

**LEGISLATIVE ASSEMBLY OF THE  
NORTHWEST TERRITORIES  
10<sup>TH</sup> ASSEMBLY, 7<sup>TH</sup> SESSION**

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# 10th Assembly

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## **Standing Committee on Public Accounts**

Review of the Financial Statements  
of the Government of the Northwest Territories  
and the Report of the Auditor General for Canada  
for the fiscal year 1984/85

## **Third Report**

Arnold McCallum  
Chairman

STANDING COMMITTEE ON PUBLIC ACCOUNTS

REVIEW OF THE FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE  
NORTHWEST TERRITORIES AND THE REPORT OF THE AUDITOR GENERAL  
FOR CANADA FOR THE FISCAL YEAR 1984/85

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staff

Mr. K. Noel Montagano, Researcher  
Ms. Alice Charlie, Secretary

Mr. Henry Zoe, Clerk

WITNESSES

Office of the Auditor General

Mr. Kenneth Dye, Auditor General  
Mr. Raymond Dubois, Deputy Auditor General  
Mr. Donald Young, Audit Principal  
Mr. Delbert Dahl, Audit Manager

Department of Finance

The Honourable Tom Butters, Minister  
Mr. Jim Nelson, Comptroller General  
Mr. Fred Barrett, Comptroller

Financial Management Secretariat

Mr. Eric Nielsen, Deputy Minister and Secretary to the Board  
Mr. Lew Voytilla, Deputy Secretary to the Board

Department of Personnel

Mr. Jake Heron, Deputy Minister

Department of Public Works and Highways

Mr. Larry Elkin, Deputy Minister  
Mr. Gordon Barber, Assistant Deputy Minister  
Mr. David Waddell, Chief of Finance  
Mr. Joe Auge', Chief of Contracts Division

Department of Education

Mr. Joe Handley, Deputy Minister  
Mr. Paul Devitt, Chief Financial and Management Services

**Acknowledgements**

The Committee wishes to acknowledge the co-operation of the witnesses who appeared before it.

It especially wishes to thank Mr. Kenneth Dye, the Auditor General for Canada, and Mr. Raymond Dubois, the Deputy Auditor General, for their presence before the Committee. The assistance of Mr. Dye's staff, particularly Messrs. Young and Dahl, in preparation for this meeting has been invaluable.

The Committee also wishes to thank the Minister of Finance and his staff for their assistance in coordinating the appearance of witnesses.



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- Mr. Kenneth Dye, ጸሎት ጸድሎቻችን
- Mr. Raymond Dubois, ጸሎት ጸድሎቻችን ጋራ
- Mr. Donal Young, ጸሎት ጸድሎቻችን ጋራ
- Mr. Delbert Dahl, ጸሎት ጸድሎቻችን ጋራ

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SUMMARY OF RECOMMENDATIONS BY DEPARTMENT

DEPARTMENT OF FINANCE

RECOMMENDATION:  
(pg. 5)

It is recommended that the Comptroller General be given the responsibility, to ensure that all departments act, in a timely manner, on the recommendations of the Public Accounts Committee.

RECOMMENDATION:  
(pg. 6)

It is recommended that by July 1, 1986, the Department of Finance, through its centrally located office of Credit and Collections, provide to all program managers, responsible for the delivery of goods or services for which repayment is expected, a list, to be regularly updated, of all individuals and/or the principals of all business entities, involved in past transactions that have resulted in bad debts due to this government. It is further recommended that where a decision is made to provide goods or services to such individuals or companies, that documentation be placed on file that supports that decision and discloses the authority making such a decision.

RECOMMENDATION:  
(pg. 14)

"It is recommended that the Department of Finance complete a review of, and make any changes necessary in, the presentation formats and the terms used, in the Schedules in the Territorial Accounts. The department is to take every precaution to eliminate errors in content. It is recommended, in particular, that the present Schedule for Grants and Contributions be divided into two separate schedules, and that the Schedule for Write-offs include a listing of all individuals or companies for which a Write-off, in excess of \$500.00, had been necessary in the fiscal year."

RECOMMENDATION:  
(pg. 15)

"It is recommended that the Department of Finance undertake a study to determine the feasibility and the implications of ways and means to record the value of fixed assets.

"It is recommended that a study be done to determine the feasibility and implications of providing fully consolidated financial statements for the government and all of its operations."

