

LEGISLATIVE ASSEMBLY OF THE  
NORTHWEST TERRITORIES  
10<sup>TH</sup> ASSEMBLY, 6<sup>TH</sup> SESSION

TABLED DOCUMENT NO. 6-85(3)

TABLED ON OCTOBER 17, 1985

Tabled Document No. 6-85 (3)  
Tabled OCT 17 1985



Northwest  
Territories Legislative Assembly

10th Assembly

---

Standing Committee  
on Public Accounts

Proceedings

Arnold McCallum  
Chairman

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman

Arnold McCallum, MLA

Members

Michael Ballantyne, MLA  
Samuel Gargan, MLA  
Red Pedersen, MLA  
Eliza Lawrence, MLA  
Pauloosie Paniloo, MLA

Ludy Pudluk, MLA  
John T'Seleie, MLA  
James Wah-Shee, MLA  
Ted Richard, MLA

Staff

David Hamilton, Clerk  
Eileen Olivier, Secretary

Antoinette L.Wells,  
Researcher

Transcript

Marie Coe, Editor  
Margaret Strang  
Shona Hudson

Ruth MacKendrick  
Rona Williams  
Mary Bybliw

YELLOWKNIFE, NORTHWEST TERRITORIES

TUESDAY, MAY 28, 1985

Introductions

CHAIRMAN (Mr. McCallum): This is a meeting of the public accounts committee, a standing committee of the Legislature of the NWT. My name is Arnold McCallum and I am chairman of the committee. I would like to introduce other Members of the committee. On my far left, Ted Richard, the Member for Yellowknife South; Red Pedersen, the Member for Kitikmeot West; Eliza Lawrence, the Member for Tu Nedhe; Sam Gargan, the Member for Deh Cho; and Mike Ballantyne, the Member for Yellowknife North. We are a committee of the Legislature to look at the accounts of the territorial government. We are to examine the manner in which the government has spent its money to ensure that it is in accordance with proper procedural policies.

We have with us, as well, people from the Auditor General's office and I would like to introduce those people to you; the Deputy Auditor General, Mr. Raymond Dubois; Mr. Harold Hayes and Mr. Gerry Kimmel.

We will be meeting this afternoon and tomorrow afternoon in formal session. I would like to now call upon the Minister of Finance of the GNWT, the Hon. Tom Butters, to make an opening statement to the committee.

Opening Statement By Minister Of Finance

HON. TOM BUTTERS: Thank you, Mr. Chairman. I would like to introduce my colleague, Mr. Jim Nelson, who is the comptroller general for the GNWT. As in public accounts committees practice across the country, the civil servants of the jurisdiction answer the questions of the committees that relate to the financial management that has occurred over the past year. So my presence here is just an indication that the government is very supportive of the work you and your committee are doing and commit ourselves to assist you in every and any way possible. Mr. Nelson will carry that out over the course of your hearings.

I extend my best wishes to you, sir, and Members of your committee, also to Mr. Dubois, Mr. Hayes and Mr. Kimmel of the Auditor General's office. As in the past years continuing studies are being made of the GNWT record-keeping practices. For example, we have moved to full accrual accounting for the fiscal year 1983-84, the period under discussion at these meetings. Revenues are now fully reflected in the period in which earned, rather than in the period in which received. This modification results in better reporting by matching expenditures and revenues in the accounting period made or earned.

Mr. Chairman, there remains a continuing emphasis being placed on accountability by department. Responsibility for the financial activities of a department more and more rest with the senior management of those departments. Further, Auditor General reports identify auditing and accounting concerns by department, and responses to these reports are now the responsibility of the individual departments concerned.

As noted previously, the meetings concern the 1983-84 fiscal year because we have since completed the 1984-85 year and are well under way in the 1985-86 fiscal year. I believe most of the concerns raised by the Auditor General have been addressed and necessary action has already been taken. However, the correctness of that statement will be determined over the next couple of days as you and your committee examine the officials who appear before you.

Tribute To Mr. Harold Hayes

Now, I will be leaving shortly and I understand you have altered your agenda slightly to take notice of that fact, that I am required somewhere else. But before I do go, I would like to recognize the long service and dedicated service that has been provided to the NWT and the people of the North by a member of the Auditor General's department. Harold Hayes, when he first was assigned the responsibility for the NWT, came into the North and, as we were discussing this morning, went into the little cubbyhole on the sixth floor in the Commissioner's office and that was about all he saw of the GNWT. I think we have come, if not a long way, we have come a considerable way since that time and increasingly the Auditor General is becoming the auditor of the people of the NWT and the elected representatives of those people. So I would like to recognize the long service that Mr. Hayes has provided to this government and to the people with a small gift -- and if I had been doing this some eight or 10 years ago I might be challenged as attempting to influence our auditor.

---Laughter

On this occasion I think I can be excused. I would like to present this to you, sir, with the very best wishes of the GNWT and the Legislative Assembly and all of us. Thanks.

---Applause

By way of entertainment I have a gift which is definitely a challenge to influence a Member of the public accounts committee. This is for the chairman of the committee. I happened to be in Norman Wells the other day...

---Applause

CHAIRMAN (Mr. McCallum): Thank you very much, Mr. Butters. I knew you would remember me. I will add it to the collection. Mr. Hayes.

MR. HAROLD HAYES: Mr. Chairman, I think it appropriate for me to say a few words in response to what Mr. Butters just said. I thank him very deeply for the kind remarks which he made. It has certainly been a challenge to me and a wonderful experience and I have enjoyed every minute of it. I wouldn't have missed it in my life. I will have some very happy memories. I am talking at the moment as though it is a farewell but I hope, with Ray's good graces, to be here next year. So I will expect something else next year.

CHAIRMAN (Mr. McCallum): Thank you very much, Mr. Hayes. Mr. Dubois, would you like to make a few opening remarks?

Comments From Deputy Auditor General

MR. RAYMOND DUBOIS: Just a few short comments, Mr. Chairman. First of all, I am not sure that Harold, being on contract next year, will be able to accept any gift. I would like to underline the excellent co-operation we have had during the past year and especially through the efforts of Jim Nelson, the comptroller general. We have started a new procedure last fall in discussing our observations with specific deputy heads and we feel that that additional step has helped significantly in improving the communications between our office and the government. The responses from departments are very positive and they make it very clear that there were significant efforts put in in the last several months to improve the situation. We can certainly vouch for some visible improvements as will be apparent as the hearings evolve. There are still some areas that require future action and we will be following up on those as we always do.

Now, while we are very optimistic and things have been going very well, as good auditors we always have a word of caution and we must say that there is still some work to be done and especially to ensure that the several positive initiatives that are apparent in the responses are given a chance to mature so that the ensuing transactions from the new systems, the new procedures installed, really reflect the intention of the people. Those are all the comments that I would like to make at this point, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Thank you very much, Raymond. I would just like to indicate that for format, we record what will be said so I will ask those who will be witnesses to speak into the mike so it can be recorded and obviously, rather than have a mix-up in attributing remarks to particular individuals, the witnesses should identify themselves, or I will attempt to, as we get into discussions.

We intend to take a look at the recommendations from the last report of this committee to ensure that those recommendations have been implemented and to discuss that particular aspect. We will be looking at the recommendations resulting from the Auditor General's annual audit of the accounts and financial statements of the territorial government and we would hopefully be able to examine the government's accounts, looking at the format and any changes in procedure, principles and practices as regards accounting. That is the format that we would follow, Mr. Minister, and Mr. Nelson. With that I think that we can move into the first department.

#### Department Of Finance

The first department would be the Department of Finance. Within the Department of Finance we have three or four areas that have been identified. Those areas deal with the RCMP and health care accruals, the regulations, accrual of employee leave and termination benefits. However, there may well be other questions of the department as we go on. So, I would like to begin there with that particular aspect. Would one of the Members like to lead off the questioning on the department? Mr. Ballantyne.

#### Issue Of Special Warrants

MR. BALLANTYNE: There is one question of a general nature that has been of great concern to this committee and to the standing committee on finance and that is the whole issue of special warrants. Looking at the Annual Report of Territorial Accounts, 1983-84, there are 10 pages of special warrants, pages 46 to 56. We have some major concerns that in many ways the due process of the Legislative Assembly has the potential to be by-passed by an overuse of special warrants. When money is voted for something, the use of negative warrants for instance seems a little bit unorthodox and, first of all, I would like an explanation, if indeed the Department of Finance and the Executive Council is coming to grips with this problem. There was a motion initiated by Mr. Richard and backed by the finance committee asking that this question be looked at. I wonder what sort of controls you intend to put into place and if you could give us some examples of how the use of special warrants will be limited. Thirdly, could you explain the philosophy of surplus negative warrants?

HON. TOM BUTTERS: Mr. Chairman, the matter of special warrants has been dealt with by the Executive through the Financial Management Board in that strict adherence to the provision in the Financial Administration Act is now followed. In fact, action began immediately after the item was raised by Mr. Richard, I think in December at the meeting of your committee. As a result of that, I advised Ministers that the provision of the act would be followed by the board in the future. When you receive copies of the supplementary estimates which will be up for approval in the Rankin session you will find that the percentage of special warrants has dropped. I was going to be able to give you a count but I cannot. It is probably 15 per cent of the total supps. So the supplementary estimates as presented at Rankin Inlet in the main will be exactly that, estimates for supplementary consideration and requirement to receive approval of the Assembly. So that has been done.

The second matter is that those special warrants that have been advanced can certainly be justified by the Ministers responsible under the "urgently required" section and provision in the act. We have moved to ensure that that provision is adhered to in every case and I think where special warrant has been put in place it can be justified on the basis of urgent need and the inability to hold the item over for an ordinary supp.

On the matter of the third question, I will ask Mr. Nelson to explain the basis for submitting the negative warrants in the Territorial Accounts.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, in the case of a negative warrant what appears on the schedule, starting on page 46, in the main are transfers between departments where you will see in the case of one department a reduction and a subsequent increase in another department. What they have done

in these cases is approve the transfer between items in advance of a supplementary estimate where there is a change in the program or a change in philosophy during the year. Part of the problem with the number of warrants that are issued in this government is the time frame between sessions and there are a number of technical reasons why the programs need certain adjustments during the year. The only avenue is a special warrant. The complications of waiting, say, possibly four or five months to the next session, makes life rather difficult for managers.

In the case of capital, what has to happen is the departments identify offsets within the capital programs and increase one item or capital project and decrease another one. But it does not change the total amount of capital for the vote of the department. And the mainstay, the operating negatives here, are just simply transfers between departments as they show an increase in one department and a decrease in another. If you have actually followed this warrant through to the supplementary estimate, to where it was approved finally, you would see the item being transferred.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: Thank you, Mr. Chairman. We understand that procedure. The problem as Members of the committee see it, is that probably the number of special warrants that are issued is in some sort of inverse proportion to good planning. Now, there are obviously certain peculiarities in northern construction, or what have you, where projects are not able to go ahead and there is some logic to transferring money from one project to another. But we would like to see, unless it can be demonstrated that in fact it is of an urgent nature, that that can be done through a supp and that transfer can be done through a supp during a session.

#### Issue Of Special Warrant When Assembly In Session

One thing that did come up and I think that it is probably a prime example of the misuse of special warrants was the \$8,860,000. A special warrant was issued on February 14, 1984, when in fact we were in session. Now that, as far as we can read it, is probably illegal and I am bringing that up so that sort of thing does not happen again. But maybe you could give us an explanation of why it was necessary to issue a special warrant and why that could not have just come forward to the House.

CHAIRMAN (Mr. McCallum): Mr. Butters.

HON. TOM BUTTERS: Mr. Chairman, I would just like to assure and reassure the Member that there has been a movement to only put before the House those special warrants that can be urgently required and can be justified on that basis and, as I say, when he sees the Supplementary Appropriations No. 1 and No. 4 for the new session I think he will feel and his colleague, Mr. Richard, will feel that we have met that requirement. I feel, too, on the second question that we would have been more helpful to the committee had there been some consideration given to us before coming here that this question would have been asked. I do not know whether this has been only in the Member's mind or whether the committee was aware of this question but I did not bring any background documents on the matter. It is about a year and a half old so it is a little difficult for me to go back and determine what the rationale was for that, whether or not it is illegal. We do have a legal counsel available to us when these are considered and I am assuming it has been accepted as being a legal transaction. As I say, I regret, Mr. Chairman, not being able to respond in detail because I was not apprized of the requirement until just a few minutes ago. Maybe Mr. Nelson can respond.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, I think we would have to go back to the file on the actual approval to determine the process behind it. I am afraid we do not have the information here.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: I assumed you would probably anticipate the question because, as you will recall, there was a lot of discussion during the budget session about that particular transaction. I for one and I am sure the committee would be interested as to the rationale and if in fact it was wrong. I think Mr. Butters has given us assurance regarding these transactions from now on, unless there is real urgency. As far as I can see, there is absolutely no reason whatsoever for a special warrant to be issued during a session. I cannot for the life of me think of a reason. I would be interested if there is some rationale.

CHAIRMAN (Mr. McCallum): Mr. Butters.

HON. TOM BUTTERS: Well, I think that the Member will find that there will be justification for those items for which special warrants have been issued. We are up against a very short building season and requirements to put things in place in a very short space of time. On the matter of being prepared for this information, I think, as some of you Members may know, the amount of documentation for any one Financial Management Board is about that much and to carry the documentation for each of the special warrants that are contained in the Territorial Accounts would be a little bit overpowering. But I regret not having the information with me.

CHAIRMAN (Mr. McCallum): Mr. Butters, perhaps if you have some material you might table it with this committee if you have it available or can make it available.

HON. TOM BUTTERS: Well, we will look at the transcript of the Member's question and respond to that. Obviously, much of the material is material that is provided to the Financial Management Board only but we will look at his question and see what it is that we can provide to him in response to that question.

CHAIRMAN (Mr. McCallum): Are there any further general questions on Finance, before we get into some follow-up issues? Mr. Richard.

MR. RICHARD: Mr. Chairman, just on the area of special warrants, I do not think the matter should be glossed over at all and although Mr. Nelson indicates that there has to be a workable system because the Legislature does not sit 12 months of the year, there is a concern certainly in our committee that 170 or more warrants in one fiscal year is a very large number when the legislation provides that that should only be done between sessions for urgent expenditures. There is, as Mr. Ballantyne pointed out, a glaring incident of a special warrant being used by the Executive Council or the Financial Management Board authorizing one expenditure in excess of eight million dollars on February 14, 1984 when the Legislature was in session and was in session until March 2 of that year.

#### Inappropriate Use Of Negative Warrants

The use of the negative warrants to transfer authorized appropriations from one department to another leads me to believe that in the past -- and I appreciate Mr. Butters saying that the Executive are going to clean up their act, so to speak -- but it leads me to believe that in the past people have slipped into an atmosphere of carelessness and finding a way around, of poor planning. The Legislature is asked in a lengthy budget session once a year to approve specific funds for specific programs and the MLAs go back to their constituencies for a few months and in the interim we find, much after the fact, that there have been movements of authorized funds from one department to another.

So I simply say these things, Mr. Chairman, to again emphasize the concern that I, for one, certainly have for one that there is a usurping of the function of the Legislature by the proliferation of these special warrants and quite frankly the negative warrant is a fiction. It does not make sense. Both a legal opinion which our committee has obtained and the opinion of the Auditor General's office are that the negative warrants are not appropriate under section 18 of the Financial Administration Act and, Mr. Chairman, perhaps that is one specific question I would ask, whether in the new era -- from here on in as Mr. Butters indicates, things will be better -- if the use of negative warrants will be discontinued. The Legislature has the authority to move funds from one department to another if there are surplus funds in one department and I think either the transfer of funds should await the next session of the Legislature and seek the approval of the Legislature for the transfer, or the Financial Administration Act could be amended to provide for what you are doing, I believe inappropriately, under the special warrants section.

There are other specific matters, Mr. Chairman, that perhaps we could ask be addressed, appreciating that Mr. Butters and Mr. Nelson have not had advance notice of the questions. There is in the accounts that we are considering a number of special warrants issued four days after the end of the fiscal year. They are in the Public Works department. Among those are some negative warrants and those funds, I understand, would have lapsed on the 31st of March, 1984. I believe under the act they did lapse but using the urgent requirement wording, four days later they are somehow transferred rather than having lapsed.



As an indication, Mr. Chairman, of confirmation that I believe some very bad habits have been formed, I note on page 55, under Local Government, a \$645,300 item and the accounts state the purpose of this special warrant is to provide additional funds for various projects started in an earlier fiscal year but not completed until a later fiscal year. And the date of approval of each of these urgent requirements is stated to be "various dates". So although we already have in excess of 170 special warrants I am not sure how many more that includes, whether that is a dozen or two dozen, totalling some \$645,000. So, Mr. Chairman, perhaps the witnesses are not able to answer these specific questions that we have asked but I wonder if Mr. Nelson could comment on the view that has been expressed to us, that negative warrants are not appropriate under section 18 of the act.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Richard. Mr. Nelson.

HON. TOM BUTTERS: Mr. Chairman, I think the Member originally addressed the question to me.

CHAIRMAN (Mr. McCallum): I am sorry.

Reduction In Issuance Of Negative Warrants

HON. TOM BUTTERS: When he asked if the Minister would consider the use of negative warrants or the discontinuance, yes, we will consider the discontinuance of such documents. This is the first time I have heard it raised. I do not know that the Auditor General's office has raised it with us. I do not know that we have had any communication from them. I would also be very interested in receiving documentation which is available to the committee and committee Members relative to legal opinions on the practice and if the Auditor General has similar communications, I would be very happy to receive those as well.

I would like to correct the Member, that there has been no glossing over and I would like the Member to withdraw that because I consider that a personal inference. I did act, Mr. Richard, immediately you raised the matter in the standing committee on finance. And that was the first time it was raised with any concern. Correct, Mrs. Lawrence said at that meeting, "What's the use of sitting here? It's all rubber-stamped, I am going to go home." And then you brought in the matter about special warrants if I recollect. From that time on there has been a very serious examination of the practice and, I would say, if not a discontinuance, a reduction in the practice. So there has not been a glossing over and I find that remark as I said, personally unsettling.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, for the record. Mr. Butters, I meant no such inference. If I chose the words "glossing over", I was referring to my chairman. I was afraid he was going to move on to something else after Mr. Ballantyne's submissions. I wanted to have my personal say and it was this afternoon's moving along or glossing over. I appreciate, sir, that since December, as you have reminded us, you have been taking active steps as a result of this matter being initially raised. So I certainly meant no such inference.

HON. TOM BUTTERS: No, just to suggest that we do agree with the position you took and Mrs. Lawrence took and have acted to ensure that the work of the standing committee is very important -- out of the whole financial planning and development process. While I do not expect that the supplementary estimates that will be before you, will meet in every degree with the criteria which you are moving toward, I think they will be a great improvement on what you saw in December. And I am hoping that there might be a few kudos as well as a brick passed.

CHAIRMAN (Mr. McCallum): We will get to those later.

---Laughter

I just want to indicate in reference to the Auditor General and the Territorial Accounts, it is my understanding that the Auditor General looked at the first 23 pages. Supplementary schedules to the financial statements are not looked at by the Auditor General. They may very well in the ensuing year come to our attention but they would not have access to those. Is that correct, Mr. Dubois?

MR. RAYMOND DUBOIS: Mr. Chairman, we do have access but by that time the audit is finished and we do not specifically audit the schedules attached to the financial statements. While talking about that, I would like to mention that we did not raise the issue of the warrants. I think it was raised within the finance committee.

CHAIRMAN (Mr. McCallum): Mr. Butters.

HON. TOM BUTTERS: If I might just add, Mr. Chairman, as well, that I am advised that since your committee raised the matter of the special warrant concerns and it was addressed at the first FMB meeting in January of this year, no special warrants were approved for 1984-85 and in 1985-86 only two O and M and three capital special warrants have been issued for urgent items. So that is quite a major reduction I think. We are attempting to live within the spirit of the direction we have received.

CHAIRMAN (Mr. McCallum): Mr. Richard, do you have further comments?

MR. RICHARD: Perhaps we can think about our first kudos -- that is good since January.

--Laughter

CHAIRMAN (Mr. McCallum): Is there anything further on special warrants? I don't want to gloss over too fast. I would also like to go to the year end accruals. Mr. Ballantyne.

Contribution To NWT Housing Corporation, Operating Costs

MR. BALLANTYNE: I just have a general question when Mr. Butters is here. It is on page 21 of the Territorial Accounts, NWT Housing Corporation. I just want a little bit of explanation. Paragraph two, as at March 31, 1984, the government had contributed \$1,354,000 -- in 1983 it was \$1,410,000 -- more than was required to meet the corporation's operating costs. This amount may be refunded at the request of the government under the terms of the financial agreement with the corporation. I wonder, has that money been recovered? Is there any intent to have it recovered?

HON. TOM BUTTERS: Mr. Nelson will answer.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, under terms and conditions of the agreement with the Housing Corporation for the operating budget, the government provides funds on a contribution basis. If the corporation spends more or less, depending if there is either a payable by the government or a receivable from the corporation, the agreement says that the funds may be retained by the corporation but are, at the discretion of the government, refundable. At this time there is no intent the funds would be refunded. It is really a running balance of due from and due to the corporation in the way we have financed them.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: Part of that \$8.8 million was working capital and I guess there have been problems in the past with working capital for the corporation. Now, does a sum of money which is a surplus here in fact act as working capital? Is that the reality of it?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Yes, Mr. Chairman. This would be considered in the working capital position of the corporation on a day to day basis. The \$8.8 million was actually a capital item and really does not form part of this number.

