

**LEGISLATIVE ASSEMBLY OF THE  
NORTHWEST TERRITORIES  
9<sup>TH</sup> ASSEMBLY, 10<sup>TH</sup> SESSION**

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Ottawa, Ontario  
January 21, 1983

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

Dear Mr. Parker:

I herewith transmit my report to the Council of the Northwest Territories on the audit for the year ended March 31, 1982, 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, 1982 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,

Raymond Dubois, C.A.  
Deputy Auditor General  
for the Auditor General of Canada

**REPORT ON "ANY OTHER MATTER"  
FOR THE YEAR ENDED MARCH 31, 1982**

I have completed the audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1982. 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 October 15, 1982, in respect of the fiscal year ended March 31, 1982.

I have also examined the financial statements of the Northwest Territories Liquor Control System for the year ended March 31, 1982, and the Workers' Compensation Board (Northwest Territories) and the Northwest Territories Housing Corporation for the year ended December 31, 1981, 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. Also as part of this year's audit, I undertook a comprehensive audit of the Financial Information System at the request of Council through the Commissioner, Mr. John H. Parker, of the Northwest Territories. I reported thereon to Council under date of November 15, 1982.

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. Accordingly, I would like to bring your attention to the following areas of concern and our recommendations thereon.

**I. Accounting and Reporting System**

As part of this year's audit, we undertook a comprehensive audit of, and have reported separately to Council on, the development and acquisition of the new Financial Information System (FIS). FIS was implemented in September 1981 and superseded the Contingency System referred to in last year's report to Council. The transition presented a number of problems including delays in the processing of transactions and generating accurate accounting and management reports. The lack of accurate and timely reports contributed to lengthy delays in the preparation of balance sheet reconciliations by departments and regions. We hope that many of these problems will be resolved in the Government's 1983 fiscal year, which will be the first full year's operation of FIS.

## 2. Year-end Procedures

Even though there were significant improvements in year-end instructions and procedures provided to financial officers and despite commendable efforts by the Department of Finance - Headquarters, preparation of working papers and financial statements were again incomplete. The changeover from the Contingency System to FIS during the year contributed to this situation. As a consequence, accurate year-end financial statements could not be prepared on a timely basis. We began our year-end audit in July 1982, but, because of the lack of certain account reconciliations we had to make a second visit in September 1982 to complete our field audit work. Over 100 journal entries were required upon receipt of reconciliations to correct accounts after the central accounts had been closed to the general ledger. More effective monitoring and better co-operation of departmental and regional finance officers with Department of Finance personnel could have minimized the problems encountered.

### Recommendations

1. A senior financial officer should be assigned responsibility for monitoring and reviewing working papers, and reporting progress to the Comptroller General so that financial statements can be accurately prepared on a timely basis.
2. Deputy Heads and Regional Directors should ensure that financial officers in their departments and regions comply with the year-end procedures and provide information to central accounts on a timely basis.

### Comments of the Office of the Commissioner

1. The Comptroller, Department of Finance, has been assigned this responsibility. Regular reports are provided to the Comptroller General and the necessary action is taken where difficulties are apparent.
2. The new Financial Administration Ordinance assigns financial management responsibility to Deputy Heads. The year-end procedures clearly identify regional responsibilities and these responsibilities will be reinforced through Executive direction.

## 3. Irregular Journal Entry

A limited review of journal entries disclosed an instance where expenditures totalling \$200,000 had been transferred by Department of Finance - General Accounting Section from Highway Marine operations to DPW operations to create a free balance to process other transactions. Although the entry was subsequently reversed during our audit, adjusting transactions that have been properly recorded to create free balances is, in our opinion, most irregular and should not be allowed. Entries of this nature, if not immediately corrected, could distort government expenditures as well as weaken budgetary control. Adjustment of expenditures should be strictly controlled.

**Recommendations**

**Comments of the Office  
of the Commissioner**

1. Transfer of expenditures to create free balances should not be allowed.
2. If sufficient funds are not available to process transactions, a budget transfer should be approved by the Financial Administration Board to permit transactions to be processed.

