

You? asked for it

George Siegle of Port Coquitlam, BC asks: I heard the federal government 'lost' \$3 billion. Is that true? Did they ever find it?

Jeff Bowes, Research Director answers:



by **JEFF
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Research Director

Thanks for the question, George. The good news is that the \$3.1 billion was found. The confusing news is that, in a way, it was never actually missing.

Let me start at the beginning. Back in April 2013, a report from the auditor general (AG) identified \$3.1 billion of counter-terrorism funding that spending reports didn't account for.

NDP leader Tom Mulcair called it a "\$3-billion boondoggle," and asked where the "missing" \$3.1 billion went. The government insisted that the funds weren't missing.

Missing or not, the AG's report concluded that "information on whether departments used \$3.1 billion in initiative funding was not available."

The funds were from the Public Safety and Anti-Terrorism (PSAT) Initiative created after the terrorist attacks of Sept. 11. Between 2001 and 2009, PSAT directed \$12.9 billion to 35 departments to fund national security projects.

Departments were required to provide annual reports detailing how they spent the funds. The AG

examined these reports and found a problem: the reports only accounted for \$9.8 billion of spending, \$3.1 billion less than the Initiative sent out.

Over the next six months, the Treasury Board went through a reconciliation process to determine what the remaining \$3.1 billion was spent on. It was able to account for 99% of the funds. The review showed that the Department of National Defence (DND) alone accounted for a quarter of the previously unaccounted-for spending, and 30 other departments accounted for the rest.

The Treasury Board identified eight reasons why the AG was unable to account for this spending. The simplest reason was that, for security reasons, PSAT explicitly exempted some projects from reporting. These exempt projects account for \$1.3 billion of the unreported funds. The biggest of these projects was \$510 million for a DND project: "Increased Mili-

tary Capacity and Deployments in Afghanistan."

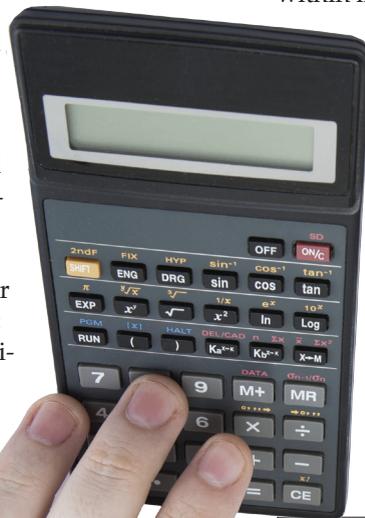
Another \$507 million was spent after the PSAT Initiative ended. With the approval of the finance department, some expenditures came after 2008-09, and those funds weren't reported because the Initiative was no longer in operation. Again, DND accounts for a big portion. It spent \$103.9 million on a Marine Security Operations Centre, \$30 million on a Secure Fleet Communication Project and \$22 million on other projects after 2008-09.

Next, some of the money was simply never spent. Project delays and cost savings resulted in \$455.6 million being returned to general revenue.

Another \$265.7 million was spent on other projects; deputy ministers can redirect funds to other priorities within limits set out by Parliament and the Treasury Board.

Some \$228.1 million was carried forward to the next fiscal year at the end of 2008-09. (Departments can keep up to 2% of their operating budget and use it in the next fiscal year. This is meant to discourage managers from rushing to spend their entire budget as the year comes to an end.)

Meanwhile, \$68.2 million was saved when government-wide cost-sav-



After going through the books, the auditor could not account for \$3.1 billion in spending.

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ing exercises reduced the funds for some PSAT projects; \$63.2 million was transferred between departments. Other reasons, such as the duplication of funding allocations to Fisheries and Oceans, account for another \$94.2 million.

This explains the “unreported funds” the AG was concerned about. However, the Treasury Board review shows that the reporting framework for PSAT was never intended to account for all the spending. It explicitly excluded some projects from reporting and stopped collecting reports before all the projects were complete.

The AG knew about some of these problems. Working with the Treasury Board, his report identified many of the same reasons why the funds were unaccounted for by PSAT. Yet in much of the reporting on “missing” money, the real problem wasn’t addressed.

The AG’s report criticized the PSAT process as “incomplete.” He called it a missed opportunity to provide a government-wide perspective on the Initiative. What’s telling is that the AG’s recommendation wasn’t to “find” the \$3.1 billion but to review the PSAT program and to improve financial and non-financial reporting of government-wide initiatives. A recommendation that the Treasury Board agreed with and said it was already

working towards.

It’s important to remember that just because this spending wasn’t accounted for by PSAT doesn’t mean that it wasn’t accounted for at all. PSAT was a specific initiative by the government, and it had problems.

All departments have reporting requirements through the government’s budget process. The budget outlines how money will be spent; then the “main estimates” provide funds to departments. Finally, the “public accounts” report to the House of Commons to verify that the funds were spent on authorized purposes.

This process isn’t perfect but it is the standard way that departments account for their spending, not through specific initiative reporting frameworks.

The funds were never “missing” because they were always accounted for by the public accounts. But as the AG suggested, specific reporting on government-wide initiatives would help provide further insight. **t**

The AG said the money was never lost, but the episode revealed a need for better reporting by departments on how they spend tax dollars.

