

LEGISLATIVE ASSEMBLY OF THE
NORTHWEST TERRITORIES
10TH ASSEMBLY, 7TH SESSION

TABLED DOCUMENT NO. 34-86(1)

TABLED ON MARCH 3, 1986



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Canada

February 25, 1986

The Honourable Donald M. Stewart, M.L.A.
Speaker of the Legislative Assembly
of the Northwest Territories
Legislative Assembly
Yellowknife, N.W.T.

Dear Mr. Stewart:

I herewith transmit my report to the Legislative Assembly of the Northwest Territories on the audit for the year ended March 31, 1985, to be laid before the Legislative Assembly in accordance with the provisions of Section 23(4) of the Northwest Territories Act, R.S.C. 1970, c. N-22.

The report deals with "any other matter" arising from my examination of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1985 that, in my opinion, should be brought to the attention of the Legislative Assembly. The report also includes my recommendations and the related comments of the Office of the Commissioner.

Cordially yours,

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

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

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**REPORT ON "ANY OTHER MATTER"
FOR THE YEAR ENDED MARCH 31, 1985**

INTRODUCTION

I have completed the audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1985. The purpose of my examination was to allow me to express an opinion on the financial statements and to report to the Legislative Assembly of the Northwest Territories in accordance with the Northwest Territories Act. These requirements were met in my report to the Legislative Assembly of July 23, 1985 in respect of the fiscal year ended March 31, 1985.

I have also examined the financial statements of the Workers' Compensation Board (Northwest Territories) for the year ended December 31, 1984, and the financial statements of the Northwest Territories Housing Corporation, the Northwest Territories Liquor Commission, and the Legislative Assembly Retiring Allowances Fund (Northwest Territories) for the year ended March 31, 1985. I have reported thereon, in the cases of the Northwest Territories Housing Corporation and the Northwest Territories Liquor Commission, to the Executive Member responsible, in the case of the Legislative Assembly Retiring Allowances Fund (Northwest Territories), to the Chairman of the Management and Services Board, and in the case of the Northwest Territories Workers' Compensation Board (Northwest Territories), to the Commissioner, as required by their respective Acts.

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

The Northwest Territories Act also provides for the Auditor General to call attention to any other matter falling within the scope of his examination that, in his opinion, should be brought to the attention of the Legislative Assembly. Accordingly, I would like to bring to your attention the following areas of concern together with our recommendations and the comments thereon by the Office of the Commissioner.

DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS

1. Inconsistencies in contracting procedures.

Repulse Bay community complex. The three companies tendering for this project were required to submit additional information on the level of northern involvement in their work. This was done on an experimental basis according to departmental officials. Tenders closed on May 31, 1984.

The low tender was \$1,580,472 adjusted to \$1,535,472 after applying northern preference. On the same basis, the highest tender was \$1,628,748 and \$1,583,748 respectively. The highest bidder was awarded the contract because the extent of northern involvement proposed by it exceeded that proposed by the others. A letter of acceptance of offer was sent to the highest bidder on June 13, 1984. However, Executive Council approval, as required by the Government Contract Regulations, was not obtained until June 21, 1984. This was eight days after the contract award and did not give Executive Council any option to award the contract to another bidder.

Liard River dredging project. Tenders for this project closed on July 31, 1984. The low bid was \$250,000 and the second low bid was \$323,000. The second low bid was accepted after it had been negotiated down to \$311,000. The low bid had not been accepted because of inexperience on this type of project. Tenders for this project were by invitation only and experience should have been considered before issuing invitations to tender.

The contract was signed by the contract authority on August 27, 1984, although work began on August 9, 1984. There was no letter of acceptance of offer on file. The Executive Council, as required by the Government Contract Regulations, had not been requested to approve the contract award to the second lowest bidder.

Recommendations and Responses

- (i) **Executive Council approval should be obtained for all contracts awarded to other than the lowest bidder, prior to awarding the contract.**

The Department is aware of the requirement to obtain proper approvals before contracts are awarded. Exceptions do occur, however, where it is not possible, due to the urgency of the work, to delay contract awards until formal approvals are in place. In this particular case, the Minister did consult with his colleagues to obtain their informal approval prior to awarding the contract.

- (ii) **Experience should be considered before issuing invitations to tender.**

The Department does consider experience before issuing invitations to tender. However, in cases where the method of completing the job and the resources available to contractors are unknown, all contractors who could possibly complete the job are invited.

In these circumstances, it is difficult, if not impossible, to evaluate contractors' capability prior to reviewing their proposal.

2. Work done without prior approval.

Change orders and service contracts. Seven change orders amounting to \$1,596,827, identified in our audit work, were approved after the related work had been done. We also noted seven service contracts aggregating \$314,631 that were signed after work was underway and, in some instances, after work had been completed.