FINANCIAL MANAGEMENT SECRETARIAT

RECOMMENDATION:  
(pg. 13)

"It is recommended that where any transfer of funds between activities has been carried out under the authority of Section 17 of the Financial Administration Act, notification be given to members of the Legislative Assembly at the first sitting following the transfer."

RECOMMENDATION:  
(pg. 17)

"It is recommended that the Executive Council develop guidelines to govern the appropriate use of its authority under section 4 of the government contract regulations and ensure, that in every instance in which it exercises that authority, to have substantiating documentation available."

DEPARTMENT OF PUBLIC WORKS

RECOMMENDATION:  
(pg. 17)

"It is recommended that the Department of Public Works and Highways, with the participation of the office of the Comptroller General, rewrite and present to the Legislative Assembly at its fall session in 1986, revised government contract regulations to include a requirement that any decision to award a contract to other than the low bidder be fully documented, including the criteria used in each instance for determination of responsive and responsible and/or northern involvement."

RECOMMENDATION:  
(pg. 18)

"It is recommended that the Department of Public Works and Highways, with the cooperation of the Department of Finance, study the feasibility and implications of recognizing 'Capital' Leases as Capital items to be reported and voted upon as such in the main estimates review by the Legislative Assembly, and report their findings and recommendations to this Committee at the fall session 1986."

DEPARTMENT OF EDUCATION

RECOMMENDATION:  
(pg. 7)

It is recommended that the Department of Education complete its preparation of all the regulations, policies, procedures and manuals, as requested by this Committee in May 1985, and provide them, to the committee, by September 1986.

RECOMMENDATION:  
(pg. 9)

It is recommended that the Department of Education enter immediately into signed, formal agreements with School Boards and Districts which make legally binding the terms and conditions governing payments and accountability for grants and contributions, including notification of the right to have audits done by the government's auditor, on the premises of the recipient.

STANDING COMMITTEE ON PUBLIC ACCOUNTS

RECOMMENDATION:  
(pg. 10)

It is recommended that the Chairman of the Standing Committee on Public Accounts undertake regular follow-up through the office of the Comptroller General, and where necessary directly with officials of the department or agency concerned, to ensure that the Committee's recommendations are being acted upon in both an adequate and timely manner.







## THE REVIEW PROCESS

### BACKGROUND

In April, 1986, the Chairman of the Standing Committee on Public Accounts and the Committee Researcher met with representatives of the Auditor General for Canada in their Edmonton Alberta offices. The purpose of the meeting was to conduct a review of the GNWT Territorial Accounts for the year ended March 31, 1985 and the Auditor General's report on "any other matter".

The review by this Committee would cover three documents. These were: the Committee's report and recommendations of the previous year, the Territorial Accounts and the report on "any other matter" for the year under examination, 1984-85.

The report which follows highlights the major areas of concern addressed by this Committee in two afternoons and one morning session of public hearings. It reports on the responses received from the departments appearing as witnesses and includes recommendations that it believes will strengthen the process of government accountability.

This year the Committee was honoured by the presence, on its behalf, of the Auditor General of Canada, Mr. Kenneth Dye, who through the prestige of his office reinforced the importance of this Committee. While this Committee may find some fault within government, Mr. Dye also pointed out that overall the GNWT can be proud of its accomplishments.

In thanking the witnesses that appeared before the Committee and the Committee members for their efforts the Chairman quotes Mr. Dye:

"I act as the external auditor reporting to your Legislative Assembly here in order to help you...hold your government accountable for its actions....It is a great honour that you would ask us.

We get very good cooperation here from government officials....Again, we have been able to give what we call in the profession a "clean opinion", and that is a tribute to the work of the public servants here who have put together a set of accounts on which we can give an opinion which says it is a true and fair view of the affairs of the Territories. ...I am pleased to say that because I cannot do that on the federal scene.

...My office looks to your Committee as being essential in the effective role that parliament should play of holding government accountable. ...It looks like you have made very good progress as a Public Accounts Committee. I commend you for that."





FOLLOW-UP ON OUTSTANDING ISSUES FROM THE REPORT OF THE  
STANDING COMMITTEE ON PUBLIC ACCOUNTS FOR YEAR 1983-84



## FOLLOW-UP ON OUTSTANDING ISSUES FROM THE PREVIOUS YEAR'S REPORT

Prior to the opening of the Public Accounts Committee meetings, the Department of Finance was asked to obtain responses from each department required to take an action as a result of the committee's recommendations of May 1985, published in its Second Report to the Tenth Assembly. That report contained recommendations for the Department of Economic Development and Tourism, the Department of Finance, the Department of Justice and Public Services, the Department of Education, the Northwest Territories Housing Corporation and for the Auditor General of Canada.

