughout the organization.

Corporation Response

More comprehensive records coupled with each site and vessel having access to the information will give the Corporation a better ability to reduce onboard and individual terminal inventories. This requires the establishment of satellite stores both physically and in the Computerized Maintenance Management System (CMMS). It also requires the development of reliable ship-to-shore communication.

A new inventory management process has been implemented at Deas Dock and it is planned to use this system to manage the inventories of every vessel in the fleet. This initiative will be rolled out progressively.

Evaluating Performance

In the original audit report we had noted:

Since the corporation did not collect the necessary information, it could not carry out formal evaluations of fleet or terminal maintenance performance. The corporation informally assessed its performance by noting how often a vessel was unable to sail at its scheduled time because of mechanical failure or a ferry was unable to load or unload as a result of a ramp breakdown.

The corporation also relied on outside evaluations of its vessels by Canadian Coast Guard and classification societies. These organizations regularly inspected the vessels and reported any concerns to the corporation.

The corporation's Operational Safety and Standards Division carried out audits of vessels about three times a year. As part of these audits it reviewed the condition of equipment on board the vessels. The audit of major vessels during August 1994 showed the vessels to be "generally in good mechanical condition," and that maintenance to be "carried out well and in a timely manner."

Although the results of the corporation's maintenance program—no significant recent failures—reflected the adequacy of maintenance work, we believed that, without evaluating the performance of the maintenance program against standards and benchmarks, the corporation had no assurance that maintenance objectives or value for money was achieved.

We had recommended:

The corporation should periodically evaluate its maintenance program to determine if it is achieving its intended results and if the corporation is obtaining value for money from its maintenance.

Corporation Response

The Corporation has developed specific performance criteria to measure the effectiveness of its maintenance program. They provide indices in the following areas:

- Cost
- Work order
- Planning and Scheduling
- Stores/Material Control
- Staffing
- Contractors
- Equipment

Data is being captured this refit season at the Deas Dock facility which will establish a reliable base for use in future analysis.

Reporting to the Board

In the original audit report we had noted:

At the time of our audit there was limited accountability information provided to the board about the corporation's maintenance program. Maintenance program information was related mainly to budget compliance.

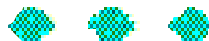
Although confirmation that the maintenance program was operating within defined financial limits was important to management and the Board of Directors, it did not reveal much about the extent to which the program was achieving its intended results, nor did it facilitate comparison of the effectiveness of the program relative to past performance or other benchmarks.

We had recommended:

Senior management should regularly report to the Board of Directors on the extent to which it is achieving the intended results of its maintenance program.

Corporation Response

Management's Capital Program & Budget Committee reports the status of the Maintenance Management Project periodically to the Board of Directors. Once sufficient maintenance data has been collected and analyzed, performance criteria will also be reported.



British Columbia Ferry Corporation: operational safety

British Columbia Ferry Corporation: operational safety

The British Columbia Ferry Corporation is an integral part of British Columbia's coastal transportation system. Its mission is "to satisfy customer, community and government needs for safe, efficient, effective and reliable ferry transportation services." The corporation takes this mission seriously, especially as the risks it faces range from minor damage of equipment to injury or death to passengers or crew, and loss of a vessel or terminal. Given these risks, operational safety is viewed as the highest priority of the organization.

In February 1996, we reported the results of our audit of whether the corporation was meeting the requirements for operating a safe coastal ferry transportation system. We focused our audit on the period from October 1994 to February 1995.

In December 1997, we asked the corporation to provide us with a report on its progress in implementing the recommendations arising from the audit. The corporation's response and our review comments follow.



summary of original audit report

Audit Purpose

We conducted our audit to assess whether the corporation was meeting the requirements for operating a safe coastal ferry transportation system.

We focused our audit on the safety of passengers, crews, vessels and terminals, and on the prevention of damage to property. We looked at current processes in place, planned changes, and the historical safety record of the corporation.

The criteria we used in the audit were based on the requirements of the Canada Shipping Act and the regulations, codes and standards made pursuant thereto, the standards of the corporation, and good management practices.

Overall Conclusion

We concluded that the corporation met most of the requirements for operating a safe coastal ferry transportation system. At the same time, however, we identified a number of important areas where safety and administrative procedures should be improved. The corporation recognized the need for these improvements and was moving to address them.

Although we found a number of areas that needed attention, we were not implying that the ferry system was unsafe. The corporation's employees, surveyors with the Canadian Coast Guard we interviewed, and insurance consultants were all of the opinion that the corporation had a good safety record and that the system was safe, given its diversity and complexity and the volume of passengers transported.

We found that the corporation was committed to operational safety. This commitment was well integrated into corporation plans, structure, policies and procedures, delegation of authority, and decision making processes. It was also well understood by staff. The concepts embodied in the safety policies and strategic plan were consistent with the requirements of both the Canada Shipping Act and the International Safety Management Code.

The corporation's vessels carried all the emergency equipment required under the Canada Shipping Act. The equipment was approved by Canadian Coast Guard and was kept in good working order. The corporation also staffed its vessels with crews that possessed qualifications equal to or higher than those required by the Canada Shipping Act, and its terminals with employees who met the organization's standards.

We thought the corporation should focus its attention on the following three areas. First, the corporation needed to monitor emergency drills and practices system-wide to ensure they were carried out consistently and according to federal regulations and corporate policies. It also needed to review the conduct of these drills to evaluate officer leadership, crew skills and proficiency, and communication. At a limited number of randomly selected fire and boat drills we attended, we noted significant problems in these areas and thought the corporation needed to assess the extent to which these problems might exist throughout the fleet. Second, the corporation needed to provide more training in some areas to ensure employees properly performed their assigned duties in emergencies. It also needed to assess whether crew size and capability were sufficient to deal with emergencies involving the number of passengers carried by its vessels. Third, the corporation needed to request a ruling from the Board of Steamship Inspection about its practice of operating its two northern overnight vessels with some interior watertight doors in the open position.



follow-up

Office of the Auditor General Review Comments

Information provided by the British Columbia Ferry Corporation regarding progress in implementing the recommendations included in our 1996 audit report is set out below (in color). We reviewed this information to see if it is fairly stated, in all significant respects.

We carried out the review during March, 1998. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the corporation's progress report does not present fairly in all significant respects, the progress made in implementing the recommendations included in our 1996 audit report.

British Columbia Ferry Corporation Progress Report

General Comments

The British Columbia Ferry Corporation welcomed the opportunity to work with the Auditor General in undertaking an audit of Operational Safety.

This area continues to be a corporate priority and the Auditor General's overall assessment and recommendations for improvement have been accepted by the Corporation and used in its ongoing strategic and operational planning.

Organizationally, the Corporation is currently undergoing a significant restructuring into two business units, one of which will operate the major routes and one the minor routes. This is designed to allow us to better manage our affairs and to achieve our commercial objectives while maintaining our safety and public policy mandates.

Overall, the Corporation believes it has made significant progress in responding to the recommendations in the original audit report. However, the Corporation has been operating under financial constraints and some planned actions have been delayed.

The Corporation is proud of its continuing achievements in operational safety and has made significant progress in its plans to implement the comprehensive International Safety Management Code of the International Maritime Organization. It obtained a Document of Compliance for the safety management system in September 1997 and is now progressing through a phased program of individual vessels obtaining their own safety management certificates.

Committing to Operational Safety

In the original audit report we had noted:

In preparation for adoption of the International Safety Management Code, the corporation had requested that Lloyd's Register of Shipping conduct an audit in September 1994 to compare the corporation's policies and procedures with the requirements of the International Maritime Organization. This audit pointed out that safety policies were contained in a number of different manuals and that the contents appeared to be varied. Also, there was no documentation of an established policy to describe the corporation's objectives and how they would be achieved. The audit recommended that obsolete and outdated manuals be withdrawn and physically removed from all locations.

The corporation had acted on the recommendation and had made substantial revisions to its operations manuals and expected to begin distributing them throughout the fleet in June 1995. The old manuals were to continue to be in effect until September 1995 and would be progressively withdrawn commencing at that time as the new manuals were introduced. In the intervening period, the policies and procedures contained in the corporation's operations manuals would continue to be outdated and not include all safety issues.

We had recommended:

The corporation should ensure that safety policies and procedures are current, complete, and properly documented.

Corporation Response

The adoption of the International Safety Management (ISM) Code, the marine equivalent of ISO, has resulted in the publication of new issues of the following manuals:

- Fleet Operations
- Fleet Engineering
- Occupational Safety and Health
- Security
- Terminal Operations
- Environment
- Human Resources
- Safety Management System (This manual describes how the BC Ferries Safety Management System works.)

The manuals are controlled in accordance to the ISM procedure, which ensures that they are current, complete and that amendments are properly documented. All old manuals have been withdrawn.

Managing Risks

In the original audit report we had noted:

The corporation's approach to risk management was to review individual marine incidents, rely on the work of insurance consultants, and carry out audits and inspections. These steps were useful but did not provide the corporation with a comprehensive analysis of its primary risks and the costs associated with them. The corporation also needed to analyze incident trends to determine the causes of marine accidents, including the impact of human error.

We had recommended:

The corporation should:

- introduce a comprehensive risk management program directed at improving the level of operational safety; and
- undertake a comprehensive review of marine incidents on vessels and at terminals to determine root causes, including the impact of human error.

Corporation Response

At the moment, each department is individually responsible for the management of risk in their particular area. The Corporation has directed all risk-related information be shared across departments.

One of the key components to sharing information is to ensure that various incident databases being maintained across the Corporation can “talk” to one another. Some databases have been tracking information related to incidents for the last ten years. By coordinating the information being collected by these databases, hazardous trends become evident and can be analyzed and presented to management in a focused format. British Columbia Ferry Corporation requirements in this area are currently being identified and alternatives for meeting them examined.

Management has recognized that risk management cannot be based on historical data alone. A voluntary individual safety observation reporting system (VISORS) has been developed to encourage reporting of near misses and unsafe conditions or practices.

The Corporation recognizes that human factors are responsible for a significant number of British Columbia Ferry Corporation incidents. The problem lies with determining the underlying or root cause for such human error. It is understood that no employee would purposefully cause an accident therefore there must be some elemental reason for his/her actions.

Employees are encouraged to report all accidents/incidents and near misses. Depending on the severity of the incident, a formal investigation is conducted to determine cause. In all cases data is collected and tracked.

British Columbia Ferry Corporation is constantly seeking to improve its accident investigation process. At the moment, options for further training of its key investigators are being considered. Such training will focus on human error and encourage the uncovering of root cause.

Staffing of Vessels and Terminals

Training

In the original audit report we had noted:

The corporation staffed its vessels with employees who met or exceeded the requirements set out in the Canada Shipping Act, and its terminals with employees who met corporation standards. However, the corporation needed to provide more training in emergency crowd control and additional refresher training for returning seasonal employees. The corporation also needed to review the impact of changes in crew continuity on team cohesion and emergency response to establish the effect, if any, on safety.

We had recommended:

The corporation should consider ways to provide more refresher training, and conduct research for improving emergency crowd control strategies.