CHAIRMAN (Mr. McCallum): Thank you. Mr. Ballantyne.

MR. BALLANTYNE: Maybe you can explain the technical reasons for it. It seems that it is a backdoor way of getting working capital. If the corporation overestimates their budget, as given here, by two million dollars, they in fact got two million dollars working capital. Is there a mechanism where they can get working capital straight up? This is an unorthodox way of doing it.

CHAIRMAN (Mr. McCallum): Thank you. Mr. Nelson.

MR. JIM NELSON: Yes, Mr. Chairman, we have carried out several studies in terms of the working capital position of the Housing Corporation and we have been financing them on a special contribution arrangement where we vary their monthly payments to provide the necessary working capital over the year. This number here really is what is left over at the end of the year. It could be plus or minus. But there are mechanisms in place now where the government does provide necessary working capital on a financial plan period, given to the government by the Northwest Territories Housing Corporation.

CHAIRMAN (Mr. McCallum): Thank you. Mr. Ballantyne.

MR. BALLANTYNE: So, if you have built within the year a process to provide the working capital, logically at the end of the year would not this surplus come back then? There would be no need for that surplus to stay as working capital.

CHAIRMAN (Mr. McCallum): Thank you. Mr. Nelson.

MR. JIM NELSON: In theory that is correct. However, for one point, three million dollars in the size of the Northwest Territories Housing Corporation budget is rather insignificant. It is not a large amount. If there was a larger amount the government certainly would consider a possibility of reducing the following years payments accordingly.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: So, I can look at next year and if the benchmark is \$1.2 million and we are looking at a surplus of two million dollars, we expect to see some sort of recovery. Is that what you are telling me, Mr. Nelson?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: No, Mr. Chairman, that is the Executive Council's prerogative. But we are trying to get close to the zero mark. If it was an ideal situation, at the end of the fiscal year there would be no money due or owed. A million dollars or two million dollars is not a large number. But we have an agreement with them and we have a working capital situation whereby if the working capital increased significantly we would consider having the money refunded.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Nelson. Mr. Ballantyne.

MR. BALLANTYNE: Just another general question. We are getting into business loans and guarantees and I do not know if I will be here. Can I ask a general question from the Territorial Accounts?

CHAIRMAN (Mr. McCallum): Well, I guess you can ask the question. I am not sure if you will get a response, but go ahead, give it a shot anyway.

Loan Funds, Write-Off Of Doubtful Accounts

MR. BALLANTYNE: It is just a question as I notice on page 19, Business Loans and Guarantees Fund, there is now provision for write-off of doubtful accounts. I wonder if you could tell me the procedure for deciding at what point in time an account becomes doubtful and what point in time do you write it off totally? Is there a set of regulations or is it a judgment call at the ministerial level?

MR. JIM NELSON: Mr. Chairman, regarding the decision as to whether an account is uncollectable, we usually try to follow good accounting principles and decide on a number of various things including the amount that is outstanding, whether it is worth the while to go after it; also the nature of the business enterprise; whether it is bankrupt; or the amount of time that the account has been outstanding; and the likelihood of recovery. In all cases, however, either the Financial Management Board, the Executive Council, the Commissioner and/or the Legislative Assembly would be required to approve the actual deletion from the accounts for any accounts that are finally written off.

In terms of written off, it does not mean that they are forgiven. Any account that is actually presented to the Legislature for write-off remains, in terms of receivables, still due and payable to the government should that firm or individual ever be in a position to repay. But in terms of the actual timing and decision as to when the account is doubtful, it is sort of an evaluation of the specialized nature of each account.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: The point that I am trying to get at is that at some point in time somebody with say, the FMB or Executive Council has to make a decision that we are going to write off this account. But are there standard procedures that are gone through so that every account that is written off is treated the same? That it has gone through a process where a collection agency has been involved as the ultimate or are they treated differently? And at the FMB would it be possible to decide on certain data that this account should be written off, but we are not going to go to a collection agency to try to collect it? Or is it some standard format so that everybody is treated the same in writing off accounts?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: The process is that each account is dealt with on the same basis. There may be reasons why, for technical reasons, they are treated a little differently but the basic process would be somewhere, whether it was for business loans or student loans or other kinds of liabilities due to the government. Either the regulations or the loan fund acts, as they are called now, would specify certain terms and conditions of repayment and then within the government there is a process whereby each department would have to go through its management group to decide whether an account was doubtful and through the Minister's office and then to Financial Management Board before that could be deleted from the accounts. So, it would manage decisions at those levels before they ever were actually deleted, based on the nature of each account.

CHAIRMAN (Mr. McCallum): Mr. Butters.

HON. TOM BUTTERS: I am at the Financial Management Board level. I guess the major criterion considered is whether sufficient activity went into attempting to collect the account. Members will not rule on nor refer such an account unless they feel that every effort has been made to obtain funds. I can recall in recent times such requests being sent back to the department and more activity and action requested.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: Is there a written policy as to how doubtful accounts are written off?

HON. TOM BUTTERS: I do not know that there is a written policy. There would be a practice and I thought that Mr. Nelson had indicated what that practice is. The practice that is followed by the various finance officers in the departments would refer these.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: Okay, you are satisfied then that each account is treated equitably and there are not different criteria used to write off one account as opposed to another and that each account goes through the same reasonable due process before the decision is made.

HON. TOM BUTTERS: Yes, to date we are or we would have certain aspects investigated. But to date we are satisfied that that process is equitable.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Butters. Mr. Richard.

#### Identification Of Bad Debtors

MR. RICHARD: Mr. Chairman, on the topic of write-offs, I note that in the public accounts we do have a schedule of the write-offs for this particular fiscal year. Is there a process that monitors a list of past write-offs? I notice that most of these are in Economic Development and Tourism and I presume that they are various business loans that were not repaid and were written off. Is there within government, some system to ensure that these bad debtors, if you will, do not receive under another name or the same name, another government loan in the future? I hate to use the term "blacklist", but is there such a list or a mechanism within government to guard against repeat defaulters, if you will?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, there is a technical process. We retain the accounts and we have the records. It is very, very difficult, however, in most cases where a firm has gone into bankruptcy. It is just a matter of changing names and restructuring the firm and you are back in business. In that case, once the firm has gone into bankruptcy, there is no hope of ever recovering, which is the case in many of these things.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: I guess my point is precisely that, Mr. Chairman. If there is a business, ABC Limited, that in the past received a \$50,000 loan from the government and did not repay it and that loan was written off, if John Smith who was one of the principals of that company, next year comes and asks the government, using XYZ Limited, to again lend him another sum of money, is there within government in the computer that we have or anywhere, a check or a guard against that happening?

HON. TOM BUTTERS: Mr. Chairman, there is no computer check of that nature but I guess part of the indecision or hesitation of Mr. Nelson and myself with regard to this particular question is that we do not have personal and direct knowledge of the particular process which operates within the Department of Economic Development. I understand, and if you could be patient, they will be before you and maybe you could ask the witness at that time, the step by step process for determining how bad debtors are handled in the future. I know that with the implementation of the new business preference policy, the individual participants and various companies and partners and various enterprises are now much more likely to be identified and known than would have been the case in the past. My belief is that Economic Development is quite aware of who owes money and who is applying for new money.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Butters. Mr. Ballantyne.

#### Grants And Contributions

MR. BALLANTYNE: One more question on Territorial Accounts before we get into some of the details, regarding the schedule of grants and contributions, on page 42. Something I know that the finance committee has brought up a number of times is how does the Executive Council or the Financial Management Board decide what should be a grant and what should be a contribution? We are all aware that there are many more controls with contributions? I understand that the general practice in other jurisdictions is to generally give out money in the form of contributions which are more accountable and that a grant is more unusual in nature and scope. I notice as we go through this it is pretty well evenly divided. Could you explain why it was decided that, for instance, the hunters and trappers association gets a grant and the Inuvialuit Game Council would get a contribution?

CHAIRMAN (Mr. McCallum): Mr. Butters.

HON. TOM BUTTERS: Mr. Chairman, the grant has been recently placed on the territorial government's endangered species list. It almost no longer exists. At this time we were a little bit looser in dealing with the two types of funding. It was brought to our attention by the Auditor General's office on a number of occasions and as a result of those observations we have tightened up on the dispensation of grants and we have changed our policies and I think you will find that -- maybe the Auditor General will recall because he likes to see these -- a significant number of policies, between 10 and 20, have been changed, having the word "grant" deleted and the word "contribution" placed in. I would think that "grant" now is probably only used for executive grants, where it is a one-time-only dispensation. As I say, there are very, very few grants now being issued.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: I am glad to hear that. I think we have brought it to your attention and I think the Auditor General has and I think it is a step in the right direction because there were some problems in the past with grants and all the money that was used. It is good to see that we are getting more accountability for any moneys we are giving to organizations.

CHAIRMAN (Mr. McCallum): Further general questions. If not we will go into the aspect of year end accounts, the health care and grant RCMP.

HON. TOM BUTTERS: Just one correction, it may be a minor one and obviously you will be coming back to that contribution but it relates to Housing Corporation. The date given was February 14th and as Mr. Richard mentioned the House was sitting at the time. I cannot ever recall -- and you, Mr. Chairman, have some reason for such recollections -- but I cannot ever recall that special warrants or such decisions were made while the House was sitting. It was not on February 14th, it was on March 21st. It was after the House sat. The special warrant was not approved during the time the House sat because I am quite sure that the Auditor General would have picked this up and would have been very perturbed had such action taken place because I can recall hearing from them first when...

UNIDENTIFIED SPEAKER: That is the date that is in there.

HON. TOM BUTTERS: I know that is the date that is in there but I have had that checked because I could not recall the Financial Management Board sitting during the time the House was in session. That is why I asked to get that date and the correct date is March 21st.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Butters. Mr. Ballantyne.

MR. BALLANTYNE: If that is the official date, it changes it somewhat but still I do not think there is any reason to wait until just after the House was sitting either in order to do that. So I would say that it still illustrates a problem. There are two problems here. It is important that one should have had the right date in this book. You will probably not win an award with this particular book.

UNIDENTIFIED SPEAKER: That was a cheap shot.

MR. BALLANTYNE: The second thing is that what it does -- the problem is perhaps not as severe if that is indeed the date. It is not illegal but still I think it is very difficult to defend, for an amount of money of that magnitude.

HON. TOM BUTTERS: Mr. Chairman, I cannot respond to the Member's question. I am still not privy to the information. He is making a value judgment on information that is not yet before the committee. It may be that everything he says is a valid comment but I cannot respond because I do not know. I think there may have been a greater degree of urgency than the Member suggests.

#### Year End Accruals, Health Care And RCMP Costs

CHAIRMAN (Mr. McCallum): Thank you, Mr. Butters. On the business of year end accruals in dealing with health care and RCMP costs, as has been noted there have been delays experienced in obtaining information from the Department of Health for health care expenditure accruals. As well, it was noted that costs under the Police Services Agreement for policing services were understated by a particular amount as a result of underaccrual of costs at year end. There were recommendations made: "Procedures or methods for accruing out-of-territory health care billings should be developed so as to finalize the accounts and financial statements on a more timely basis." You agreed with the recommendation, we queried what action has been taken and we have been given a response on this. I would just like to query it a little further if I may, Mr. Nelson. This whole business regarding estimating practices for determining costs for major expenditures under these shared cost agreements, can you elaborate a little on it?

MR. JIM NELSON: Mr. Chairman, at the end of the fiscal year we have to determine the amount of expenditures that must be recorded for the liabilities due under agreements and part of the problem relating to these particular areas, because they are so large in dollar value, is the significant delay in receiving information from the federal departments, in this case the RCMP and National Health and Welfare. In the Department of Health there is a further problem in that the provinces where we have patients in health care institutions across the country, have significant delay problems in preparing their billings to us. In order for us to properly reflect the expenditures that should be recorded in a fiscal year, we have to estimate the amount that is outstanding as of March 31st and because of the nature of the delays we have had to sort of develop a process to accrue these expenditures using an estimate to the best of our ability given the situation. We have had some problems in the past but we have come to an agreed process that we and the Department of Health are happy with.

CHAIRMAN (Mr. McCallum): Just again on the second recommendation: "Procedures should be established to estimate costs more accurately on major types of expenditures especially those for which agreements exist." You agreed that there would be a review undertaken and you will work further to improve the accuracy of them. You said that you have a process. I wonder if you could just give us some idea of what improvements have been made to the process, Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, I wonder if I could ask our comptroller, Fred Barrett, to respond to that question.

CHAIRMAN (Mr. McCallum): Mr. Barrett.

MR. FRED BARRETT: Mr. Chairman, we have been working with each of the departments where we have this type of agreement and attempting to establish methods of arriving at figures on a much quicker basis. We are still encountering some problems and probably will even, with this year end close. We are dealing, to a certain extent, with federal departments and it is sometimes difficult to get estimates of final figures. The RCMP is one that has caused us a little bit of problem again this year but we have established a figure in conjunction with the department and feel that it is relatively stable at this point. We are now in the process of finalizing our accounts for this year and feel we should not have too many major adjustments from it. We have resolved most of them.

CHAIRMAN (Mr. McCallum): Do you have any comments? Mr. Hayes. Mr. Dubois.

MR. HAROLD HAYES: No, Mr. Chairman, I think really what Finance has just said is correct.

CHAIRMAN (Mr. McCallum): Thank you. Mr. Ballantyne.

MR. BALLANTYNE: I find that response interesting as I remember during the budget session when I asked the Minister of Health and Social Services about some major base level deficiencies when the accuracy of estimates was off, I was given the flippant answer, "Well, you cannot predict when people are going to be sick." So, I am glad to hear at this point in time that we were right, and in fact the system can improve and even though we cannot predict when people will be sick, we can at least predict some trends a little more accurately.

#### Regulations

CHAIRMAN (Mr. McCallum): Touche. You want to wait for them to come around. We will move into the next area and that deals with regulations. Now, we have indicated or it was recommended that manuals and regulations should be updated and developed as soon as possible. Government contract regulations, for example, require Executive Council approval or did. The financial administration manual only required Executive approval for consulting contracts greater than \$10,000. I recognize that there have been changes made to it. You have responded that government contract regulations were issued on March 15 of this year. Other regulations which have been identified -- and you list some of these -- in your response you say the regulations have been identified by financial officials as items for consideration. Their issuance is optional, based on the approval of the FMB. I wonder if you could indicate to me or to the committee why the first four items, that is, account verification, cheque issue, receipt and deposit moneys and accountable advances, are not mandatory. Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, in reviewing the Financial Administration Ordinance that came into place in 1982, a number of these possible regulations were identified and in going through them, it was determined that within the government organization we have policies and procedures and directives in most of these instances which are satisfactory to us and to management to cover these areas. There are one or two particular regulations that we feel we might be issuing in the near future, but at the present time we feel through procedure and directive these types of areas are adequately covered.

CHAIRMAN (Mr. McCallum): So, you are suggesting then, Mr. Nelson, that it would not be necessary to make them mandatory regulations. These would remain optional?

MR. JIM NELSON: Mr. Chairman, in some cases they already are described. For example, if you look at the accountable advances, there are procedural methods included in the Financial Administration Act which indicate the process that has to be followed by government. Including that in a

regulation, we feel, would just duplicate what is already stated. We have procedures pursuant to the act that describe better within the internal system how these advances are issued. In terms of set-off of debts to the Territories, that is a similar situation where the actual Financial Administration Act describes in fairly significant detail the procedures or process to be followed. In terms of destruction of cheques, there is a government policy which indicates the time frame under which the government must follow the processes for the destruction of any accountable documents and indeed any document at all. In similar cases throughout these kinds of regulations, or possible regulations to be identified, we have also indicated internally that there is a process or procedure that is in place that adequately would cover.

CHAIRMAN (Mr. McCallum): I guess from that, you make a determination as to what is to be considered an optional regulation as opposed to an essential regulation and you are saying that within the act itself, the Financial Administration Act, if it is covered in there you do not consider it necessary to be an essential regulation. I wonder if you could maybe give us an idea of how you determine what is essential and what is an optional regulation.

MR. JIM NELSON: Mr. Chairman, the essential regulations are the two that are defined actually in the Financial Administration Act. That is the one on the organization and on the interest on debts due to the Territories. Those two are defined as necessary. A regulation usually is decided upon by the nature of its being gazetted. It is in terms of a legal situation one step below the act and if you want to get a broad spread, I suppose, of public knowledge, then you would go and develop a regulation. In terms of its internal control aspect, a policy directive would have the same impact. We have issued the contract regulations simply because of the nature of contracts in the North and it is probably the most widely publicized regulation that we do have in government. It was decided to issue a contract regulation as opposed to, say, a government policy on contracts, just simply to add to the process of spreading the information across the Territories through the gazette.

#### Delay In Establishing Regulations

CHAIRMAN (Mr. McCallum): I guess it raises the other question. To my understanding since the Financial Administration Act, the legislation, came into being, these regulations were being developed over a period of time and notwithstanding that you want to have a lot of input into it -- it seems five years or so -- it seems to be quite a long time before you got into establishing regulations that are pertinent to the Financial Administration Act or ordinance as it was previously known. That seems to be quite a long delay. There are others. I am going to ask the Auditor General's people to just maybe comment on that but, again, before I do so, what is the purpose for keeping these regulations open for development for such a long period of time?

MR. JIM NELSON: Mr. Chairman, the example of the contract regulations -- in these cases, the contract regulations actually were in place, they were made pursuant to the prior ordinance but when in 1982, I believe, the new Financial Administration Ordinance came into being, certain changes were made across government in a number of ordinances and in a number of regulations as a result of that. In terms of the contract regulations, it was almost two years in internal processing before the regulations were finalized due to the number of changes that were being undertaken in government at the time to do with northern incentives, use of consultants and so on and so on. So the actual process within government extended the development of the final contract regulations just issued. In the other cases, we were developing within the Department of Finance certain procedure manuals and financial administration manuals which we thought would adequately define the processes and procedures internally.

CHAIRMAN (Mr. McCallum): I wonder if I could have a comment from Mr. Hayes or Mr. Dubois on this business of regulations, the essential regulations, the optional regulations and what their view is of making some of them essential or mandatory. Mr. Hayes.

#### Purpose Achieved Through Directives

MR. HAROLD HAYES: Mr. Chairman, I think really we would have to look at each case separately to form an opinion. If I understand what Mr. Nelson is saying, it is that you can have a directive that can serve the same purpose as a regulation and if that directive is in order then why make a regulation? Now, that position really is not inconsistent with the federal position as far as Treasury Board is concerned. It may be perhaps helpful for the purposes of the committee if Mr. Nelson could give some indication with regard to, say, the specific examples that you gave, account



verification, cheque issue, receipt and deposit moneys and accountable advances. If there are directives in place for those which would serve the same purpose as a regulation or an alternative, say, the financial administration manual itself clearly defines the procedures to be followed, then this is basically what you are talking about. Then again, the same purpose is achieved. But it is not clear from what is coming out at the moment whether this is the case.

CHAIRMAN (Mr. McCallum): Mr. Nelson, would you comment?

MR. JIM NELSON: Yes, Mr. Chairman. The financial administration manual of the government is a manual that is under the direction of the Financial Management Board. Therefore it is the senior administrative policy manual for internal financial management for the government. In terms of this list that we have identified in our reply to the committee, if I just run through it here. Account verification on payment requisitioning; we have a financial administration manual directive called No. 803 that covers that area. Cheque issue regulations; we have financial administration policy directives 805, 8033 and 804 which define various responsibilities in cheque issue. Receipt and deposit moneys; we have two financial administration policies 909 and 980. Accountable advances; again as I indicated in terms of the act, they are quite specific but we also have a financial administration manual directive No. 817 which defines that. Destruction of cheques; as I indicated we have a government policy which indicates the timing and the control and care of accountable forms in government. The designated banks and the set-off of debts are established through a process defined in the act.

CHAIRMAN (Mr. McCallum): Do you have a further comment, Mr. Hayes or Mr. Dubois?

MR. HAROLD HAYES: No, I do not think so at this time, Mr. Chairman.

CHAIRMAN (Mr. McCallum): The difficulty with directives as opposed to regulations, is that regulations are gazetted, directives are not. And it considers this whole business of interpretation and the delegation as well. If there are regulations we would know what they are but you have a document of the Financial Management Board -- that is the government -- and we are not a party to that or apprized of it. I guess that is where, in my opinion, the difficulty is. I do not know what other Members think. In a lot of cases we are not privy to a lot of the regulations, that is in the development of them. Legislation is developed by the legislators who have had very little to do with the regulations that govern them and the acts are there for the public. We are responsible to the public and we are not part of it and I guess that is where our difficulty is. At least the difficulty I see. Are there any other comments from Members? Mr. Ballantyne.

MR. BALLANTYNE: Just one comment back to special warrants. There was another special warrant issued during the session on 14th of February, 1984, in Territorial Accounts on page 50, the Housing Corporation, \$80,000. Either that is another typo or a decision of dubious value. I find it a little bit difficult to believe that the only two typos in this book are the two special warrants that were issued during session. So maybe if you could get that information on that one and get back to us but it is exactly the same principle. I would like to see both those dates verified. On to the whole aspect...

CHAIRMAN (Mr. McCallum): Not just on the side.

MR. BALLANTYNE: Well, I thought that is a good point to make here. I want to see how coincidences happen. I am always interested.

A general question about contracts. One is that you are anticipating major revisions to your existing manuals by May 30, 1985. Has that been done? It was in the response to the committee's questions.

CHAIRMAN (Mr. McCallum): You have two days to go.