The Committee wishes to express its disappointment with the quality of the responses provided by the Departments through the Department of Finance. It is also important to note the considerable dissatisfaction with the very slow response and sometimes obvious lack of action taken by most departments in addressing the concerns of this Committee.

### RECOMMENDATION:

It is recommended that the Comptroller General be given the responsibility to ensure that all Departments act in a timely manner on the recommendations of the Public Accounts Committee.

The following is an overview of the responses and the report of actions taken, provided by the Comptroller General, along with the follow-up recommendations of this Committee.

### Department of Economic Development and Tourism

The previous year's recommendation was:

"It is recommended that the department establish a procedure to require disclosure of all individuals, or principal shareholders of business entities, who have been involved in past transactions which have resulted in a write-off of accounts prior to consideration of new loan applications from these persons."

The response, read by the Comptroller General, was that the department expected to have procedures in place by June 1st of this year.

The committee is concerned that a year after its recommendation was made, the department has not implemented any procedures. There is also concern that the Committee's recommendation not be construed to apply only to the Department of Economic Development and Tourism but to all areas of government.

#### RECOMMENDATION:

It is recommended that by July 1, 1986, the Department of Finance, through its centrally located office of Credit and Collections, provide to all program managers, responsible for the delivery of goods or services for which repayment is expected, a list, to be regularly updated, of all individuals and/or the principals of all business entities, involved in past transactions that have resulted in bad debts due to this government. It is further recommended that where a decision is made to provide goods or services to such individuals or companies, that documentation be placed on file that supports that decision and discloses the authority making such a decision.

#### Department of Finance

The previous year's recommendation was:

"It is recommended that the Commissioner enact appropriate regulations in respect of account verification and payment requisition, cheque issue, receipt and deposit monies and accountable advances."

The response of the department was that the regulations requested had been written, and forwarded for consideration to the legal services division of the Department of Justice and Public Services. It was further stated that the initial response by the lawyers indicated that, for the most part, these new regulations were not necessary, as the present authorities and policies of both the Financial Administration Act and the Financial Administration Manual were adequate.

The Committee is concerned that these regulations be put into place, if necessary, to ensure the protection of the government's resources. While no recommendation will be made at this time, the Committee has requested copies of all relevant legal opinions for its review and will hold in reserve any decision to request the Department of Finance to comply with the recommendation of May 1985, irrespective of the legal opinion obtained.

#### Financial Management Secretariat

In May 1985 the Committee expressed its concerns about the number and uses of Special Warrants. It instructed the Auditor General to conduct an audit of the Schedule of Special Warrants. In response to this recommendation the Committee was told that the Auditor General is conducting such an audit and his findings will be presented to the Committee with his report on the Territorial Accounts for the year 85-86. It was stated, however, that preliminary indications were that the use of special warrants has been considerably curtailed.

Department of Education

In the previous year several recommendations were made. They were:

a) "It is recommended that the department review its present record keeping practices in respect of living allowance payments to eliminate unnecessary duplication."

The Comptroller General indicated that the department expected to convert its operations to the computer system within the next few months. Mr. Devitt told the committee that the department had, "now moved into using the F.I.S. system for this purpose".

b) "It is recommended that the regulations pursuant to the Student Assistance Act be revised and redrafted to clearly set the government's intent with respect to the provision of student financial assistance including eligibility requirements."

The Comptroller General told the Committee that new regulations have been drafted and sent to the Department of Justice for review and that the department expected to have the revised regulations in place in June for use in the assessment of 1986/87 student assistance applications. The chairman requested, from the departmental witnesses, that copies of those regulations be forwarded to him.

c) "It is recommended that a policy and procedures manual be prepared by April 1, 1986 to interpret the regulations and to establish procedures to ensure consistent application and adequacy of audit trails."

The response was that a draft procedures manual had been prepared but that a policy manual would not be completed until the revised regulations were approved. The department said it was expected in time for the new academic year.

**RECOMMENDATION:**

It is recommended that the Department of Education complete its preparation of all the regulations, policies, procedures and manuals, as requested by this Committee in May 1985, and provide them to the Committee by September 1986.