1. At the time that this transaction took place there was a flaw in the Free Balance and Fund Control System. The error caused an Activity to overspend. The problems with Free Balance Control and Fund Control have since been corrected.
2. Agreed. This process is in place.

**4. Bank Accounts**

**Bank reconciliations.** The computerized bank reconciliation system was not functioning adequately during the year. This resulted in lengthy delays in reconciling bank accounts. For example, in the case of headquarter's bank accounts, the balances for June 1981 were not reconciled to the general ledger until February 1982, and most year-end balances were not reconciled until May 1982.

Fort Smith and Cambridge Bay bank accounts at the year-end were not reconciled until August 1982. Many adjustments were required to correct these and other related accounts that were affected such as accounts payable, expenditures and expenditure recoveries. For example, two journal entries were required in July 1982 to record cheques issued in the fiscal year 1981-82 totalling in excess of \$385,000. Prompt preparation of bank reconciliations, which are an important internal control element, would have revealed these types of errors.

**Recommendations**

**Comments of the Office  
of the Commissioner**

1. Bank reconciliations should be done monthly and reviewed and approved by a senior financial officer.
2. Cheques should be entered into the system promptly after issuance.

1. Bank reconciliations are now being prepared monthly and are being reviewed and approved by a senior financial officer.
2. Cheques are now entered into the system promptly after issuance.

### 5. Sale of Bay Chimo Stores Revolving Fund Inventory

The inventory of the Bay Chimo Store was sold to a private enterprise as of October 1, 1981. At that time, the sale agreement had not been signed by the Government, neither had it been signed in November 1982 or the inventory paid for. The following deficiencies were noted:

- The Department of Finance was not consulted to ensure that all the financial details were handled correctly;
- The bank account was not closed at that date; neither was it reconciled;
- Proper accounting entries had not been prepared to record transactions for the period April 1 to September 30, 1981, so that accounts receivable and accounts payable could not be determined at the date of turnover of the inventory; and
- There is no evidence that the inventory was counted by government staff prior to the turnover.

Privatizing or selling economic development projects has become increasingly frequent in recent years, therefore it is essential to have sound procedures to deal with such sales. Subsequent to the year-end, instructions were issued which adequately deal with the procedures to be followed in the event of such sales, including the matters referred to above.

#### Recommendation

1. The sale agreement should be executed and settlement obtained for the inventory taken over as soon as possible.

#### Comments by the Office of the Commissioner

1. Procedures to deal with sales of Government Commercial Enterprises have been developed and are now followed. The accounting entries on the sale of Bay Chimo store are complete and the bank account has been closed. The balance in the Revolving Fund represents the amount in the agreement for sale. Inventory count at the time of sale was conducted by the Regional Superintendent of Economic Development and Tourism for the Kitikmeot Region although that fact was not evidenced.

We agree that the sales agreement should be executed as soon as possible. Audited financial statements of the purchasers current financial position have been called for prior to final approval. These are expected in early 1983 and the agreement will then be finalized.

## 6. Petroleum, Oil and Lubricants (POL) Revolving Fund

The authorized level of the POL Revolving Fund is currently \$30,000,000. As at March 31, 1982 the major account balances in the Fund comprise inventories of \$14,478,000, accounts receivable of \$8,920,000 (net of allowance for doubtful receivables \$2,326,000) and advance payments of \$637,000. Profit on POL operations for the year amounted to \$4,485,000.

In previous Reports to Council we have referred to inadequacies in the control of POL operations. This year is no exception. In our opinion, the time has come for a full review of the entire POL System because of its inadequacies. Comments follow on certain aspects of the System and its controls which ultimately result in delays in submitting information to the central system until many months after the year-end.

