

**LEGISLATIVE ASSEMBLY OF THE  
NORTHWEST TERRITORIES  
10<sup>TH</sup> ASSEMBLY, 1<sup>ST</sup> SESSION**

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street  
Ottawa, Ontario

January 6, 1984

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, 1983, to be laid before the Council in accordance with the provisions of Section 23(4) of the Northwest Territories Act, R.S.C. 1970, c. N-22.

The report deals with "any other matter" arising from my examination of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1983 that, in my opinion, should be brought to the attention of the Council. The report also includes my recommendations and observations relating to the Government, together with your responses thereto, as well as observations and recommendations relating to the Northwest Territories Housing Corporation together with the Corporation's responses.

Cordially yours,

A handwritten signature in cursive script, appearing to read "Kenneth M. Dye".

Kenneth M. Dye, F.C.A.  
Auditor General of Canada

**REPORT ON "ANY OTHER MATTER"  
FOR THE YEAR ENDED MARCH 31, 1983**

I have completed the audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1983. 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 August 15, 1983. In this regard, and in light of the problems referred to in previous reports "on any other matter", I deem it appropriate to refer this year to the significant improvements in the Government's year-end procedures and instructions issued to finance officers by the Department of Finance. This was evidenced by the improved quality and timeliness of the accounting and reporting information generated by the new Financial Information System, in this its first full year of operation. Although considerable effort was required by my officers and those of the Department of Finance, we were able to complete the audit and issue my report on the Government's financial statements for tabling with the financial statements on September 16, 1983 during the Eleventh session of the Ninth Assembly of Council, something that has not been accomplished for a number of years.

I have also examined the financial statements of the Northwest Territories Liquor Control System for the year ended March 31, 1983, the Workers' Compensation Board (Northwest Territories) for the year ended December 31, 1982, and the Northwest Territories Housing Corporation for the fifteen months ended March 31, 1983, and have reported thereon to the Commissioner of the Northwest Territories and, in the case of the Northwest Territories Housing Corporation, to the Executive Member responsible, 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. Accordingly, I would like to bring to your attention the following areas of concern and our recommendations thereon relating to the Government as referred to in the first part of this report and to the Northwest Territories Housing Corporation in the second part.

## GOVERNMENT OF THE NORTHWEST TERRITORIES

### 1. Revenues

The accounting policy for 1982-83 was to record taxation and general revenues, and other revenues on a cash basis except for income taxes, net income from the Liquor Control System and profits and losses of revolving funds, which are recorded on an accrual basis.

For internal reporting purposes, the Government's policy is to follow an accrual basis for revenues by including all revenues invoiced. Adjustments have to be made at year-end for those revenues which are to be reported on a cash basis to comply with the stated accounting policy. Since the Government has a base for accruing revenues, and now that expenditures are being reported on an accrual basis, it would be appropriate to account for revenues on the same basis to provide a proper matching of revenues and expenditures.

We understand that the Department of Finance proposes to accrue revenues for the 1983-84 fiscal year. In 1982-83, the internal reports included only revenues invoiced and did not report revenues that may have accrued such as interest on long-term receivables, memo loans receivable and agreements for sale that may not have been invoiced. It will, therefore, be necessary to establish policies, guidelines and procedures well before the year-end to ensure that all revenues and receivables accruing to the Government are identified and recorded.

#### Recommendations

1. Government revenues should be reported on an accrual basis for 1983-84 and future years.

2. Procedures should be established to ensure that all revenues are identified and accrued.

#### 2. Doubtful Accounts Receivable and Loan Forgiveness

Currently, a provision is recorded for doubtful accounts receivable arising from the sale of petroleum products but not for other accounts receivable. Notes to the financial statements disclose doubtful accounts receivable of

#### Comments by the Office of the Commissioner

1. The Government moved to a full accrual accounting basis during 1983-84. Revenues will be reported on an accrual basis for 1983-84 and future years.

2. Policies and procedures for revenue accruals including recording of interest on long-term receivables were developed in 1983. These procedures will be in place and all revenues accrued for the 1983-84 year-end.

\$387,000 including \$232,000 for memorandum accounts receivable (Note 4) and \$769,000 for business loans and interest (Note 5).