In the review of catering contracts it was recommended in the previous year:

d) "It is recommended that all decisions of the GNWT to award contracts to other than the lowest bidder be supported by sufficient and appropriate documentation detailing the reasons for the decision." and

e) "It is recommended that the practice of using 30-day termination clauses in GNWT contracts be eliminated, with the proviso that, where a termination clause is warranted, the notice period be of sufficient length to enable the government to retender the contract without disruption to the provision of the goods or services."

The Committee was told that the department was now using a 60-day termination clause. The department also indicated it would be documenting any decision to award contracts to other than the lowest bidder. It was pointed out by the Committee that these were not questions that were to be addressed only by the Department of Education but by all government departments. Considerable concern was expressed that the department had misinterpreted the intent of the Committee as regards termination clauses by adopting a 60 rather than a 30 day day period. As the department answered, when it appeared later before the Committee, that they are not including a termination clause in present and future contracts it was decided that no recommendation is required by the Committee at this time. The matter of documentation of contract award decisions was also addressed with the Department of Public Works and recommendations are recorded following the report of those discussions.

In the matter of grants and contributions the committee had two recommendations in May 1985.

f) "It is recommended that the Department of Education develop and implement agreements with School Boards to identify the terms and conditions governing payments and accountability." and

g) "It is recommended that the Department of Education develop and implement a standard form letter of agreement with recipients for capital contributions."

The response of the Department, as indicated by the Comptroller General, was that the Financial Management Board had decided that agreements were not necessary because the payment directives in place sufficiently identified the terms and conditions governing payment and accountability. The representative of the Auditor General indicated that his office would prefer to see formal agreements and the committee chairman agreed. It was stated that the present understanding of the Committee was that payment directives are not legally binding. The members of the Committee were quite clear that this previous year's recommendation should be acted upon. Additional discussion followed that addressed the issue of further audit. It was indicated that, if a formal agreement so provided, the government's auditor could conduct an audit of the recipient of a grant or contribution beyond the financial statements already being provided by the recipient.

RECOMMENDATION:

It is recommended that the Department of Education enter immediately into signed, formal agreements with School Boards and Districts which make legally binding the terms and conditions governing payments and accountability for grants and contributions, including notification of the right to have audits done by the government's auditor, on the premises of the recipient.

Office of the Auditor General

In the previous year's report the Auditor General was asked specifically to address three issues.

a) "It is recommended that the Auditor General of Canada conduct a comprehensive audit of the Northwest Territories Housing Corporation and that the report of the Auditor General in respect of the comprehensive audit be referred to the Standing Committee on Public Accounts for public review."

The Auditor General informed the Committee that such an audit had commenced and it was anticipated that a report could be provided to the Committee by the fall of 1986.

b) "It is recommended that the Auditor General's office be consulted on legislation, including regulations which result from recommendations of the Auditor General to the Legislative Assembly."

This recommendation was concerned specifically with the NWT Liquor Ordinance and the Deputy Auditor General responded that consultation had taken place and that he was satisfied with the amendments suggested.

c) "It is recommended that the Auditor General of Canada audit the Schedule of Special Warrants to the Territorial Accounts in the course of the regular audit of the accounts and financial transactions of the Government of the Northwest Territories to ensure that Special Warrants have been issued in accordance with established legal authority."

The Committee was advised that a special audit was being carried out in conjunction with the regular audit for the year 85/86 and that a report would be provided to the Committee in the fall of 1986.

The Committee thanked the Auditor General's staff for their assistance to the Committee and made no further recommendations in these three areas.

REPORT ON THE APPEARANCE OF WITNESSES  
WITH  
THE REVIEW OF THE AUDITOR GENERAL'S REPORT  
"ON ANY OTHER MATTER"  
AND THE REVIEW OF THE TERRITORIAL ACCOUNTS  
FOR THE YEAR ENDED MARCH 31, 1985



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In addressing the concerns raised by the Auditor General's report on, "any other matter", and those raised by the review of the Territorial Accounts the Committee chose to call four departments. They appeared in the following order: Finance, as well as the Financial Management Secretariat, Personnel, Public Works and Highways, and Education. It was the intention of the Committee to call each department in turn and to consider all matters relevant to that department at one session, rather than to examine each document or report individually and to call departments more than once.