**POLARIS.** The POLARIS system for recording POL transactions was not designed to be an accounting system. A financial code report is used to accumulate data for journal entry input to FIS. This report is used to derive accounts receivable control totals for reconciliation to the customer billing summary which acts as a subsidiary ledger. There were unreconciled differences between the financial code report and the customer billing summary at the year-end. The reconciliation process is very time consuming, cumbersome and prone to error. Problems with the reconciliation process include:

- Many interdepartmental accounts had not been identified with a government financial code and were, therefore, being assembled in the financial code report as general settlement accounts with the result that the financial code report did not agree with the accounts receivable report;
- The System does not adequately deal with interdepartmental charges and settlements, reconciliation of the financial code report with the accounts receivable report had to be done manually, which is a time consuming process, particularly as it was not done until after the year-end, instead of monthly;
- Computer programming and input errors resulted in situations where amounts were correctly reflected in one report but not in the other, for example, a charge could appear on an aged listing of accounts receivable but not on the financial code report.

### Recommendation

1. The POLARIS system should be evaluated and modified or revised to provide for meaningful financial input to FIS.

### Comments of the Office of the Commissioner

1. An evaluation of the POLARIS system was completed in July, 1982. Revisions and updates at an estimated cost of \$300,000 are being made to have POLARIS provide complete accounting information subsidiary to and reconcilable with FIS.

**Customer billings and accounts receivable.** We noted many changes to unit numbers on meter tickets without explanation; also that many meter tickets were changed by headquarters personnel. Meter tickets prepared by POL contractors indicate the unit numbers of buildings to which fuel is delivered. This number triggers the fuel charge to a specific customer. Procedures require that changes to unit numbers are to be made by regional POL officers, however, field officers were not being notified of the changes.

**Recommendation**

2. Changes to unit numbers should be transmitted to field officers to minimize alterations to meter tickets prepared by contractors.

**Comments by the Office of the Commissioner**

2. Recommendation has been implemented and the required co-operation of many government departments has been solicited.

**Inventory Variances.** Inventory shortages and overages, calculated following tank dips, which are recoverable from, or chargeable to, contractors, are reflected in accounts receivable. Variance charges to contractors amounted to approximately \$694,000 in 1981-82 and \$454,000 in 1980-81. An analysis of variances had not been carried out in the majority of cases. For example, 1981-82 variances were analysed only for the charges to six contractors in the Central Arctic region out of a total of 44 contractors throughout the Territories. The results of the analysis showed that the majority of the variances were not valid. The error in the calculation of the variance (overage) credited to the six contractors amounted to over \$118,000.

An analysis of product variance charges for the 1980-81 fiscal year had not been done at all. We noted that a shortage of over \$118,000 for Baker Lake in 1980-81 was invalid, because wrong tank specifications had been entered in the computer files and distorted quantities for inventory control.

**Recommendations**

3. The causes of all variance charges to contractors should be investigated and corrections made if necessary.
4. All tank specifications recorded in the computer master files should be verified.

**Comments by the Office of the Commissioner**

3. Procedures have been established to investigate all variances immediately. Nevertheless, the volume of meter tickets, and delays in transmittal, due to distance and isolation, make the process time consuming. Extra staffing has taken place to overcome this problem.
4. In February, 1982, tenders established the cost of verifying tank specifications, at between \$558,000 to \$855,000. Government Services will take appropriate steps to secure the necessary funding through the government's budgetary process. A cost/benefit analysis will be made for justification of this expenditure.



**Prepayment accounts.** The Government makes prepayments to commercial suppliers of fuel products in two communities. Prepayment account transactions were neither properly recorded nor properly reconciled during the year. Some of the deficiencies identified in controlling prepayments are as follows:

- A prepayment account exists within the POLARIS accounts receivable but it has never been used;
- Manual calculations are used to determine the correct prepayment of advances owing by contractors which take into account credits arising from refunds by contractors of unused portions of advances, however, the amounts refunded were credited in the records to accounts receivable with the result that accounts receivable have been understated for reporting purposes by the amount refunded;
- Monthly statements had not been provided nor requested from one of the contractors;
- Charges to customers did not always match the charges by the contractor and in some instances customers had not been charged at all.

**Recommendations**

**Comments by the Office  
of the Commissioner**

5. The prepayment account in POLARIS accounts receivable should be used and the manual record abandoned.
6. The contractors should be required to submit monthly statements which should be reconciled with the accounts.
7. **Department of Public Works**

5&6. Prepayment accounts are now reconciled monthly, and are posted in separate accounts in the system.