The Department indicated that in emergency situations work has to begin before authorization can be obtained and before service contracts can be signed.

Recommendation and Response

- (i) **For emergency situations, the Department should develop procedures to allow for interim approval of contract change orders and service contracts. These procedures should include documentation of the nature of the emergency and the reason for interim approval. In all other situations, contract change orders and service contracts should be approved before work commences.**

Agreed. The Department recognizes the financial control implications of incurring contract liabilities on behalf of the GNWT prior to receiving the appropriate approvals.

In situations where it is necessary to proceed with work before the change order or service contract is approved, documentation as to the necessity will be on file and the appropriate documents prepared within a reasonable period of time.

Engineering Services Agreement. Under the Engineering Services Agreement, approved project authorizations are required from the Department of Indian Affairs and Northern Development (DIAND) prior to the start of a project. Where cost increases exceed \$25,000, prior approval by DIAND is required.

On the project for reconstruction of kilometers 0-15 of the Mackenzie Highway, actual costs for 1984-85 were \$862,700 whereas the project authorization approved in April 1984 was only for \$390,000. An amended project authorization was not approved by DIAND until 1985-86.

On the engineering and design project for reconstruction of kilometers 15-83 of the Mackenzie Highway, actual costs for 1984-85 were \$126,000. A project authorization was not approved by DIAND until May 1985.

A project, under the Engineering Services Agreement, for gravel haul was approved by DIAND at \$250,000 on March 27, 1984. A contract was awarded under this project, for \$109,250 on March 14, 1984, two weeks before the project approval.

Recommendation and Response

- (ii) **The Department should obtain project approvals from DIAND before carrying out Engineering Services Agreement work.**

Agreed. The Department recognizes the need to obtain project approvals from DIAND before carrying out Engineering Service Agreement work. However, due to the extremely short season for highway construction work, and the length of time for formal approval to be obtained from DIAND the Department has, on occasion, been forced to commence work prior to receipt of the approved Project Authorization. It should be noted that this is only done with DIAND's full knowledge and informal concurrence.

3. Leases

Charitable leases. The Department, in February 1985, identified 23 leases with charitable organizations, municipalities, band councils and others for which nominal rental revenue is received, usually \$1 per year. The Department determined operating and maintenance costs of these leases to be \$729,502, of which \$395,597 relates to government-owned property and \$333,905 to government-leased property. Executive approval has not been obtained for these leases. Further, the net cost to the Government is not disclosed in the Main Estimates.

Recommendation and Response

- (i) **The Department should seek policy direction in terms of:**
- appropriate level of Executive approval, and
 - need for disclosure in the Main Estimates.

The Department will be proposing a policy on subsidized leases recommending that each Department responsible for funding the applicable organization should have an approved policy on the level of funding in place before any further leases at less than market rates are entered into. Any exceptions to this will be approved by the Executive Council.

Leasehold improvements. The Department is making lease payments to a lessor based on a letter of intent dated May 8, 1984 which indicates that the GNWT is to pay for leasehold improvements amortized over the first term of the lease. A lease agreement has not been signed.

Leasehold improvements have been made by the lessor to the premises at a total cost of approximately \$500,000, however, documents could not be found showing that an individual with appropriate signing authority had authorized the details of the scope and dollar value of these improvements.

As a general practice, according to departmental officials, leasehold improvements are only charged to capital if the improvements are undertaken by the Government. Any leasehold improvements undertaken by lessors are to be included in lease payments and charged to operations and maintenance. The first invoice submitted by the lessor for these improvements was paid in the amount of \$210,000 and charged to capital expenditures. This is inconsistent with the general practice, with the letter of intent and with the practice proposed for the balance of the cost which will be paid over the term of the lease and charged to operations and maintenance expenditures.

Recommendations and Responses

- (ii) **The Department should endeavour to finalize the lease agreement as soon as possible.**

The Department does endeavour to finalize the lease agreements as soon as possible. It should be noted, however, that there are outside factors over which the Department has no control, that affect the signing of lease documents. These factors include review by GNWT Legal Services, and review by Landlord's legal and financial personnel. These reviews and subsequent wording changes, resulting in additional reviews can cause lengthy delays in finalizing agreements.

- (iii) **The scope and dollar value of leasehold improvements should be authorized in accordance with delegated signing authorities.**

Agreed. The Department is aware of the requirement to obtain proper signing authority.

Procedures are being reviewed to ensure adequate attention is given to this matter.

- (iv) **Accounting practices for leasehold improvements should be consistently applied.**

The Department recognizes the need for consistency in applying accounting practices. The transaction noted would not normally have been charged to Capital. However, in recognition of the potential savings to the GNWT over the five-year period, the FMB approved the submission requesting capital funds for this purpose.