Corporation Response

There is ongoing refresher training in a number of regulatory safety-related areas: Lifeboat, Occupational First Aid, Emergency First Aid, Marine Emergency Duties, and Food Handling. Moreover, the Corporation reviewed its practices in regard to training and as a result implemented the following improvements:

- **The Corporation has instituted a pilot course to upgrade and refresh the firefighting skills of the crews on major vessels. The contractor delivering this training consists of a group of professional marine firefighters with considerable experience in all types of shipboard fires. As uniform standards are achieved and maintained, the intent is to have the contractor move onto other ships in the fleet.**
- **Marine Safety and Occupational Health and Safety training for seasonal employees has been upgraded significantly. As of the summer of 1997, employees who had not worked for the Corporation for one full year were given the equivalent of five days of Marine Safety training instead of one.**

Moreover, the International Maritime Organisation (IMO) has recently introduced a new Convention on Standards of Training Certification and Watchkeeping (STCW) to which Canada is a signatory. STCW will require all ships crew to be formally trained in handling passengers in an emergency,

including the elderly, disabled and infants. BC Ferries is working closely with Transport Canada, Marine Safety to determine the content of such training. Once this has been determined BC Ferries will either develop a course in-house or look to an external training institute to offer the necessary training.

Crew Sizes

In the original audit report we had noted:

The corporation had carried out an assessment of four vessels to determine whether levels of staffing were sufficient to deal with emergencies involving the numbers of passengers carried. Similar assessments had not recently been carried out for the other vessels.

We had recommended:

The corporation should carry out an assessment of all vessel classes to determine whether crews are sufficient and capable of dealing with emergencies involving the numbers of passengers carried.

Corporation Response

The Corporation conducted a study in November, 1996 to examine this issue. Criteria were developed to evaluate the number of crew necessary in an emergency. It was found that crew complements on all major vessels were more than sufficient to handle their emergency duties, including crowd control. On all major vessels there are dedicated passenger control personnel whose duty is to keep passengers calm and reassured and to prepare them in the event of an emergency.

It was found that smaller crew complements which exist on minor vessels meet all Transport Canada, Marine Safety requirements. However, it is recognized that in certain emergencies it may be necessary to request assistance from able bodied passengers. On some routes where the majority of passengers are commuters who travel regularly, these commuters have been familiarized by the crew to help out in emergency situations.

The Corporation recognizes that in any emergency situation training is critical. The additional crowd control training required by the STCW will give crew greater confidence in their ability to deal with large numbers of passengers in an emergency situation.

Executing Operational Safety Policies and Procedures

Fire and Boat Drills

In the original audit report we had noted:

The corporation carried out fire and boat drills as required by regulations and the results of the drills were reported to senior management. However, the corporation did not monitor such drills on a system-wide basis to ensure their consistency and uniformity, nor did it evaluate the crew's ability to handle the number of passengers carried in an emergency. We attended a limited number of randomly selected drills. While some aspects of the drills were performed satisfactorily, we observed significant problems. Improvement was required in officer leadership, skills and proficiency of ships' crews, and communication. We also noted that drills sometimes were not done to the satisfaction of Canadian Coast Guard surveyors, and that BC Ferries crews themselves had concerns about the nature, extent and quality of the drills. The corporation needed to determine the extent to which problems existed with fire and boat drills, and develop an effective program to address any identified concerns.

We had recommended:

The corporation should:

- ensure system-wide uniformity and consistency of crew skills and proficiency in the execution of fire and boat drills, and a crew's ability to handle the number of passengers carried in an emergency; and
- determine the extent to which the problems associated with officer leadership, skills and proficiency of ships' crews, and communications noted during our observations at a limited number of randomly selected fire and boat drills, exist elsewhere in the fleet, and develop an effective program to address identified concerns.

Corporation Response

BC Ferries has implemented a "Proficiency Team" composed of professional seafarers to tour vessels, observe drills, and debrief the crews on what they have seen. Proficiency teams use a standardized audit form, as approved by the British Columbia Ferry Corporation Council of Masters and regional operational managers, to ensure uniformity of crew skills in an emergency situation. At the conclusion of each proficiency drill, the proficiency team meets with officers of the vessel to provide a debriefing and evaluation.

Watertight Doors on Northern Vessels

In the original audit report we had noted:

The corporation needed to clarify whether its practice of operating its two northern vessels with some interior watertight doors in the open position met regulatory requirements.

We had recommended:

The corporation should request a ruling from the Board of Steamship Inspection on its practice of operating northern vessels with some interior watertight doors in the open position.

Corporation Response

Board of Steamship Inspection was requested to review the practice of operating with watertight doors open. Their decision was that “doors should be kept shut while the vessel was underway, except when required to be opened for the safe working of the vessel.”

British Columbia Ferry Corporation retained the services of a naval architect consultant to review the stability of the vessels concerned, and to identify the definitive requirements for stability. Instructions have been issued to close certain watertight doors to increase the level of safety in the event of flooding. This has led to certain cabins (11 rooms, approximately 40 berths) being unavailable to the public.

Marine Safety have indicated that they would further review the requirement for operating with closed doors if British Columbia Ferry Corporation could provide technical solutions which would ensure an equivalent level of safety. This option is being explored.

*Transporting Dangerous Goods**In the original audit report we had noted:*

Preboarding inspection practices for commercial vehicles were carried out in accordance with the Transport of Dangerous Goods Act and corporation policies. However, there was a lack of uniformity amongst terminals in preboarding inspection practices intended to identify and regulate the transportation of dangerous goods by non-commercial vehicles.

We had recommended:

The corporation should:

- assess the level of risk presented by non-commercial vehicles transporting dangerous goods and determine whether the random spot checks adequately address the risks; and
- ensure uniformity and consistency in the application of dangerous goods pre-boarding inspection practices for non-commercial vehicles.

Corporation Response

In order to assess the risk level of dangerous goods that may be carried in non-commercial vehicles, it would be necessary to conduct a survey by inspecting a random number of noncommercial vehicles for dangerous goods. However, random inspections by the Corporation of non-commercial vehicles is not supported by statute.

Although employees do not have the right to compel a vehicle operator to submit to an inspection of his/her cargo, in an aim to ensure the safety of our crew and passengers, British Columbia Ferry Corporation does conduct random inspections, given voluntary compliance. If a vehicle operator refuses to voluntarily comply, and an employee has reason to believe that the vehicle contains prohibited dangerous goods, the Ferry Corporation Act allows the Corporation to refuse transport to that vehicle. The employee would then contact the police and arrange for an inspector to conduct a search of the vehicle.

Currently signs are posted at every ticket booth providing notice to vehicle operator's of their obligation to declare dangerous goods. British Columbia Ferry Corporation has also prepared and distributed to the public a brochure entitled "Important Information About Dangerous Goods."

Both the Transport of Dangerous Goods Act and the Canada Shipping Act exempt from regulations a wide variety of goods if the packaging size is below a certain volume. These are called Consumer Commodities and refer to thousands of products which are in use daily. Transportation of these commodities in vans or pick-up trucks does not pose a significant danger.

As stated above, there is no legislative requirement for British Columbia Ferry Corporation to inspect or check non-commercial vehicles for dangerous goods. However, in an effort to ensure the safety of the travelling public and its own crews, British Columbia Ferry Corporation will publish a Dangerous Goods Policy and Procedure manual in early 1998. This manual will consolidate in one section the policies and procedures published in other manuals and provide managers and supervisors with one reference text on the subject. For example, it requires the Loading Officer to conduct and log daily inspections for dangerous goods.

The requirements for shore staff to conduct checks is outlined in the Terminal Operations manual. Before the vessel loads, the loader is to check all recreational vehicles to ensure that propane tank valves are closed and the seal is attached. Ticket agents are instructed to ask every commercial vehicle driver if they are transporting dangerous goods.

Evaluating Operational Safety Objectives

Implementing Strategy

In the original audit report we had noted:

The corporation was in a period of significant transition from a highly centralized to a regionalized structure. The corporation had developed corporate and divisional strategic plans which identified safety as its highest priority. In addition, the corporation had formulated a mission statement, objectives, and strategic initiatives. However, we did not find assignment of key responsibilities, important performance benchmarks, an implementation time schedule, or a monitoring and reporting process. In our opinion, inclusion of these remaining elements in the strategic plan was needed to allow the corporation to manage and evaluate the change process.

We had recommended:

The corporation should complete the development of the comprehensive implementation strategy to manage and evaluate initiatives aimed at improving operational safety.

Corporation Response

Implementation of the Corporate Strategic Plan began in September 1995 and is ongoing. Action items are identified for each divisional objective. These responsibilities have been assigned and a time schedule set. Periodic divisional activity reports are provided to the Executive Management Committee which monitors progress.

In addition, introduction of the International Safety Management Code has made a significant improvement in managing and evaluating initiatives aimed at improving operational safety.

Evaluation Framework

In the original audit report we had noted:

In both its mission and corporate value statements, the corporation underlined that safety was its highest priority. We found, however, that the corporation had not translated these general statements into a useful evaluation framework with achievable performance indicators that could be periodically measured and evaluated. For example, safety might be measured in terms of the number of injuries or deaths and the number of accidents or near misses in relation to the number of miles travelled or passengers carried. These measures might be compared to other similar transportation organizations to provide a benchmark against which to evaluate the corporation's performance. The corporation had recognized the need for improvement in this area and was working to develop performance measures.

We had recommended:

The corporation should develop an evaluation framework and appropriate performance indicators to determine the extent to which corporate safety objectives have been achieved.

Corporation Response

British Columbia Ferry Corporation's strategic plan has as Goal A "To Foster and Maintain A Culture of Safety." In order to evaluate the extent to which this goal is being met, a number of performance measures have been developed and are reported on a quarterly basis. They include:

- Injury Severity Rate
- Injury Frequency Rate
- Customer Confidence in British Columbia Ferry Corporation's Operational Safety

- **Number of Passenger-Related Safety Incidents Per 100,000 Passengers**
- **Total Fuel Consumption Per 1,000 AEQ Miles**
- **Greenhouse Gas Emissions Produced**
- **Number of Regulatory Violations and Non-Compliance**
- **Number of Environmental Spill/Incidents**

Refinement of the measures and the establishment of benchmarks and targets is ongoing.

Reporting to the Board

In the original audit report we had noted:

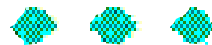
There was reporting to the Board of Directors on individual operational safety matters as and when required. This information was provided to the President and Chief Executive Officer by the Senior Vice President, Operations and Customer Services, in his monthly report. However, information was not provided to the board on the extent to which operational safety objectives were met.

We had recommended:

The corporation should provide information to the board on a regular basis about the extent to which operational safety objectives are being met.

Corporation Response

The above performance measures are included in the Corporate Performance Measures Report presented to the Board on a quarterly basis. More detailed Occupational Safety and Environmental reports are also made on a quarterly basis. Finally, the monthly report to the Board summarizes operational activities, including accidents and incidents. It is proposed that an analysis of operational safety issues will be included in this report at quarterly intervals.



Ministry of Finance and
Corporate Relations:
revenue verification
for the social service tax

Ministry of Finance and Corporate Relations: revenue verification for the social service tax

The Social Service Tax Act imposes a social service tax on purchases and leases of tangible personal property and certain services within the province. It is the purchaser, lessee, or user of tangible personal property, including taxable services, who pays the tax and usually the vendor who collects it. In some instances, such as when purchases are made outside the province but are brought into British Columbia, the tax must be remitted directly by the purchaser. Responsibility for the administration and collection of the tax falls to the Ministry of Finance and Corporate Relations. The ministry collects taxes, administers the legislation, ensures legislation is applied fairly and consistently, promotes voluntary compliance, and enforces the tax legislation in the absence of voluntary compliance.