MR. JIM NELSON: Yes, Mr. Chairman. We have a complete revision of our financial administration manual waiting for the covers. And we have just redone our comptroller's manual and brought that up to date.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

Awarding Of Government Contracts

MR. BALLANTYNE: This is a very general question about the letting of government contracts. Obviously there is a number of safeguards built into the system and a number of procedures taking into consideration the business incentive policy. But I take it that especially for a larger contract of \$100,000 or more that the Minister ultimately has to approve the final decision. There is a certain level of funding where it has to go to the Minister's office. Now, I wonder for instance, under what circumstances could a Minister say "No, I do not accept those criteria." I am not saying Ministers do this, but does a Minister have the power to say, "I think that contractor number four should be approved even though he was the second most expensive of five"? Does the Minister have the power to do that or are there any safeguards built into that process at the ministerial level?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, without having a copy of the regulations here, I am not sure of the specific part of the regulation but I believe it states that where it is other than the lowest tender, only the Executive Council may decide. In other words, in the process the Minister can, I believe, say he will not accept any tender, but the final selection based on anything other than the process defined in the contract regulations requires the Executive Council approval.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: Are there any policies or any rules for that process? I mean, is it enough that the Executive Council decide for whatever reason that somebody should get a contract and then that person will get a contract and that is just the way it is? Is that the way the system works?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, I think the very nature of government is that there are many times when contracts are awarded due to economic conditions or other particular situations that the Executive Council would have to make decisions on. On average they follow the contract regulations and award according to the processes indicated but if there are any exceptions it would be done by the Executive Council again on the merits of each individual case.

MR. BALLANTYNE: So it is open. That is what I wanted to know. At this point in time it can potentially be a subjective decision at the Executive Council. Okay, another question to do with that is that even though as a government our policy is to go out and ask for public tenders -- it is my understanding, unless it has changed, that in the leasing of government office space, that procedure does not have to be followed. There do not have to be public tenders put out and in fact deals can be made, you know, with somebody who happens to have office space somewhere. Is that still in effect?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, I am afraid that I am not aware of the situation with regard to leases. I think more appropriately DPW would be able to answer that question.

CHAIRMAN (Mr. McCallum): But, Mr. Nelson, in regarding a contract for lease there are regulations developed for that, for office space. He is not talking about contracts, he is talking about just going out and getting bids. If you entered a contract, there are regulations. Have the procedures been incorporated into the regulations covering the contract for leased office space?

MR. JIM NELSON: Mr. Chairman, again without the regulations -- I would have to review them just to see this particular case. But where there are bids and there are tenders, the regulations are quite specific as to the process. There may be some other method that is employed, for example, the call for proposals, particularly when you get into consulting contracts and the selection of professionals. The decision is not quite so definable. But in terms of the actual bidding on a contractual arrangement, the contract regulations are quite specific.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: Something that I think should be considered is that put into your government contract regulations is a provision for leasing of office space where that goes out to public tender because I think it is another area where potentially it is open, if not to abuse, to the perception of abuse. I just want to get that on the public record because that is something that has been a concern to my finance committee and to other Members here.

Accrual Of Employee Leave And Termination Benefits

CHAIRMAN (Mr. McCallum): Thank you. Any further questions on the topic of regulations? Any further comments from the Auditor General? Thank you. So, we can move in now to the accrual of employee leave and termination benefits. It was recommended that the accrual basis of accounting for employee leave and termination benefits be adopted for 1984-85 and subsequent years. In the response you agreed that the accrual of significant liabilities for employee leave and termination benefits is desirable and in conjunction with the Department of Personnel you will determine the feasibility of calculating and recording the liability possibly for 1984-85. There were questions asked. Your response is that you have determined that it is feasible to estimate these liabilities and that they are being accrued for the year ending March 1st, 1985 and identified as a supplementary estimate at the next session of the Legislature. I take it we are talking about the June session in Rankin, is that correct?

MR. JIM NELSON: That is correct.

CHAIRMAN (Mr. McCallum): Is there any legislative authority under the act now for this type of expenditure or is it necessary, is it desirable, is there any need for it? Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, at the present time we require the authority of the Legislative Assembly to establish this expenditure and/or allowance for employee benefits. There is no other avenue open to the government at the present time. Actually it is not unlike the establishment of a revolving fund, for example, where we seek authority for a limit, or a loan fund is similar in nature.

CHAIRMAN (Mr. McCallum): Do you have an estimated amount of accrued liabilities for employee leave and termination benefits at the present time? How are you going to handle this in future years?

MR. JIM NELSON: Mr. Chairman, the amount is approximately \$14.5 million and I will let Mr. Barrett explain the process for future years.

CHAIRMAN (Mr. McCallum): Mr. Barrett.

MR. FRED BARRETT: In future years the amount will just be incremented by the increase. We will re-examine the liability at the end of each year and determine whether it has grown. On the other hand there may be some things that will happen during the year where we have paid out against that liability and it is conceivable that in some year it could drop depending on the change in the government. It will be adjusted up or down in future years.

CHAIRMAN (Mr. McCallum): Are there any further questions on this? Mr. Richard.

MR. RICHARD: It is clear to me, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne.

MR. BALLANTYNE: I just have one question on exactly how it is handled. I assume \$14 million would take into account every single employee now working for the government and what is essentially owed to them. That is the maximum. Now, is there any reason why you want to do all this in one year? Why you do not draw some down over a five year period, for instance? Why do you go for the whole \$14 million in one year?

CHAIRMAN (Mr. McCallum): Mr. Barrett.

MR. FRED BARRETT: I guess probably the only reason for doing it all at once is that if we have moved to an accrual basis of accounting and if in fact we want to record all of our liabilities, the point in time that we decide to record them -- we have to accept the fact that it is the whole liability that should be set up at that point in time and I think that is about the only reason for putting it all in at once. It does not represent an actual outlay of cash. It is merely recording for the public record that this money is owing by the government to its employees.

MR. BALLANTYNE: You could do it over a period of time but you have decided to go this particular route.

MR. FRED BARRETT: Not if we are going to follow proper accounting principles. If it is a liability you should record it now.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Barrett. Other comments. Mr. Hayes.

MR. HAROLD HAYES: I might assist the committee in that regard. As Mr. Barrett says, this sum of \$14.5 million in fact has been earned by the present staff of the public service and it is just a recognition of that liability. The actual outlay will come in the year that the employee retires or severance occurs and the funding would come into play at that time. It is just a mechanism really to give some recognition to what is a significant liability of the government on the statement of assets and liabilities.

CHAIRMAN (Mr. McCallum): Any further questions of the committee? I would just like to go to one document that you have and that is the Territorial Accounts and the Auditor General's report that I think that you have put out. It is a guide to the Territorial Accounts, a paper that I think was given by the Minister or by you, Mr. Nelson. I just want to make a couple of comments on two of them, just in the first page, section one, the auditor's report. Just to make it perfectly clear. It says in the third line the auditor must first express his opinion on these accounts, the Territorial Accounts. I think what we are saying here or what you are trying to say here is that you are looking for an opinion on the financial statement only. Is that not correct? The first 23 pages -- you do not get a statement on the rest. I think just to clarify it, you are not getting more than you would normally get out of this. Okay?

MR. JIM NELSON: Noted.

CHAIRMAN (Mr. McCallum): Okay, just so you get it clear. I would like to go on to page three, under number three, the financial statement, "advances to the NWT Housing Corporation". In that paragraph, the second last line, the last sentence, "As of December 7, 1984, \$1.943 million of this advance" -- that advance of six million dollars -- "has been recovered." This document is dated December 11, 1984. Do you have an update? Is that all or is there more? It is my understanding that there have been close to three million dollars. There still is an outstanding amount that may or may not be recovered but that document of December 11, as of May 28, what is the status of that advance that is recoverable?

MR. JIM NELSON: Mr. Chairman, the balance outstanding as at March 31, 1985 is \$2.209 million.

CHAIRMAN (Mr. McCallum): So you get approximately \$3.791 million.

MR. JIM NELSON: I might add, Mr. Chairman, that the indication was from the Housing Corporation is that there is a good indication from CMHC that the balance will also be recovered.

CHAIRMAN (Mr. McCallum): Thank you. Any further comments? Department of Finance. Any further comments from the Auditor General? I want to thank you very much, Mr. Nelson and Mr. Barrett, for being here. We had some comments and some recommendations. Obviously we will be back, so thank you very kindly. The next group that we have is the Department of Economic Development and Tourism. Is that correct? We are going to take five minutes for a coffee break.

---SHORT RECESS

Department Of Economic Development And Tourism

We now have the Department of Economic Development and Tourism. Would you identify yourself?

MR. BILL GRAHAM: Acting deputy minister.

Recommendations On Business Loans And Guarantees Fund

CHAIRMAN (Mr. McCallum): In Department of Economic Development and Tourism the basis of the report of the Auditor General on "Any Other Matter" dealt with the Business Loans and Guarantees Fund and there were 14 recommendations made with respect to the operations of this fund. These

recommendations, just very briefly, talked about a register being kept of complete loan information. There should be evidence of refusals by financial institutions before applications are considered for a loan, which would be placed on the loan files. Loan files should be properly organized and contain complete documentation. There should be a system for sign-out of loan files. Cash receipts should be forwarded to the Department of Finance, revenue section, in line with the requirements of the financial administration manual. The mail opening and cash receipts function should be segregated from the recording function. General receipts should be reviewed. A provision for loans of doubtful collectability should be recorded. Action should be taken to effect deletion from the accounts of those accounts that are deemed to be uncollectable. Payments relating to specific loans should be charged to the applicable loan balance. Loan guarantee records should reflect the current status. Claims paid pursuant to guarantees should be referred to the FMB for direction on any action that would be taken. Regulations should be amended as soon as possible and a procedure be established to ensure that the regulations are amended concurrent with amendments to the act. This was one of the areas that was dealt with to some degree, that the regulations did not, at the time, concur with the act itself.

Now in all of those, there was an agreement that corrective actions would be taken. And in the last years report to the Assembly there were particular recommendations made. I guess what I am asking of the witness now is, can you give us some kind of an update of where we stand with the Business Loans and Guarantees Act and regulations at the present time?

MR. BILL GRAHAM: Yes, Mr. Chairman, this refers to the report on "Any Other Matter" for 1982-83.

CHAIRMAN (Mr. McCallum): Yes.

#### Status Of Departmental Response To Recommendations

MR. BILL GRAHAM: There is a new act that went into effect April 1, this year, and new regulations also went into effect concurrently. If you would like, I will deal with each one of the observations. The loan register is current and is now automated on a loan accounting system. Evidence of refusals by financial institutions are to accompany the loan applications. Where these cannot be obtained at reasonable cost to the applicant, a memo to file by the documenting officer is satisfactory. Some organizations charge a fee to give a letter of refusal. The loan files are properly organized and documentation is complete. There is a system in place for the sign-out of loan files. Cash receipts are forwarded in accordance with the financial administration manual. Mail opening and cash receipts functions are segregated. General receipts are reviewed. There is a provision for doubtful accounts. A number of bad debts were written off at the end of the last fiscal year, and some additional ones have been identified as potential write-offs. Payments related to specific loans are charged to the applicable loan claim. Loan guarantee records reflect the current status of loan guarantees as we obtain the information. We do not receive an ongoing update from the financial institution to which the guarantee is pledged. They are requested to provide us with the outstanding balance and an indication whether or not the guarantee is in arrears at the end of each fiscal year and we update our records from that. Claims paid pursuant to the Financial Management Board are pursuant to guarantees. We have not paid out any guarantees since the last audit report. However, the guarantees that were paid out improperly and noted in the audit report were reported to the board at the time we went forward with write-offs.

As I said the regulations have been amended and they were amended in concurrence with legislative amendments. There was a new set of regulations established along with the new act. For some additional information, we recently had an audit by the internal audit bureau of government and while we have not yet received a draft report indications are that they are satisfied with the operations of the loan fund at this time.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Graham. Mr. Ballantyne, you have a question.

#### Procedure For Evaluating Doubtful Accounts

MR. BALLANTYNE: Just a couple of specific questions about the procedure for establishing doubtful accounts and the procedure for writing off loans because there is no chance of repayment. What is the process to decide that a loan goes into the doubtful account category?

MR. BILL GRAHAM: This is based on an evaluation by regional staff as to whether or not they think the account is collectable. If in their view the account is not collectable, then it will be further evaluated and documented and submitted for write-off. Now in the establishment of the

allowance for doubtful accounts, last year we evaluated all of the accounts in the portfolio. I should not say all of the accounts; we evaluated all of the accounts for which a payment had not been received within the past 60 days as at the end of February.

There was a group established which included the collections officer from the Department of Finance and myself, the former secretary to the loan fund, the current secretary to the loan fund and a former loans officer of the department. We reviewed each individual file and made a subjective judgment as to whether or not those accounts were doubtful. Subsequently we established an allowance of two million dollars of which we wrote off, I think it was \$276,000, to a submission of the Financial Management Board.

CHAIRMAN (Mr. McCallum): Mr. Ballantyne, do you have anything further?

MR. BALLANTYNE: Yes, I wonder is there such a thing as this when you decide to write off an account. Now, I understand that it is practised somewhere that all these accounts are turned over to a collection agency on some commission, the collection agency is guaranteed 50 per cent, whatever it is per write-off. Do you have a process like that, of final recourse, where you say that you give us 10 per cent on the dollar or what have you?

Status Of Directive Dealing With Uncollectable Accounts

MR. BILL GRAHAM: We do not have a procedure in place at the moment. We are currently developing a joint directive with the Department of Finance to deal with uncollectable accounts or accounts that are in arrears in excess of 90 days and it is in the draft stage at the moment. Hopefully it will be in place within the next month or two but the way it is written, it does also require the co-operation of the Department of Justice. They have not yet seen that draft. We have nothing in place at the moment.

MR. BALLANTYNE: But obviously you have identified a need for it.

MR. BILL GRAHAM: Yes.

MR. BALLANTYNE: Okay, that is my only question.

CHAIRMAN (Mr. McCallum): Mr. Richard, you had questions?

Loan Applications From Previous Defaulters

MR. RICHARD: On this matter of write-offs, Mr. Chairman, I wonder if Mr. Graham could indicate whether there is any system to ensure that the department does not entertain loan applications from the individuals who previously had borrowed money from the government and which debts were written off. In other words, is there some way of guarding against repeat defaulters, if you will?

CHAIRMAN (Mr. McCallum): Mr. Graham.

MR. BILL GRAHAM: We have a list of those accounts that are written off. There is no guaranteed fail-safe. No one goes and checks that list specifically against each loan application. It is primarily left to the region to identify or perhaps the loan board to recognize the situation. The portfolio is not of so large a size nor the number of write-offs so great at this point in time that that would not come to our attention.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: It just occurs to me, Mr. Chairman, that particularly with access to computers, there should be a procedure set up to assess as soon as an application comes in. That is one thing which should be checked before it is processed, certainly processed favourably, as to whether or not that applicant in his own name or a company name that he is associated with, has in the past received the benefits of a loan or a guarantee from the government which the government subsequently wrote off. Perhaps that is something the department can consider. Thank you, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Mr. Graham, would you like to comment?

MR. BILL GRAHAM: It would not be difficult to match an application against any write-offs. The match would, of course, be against the name of the entity for which the loan was written off. That may be an individual or a business but if we did not get the same information, I do not think we could reliably match it.

CHAIRMAN (Mr. McCallum): Mr. Pedersen.

MR. PEDERSEN: Mr. Chairman, when an application for a loan is made by a limited company for instance, is a list of shareholders given to you?

CHAIRMAN (Mr. McCallum): Mr. Graham.

MR. BILL GRAHAM: We do request a listing of the principal shareholders, yes.

CHAIRMAN (Mr. McCallum): Mr. Pedersen.

MR. PEDERSEN: Mr. Chairman, it seems to me one of the concerns here would be that there be some method of identifying the principal shareholders to ensure that loans are not made in fact to the same person under different corporate names.

CHAIRMAN (Mr. McCallum): Comment, Mr. Graham.

MR. BILL GRAHAM: The applicant would be the business entity. Now, in the course of that we do check out the credit rating of the major shareholders. But if the business itself was liquid and meets the criteria it would be a decision of the individual loan board whether or not that loan would be acceptable.

CHAIRMAN (Mr. McCallum): Mr. Pedersen.

MR. PEDERSEN: In Schedule 10, page 69, I am just wondering for instance on that -- and it is not a loaded question -- whether G.A. Anderson and Anderson Mills Limited is in fact the same person?

MR. BILL GRAHAM: I believe it is the same person. It was two separate loans and just listed differently in the records.

MR. PEDERSEN: So for approving a loan we would be looking at the name of the applicant for the loan and the liquidity, as you said, of that particular entity and the viability of the proposed venture, and not necessarily looking at the previous success rate of major shareholders.

CHAIRMAN (Mr. McCallum): Mr. Graham.

MR. BILL GRAHAM: That is true. The loan boards make the decision as to whether or not to approve the loan or recommend the loan for approval to the Minister. If this information was available I would expect that the documenting officer would include it in their assessment to bring it to their attention. If I may just expand on that for a moment.

CHAIRMAN (Mr. McCallum): Yes, certainly.

MR. BILL GRAHAM: These were two loans as I recall that were made and there was no loan in default at the time the second loan was made.

CHAIRMAN (Mr. McCallum): Mr. Dubois.

System Should Ensure Board Is Aware Of Past Write-Offs

MR. RAYMOND DUBOIS: Mr. Chairman, just reacting to the questioning here. From our point of view in order to protect the government perhaps there should be a procedure that specifically states that if a principal shareholder has been involved in a transaction in the past that led to a write-off, that that should be specifically identified for the board. The system would ensure that the board is aware. If it still wants to go ahead that is fine, but at least the procedure would ensure that the board is aware that this has happened in the past and it would serve to protect future interests of the government.

MR. PEDERSEN: Such a provision would certainly satisfy me.

CHAIRMAN (Mr. McCallum): Mr. Graham, would you like to comment?

MR. BILL GRAHAM: Well, I have no problem with advising our staff that they should identify this particular type of situation when it comes to their attention.

CHAIRMAN (Mr. McCallum): We would obviously underscore that in our report and perhaps the method by which we can do this as we come together as a committee, may very well come forth as a strong recommendation that this is a procedure that should be established. Again, to protect the public in terms of public funds.

Is there anything further? We are just dealing with the department here and follow-up issues. Obviously there has been quite a bit done with a new act and the new regulations and both, as Mr. Graham has indicated, have been put forward. The regulations were tabled during the last sitting of the Assembly. I would expect then, Mr. Graham, that policies and procedures are now developed to look after those regulations and the interpretation of the act itself. Have policies and procedures been developed? Are they in place now? Mr. Graham.

Development Of Procedures And Guidelines

MR. BILL GRAHAM: A policy was developed which provided the framework for the development of the act and the regulations. Subsequent to the approval of the act and regulations it was recommended that the policy be rescinded in that it was deemed that the act and regulations were satisfactory and that policy was rescinded. Operating procedures have been established to provide guidance to our staff in documenting loans and maintaining the accounts. Also under way we have identified the need for some guidelines for the boards to assist them. That work is yet to be completed. At a presentation last January the boards were asked to develop some input of their own that we could use for guidelines. The intent was to standardize the procedures where possible but also to recognize regional differences in the operations of the regional loan funds and the territorial loan fund.

CHAIRMAN (Mr. McCallum): So in the applicability of these procedures they are consistent but nevertheless take into consideration that there are regional differences throughout the Territories regarding applicants.

MR. BILL GRAHAM: This is our intent for the guidelines for the various boards.

CHAIRMAN (Mr. McCallum): Because under the new act those boards are now regionalized.

MR. BILL GRAHAM: There are six regional boards and one territorial board.

CHAIRMAN (Mr. McCallum): Right. Anything further on this? Mr. Richard.

MR. RICHARD: Mr. Chairman, I wonder if I could just go back briefly to Mr. Graham's indication that there was a review done by yourself, sir, and some others, of all of the loan files. I believe you said you established two million dollars doubtful accounts and subsequently wrote off some \$286,000. What year was that done in in terms of a fiscal year? Is that since the Schedule 10 write-offs that we see here?

CHAIRMAN (Mr. McCallum): Mr. Graham.

MR. BILL GRAHAM: Those write-offs were included in this figure, the \$276,000 in 1983-84.

CHAIRMAN (Mr. McCallum): Mr. Pedersen.

MR. PEDERSEN: Supplementary to that, Mr. Chairman, the loans that you reviewed and established, the two million dollars of doubtful loans, do these loans go back to the original inception of the various loan funds, the Eskimo Loan Fund, etc., right back to when we took some of them over?

MR. BILL GRAHAM: This covers the whole history of the Business Loans and Guarantees Fund. It does not include the Eskimo Loan Fund. The Eskimo Loan Fund is reported on separately to the Government of Canada.

MR. PEDERSEN: When does it go back to then? What is the year?



MR. BILL GRAHAM: I am not sure what the earliest loan was. The loan fund was transferred to this government in 1969-70 fiscal year.

MR. PEDERSEN: So it does include the old Small Business Loan Fund that became the...

MR. BILL GRAHAM: Yes, it does.

MR. PEDERSEN: Thank you.

CHAIRMAN (Mr. McCallum): Any further comment? Any further comments from the Auditor General? Well, thank you, Mr. Graham. I think that what has taken place, with the department under the new act and the regulations, taking these into consideration there obviously will be concerns raised again.

The one concern that has been noted, that undoubtedly will form part of an underscored recommendation of this committee for incorporation, is identifying people that had previous loans. You say you have no difficulty with that. There is nothing further then. Thank you very kindly.