The first public session of the Committee, the afternoon of May 6th, was begun with a brief statement by the Hon. Tom Butters, Minister of Finance, which outlined the role that his department took in the preparation of the financial statements of the government. Mr. Butters then left to allow his senior managers to address the concerns of the Committee.

#### The Department of Finance

The discussion with the Department of Finance began with the request of the Committee that the department provide an overview of the responses and actions of various departments to the Committee's recommendations of the previous year. As has been reported in the previous section of this report the Committee was dissatisfied with the scope of the Department of Finance's overview. It recognized that some of the difficulty rested with the Committee for not making clear its expectations of the department and for not being more attentive during the past year to the matter of follow-up of its recommendations. Repeated here is the recommendation previously recorded in the section of this report dealing with prior year's recommendations.

#### RECOMMENDATION:

It is recommended that the Comptroller General be given the responsibility, to ensure that all departments act, in a timely manner, on the recommendations of the Public Accounts Committee.

It is also necessary for the Committee to clearly affirm its own responsibility in ensuring that its recommendations are implemented.

#### RECOMMENDATION:

It is recommended that the Chairman of the Standing Committee on Public Accounts undertake regular follow-up through the office of the Comptroller General, and where necessary directly with officials of the department or agency concerned, to ensure that the Committee's recommendations are being acted upon in both an adequate and timely manner.

Following the review of the previous year's recommendations the Committee moved on to address its particular concerns with the Department of Finance, as indicated in the report, "any other matter", and in the review of the Territorial Accounts.

Report on "any other matter":

The Auditor General reported on deficiencies found in the areas of Payroll and Employee Allowances.

It was reported that in a sample of 142 payroll files that 20% contained errors. A major problem was suggested to be the lack of suitable procedures for independent review of pay documents.

Several examples were provided of instances where employees received private accommodation allowance for which they did not qualify. It was suggested that procedures for monitoring continuing eligibility for PAA were inadequate. The Auditor General also found that similar errors may occur with the administration of Household Allowances.

The report made the following recommendation:

"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 Departments of Finance and Personnel."

The government's response was:

"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."

The department advised the Committee that the promised review had recently been completed but that a final report was yet to be presented. Procedural changes have not yet been implemented as the department was awaiting the recommendations arising from the Systems Control Section's study. The department did indicate that in the fiscal year 85/86 significant improvement had been evidenced. While the Auditor General concurred, concern was expressed that the improvement may have been a staff and management response to criticism and not as a result of lasting or meaningful procedural corrections.

In response to that concern the Department indicated that the draft report of the Systems Control Section was expected in two weeks and if procedural changes were indicated implementation could begin as soon as possible thereafter. As a result the Committee made no specific recommendations but has asked the Department to try and finalize the report and its recommendations for the review of the Committee at the June, '86 session of the Legislative Assembly.

#### Financial Management Secretariat

In the report on, "any other matter", the Secretariat was singled out to address the matter of special warrants. The Auditor General qualified his comments in the report with,

"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."

While it was not, then, a full audit, the report on "any other matter" did indicate some problems with the special warrant process that the Committee wished to discuss with Mr. Nielsen, the Secretary to the Financial Management Board.

It was pointed out by the audit that several special warrants, approved under authority of section 18(1) of the Financial Administration Act (FAA), were used for the transfer of funds between items and that this authority was used improperly - as such transfers are not allowed under this section of the Act. It was further pointed out that authority does rest within the FAA, section 17(4), to allow for transfers between activities of an item and that using this authority would have eliminated the need for some of the special warrants which were processed. It was also pointed out that the authority for special warrants, section 18(1) required that expenditures be urgent in nature.

The Committee pursued both of these matters. The FMS was asked to explain how some of the warrants approved were accepted as being urgent, particularly as they were approved so closely to actual sessions of the Assembly. It was also asked if criteria were in place to assess urgency. The response was that the use of a special warrant and the assessment of the need for it, in terms of; support of the Minister, the wording of the Act, the perceived urgency, and the public's interest, are all determined by the members of the Executive that sit as the Financial

Management Board and that special warrants are therefore a matter of Executive judgement. The Committee was also told that the use of special warrants was reduced considerably in the past fiscal year. This was confirmed by the Auditor General. Mr. Nielsen outlined briefly for the Committee the process involved in the handling of a request for a special warrant. That process includes the preparation of an FMB submission, scrutiny by the FMS, the proposal to the FMB by the sponsoring Minister, and ultimately the approval and signature of the Commissioner. It was felt that the procedures in place acted as substantial safeguard that requests for special warrants would be limited, and that those for which the process was undergone would meet all the requirements of legislation.

