

**LEGISLATIVE ASSEMBLY OF THE
NORTHWEST TERRITORIES
9TH ASSEMBLY, 7TH SESSION**

TABLED DOCUMENT NO. 21-82(1)

TABLED ON FEBRUARY 19, 1982

TD 21-82(1)

Tabled on Feb. 19, 1982

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, 1981



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Mr. J.H. Parker
Commissioner
Government of the Northwest Territories
Yellowknife, N.W.T.
XOE 1H0

Dear Mr. Parker:

I herewith transmit my report to the Council of the Northwest Territories on the audit for the year ended March 31, 1981, 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, 1981 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.

Cordially yours,

Auditor General of Canada

Ottawa, Ontario
February 3, 1982

REPORT ON "ANY OTHER MATTER"
FOR THE YEAR ENDED MARCH 31, 1981

I have completed the audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1981. 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 18, 1981 in respect of the fiscal year ended March 31, 1981.

I have also examined the financial statements of the Northwest Territories Liquor Control System for the year ended March 31, 1981, and the Workers' Compensation Board (Northwest Territories) and the Northwest Territories Housing Corporation for the year ended December 31, 1980, and have reported thereon to the Commissioner of the Northwest Territories as required by their respective Ordinances.

My examination 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 co-operation 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.

1. Accounting and Reporting System

The scheduled date of April 1, 1980 for implementation of the new Financial Information System (FIS) was not met although preparatory training had been undertaken and coding structures were in place. In fact, the FIS was not implemented during the year. For this reason a contingency accounting and reporting system was developed midway through the year at which time accounting transactions could be processed and financial reports generated. It was not until very late in the fiscal year that the processing of accounting transactions and generation of financial reports were brought to a current basis.

The preparation of accurate and timely reports are desirable features of any accounting and reporting system in order to have effective management control. The contingency system implemented during the year did not meet these requirements. The lack of accurate and timely financial reports contributed to

most balance sheet accounts not being reconciled during the year and caused lengthy delays in the preparation of account reconciliations at the year-end.

In accordance with the Commissioner's formal request, based on a resolution adopted by Council, we will be undertaking a comprehensive audit of the new Financial Information System as part of this year's audit.

2. Year-end Procedures

Even though year-end instructions had been issued and despite commendable efforts by the Department of Finance - Headquarters, preparation of year-end working papers and financial statements were very inadequate. Problems with the contingency system referred to above contributed to this situation and greatly hampered the accounting staff in meeting the deadlines for year-end requirements. This in turn led to deferral of our year-end audit visit by two weeks beyond the agreed upon deadline of June 15, 1981. Notwithstanding this deferral most year-end supporting documentation was still not available for audit, or was incomplete or inaccurate. This resulted in excess of 100 journal entries having to be made to correct accounts subsequent to an additional computer run made during the second week of our visit. It also resulted in us having to make a second visit in September 1981 to complete the field work phase of our year-end audit. More effective monitoring of progress on year-end tasks, and review of year-end working papers and financial statements could have minimized the problems encountered.

Recommendations

Standardized year-end procedures should be established to ensure the accuracy of year-end working papers and the timely preparation of financial statements.

Senior Financial Officers should be more actively involved in the monitoring and review of working papers and preparation of financial statements for which they are responsible.

Comments of the Office of the Commissioner

Year-end procedures are being developed to maintain overall monitoring of the 1981-82 year-end process.

In addition, the new accounting system now provides reports to a detail which will simplify reconciliations and statement preparation.

The Senior Financial Officers will be involved in all facets of financial statements preparation. Weekly status reports are being prepared and one officer in the Department of Finance has been designated responsibility for co-ordination of all Government accounts. All working papers and files will be reviewed by a Senior Financial Officer to ensure sufficient and complete data is available for audit requirements and financial statement preparation.

3. 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. However, organizational changes in the Department of Finance have resulted in the appointment of a Deputy Minister of Finance, who is recognized as the Senior Financial Officer of the Government and reports to the Commissioner. These matters have been addressed in the revised Financial Administration Ordinance now being prepared for submission and approval of Council.