Lease escalation prepayments. To cover inflationary increases in the costs of operating and maintaining buildings, the Department pays lease escalation costs to lessors as a condition of the leases. These payments are made monthly and are based on the lessors estimates of cost increases.

It was noted during our review of lease files that little or no documentation could be found to support monthly lease escalation prepayments.

Recommendation and Response

- (v) **Lease escalation prepayments should be more fully documented and placed on file.**

Agreed. Procedures are being developed to ensure lease escalation prepayments are fully documented and placed on file.

Timing of lease payments. On two different properties, one covered by a lease and the other by a letter of intent, the GNWT is required to make instalments payable in advance on the first day of each and every month during the term of the lease.

It was observed that, from time to time, lease payments for these properties have been late. Because the Department has been making payments late, right to renew provisions of leases may not be honoured by lessors.

Recommendation and Response

- (vi) **In order to fulfill its contractual obligations, the Department should make all lease payments on time.**

Agreed. The Department is aware of the need to adhere to terms and timing of payments under leases.

Procedures are being developed to ensure lease payments are processed on a timely basis.

DEPARTMENTS OF FINANCE AND PERSONNEL

4. Payroll and employee allowances

Review of pay input documents. Payroll processing procedures do not provide for an independent review of the accuracy of pay input documents prepared by the payroll clerks. Explanations given to us indicated that such a procedure has not been instituted because the large volume of input documents prepared would result in any review becoming a rubber stamping exercise.

The volume of errors found during our current audit indicates that current procedures are ineffective in ensuring that pay input documents are prepared using accurate data and are arithmetically correct. We reviewed 142 continuing and casual employee payroll files, of which 20% contained errors. Many of these errors resulted from use of inaccurate data and others were due to incorrect arithmetical calculations by clerks. Most of the errors could likely have been identified if procedures had been in place for independent review of pay documents and if more careful file reviews had been done by clerks.

Private Accommodation Allowance (PAA). PAA is payable to all full-time employees, including casual employees hired for a term exceeding four months, if the employee is living in non-subsidized accommodation. Procedures for monitoring continuing eligibility for PAA are inadequate. Our limited tests disclosed:

- PAA was paid to two employees who had received job transfers, but, in the interim period were out of the Territories on vacation. In both cases the employees vacated their rental accommodation prior to transferring and were not eligible to receive PAA while on vacation leave. The overpayments are now being recovered through payroll deduction.
- An employee transferred from Yellowknife, where he lived in Government non-subsidized accommodation, to Sanikiluaq where he lived in subsidized accommodation, but PAA was not stopped.
- An employee moved from government non-subsidized accommodation to subsidized accommodation on July 19, 1984 but PAA was not stopped until January 1985 when the region recognized that it was not payable. However, when the recovery was set up it was established from August 17, 1984, instead of July 19, 1984, the date of occupancy of the subsidized accommodation.
- A teacher was out of the Territories on paid education leave from August 7, 1984 onward. PAA was not stopped until November 16, 1984 as a result of the employee inquiring as to why the allowance was still being paid.
- A casual employee who was hired April 25, 1984 had his term extended on June 21, 1984 for a period that would be in excess of four months from the date of hiring. PAA should have been paid from the date of extension instead of from the date of initial employment.

Household Allowance (HA). Similar errors to those above may apply with respect to Household Allowance which is payable in certain settlements to employees who are responsible for one hundred percent of the utility, maintenance and tax costs of their accommodation. The following overpayment of \$615 in the Inuvik region, which was subsequently recovered, is noted to emphasize the need for effective monitoring of allowances paid:

- An employee had moved from non-government, non-subsidized accommodation into a government subsidized unit on June 11, 1984. It was not recognized until December 1984 that HA was still being paid to the employee whose eligibility ceased on June 11, 1984.

Recommendation and Response

A fundamental review of payroll and personnel systems should be undertaken with a view to reducing the incidence of error in payroll input documents and payment of allowances. This review should be jointly carried out by the Departments of Finance and Personnel.

Agreed. The Systems Control Section of the Department of Finance, in cooperation with the Department of Personnel, will undertake a major review of payroll and personnel procedures.

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM

5. General Development Agreement

Under terms of the General Development Agreement (GDA), the Department carried out or monitored projects for which it shared costs with the Department of Regional Industrial Expansion (DRIE). Many project claims dating back several years remain outstanding. Contributing factors were:

- lack of suitable audit opinions;
- need for adjustments arising from the audits; and
- netting of credits on some projects against charges on others.

The Department recognizes that this is a problem area and is attempting to clear the old items. We understand that a proposal is being made to the FMB to take the necessary action to clear the outstanding items relating to the GDA.