The principle of accrual accounting, which is being followed for expenditures and contemplated for revenues, should also be applied to doubtful accounts receivable. The fact that a provision is being made for these doubtful accounts does not mean that they are being written off. This can only be done with the proper authority under the Financial Administration Ordinance. It does, however, mean improved financial reporting and accountability.

This would also apply to the Students Loan Fund established in 1983. Under the Student Financial Assistance Ordinance, the Commissioner may grant remission of loans, in whole or in part, where conditions of employment within the Territories are complied with, as stipulated in the regulations. At March 31, 1983, student loans amounted to \$581,000 against a ceiling of \$950,000, established at that date, and increasing to \$7,150,000 by March 31, 1987 as provided for by the Student Financial Assistance Ordinance. The fact that the loans may be remitted if the conditions are met, will result in loan forgiveness for which a provision should be made. A provision should also include amounts for loans of doubtful collectability. Accounting policies and procedures will have to be developed to cover the provisions for doubtful accounts and loans receivable and loan forgiveness.

#### Recommendations

#### Comments by the Office of the Commissioner

1. Accounting policies and procedures should be established and included in the Financial Administration Manual for doubtful accounts and loans receivable and loan forgiveness.

1. Accounting policies and procedures are under development to establish reserves for doubtful accounts, consistent with generally accepted accounting principles.

2. Provision should be made for all doubtful accounts and loans receivable and for the forgiveness of student loans.

2. Full provision of an allowance for doubtful accounts will be made during 1983-84 for all recorded receivables of the Government.

#### 3. Business Loans and Guarantees Fund - Economic Development

The Business Loans and Guarantees Fund is available for loans and guarantees to applicants who have exhausted all other avenues for obtaining loan funds. At March 31, 1983 business loans outstanding amounted to \$5,455,000, of which \$649,000 was of doubtful collectability. In addition, there was \$250,000 of interest accrued but not recorded in the accounts, of which \$120,000 is of doubtful collectability.

As part of this year's review of the decentralized financial management system, the Department of Economic Development was selected for audit, including the Business Loans and Guarantees Fund. We noted a significant number of control deficiencies in the operations of this Fund.

**Loan register.** The loan register gives details of loans pending and issued but is not updated promptly. The register does not show complete details for each loan such as offer, acceptance, security, neither does it clearly segregate loans issued from loans guaranteed nor clearly distinguish loans issued from loans pending. A loan register is a useful record to quickly ascertain the status of pending, as well as new loans and guarantees.

**Recommendation**

**Comments by the Office  
of the Commissioner**

The Department of Economic Development and Tourism has undertaken a complete review of the Business Loans and Guarantees Fund.

A work plan is now being prepared for a review of the ordinance and regulations and the development of policies and procedures for the management, administration, accounting and internal control of the Fund. It is expected work will commence in January 1984. In the interim, corrective action will be implemented where feasible.

Specific comments follow against each recommendation.

1. The loan register should be kept current at all times and should provide complete loan information.

1. Agreed. The study now underway will correct this deficiency.

**Loan issues.** A pre-condition to granting a business loan is that the applicant furnish evidence of refusal from financial institutions along with the loan application. This evidence was not on file or documented.

**Recommendation**

**Comments by the Office  
of the Commissioner**

**2. Evidence of refusals by financial institutions should accompany loan applications before any applicant is considered for a loan and placed on the related loan files.**

**2. Agreed. This will be clarified in the new procedures.**

**Loan files.** The loan files were disorganized and incomplete. Documentation was missing and not filed chronologically. Examples of missing documentation, in addition to lack of evidence of refusal of loan applicants by financial institutions, were securities for loans and letters of offer and loan approval memorandum. We also noted that security documents were often received long after the loans had been issued. Also, there was no system for the sign-out of files to avoid risk of loss or misplacement of documents.

**Recommendations**

**Comments by the Office  
of the Commissioner**

**3. Loan files should be properly organized and contain complete documentation.**

**3. Agreed.**

**4. A system for sign-out of loan files should be established.**

**4. Agreed.**

**Remittances.** Receipts for loan repayments are often not turned over to the Department of Finance - Revenue Section for deposit in accordance with the requirements for the receipt and deposit of public money in the Financial Administration Manual. Many instances were noted where receipts were accumulated for up to five days and exceeded \$250 before being forwarded to the Revenue Section for bank deposit. In some cases, the accumulated receipts exceeded \$15,000.