In June 1996, we reported the results of an audit of the revenue verification activities for social service tax in British Columbia. We focused our audit mainly on activities undertaken by the ministry in the period from April 1994 to November 1995.

In January 1998, we asked the ministry to provide us with a report on its progress in implementing the recommendations arising from the audit. The ministry's responses and our review comments follow.



summary of original audit report

Audit Purpose

The purpose of this audit was to assess whether the methods used by the ministry to maximize social service tax revenues while maintaining the integrity of the tax administration system were cost-effective, and whether the ministry was reliably estimating the size of the gap between tax revenues collected and those that were due.

Overall Conclusion

We concluded that the ministry's methods for maximizing social service tax revenues and maintaining the integrity of the tax system were cost-effective. The ministry provided sufficient information and education to taxpayers to ensure that they were aware of their responsibilities. Its enforcement staff conducted audits and inspections that identified non-compliance and unpaid taxes. This work was carried out according to clear and consistent strategies and appropriate procedures by qualified staff. However, the results of work in identifying unpaid taxes indicated that significant amounts of tax revenue, well in excess of the estimated cost of employing the additional resources required to find them, remained to be identified.

There was also scope for improvement in a number of other areas which would assist the ministry still further in its efforts to use its existing resources in the most efficient way. First, the ministry had not made the most effective use of its powers to prosecute offenders for non-compliance. However, to be able to counteract the growth the province had experienced in instances of serious non-compliance with the tax legislation, the ministry had developed policy options and made recommendations for legislative changes. Second, the ministry needed to improve its management information systems. Only with relevant and timely information could it more efficiently manage the program, and measure performance against objectives. Third, the ministry had not carried out extensive work on estimating the size and nature of the gap between taxes collected and those that were due although it had done some work in this area. It was not unique in this regard, as other tax jurisdictions were also exploring how to obtain this information. We encouraged the ministry to continue with its efforts in this area.

Finally, we concluded that the ministry should provide more information on its performance to the Legislative Assembly and the public.



follow-up

Office of the Auditor General Review Comments

Information provided by the Ministry of Finance and Corporate Relations regarding progress in implementing the recommendations included in our 1996 audit report is set out below (in colour). We reviewed this information to see if it is fairly stated, in all significant respects.

We carried out the review in March 1998. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the ministry's progress report does not present fairly, in all significant respects, the progress made in implementing the recommendations included in our 1996 audit report.

Ministry of Finance and Corporate Relations Progress Report General Comments

The Ministry of Finance and Corporate Relations welcomes the opportunity to participate in this update to the 1996 report, Revenue Verification for the Social Service Tax, issued by the Office of the Auditor General (OAG). We have made significant progress in implementing many of the recommendations and agree that these initiatives will ultimately enhance our effectiveness in collecting provincial tax revenues and maintaining the integrity of the tax system.

The Audit and Inspection Process

In the original audit report we had noted:

The Consumer Taxation Branch formalized a comprehensive planning framework based on an assessment of the risk of non-compliance. The approach involved the development of a five-year general audit plan and a more detailed annual audit plan. Both of these plans addressed a variety of risk areas, beginning with the three main categories related to the collection and remittance of tax: failure to collect tax, failure to remit tax, and failure to self-assess taxes due. Other risks to be considered included loss of voluntary compliance, changes in technology or business environment, and other governments' legislation, policies, or procedures directly affecting the branch's ability to ensure compliance.

Implementation of the plans was to be overseen by an audit steering committee and an audit working committee. The steering committee's responsibilities were to include defining long-term goals, setting measurable objectives and overseeing the working committee. It was, at the time of our audit, refining the audit selection process and expected to have it ready for implementation in early 1996.

The audit working committee's responsibilities were to include preparing the annual audit plan, specifying types of audits and their location, staffing, coordination with other branches, and expected results. The committee was also to monitor audit results and resources, identify significant tax issues for referral to the audit steering committee, and report regularly to that committee. We believed that if implemented as planned, these arrangements would ensure that the ministry would make still more effective use of its audit resources.

We had recommended:

The ministry should continue its efforts to set clear targets for the different categories of audit carried out by the Consumer Taxation Branch and individual offices. Performance against these targets should be closely monitored to measure the extent to which they are achieved.

Ministry Response

The ministry implemented a comprehensive five-year audit plan in early 1996. The five-year plan established overall, long-term goals for improving the efficiency and effectiveness of our audit program. It also incorporates annual audit plans

which provide specific objectives for the different categories of audits conducted by the branch. An audit steering committee has been established to oversee the long-term objectives of the audit planning process. An audit working committee is responsible for developing and implementing the annual audit plans, measuring audit performance, and reporting to the steering committee on a quarterly basis.

The plans are designed to be flexible so that we can identify high-risk areas and better target our audit resources. This approach allows us to constantly monitor our operations and our performance to make the most effective use of our audit resources. Results so far demonstrate that we have achieved improvements in our audit recovery through this comprehensive planning process.

The Tax Gap

In the original audit report we had noted:

Determining the size of the gap between revenues collected and those which are due involved estimating the nature and size of the underground economy as well as considering other factors relating to each industry sector. It requires obtaining reliable information and having the necessary systems to process the data. Obtaining reliable information is difficult and the process of calculation is complex, and to our knowledge, at the time of our audit, no tax jurisdictions had made significant progress in this area.

The ministry recognized that information on the size and nature of the revenue gap would help in determining the extent to which it was maximizing tax revenues and the level to which it was maintaining compliance across all industry sectors. It would also help the ministry to set specific targets for compliance and for revenues to be collected, as well as assist the ministry in determining the level of resources it required and how best to use them to meet its targets. The ministry had already done some work in this area. It had been developing methods to determine the nature and size of specific areas of the underground economy and other factors leading to the identification of non-compliance by industry sectors.

We had recommended:

The ministry should continue its efforts to estimate the size of the gap between taxes due and those collected.

Ministry Response

The ministry continues to recognize the importance of knowing the gap between taxes due to the province and taxes collected. This information can assist us in measuring the effectiveness of our programs and in allocating resources. However, while we have achieved some success in measuring the tax gap in very specific situations, the necessary data are often difficult to obtain, especially where it relates to the underground economy. As the OAG's audit acknowledges, the province is not aware of other jurisdictions in North America having made significant progress in measuring their tax revenue gap with respect to sales taxes.

The ministry is in the early stages of updating its consumer tax management information systems. We are hopeful that the new system, with its improved data collection and processing capabilities, will better assist us in measuring the tax gap for specific sectors where reliable information is available.

In the interim, the ministry has begun an analysis of our effectiveness by comparing trends in tax revenues with other business indicators, such as gross domestic product (GDP), retail sales levels, and machinery and equipment investment. While such comparisons do not directly measure the size of the tax gap, they can indicate the general effect that the ministry's efforts are having on compliance with the tax statutes. The analysis completed to date indicates the social service tax revenues have increased in line with these indicators. This suggests that our efforts are having the desired effect of maintaining voluntary compliance with the Social Service Tax Act.

Offenses, Penalties, and Prosecutions

In the original audit report we had noted:

The Social Service Tax Act provides the ministry with extensive powers to prosecute offenders, and stipulates a range of court-imposed monetary fines and prison terms for different types of offences. At the time of our audit, the ministry had not used these powers; rather, it had applied administrative penalties and interest for non-compliance. However, the ministry was finding that relying on administrative enforcement measures alone was inadequate to counteract the recent growth in the underground economy and other instances of serious non-compliance with the tax legislation. The ministry had identified this as an issue, and had completed a study of the policy options, and made recommendations for legislative changes.

We had recommended:

The ministry should implement an effective prosecution policy and communicate it to taxpayers.

The ministry should collect information on the amount of penalties imposed by type, to aid it in assessing the extent to which penalties are applied.

Ministry Response

At the time of the OAG audit, the ministry had already studied various policy options in this area. Our review concluded that it would be in the public interest to pursue court prosecutions for the most serious, wilful, or repeated offenses against the Social Service Tax Act. Examples of such offenses include wilfully failing to remit taxes that have been collected, or making sales without a valid social service tax registration certificate. The ministry is now evaluating the resource impact that such a policy will have on both the Ministry of Finance and Corporate Relations and the Ministry of Attorney General. We are also taking steps to ensure that it is implemented in a manner that is consistent with Crown Counsel and Royal Canadian Mounted Police (RCMP) policy.

To this end, we have reviewed our files to identify sample cases that might be appropriate for prosecution. We have initiated discussions with Crown Counsel and the RCMP to assist us in determining the resources required to undertake a proper investigation and prosecution of such cases. We are also consulting with them about selecting suitable cases for

prosecution, obtaining proper court evidence for such cases, and ensuring that appropriate procedures are followed to enhance our effectiveness in pursuing a prosecution. Once this evaluation is complete, the ministry will make appropriate recommendations and funding requests to proceed with a prosecution policy.

With respect to the recommendation that the ministry should collect information on the amount of penalties imposed by type, we are considering this recommendation as part of our review of our management information system.

Staff Resources

In the original audit report we had noted:

It was clear that the enforcement work carried out by the audit and inspection staff available at resource levels at the time of our audit was cost-effective. In 1995, the ministry's auditors and inspectors carried out approximately 3,000 audits and identified \$45 million of tax non-compliance. The average value of unpaid revenues assessed by each auditor in 1995 was \$535,000; the average salary and benefits cost of each auditor was \$50,000.

The ministry had used various models to determine the optimum number of staff needed to collect revenues in industry sectors where the degree of compliance was known, however, staff had not been made available to meet those optimum levels. Although the return on work carried out by existing staff indicated that it would be cost-effective to employ additional resources to further reduce the extent of non-compliance and increase revenues, the ministry in 1995 reduced the number of enforcement staff.

We had recommended:

The ministry should develop a long-term resource planning strategy for enforcement work which takes into account the full cost and benefits of such work.

Ministry Response

The ministry recognizes the OAG's conclusion that, despite our success in identifying unpaid taxes in a cost-effective manner, significant unpaid tax revenues remain to be identified, which well exceed the cost of the additional resources required to identify them.

In 1996, the ministry reviewed the resource needs for its consumer tax programs, including the social service tax. This

review included an analysis of the costs and benefits of additional staff, and the estimated additional tax recovery expected. It supported the conclusion that additional audit staff could be hired, with the result that revenue recovery would well exceed the costs. The study resulted in a long-term resource plan and recommended a series of staffing increases over the next few years.

With the support of the recommendations made in the OAG's 1996 report, the ministry received funding for an additional 36 audit-related positions in 1997/98. We have requested funding for additional positions in 1998/99.

Management Information Systems

In the original audit report we had noted:

The ministry's management information systems were outdated. The systems did not allow management easy access to data, nor opportunity to easily manipulate the data so as to be able to measure its efficiency in managing the program and its success in meeting program objectives. Where possible, information was downloaded from the system onto personal computers, then reformatted as needed. Some useful information was produced, although this was an inefficient process.