Recommendation

The new Financial Administration Ordinance should be finalized and submitted to Council for approval at its next session.

Comments of the Office of the Commissioner

A draft Financial Administration Ordinance has been completed and is being reviewed by the Financial Management Board. The legislation proposal is expected to be tabled at the February, 1982 session of Council.

4. Economic Development Projects Bank Accounts

We noted the following inadequacies in the control of economic development projects bank accounts:

- in many cases the bank accounts were not recorded in the accounts;
- many economic development projects established their own bank accounts without authority of the Territorial Treasurer;
- project revenue was not being remitted to Headquarters, for example, excess funds were used to purchase term deposits for Eskimo Point Crafts Projects; and
- bank accounts and cheques for some projects were not specifically identified as belonging to the Government.

Recommendation

Procedures should be established to monitor economic development projects and to ensure that the bank accounts are properly approved, recorded and revenue transferred to the Government.

Comments of the Office of the Commissioner

During the start-up of the new project accounting systems, the process for establishing project bank accounts was not clearly understood by regional officials. The procedures were clarified during 1981-82 and all accounts are now being established by authority of the Territorial Treasurer.

Project accounting procedures are now in place to monitor projects regularly. These procedures will be reviewed on an ongoing basis to ensure adequate records are maintained and that all revenue is properly credited as received.

5. Accounts Payable

The Government follows the modified cash basis of accounting for expenditures by recording, as expenditures, amounts paid for goods received and services rendered during the fiscal year and thirty days after the end thereof as provided for by section 22 of the Financial Administration Ordinance. Specific instructions had been issued on the procedures to be followed for the settlement of these accounts so that the amounts paid could be allocated to the proper fiscal year. The procedures were not always followed. Payments were made in April 1981 and charged to 1980-81 appropriations although they related to contributions for the 1981-82 fiscal year and to goods and services that had not been received prior to March 31, 1981. Conversely, in accordance with the Government's policy of recording expenditures as disbursements were made, cheques dated and issued in March 1981, and sometimes cashed before the year-end, should have been charged to 1980-81 appropriations even though they related to the 1981-82 fiscal year.

Recommendation

Year-end accounting policies for accounts payable at year-end should be closely monitored in departments and regions to ensure compliance with stated policies.

Comments of the Office of the Commissioner

1981-82 year-end instructions have been issued to all departments and regions, clearly outlining Government policy on accounts payable and cheque issue. The Department of Finance will monitor expenditures to the extent possible to ensure compliance.

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

The authorized level of the P.O.L. Revolving Fund is currently \$30,000,000. As at March 31, 1981 the major account balances in the Fund comprised inventories of \$10,939,000, accounts receivable of \$7,215,000 (net of allowance for doubtful receivables of \$1,711,000) and advance payments of \$475,000. Profit on P.O.L. operations for the year amounted to \$513,000.

As mentioned in last year's Report to Council on any other matter, improvements have been made to the P.O.L. system. However, it still does not provide adequate controls on the P.O.L. operations. In the course of this year's audit we noted the following deficiencies:

- inadequate transfer of accounting information from the Fund to the central accounting system and lack of general ledger control over P.O.L. operations;
- no systematic and proper collection process was in effect during the year with the result that collection activity on accounts receivable was inadequate;
- lack of reconciliation of contractors' advances to contractors' statements;
- inaccuracies in inventory costing, quantities and fuel sales cut-off information for year-end reporting purposes; and
- independent government observers not being present at many tank farms to verify tank measurements by applicable contractors.

Recommendations

A review of the P.O.L. system of processing transactions should be undertaken to ensure that proper general ledger control accounts are established and all transactions are processed in the accounts.

Procedures should be established and closely monitored to ensure the prompt collection of accounts receivable.

Comments of the Office of the Commissioner

A review of the P.O.L. system is presently underway by P.O.L. personnel plus internal auditors. Major problem areas are being identified and dealt with where it is possible to do so now. Future changes are being contemplated to both the POLARIS system and procedures for the processing of transactions to ensure proper controls will be in place.