**Recommendation**

**Comments by the Office  
of the Commissioner**

**5. Cash receipts should be forwarded to the Department of Finance - Revenue Section in accordance with the requirements of the Financial Administration Manual.**

**5. Agreed. Corrective action has been taken to ensure this procedure is followed.**

**Internal control.** We noted that one individual is involved in mail opening, prepares the general receipt and records loan repayments in the departmental control account and subsidiary ledger. There is also no review of general receipts to ensure that they are correctly classified and properly allocated between principal and interest.

**Recommendations**

**Comments by the Office  
of the Commissioner**

**6. The mail opening and cash receipts function should be segregated from the recording function.**

**6. Agreed. This deficiency has been corrected.**

**7. General receipts should be reviewed to ensure that they are properly classified and allocated.**

**7. Agreed. Review requirement will be included in the new procedures.**

**Doubtful accounts.** As at March 31, 1983, business loans amounting to \$649,000 for principal and \$120,000 for accrued interest were considered to be of doubtful collectability. Many of these loans were past their maturity date, some as much as nine years. No action has been taken to delete any of these accounts, or to make any provision for doubtful loans, or to foreclose on any secured loans.

**Recommendations**

**Comments by the Office  
of the Commissioner**

**8. A provision for loans of doubtful collectability should be recorded in the accounts.**

**8. Agreed. A reserve for doubtful accounts will be established in 1983-84.**

**9. Action should be taken to effect deletion from the accounts of those accounts that are deemed to be definitely uncollectable.**

**9. Agreed. Procedures will be developed for the write-off of accounts. Action will be taken to delete accounts during 1983-84.**

**Suspense account.** A suspense account totalling approximately \$77,000 is reflected in the financial statements as part of business loan principal outstanding. This account represents amounts paid for receivership fees, legal fees and property taxes related to specific loans.



**Recommendation**

**Comments by the Office  
of the Commissioner**

10. Payments relating to specific loans should be charged to the applicable loan balance.

10. Agreed. Procedures are under development.

**Loan guarantees.** The Department does not obtain statements from banks on a periodic basis for loans made by them to businesses and guaranteed by the Fund. As a consequence, the Department's records do not show the current status of the loans or disposition of guarantees.

**Recommendation**

**Comments by the Office  
of the Commissioner**

11. Loan guarantee records should reflect the current status of loan guarantees at all times.

11. Agreed. This deficiency will be addressed in the new procedures.

During the year \$94,000 was paid to financial institutions for defaulted loans guaranteed by the Government. These payments were charged directly to expenditure without direction from the Financial Management Board as to write off or other action to be taken.

**Recommendation**

**Comments by the Office  
of the Commissioner**

12. Claims paid pursuant to guarantees should be referred to the Financial Management Board for direction on the action to be taken.

12. Agreed. This policy will be followed in future.

**Regulations.** An Ordinance amending the Small Business Loans and Guarantees Ordinance was assented to on March 5, 1982. However, the Regulations have not been amended to reflect changes resulting from these amendments or the recent amendments to the Financial Administration Ordinance.

**Recommendations**

**Comments by the Office  
of the Commissioner**

**13. The Regulations should be amended as soon as possible.**

**13. Agreed. These will be amended during 1984-85.**

**14. A procedure should be established to ensure that the Regulations are amended concurrent with amendments to Ordinances.**

**14. Agreed.**

**4. Petroleum, Oil and Lubricants (POL) Revolving Fund**

In last year's letter we reported on a number of control deficiencies in POL operations. We noted the same deficiencies during this year's audit. These include:

- inadequacies in the financial code report which resulted in unreconciled differences between control totals developed for receivables and customer billing summaries, and a time consuming and cumbersome reconciliation process;
- unit numbers changed on meter tickets without explanation;
- inaccurate and incorrect information contained in the computer master files;
- inadequate control over debit/credit memos used to adjust POL accounts.