We had recommended:

The ministry should develop an appropriate management information system that would meet the needs of both the Consumer Taxation and the Revenue Administration branches.

Ministry Response

As the OAG reported in 1996, the ministry has a number of outdated computer systems that were developed in the 1970s when computer technology was less developed. These systems are no longer adequate for responding to today's challenges. To address our systems needs, we have developed a three-phase project to develop and implement a new information system for the Consumer Taxation and Revenue Administration branches. This project is referred to as "CTB21." The intent is to replace several outdated systems with an integrated management information system that better meets the ministry's business needs. At the same time, we will address the "Year 2000" date problem which governments and industry are facing worldwide.

The ministry has established a steering committee and committed internal resources to this project. In 1996, the tender for CTB21 was awarded to a consortium lead by IBM, which includes ISM BC Ltd. and Sierra Systems Consultants. Phase 1, completed in early 1997, summarized the business problems faced by the branches, looked at alternative ways to address these problems, and produced a feasibility study of these alternatives. This study resulted in a strategy plan for Phases 2 and 3 of the project.

Treasury Board has approved funding to proceed with Phase 2, which began on June 2, 1997 with the signing of an agreement between the ministry and IBM. The IBM team is focusing on the business process re-engineering and technical infrastructure design, while the team from Sierra Systems Consultants will develop the high level systems requirements. In addition, the Consumer Taxation and Revenue Administration branches have committed staff resources to work on various aspects of the project through its completion.

Phase 3 will see the building of the application systems and supporting technical infrastructure, followed by systems implementation. At the end of this phase, the ministry should be equipped with an appropriate information system for the 21st century.

Reporting to the Public and the Legislative Assembly

In the original audit report we had noted:

The ministry had a clear set of objectives governing its administration of the Social Service Tax Act, although the objectives did not extend to specific compliance and other targets against which performance could be easily measured. In addition, the ministry made very little information available to the Legislative Assembly and general public, so these stakeholders were unable to determine how well the ministry was meeting specific objectives and whether overall, it was administering a fair, equitable, and consistent tax system.

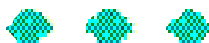
We had recommended:

The ministry should provide the Legislative Assembly and the public with more detailed and timely information about its performance in administering the social service tax, in terms of both outputs and outcomes achieved.

Ministry Response

The ministry appreciates the value of this recommendation. In our 1995/96 and 1996/97 annual reports, we provided more detailed information on our performance in administering provincial tax collection, including the social service tax. These reports included more quantitative data, such as the number of audits completed and the revenues recovered through assessments, the average tax recovery per auditor, and collections on debt accounts. As well, we reported on a greater number of special activities designed to improve the collection and remittance of tax revenues due to the province.

The ministry has also contacted tax administrators in the other provinces and territories to identify possible alternatives for reporting to the public and elected officials. While we found that other jurisdictions generally employ the same reporting mechanism as our existing approach, an annual report from the minister, we will continue to seek input and to work with the OAG to develop suitable approaches for reporting our performance in the future.



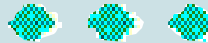
Ministry for Children and Families: management of child care grants

Ministry for Children and Families: management of child care grants (formerly the responsibility of the Ministry of Women's Equality)

In British Columbia, as in the rest of Canada, families are becoming more diverse in their composition, work patterns and needs. As people continue to move away from their places of origin, they are less likely to have family members close by to assist with child care. Rising divorce rates have resulted in a corresponding increase in the number of single-parent families, mostly lead by women. Also, most two-parent families are today likely to be two-income families. In 1991, the British Columbia government established the provincial Task Force on Child Care. The report of its work identified the need for coordination and funding to support, stabilize, and expand child care services. The Ministry of Women's Equality was given the responsibility for managing all child care spending, including child care grants.

In October 1996, we reported the results of an audit of the management of child care grants in British Columbia. We focused our audit mainly on activities undertaken by the Ministry of Women's Equality in the period from December 1995 to March 1996. In January, 1997 the Ministry for Children and Families was given the responsibility for child care programs.

In January 1998, we asked the Ministry for Children and Families to provide us with a report on the progress made in implementing the recommendations agreed to by management at the time of the audit. The ministry's responses and our review comments follow.



summary of original audit report

Audit Purpose

We conducted this audit to assess whether the Ministry of Women's Equality was:

- coordinating information so that new child care spaces were being built by other government agencies where the need was greatest, according to child care standards, and in locations that did not compete with existing facilities;
- managing spending so that ministry child care funds were used only for approved purposes; and
- managing for results by assessing the extent to which ministry spending was achieving intended child care goals.

Overall Conclusion

As part of the three-year \$32 million cross-government BC 21 Child Care Expansion Initiative that ended in 1995, over 3,000 child care spaces were created or relocated in hospitals, schools, colleges, and universities. We found that the ministry contributed positively to this initiative by approving new spaces that were constructed according to child care standards and in locations where they would not compete with existing facilities. However, because it did not have adequate information about unmet needs on a regional basis, the ministry was not able to determine whether priority was being given to areas of the province where child care needs were greatest.

In managing its own spending, the ministry gave out \$34 million in child care grants from April 1994 to December 1995 with due regard for stated priorities for types of care, and all to eligible recipients in accordance with approval guidelines.

In managing for results, the ministry needed to do more to set measurable goals and collect information about the extent to which they were being met. In recognition of the desirability of stating goals in measurable terms, the ministry had joined a government-wide initiative to improve accountability. It had begun work to properly assess the impact of its spending by developing key measures for all of its child care programs, and by gathering initial data for most of these measures.

follow-up

Office of the Auditor General Review Comments

Information provided by the Ministry for Children and Families regarding progress in implementing the recommendations included in our 1996 audit report is set out below (in colour). We reviewed this information to see if it is fairly stated, in all significant respects.

We carried out the review in March 1998. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the ministry's progress report does not present fairly, in all significant respects, the progress made in implementing the recommendations included in our 1996 audit report.

Ministry for Children and Families Report

Giving Priority to the Greatest Needs

In the original audit report we had noted:

The ministry did not have a comprehensive database from which to identify unmet child care needs.

We had recommended:

The ministry should improve its child care database so that it could identify areas of the province where needs were greatest. Then it should give preference to funding child care projects in those areas.

Ministry Response

The Ministry for Children and Families was established in September 1996, and in January 1997 the Child Care program was transferred into the ministry from the Ministry of Women's Equality. The ministry is currently reviewing its information requirements, and will incorporate the work done previously in the Ministry of Women's Equality on the Child Care Management Information System, to develop a

coordinated corporate management information system. This data management system will greatly enhance the ministry's ability to track information across programs and service areas on a regional basis and assist in assessing overall equity of expenditures by region.

In 1997, the third Provincial Child Care Survey was conducted. Child care providers were asked about enrolment and fees; number of children receiving Child Care Subsidy; awareness of Child Care Grant Programs and the transition to Supported Child Care; their involvement with Child Care Resource and Referral offices (formerly known as Child Care Support Programs), and child care staffing, salaries and training. Approximately 4,200 licensed child care providers and 1,200 'license not required' child care providers completed the Survey.

Also in 1997, the Provincial Parent Child Care Needs Survey was conducted. A telephone survey of 4,050 parents identified as the primary caregivers for the household were asked about their use, need and requirements for child care; whether child care affects access to work and education; their knowledge about the provincial government's role in child care and what policies employers should adopt with regard to child care. Summaries of both surveys, as well as the complete final reports will be available in February 1998.

The results of both these surveys will enhance the current base of information about the availability of child care services and about parent child care needs, in order to identify the areas of the province in greatest need, and in which government financial support for child care funding is required.

Managing for Results

In the original audit report we had noted:

The ministry had developed and was using performance measures designed to assess whether Child Care Support Program agencies were delivering services as contracted. The ministry had begun to look for ways to assess whether the services were achieving what was intended. We concluded that the ministry's pilot efforts in that regard were a good start, but proposed that performance measures be extended to include those that focused on actual changes in quality and accessibility of child care.

We had recommended:

The ministry should extend its performance measurement to assess the effects of program efforts on quality and accessibility of child care.

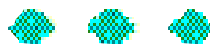
Ministry Response

Performance management is the process of managing an organization to achieve clearly stated results, including operational, financial and compliance objectives. The Ministry for Children and Families has released "Measuring our Success: A Framework for Evaluating Population Outcomes." The framework is one component of performance management at the Ministry. The other components, identified to date, are service effectiveness, client satisfaction and practice standards. Collectively, the ministry's performance management components are designed to enable the ministry to define, measure, report and evaluate the contribution it is making to the lives of children and families in British Columbia.

The Ministry for Children and Families is one of the first provincial government ministries in Canada to use measurable, results-based indicators to explicitly guide and monitor progress in achieving its goals. The framework supports the work of the Auditor General of British Columbia in the implementation of a government-wide performance accountability initiative.

The Child Care Team in the Child, Youth, and Family Support Division of the Ministry, in consultation with the regions, the Minister's child care advisory committee, the Interministry Child Care Policy Team and key stakeholders

in the child care field, is currently drafting a provincial Child Care Policy and Evaluation Framework which reflects the ministry's goals, the recently published health goals for British Columbia and the goals of quality and accessibility. This framework will support ongoing assessment of the effects of child care programs on the quality and availability of programs. This framework will be finalized, after consultation is completed, in the 98/99 fiscal year.



Ministry of
Transportation and
Highways: vancouver
island highway project
planning and design

Ministry of Transportation and Highways: vancouver island highway project planning and design

For any highway capital project, planning and design decisions determine what will be built, where it will be built, when it will be built—decisions that effectively determine most of the cost of, and cash flow required for, building the highway.

The Vancouver Island Highway Project is a \$1.3 billion upgrade to the Vancouver Island Highway corridor, including both upgrading existing highway and new construction, between Swartz Bay (north of Victoria) and Campbell River. To ensure that the highway eventually constructed provides good value for money, it is important that the planning and design processes in place for this project are appropriate and are followed.

In December 1996, we reported the results of our audit of what the ministry had done to ensure that its planning and design processes for the Vancouver Island Highway provide good value for the money spent. The decisions taken at this stage of the capital project drive the lifecycle cost of the highway that is ultimately built.

In December 1997, we asked the ministry to provide us with a report on its progress in implementing the recommendations arising from the audit. The ministry's response and our review comments follow.



summary of original audit report

Audit Purpose

The purpose of this audit was to assess whether the Ministry of Transportation and Highways had taken appropriate steps to ensure that the designs for the Vancouver Island Highway provide good value for money. “Appropriate steps” include:

- planning and design management processes which provide reasonable assurance that needs are identified and designs developed to address those needs in a cost-effective manner; and
- a suitable framework of technical standards within which the planning and design processes occur.

Overall Conclusion

We concluded that the designs for the Vancouver Island Highway would provide good value for money within the context of current ministry standards and guidelines.

Although there was insufficient planning during early phases of the project, the Vancouver Island Highway Project team had addressed most of the deficiencies during the subsequent planning and design phases. The team had also developed appropriate design management processes, including an adequate Quality Management program.