#### Department Of Local Government

The next department will be the Department of Local Government. We have the witnesses for the department. We have Mr. Moore, the deputy minister of the Department of Local Government as the witness for this department. Again, Mr. Moore, in your department we are talking about the report of the Auditor General on "Any Other Matter" dealing with certain particular topics of the department.

#### Recommendations On Grants And Contributions

There were a number of recommendations made to the department dealing with such things as expenditures, the grants and contributions policies. It was recommended that the department should review its policies regarding grants and contributions to ensure that they are all covered by policy applications approved by the FMB, and copies of all policy applications should be filed as support for payments made. The third recommendation: Where capital projects are to be undertaken by third parties, such funds should be disclosed in the estimates as contributions. After identifying such expenditures contribution policies should be prepared and approved by the FMB. Contracts or agreements should be entered into with recipients of funds to ensure that sound management practices and accountability can be achieved. They should be made prior to making project commitments. Contributions or advances should not be made in advance of need. Finally, a proper evaluation of the projects should be undertaken before funds are advanced.

In each of these instances you have agreed with these recommendations. There were subsequent questions asked and the department then has made a response. For example, on the review of the grants and contributions policy the question was asked, what is the status of the grants and contributions now covered by a program. You have indicated that they have been reviewed. You have confirmed the need to consolidate some O and M assistance programs and capital assistance programs. A comprehensive municipal operating assistance policy and a capital assistance policy are being developed. They have been discussed with local government representatives and will be tabled before the priorities and planning committee of the Executive Council this summer.

#### Status Of Payment Directive Submissions To The FMB

The grants and contributions are now covered by a payment directive. You have attached a copy of the payment directive submission to the FMB. In a lot of instances here you have indicated that these directives have been sent to the FMB. You have asked to have them placed on the agenda of the FMB, but they have yet to be approved by FMB. I wonder if you can indicate to us just what is the status of these? Where do you stand on these proposals to the FMB? How far along are you and do you get them back, as it were? How long does it stay on? What is the process here?

MR. MIKE MOORE: Mr. Chairman, the documents were submitted to the FMB and we had hoped and I think the staff had intended that these be dealt with on May the 15th but they were not because, I think, of overload on the agenda. Subsequently, we, ourselves, asked to take one back and change it somewhat. That is the payment directive on regional councils. As a result of my experience this year we realized there was a contradiction between the policy on regional councils and this payment directive. It is a technical matter. We have corrected it now and that is going back to the FMB.

There is no reason from our point of view, and I think perhaps not from the FMB's point of view, why these payment directives should not be approved at the next meeting. We would obviously like them to be because they are the basis for the payments we are starting to make. We have not made any significant contributions in this fiscal year so far but we will be doing so quite soon. The agreements with the municipalities, which are another subject of this report, are also written on the same basis. The two things are interdependent, so we would like to see them approved by FMB at the next meeting. We understand from the staff of the Financial Management Board that there is no difficulty with them and that they have passed their scrutiny and should be approved by the board at the next meeting.

CHAIRMAN (Mr. McCallum): Mr. Holmes, I think you are in the back. You are with the FMB?

MR. SANDY HOLMES: Yes.

CHAIRMAN (Mr. McCallum): Is it possible for you to give us some kind of an idea where a lot of these things stand?

MR. SANDY HOLMES: The board met yesterday...

CHAIRMAN (Mr. McCallum): Would you come to the -- I didn't mean to interrupt you, Mr. Moore. I think it is important for us to know because there are a number of these that you have placed there and I know of a number from other departments. I would just like to get some idea from somebody from the secretariat of where things stand on it.

MR. SANDY HOLMES: Yes, Mr. Chairman. I did not bring an agenda with me so I am not too sure what exactly was on the agenda for all departments yesterday, but the board did not finish the agenda in yesterday's meeting and I think that Local Government was not finished. I am sorry, I do not have the information as to what was passed and what was not passed yesterday. The board is continuing to meet during the week, when they get some time, to try and finish off that particular agenda.

#### Consolidation Of Capital And O And M Assistance Policies

CHAIRMAN (Mr. McCallum): Thank you very much, Mr. Holmes. The questions of Members. Perhaps I could start it off, Mr. Moore. In the departmental response to the first recommendation, the need for the consolidation of O and M assistance programs and capital assistance programs, you state that you have a comprehensive municipal operating assistance policy and a capital assistance policy. Are you able to provide a copy of these or are they fully developed now? When could we anticipate seeing a copy of these two particular policies?

MR. MIKE MOORE: The capital policy is complete, Mr. Chairman. That is finished off but it is with the Minister. I know he intends to take it to priorities and planning at the next meeting of the priorities and planning committee because it is a policy proposal. The other one on O and M, is dependent to a large extent on that and so we forecast that if we get the approval of priorities and planning to the capital policy and we get it within the next few weeks then we should have the O and M policy completed by sometime in August. We could probably bring those policies into effect next April, April 1986, but I think it is a decision of the Executive Council as to whether they will be brought in ahead of the new legislation or will be timed to coincide with the new legislation, because they...

CHAIRMAN (Mr. McCallum): It would be unusual. I would see a star in the East or something.

MR. MIKE MOORE: ...are not dependent on the new legislation but they do have a bearing on the new legislation. But from our point of view, given the approval of the priorities and planning committee, then these policies which are comprehensive policies of capital assistance and O and M assistance to all communities could be brought in next year, and we could write our next years main estimates on the basis of those new policies.

CHAIRMAN (Mr. McCallum): Again on that first recommendation, you agree that there is a need to consolidate them and for a greater emphasis on contributions to achieve the objectives vis-a-vis the grants which tend to be unconditional, as you well know. Can you give me an idea of how the department is moving toward that concept?

Basis Of Proposed Consolidation

MR. MIKE MOORE: Some of the idea behind the proposal to consolidate our policies came out of a realization that we have a great number of policies. For instance, there are nine separate programs of capital assistance to various types of communities. Some of them, Mr. Chairman, are frankly a little unfair in that they are not providing the same degree of assistance to different types of communities. They are also rather complicated and in some cases they are a little difficult to understand and not easy to administer. But the real problem is that they have grown up over a number of years. Some of them go back, as you know, I think to the early 1970s. So these policies have accumulated, that is the only way to put it, particularly on the capital side, over a number of years and as they have come in they have not been necessarily reconciled with each other.

So, our main intention was to roll up into one policy declaration by this government the provisions for capital assistance to all levels of community, from settlements and hamlets right through to the city of Yellowknife. By putting them into one document and making them fair and equitable, they would seem to be reasonable to everybody who was benefiting from them. The basis for them, perhaps the most important basis, is that communities would be given assistance on the basis of their need, in other words what they still require or do require in the way of infrastructure and their ability to pay. That is no different from the way that we have always been trying to operate but we have been inconsistent in the way we applied those principles over the years. I am sorry I could not hand it in, but that policy which is now with the Minister and going to priorities and planning, on the capital side I think does achieve that. I think it provides a fair and a reasonable policy for giving financial assistance for capital infrastructure in all types of communities, based on what the communities need and what they can afford to pay toward it themselves. I am sorry that is a commercial without being able to give you the material.

CHAIKMAN (Mr. McCallum): Right. Do Members of the committee have other questions? We are talking about the capital policy system. Recommendation two indicates that it is now using a payment directive in terms of it. Has that had approval? Is that approval given by the department, by the FMB, by the Executive Council? Where does the approval come from and has it been given approval? You are operating under directive.

Payment Directives

MR. MIKE MOORE: The payment directives, Mr. Chairman, are the same things we were talking about. They used to be called program financial policies, I think. But they are the same things and they are exactly what we are waiting for now. It was one of those that we called back to change for the regional councils, the payment directive. I do not know how to better describe it but perhaps somebody in Finance would. I think they are the authority which the FMB gives to the department to actually make contributions, or in some cases grants, under the programs which go to make up O and M assistance and capital assistance. I do not know if there is a better way of putting that but that is the way they seem to be from my point of view. They are the FMB's payment authorities payment directives.

CHAIRMAN (Mr. McCallum): In lieu of policies.

MR. MIKE MOORE: No, I think based on policies.

CHAIRMAN (Mr. McCallum): Based on policies?

MR. MIKE MOORE: That is right, we do have a policy for providing rebates to home-owners who pay property tax. That is the policy in rough terms. The payment directive actually specifies how much we can pay them, what percentage and when, and so on. Much the same for, say, a capital contribution to a tax-based municipality. The policy may well be that we pay financial assistance to a tax-based municipality that is building a reservoir. The payment directive approved by the FMB gives instructions to our staff as to how that contribution is administered, how it is paid, what audit level is required and so on. I think, as much as anything, the criticism of this department two years ago was that we did not have a payment directive of that sort in place for all of our programs. We had them for some, but not for all of them. Particularly we did not have them for all of our capital programs. But we do now and although they still require FMB formal

approval, I think they are as good as in place. Incidentally, Mr. Chairman, I think they are also -- but perhaps I should not be saying this -- I think they are a firm basis for a judgment by any auditor as to whether we are doing the right things in accounting for those. I think they are the root of our administration of those programs and also an audit inspection of the administration of that program.

CHAIRMAN (Mr. McCallum): And again with regard to main estimates in terms of capital programs, I would note that you have them in now as contributions.

Non-Accountable Grants

MR. MIKE MOORE: Yes, that is right, Mr. Chairman. There are still some grants, but they are very few and far between. So we have taken quite literally the advice of the Auditor General's staff as to when a grant is a contribution. We no longer say grant in lieu of taxes. We say payment in lieu of taxes.

CHAIRMAN (Mr. McCallum): Right. Those payment directives, they have been prepared for these as well and you are still awaiting FMB approval for those?

MR. MIKE MOORE: That is right. Those few grants are the home-owners assistance, the rebate, that is a grant. The grant to people as a rebate. That is non-accountable; we do not ask them to send audits or tell us how they spent the money. That is one of the few remaining grants. But most things that we were calling grants for years and years in this government have now become contributions and are accountable to some degree and that degree of accounting is set out in the payment directive.

CHAIRMAN (Mr. McCallum): And those are some of the things that you have at this present meeting that you are awaiting.

MR. MIKE MOORE: That is right, and you have copies of them all, Mr. Chairman, except one that has been changed. I would be glad to hand that one in. That is the one on regional councils. There is a slight change in it but I would be glad to hand it in.

CHAIRMAN (Mr. McCallum): Are there any further questions on those? Any observation from the Auditor General? Mr. Hayes.

MR. HAROLD HAYES: Mr. Chairman, it seems that from what Mr. Moore is saying that grants and contributions now are clearly defined. If I understand correctly what Mr. Moore is saying, if there is anything that is described as a grant which has a condition attached to it, that is a contribution.

MR. MIKE MOORE: That is right, Mr. Chairman.

CHAIRMAN (Mr. McCallum): I would applaud the department and you and your staff, Mr. Moore, for the way in which you have turned it around. I think that is a good reaction to what has been indicated and recommended too. And again within the main estimates, as well, is a real start.

Award Of Contracts Using Accountable Funds

I have a further one, if nobody else has anything and that deals with the agreements to get away from the kind of situation that you were placed in with the Fort Simpson situation, for example. I notice that in the standard agreement, which is the appendix "D" that you include with your information, there is in paragraph seven -- if you have a copy of that, Mr. Moore -- the municipality may establish its own northern or local business policy governing the award of contracts utilizing accountable contribution funds. However, the preference benefit applied to northern or local businesses may not exceed that allowed by the NWT government business incentive policy and directive. Does the "may not" -- does that really mean that, or...

MR. MIKE MOORE: No, it means "must not".

CHAIRMAN (Mr. McCallum): It must not.

MR. MIKE MOORE: It means "must not", Mr. Chairman.

CHAIRMAN (Mr. McCallum): Okay, that is one of the questions I wanted to indicate. The further question I have is, what would be the purpose of having that in there, then?

MR. MIKE MOORE: I think we were trying to contribute to the territorial government's policy on business incentives and at the same time trying to maintain what we as a department think is right, that municipalities have their own politics locally to play in business and with business. And that what may be, to the NWT, a satisfactory level of northern preference, may to a council not be satisfactory. By that I mean that the council may have much more concern about a local businessman and not a northern businessman. It is no great consolation to the local businessman in Cambridge Bay that a northern businessman from Rankin Inlet has got the contract. So we wanted to recognize that the municipality may have its own policy on whom they prefer and who they give some advantage to. At the same time, since it is basically government money that is being provided through this contribution, so that there would not be total distortion of our own Executive Council's intent, therefore the benefit applied should not be greater than the benefit that we want to see applied. That is basically why we put that in there.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, I am wondering on this though, isn't it more important for the territorial government to require, perhaps, in the agreement, that business incentive policy apply? I can see what you are contemplating here. You are saying that, and let's not use Rankin Inlet as the example.

---Laughter

CHAIRMAN (Mr. McCallum): Why not?

MR. RICHARD: Let's say Fort Simpson.

CHAIRMAN (Mr. McCallum): Okay, that may be better.

MR. RICHARD: I can see that a municipality might very well want to give a preference to a contractor from that region. In effect, in paragraph seven you are allowing them to fine tune the territorial business incentive policy. But what I do not see here and I have not looked through the whole agreement, is that you are tying the conditions to your money. Fort Simpson municipality could also ignore the business incentive policy and hire an Edmonton firm to do the entire project with no northern content. I would think that if we are going to start tying the municipalities down, as I think you should in these written agreements, that that should be considered anyway. The Edmonton contractor that does not get the work is eventually going to challenge the provision under the Charter of Rights anyway, but that is not to say we should not try and tie the municipality down. I know in our own city recently an issue has been raised as to whether the hospital which is funded by government is obliged to follow the business incentive policy in awarding contracts. It is bound to come up whether municipalities should not be obliged as well. So I think that should be considered in that area.

CHAIRMAN (Mr. McCallum): Mr. Moore.

#### Position Of Executive Council

MR. MIKE MOORE: Mr. Chairman, that is a very good point. If I could take that as advice that we ought to consider that. I should say this has not been tested in the Executive Council and I frankly do not know whether the Executive Council shares that view, that municipalities for whom we are providing funding should be tied down to our business incentive policy. I know that the city of Yellowknife would deeply resent it. But it is an interesting point of view because we are probably putting in 18 per cent of the eight million dollars that is needed to restore the sewage lines in this town. At least in this first phase where we have put in \$2.7 million, we have not imposed any requirement for the city to use local business or whatever. I think local businesses may well look to us to do that, whether the city agrees or not. I think it is going to be a very difficult question for the Executive Council, frankly.

CHAIRMAN (Mr. McCallum): Perhaps we should have used Yellowknife for a better example.

MR. MIKE MOORE: Mr. Chairman, I think the point is it is not difficult, and I think Mr. Richard was saying it is not difficult, for the government to go along with a local council that wants to use local people. That is not difficult at all. What is difficult is to go along with the local council that takes a very pragmatic view and wants to take the lowest bidder who comes from Edmonton, if it is our money. But it is not always all our money. Sometimes that contribution is only 60 per cent -- 50 per cent in some cases and if it is 50 per cent, have we a right to impose our policies on them? At 100 per cent, perhaps we have. And I honestly do not know what the Executive Council will say to that. This was our own shot at a compromise to bring it in without actually going further than we should in a political question.

CHAIRMAN (Mr. McCallum): Just to get it straight though. In section seven of that agreement, it is going to say "must not". Or are you saying simply that...

MR. MIKE MOORE: You "may not" do it, meaning...

CHAIRMAN (Mr. McCallum): When you say "may not", it is left to some kind of interpretation?

MR. MIKE MOORE: Well, no. It was meant to be "must not". If that needs to be clarified we will, Mr. Chairman, but I think, after what the board has said to me, I had better be absolutely sure that this is acceptable, anyway to the Minister and to the Executive Council. I will pass on the comments to the board.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Moore. Mr. Gargan.

MR. GARGAN: Thank you, Mr. Chairman. I am using Fort Simpson here as an example. I believe they spent at least \$800,000 with regard to the improvement of their water supply. This all came about, I believe, because of that broken pipe or something. I know for myself, from my own experience, I had to fight tooth and nail to get some improvements done to the community hall in Fort Providence. But the thing is I guess it is a way that the Executive Council, instead of going through the format that the ordinary Members use, use the Financial Management Board as the basis to get a lot for the constituencies while the ordinary MLAs have to go through quite a bit just to get what they want. Mr. Moore, I am just wondering, that \$800,000 that was used for improving the water supply there. Is that pretty well it then? Do they need additional moneys or is that pretty well the final amount?

CHAIRMAN (Mr. McCallum): Mr. Moore.

#### Water System At Fort Simpson

MR. MIKE MOORE: Mr. Chairman, it is the final amount. If I could just say that the background to it is a bit more complicated than a broken pipe. That was a problem but that was an incidental problem. The water system at Fort Simpson was built by the Department of Public Works not many years ago and they based the whole thing on being able to draw water from the Mackenzie which would be usable with only very minimum treatment on the land before it was distributed. And to do that, they put a very long deep pipe out into the river, away across to the other side where the water was reckoned to be clear. That led to the problem with the pipe. The pipe did not stand up to it, the ice scouring killed the pipe. That was one problem that arose. The other thing was that the water did not stay clear and the water was not clear enough. So when we had handed it over to Fort Simpson, the municipality of Fort Simpson found themselves with a water system which was very expensive to operate apart from everything else because of its size and complexity.

Many municipalities are not running their own water system. Even Inuvik does not run its own water system. But Simpson was given its own water system to run and they then themselves brought in their own engineering consultants to recommend how they could overcome the quality problem in the water. The only way to overcome it was to do what the DPW probably, in hindsight, should have done in the first place but in trying to save money did not do, which was to put in a water treatment plant. So this money, which we thought would only be about \$530,000, -- I think was the original estimate -- was to provide a treatment plant which would filter the waters, mostly a very complicated filtration plant. But it was a new building and it was further complicated by the fact that halfway through the building of the original building there had been a fire and the building had to be put up again.

So it was not a straightforward thing and at the end of it they really have not got anything except what everybody else should have which is clean water. They have not got anything -- I mean in the way of a facility, like a recreation facility. They just have a water system which everybody needs and frankly they as a community were having to do what perhaps we as a government would have done looking back in the first place if we had known what was going to happen. The other problem with that and it arose through the audit report of course, was when they started on the work the contribution we had agreed to give them, something over \$500,000 was nothing like enough and the estimates -- and it sometimes happens to us as well -- the estimates rose as the work went on and eventually finished up more like \$800,000.

CHAIRMAN (Mr. McCallum): Mr. Gargan.

MR. GARGAN: Mr. Moore, I just have one other question. For any capital projects if a community was to negotiate directly with the contractor is it a lot cheaper than using the Department of Public Works?

MR. MIKE MOORE: Not always, Mr. Chairman, no, but sometimes that has been the case. There is a feeling that if you are not so tied to government tendering procedures, if you are not tied so much to our financial arrangements which tend to be rather revealing of how much money we have and so on, that if you shop around on your own you can often do better. I think that has been the case in some communities with recreation facilities particularly. Some recreation facilities have been built at prices much much lower than we would have thought possible and our DPW would have estimated as being possible. In this case, perhaps there was a reference back to here. I do not think it was the case.

#### Misrepresentation And Unfounded Criticism

I think that probably a small town like Fort Simpson, very small, smaller than any of the hamlets, was probably not well placed to do that job on their own and probably, looking back on it, it would have been better if we ourselves as the Department of Public Works had built that water system for them. But on the other hand, and I should say for the record, I think it is perhaps, and through nobody's fault, misrepresented I think in the audit report. There is nothing wrong with the way that project was done. It is a very, very fine, sound engineering job and it stands up to any engineering inspection. For the size of the community and the staff they have and having to deal with engineers and so on, they did remarkably well. They have been much blamed, I think, for the overrun and so have we. But I think it would have happened to us as well and I would just like to say that for the record, Mr. Chairman. I think Fort Simpson was badly reported for what they did. I think they did remarkably well and they have done it since as well. They have done it with an arena which they have built with their own consultants and their own engineers and they have done a very good job. There were some criticisms of the consultant that they as a town had hired. Those criticisms were to do with his professional behaviour. The other thing that really ought to be said for the record because that was in the newspaper, is that his professional association totally cleared him of all those innuendoes and charges. I think that it is best to say that.

CHAIRMAN (Mr. McCallum): Mr. Hayes.

MR. HAROLD HAYES: Mr. Chairman, in connection with what Mr. Moore is saying we cleared the content of the report with him and if this was the case I think it would have been appropriate to have made that representation to us at that particular point in time because all that we are doing in this report really is based on the documentation that is available to us. I am just making that comment for the record because we want to stress that whenever we issue a report it is supposed to be agreed to by the department. We are only too willing to make changes based on documentation and I think it is appropriate to put this on the record. I think it would also be an appropriate reason to have made some representation to us. Possibly we could have modified the report at the time if this information was then available.

CHAIRMAN (Mr. McCallum): Mr. Moore.

MR. MIKE MOORE: Yes, Mr. Chairman, I was not meaning to criticize the report because at the time it was true that that consultant was being criticized by DPW and other people and it has been cleared since and that is all I really wanted to make clear.

CHAIRMAN (Mr. McCallum): I think the point is well taken that you work with what you have and that is where it comes from. Mr. Gargan.

MR. GARGAN: Yes, on this report, page 55...

CHAIRMAN (Mr. McCallum): You have a copy of it there, Mr. Moore.

