

LEGISLATIVE ASSEMBLY OF THE
NORTHWEST TERRITORIES
9TH ASSEMBLY, 4TH SESSION

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Report to the
Council of the Northwest Territories
on "any other matter" arising
from the examination of the accounts
and financial statements of the
GOVERNMENT OF THE NORTHWEST TERRITORIES
for the year ended March 31, 1980



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Ontario
K1A 0G6

February 10, 1981.

Mr. J.H. Parker
Commissioner
Government of the Northwest Territories
Yellowknife, N.W.T.
XOE 1HO

Dear Mr. Parker:

I herewith transmit my report to the Council of the Northwest Territories on the audit for the year ended March 31, 1980, to be laid before the Council in accordance with the provisions of Section 23(4) of the Northwest Territories Act, R.S., c. N-22.

The report deals with "any other matter" arising from my examination of the accounts of the Northwest Territories for the year ended March 31, 1980 that, in my opinion, should be brought to the attention of the Council. The report also includes my recommendations and observations, together with your response thereto.

Yours very truly,

Rhéal Chatelain
Senior Deputy Auditor General
for the Auditor General of Canada

REPORT ON "ANY OTHER MATTER"

FOR THE YEAR ENDED MARCH 31, 1980

I have completed the audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1980. The purpose of my examination was to allow me to express an opinion on the financial statements and to report to the Council of the Northwest Territories in accordance with the Northwest Territories Act. These requirements were met in my report to Council, of September 15, 1980 in respect of the fiscal year ended March 31, 1980.

I have also examined the financial statements of the Northwest Territories Liquor Control System for the year ended March 31, 1980 and the Workers' Compensation Board (Northwest Territories) and the Northwest Territories Housing Corporation for the year ended December 31, 1979, and have reported thereon to the Commissioner of the Northwest Territories as required by their respective Ordinances.

My examinations included reviews of certain of the operating, legislative and financial control systems and such tests as were considered necessary in the circumstances. The staff of the Audit Office was given full access to all vouchers, records and files relating to the accounts of all departments and agencies of the Government and was provided with all the information and explanations required. I would like to express my appreciation to the Commissioner and staff of the government departments and agencies for the cooperation extended to my officers during the audit.

The Northwest Territories Act also provides for the Auditor General to call attention to any other matter falling within the scope of his examination that, in his opinion, should be brought to the attention of Council. In accordance with this provision, I am bringing the following areas of concern and our recommended actions to the attention of Council.

Ineffective control over the operations of the Northwest Territories Housing Corporation

Under section 19 of the Northwest Territories Housing Corporation Ordinance the Government is responsible for the operating deficit of the Corporation and is required to make advances from funds appropriated to meet operating, maintenance and capital costs of the Corporation. During the year ended March 31, 1979 the Government advanced \$24,130,000 for this purpose, including \$4,842,000 that had not been appropriated. This amount was recorded by the Government as a short-term loan at March 31, 1979. During the year ended March 31, 1980 the Corporation repaid \$2,000,000, leaving a balance of \$2,842,000 outstanding in the accounts of the Government at March 31, 1980. This matter is referred to in Note 4 to the financial statements of the Government for the year ended March 31, 1980 and my report of September 15, 1980 on these financial statements was qualified accordingly. The procedures in place have not provided the Government with an effective control over the operations of the Corporation.

The information provided by the Corporation in support of capital grants included in the Estimates is not in sufficient detail for the Government to effectively control projects and project expenditures including other capital expenditures of the Corporation. Furthermore, the Corporation does not have a proper reporting system for the utilization of capital grant funds that would provide the Government, and also management and the Board of Directors of the Corporation, with information on budgeted and actual expenditures, by project, and estimated costs to completion. Lack of a proper reporting system could result in funds provided for capital projects that have been deferred or cancelled being used for other capital projects without the knowledge and approval of the Government.

Recommendation

. The Corporation should provide details of capital project expenditure, by location as well as proposed expenditures on other capital assets in support of capital grants included in the Estimates.

. If it is necessary for the Corporation to cancel or substitute other projects or change the level of funding for projects or other capital asset acquisitions provided for by capital grants, changes or substitutions should be approved by the Government's Financial Management Board.

. The Corporation should provide the Department of Finance with regular reports on projects and project expenditures financed by grants as part of its normal reporting procedures.

Comments of the Office of the Commissioner

The Corporation will provide details of proposed capital expenditures: a) by location b) on other capital assets by January 31, 1981 to support the capital grants in the 1981/82 Government of the Northwest Territories' Main Estimates. In future years this detailed information will be provided to the Chairman of the Northwest Territories Housing Corporation, the Secretary to the Financial Management Board and the Department of Finance at the time the Northwest Territories Housing Corporation budget is submitted to the Government of the Northwest Territories.

All changes or substitutions to original budget/grants are processed through the Capital Project Approval Form. Authorized signators on these Forms were those of Corporation personnel only. Effective immediately these Forms will be sent to the Financial Management Board.

. Previously these reports were distributed to Corporation personnel only. To provide more effective monitoring of operations, the Corporation will submit Quarterly Budget Variance Reports on Operations and Capital to the Secretary of the Financial Management Board and the Department of Finance for review.

Financial Manuals should be finalized and issued

We have previously reported to Council that the financial accounting and procedures manuals were inadequate to cover the needs of financial administration in the Territories. A Financial Administration Manual was developed during 1979-80 and is now being finalized. However, there is still a need for an elaboration of accounting policies and procedures to be followed in the preparation of year-end financial statements and information to be contained in the Territorial Accounts.

Recommendation

The manual should be issued as soon as possible and elaborate on Government accounting policies and year-end procedures to expedite more timely preparation of year-end financial statements.