The ministry’s planning and design standards, including guidelines for establishing functional classification of highways, were generally adequate. However, we believed the ministry would benefit from reviewing these standards and their application to ensure that they promote cost-effective planning and design decisions.

follow-up

Office of the Auditor General Review Comments

Information provided by the Ministry of Transportation and Highways regarding progress in implementing the recommendations included in our 1996 audit report is set out below (in color). We reviewed this information to see if it is fairly stated, in all significant respects.

We carried out our review during February and March 1998. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the ministry's progress report does not present fairly, in all significant respects, the progress made in implementing the recommendations reported in our 1996 audit report.

Ministry of Transportation and Highways Progress Report General Comments

The audit which is the subject of this report examined the Vancouver Island Highway Project (VIHP). However, most of the recommendations involved actions on planning and implementing future projects rather than on the VIHP. There are a number of initiatives in progress to further increase the Ministry's effectiveness in planning and implementing Ministry and BC Transportation Financing Authority investment programs.

Planning improvements have included defining a multi-modal transportation planning framework, in "Going Places: Transportation for British Columbians." Within this framework, the Provincial Highway Plan outlines the strategies for Ministry of Transportation and Highways and BC Transportation Financing Authority actions and investments. Corridor Management Plans are in the process of being produced or updated for the major highway corridors, in support of these strategies.

Corridor Management Plans provide detailed deficiency information which leads to project development. Alternative actions to address identified deficiencies are evaluated using multiple account evaluation techniques, including the computer

program MicroBencost as an analysis tool. The Ministry is in the process of implementing deficiency-based programming for its capital and rehabilitation programs at a regional level.

The Ministry's project design processes are also being improved. The concepts of value analysis at the preliminary design stage and value engineering during detailed design are widely supported and applied. Specific guidelines for value analysis/value engineering are being reviewed and will be finalized by the end of March. There is a process in place for review of the application of engineering standards to specific projects, to allow requirements to be relaxed where it makes sense to do so.

The Ministry is continuing to support the use of project management techniques in delivery of capital and rehabilitation projects. A Project Management Committee oversees updates and additions to the Ministry's project management procedures. There is also an active training program for Ministry regional and head office staff in project management theory and practice.

Improvements in these processes require both monetary and staffing resources. Processes such as corridor management plans must be thoughtfully defined, appropriate technical expertise must be consulted, and adequate training of staff must be done. The Minister is very committed to these improvements, however, speed and comprehensiveness of implementation have been adversely affected in recent years by budget and staff cuts, both in head office and in MoTH regional offices.

Assessment of Designs

In the original audit report we had noted:

Cost-effective designs provide good value for money. The term “cost-effective” describes an appropriate balance between functionality of an item and the lifecycle cost of the item. Functionality of a highway or a bridge is measured according to how well it performs its intended function of providing for safe and swift movement of vehicles over the lifetime of the asset. Lifecycle cost of a highway or bridge includes the total of capital and maintenance (including periodic rehabilitation) costs over its lifetime.

The cost-effectiveness of design alternatives can be assessed by comparing the functionality and estimated lifecycle cost of each alternative. This had not been done for all of the Vancouver Island Highway Project designs, nor was it at the time of our audit part of the ministry’s design process requirements.

We had recommended:

The ministry should include, in addition to estimated capital cost, the estimated lifecycle cost of each alternative being evaluated during the design process.

Ministry Response

MoTH supports the concept of lifecycle costing within the constraints noted below. MoTH is seeking methodologies to enhance its lifecycle costing analysis, and is working with a Transportation Association of Canada (TAC) Council to determine whether new asset management techniques would provide enhancements in this area.

In selecting the most appropriate alternative infrastructure investment based on the principle of lifecycle costing, the magnitude of the initial cost of the alternatives must also be considered. All ministries and their projects operate under varying fiscal constraints. One must consider project design options consistent with planning criteria within the fiscal constraints of the project, as each alternative considered must be affordable at the initial phase.

MoTH is currently analyzing potential capital projects in the framework of MicroBencost, as recommended by TAC. The MicroBencost program utilizes present value calculations

to compare alternative solutions to transportation deficiencies. Options are typically evaluated over a 20-year period, including maintenance as well as initial construction costs. A comprehensive MicroBencost analysis identifies the lowest lifecycle cost solution.

Design Management

In the original audit report we had noted:

Post-construction evaluations of designs are a useful quality improvement tool if the performance results of designs are fed back to consultants and ministry staff. Although post-construction reviews were conducted on the Vancouver Island Highway Project, they were mainly to identify problems related to construction. They did not include any analysis of the cost-effectiveness of the designs, although it was understood that designs that were difficult to construct generally resulted in higher costs.

The ministry monitored the performance of its facilities on an ongoing basis and this experience may have been reflected in standards, although there was no formal process for this. For the most part, the feedback loops were not well developed and ministry staff were not well informed about the performance of designs. Consultants also received little feedback from the ministry about the performance of their designs.

We had recommended:

The ministry should formally monitor the performance of the highway system over time in order to identify and replicate, where practical, design features that provide the most cost-effective solutions to identified highway transportation needs.

Ministry Response

Although the ministry does not currently have the resources to carry out a formal comprehensive performance evaluation over time, some progress has been made.

The VIHP has implemented a formal close-out process which includes feedback on project management and technical lessons learned. This allows for the evaluation of design approaches. VIHP and MoTH regional staff are also continuing with post-construction monitoring of environmental mitigation measures. This monitoring will determine the effectiveness of the design techniques utilized to replace or maintain fish habitat that has been impacted by construction.

The Ministry's Road Pavement Management System is being used as the formal tool to provide feedback on the performance of the highway pavements. It will be one of the tools which will evaluate the effectiveness of new pavement structure design for the Nanaimo Parkway, and the test section for the new "quiet" pavement used on Highway 19.

For selected projects, safety audit reviews have been carried out subsequent to highway openings. Highway accident data is being collected on a continuing basis and evaluated annually to identify problem areas. These areas are then analyzed to determine the appropriate corrective action.

Finally, MoTH and Transport Canada have jointly funded an evaluation of past cost-shared projects on the Yellowhead Highway utilizing MicroBencost as the analysis tool. The focus is on the cost-effectiveness and the social and economic benefits of each cost-shared capital project. Further joint evaluation of the Strategic Highways Improvement Program is planned in the coming fiscal year.

Standards

Planning Standards

In the original audit report we had noted:

Planning standards—specifically, the guidelines for the determination of functional classification, design speed, and planned level of service within the design life of a highway—are major determinants of the cost of a new or upgraded highway. Potentially greater savings are available from reviews of these standards than from changes to design standards.

The Highway Functional Classification Study, described as a guideline for planning highway system development, established a functional classification matrix which grouped highways into classes according to the character of the service they were to provide—for example freeway, expressway, or arterial highway. The character of service reflected the relative emphasis given to mobility (ease of passage) on one hand and access (opportunity to enter or exit the highway) on the other hand.

Two of the critical elements in the determination of the appropriate functional classification for a highway are the forecast traffic volume for the design life of the highway and the targeted minimum level of service during that period. Level of service describes the smoothness of the flow of traffic on a highway. Level of service goals drives the calculations that lead to the determination of appropriate functional classification, based on expected future daily traffic volumes.

Functional classification, and therefore capital costs, could be reduced by accepting a lower level of service. A lower level of service would result in increased likelihood of traffic congestion during more of the day. The ministry may determine that the social and economic impact of such congestion balance (or outweigh) reduced capital costs. However, the importance and value of free-flowing traffic may be less, in light of the need for fiscal restraint, than it had been in the past.

We had recommended:

The ministry should review the planning guidelines contained in the Highway Functional Classification Study. In particular, it should confirm that functional requirements associated with the current level of service goals—and the costs associated with meeting those requirements—are consistent with government fiscal policies.

Ministry Response

The Highway Functional Classification Study was produced in 1992 to document and define various functional definitions as a justification for highway designations. Following the development of this study, the functions were applied to the provincial highway network. This practical application of the classification system highlighted the need for further review not only of the functional guidelines themselves, but also of the Ministry's processes including how projects are defined, evaluated and funded.

The Ministry is currently reconsidering the role of Level of Service in its analysis and in the Functional Classification criteria. Revisions to the Functional Classification to reflect lower acceptable levels of service will be considered in the next edition. Also, as outlined in the earlier overview, the Provincial Highway Plan and Corridor Management Plans have incorporated a broader range of performance criteria which look less at Level of Service and concentrate more on the travel speeds, safety and infrastructure condition. These criteria bring a more balanced view of existing road conditions and future requirements.

Opportunity for Innovation within Standards

In the original audit report we had noted:

During the preliminary design process, design criteria were established on the basis of the functional classification of the highway. Once the design criteria were established, the designer had only limited opportunity to produce innovative designs; the ultimate design solution involved meeting the design criteria and design standards.

Designers did not usually attempt to produce innovative designs that incorporated variances to design standards. Using the design standards, the designer attempted to optimize the plan and profile for the roadway (or roadways, in the case of a divided highway or interchange configuration) so that, for example, minimum quantities of fill needed to be acquired, moved, or removed from the project site. The designer's goal was to produce an optimal design based on the design criteria established for the project.

The approach of design consultants was to be conservative in developing designs because there was little incentive to invest the time, effort, and expense in developing and justifying innovative approaches to design.

We had recommended:

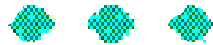
The ministry should encourage designers to consider cost-effective alternatives that include variances from ministry design standards. Requests for variance from ministry standards should be supported by detailed risk and cost-benefit analyses.

Ministry Response

Highway designers, both MoTH and consulting Engineers, are encouraged to assess the application of standards to any design and to seek alternates that would provide an equal or better utility at a similar or lesser cost. Deviation from standards requires approvals and an evaluation and consideration of how any negative impacts identified can be mitigated. Blind adherence to standards is discouraged. However, a lot of engineering and economic evaluation has been invested in the standards. The appropriate application of the standards will generally result in the most economic, effective and safest road.

MoTH has recently produced draft Value Analysis/ Value Engineering policy and guidelines, as one of the cost containment strategies following the 1996 capital expenditure review. Value Analysis occurs at the preliminary design stage of a project, to examine the appropriateness of what is proposed; Value Engineering occurs in the detailed design stage to examine how the proposed scope will be delivered. The process includes an identification of alternatives to the proposed design solution and a critical review of the cost and value of each option. Specific application of standards is examined as a part of the VA.

Both VIHP and the rest of MoTH constantly promote the challenging of standards in the design process, but with proper engineering consideration and evaluation of mitigation measures to protect MoTH from future litigation and liabilities.



Insurance Corporation of British Columbia: trucking safety

Insurance Corporation of British Columbia: trucking safety (formerly the responsibility of the Ministry of Transportation and Highways: Motor Vehicle Branch)

The Motor Vehicle Branch (the “branch”), an agency in the Insurance Corporation of British Columbia (the “corporation”); formerly an agency in the Ministry of Transportation and Highways; has the primary responsibility for achieving the government’s goals relating to trucking safety. In general, they are pursued through education and enforcement activities. The branch’s vision is that “travel on British Columbia roads will be the safest in North America.”

In December 1996, we reported the results of our audit of how the branch’s three trucking safety enforcement programs—fixed weigh scales, portable weigh scales, and carrier safety audits—were designed and implemented to achieve trucking safety in a cost-effective manner; and to assess the extent to which the branch had examined whether its three enforcement programs were the most effective alternatives in achieving trucking safety. We focused our audit on the period from January to June 1996.