Also noted during this year's audit were continuing problems with the financial coding structure of the POLARIS System and its interface with FIS. The POLARIS System produces a financial code report which is used to manually accumulate data for journal entry input to the central accounting system. As reported last year, because of deficiencies in the financial code report, such as the inability to carry forward opening balances, inadequate recording of interdepartmental charges and receipts and situations where amounts are correctly reflected in one report but not in another, a great deal of manual effort is required to reconcile with other reports and to assemble information for the central system.

There were also problems with the prepayment accounts provided for in the POLARIS System which were still not being used. Manual records continued to be maintained over prepayments to commercial suppliers of fuel to two communities. Also monthly statements were not being provided or requested from one contractor and price adjustments by contractors were not being input on a timely basis.

We understand that a systems review has been undertaken with a view to modifying the System in 1983-84. We also understand that the Petroleum Products Division has recently received approval for a major enhancement project for the POLARIS System which should meet previous recommendations made by us and the Territorial Audit Bureau.

Recommendation	Comments by the Office of the Commissioner
1. Petroleum Products Division should ensure that the deficiencies referred to above are addressed in the enhancement project.	1. The control deficiencies referred to were addressed in the current year. Even though prepared manually, working papers were available during the year to reconcile the POLARIS trial balance with FIS by using the trial balance to replace the financial code report. The enhancement project is expected to correct all identified deficiencies in the POLARIS System.

**Inventory variance charges.** In the current year, an amount of \$1,148,000 in respect of variances for 1980-81 and 1981-82, as referred to last year, was deleted from accounts receivable. The variances arose from inventory shortages following year-end tank dips being charged to contractors and reflected as accounts receivable. It was felt that these variance charges could not be substantiated and were deleted from receivables by means of a journal voucher. Although this entry could be construed as an adjustment to accounts receivable rather than a write-off, it would have been appropriate for the Financial Management Board to have approved the write-off.

Recommendation	Comments by the Office of the Commissioner
2. Significant adjustments to inventories and accounts receivable should require approval of the Financial Management Board.	2. Significant future adjustments to inventories and accounts receivable will be referred to the Senior Financial Officer for consideration by the Financial Management Board.
5. Students Loan Fund - Education	

**Loan approvals.** Our audit included a review of loan files and minutes of the Student Grants and Bursaries Board to ensure that loans issued were

supported by student applications and had been properly approved. Also as part of the audit, we directly confirmed 20 loans and verified 20 other loans through detailed examination of supporting documentation of the 207 loans issued during the year.

We noted many instances where loans had been issued but the minutes did not clearly indicate whether the applications had been approved or rejected by the Board. Also, as a result of our detailed examination, we noted that a recipient had been awarded a loan of \$3,500 but his application indicated that he had only resided in the Territories from June 1961 to August 1962. According to the Student Financial Assistance Regulations, a student must be a resident of the Territories for at least two years and was so resident in the Territories within the two years immediately prior to commencing post-secondary education.

### Recommendations

1. Loan applications should bear evidence of approval by cross reference to the board minutes approving the loan application.
2. The Department should ensure that all applicants meet the eligibility requirements for student loans.

### 6. Grants and Contributions

A grant is defined in the Financial Administration Manual as an unconditional transfer payment, made to a recipient for which the Government will not receive any goods or services. There is no provision for an audit requirement.

A contribution is defined as a conditional transfer payment, made to a recipient, subject to audit, and for which the Government will not require any goods or services. Contribution payments are conditional on performance or achievement and are subject to audit.

According to the Financial Administration Manual, departments are to develop grant and program applications for approval by the Executive Committee or the Financial Management Board before any funds are disbursed. As well, the Financial Management Board approves the amounts of grants and contributions to be included in the Main Estimates. Grant and contribution payments constitute a significant portion of total government expenditures. For this reason, strong controls should exist.

### Comments by the Office of the Commissioner

1. This situation has been rectified in consultation with the Government's Audit Bureau. The minutes of the July 1983 Board meeting reflect the requirements stipulated in the recommendation.
2. The Board will strengthen its procedures to ensure that the residency requirements are fully documented for all applicants.

Approved grant and contribution program applications were outdated in all departments audited by us. As a result, there were no current approved applications available within departments to substantiate payments of grants and contributions.