Projects Not Completed At End Of Fiscal Year

MR. GARGAN: ...with regard to special warrants, under Local Government, it says, "To provide additional funds for various projects started in fiscal year 1982-83 but not completed until fiscal year 1984-85. Various dates, \$645,300." What were these projects? When were the special warrants issued for those?

MR. MIKE MOORE: Mr. Chairman, I am afraid I do not have them in front of me and I doubt if anybody else has, to list those projects. If I could just say the accrual system requires us to close off at the end of the fiscal year at the end of March and then to ask for a vote of new money for the new year in the case of a project which is not yet finished. That is what this is all about. I think the financial system requires this. I must say that that figure was quite high two years ago. This year the figure is very small. We have one example this year of a recreational facility in the Keewatin Region which has not been finished. It was due to be finished before March 31st but because of sealift problems and a couple of other reasons, it was not finished so we were left with work still to be done in this year which we had expected to finish last year. In that case it was \$280,000 so we are having to carry over work worth \$280,000. Unless we can find it from surplus funding somewhere else in the department, from money that is going to be thrown up as surplus from a project that does not cost as much as we expected, and \$280,000 is a lot to try and find, but unless we do, then at some stage this year we may again have to ask for supplementary funding. The money was not spent last year, it lapsed if that is the right way to put it, at the end of last year. It is just a requirement of the system, I believe, and Mr. Nelson may want to say more on this, that the money does lapse and that the money has to be revoted in this year. It is not more money. It does not mean that the project costs more. It simply means that the work that was meant to be done and scheduled to be done did not get done.

CHAIRMAN (Mr. McCallum): Mr. Nelson, do you want to comment?

Lapsing Of Funds

MR. JIM NELSON: Mr. Chairman, with regard to this lapsing of funds, it is a technical process but what happens is the project expenditures are not the level of the budget and as a result there is what we call a free balance at the end of the fiscal year. That budgetary authority in effect lapses for the difference between the actual expenditures and the approved legislative authority. In order to complete the project the following fiscal year if it is a continuing project, they require additional legislative authority and this is where the supplementary authority comes in.

CHAIRMAN (Mr. McCallum): I do not think we have any difficulty with the legislative authority. It is a difficulty with warrants. Mr. Gargan.

MR. GARGAN: I just have one final question. I am just wondering in this instance, rather than having the special warrants, whether this could have been included in the main estimates for 1984-85.

MR. MIKE MOORE: Mr. Chairman, I do not think so because we would not know until long after main estimates were done that the job was not going to get finished. We cannot forecast early enough work that will not get finished. I am afraid it is as simple as that.

CHAIRMAN (Mr. McCallum): Mr. Gargan.

MR. GARGAN: Mr. Chairman, I just wanted to find out. I know that there were 171 special warrants, including the special warrants for these on various dates. I would like to get some details on those special warrants.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, just on the special warrants that Mr. Gargan is referring to, I am wondering if that is a typo there that it seems they are skipping a fiscal year? Should that not read that the projects were not completed until 1983-84? Would it not make more sense?



CHAIRMAN (Mr. McCallum): That's correct.

MR. GARGAN: Yes.

MR. RICHARD: We will tell Mr. Ballantyne we found one more.

---Laughter

CHAIRMAN (Mr. McCallum): Any further questions? The business of progress payments that you have here within your appendix D agreement, section one, the Minister agrees for the purposes described to contribute to the recipient X amount. How do you develop those schedules, Mr. Moore?

MR. MIKE MOORE: They are agreed with the municipality on the basis of their contract arrangements. When they have struck a contract arrangement, have chosen the contractor and made the contract with him, what we want from them is a schedule of payment based on when the contractor will be making his claims, for progress payments against contractors claims. So in the case of a contractor working say, for the city of Yellowknife on a project that is not going to start until June, his first payment may not be until August and that is agreed with the contractor. By the end of June he will have done a certain amount of the work, a certain percentage of the work. If that work is finished by then, then he will be making a progress claim for an estimated \$45,000 or whatever it may be. That is why we have it in here.

CHAIRMAN (Mr. McCallum): But it is based on the percentage of the job completed?

MR. MIKE MOORE: Yes, that is right.

CHAIRMAN (Mr. McCallum): Is it a corresponding amount of the total moneys that is paid in progress payment? If he finished 20 per cent of the work, does he get 20 per cent of project?

MR. MIKE MOORE: The answer to that is I think so, Mr. Chairman. But if our share of that contract was 50 per cent, we would only be paying half of the 20 per cent at the time but I think that is right. That is the usual way for a contractor to go, that he estimates that he will have the first four streets lined with sealed pipes by a certain date and that phase of the work is going to cost so many hundred thousand dollars.

CHAIRMAN (Mr. McCallum): I guess that is the point I am getting at. Regardless of whether it is cost sharing or whether it is a total one, if there is eight percent of the project completed by a certain date, do you pay the corresponding percentage of that amount? I mean if he finished 20 per cent of the work, you are not going to pay him 30 per cent of the project. I guess that is what I am asking. How is it developed?

MR. MIKE MOORE: It is related entirely to his progress on the work. That is right.

CHAIRMAN (Mr. McCallum): It would seem to me that it should be that way if it is not.

MR. MIKE MOORE: No, I am sure it is.

CHAIRMAN (Mr. McCallum): I am suggesting that otherwise you have an overpayment and you run a risk.

MR. MIKE MOORE: That is what we are trying to avoid, of course, and we have taken that very much to heart.

CHAIRMAN (Mr. McCallum): Mr. Richard, do you have a question?

MR. RICHARD: So the obvious question then, Mr. Chairman, is how did this one happen in Yellowknife that is mentioned in the auditor's report?

#### Moneys Advanced To City Of Yellowknife

MR. MIKE MOORE: The one in Yellowknife, Mr. Chairman -- well, it would not happen again because of the new agreements we have developed. That is one answer to the question but the other really takes us back to Mr. Gargan's question. And again, I may need Mr. Nelson's support in explaining it but, Mr. Chairman, we suffer from the fact that the municipalities, the tax-based

municipalities, have a different financial year from this government. The tax-based municipalities start their expenditure on January 1st and so between January 1st and April 1st, when we start our year, they make many of the arrangements that we do not make in this government for ourselves until after January 1st. Mostly our contracts cannot be signed until after January 1st and we do not enter into agreements until April 1st. But the city of Yellowknife in this particular case had embarked on a program in their fiscal year and they required money up front in order to sign the contract. So we gave them between January and April 1st -- I do want to emphasize under the new agreements that we have now put into effect on your advice, this would not happen -- we gave them enough money to satisfy their contract but on March 31st they had to return it.

So it was not that the money was not needed or the job was finished but that our accrual system required them to refund to us all the money that was not spent in that fiscal year of ours. We gave them again on the morning of January 1st -- so this is not as blatantly stupid as it looks -- it was not that we were so careless that we gave them \$300,000 that they did not know how to spend, but that we gave them money for a contract which for them was ongoing. Half the streets were dug up and everything else. But our system required us to take back that money and to give them new money in the new year. I think that is all behind us now. I think the advice we have received from the Auditor General's office has put us on a totally different footing. In those days we were giving people accountable advances. We were giving the money in advance which we are not doing any more; giving them a big advance of money and they could account for it as they expended it. Of course, they were benefiting very much from having the money in their bank and not in our bank but it did mean that on March 31st if they had an outstanding advance, whether it was \$30 or \$300 or in this case \$300 and something thousand, we had to clear it, they had to clear it with us for our new fiscal year. I think, Mr. Chairman, it could not happen again under the new arrangement but it does remind me to say though that we will always have this awkwardness as long as their fiscal year is different from ours.

MR. RICHARD: Even I can understand that.

CHAIRMAN (Mr. McCallum): Pardon me?

MR. MIKE MOORE: Mr. Chairman, we have proposed in the new legislation that they change their financial year to suit ours.

#### Contribution Payment Schedules

CHAIRMAN (Mr. McCallum): Yes. Under the new Municipal Act. We talked about the progress payments. How about the contribution payment schedules? How do you develop? What are we using here?

MR. MIKE MOORE: The ones that are not capital for instance, Mr. Chairman, I mean contributions to hamlets, are done on a quarterly basis to coincide with their reporting to us on a quarterly basis under the Municipal Act. In other cases, a good example I think is regional councils. Why we took back the regional councils payment directive to change is that we thought that a quarterly arrangement with regional councils would be a perfectly good arrangement but in fact it is a perfectly bad arrangement from their point of view because their expenditure pattern tends to peak twice a year. They have two major assemblies and that is when their expenditures are. So we want to back off from paying them quarterly, we want to pay them twice a year.

In other words I think if it is a contribution for an ongoing expense of an O and M nature to a municipality or an organization, we would make our contribution agreement with them, the payment agreement to suit their cash flow. If their cash flow is reasonable and their activity is an approved activity, as in a case of regional councils, it seems reasonable that we would put our money on the table at the time that they needed it to pay their bills. This is really what we are doing with capital, but it is easy with capital of course.

CHAIRMAN (Mr. McCallum): Are there further questions of the witness Mr. Moore? Any comments from the Auditor General? No further questions. Mr. Moore, again I would just like to indicate to you that we are pleased to see what you have done and would hope that you are going to be able to get the approval from FMB, so that there is something coming back to you, so that we really know what is going on and we do not run the risk of having programs without having the proper funding authority for it. I think what you have done with your contributions and grants and what you have done as far as the main estimates are concerned is quite commendable. I want to make sure that that is on record as well, because we have had good response from your department in this instance.

MR. MIKE MOORE: Thank you, Mr. Chairman.

CHAIRMAN (Mr. McCallum): If there are no further questions then, I would like to adjourn this hearing until tomorrow afternoon at 1:30. For your information, Mr. Nelson, we intend to deal with Education, Public Works and Highways and the Housing Corporation tomorrow afternoon and in that particular order. We may have a problem with Education. I wonder if that material -- it is completed now -- that is for our own benefit I guess. But, again Mr. Moore, thank you very much. If that is okay with you, Mr. Nelson, that is what we intend to do tomorrow afternoon. Thank you, Mr. Barrett and the Auditor General people, for this afternoon. So, I will adjourn the meeting until 1:30 tomorrow afternoon.

---ADJOURNMENT

YELLOWKNIFE, NORTHWEST TERRITORIES

WEDNESDAY, MAY 29, 1985

CHAIRMAN (Mr. McCallum): As I indicated yesterday, this afternoon we will be dealing with the Department of Education, the Department of Public Works and Highways and the Housing Corporation.

Department Of Education

I would like to call on the first witness for the Department of Education. For the record, Mr. Lovely, would you introduce yourself and colleague? I ask you to pull your mikes close because we record these remarks. Rather than getting into a conversation back and forth, we are going to have to attribute proper remarks to the proper individual so I may preface it every time by calling you by name in order to get some response from you. I have three Members here from the committee, we expect other Members to be here as well and we have representatives from the Auditor General as well and of course from your own government's Finance department. If you have an opening statement, Mr. Lovely, you can do that after you have formally introduced yourself.

MR. KEN LOVELY: I am the acting deputy minister of Education. I would also like to introduce Cornnie Hunchak, who is the acting chief of finance and management services. I do not have an opening statement, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Lovely. What we have been doing is going through, as it were, follow-up questions to the department because we are dealing with the report on "Any Other Matter" of the Auditor General. There are a number of areas that were highlighted in his letter on "Any Other Matter": the student financial assistance supplementary grants; Students Loan Fund; policies and procedures of student financial assistance; the catering contract at Thebacha College; grants and contributions; recoveries under the occupational training agreement with Canada. We would like to go through a number of these with you. There will obviously be some questions and comments and we would like to get something back and forth.

Student Financial Assistance

Under the first two recommendations, if you are following along with the same program or music sheet that I have, it dealt with financial assistance supplementary grants and living allowance rates. There were two recommendations made about their retroactivity to make it legal if you like and, of course, to define the week -- from a five to a seven day week. I recognize that these regulations have been amended and they have been promulgated as such. Approval has been given for both of these.

As regards the third recommendation, that "Regulations should be amended to recognize that the living allowances are payable at DIAND rates with the approval of the Executive Council", you had agreed to that. We had asked whether they had been amended and you have provided the response that they have been. These have been promulgated and we have received a copy of them. You had indicated in that note as well, that in any future adjustments the government will establish rates it considers to be equitable and fair for students regardless of what DIAND established. And I guess you would want to put forth your own -- stand on your own as it were. Do you have a comment on that?

MR. KEN LOVELY: That is correct, Mr. Chairman. We had originally felt that it would be appropriate to use DIAND rates. However, when we reviewed it in some detail we felt that it would be more advisable to take into account our own conditions rather than just following DIAND's practice.

CHAIRMAN (Mr. McCallum): I just have one question on this, if I may. I guess it is nitpicking to a degree but just for our own information, what really is the rationale for a single student getting \$120 per week and a student with one dependant getting \$151 but if you go from one dependant to two dependants, you receive \$12 more; if you go from two to three, you get \$10 more and from three to four you get an additional \$11? Why wouldn't that be a consistent amount? It seems rather weird that you would increase the amount for one by \$12, the next one by \$10 and the third one by \$11. Why would you not have made it \$11 on each one, for example?

MR. KEN LOVELY: In this case, Mr. Chairman, we actually did utilize DIAND rates and I am not really too sure what their logic was in the establishment of those rates. Although I am sure it is scientific.

--Laughter

CHAIRMAN (Mr. McCallum): I guess it was one of the things that struck us -- as you add an additional dependant, you get \$12 more, \$11 or \$10. I do not have any difficulty going from \$120 to \$151 but from \$151 to \$163 -- and again, you know, I would have thought it would have been easier, if we are going to use a seven day week, rather than get a weird amount broken down by a daily amount so that a figure would have come out fairly even that would have been divisible evenly by seven.

MR. KEN LOVELY: Mr. Chairman, I believe that these rates were increased by DIAND in all likelihood by a percentage. The rationale for the initial establishment of the rates I am not aware of but I think it highlights the advisability for the GNWT to be able to step outside those levels when we feel that they are not appropriate for NWT students. Especially if it does not make sense in terms of the differences between one level and the next.

CHAIRMAN (Mr. McCallum): It just struck us as rather weird. Okay, we can move on to the next comment that dealt with living allowance calculations as well. And the recommendation being that the regulations should be amended or directives prepared and approved to clarify the correct method of calculating living allowances. You agreed to that and a directive would be prepared and issued by April 1, 1985. We had asked if it had been issued and could we have a copy? The financial review board is developing an official board policy covering the correct method of calculating student living allowances and it will go to the review board at the next full meeting in June for final approval. You provided as well in an appendix G, the particular paper on it. Is this the final draft of that policy?

MR. KEN LOVELY: Yes, Mr. Chairman. It is the draft which will be presented to the board for approval. They may decide to make modifications but it is our best guess at what we will be using after June.

CHAIRMAN (Mr. McCallum): Appendix G is the paper that will be going to the review board.

MR. KEN LOVELY: Yes, Mr. Chairman.

#### Supporting Documentation And Payment

CHAIRMAN (Mr. McCallum): Thank you. We will move on to the next item. It is supporting documentation and payment. The recommendation is that payments with respect to living allowances paid to students should be adequately supported by detailed calculations to facilitate verification, etc. You agreed. The ledger sheets that show the calculations are now being maintained for each student. We have queried from what date the ledger sheets are being maintained and with what information and you have given us a list of the information on it. You indicate in your response that the finance section of the Department of Education has always maintained ledgers on the program for tax purposes. With the financial information system that is available throughout the government now I guess our concern is, why the duplication? You could pull that information I am sure. Mr. Nelson, could you not pull that information through your FIS system?

MR. JIM NELSON: Mr. Chairman, I am not sure without reviewing the system itself. There are some additional information items that are required for student cards and I do not think our financial system could deal with those things.

CHAIRMAN (Mr. McCallum): I guess I am referring to the department itself keeping a separate ledger for tax purposes. You would get that out.

MR. JIM NELSON: Mr. Chairman, the financial information system does have a flag for tax reportable payments. Yes.

CHAIRMAN (Mr. McCallum): So this could be a duplication of it?

MR. JIM NELSON: That is a possibility.

CHAIRMAN (Mr. McCallum): I think that is a concern that we would have here obviously if there is a duplication that is not necessary. Perhaps you would review that and maybe have the individual or individuals who are dealing with that -- if it is part of a duty that is not necessary.

MR. KEN LOVELY: Yes, Mr. Chairman, we will review that and try to eliminate any of the duplication that might exist. I know that at the present time the records maintained by our finance section include items which it is not possible to identify from FIS. There is also a bit of duplication between our finance section and our student financial services section which are located on separate floors of the same building. So for immediate access we have two records in the department and there may be some duplication there which we can delete.

CHAIRMAN (Mr. McCallum): Fine. Any comments from other Members on that item or others? The next recommendation dealt with grant payments. The recommendation is that regulations should be amended or directives prepared and approved to prescribe the conditions under which allowances may be paid in advance. You agreed that they will be amended and you have indicated to us in your response to questions we have had that they have been amended and they have been promulgated. So again, if there is no comment there on it -- you have moved in that area.

#### Students Loan Fund

The next area deals with the Students Loan Fund and gets into the problem of eligibility. The Auditor General's office had indicated an example of something that went wrong on eligibility. I am not too sure who was before the PAC meeting last year dealing with that when it was raised. There was some discussion and not very much coming together as to what went on. It was raised then because in this case the reason for the eligibility for this student loan was dependency and a recommendation suggested that the regulations should be clarified and revised to more adequately define loan eligibility requirements, particularly with respect to dependency and residency requirements. Now, as a result of that you have a legal opinion from the legal counsel of the government indicating that it is not dependency any more but it is residency. So, I guess the recommendation does not hold any water since you now agree with the observation of the Auditor General that it should be residency rather than dependency. But you have indicated in your responses and you refer to the legal opinion that Mr. Marshall, the legal counsel, had given, but it raises some concern.

#### Legal Opinion On Eligibility

In his letter to you, Mr. Lovely, which is under appendix I, on the last page of his letter, second paragraph, beginning with "Looking at the period of time immediately before registration", he says, "I can perceive various situations which you may wish to consider if you have not already done so. For example, an applicant may leave the Territories one year and 11 months prior to registration, an applicant may have lived in the Territories for a lengthy period of time but then returned and takes his grade 12 here, or an applicant whose family is in the Territories who may attend southern schools for his high school training and may, at most, spend his summers here." In your response to the questions on eligibility, in your last paragraph on page eight of the comments, you tell us, "No, the regulations are not to be amended. They are quite acceptable and adequate for all concerned, including the administration." I wonder if you can reconcile that statement with, in fact, Mr. Marshall's comments in that paragraph.

MR. KEN LOVELY: Yes, Mr. Chairman, I had a little difficulty getting to the second last paragraph. It is quite a lengthy legal opinion.

CHAIRMAN (Mr. McCallum): Yes, but that points out something in itself though, does it not?

MR. KEN LOVELY: Yes, it does. The way that we have interpreted his legal opinion is that in that second last paragraph or third last paragraph, he is indicating that we should recognize that dependency need not necessarily be continuous but that he is outlining those situations which might

be acceptable in the department's review of dependency. Our concern in obtaining the legal opinion was to address a specific situation. However, we had a number of concerns that related to more than that situation, one of them being, is it necessary for an individual to reside in the Northwest Territories for two full years immediately prior to applying for enrolment? The legal opinion clarified the content of the legislation to the effect that it was not necessary. I guess considering the length of the legal opinion, it was necessary for him to look into this matter in some detail before giving us a final opinion and that may mean that it would be wise to look at the wording of this clause when we are looking at an overall revision to the regulations, to simplify it and to clarify so that there is no ambiguity.

CHAIRMAN (Mr. McCallum): I guess the point is that if you have told us, no, you are not going to amend the regulations, and the letter and you yourself now indicate that there has to be some kind of looking at it, I guess that statement you made that you are not going to amend the regulations or look at them is erroneous because if your own legal counsel is not sure of the regulation, what the hell is happening with the people outside?

#### Revision Of Regulations

MR. KEN LOVELY: Mr. Chairman, I think we might have been a bit more clear in the way that we responded to the observation. It is our intention to look at the regulations in total, to delete some of the material which no longer relates, to clarify many of the sections which are ambiguous and to do it as a major project, rather than addressing individual clauses within the regulations. Perhaps we should have included that in our response to the recommendation.

CHAIRMAN (Mr. McCallum): Mr. Pedersen, did you have a question?

MR. PEDERSEN: Mr. Chairman, I have some comments to follow up on yours. First of all, do I then understand perhaps it should have said, "No, the regulations are not to be amended but to be totally revised." Perhaps that is what it should have read.

MR. KEN LOVELY: That is correct.

MR. PEDERSEN: Well, that certainly satisfies a lot of our concerns. Because when it goes on to state that the regulations are quite acceptable and adequate for all those concerned, I think we would wish to exclude our committee from that acceptability and perhaps a few other things. But in view of the answer that they are in fact to be revised in total, I have nothing further.

MR. KEN LOVELY: Mr. Chairman, we have had difficulty with this major revision to the regulations because of the fact that other major projects have taken up the time of our legal draftspersons. They have committed themselves though to move on this project within the next few months and I am confident that we will have a better product the next time the public accounts committee meets.

#### Intent Of Regulations

CHAIRMAN (Mr. McCallum): Leading to that review, I would just like to get some kind of idea as to what the intent is. If I have children, if I decide that I would rather have them take their high schooling out of the Territories, but they come back during the summer, is it the intent of the legislation and therefore the regulations, policies and everything that goes with it, to exclude them from eligibility for loans?