In December 1997, we asked the corporation to provide us with a report on its progress in implementing the recommendations arising from the audit. The corporation’s response and our review comments follow.



summary of original audit report

Audit Purpose

The purpose of this audit was two-fold: 1) to assess the extent to which the branch's three trucking safety enforcement programs—fixed weigh scales, portable weigh scales, and carrier safety audits—were designed and implemented to achieve trucking safety in a cost-effective manner; and 2) to assess the extent to which the branch had examined whether its three enforcement programs were the most effective alternatives in achieving trucking safety.

Overall Conclusion

We concluded that there were serious issues related to the state of trucking safety in British Columbia. The severity of accidents was increasing and, if inspected, about one in five commercial vehicles would be taken out-of-service for a range of defects, the most significant being faulty brakes. We also concluded that the three trucking safety enforcement programs were neither well designed nor well implemented by management, and that the branch had not determined whether its enforcement programs were the most effective alternatives in achieving trucking safety. This made it difficult for the Motor Vehicle Branch to provide assurance that these programs were cost-effective and that they were meeting the objective of safer roads.



follow-up

Office of the Auditor General Review Comments

Information provided by the Insurance Corporation of British Columbia regarding progress in implementing the recommendations included in our 1996 report is set out below (in color). We reviewed this information to see if it is fairly stated, in all significant respects.

We carried out the review between January and March 1998. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the Corporation's progress report does not present fairly, in all significant respects, the progress made in dealing with the issues reported in our 1996 audit.

Insurance Corporation of British Columbia Progress Report General Comments

The Auditor General's performance audit of December 1996 (the "audit") on the state of trucking safety in British Columbia was timely and valuable. In recent years there has been growing public concern about truck safety resulting from a number of severe collisions. In addition, the Motor Vehicle Branch (the "branch"), an agency in the Ministry of Transportation and Highways that has the primary responsibility for achieving the government's goals relating to trucking safety, was merging with the Insurance Corporation of British Columbia (the "corporation"). This responsibility has since been assumed by the corporation as of December 14, 1997 with the completion of the merger.

The audit examined three enforcement programs—fixed weigh scales, portable weigh scales, and carrier safety audit—used by the branch to detect and prevent unsafe commercial vehicles from operating. The audit was critical of the branch's performance particularly with measuring and evaluating program results and removing unsafe trucks and drivers from the road. The results of the Auditor General's examination were twenty-three recommendations that spoke to the problems associated with regulating the vast number of commercial vehicles that enter and traverse the province.

On September 12, 1996, a joint government-industry task force to examine ways of improving truck safety in British Columbia was announced—the Task Force on Commercial Vehicle Safety (the “Task Force”). This Task Force was charged with improving commercial vehicle safety, and built upon the Auditor General’s recommendations. The Task Force issued its report to the Minister of Transportation and Highways (the “Minister”) on April 2, 1997. The Task Force was asked to reconvene and endorsed action plans developed by the corporation and the branch to address its report. These action plans were issued on June 12, 1997. In the fall of 1997, the corporation began to form project teams to address the action plans. This was done in anticipation of its imminent merger with the branch.

Task Force on Commercial Vehicle Safety

Collision trends suggest that heavy commercial vehicle safety in British Columbia has generally improved between 1990 and 1994. Unfortunately, the severity of truck crashes may have increased. During this period, although there was a lower incidence of accidents the proportion of heavy commercial vehicle collision fatalities increased. It was found that major contributing factors in some well-publicized truck crashes involved driver error and/or the poor condition of brakes. It became clear to industry, government and the public that non-compliance with safety rules on the part of a minority of drivers and owners was unacceptable. The creation of the Task Force followed a coroner’s jury inquest into three severe truck accidents (August 16, 1995 and two in September 1996).

The Task Force, co-chaired by Paul Landry, President of the B.C. Trucking Association, and Vicki Farrally, the then, Superintendent of Motor Vehicles, was an unprecedented co-operative effort of industry, labour and government. Membership was comprised of 15 representatives from industry and labour and supported by seven government representatives (including three representatives from the corporation). The Task Force had a broad mandate, which enabled it to examine areas of heavy commercial vehicle safety that had never been examined so thoroughly before in British Columbia. During the course of its 12 meetings, the Task Force conducted deliberations, which resulted in a broad range of comprehensive recommendations. In total there were 32 recommendations that covered the following areas:

Driver Licensing Standards

The Task Force endorsed 12 recommendations with respect to driver standards and licensing issues. These recommendations once implemented would completely change the process of obtaining a commercial vehicle driver's license. Both the standards and process for obtaining a license were recommended to change.

Driver Licensing Sanctions

The focus of these three recommendations were to redesign the driver penalty point process to include safety-related commercial transport offences in order to better modify driver behavior.

Enforcement of Safety Regulations

These recommendations spoke to the enforcement problems related to government vehicle inspection programs. The Task Force endorsed current standards, but recommended increased fines and deployment for weigh scales and road side inspections.

Carrier Incentives

The one recommendation was to establish a safe carrier reward or recognition program.

Monitoring and Evaluating Carriers

The National Safety Code (the "NSC") was incorporated into the Motor Vehicle Act Regulations in 1989 and provided safety standards for carriers, and delegated powers to the branch to perform facility audits. The eight Task Force recommendations try to increase the effectiveness of this area through improving the registration, sanction and audit processes.

Commercial Vehicle Inspection Programs

All commercial vehicles must pass an annual or semi-annual mechanical safety inspection. Five recommendations provide direction as to how this program can be improved.

Shipper Standards

Recommendations basically try to share the accountability of improper loading of heavy commercial vehicles with the shipper.

Similar to the audit, the Task Force recommendations focus on driver behavior and vehicle condition. The attitude

of the driver as evidenced by their driving record, the quality of the commercial driver training programs, the adequacy of driver licence standards, the enforcement of national vehicle safety standards, the validity of the NSC and adherence to it—all reflect human behavior. All have significant impact on the safety of the industry.

Task Force on Commercial Vehicle Safety Action Plan

The Task Force recommendations were all accepted by the Minister. Four recommendations were identified as having a high priority for implementation. They are as follows:

- requiring all commercial vehicle license qualification exams be written and conducted in English, without the assistance of an interpreter. (This recommendation was implemented upon announcement.)
- establishing a carrier reward and recognition program.
- developing a graduated licensing system for commercial vehicle drivers.
- reviewing the driver penalty point system and assignment of points consistent to the relationship between offence and safety.

In five sessions, facilitated by the corporation involving over 20 corporation and branch staff, a high level plan for implementing all Task Force recommendations was developed. The recommendations were priority sequenced and a managed approach and structure were identified for implementing the recommendations. This report was endorsed by the members of the Task Force and issued on June 12, 1997.

ICBC assumes responsibility for Improving Trucking Safety

In a step towards building on the significant effort already made, the corporation formed the Commercial Vehicle project team on October 14, 1997, although formal responsibility was not transferred to the corporation until December 14, 1997. The scope given to the project team was the implementation of 31 of the 32 recommendations made by the Task Force (the last recommendation—establish a motor carrier recognition program will be undertaken by the B.C. Trucking Association.)

The Commercial Vehicle Project will be a multi-year project with many sub-projects. Since the inception of the project, all relevant background material has been reviewed. A project charter and high-level plan has been developed, and resources have been assigned to each sub-project. Work has begun in earnest, but recommendations made by the Auditor General

and Task Force have major impacts on a significant number of stakeholders. The changes will affect a great number of people and require not only process re-engineering, but legislative changes as well. The commercial vehicle fleet is made up of approximately 80,000 truck drivers, an equal number of vehicles, and 26,000 carriers. This does not include commercial vehicles that operate in British Columbia and are registered in other jurisdictions. Some recommendations have a relatively short-term completion date, but in general most recommendations will not be implemented until 1999 or the year 2000.

The sub-projects that relate to the Task Force recommendations with their planned completion dates are as follows:

Driver Licensing Standards	Completion 1999
Driver Licensing Sanctions	Completion 1999
Enforcement of Safety Regulations	Completion 2000
Monitoring and Evaluating Carriers	Completion 1999
Commercial Vehicle Inspection Programs	Completion 2000
Shipper Standards (feasibility study)	Completion 1998

Measuring and Evaluating Program Results

In the original audit report we had noted:

The branch had not defined what it meant by "trucking safety" nor had it established a clear relationship between the impact of its trucking safety enforcement programs and the state of trucking safety. Further, the branch had not developed performance indicators and realistic targets to achieve trucking safety.

We had recommended:

The branch should:

- define "trucking safety," develop performance measures and set targets with respect to the desired level of safety;
- institute a program evaluation framework to provide managers with regular and accurate performance reports on its enforcement programs and, in the longer term, determine the relationship between its enforcement programs and trucking safety;
- address the hostility that exists between itself and the trucking community; and
- establish a process to obtain and act upon recommendations arising from coroners' inquiries.

Corporation Response

The first two recommendations will be addressed as part of the work being done on the Enforcement of Safety Regulations. A sub-project team, Information Systems Planning, has been established. Part of this work will see the development of a framework for a safety, compliance and enforcement model. The first task is the establishment of the goals, objectives, success criteria and evaluation strategy for the model. A review and analysis of the current programs identifying their strengths and weaknesses is underway.

To partially address the hostility that existed between the branch and the trucking community the corporation has established a Commercial Vehicle Stakeholders sub-committee. The first meeting was on January 22, 1998. Relationships have been improving recently through the co-operation shown during the work in the Task Force. At a field level a training program to improve enforcement officer customer relations skill is at the development stage. The corporation has entered into an agreement that has resulted in inspectors receiving their enforcement authority from the Attorney General through a special constable program. There will be defined training from the Justice Institute of B.C. In essence the corporation's inspectors will be held to a standard of enforcement by the Attorney General.

To address future Coroner's recommendations an administrative process is in place.

Establishing Trucking Safety Standards

In the original audit report we had noted:

The objectives and standards for the three enforcement programs were consistent with relevant legislation and commercial vehicle safety standards. However, the lack of clear communication of program priorities leads to inconsistent regulation of the industry. Furthermore, the branch could not provide assurance that safety standards were applied consistently and uniformly throughout the Province in that there was no system-wide monitoring of the standards.

We had recommended:

The branch should:

- clearly communicate the relative emphasis that inspectors should place on educating the trucking industry about its responsibilities for safety versus strict enforcement of the regulations;
- develop clear guidelines as to when and how specific National Safety Code sanctions relating to carriers with poor safety records are to be applied; and
- institute a centralized monitoring function to ensure uniformity and consistency in the application of safety standards.

Corporation Response

These recommendations will be addressed through the development of an overall *Monitoring and Evaluating Carriers* strategy. Work is scheduled to start on this later in 1998, as it is somewhat dependent upon the resolution of the definition of “trucking safety” recommendation under the *Measuring and Evaluating Program Results* section.

With respect to the second recommendation on NSC sanctions, work began prior to and is continuing after the merger on the development of a new sanction process and a new audit program. One significant area is defining the guidelines for conducting a show cause hearing. This is nearing completion as the first hearing is now proceeding. The sanction process is being developed in conjunction with the Office of the Superintendent of Motor Vehicles.