Recommendation and Response

The Department should establish an effective follow-up on claims with problems to ensure prompt resolution.

The department recognizes the difficulties incurred with the administration of the General Development Agreement. Acceptable procedures have been put in place to ensure a repeat does not occur with the Economic Development Agreement.

A full disclosure of the management and administrative problems related to the General Development Agreement was presented to the Financial Management Board at its meeting of November 19 and the Board authorized the Department to take the necessary actions to clear outstanding items relating to the GDA.

DEPARTMENT OF EDUCATION

6. Students Loan Fund.

The Loan Fund was established in 1982-83 and is operated under the authority of the Student Financial Assistance Act which established a ceiling of \$3.75 million for the aggregate of principal balances outstanding up to March 31, 1985. The ceiling is to be increased in each of the next two years to a maximum of \$7.15 million by March 31, 1987.

As at March 31, 1985, there were 455 outstanding loans totalling \$3,378,000 and cash available for new loans of \$372,000. Provisions for loan remissions and doubtful accounts totalled \$1,887,000. This amount becomes available for new loans as existing loans are remitted or written off.

Our 1984-85 audit work included a review of measures taken by the Department in response to matters referred to in last year's management letter. Substantial progress has been achieved by the Department, although the following matter remains unresolved.

Loan agreements. Section 16(2)b of the Student Financial Assistance Regulations requires that a loan application and agreement, signed by the borrower and the Commissioner, shall be included with the certificate of eligibility issued by the Review Board together with confirmation of enrolment. Loans are made on the basis of a "Confirmation of Student Enrolment" form signed by the student after he has arrived on campus. However, the student is not required to acknowledge receipt of the loan and the terms and conditions under which it is made. This would provide the link with the loan agreement, which is only entered into after the student has ceased to be a full-time student.

Recommendation and Response

Students should be required to acknowledge receipt of the loan and the terms and conditions under which it is made.

Agreed - all signatures will be obtained prior to the dollars being disbursed.

FINANCIAL MANAGEMENT SECRETARIAT

7. Special warrants

Section 18(1) of the NWT Financial Administration Act (FAA) provides that,
When the Legislative Assembly is not in session
and the Board reports that in the public interest an
expenditure of public money is urgently required with
respect to a matter and that

- (i) there is no appropriation under which an expenditure with respect to that matter may be made, or
- (ii) there is an appropriation under which an expenditure with respect to that matter may be made but the authority available under the appropriation is insufficient,

the Commissioner may sign a special warrant authorizing the disbursement of the estimated amount of money.

In accordance with Section 18(3) special warrants are deemed to be interim appropriations until covered by supplementary Appropriation Acts, which formally authorize the funding required.

Schedule 4 of the Territorial Accounts for the year ended March 31, 1985 provides a listing of the activities and items covered by the special warrants issued during the year. It also identifies the date of approval for each item, which is the date the item was approved by Financial Management Board (FMB). The items may be summarized as follows:

	<u>Number of Items</u>	<u>Amount</u>
Operations and maintenance:		
Items funding additional expenditures	43	\$ 10,937,000
Transfers between programs not requiring additional funding		(9,019,000)
Comprising		
Items covering transfers of responsibilities	10	8,398,000
Items covering new activities	<u>9</u>	<u>621,000</u>
	<u>62</u>	<u>\$ 10,937,000</u>
Capital:		
Items funding additional expenditures	67	\$ 11,264,000
Items for funds transferred between programs but not requiring additional funding	10	(74,000) 74,000
Items identified as surplus funds within activities	<u>20</u>	<u>(3,966,000)</u>
	<u>97</u>	<u>\$ 7,298,000</u>

Section 18(1) of the FAA refers only to urgent expenditures which are not, or are insufficiently, covered by an appropriation. It provides no authority to use special warrants to transfer the funds, referred to above, between programs or items. The authority to make such transfers rests solely with the Legislative Assembly.

However, there is authority for the Commissioner, on recommendation of FMB pursuant to Section 17(4) of the FAA, to transfer funds between activities of an item provided the amount authorized to be expended under that item is not increased. The funding of the additional capital expenditures of \$11,264,000 referred to above includes 22 items aggregating \$3,332,000 that, for the most part, could have been covered by transfers between activities in respect of 17 items aggregating \$3,787,000 identified as surplus funds.

The above comments on special warrants pertain to the fiscal year ended March 31, 1985. Therefore, they do not reflect any progress made in dealing with the concerns of the Public Accounts Committee regarding possible excessive or unnecessary use of special warrants, as discussed in their meeting held in May 1985.

The current year's audit, for the fiscal year ended March 31, 1986, will respond to the Public Accounts Committee's recommendation that the Auditor General review the Schedule of Special Warrants to the Territorial Accounts in the course of the regular audit of the GNWT.