Comments of the Office of the Commissioner

The Financial Administration Manual was issued in December 1980 following almost three (3) years of extensive effort by the Government of the Northwest Territories. This Manual provides the overall Policy for financial administration of the Government.

Specific Year-end Procedures are being prepared by the Department of Finance and will be issued in February 1981 for the 1980/81 fiscal year-end. Several changes are expected in the Government's Accounting Policies during 1981/82 and these will be incorporated into a detailed Accounting Procedures Manual expected for completion during the latter part of the 1981/82 fiscal year.

Legislative amendment required for present Senior Financial Officer position

We have previously reported to Council that the Financial Administration Ordinance designates the Territorial Treasurer as the Senior Financial Officer of the Government. Organizational changes in the Department of Finance, however, have resulted in the appointment of a Deputy Minister of Finance, who now is recognized as the Senior Financial Officer of the Government and reports to the Commissioner. While these matters have been addressed in the new Financial Administration Ordinance now being drafted it is not yet ready for submission to Council for approval.

Recommendation

The new Financial Administration Ordinance should be finalized as soon as possible and submitted to Council for approval.

Comments of the Office of the Commissioner

The new Ordinance has been under development for two (2) years. Since this Ordinance provides the Legislative Authority for the financial

administration for the Government of the Northwest Territories careful consideration must be given to each of the specific sections contained within it.

Several legal and operational opinions have been expressed on what should be contained in the new Ordinance. These opinions have been reviewed and implemented into the development of the final draft. This draft was circulated to the Auditor General of Canada for review and comment. These comprehensive comments by the staff of the Auditor General are now being reviewed thoroughly for incorporation into a final draft Ordinance for consideration by the Executive Committee. It is intended that the proposed new Ordinance will be presented for Legislative Assembly consideration during the 1981/82 fiscal year.

Rae Lakes Grocery Store Revolving Fund over-expended

Last year the Rae Lakes Grocery Store Revolving Fund exceeded the authorized limit of \$150,000 by \$8,845. Although the authorized limit was increased to \$210,000 during the year the limit was again exceeded at March 31, 1980 when the balance was \$252,822, or \$42,822 in excess of the limit.

Recommendation

Procedures should be implemented to ensure that expenditures are not made that would result in any revolving fund exceeding its authorized limit.

Comments of the Office of the Commissioner

The Department of Finance provides monthly statements of revolving funds to each revolving fund Manager. Where it appears these fund limits will be exceeded, action is taken to ensure that the necessary legislative authority to increase the fund limit is provided. The Regional Director's Office in Fort Smith has indicated that procedures are in place to ensure that the Rae Lakes Grocery Store Revolving Fund does not exceed its authorized limit for this fiscal year ending March 31, 1981. These procedures include ongoing monitoring of inventory levels, purchases and sales to ensure fund is within authorized levels.

Petroleum, Oil and Lubricants Revolving Fund (P.O.L.) control weaknesses

The authorized level of the Revolving Fund is currently \$20,000,000. As of March 31, 1980 the major account balances in the Fund comprised inventories of \$8,299,753, accounts receivable of \$6,806,636 and advance payments of \$820,030. Losses on P.O.L. operations as calculated at year-end amounted to \$1,339,520. Of this amount \$281,000 (21%) was charged to the Department of Public Works appropriation to cover P.O.L. supplies deemed to have been provided to that Department.

Although improvements were made in the P.O.L. system during 1979-80, the system was still inadequate to provide adequate control of the P.O.L. operation as evidenced by the portion of losses charged to the Department of Public Works appropriation and the following matters:

- . inadequate meter ticket reporting;
- . inadequate tank measurement and inventory reporting;
- . extensive delays in billing customers; and
- . non-accountability of contractors for fuel shortages.

Recommendation

The P.O.L. system should address and correct the existing control deficiencies in the system.

Comments of the Office of the Commissioner

The implementation April 1, 1980 of the computerized POLARIS system (Petroleum Oil, Lubricant, Accounts Receivable Information System) addressed the specific concerns raised by the Auditor General's Office during his 1979/80 audit.

We now have a better control over our program with respect to meter tickets reporting and tank inventory along with the faster billing process. Contractor accountability for fuel shortages has been implemented.

Insufficient action on control problems in Fort Smith Region

Financial controls over operations of the Fort Smith Region were grossly inadequate during the year. Although Head Office was aware of control problems being experienced in this Region insufficient action was taken to resolve the situation. Some of the control deficiencies noted were:

- . Bank Reconciliations not being done regularly throughout the year on imprest bank accounts and in some instances were done only at year-end and done incorrectly.

- Revenue transfer bank accounts not being reconciled regularly, resulting in overdraft balances and balances not being transferred at year-end.
- Fur auction advances being issued and not recorded and adequately controlled throughout the year.
- Subsidiary records not being reconciled to general ledger accounts during the year.
- Physical inventory procedures being poorly handled and inventories incorrectly reconciled to the general ledger.

Recommendation

Where Head Office monitoring of Regional financial activities identifies control deficiencies, prompt corrective action should be taken to correct the situation.

Comments of the Office of the Commissioner

Deficiencies still persisting are being resolved through joint efforts of Regional and Headquarters' Management, with additional manpower being provided from Headquarters Finance to bring reconciliations to current status and provide training assistance for Regional staff. An Action Plan is being developed in conjunction with the Department of Finance, Yellowknife and the Regional Director's Office in Fort Smith to resolve outstanding issues and deficiencies recognized during the 1979/80 audit and subsequent 1980/81 reviews. This Action Plan is aimed at eliminating the control deficiencies noted by the end of fiscal year 1980/81.