Training Staff to Identify Unsafe Trucks and Drivers

In the original audit report we had noted:

Overall, enforcement officers were properly trained and met certification requirements. Nevertheless, some improvements could be made.

We had recommended:

The branch should:

- move expeditiously to train and certify the 16 inspectors who were not certified under the Commercial Vehicle Safety Alliance; and
- review its curriculum to ensure it reflects current and future position requirements including a clear understanding and interpretation of regulations, case preparation, court prosecution, and interpersonal relations with trucking industry personnel.

Corporation Response

The 16 inspectors that were not certified at the time of the audit under the Commercial Vehicle Alliance are now all certified.

The curriculum is being addressed as part of the work being done on the Enforcement of Safety Regulations area and the development of a safety, compliance, and enforcement strategy model.

Removing Unsafe Trucks and Drivers from the Road

In the original audit report we had noted:

The branch had not undertaken a comprehensive needs assessment so it could not be assured that it was adequately regulating the trucking industry. Fixed and portable weigh scales were not deployed to maximize their coverage by time and geographic location, and therefore the branch could not provide assurance that safety in the industry was being regulated in a uniform and consistent manner throughout the Province. Similarly, the branch could not provide assurance that, with current carrier audit resources, all carriers would be audited for adherence to safety standards within an acceptable time period. In addition, some sanctions did not appear to “suit the offense” or provide an effective deterrent.

... continued

Continued...

We had recommended:

The branch should:

- identify the trucking universe it has responsibility to regulate in order to determine an optimal level of resources to achieve the desired level of trucking safety and, at an operational level, to maximize its use of current resources;
- develop a comprehensive human resource plan to: determine the number, type, and location of staff needed in the future to provide services; and ensure that existing and new staff have the knowledge, skills, and abilities to meet ministry expectations;
- undertake a comprehensive review of previous facilities studies, and implement relevant and cost-effective recommendations;
- find ways to monitor key border entry points such as by constructing fixed facilities or introducing regular random deployment of portable weigh scales to increase the probability of intercepting a larger number of unsafe trucks and drivers;
- find ways to operate key fixed weigh scales on a 24-hour, 7-day-a-week basis or, barring this, have regular random openings of key scales during off-hours to increase the probability of intercepting a larger number of unsafe trucks and drivers;
- develop greater flexibility in the hours of operation of portable weigh scales, thereby reducing the present pattern of mostly concurrent hours of service with fixed weigh scales;
- ensure that all carriers are subject to regular safety audits, such as once every three years;
- implement coroner recommendations to increase significantly fines to drivers and owners for brakes out of adjustment, and to impose a progressive fine system for chronic and recurring violators of safety regulations; and
- consider whether fines for significant safety violations should be extended to the shipper or trucking company.

Corporation Response

The first six points are being addressed through the work being done on the Enforcement of Safety Regulations. Much of this work will be the development of a new safety, compliance and enforcement strategy model, as well as, what is described in the next three points.

On January 22, 1998 a comprehensive road-side safety inspection “blitz” targeted at large sand and gravel dump trucks operating in the Lower Mainland began. Commercial

vehicle inspectors will be checking the mechanical and safety condition of more than 450 trucks, over a planned eight-week period, at fixed and mobile stations. This is being done in partnership with municipal police and the RCMP throughout the region. After eight days, 246 trucks had been tested resulting in the seizure of 55 license plates until it can be demonstrated that repairs had been properly carried out. This effort is a major contribution to “removing unsafe trucks and drivers from the road.”

The corporation has also initiated a review of the operation of enforcement programs in the south Okanagan area with the objective of dealing with the long outstanding issue of the operation of a weigh scale at Osoyoos. We met with the various stakeholders in January and will have completed a review of the area by the end of 1998.

The corporation will be undertaking the development of a strategic plan for the operation of fixed and portable weigh scales. We expect that we will have the strategic plan completed by the end of April and subsequently presented to the Board of Directors.

The seventh recommendation regarding safety audits will be addressed through the work on the *Monitoring and Evaluating Carriers* area. The review of the current NSC audit program that began at the branch is continuing at the corporation.

In response to the Coroners recommendations, brake fines for drivers have been increased significantly. Brake fines are now \$100 for each brake out of adjustment plus an additional \$500 surcharge if more than 50% of the brakes are not properly adjusted. There are currently no plans to introduce specific fines for the vehicle owner or increasing fines for repeat offenders. However, the current fine structure, increasing with the severity of the infraction, should prove to be an effective deterrent for both drivers and carriers from operating without properly adjusted brakes.

The final recommendation with respects to extending fines and violations beyond the truck driver to the shipper or trucking company is being addressed by a stakeholder group. They are currently reviewing the feasibility of this. We will be undertaking an education program for shippers of export containers.

Looking for Better Ways to Achieve Trucking Safety

In the original audit report we had noted:

The branch had not given adequate thought to factors, besides its own enforcement programs, that might contribute significantly to trucking safety. Similarly, it had not modified existing programs or designed new programs consistent with more cost-effective alternatives, or re-allocated program budgets to these alternatives. It had, however, begun to consider the redesign and reallocation of resources in two program areas; enforcement of moving violations and using third parties to conduct carrier safety audits. Finally, the branch was not taking full advantage of technological innovations aimed at improving efficiency and effectiveness.

We had recommended:

The branch should:

- identify the most significant factors affecting trucking safety with a view to ensuring its enforcement resources are deployed in the most effective manner;
- make fixed and portable weigh scale personnel aware of the probability of detecting additional safety violations through innovative targeting of work sites, and truckers who are not wearing seat belts or who are operating overweight vehicles;
- determine the feasibility of third party audits as a means to increase coverage of the trucking industry;
- as part of a development review, consider the issue of how best to shift the focus of enforcement to moving violations. It is further recommended that serious attention be paid to the U.S. model in which this function and responsibility resides with law enforcement and police agencies; and
- conduct a cost-benefit analysis of various brake testing and weigh-in-motion technologies as a means to screen commercial vehicles at selected sites throughout the Province.

Corporation Response

The first two points are being addressed through the work being done on the Enforcement of Safety Regulations. Much of this work will be the development of a new safety, compliance and enforcement strategy model. The results of enforcement programs such as the dump truck 'blitz' will be used as the basis for defining program change.

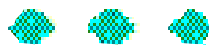
The third recommendation regarding third party audits will be addressed through the work on the Monitoring and Evaluating Carriers area. It is our understanding that the national body of the Canadian Council of Motor Transport Administrators has decided that all provincial jurisdictions other than Ontario will not adopt third party audits. However, other strategies based on the premise of this recommendation are currently being considered.

The fourth recommendation with respect to shifting the focus of enforcement to moving violations will be addressed as part of the work on Driver License Sanctions. Currently, the corporation is working on an analysis of the penalty point system with an objective of implementing a consistent penalty point and fine system to include all safety related offences.

The last recommendation regarding new technologies is being addressed currently. The Task Force had recommended against the use of brake dynamometers. However, a roller-type brake dynamometer tester (“RBD”) that improves upon the basic design, and an infra-red system (“IRS”) that can ‘read’ the heat signature of a vehicle’s braking system is currently being evaluated by the corporation. The results of the RBD needs further analysis, but a draft report from Hamilton Associates indicate that the IRS did not significantly increase the out-of-service rate of road side inspections conducted. Based on these results the IRS technology will likely not be pursued further.

Concluding Remarks

After one year the task of implementing the Auditor General’s recommendations is still in its infancy and it will be another year or two before significant progress in improving the overall trucking safety in British Columbia will be achieved. Overall, much has been done by the branch, the Task Force, and the corporation to address the concerns expressed by the audit. The corporation has only been in charge a short time, but the merger of the corporation and the branch creates an organization with the resources and authority to take strong, coordinated action on road safety issues. Once again we thank the Auditor General for their work and assure them that many more of their recommendations will be implemented in the near future, and, finally, that trucking safety will be improved.



crown corporations governance study

crown corporations governance study

Governance is the authoritative direction or control over an entity. In a corporate setting it encompasses the roles, relationships, powers, and accountability of shareholders, the board, and management. Governance refers to: who is in charge, who sets direction, who makes decisions, who monitors progress, and who is accountable for the performance of the corporation.

In November 1996, we reported on the results of our study of Crown corporations governance. Our study focused on broad governance issues related to the responsibilities, authorities, accountabilities, and relationships defined for the various entities involved in the governance of Crown corporations in the Province, as well as on the specific practices that boards followed to fulfill their role of supervising the affairs of Crown corporations. We carried out our study during the spring of 1996.

In December 1997, we asked the government to provide us with a report on its progress in implementing the general recommendation arising from the study. A summary of the original report, the government's response and our review comments follow.



summary of original audit report

Audit Purpose

The purpose of our study was to identify the broad governance issues relating to Crown corporations, document current governance structures and processes in Crown corporations in the Province, and thereby provide a common base of information to assist government and its agencies in determining improvements that may appropriately be made to current governance processes. The issues we examined were selected by considering practices in other jurisdictions and reviewing governance-related studies carried out in both the public and private sectors.

Overall Conclusion

Our study indicated there was a great deal of interest in Crown corporation governance in British Columbia, and that the governance challenges in British Columbia were similar to those faced in other jurisdictions. We also found there was general agreement among those involved in Crown corporation governance in the Province that the current system could be improved. Clearly, British Columbia can both learn from and apply the lessons learned elsewhere to make governance in Crown corporations better.

What is needed is a governance model for Crown corporations that meets the requirements of the Legislative Assembly, government, and boards in a way that balances accountability expectations with the boards' need for sufficient independence and flexibility to carry out their responsibilities.

We also believed that Crown corporation boards could benefit from studying and applying some of the recent developments taking place in both the private and public sectors to improve the effectiveness of boards.

corporate governance

Key Observations

We noted that British Columbia faced the same challenges regarding Crown corporation governance as those faced by other jurisdictions. At the time of our study there was no one source for defining the roles, responsibilities, and accountability of those involved in the governance of Crown corporations in the Province. Corporations were generally set up by their own legislation; however, there was variability in the definition of the roles of those involved in governance of Crown corporations. We found confusion as to the obligations, rights and authorities of governance agents. We believed that resolving the uncertainties and ambiguities of roles would be a major step in improving the governance environment in Crown corporations.

Another area where improvements could be made was in providing more clarity on how and when the government provided direction to Crown corporations. We found that boards faced significant challenges when they tried to integrate public policy objectives into their operations. Legislation did not always provide them with clear direction. Board members generally looked to the Minister responsible for the corporation however, with the frequent changes in ministers and in policy direction, getting consistent messages can be a challenge. Much of the direction Crown corporations received was at times ad hoc and reactive, and usually occurred informally through contact between the Minister and the chair of the corporation.

There were different types of Crown corporations in the Province. They have not been formally classified but were generally described as commercial, economic development, and social and government services. The level of interest and concern of government and the Legislative Assembly regarding the different types of Crown corporations varies. At one end of the spectrum, government could exercise a high degree of control over Crown corporations by reviewing all budgets and approving all decisions—a heavy focus on the input side, with involvement before decisions are carried out. At the other end, government could set broad expectations and focus on accountability—having boards account for their performance. Most Crown corporations wanted government to approve their corporate plan in a timely manner, to let them operate with relatively little interference, and to hold them to account for their performance against plans.