We agree. Procedures are being established by our Revenue Unit to ensure prompt collections.

**Comments of the Office
of the Commissioner**

Recommendations

Advance payments to contractors should be reconciled to contractor's statements on a monthly basis.

Independent observers should be present when inventories are verified.

We agree. We will implement this reconciliation.

We agree and this is now a standard practice and is being carried out with this year's inventory count.

7. Social Assistance Payments

Financial controls over social assistance payments were grossly inadequate. Consequently, the Government is exposed to considerable financial risk. The following deficiencies were noted:

- blank cheques issued to field offices not subject to control at Headquarters and thus no accountability for usage;
- payments by social workers based on applications signed by the social worker and applicant, not reviewed or approved by persons with delegated signing authority;
- specimen signature cards for personnel authorized to issue cheques not kept up to date or missing;
- no effective follow-up to ensure that supporting documentation is received for all cheques issued and paid; e.g., payments of approximately \$85,000 made over the past three years not accounted for since the necessary paperwork had not been received at Headquarters; and
- payments not being recorded in the proper fiscal year.

**Comments of the Office
of the Commissioner**

Recommendations

Blank cheques should be put under forms control and usage accounted for.

The entire system covering social assistance payments must be reviewed and proper controls established to ensure that:

- payments by social workers are reviewed and approved by persons with delegated signing authority;

Steps have been taken to introduce a form control procedure beginning April 1, 1982.

We are presently reviewing the approval and signing process to determine how it can be improved on a Territorial-wide basis without affecting the level of service to clients.

Recommendations

Comments of the Office of the Commissioner

- Specimen signature cards are prepared for persons signing cheques and kept up to date; and
- Supporting documentation is received for all cheques issued.

We are now current with specimen signature cards and regular reviews and follow-up is also being carried out to ensure they are kept up to date.

As of April 1, 1981, regular monthly reviews of cashed but unrecorded assistance cheques are carried out and timely follow-up is done to ensure that all supporting documentation is received for cheques issued.

3. Other matters

We also discussed other matters with the Commissioner and senior officers of the Government who advised us that action will be undertaken where appropriate. Some of these matters included:

- delegated financial signing authorities often being exceeded by persons exercising payment and spending authority;
- splitting of local purchase authorities (L.P.A.'s) to stay within the \$100 limit prescribed by regulation; and
- change orders and service contracts prepared after the fact, often on the basis of invoices received.

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, 1981

Tabled Document No. 21-82(1)

Tabled Feb 19/82

ᐅᓂᓐ ᑲᑦ ᓄᓇᑦ ᓯᐳᑦ ᐱᑦᐱᑦᐅᑦᐱᑦ ᓄᑦ
"ᓯᓇᐅᐱᑦ ᓇᐱᑦ ᐱᑦᐳᐱᑦᐳᑦ" ᑦᐅᓯᑦᐱᑦ
ᑲᓇᐅᑦᐱᑦ ᐱᑦᐱᑦ ᐳᑦ ᐱᑦᐳᐱᑦᐳᑦ
ᐳᑦ ᑲᑲᑦ ᓄᓯᐳᑦ ᐱᑦᐳ, 31, 1981

ኔግ ኦታጅ፣
ጠባብጅ
ጠባብጅ ለጊዜ ስላሉ
ከጋራ፣ ጠባብጅ

ጠባብጅ ኔግ ኦታጅ፡

CAL ስም ጠባብጅ ጋራጋላ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ
ጠባብጅ ለጊዜ ስላሉ ጠባብጅ ጠባብጅ ጠባብጅ 31, 1981-ጋራ ኔግ ጠባብጅ ጠባብጅ
ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ 23(4) ጠባብጅ ጠባብጅ.

ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ
ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ
ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ
ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ

ጠባብጅ,

ጠባብጅ ጠባብጅ ጠባብጅ ጠባብጅ

ጠባብጅ

ጠባብጅ 5, 1982