As part of our audit of the Department of Public Works we noted that, as in previous years, change orders and service contracts were being prepared, frequently on the basis of invoices received. We recognize that it is often difficult to obtain prior approval of contract change orders and cost estimates before commencing the work, but it does weaken budgetary control. The same is true of service contracts, which may begin before the contracts are formalized and should at least receive approval in principle of estimated costs before the work begins.

**Recommendation**

1. Change orders and service contracts should at least receive approval in principle before the work begins so that funds can be committed to meet the estimated costs.

**Comments by the Office  
of the Commissioner**

1. The Department recognizes the budgetary and expenditure implications of incurring liabilities on behalf of the Government prior to receiving the appropriate level of approval and ensuring funds are available to retire the liabilities when they come due for payment.

The employees of this department, who in the course of their duties, may have reason to initiate, amend and/or approve contracts, change orders and/or service contracts have been informed that they must ensure the correct approvals and the certification as to availability of funds are received prior to permitting the work to begin and/or goods and/or services being requested.

It is also recognized that there will be occasions when this policy cannot be followed to the letter.

Exceptions may arise in the event of an emergency; the protection of employees and/or the public is necessary; or, the project itself would be unnecessarily delayed giving rise to a breach of contract or to an increase in costs. When such circumstances arise, they will be properly documented and the documentation submitted with the request for approval.

Also as part of our audit, we reviewed revenue received from rentals of commercial space in government-owned buildings. We noted problems with invoicing for rentals, particularly in the Baffin Region, which appear to arise from the lack of lease agreements, or improperly executed leases, and resulted in the non-receipt of rental revenue. A notable example was the lease of space by National Health and Welfare Canada in the Nanisivik Complex where almost three years of rentals had not been received because of lack of a lease agreement. An invoice

amounting to more than \$336,000 representing uncollected rents from June 1, 1979 to March 31, 1982 was raised in May 1982.

**Recommendation**

**Comment by the Office  
of the Commissioner**

2. Commercial rentals should be reviewed to ensure lease agreements exist for all space rented and that rentals are being collected on a timely basis in accordance with the terms of the agreements.

2. Accommodation Services has recently completed a review of all commercial and residential leases. At the present time, there are only eight units for which signed agreements are not in place. Negotiations are ongoing for these eight and agreements are expected to be in place within the next six months.

The Department of Public Works in conjunction with the Department of Finance will review the present lease billing and collection procedures and ensure a maximum effort is taken during 1983/84 to collect revenues due to the Territories.

**8. Department of Government Services, excluding POL Operations**

As part of our audit of the Department of Government Services, we reviewed the existence of controls over capital assets. We found that detailed capital asset records were not being maintained by the Department. Apparently, the Department is awaiting direction from the Comptroller General, who is required under the Financial Administration Manual to establish procedures for the control of capital assets.

**Recommendation**

**Comments by the Office  
of the Commissioner**

1. The Department should request the Comptroller General to establish procedures for capital assets control as soon as possible.

1. Capital assets control procedures are planned to be developed and implemented during the 1983/84 fiscal year.

**9. Department of Health - Computer System**

As part of our audit of the Department of Health, we noted that the Department's computer system provides for matching of transportation warrants approved by Medical Services - Canada against those returned from airline or

charter companies. This computer facility is not being used and matching is done manually. Time savings could be achieved through computerization.

**Recommendation**

1. The computer system should be used to match documents and perform edit checks such as for duplicate payments, valid vendor, valid issuing institution.

**Comments by the Office  
of the Commissioner**

1. The computer system is presently being used to perform edit checks. However, the computer facility for matching transportation warrants is not being used.

The Department of Health will begin using the computer system's matching abilities on a limited basis. After three months, this will be reviewed and if the time involved is equal to or less than that presently being expended, then travel warrants for all air carriers will be put through the computer matching facility.

**10. Other matters**

In addition to the items referred to above, we have drawn a number of other matters to the attention of the Commissioner and senior government officers and made recommendations thereon. Corrective action is being taken on them and will be followed up as part of the audit process.