MR. KEN LOVELY: I do not believe it was the intent to exclude those kinds of people. The way that the regulations have been written, those summer periods would all have to be accumulated to make up two years before they would be entitled to the assistance, but I do not believe it was the intent to exclude them. When we originally looked at this clause, in the case of the individual who received the loan erroneously, we did base our decision partially on intent, but after a legal review of the clause, there really was no leeway for that liberal interpretation of the clause.

CHAIRMAN (Mr. McCallum): What if my child or children, when they are outside taking their education, do not come back during the summer? Would they be excluded from being eligible for a grant?

MR. KEN LOVELY: At the present time, Mr. Chairman, unless they had resided for a period of time during the preceding two years, they would not be eligible.

CHAIRMAN (Mr. McCallum): So the intent again would be that they would be excluded.

MR. KEN LOVELY: I do not know if the intent was that but the wording of the regulations suggests that.

CHAIRMAN (Mr. McCallum): Are Metis people involved in the same way as the Dene and Inuit people?

MR. KEN LOVELY: Yes, they are eligible for supplementary grants rather than the loans.

CHAIRMAN (Mr. McCallum): So you are talking about a redraft of these regulations rather than just simply a review of them or to amend them, to tape them up to look after particular contingencies -- there may not be as much haste in putting them together as there was previously.

MR. KEN LOVELY: That is correct, Mr. Chairman. We amended some of the regulations on an urgent basis to comply with audit observations on the one hand but to correct some anomalies that just would not have allowed us to administer the regulations otherwise.

CHAIRMAN (Mr. McCallum): In the case of the individual who was given the eligibility that you now agree was wrong, is the individual now repaying that?

MR. KEN LOVELY: Mr. Chairman, I looked into that in some detail to determine whether it would be possible to take any action. I went so far as to even obtain a legal opinion. The individual completed his studies and worked in the Territories for a period of time sufficient to allow him to have his loan remitted. Because we had not at any point gone back to that individual to notify him that the loan had been granted in error, we have checked with legal counsel who indicate that -- and in fact before I go on, the person worked in the Territories long enough, and is still working in the Territories, to satisfy the remission requirement for the Government of Canada. In looking at it from a legal point of view, it was felt that we would not have the sympathy of the court to take any action and the fact that the individual is working in the Territories has benefited the Northwest Territories in some way.

CHAIRMAN (Mr. McCallum): Any comments? Mr. Gargan.

MR. GARGAN: Thank you, Mr. Chairman. With regard to the regulation, you mentioned that they are going to be changing it. I am just wondering if the residency clause might be challenged under the Charter of Rights and if you had that in mind when you said you were going to be revising the regulations.

MR. KEN LOVELY: Mr. Chairman, I believe that there is sufficient identification of the supplementary grant provisions in the regulations to allow us to consider it in the affirmative action program which would mean that we would not have any problems -- I should not say "no problems", but we would not have any successful challenges to the validity of our regulations. That remains to be seen, I guess. The main reason for the revisions to the regulations is that the regulations were put in place somewhat quickly as a result of the enactment of the ordinance and they are a combination of the regulations which were in existence with the previous ordinance and the new one. Some parts of the regulations almost represent catch-22 situations so those have to be rectified in order to provide reasonable benefits to people under the ordinance.

CHAIRMAN (Mr. McCallum): We are pleased to hear that you are going to go through a redrafting of them because hopefully it will eliminate some of the difficulties that you have and we are confident that the capability of the draft work by legal counsel now is in a better situation than it has been in years past. So I would expect that there will be a better job done on them.

The next recommendation is taken away because of what you have just indicated. That is "documentation being on file to support dependency status". That has been corrected because now you concur with the Auditor General's observation that the key factor is the residency rather than dependency.

#### Performance Reviews Before Further Loan Payments

The next area deals with part-time students. It was noted that financial assistance is awarded only to full-time students at an approved institution. In any other case the board can award assistance to a part-time student, subject to certain conditions. The recommendations dealing



with this indicated that the board should review all cases of unsatisfactory performance before loan payments are made and such reviews should be evidenced in minutes of board meetings. You agreed to that and that the board will review the relevant transcripts before loan payment is issued and the reviews will be documented in the minutes of the board.

We asked you then what procedures are followed by the department for the payment of the second instalment and would the board be provided with advice from the university in respect to the courses dropped by the student in addition to transcripts, or do the transcripts suffice as notice. You indicated that student transcripts, confirmation of student enrolment form and a course timetable are required before the second loan instalment would be paid or issued and that transcripts serve as notice whether the student is successfully maintaining 80 per cent of a full course load. The questions I have here are -- how are these decisions concerning this financial assistance communicated to students? Is it the same method that is used to convey decisions regarding other forms of financial assistance? Is there a different form or just how is it done?

MR. KEN LOVELY: In the attachments to the responses are copies of a form letter, one of which is dated 28 March, 1985. I should tell you that I have reviewed that since the submission was made and that we have amended that system. The letters of response to students -- I have copies of them which I could provide to you, which I will provide to you, but the system basically requires the staff of the student financial assistance area to notify the individuals formally that there is a possibility that their assistance will be reviewed with a view to dropping it, notifying them of the alternatives, at which point it is referred to the board for review. Once the board makes a decision the student is notified formally again of the board's decision and of its implications.

CHAIRMAN (Mr. McCallum): Yes, we would be pleased to get copies of those, if you would. Is the notification oral or is it written?

MR. KEN LOVELY: Formal notification, written...

CHAIRMAN (Mr. McCallum): It is formal notification in the form of a letter.

MR. KEN LOVELY: Right.

CHAIRMAN (Mr. McCallum): That is in relation to the second loan instalment. Is that correct?

MR. KEN LOVELY: Mr. Chairman, it is also a system which is in effect for other forms of assistance.

CHAIRMAN (Mr. McCallum): Living allowances?

MR. KEN LOVELY: Yes.

CHAIRMAN (Mr. McCallum): So, this system is not just for loans for the second instalment as it were, but for the living allowances as well.

MR. KEN LOVELY: Mr. Chairman, all students are required to provide proof that they are successfully completing that 80 per cent of the load and the system is in effect for all.

CHAIRMAN (Mr. McCallum): Just further, if there is overpayment, what system do you have in effect to get back the overpayment, to recover it?

MR. KEN LOVELY: Mr. Chairman, that varies, I guess, depending upon the individual. The individual is normally notified that there has been an overpayment and that either the money must be returned or that it will be deleted from succeeding payments. In the case of an individual who is no longer eligible for sponsorship, we require that person to repay rather than to have any further payments deleted.

#### Subsidiary Loan Records

CHAIRMAN (Mr. McCallum): Does anybody else anything on that issue? Perhaps then we can go into the next area which dealt with subsidiary loan records. Suitable records had at the time of the comments not been established. Existing records did not indicate essential information such as dates of issuance of loans, repayment dates, etc. So the recommendation was that adequate loan

records should be established and maintained to provide proper control over the loans and you agreed that it is being done now. We have asked, then, whether that meant there was a separate loan record kept for each student and to give us a copy of the most recent reconciliation. You have indicated in a response that the student loan file is maintained until the loan has been repaid. It then is put in an inactive file because of the possibility that that student may come back again. The file of record includes confirmation of student enrolment and all these other things that we have listed here. You as well I think provided us with two examples of the account reconciliation. I think both of them are the same. Just for my own purposes I guess, if they are the same how come the different numbers?

MR. KEN LOVELY: They are not the same. They are 1404.

CHAIRMAN (Mr. McCallum): I am sorry. Right, one is 1405...

MR. KEN LOVELY: Right, and the 1404 is the general ledger account which holds all the students' accounts while they are out in school and receiving loans; 1405 is when they return or go into an actual loan repayment schedule. They are both part of the Students Loan Fund but they are sort of separate general ledger accounts within FIS.

#### Loan Agreements

CHAIRMAN (Mr. McCallum): Any questions on that, Members? Okay, we can move on into the next area which deals with loan agreements and the recommendations here are that these agreements should be executed as soon as possible for those loan recipients who should be making loan repayments. You agree. Arrangements are now under way to enter into consolidated loan agreements with recipients required to make loan repayments and procedures for collection of loans should be developed and you again indicate the procedures for the collection of loans would be developed prior to April 1 of this year. We asked a number of questions. How many agreements have been entered into? How many are still to be done? When will these agreements be brought up to date? Have you developed procedures for collecting them? We had asked you to provide details. You indicated to us that there are 285 consolidated loan agreements. There are no outstanding agreements still to be done as of February. Does that still hold true?

MR. KEN LOVELY: Mr. Chairman, in all likelihood in the near future we will be sending further 60.

CHAIRMAN (Mr. McCallum): You indicate that if the student has not returned his agreement he gets his name and file put in the collection department and you have got the head of Finance out for action. I guess here there could be some difficulties. It would seem these agreements set out interest rates and everything else. They are done monthly. What interest rate is what? Prime less one or prime plus one?

MR. KEN LOVELY: Prime minus one.

CHAIRMAN (Mr. McCallum): Prime minus one and you have to reconcile that every time a payment is made.

MR. KEN LOVELY: Yes.

CHAIRMAN (Mr. McCallum): Does that not seem a little too laborious?

MR. KEN LOVELY: Mr. Chairman, the way the regulations were written at one time it required us to amend the interest rate almost at the time of every payment. With the current system, given the changes to the regulations, we are only required to establish an interest rate at the time that the agreement is entered into and that is a one-time interest rate. That is prime less one.

CHAIRMAN (Mr. McCallum): The regulations had been amended to take that in so that when the agreement is put into place there is a set interest rate then. It does not float any more.

MR. KEN LOVELY: That is correct, Mr. Chairman. That is an example, Mr. Chairman, of the urgent requirement to make immediate changes so that we did not have to hire a dozen more people to monitor the interest rates.

CHAIRMAN (Mr. McCallum): I was going to say you would need quite a number to keep that going. Again, I think if that is the case then of course in your new draft of regulations it would be more explicit.

MR. KEN LOVELY: That is correct, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Do the current regulations provide for the setting of the interest rate at one point in time or do the regulations have to be amended to provide for that?

CHAIRMAN (Mr. McCallum): Mr. Lovely.

MR. KEN LOVELY: Mr. Chairman, the regulations have already been amended to allow us to set that interest rate and provide details of the timing of it.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: I take it that amendment was recent. I understood that the regulations provided for that monthly change, if you will. So has the amendment been done recently?

MR. KEN LOVELY: That is correct, Mr. Chairman. The amendment was completed, I believe, in April.

#### Remission

CHAIRMAN (Mr. McCallum): Thank you. The next area deals with remission. And, of course, again when these comments were made you did not have these forms. Remission of loans had not taken place for eligible borrowers, again because of either a lack of foresight in getting these things done or having the whole thing come together too quickly for you people to react to it. But at least again the recommendation was that the application forms for remission should be made available as soon as possible so that the backlog of applications that the Commissioner would have to consider for remission would be minimized. You have agreed to that. The forms have been made available to borrowers and are now being processed. And you say remissions should be on a current basis in 1985-86. We have asked, how many of these application forms have been issued? How many have been completed? When will these be up to date? You have indicated that they are done by personal letter to each individual student. The letter, an information brochure on student loans and a consolidated loan agreement is sent to students who have or are completing their educational programs. And 69 remissions have been approved to April and 13 have been denied and no outstanding requests for remission exist as of April 25, 1985. Does that still hold true?

MR. KEN LOVELY: That is the current situation, Mr. Chairman.

#### Policies And Procedures, Student Financial Assistance

CHAIRMAN (Mr. McCallum): Thank you. The last area dealing with this particular part is policies and procedures of student financial assistance. It has been an observation of the Auditor General that there should be a manual developed to administer all types of student financial assistance. A manual is needed to deal with interpretation of the regulations and establish procedures and records to properly operate and administer the ordinance. And so the recommendation was that. You agreed. You indicate that a subcommittee of the student financial review board has been established to decide on the policies and procedures and the manual to be completed by April 1, 1985. We had asked you whether the board had determined the policies and procedures to be included. We wanted details of it and if the manual is completed and if it is not, when would it be. You have indicated that these policies and procedures are in the initial stages of development. You have a standing committee appointed by the board that has begun work on it. Do you feel it is going to be ready for the review board in June? It is not completed. Because of a high workload in that particular section of the department you are not able to get going on it. Has anything changed from there?

MR. KEN LOVELY: No, Mr. Chairman. The original response to the recommendation indicated an April 1st completion date but we underestimated the amount of work which was involved in that, especially given the requirements to catch up with the outstanding loans and remissions and to make the major amendments to regulations which are now required. Our current estimate on a final completion date of this is as far down the road as two years. Mr. Chairman, the development of the policies and procedures manual is important but is not currently denying anyone any benefits.

CHAIRMAN (Mr. McCallum): I guess what I was going to ask is that we get a copy of the manual after the board meeting in June. But if it is going to be two years down the road, I am not too sure I will be around.

MR. RICHARD: Mr. Chairman, I wonder if we could have a more detailed explanation of that. Is it that there are only so many bodies working in that part of the department and those bodies have what is deemed to be higher priority items to work on in the next two years? Is it not something that could be contracted out. Can the department not find the funds to let such a contract? It seems to be one of those things and a policy and procedures manual is so basic that if the section is overloaded with work, maybe proper procedures would alleviate that situation and make the workload lighter if it were in place. Two years I find is just too long.

CHAIRMAN (Mr. McCallum): Mr. Lovely.

Reasons For Delay In Development Of Manual

MR. KEN LOVELY: Mr. Chairman, part of what we are experiencing now is an historical problem. The current regulations are a mix of what was in place prior to the establishment of the current act and what was in place beforehand. That was a system of grants which required no follow-up. It was a straight grant system. The department is reacting at this point to an act which requires not only that loans be followed up and that consolidated loan agreements be entered into, but that a complicated system of records be maintained to determine or to track the forgiveness of those loans. What we have been dealing with over the past year since the last audit is an almost total mobilization of our forces to come to grips with the audit observations so that we fulfil our obligations to collect loans, we do not delay the remission of loans when that is necessary and that we also fulfil our responsibilities for counselling post-secondary education students. The department has already made a submission for additional staff in the loans area to take on responsibility for maintenance of records and collection of accounts and we have built into the operational plan additional staff to support us in that area. However, the addition of those resources is going to come on over a period of time. That is what is complicating the establishment of the policy and procedures manual.

At the same time we are coping with a problem of records maintenance and we find that with the volume of applications that we are receiving, we have had to computerize our record system. That is now taking almost all our efforts so that the review boards can cope with the volume of applications which they receive. So, it is not to say that nothing is happening in terms of documenting procedures because the computer system does that to a certain extent. It is just that we have not been able to get the actual policy and procedures manual because of these other commitments.

Your suggestion with regard to letting a contract would perhaps be valid in many situations but the contractor would have to depend for his information on the feedback from the employees who are so actively involved in other things that it would make life very difficult. They are already working extremely long hours, particularly during the period when applications are submitted.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Lovely. Mr. Hayes, you had a comment.

MR. HAROLD HAYES: Mr. Chairman, I think the explanations given by Mr. Lovely are reasonable in the circumstances. At the same time, I would like to stress in the light of what has happened and the changes that have taken place, it might be appropriate to see what you can do to get the manual done in say, less than a two year period, depending on how it goes, whether you get the staff. I think it would be more beneficial to the department itself.

MR. KEN LOVELY: I think my statement with regard to two years was sort of far ending it. We will make every effort to bring that forward and I think that we have a fairly good chance of success for additional resources because of the legal requirement to follow up on these loans and then collect government funds.

Catering Contract, Thebacha College

CHAIRMAN (Mr. McCallum): Thank you. Questions? Comments? Well, that finishes that particular part. We will move into another area now and that area is, of course, the catering contract at Thebacha College. We would like to get some kind of an idea of basically what the status of this

contract is at the current time, including the arrangements that have been made with the current contractor. In the comment that is made as a preamble to the recommendations there is a sentence that begins "The deputy minister at that time". Do you see that statement? I just want to clarify the intent of what was said. The sentence says "The deputy minister at that time recommended that this contractor should not be used." I think what was being said here was that the deputy minister was not recommending that particular bid. Was there any intent to cast aspersions on the contractor or was it just because the deputy minister was recommending that it was not the low bid therefore it should not be taken?

MR. KEN LOVELY: Mr. Chairman, it was not intended to reflect on the credibility of the contractor. It was merely that the deputy minister felt that it should have been the lowest bid.

CHAIRMAN (Mr. McCallum): I just wanted to get that straight because you could read something else into it that should not be read into it. Mr. Dubois.

MR. RAYMOND DUBOIS: Mr. Chairman, I just want to confirm that the sentence was not totally accurate and it should have read "The deputy minister at that time recommended that the lowest bid be accepted."

MR. KEN LOVELY: That is correct, that is the wording that should have been inserted in that area.

CHAIRMAN (Mr. McCallum): Back to the original question. Can we get an update? What is the status of the current contract? What arrangements have been made with the contractor? The original contract was given out in 1980 for two years with a further two year option. In 1982 the option was picked up and extended for two more years with an option for how many more years, one or two?

MR. KEN LOVELY: For two further years.

CHAIRMAN (Mr. McCallum): So then it carries through until 1986. Do you have any other comments about it?

MR. KEN LOVELY: Mr. Chairman, the catering contract with the current contractor was reviewed in some detail at the time of the renewal. You are correct that a clause exists in the contract to allow for a two year renewal if the contractor wished to take advantage of that option. The department reviewed that in some detail because the observations of the Auditor General's staff indicated that we should be taking some fairly definitive action to cancel the contract on 30 days notice, rather than renew it. We took a look at the legal factors that were involved, weighed the legal advice that we received against the situation at the college and decided that we did not have a lot of choice but to allow the contractor to renew the contract.

The infamous renewal clause was deleted so that at the end of the contract in 1986, there will be no option for further renewal. It will be tendered. The college director negotiated with the contractor to reduce the guaranteed meals, as that was a provision of the contractor which did not appear to be reasonable to anyone, given the experience that we actually had with students taking meals at breakfast, lunch and dinner. The contract was increased by six per cent which represented more of a cost of living increase than anything else.

The meal guarantees were reduced from the 95, which was in the former contract, to 80 for breakfast, 90 for lunch and 90 for dinner, which more accurately reflected the actual experience we were having. The performance of the contractor has been acceptable. The quality of the meals has been good but that is not to say that we have not had complaints about the meals because I do not think anyone is ever completely satisfied with all the cooking. We are satisfied at this point that the contract is fair and that we will put it out to tender when this one expires.

CHAIRMAN (Mr. McCallum): In August of 1986. The original 1982 contract, you had increased the number of meals then from that time, you went up to 95 then. With the taking of the option by the contractor for the last two years, you have worked out a deal for a reduced number. Mr. Gargan.

#### 30 Day Termination Clause

MR. GARGAN: Thank you, Mr. Chairman. The contract has a clause in there that the government or the contractor could terminate the contract with 30 days notice. I believe the contractor did take the government to task on that one when they said they were going to terminate their contract if they did not increase their guaranteed...

MR. KEN LOVELY: That may very well be correct. I know there were some fairly high feelings at that point over whether or not the contract was equitable. One of the problems that the contractor faced and which the college administration faced was that when this contract was let it was in the very early developmental stages of the campus in Fort Smith. It was just being converted from the Adult Vocational Training Centre to Thebacha College and it was difficult to predict whether or not the guarantees that were in the former contract were really adequate. So there really was quite a bit of discussion over whether those guarantees should be increased.

MR. GARGAN: Thank you, Mr. Chairman. I wonder if that clause could be revised so that it might say 90 days rather than 30 days because it does not give much time, especially if the contractor wants to take the government to task. The government really has no option but to go with whatever the contractor is demanding.

MR. KEN LOVELY: Mr. Chairman, I believe that the 30 day clause is a standard one in most government contracts. We could look into an increase in the length of time which could go into the next contract.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, as you know we have discussed this termination clause in our meetings before and really for the record I would like to differ with Ken that it is a standard provision. I do not think you have to be a Philadelphia lawyer to figure out a two year catering contract with a 30 day termination clause at the option of the contractor is not a two year contract at all, it is a 30 day contract. Precisely that happened here, as we are told, somewhere in the middle of the two years. The contractor comes along and says he does not like the payment clause and "Unless you change it I am going to give you notice on your termination clause and 30 days from now we will not have a contract." That is precisely what it means. Although it is a standard clause, a 30 day termination clause is used quite often in contracts but you do not put it into a contract where one party promised to do something for the next two years. It makes it meaningless. It could be a 50 year contract because if there is a 30 day termination clause in there the guy can walk after 30 days or on giving you 30 days notice.

The point that Mr. Gargan raised -- if you extend it to 90 days then if the government is held to ransom by the contractor, at least you have more planning time to replace the contractor, to go to tender, if you will. Personally I do not think it belongs there even if it is 90 days. Unless the notice says two years it is meaningless. It defeats the reason why government enters into a two year contract. It is so that you have that administrative matter put to bed for the next two years. If you are going to have a gun to your head on a 30 day clause you do not really have a two year contract. So I would simply ask, Mr. Chairman, that perhaps Mr. Lovely could have that matter looked into.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Richard. Dealing with a 30 day clause may be a non-performance 30 days. If the government is not satisfied with the performance possibly then you may have to do something but regarding the point Mr. Richard makes, would you like to comment on it?

MR. KEN LOVELY: Mr. Chairman, not in any detail. I appreciate that solid advice and I will look into it.

CHAIRMAN (Mr. McCallum): Mr. Pedersen.