We also noted that payments to communities to undertake water and sewer projects were not supported by an approved grant and contribution program application. According to departmental officials these payments were made under authority of a 1974 Treasury Board Minute, although amounts for these projects were provided for in the Estimates. Furthermore, approved grant and contribution program applications were not available to support payments for road and sidewalk construction projects or for payments to school districts.

**Recommendation**

1. All departments should ensure that current approved program applications are on file to support payments of grants and contributions.

**Comments by the Office  
of the Commissioner**

1. Agreed. The Financial Administration Manual will be amended to emphasize the need for proper documentation in support of payments.

We also noted a payment of \$835,000 made in March 1983 to the City of Yellowknife to cover the cost of a boiler at a pump station. Although the need existed and the payment was properly authorized, there appeared to have been no evaluation of the project as to when the funds were needed. As of June 1983, this project was not completed.

**Recommendation**

2. Contributions should not be made in advance of need.

**Comments by the Office  
of the Commissioner**

2. Agreed. Departments will be instructed to ensure contributions are made in the year the service is provided. In addition, the timing of payments will be made in accordance with the needs of the organization where this is feasible.

The Financial Administration Ordinance calls for advances to be repaid if an accounting has not been made at the end of the fiscal year or within thirty days after, or, a further number of days not exceeding thirty, as determined by the Financial Management Board. Contributions are deemed to be accountable advances for accounting purposes.

An analysis by the Department of Finance, of outstanding accountable advances for contributions revealed that advances in excess of \$8,100,000 had not been accounted for by the recipients of the funds, as at March 31, 1983. Some advances have been outstanding for as long as five years.

**Recommendation**

**Comments by the Office  
of the Commissioner**

3. All departments should ensure that procedures are in place for monitoring contributions deemed to be accountable advances, to ensure they are accounted for on a timely basis.

3. Agreed. Departments will be instructed to ensure that proper procedures are in place. The Department of Finance will monitor departments to ensure the procedures are being followed.

**7. Irregular Recording of Expenditure Charges**

Our audit tests disclosed several instances where departments had, in the absence of approved budgets and project codes, charged expenditures to wrong votes or projects where free balances existed, for the sake of expediency. This was particularly so for Vote 4 projects under the Engineering Services Agreement with Canada. We found that work had been done on projects prior to Financial Management Board budget approval and establishment of proper codes within the accounting system. In some instances budget approvals were received up to six months after payment. Although correcting entries were made, there is always the possibility that improper charges may go unnoticed. It also distorts government expenditures and weakens budgetary control.

**Recommendations**

**Comments by the Office  
of the Commissioner**

1. Budget approvals should be obtained prior to incurring expenditures.

1. Agreed. Funding for Vote 4 projects was delayed because of budget documentation requirements. However, verbal and telexed approvals were received prior to initiation of expenditures.

2. Accounting officers should not authorize payments until budgets have been approved and project codes established.

2. Agreed. Financial Accounting Officers are instructed not to authorize payment unless the appropriate budget is approved and adequate budgetary controls are in place.

## NORTHWEST TERRITORIES HOUSING CORPORATION

### 8. Financing Operations

In previous management letters we have commented on financing of the Corporation's operations by the Government of the Northwest Territories and Canada Mortgage and Housing Corporation (CMHC). The Government provides contributions to meet operating costs and grants to meet capital costs of the Corporation. CMHC provides funding for housing projects, either by sharing the construction and operating costs or by providing loans and advances to finance construction costs. During the fifteen-month period ended March 31, 1983 several positive steps were taken to improve the situation.

In previous years, drawdowns of operating contributions from the Government were made in equal monthly instalments without regard to the cash disbursements arising in any month. For the Government's fiscal year 1982-83, the drawdowns of operating contributions were related to the projected monthly cash disbursements. This resulted in a more realistic cash flow. In addition, the change in the Corporation's fiscal year, which resulted in a fifteen-month fiscal year to March 31, 1983 for the Corporation, and the Government's change in accounting for expenditures to an accrual basis from a modified cash basis had a side effect and led to improved financial reporting. The Corporation took this opportunity to change its accounting for Government contributions and grants to an accrual basis from a cash basis. The change allowed a proper matching of revenues with expenditures and also allowed disclosure on the balance sheet of the amount due to the Government for contributions in excess of operating costs.