The government had a number of central agencies that were involved in overseeing the activities of Crown corporations. These agencies provided support to Cabinet, Cabinet committees, the Minister responsible, and the Minister of Finance and Corporate Relations. Although coordination of activities amongst the various agencies had steadily improved, better coordination was needed to ensure that oversight activities are carried out and that duplication was avoided. There was no legislated provision establishing an oversight role by the Legislative Assembly. The Public Accounts Committee in its 1996 report on *Enhancing Accountability for Performance in the British Columbia Public Sector* recognized that the interaction between legislative and governmental systems must work together more effectively if there was to be an improved accountability and governance regime.

We believed there were opportunities to provide greater clarity in both governance and accountability in regard to Crown corporations, as the provisions of the accountability framework proposed for government in *Enhancing Accountability for Performance: A Framework and Implementation Plan*, issued jointly by the Auditor General and the Deputy Ministers Council in April 1996, were implemented.

Many initiatives relating to good governance were already underway or proposed for implementation. These included:

- development of strategic plans for Crown corporations;
- development of high-level, comprehensive performance measures;
- intent to publish Crown corporation plans; and
- intent to publish an annual report summarizing the performances of all Crown corporations.

Board Governance

We noted that changes were also underway at the board level within Crown corporations. We found that boards were generally aware of some of the governance initiatives underway and had started to adopt current concepts into their governance structures and practices. Boards were interested in ensuring that their compositions were appropriate to the corporations' needs and some had started to evaluate their own performance. Through the accountability framework, boards will have greater opportunity to receive effective governance information.

Board members in British Columbia recognized that they had some common issues to deal with, in particular regarding their relationship to the Legislative Assembly, government and its agencies. We encouraged their active participation in the development of clearer definitions of board roles and responsibilities.

General Recommendation

Since there are different models that can be applied to the governance of Crown corporations, depending on the type and level of oversight desired by the Legislative Assembly and the government, we did not make detailed recommendations in the report. Rather we provided our observations and findings on the critical governance issues so as to assist the government in examining this important area, and made a general recommendation.

We had recommended:

That the government review the current system of Crown corporation governance and develop a model that:

- is based on the principles and values of the government;
- clearly establishes the respective roles and responsibilities of all those involved in Crown corporation governance;
- provides the flexibility needed by the boards to carry out their duties; and
- is based on the degree of independence the government and Legislative Assembly wish to be accorded to Crown corporations.

Recommendation made by the Select Standing Committee on Public Accounts:

In addition, the Select Standing Committee on Public Accounts, in its second report titled, Review of Auditor General Reports and Related Matters, 1996/97, made the following recommendation:

- That the Ministry of Employment and Investment develop training and orientation programs and materials for newly appointed directors.



follow-up

Office of the Auditor General Review Comments

Information provided by the government regarding progress in relation to the general recommendation included in our 1996 report is set out below (in color). We reviewed this information to see if it is fairly stated, in all significant respects.

We carried out the review in March, 1998. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the progress report does not present fairly, in all significant respects, the progress made in implementing the general recommendation included in our 1996 report and the recommendation made by the Select Standing Committee on Public Accounts, in its second report titled *Review of Auditor General Reports and Related Matters, 1996/97*.

Government Response

The recent report by the Auditor General, entitled *Crown Corporations Governance Study*, examines some of the governance issues facing Crown corporations and governments across Canada today. The report offers a number of suggestions and recommendations regarding various aspects of the interface between government and Crown corporations in British Columbia.

This is an area to which the present Government has already devoted considerable attention. When this government took office in 1991, management and governance arrangements in the Crown corporation sector had been unchanged for a number of years. It was the view of the new administration that evolving standards of governance, both in the public sector and in private business, required a number of improvements in the way Crown corporations were held accountable to Government and the public.

As a starting point, the Financial Information Act was amended in 1993 to require Crown corporations to provide to the Minister responsible, the Minister of Finance and Corporate Relations or a committee of the Executive Council, the corporation's strategic plans, business plans, capital and

operating budgets and any other information requested. Following this change, guidelines were developed requiring corporations to submit regular strategic and business plans for Cabinet approval. The guidelines are intended to integrate the planning processes of government and Crown corporations and thereby create a mechanism for Crown corporations to receive clearer and more explicit direction from government. The guidelines also served to clarify the roles and responsibilities of Cabinet, Cabinet committees, responsible Ministers, the Minister of Finance, the Minister of Employment and Investment and central agencies in relation to boards of directors of Crown corporations. Strategic plans covering three to five year time horizons have been developed by most corporations.

To support the strategic planning initiative, Cabinet developed in 1994 a policy framework to guide the entrepreneurial activities of Crown corporations. These guidelines establish a series of criteria which corporations must satisfy when pursuing new initiatives that might affect their mandate or field of operations.

Crown Corporations Secretariat (CCS) was created in 1992 to provide advice and support to Cabinet and its committees on Crown corporations and to ensure that Crown corporations function within the financial and policy parameters set by Cabinet. Since its inception, CCS has worked with a number of central agencies to develop protocols which clarify the responsibilities of central agencies in relation to Crown corporations.

Following implementation of the strategic planning process, Government moved forward to develop and introduce a full-scale performance measurement system for Crown corporations. In February 1993, CCS published “multiple account” evaluation guidelines for Crown corporations to assist the legislature, government and the public to track the performance of Crown corporations against measurable outcomes. The new system tracks performance against historic and sectoral benchmarks in five areas of corporate performance: finance, customer service, environment, economic development and social impacts.

As part of this new initiative, CCS has worked with a number of Crown corporations to develop a social costing methodology for such things as resource acquisition decisions. This enables the strategic priorities of government, such as environmental protection or regional economic development, to be factored into the decisions of Crown corporations. The new methodology provides management and Boards with

the criteria and decision-making framework to make consistent and well-informed choices which balance public policy objectives with commercial operations.

These then are some of the initiatives that have already been undertaken to provide greater clarity and improved accountability in the Crown corporation sector. The following are some new or additional measures which Government is considering, a number of which speak to the issues raised by the Auditor General in his report.

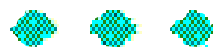
Both the Auditor General and the Select Standing Committee on Public Accounts raised the issue of inadequate orientation for new Board members. This is an area of concern also to Government. CCS has been directed to review the orientation materials presently available in Crown corporations, and to develop a more complete orientation and training package for newly appointed directors. A Committee of Corporate Secretaries has been established to work with CCS in producing this material, with a view to completing the package by Summer 1998. By ensuring directors have a clearer understanding of their roles and responsibilities in relation to government and shareholders, this initiative will improve the working interface between Boards and Government.

The need to clarify and standardise Crown corporation conflict of interest guidelines, and within these a code of conduct for employees and directors, has been noted by Government. The Committee of Corporate Secretaries referred to above is working with CCS to develop a standard set of guidelines which is contemporary with evolving practice in this field. Advice will also be provided by the Ministry of Attorney General, by the Public Service Employee Relations Commission, and by the Office of the Comptroller General. Draft guidelines are expected by early summer.

The report also raised some issues around which no recommendations were provided, but which merit further consideration. Government will be considering ways to provide more clarity of direction to Crown corporations in matters requiring Cabinet or Ministerial decision, and to further improve how Crown corporations integrate public policy objectives into their operations. There may also be some work directed at clarifying the procedures through which a Crown corporation may be wound up, or a subsidiary incorporated.

Most of the remaining issues raised in the Auditor General's report relate to the general recommendation that Government should review the current system of Crown

corporation governance and explore whether it is feasible to develop a model that more clearly establishes roles and responsibilities. While this advice is consistent with Government thinking, and with the changes introduced in recent years, it is likely that Government will proceed by a process of building on existing initiatives, such as performance measurement and strategic planning. These initiatives have fully occupied senior management in each Crown corporation, and in government, for several years. We believe the benefits of this work should repay the effort, and we believe we should stay the course of completing these important initiatives.



appendix

appendix

Office of the Auditor General: Performance Audit Follow-up —Objectives and Methodology

Purpose of Following Up Performance Audits

The Office conducts performance audit follow-ups in order to provide the Legislative Assembly and the public with information on the progress being made by government organizations in implementing the recommendations arising from the original work.

Performance audits are undertaken to assess how government organizations have given attention to economy, efficiency and effectiveness.

The concept of performance audits is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

The Nature of Performance Audit Follow-ups

A follow-up of a performance audit comprises:

1. requesting management to report the actions taken and to assess the extent to which recommendations identified in the original audit report have been implemented;
2. reviewing management's response to ascertain whether it presents fairly, in all significant respects, the progress being made in dealing with the recommendations;
3. determining if further action by management is required and, consequently, whether further follow-up work by the Office will be necessary in subsequent years; and
4. reporting to the Legislative Assembly and the public the responses of management and the results of our reviews of those responses.

The Nature of a Review

A review is distinguishable from an audit in that it provides a moderate rather than a high level of assurance. In our audits, we provide a high, though not absolute, level of assurance by designing procedures so that the risk of an inappropriate conclusion is reduced to a low level. These

procedures include inspection, observation, enquiry, confirmation, analysis and discussion. Use of the term “high level of assurance” refers to the highest reasonable level of assurance auditors provide on a subject. Absolute assurance is not attainable since an audit involves such factors as the use of judgement, the use of testing, the inherent limitations of control and the fact that much of the evidence available to us is persuasive rather than conclusive.

In a review, we provide a moderate level of assurance by limiting procedures to enquiry, document review and discussion, so that the risk of an inappropriate conclusion is reduced to a moderate level and the evidence obtained enables us to conclude the matter is plausible in the circumstances.

Scope of Performance Audit Follow-ups

The follow-ups focus primarily on those recommendations that are agreed to by management at the time of the original audit or study. Where management does not accept our original recommendations, this is reported in managements’ responses to the original audit reports. Since our reports are referred to the Legislative Assembly’s Select Standing Committee on Public Accounts, management’s concerns with our recommendations in some cases are discussed by the committee, which may also make recommendations for future action. If the committee endorses our recommendations, we include them in a follow-up. We also include any other recommendations made directly by the committee.

Frequency of Reporting on Performance Audit Follow-ups

We follow up our recommendations approximately one and a half years after the reporting date of the original work. For example, the status of recommendations included in performance audit reports released in the year ended December 31, 1997 will be reported in the spring of 1999. Where observations have critical implications for areas such as health or public safety, however, we may decide to request a status report sooner. However, some prior audits may have their follow-up review deferred to a later date because of such factors as program reorganization. Some work may not require a follow-up as no recommendations arose.

Review Standards

We carry out our follow-up reviews in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants.

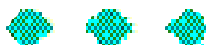
Methods of Obtaining Evidence

Our reviews involve primarily enquiry, document review and discussion.

Enquiry consists of seeking appropriate information of knowledgeable persons within or outside the entity being audited. Types of enquiries include formal written enquiries addressed to third parties and informal oral enquiries addressed to persons within the entity. Consistent responses from different sources provide an increased degree of assurance, especially when the sources that provide the information are independent of each other.

Document review consists of examining documents such as minutes of senior management meetings, management plans, and manuals and policy statements to support assertions made in management's written report.

Discussion consists primarily of interviews with key management and staff, as necessary, for further verification and explanation.



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