MR. PEDERSEN: Mr. Chairman, just a short question. What was the number of meals guaranteed before it was increased to 95? What was the previous number?

CHAIRMAN (Mr. McCallum): Mr. Lovely.

MR. KEN LOVELY: Mr. Chairman, I am not sure what that previous guarantee was. Mr. Chairman, my notes tell me that it was 75.

CHAIRMAN (Mr. McCallum): I guess the obvious question and whether you can answer it or not, is why were they increased to 95 when it was renewed in 1982? Was it because of what Mr. Gargan indicated?

MR. KEN LOVELY: Mr. Chairman, I am not familiar in real detail with that. I can only speculate that it was the view of the contractor that things were going to expand dramatically but I cannot say that that is the actual reason. I do know that there was quite a disagreement on the level of guarantee. I can look into it.

Documentation Necessary

CHAIRMAN (Mr. McCallum): Just to go back a little bit to this whole business of giving a contract to other than the low bid. The comment was made and the observation was noted that in fact the documentation for that was lacking. I know there are new regulations being established by the government for contracting, etc. and the actual provisions or the actual section is section four of those regulations. I know that there is a procedure being used by government wherein if a contract other than the low bid is going to be used, there is a procedure whereby it has to go up through into the Executive. I remember Mr. Nelson commenting on it yesterday and there is a decision made at that level for it. I guess the concern I have is that under those new regulations that have been developed by the government there is a loophole -- the urgency, the single source as it were of a contractor. I think what we are trying to get at here is that if in fact government is to enter into an agreement with a contractor other than the low bid, there should be ample documentation available for such a decision. And the observation was made in the past and in this case there was not that.

A comment or whatever it was from the then deputy minister that he would not recommend the present contractor because it was not low bid, or he wanted to recommend the low bid, I guess that is the difficulty that we had. There is a need for documentation and not just a reference back to the clause in the regulations. We are saying that it is not good enough. We are saying that documentation should be there because you have a loophole, there is no question, within your regulations. Single source, there is an urgency. I think there is one other phrase in it. I am not sure what the third one is. Oh, under one thousand dollars. That does not apply here. What we are saying in this, and maybe it is not so much to you, Mr. Lovely, but certainly to Mr. Nelson, is that the committee believes that there should be further documentation and not just a reference to the section of the regulations. And I think we concur with the Auditor General's observation in this regard. I think that is consistent with what their observations have been as well. Is that not so, Mr. Dubois?

MR. RAYMOND DUBOIS: Yes, Mr. Chairman.

MR. RICHARD: He doesn't call the loopholes.

CHAIRMAN (Mr. McCallum): Well, maybe that is the wrong terminology and not quite proper, but you get the intent. The response that you have indicated to us for the future is that you will go to the proper tendering process or the tendering contract regulations will be followed. That means as well that when the bid or tender comes in that is filled out in the proper manner because in this instance this was not done as well. In other words, the tender that was accepted was not only not the low bid, but the actual tender was not done according to the regs or specs of what you asked for in the first place. Those two comments are comments I think that are not just peculiar to the Department of Education but I make them, as chairman of the committee, to the government in general. Mr. Lovely.

MR. KEN LOVELY: Mr. Chairman, it may be wise to note that the awarding of this contract to other than the lowest bidder was a forerunner to our current business incentive policy, and I believe if that sort of mechanism had been in existence it would have been relatively easy to document the reason for the failure to grant it to the lowest bidder. I think in general terms it is my experience that the committee system which has been established to determine whether companies are eligible for benefits under the business incentive policy will help to regularize this whole contract granting process.

CHAIRMAN (Mr. McCallum): Give an advantage to any contractor. I mean it is to their benefit but you have to be seen to be a little bit protective of the government purse as well -- public funds in this instance. Tendering contract regulations will be followed. I accept that.

MR. RICHARD: Mr. Chairman, if I might and I do not want to be picking small points with Mr. Lovely but that really is not quite correct. I know nothing about that contract but we were told the names of the competing bids and they are both northern or both local. So if this is incentive

policy it does not distinguish as between northerners. I agree with you that in days prior to the northern preference policy, government in its wisdom rejected the low bid to give business to a local and did not document it. That may be true for undocumented discrepancies in the past. I do not believe it would be correct to say that -- if we are trying to read the minds back there of those who made the decision on this contract in 1980, it surely was not a preference to a local if the competing bids were both local or both northern. Would you agree, Mr. Lovely, because I do not want to fight with you?

---Laughter

CHAIRMAN (Mr. McCallum): Mr. Lovely.

MR. KEN LOVELY: Mr. Chairman, the business incentive policy is not merely a policy which provides preference to businesses which are in existence at the time that the contract is let. There are also provisions in that policy for a certain amount of time doing business in the Territories, maintaining a resident manager and all those things. I do not know who the other contractor was so I cannot say whether or not he would have even qualified under the current business incentive policy. You may be right. Not knowing enough about it, I cannot really comment.

CHAIRMAN (Mr. McCallum): I do and they would have. I had nothing to do with it, mind you. Mr. Pedersen.

MR. PEDERSEN: Thank you, Mr. Chairman. I just want to point something out. It might appear from the line of questioning and comments we are making that it is protection of the government and a bit anti the contractor. That is not the case and it should not be interpreted as such. I feel it is very necessary for the protection of the contractor for the government to carry out the procedures as we state in our tendering and contract procedures. This particular contractor has been subject to considerable criticism of favoritism toward him as a result of this contract being awarded and that probably could have been avoided if procedures had been followed and proper documentation carried out. I do not want to dwell any further on something that happened in 1980 but I just want to clarify that it is not intended to be, if you like, an attack on the contractor and for the protection of the government. It is to put everything above board for the protection of both parties. Thank you, Mr. Chairman.

#### Grants And Contributions

CHAIRMAN (Mr. McCallum): Any further comments? I would like to move on into the next area and that deals with the grants and contributions and the policies and again the observation being that departments are required to develop grant and contribution program applications, policies, which must be approved by the Executive Committee or the FMB before any funds are disbursed. It was observed that of the 12 grants and contribution policies administered by the Department of Education as listed in the main estimates, only the policy for grants to applicable school districts had been approved. The recommendation was that the department should ensure that current grant and contribution policies are on file to support all payments of grants and contributions and you agree. Revised payment directives for school societies and committees have been submitted to the FMB. Other outstanding payment directives will be revised and forwarded to the board prior to January of this year. We have asked then, have the revised payment directives for school societies and committees been approved? What is the status of the outstanding payment directives? Are all 12 now approved? Your response is, yes, the payment directives for school societies and committees were approved at an FMB meeting on November 28, 1984. All other directives have been drafted and are in various stages of review.

#### Current Status Of Payment Directives

Then you go on to say that the department does not contemplate a payment directive on student grants. The Student Financial Assistance Act and regulations adequately govern payments. I guess we have some difficulty with that statement or both statements: that you do not contemplate preparing a directive on student grants and that the act and the regulations adequately govern payments. I think it is safe to say on behalf of the committee that we believe you should have a payment directive for all of them. Further to that, could we have an idea of the status of review of these other directives? Can we get copies of these when they are approved? Mr. Lovely.



MR. KEN LOVELY: Mr. Chairman, we can make copies available to the committee when they are approved. A number of directives are currently in the review stages and they include student travel and exchange, labour pool contributions, Tree of Peace adult education services and the Native Women's Association which provides home management services. The student travel and exchange directive is being reviewed by our management committee at this point, the departmental management committee of the Department of Education. The labour pool directive has been forwarded to Inuvik for their comments because they have the only labour pool officers in the Territories. The Tree of Peace directive and the Native Women's Association are with the Financial Management Secretariat in the initial stages of review.

CHAIRMAN (Mr. McCallum): Notwithstanding, Mr. Lovely, that there is the act and the regulations regarding student grants, why not just put the payment directive on it as well? Do you really believe that it is adequate just by having the act and the regulations? Other departments have payment directives, if you like, for their particular programs or contribution policies.

MR. KEN LOVELY: Mr. Chairman, we have also received advice from the Auditor General's staff that they believe that the payment directive is important and what I will undertake to do is to discuss the issue in some detail with the Department of Finance and determine how we can come up with a document which is acceptable.

CHAIRMAN (Mr. McCallum): But a fifth of the budget deals with contributions. Is that right? Of your budget, about 20 per cent of the department's budgeted operations, maintenance and expenditures, relate to payments of grants and/or contributions.

MR. KEN LOVELY: That is correct, Mr. Chairman.

CHAIRMAN (Mr. McCallum): There should be some control on it and I would concur with the Auditor General that payment directives are means by which you have that control and they should be in place. So, we could get copies as you have mentioned and there is good advice that you should have payment directives too.

#### Funds Provided For School Districts And Boards

Just to go on into this, the second recommendation is that the department should ensure that funds provided for school districts or boards are described in the main estimates and policy as contributions. Arrangements should be prepared in order to clearly identify the terms and conditions governing these payments and the accountability. You had indicated that it would be in the main estimates of 1986-87. The terms and conditions will be clearly identified in a payment directive from FMB. You are reviewing the need for entering into agreements with school boards. We asked you what were the results of the review and if the agreements were not considered necessary, how come? What determined you to arrive at such a decision? You said you have identified the funds provided to school districts as contributions in the estimates and in the approved payment policy. Then you comment that the FMB has decided that agreements with school boards are not necessary as the payment directives sufficiently identify the terms and conditions governing payments and accountability. Does that concur with your department's view or is that solely the view of the FMB?

MR. KEN LOVELY: Mr. Chairman, I believe that that is the joint feeling of both the FMB and the department. However, some of the comments that we have received from the Auditor General's staff, and some of the analysis that we have conducted lately indicates that maybe our position on the matter was ill-advised. The number of divisional boards which stand to be established over the next decade perhaps indicates that we should look at agreements in all cases. So I believe that we should be looking at this in concert with the Student Financial Assistance Act and determining the appropriate direction for both of them.

CHAIRMAN (Mr. McCallum): I would suggest that this is one. Payment directives are not legally binding and they are one-sided. They set out only obligations determined by the government. I think it would be in the best interests of all concerned that legal agreements would be entered into with boards. I would hope that we could get some determination of your discussions both from the department view, as well as from the FMB, as regards this particular item because I think that I can't overemphasize the feeling that we have that agreements with school boards should be made, not just payment directives because they are not legally binding. Any comments? Mr. Dubois.

Payment Directives Under Review

MR. HAROLD HAYES: Mr. Chairman, when Mr. Lovely was talking about the number of directives that were on review, I counted five and my colleague here counted seven. We talk about 12 -- I wonder if Mr. Lovely could account for the difference.

MR. RAYMOND DUBOIS: Mr. Chairman, just to get the numbers straight. The way I got to seven was in our observation we mentioned that there was already a policy for grants to applicable school districts that had been approved. The response from the department mentioned that there is a payment directive for school societies and committees -- that is two. We have discussed the student grants where the department is saying they did not need it and I think Mr. Lovely indicated he would have a look at that -- that is three. When Mr. Lovely gave a summary he mentioned four. That is how I got the seven.

CHAIRMAN (Mr. McCallum): Mr. Lovely.

MR. KEN LOVELY: Mr. Chairman, the payment directive for indigenous language development was not developed, not put together, as a result of the fact that the fund is no longer in existence. Mr. Hunchak, you indicated that there had been a combination of one of the others -- the continuing education was combined with the school district contributions. Is that correct?

MR. CORNNIE HUNCHAK: No, the school societies under schools activity and under continuing education are combined under the one payment directive.

CHAIRMAN (Mr. McCallum): What are the other ones?

MR. CORNNIE HUNCHAK: The Terry Fox Foundation was identified in the main estimates for 1983-84 as a contribution. I do not know the status of that. The Terry Fox contribution and then the payment directive for student travel and exchange. That is combined.

CHAIRMAN (Mr. McCallum): That is ongoing because there are students that go out every year. Mr. Kimmel.

MR. GERRY KIMMEL: The final one would be the NWT School Athletics Association.

MR. CORNNIE HUNCHAK: That one, too, is combined in the student travel and exchange payment directive.

Capital Funding To Third Parties

CHAIRMAN (Mr. McCallum): Thank you. Moving on to the next item dealing with budgetary and financial disclosure and control. The recommendation is that the department should identify payments to third parties for funding capital expenditures as contributions in the main estimates. You agreed that capital projects to be undertaken by third parties will be identified in the main estimates as contributions, effective 1986-87. The contribution payment directives will be submitted to the FMB for approval. We asked questions about what form of disclosure is contemplated, how many payment directives are contemplated, whether the process has begun and whether it will be completed. You responded that capital funding is identified in the 1985-86 as a contribution. One payment directive is contemplated. A draft has been submitted to the capital planning for review and the payment directive is to be approved in the fiscal year, 1985-86. Where do we stand with that in terms of the review? Do you have a copy? Mr. Lovely.

MR. KEN LOVELY: The review of that payment directive was conducted at the May 28th meeting of the Financial Management Board and they approved the contribution directive with some changes. The changes are now being written into the directive which was submitted to the board and it will be in place in the very near future. We can provide a copy within the week.

CHAIRMAN (Mr. McCallum): Any comments. The next recommendation is, "Arrangements or agreements with recipients of such contributions should be prepared in order to identify terms and conditions governing payments and accountability." You agree that letters outlining the arrangements with recipients will be used and they will identify the terms and conditions and accountability. We have asked a couple of questions, if it is a standard form letter and again a copy of it would be acceptable if we could get it. If there is not a standard form letter what other way do you

propose to do it. The department has not developed a standard form letter as yet you indicate, and an exchange of letters of understanding will be initiated as prescribed in the approved payment directives. Could you comment on that? What are the terms and conditions to be established in the payment directive and which eventually will be reflected in the letters of understanding?

MR. KEN LOVELY: Mr. Chairman, I really cannot respond to that, I would have to look into it to obtain the detail. I am really not in a position to give you any detail on that.

CHAIRMAN (Mr. McCallum): Will you follow up on that then and obviously we will have to get something from you on it? Mr. Hayes.

MR. HAROLD HAYES: Perhaps Mr. Lovely might want to consider at the same time in providing this information that it may be a good idea to have a standard form letter for this because it seems to me that it could apply quite effectively in this area.

#### Occupational Training Agreement With CEIC

CHAIRMAN (Mr. McCallum): Thank you. The next recommendation you responded positively to and I do not think there is any need to go into that. So I will move on into the recoveries under the occupational training agreement with Canada Employment and Immigration. This deals with the certification of costs. The agreement requires that the Territories submit outstanding statements of costs. We have recommended that certification of costs should be completed as soon as possible. You agreed that it would be done by the end of last year, and that you have had these completed. You have carried out what you were supposed to do in that regard.

MR. KEN LOVELY: Yes, Mr. Chairman. The latest certification is, in the main, between the audit bureau and the department at this point. It was merely a matter of a review at the senior level of the audit bureau to ensure that it was adequate.

CHAIRMAN (Mr. McCallum): To take us to the last one and that is the recommendation dealing with the territorial audit bureau. They were to be requested to provide a certification of costs so that they could ensure that rates negotiated would cover all recoverable costs. You agreed and again the audit bureau had indicated that they would certify costs prior to December 31st, 1984. We had asked if that had been achieved and the response is, no, that the audit bureau has not been able to certify those but they will be completed by the end of May. Does that still hold true, do you know? Like tomorrow or the next day?

MR. KEN LOVELY: I am sorry, Mr. Chairman, I mixed up that response with the previous one. The certification or the claim which I referred to was the 1983-84 claim. It is the one which is in the mail between the audit bureau and the Department of Education. It has been completed but just has not gone through the administrative processes.

CHAIRMAN (Mr. McCallum): Are there any further questions from committee Members or your people, Mr. Dubois?

MR. RAYMOND DUBOIS: No, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Well, I guess that brings us down to the end of our get-together, Mr. Lovely and Mr. Hunchak. I would hope that those comments that we have made to you regarding certain things that we feel strongly about, will be taken into serious consideration. We obviously will make recommendations in the report and we will be revisiting these another time to see what has in fact occurred with those recommendations that we made to you. On behalf of the board, I would like to thank you both for being here. Before we get into the next department we will take a coffee break. So thank you very much.

---SHORT RECESS

#### Department Of Public Works And Highways

We are now on Department of Public Works and Highways and I would ask the witness to take a chair at the witness table, please. Before we start, Mr. Elkin, perhaps for the sake of record because we are recording this, I would indicate to you to use the mike to make comments and because we want to attribute the proper comments to the individual, I may be referring to you by name. So, for purposes of our record would you introduce yourself and your colleague?

MR. LARRY ELKIN: Yes, Mr. Chairman. I am the deputy minister of Public Works and Highways and my colleague is Mr. Dave Murray, chief of the finance division.

Transient Centre In Whale Cove

CHAIRMAN (Mr. McCallum): Thank you. Mr. Elkin, we have been going through different departments that had been identified by the Auditor General's report on "Any Other Matter". In reference to your department there was an issue on the Keewatin regional office that was raised by the Auditor General dealing with the Whale Cove transient centre. It deals with in this case the revenues and leases. The observation was made that a government-owned building in Whale Cove is being operated as a transient centre by a private concern. The lease on the building expired in 1980 but has not been renewed. Government employees use this centre fairly often and are charged \$90 per day. I am not sure if that is the going rate today or not.

Under the expired lease the government received a monthly rent of \$200 plus 10 per cent of gross revenues and the operator paid all utilities. The government now pays the cost of utilities which amounted to approximately \$8700 in 1982-83. Since the lease has not been renewed, the government is in effect foregoing revenues to which it was entitled under the expired lease. The recommendation was that leases should be kept current so that all rental revenues due to the government are identified and invoiced. The response from the government has been that they agree. Every effort has been made to keep leases current. A lease for the transient centre is under negotiation with the new operator who was claiming hardship. We responded to that by asking questions of the department. Has a new lease been negotiated and could we have the details? The response has been that negotiations are still under way and a new agreement is yet to be finalized. The status of negotiations involving not only this department, but the Department of Economic Development and Tourism is as follows and you indicate where it is. I guess the basic question we have of you is, has the situation been resolved? What is the status of the lease arrangement? Have the issues that have been identified by the department been resolved? I wonder if you would comment.

MR. LARRY ELKIN: Yes, Mr. Chairman. I am pleased to report that the particular lease issue here has been resolved. We have entered into a new lease. It is for a six month trial period to determine if the lease is going to be to the satisfaction of ourselves and the operator of the hotel. Part of the previous difficulty in negotiating the lease stemmed from the fact that the level of need for accommodation in a place like Whale Cove frankly is not enough to properly sustain a person in the business of carrying that out. So the complication. This is where we referred to hardship; the amount of revenue generated by the number of people staying there did not make a business that could operate, if in fact we required them to pick up the full cost. So this has been taken into account in the new lease and the terms of the new lease are that the electricity and the municipal services will be paid by the man and lady that are operating it now. The building itself they will maintain and the actual lease that we have entered into is on a monthly basis of one dollar. We believe with those terms that is reasonable. Because the building is old and the energy conservation was not a priority at that particular point when it was built, the heating costs are extremely high and we consider it to be unfair to lay that burden on the people attempting to run the private hotel. So, the heating costs we are going to absorb.

Options To Subsidy

Although this may be seen as a lease where we are not recovering all of our costs, the real options are that if we did not subsidize it to this particular extent, it would not be viable and if it were not viable the options would be that we would not have a hotel in that community, period, or the government would be required to put in a full-time employee. I can tell you a full-time employee with salary and the other things that employees get would be far more than what we are paying through this particular lease.

CHAIRMAN (Mr. McCallum): Are there any comments? Mr. Pedersen.

MR. PEDERSEN: Thank you, Mr. Chairman. Do people other than government employees use this building?

CHAIRMAN (Mr. McCallum): Larry.

MR. LARRY ELKIN: Yes, that is correct. It is open to anybody travelling to that community for use as a hotel.

MR. PEDERSEN: Does the building come up to the standards required under the act for accommodation establishments in the NWT?

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: Mr. Chairman, I believe that has been a complication in the past but I believe that it reasonably meets the standards that are required of hotels in the Northwest Territories.

MR. PEDERSEN: I would not want our government to be guilty of leasing out substandard facilities.

---Laughter

We probably are though.

---Laughter

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, I wondered why we would be churning out all these cheques at \$90 a day or whatever the rate is to pay for the government's own accommodation but I guess the answer is in what you replied to Mr. Pedersen, that there are other customers other than government. That would prevent you from just saying we will not need a hotel, that is a government building and government people will stay in it.

MR. LARRY ELKIN: That is exactly right.

MR. RICHARD: But the salary and benefit package of a government employee would exceed what you are paying now?

MR. LARRY ELKIN: Mr. Chairman, the revenue for this particular hotel I understand is in the neighbourhood of about \$30,000 a year and that is not quite sufficient to make it a viable business but frankly we are fortunate that we have two people in the community that are prepared to operate it along those lines.

MR. RICHARD: What about the money that they spent for the hotel rooms?

MR. PEDERSEN: That is part of the \$30,000.

MR. RICHARD: That is part of the \$30,000?

MR. LARRY ELKIN: Yes.

MR. RICHARD: Oh, I see. So, it is a low volume.

MR. LARRY ELKIN: It is a very low volume, that is correct, Mr. Chairman.

CHAIRMAN (Mr. McCallum): How many can stay in that place? Maybe we should go for a session there. At \$90 a day that is about half of what Todd has got going.

MR. LARRY ELKIN: Mr. Chairman, it is a small house. I think it is the same rate whether you stay in the bedroom or in the kitchen.