The Corporation also achieved some improvement in cash flow by making operating and capital cost claims on CMHC on a more timely basis. There is, however, still a significant amount of working capital tied up in amounts due from CMHC. At March 31, 1983 accounts receivable from CMHC included \$7,735,000 for project costs within CMHC approved budgets. In addition, as referred to in Note 12 to the financial statements, the Corporation had incurred project costs of \$8,680,000 to March 31, 1983 in excess of amounts approved by CMHC. Should this amount be approved, CMHC will bear \$960,000 of these costs and provide additional loan funding of \$6,600,000. These receivables have a negative impact on the Corporation's cash flow. In addition to the usual holdbacks associated with this type of contract, the major contributing factor to this position is that CMHC does not accept claims for project cost overruns until the projects are completed and approved by CMHC. If CMHC would accept interim claims for overruns it would improve the Corporation's cash flow.

#### Recommendation

#### Comments by the Corporation

1. The Corporation should endeavour to further improve the timeliness of receiving capital funding from CMHC.

1. The Corporation will endeavour to negotiate improved funding arrangements with CMHC on all 1984-85 capital projects.

## 9. Information in the Estimates

The Corporation's section of the Government's Estimates provides information on contributions and grants to be made by the Government to the Corporation after being voted by the Legislature. Funding is also available to the Corporation for certain operating and capital costs under the National Housing Act (NHA), as referred to in the Estimates narrative.

CMHC funding under the NHA is provided mainly in four ways as follows:

- (i) under Section 40, CMHC may bear 75% of the CMHC approved project budget cost and up to 75% of the annual operating losses of housing projects;
- (ii) under Section 42, CMHC may provide loan funding to the extent of 90% of the CMHC approved cost of acquiring and servicing land.
- (iii) under Section 43, CMHC may provide loan funding to the extent of 90% of the CMHC approved project cost of public housing projects; and
- (iv) under Section 44, CMHC may bear up to 50% of the annual operating losses of public housing projects constructed under Section 43.

The Corporation provides the Financial Management Board (FMB) with details of funding to be obtained from CMHC and funding to be requested of the Government. However, the FMB establishes the detail to be included in the Estimates. The Estimates only show the portion of project costs under Sections 40, 42 and 43 to be funded by capital grants and the net cost of operations to be funded by contributions from the Government. There is no disclosure of program operating costs shared by CMHC under Sections 40 and 44. The Estimates would be more informative if the funding to be provided by CMHC was shown, particularly since Section 42 land assembly projects and Section 43 housing projects result in loans that are guaranteed by the Government.

### Recommendation

### Comments by the Corporation

1. The Corporation, with the approval of FMB, should seek to improve disclosure in the Estimates by identifying the funding to be provided by CMHC under Sections 40, 42, 43 and 44 of the National Housing Act.

1. The 1984-85 Main Estimates will include a major Information Item reflecting CMHC's overall contribution to the Corporation's Operating and Capital expenditures. Consideration will be given to expanding the 1985-86 Information Item to include details by funding sections under the National Housing Act.



## 10. Work Done for Others

We referred in last year's management letter to the Corporation undertaking, in 1981, the construction of housing units in Cape Dorset and Lake Harbour for the Inuit Non-Profit Housing Corporation (INPHC) without a signed agreement. The Corporation received no initial funding from INPHC for the construction of these units and is in effect financing the construction costs from its own financial resources.

At March 31, 1983 the Corporation had an account receivable from INPHC of \$586,000. We understand that CMHC has withheld certification of the units because of a number of construction deficiencies which have been, or are being, corrected by the Corporation. Certification by CMHC is a condition precedent to INPHC obtaining bank financing, which has been agreed to in principle, to pay the Corporation. Meanwhile, the Corporation has no signed agreement and is financing the project for INPHC.

### Recommendation

### Comments by the Corporation

1. The Corporation should not undertake work for others until agreements have been signed and financing arrangements made.

1. The construction project entered into with INPHC commenced in 1981. The Corporation has confirmed that it will not enter into future works for third parties without a signed formal agreement.

## 11. Accounting Policies and Procedures Manual

We referred in last year's management letter to the dire need for the Corporation to review and document accounting policies and procedures in a users' manual. We noted that the Corporation had established a review committee during the period to address this matter.

Working papers for investments in projects were substantially better than those of the previous year. However, the lack of clearly laid down policies and procedures resulted in a number of adjustments having to be made on an ad hoc basis, because of problems with interpreting policies and procedures by employees. This was particularly the case with respect to loans and advances from CMHC. The related working papers contained errors in opening balances, incorrect calculations of interest, and were not properly balanced with CMHC statements and subsidiary records. As a consequence, the working papers had to be redone leading to delays in finalizing the audit. This is still a problem area. To avoid similar problems in future, a procedure should be established for review and sign off, by the Comptroller, of all year-end working papers.

**Recommendations**

**Comments by the Corporation**

1. The review of accounting policies and procedures should be completed as soon as possible.

1. The Corporation commenced work on the preparation of detailed Accounting Manuals in April 1983, with assistance provided from GNWT.

2. When completed, the accounting policies and procedures should be approved by the Board of Directors and incorporated into a users' manual.

2. The Board of Directors of the Corporation will review and approve the accounting and policy manuals.

3. The Comptroller should review and sign off all year-end working papers.

3. The Comptroller will review and sign all 1983-84 working papers prior to commencement of the year-end audit.

**12. Accounting System and Financial Reporting**

In last year's management letter to the Corporation we referred to the Corporation's use of manual accounting systems and recommended computerization. These systems require considerable accounting effort, particularly for financial reporting at year-end, because of the interrelationship of certain accounts.

For year-end purposes, detailed schedules have to be prepared manually for capital projects, mortgages receivable, fixed assets, and loans and advances payable. These schedules show opening balances, summaries of transactions for the period and closing balances. Considerable time and effort is required to prepare them. A late correction can require adjustments to several accounts and working paper schedules, adding to the effort required. We understand that the Corporation is currently reviewing its accounting systems and procedures in order to make changes leading to computerization. Computerization is essential if the Corporation is to have accurate and timely information of benefit to senior management and the Board of Directors.

**Recommendation**

**Comments by the Corporation**

1. The manual accounting system should be computerized as soon as possible.

1. The Corporation recognizes the need for the automation of its accounting systems and is working towards this objective. The Corporation proposes to have its systems reviewed in 1983-84 to

determine if the Government's Financial system can be used. In this regard the Government has provided special expertise to the Corporation to assist them in the effective transition from a manual to a computerized system.

**General ledger.** The general ledger does not provide the level of detail necessary to meet the Corporation's needs. The structure is simplistic and provides one level of detail only, that is by nature of transaction. This simplistic approach calls for considerable analysis work to be done for financial reporting purposes. The work is very time-consuming because of the volume of transactions requiring analysis and the inter-action of certain accounts.

Recommendation	Comments by the Corporation
2. General ledger account classifications should be reviewed and changed to meet accounting and reporting requirements.	2. The Corporation has implemented a number of changes to its general ledger account classifications as recommended by the Auditor General's Staff. Further improvements will be made as part of the overall automation of the Corporation's Accounting System.

**Subsidiary ledgers.** Subsidiary ledgers are maintained in the accounting system for accounts receivable, mortgages receivable, construction in progress and loans payable. The following deficiencies were noted:

- mortgages receivable are being manually recalculated to correct errors in prior years and inconsistencies in calculating interest. For these reasons, many Territorial mortgages had no interest charged, or accrued, on them during the period.
- loans payable and accrued interest were not completely balanced with the loan statements received from CMHC, neither was accrued interest balanced with the general ledger.

Although the deficiencies referred to above arise from the manual process, inconsistencies and errors in the calculation and accrual of interest could, depending on the quality and control of the input, probably be eliminated through computerization. Computerization could also result in considerable time savings because of the number of entries and calculations required. It would not be difficult to set up mortgages receivable, loans payable and accrued interest on a micro-computer.

With the rapidly increasing number of loans payable, proper and correct records are essential. Proper and correct records are also essential for mortgages receivable.

**Recommendation**

**Comments by the Corporation**

**3. Mortgages receivable, loans payable and accrued interest subsidiary ledgers should be computerized.**

**3. The Corporation proposes that the loans payable and mortgages receivable be one of the first areas to be computerized in 1984-85.**