MR. RICHARD: Mr. Elkin, is there a contract that rate being charged for government employees will be X dollars for the next year or next two years or can the operator unilaterally increase it?

MR. LARRY ELKIN: Mr. Chairman, I stand to be corrected but I believe it is the rate that the operator has established and I believe we have agreed to that rate. Although the rate is in their hands, obviously if a very major increase was put forward without any logic behind it, since we are subsidizing the operation highly we would have something to say about that.

CHAIRMAN (Mr. McCallum): Thank you. Any further comments? Any comments from Mr. Hayes or Mr. Dubois?

MR. HAROLD HAYES: I do not think we have any comments, Mr. Chairman. I think the department has done exceedingly well in the circumstances because all that you are talking about is about 300 people using that in the course of a year.

MR. RAYMOND DUBOIS: It is 300 nights or bed days or however you want to count it. Kitchen days. I was wondering if those staying in the kitchen have a right to midnight snacks.

MR. RICHARD: At the same price.

CHAIRMAN (Mr. McCallum): Oh, increase in price. Well, I guess you have resolved it. That is what we wanted to know, Mr. Elkin, so if there is nothing further, I thank you for coming over. I do not have anything further on this issue. Thank you very kindly.

Northwest Territories Housing Corporation

I would like to ask the witnesses for the Housing Corporation to take a chair at the witness table, please. For the record, Mr. Irving, I wonder if you and Mr. Clark would identify yourselves, please.

MR. VIC IRVING: Mr. Chairman, my name is Victor Irving. I am the president and chief executive officer of the NWT Housing Corporation.

MR. LLOYD CLARK: Mr. Chairman, my name is Lloyd Clark. I am senior vice president, finance and administration, for the Housing Corporation.

CHAIRMAN (Mr. McCallum): Thank you. We have been dealing with the report of the Auditor General and a number of issues related to different departments, agencies of the GNWT. In the report in the observations of the Auditor General there were a number of pages devoted to the corporation itself. There are a number of issues that have been raised and we would want to take a look as it were in a follow-up basis to the recommendations that were made and the comments of the corporation on those recommendations. We would like to maybe go into it recommendation by recommendation and Members of the committee may very well have other questions. The Auditor General made comments and I think you have a copy.

MR. HAROLD HAYES: Mr. Chairman, you are talking here of the fiscal year ending March 31, 1983.

CHAIRMAN (Mr. McCallum): Yes.

MR. HAROLD HAYES: Which is the year before.

CHAIRMAN (Mr. McCallum): I think what we are looking at is just taking a follow-up to those particular recommendations. There were comments being made on the finance and the corporation's operation by the GNWT and CMHC. As a result of those observations, as I said, there were a number of recommendations made and I guess the comments that the department -- I am sorry.

MR. HAROLD HAYES: Mr. Chairman, it might be appropriate for the witnesses to have copies of this item, because this is a matter really that was considered by the committee last year.

CHAIRMAN (Mr. McCallum): So we are just having a follow-up to it.

MR. HAROLD HAYES: Yes, but they have not got the information.

MR. VIC IRVING: Mr. Chairman, the documentation that we received from this committee listed two items. Our working capital and the possibility of a comprehensive audit. That was it. We were not advised that you would be looking at this particular item and we do not have our copies with us.

CHAIRMAN (Mr. McCallum): Okay, then let's keep it down there. There may be other questions that would arise but you are right, Mr. Irving, that is what had been indicated to you. Would any Member like to lead off here?

Comprehensive Audit

The comprehensive audit; maybe I could deal with that first. Two years or more ago I guess, a request was passed by a motion in the House that an audit be done and the Auditor General made the comment that it would not be opportune at the time to do it. There should be a period of time given the corporation to bring together its operations before doing any comprehensive audit by the Auditor General. I wonder if I could get some comment from you, Mr. Irving, about your reaction to a comprehensive audit. Should it be suggested at this time?

MR. VIC IRVING: Mr. Chairman, the Housing Corporation has no objection to a comprehensive audit. We have nothing to hide and we believe we are doing a good job. As I understand it one of the reasons for delaying the request or recommendation for an audit from the Legislative Assembly was from the Auditor General's department, that we were in the process of instituting a financial management system and until that was in place it would be better to wait and do the audit. I should tell you that the first phase of that system has been instituted but it has not been completely instituted at this time. And that is all I can say. As to whether the audit should go ahead, my Minister would be in the best position for you to advise or to request and he may want to go to the government in that respect but I cannot say any more at this time, sir.

CHAIRMAN (Mr. McCallum): Other Members. Mr. Richard.

MR. RICHARD: Mr. Chairman, I understand that there were a lot of observations in the Auditor General's report two years ago and I do not really want to get into any of that myself. I also am aware that those of us here wearing another hat in the next few weeks are going to be dealing with the Housing Corporation in the Legislature. So I do not have any specific questions on the accounts at this time with the possible exception of these witnesses adding any light to the issue that came up yesterday. And it may not be fair to ask these witnesses. Reference was made yesterday to the two special warrants that according to the public accounts book were issued on dates when the Legislature was in session, and on both occasions those funds of the special warrant related to the Housing Corporation. One fairly significant amount of some eight million dollars, the other in an insignificant amount of \$80,000. The Minister of Finance indicated to us yesterday that this public accounts book was incorrect, the date being incorrect for the large one.

CHAIRMAN (Mr. McCallum): I was told today, Mr. Richard, that for both of them approval by the FMB was given on March 16 and both special warrants were signed by the Commissioner on March 20.

MR. RICHARD: Okay, that is the answer.

CHAIRMAN (Mr. McCallum): Mr. Irving.

Information Regarding Special Warrants

MR. VIC IRVING: Mr. Chairman, I happened to read the newspaper today and as a result I did some research in so far as the corporation is concerned. I have some additional information which may be of use to you.

In regard to the working capital advance, the matter of the \$8,860,000 was a working capital advance that was to provide working capital cash for the effective operation of the corporation. The need for that advance was initiated by the Department of Finance at the FMB's direction. I checked the 1984 winter session of the Legislative Assembly and it adjourned on March 2nd. This FMB approval came after that so it was not done during session and it was not something that could be planned for. I take it that there was some extra financial cash around and in order to assist our operation -- and it was not a direct expenditure. We have recovered most of that from CMHC. That money was required for cost overruns that occurred prior to 1981 and it was a financial arrangement but it was not a capital expenditure that could have been planned for. Now, the other item, the matter of \$80,000, was also something that came up all of a sudden and that was done also after the session had adjourned. That dealt with the 29 unit single persons complex at Hay River where we required money to correct some deficiencies in that building. We were directed to take over the building. We had to wait until CMHC agreed to co-fund the expenditure. On February 2, 1984 the FMB approved in principle the transfer of responsibility upon receipt of the Housing Corporation's and CMHC's written approval to the revised rental structure of that building. We did not receive that until after the session had finished and it was then that we went back to FMB and requested the \$80,000 to correct the maintenance deficiencies in that building. So again, it was something that could not have been planned. In effect it was an emergency expenditure and it was not the usual run of the mill capital or O and M expenditure. It was a special case.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Irving. I just want to indicate that in the report of the annual Territorial Accounts, the date was February 14th. That is where the difficulty arose. It says February 14th on page 50 of that for the \$80,000 and on page 46 it says February 14th for the \$8.8 million as well. That is where we got into a difficulty. We were later told that that was a mistake -- a typo. I was told this afternoon that in fact they had gone on the 16th of March in both instances for approval from the FMB. So we could only deal with what was put in front of us and that is where the difficulty was with the dates. Mr. Richard.

Member's Concern With Timing Of Special Warrant

MR. RICHARD: Mr. Chairman, I think that part has now been clarified for us. As Mr. McCallum says, we have to accept what was in the public accounts document and the Auditor General has pointed out to us that he did not, at that part of this document. But we did accept that the date was there. I guess I still have some difficulty, again, in the general area of these special warrants and the number of times that mechanism is used. Last Mr. Butters get a copy of this transcript and gets sensitive again, he has personally taken steps in the last six months or so to see that things are going to change and special warrants are not going to be used any more. But I have to say as a lay person and I have not worked in the FMB or in the Housing Corporation, that I do have some difficulty understanding that this could not have been planned. We are talking eight million dollars. We are talking about going before the FMB on a date in March -- I think you said the 12th of March. Whether that was a Department of Finance originated request for funds which I think you indicated it was -- I am not necessarily critical of the Housing Corporation -- the Department of Finance let's say or the Housing Corporation or both. During the months of, say, January and February of that year, nobody was looking ahead to the month of March when they might need eight million dollars. I notice that for that session that year, the Legislature sat on January 11 and 12 and then resumed again from February 3 until March 2. I just have some difficulty accepting that this was not in the works somewhere within government prior to March 12. As a Member of this committee, I think it has to be said in public that I have some concern that there was an end run. Looking back at the calendar the Legislature was going to sit again in May of that year so that is a lengthy time to wait after March 2. I guess it could not wait until May. I accept that part but why it wasn't requested of the Legislature prior to March 2, I just still have a residual difficulty with that part of it. I appreciate that Mr. Irving today has added even more information to this specific one, Mr. Chairman, and I think it has been clarified from our initial concern of just yesterday.

CHAIRMAN (Mr. McCallum): Mr. Hayes.

Basis Of Decision For Bridge Financing

MR. HAROLD HAYES: Mr. Chairman, unfortunately I have not got the financial statements with me for March 31, 1983 but perhaps either Mr. Clark or Mr. Irving could correct me if I am wrong. My recollection of the situation was there was a considerable amount of money of the corporation's working capital that was tied up in accounts receivable at that time. A significant portion of it, if not more than that, was tied up, which in effect had been funded by bank overdrafts. The idea behind this I think was a conscious decision on the part of the government to say, "Well, why should the corporation pay interest to the bank on this overdraft when we have the funds available to liquidate that and this will be in effect a replacement of the bank loan." So, this is really why the payment had gone. I think the situation started probably 12 months prior to that and the main cause of it was the project overruns that occurred in the period up to that time. It was more or less, you might say, bridge financing, to a large extent, between giving the funds and when the funds were going to be recovered depending on CMHC agreement which would enable the corporation to repay the money.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, if I might just add, the timing unfortunately appears kind of strange but it is due to the nature of the cash position of the government at the time. It was a decision made as it was best known in the month of March that the government's financial position was strong enough to be able to actually make a payment of this magnitude. That is why the time frame was the mid part of March. We were as close as possible to year end at the time and the decision was finally made to provide the bridge financing.

CHAIRMAN (Mr. McCallum): Mr. Richard.



MR. RICHARD: Does that mean, Mr. Nelson, I do not know if I am reading you right, does that mean that you were approaching the year end of government's fiscal year and you could see that there were going to be funds not expended and therefore government could afford to advance this working capital on a cash flow basis to the corporation?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Yes, Mr. Chairman, that was part of it. This all came about as a result of actually an ongoing concern about the working capital position of the corporation and as Mr. Hayes indicated, it was an ongoing study that came to a completion at this time. In the audit report of the Auditor General for 1982-83 on the corporation, one of the comments was made that the government should look at the financing operations and it was during the month of March that the Department of Finance's study was complete. At the same time, we had a better handle on the actual cash position of the government, its working capital position and its surplus position, etc., and decided that the time was probably best to provide the loan financing.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: In part of the discussion that we had yesterday when you explained how these things work, with that explanation -- and I am still naive about these things -- the funds that were identified, that you had that were free to allow you to do this, you normally would have moved that over by one of these negative warrants, but I do not see an eight million dollar negative warrant that corresponds with this eight million dollar positive warrant, if you will.

MR. JIM NELSON: Mr. Chairman, when we are talking about positive or negative warrants, it is within the government enterprise itself, the territorial government. The Northwest Territories Housing Corporation is a separate business entity and there is no offset within the government except the reduction in its cash position. In other words, it is an expenditure to the Government of the Northwest Territories and a revenue to the Northwest Territories Housing Corporation. They are separate financial statements. In the government's position internally, you would see it between departments. That is why you would see an offset in one department and an increase in another department.

MR. HAROLD HAYES: Mr. Chairman, if I could interject at this time. The government really is in the same position or a similar position to the Housing Corporation. It has working capital which is really the excess of current assets over current liabilities and at that time the government's cash position, which is part of the working capital, was sufficient to enable it to advance the funds and this is why it was done.

MR. RICHARD: Working capital was found, not unexpended budgets. I am learning. And it is a liability that is back to the government.

MR. JIM NELSON: Mr. Chairman, in part, \$2.8 million of that was actually an expenditure. The six million dollars, if you refer to note 14 of the financial statements of the Northwest Territories explains the situation -- on page 21. And as I indicated yesterday, about \$2.2 million remains outstanding at this time of the six million dollars. We have recovered about \$3.8 million or whatever.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: So, it is incorrect to say provision of working capital, indeed \$8.6 million, if some of it was expenditure.

#### Financial Analysis Of The Eight Million Dollars

MR. HAROLD HAYES: Again, to assist the witnesses. Within the context of what is said there, it did actually impact on working capital but if you analyse the \$8.8 million, there was, shall we say, six million that was going to come through in the way of CMHC funding which left \$2.8 million, which if you analyse the capital contributions or grants which the government had made toward its share of the capital projects, that represented to a degree a shortfall in the government's funding of the capital operations of the corporation and this is why we felt that it was reasonable to charge that \$2.8 million to expenditures of the government in that year. Had we just gone solely on what was said in the estimates, that it was to provide working capital, we would have insisted

on that \$8.8 million being set up as an investment or advanced to the Housing Corporation. Having done that it would have meant that that was in effect overstating the position in terms of what would be recoverable in terms of financing because there had been -- it was really in effect offset by the \$2.8 million that the corporation would have received from the government in terms of contributions toward capital programs. So, the actual amount -- putting it into accounting terms, was in effect a realizable asset -- was the six million and that was in the final analysis what we agreed with the Department of Finance to show in the statements of the government at March 31 together with an explanation of what had happened. Are you with me?

MR. RICHARD: I think I understand, Mr. Hayes. Thank you.

CHAIRMAN (Mr. McCallum): Just to get it straight now. Of the six million dollars that was the federal CMHC portion, you have recovered \$2.9 million. Mr. Clark.

MR. LLOYD CLARK: Yes, Mr. Chairman, if I may, I could update the committee on the specific position we are in. We have so far received approval from CMHC for cost increases for which their share would be \$5,248,000. This was compared with a potential at that time of some \$6.9 million for the particular projects under consideration. We have received so far \$3.79 million which we have returned to the GNWT and when we receive the next \$1.458 million within the next month to six weeks, we anticipate turning that back to the GNWT. This was on 77 of the projects that had cost overruns from that particular time period. There are another three projects in the section 43 loan program and another 14 projects in the section 40 joint ownership program, which are still under review by CMHC. The potential recovery on those, the maximum potential, is \$458,000 on section 43 and \$751,000 on section 40. Based on the success rate of the recoveries from CMHC, we would see now that we would expect between \$800,000 and \$900,000 from CMHC on those remaining 17 projects. That would mean a total recovery between six and \$6.2 million, which is very close to the estimate that was made last summer.

#### Status Of Financial Information System

CHAIRMAN (Mr. McCallum): Thank you, Mr. Clark. Any further comments on that particular item? You have indicated as well, Mr. Irving, that response to those issues has been made, that is the management, that things are gradually being put into place. They are not all in place; that is, your new management accounting practice.

MR. VIC IRVING: Mr. Chairman, the financial information system, our financial computer system in effect is not completely operational. We have gone through the first stage. Maybe Mr. Clark could give you an update on when we expect to have it finished.

CHAIRMAN (Mr. McCallum): Mr. Clark.

MR. LLOYD CLARK: Yes, Mr. Chairman. The FIS system has been evaluated as was required by the terms of the Financial Management Board last year and we have put into place a steering committee of not only our own people but the Department of Finance, the systems and computer services in Government Services and the territorial audit bureau. Our working committee has done its final evaluation. We anticipate an FMB submission in the very near future seeking the additional resources necessary to complete the computerization process and subject to that approval we would expect to have the FIS system in place and running parallel by September of this year. If the committee wishes, I believe we would be prepared to comment on the notes from the 1983 audit as they have been provided to us at this meeting.

CHAIRMAN (Mr. McCallum): I think we would appreciate that, Mr. Clark.

MR. LLOYD CLARK: I am referring to the summary pages provided to me.

CHAIRMAN (Mr. McCallum): Yes.

#### Responses To 1983 Audit

MR. LLOYD CLARK: The first recommendation is that the corporation should endeavour to further improve the timeliness of receiving capital funding from CMHC. We committed ourselves to doing that. We have gained approval approximately a month ago to our proposal that we submit monthly

claims as opposed to quarterly claims with CMHC, which will improve considerably the time lag in payments. We also in last December's major expenditure for the loan repayments arranged a joint exchange of cheques between ourselves and Canada Mortgage and Housing Corporation and we made the major payment at the same time that they were reimbursing us for their share of our costs to that point.

Recommendation number two: The disclosure in the estimates. I think it is adequately covered by the difference you see in the 1983-84 and 1984-85 estimates.

Recommendation number three: The corporation has not undertaken work for others without agreements being signed since the commitment by the corporation not to do so. We have agreements with the Department of Public Works within the GNWT, for instance, in terms of staff housing that we are building for them.

The corporation's accounting manuals: We have had considerable work done on those manuals. We have had the financial administration directive of the corporation approved by the Financial Management Board just recently. We have had an updated and revised accounting manual for housing associations put in place last spring.

Our board of directors have been approving all new policies as they have come into place and we have a working committee within that board of directors, the finance committee, which reviews not only audit comments but proposed financial policies of this nature. The comptroller did indeed sign all the 1983-84 working papers prior to commencement of year end audit and this process is being continued. We are as I mentioned continuing the automation. We have done some work to the effect that we have used the microcomputer systems to semi-automate the monthly financial reports and the capital budget status reports.

The loans payable and mortgages receivable. This is one area where we have not made the progress that I would have hoped to have made, although we have made considerable progress in the control of these areas. Our accounts classifications have been reviewed and changed as required to meet management needs and we did follow the classification change that was recommended by the auditor's staff. We are making further changes to those account classifications as we move into the computerization phases.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Clark. Any questions? Mr. Hayes.

MR. HAROLD HAYES: Mr. Chairman, listening to Mr. Clark giving an update, as part of the regular follow-up we do updates of recommendations like that, that have not been fully implemented. That is, what he has told the committee is consistent with my understanding.

CHAIRMAN (Mr. McCallum): Thank you. Maybe just a couple of quick questions if I may. Do you contemplate any kind of change to the enabling legislation that you have, to get capital advances from the government, from the territorial government? Do you contemplate any changes there?

MR. VIC IRVING: Not at the present time.

CHAIRMAN (Mr. McCallum): Just to go back to the business of the overruns. Should that occur again, and hopefully it does not, do you have procedures in place now that would maybe lessen the possibility or how do you propose to get through this business of financing those overruns at a future date? I know that may be hypothetical but is there anything in place? Do you contemplate anything there?

#### Controls Within Financing System

MR. VIC IRVING: Mr. Chairman, yes, there are some operational policies in place. Firstly, one of the main problems was that we did not have a proper contracting policy and in 1982 we took over the practice that DPW was using. I believe at this time we have a proper contracting procedure, for tendering and awarding of contracts. As a matter of fact we did not have any major cost overruns last year and I do not anticipate any at all this year. The matter of supply last year was almost perfect. Depending on ice conditions, transportation problems, I would hope that we do not have any problems this year. So, I would say that our policy procedures have been tightened up. We do not have open ended contracts. We screen our contractors a little better. We have beefed up our construction division and I can not foresee that we would have these major cost overruns that were

experienced before. In regard to an contingency plan to provide some moneys to guard against overruns, I think we use the finance system if we have to. Mr. Clark may be able to elaborate a little more on this but basically we do not have a contingency plan for financing, but I do not think that that is required or needed with our current operation.

CHAIRMAN (Mr. McCallum): Mr. Clark.

MR. LLOYD CLARK: Mr. Chairman, we do have a specific arrangement and agreement with the government of the Northwest Territories. The financial agreement that has been negotiated between the government and ourselves requires the corporation at any time that we foresee a course of action that will result in cost overruns or an increase in cost to the Government of the Northwest Territories, that we carry that to the government with a request for approval. We are given latitude within the capital budget allocated to us and O and M budget allocated to us for our Minister to reallocate funds between projects. As I am sure you are all aware project cost overruns are inevitable, when you consider a large number of these projects, but within the program, systems are in place to ensure that if there is a cost overrun in one area it is covered by surpluses generated in another or covered by cancellation, if necessary, of projects, so that the funding of the GNWT is not placed in jeopardy.

CHAIRMAN (Mr. McCallum): Mr. Hayes.

MR. HAROLD HAYES: Mr. Chairman, I think what Mr. Clark is explaining to the committee seems to me a very reasonable approach and you can see the elements of control that are within the system which were non-existent maybe two or three years ago.

CHAIRMAN (Mr. McCallum): Any further questions? Mr. Richard.

MR. RICHARD: The system that you described, Mr. Clark, is something that has been done recently -- in the last year or so?

MR. VIC IRVING: Within the last two years.

CHAIRMAN (Mr. McCallum): Anything further? Again, nothing further, I appreciate your coming over, Mr. Irving and Mr. Clark. Thank you for your responses. I guess this brings us to the end of this committee. Is there anything further? Again, thank you very much, Mr. Irving and Mr. Clark and Mr. Nelson and Mr. Barrett.

---ADJOURNMENT