The Committee decided that, with the explanation provided, and with the upcoming report of the examination by the Auditor General, no recommendations as regards special warrants would be made.

One area of concern was the understanding that transfers could be processed by the FMB, with the authority of Section 17(4) of the FAA and would not therefore require that they be seen or approved by the members of the Legislative Assembly, as is presently the requirement if special warrants are used. However, in fact, as the Auditor General pointed out, section 17(5) of the Act does require disclosure of transfers in the Territorial Accounts. The concern remained that this disclosure would be notice of changes made to budgeted figures, which would not be seen by members of the Assembly for some considerable time after the fact. The following recommendation is made:

**RECOMMENDATION:**

"It is recommended that where any transfer of funds between activities has been carried out under the authority of Section 17 of the Financial Administration Act, notification be given to members of the Legislative Assembly at the first sitting following the transfer."

Review of the Territorial Accounts

Discussion then moved to the area of the main estimate and supplementary estimate process. It was pointed out by the Committee that the Territorial Accounts provided several examples of estimates and supplementaries, both in revenue and expenditures, that on the surface appear to be very inaccurate. The question was asked as to the process for estimation and whether a greater degree of accuracy couldn't be achieved, especially with supplementary estimates.

In the answer provided, the Committee heard that a few typographical errors existed and that additional confusion was experienced because of the use of the terms 'supplementary estimate' and 'total estimates' in the Schedule of Revenues. It was suggested that these two columns would be more meaningfully described as 'revised estimates' and 'total revised estimates' or 'projections'. The Committee was told that fewer requests or requirements for supplementary adjustments had been necessary in the next fiscal year.

There was also concern expressed by the Committee with the term 'profits' as it is used to describe net revenues from the Liquor System and the Petroleum Products Division. It was felt that this could be construed to mean monies might be available to fund special projects or reduce prices, when in fact the money must go into the general revenue of the government, needed to fund overall government operations.

On Wednesday May 7th, the Department of Finance and the Financial Management Secretariat were called back to continue their review with the Committee. The discussion concerned the use and definition of grants as opposed to contributions. The Committee felt it important that the Schedule of Grants and Contributions be prepared in a format similar to the Schedules of Revenue and Expenditures. This would require clearly separating the grants and contributions and might also provide some insight into what processes might have taken place, or authorities used, to clarify or substantiate the changes from approved budgeted values and the actual expenditures, particularly where budgeted amounts have been increased.

The department's response was that it would be more than willing to change the format and presentation of the schedule to meet whatever the Public Accounts Committee wants.

The Committee also expressed concern that the Schedule of Write-offs did not provide detail consistent with the rest of the Territorial Accounts.

#### RECOMMENDATION:

"It is recommended that the Department of Finance complete a review of, and make any changes necessary in, the presentation formats and the terms used, in the Schedules in the Territorial Accounts. The department is to take every precaution to eliminate errors in content. It is recommended, in particular, that the present Schedule for Grants and Contributions be divided into two separate schedules, and that the Schedule for Write-offs include a listing of all individuals or companies for which a Write-off, in excess of \$500.00, had been necessary in the fiscal year."

In the review that followed, of the notes to the financial statements, discussion was centered in two areas: the method of reporting 'fixed assets' and in reporting the mutual obligations of this government and the NWT Housing Corporation. The Auditor General for Canada, Mr. Kenneth Dye, made two suggestions that were of interest to the Committee, an interest that was apparently shared by the representatives from Finance.

His first suggestion concerned the matter of the value of fixed assets. Mr. Dye indicated to the Committee that the present practice of most governments, including our own, was to record, in the statement of assets and liabilities, the value of their fixed assets, buildings etc., at a value of one dollar. Mr. Dye told the Committee that his office had done a research study with the more important users of government financial statements and that the general opinion was that they would prefer to see at least the historical cost of assets reported. Mr. Dye also felt that, were managers to have a clearer idea of the costs of the facilities which they utilize, they would become more cost conscious and therefore more cost effective in their operations.

Mr. Dye's second suggestion concerned the financial reporting relationship between this government and the Housing Corporation. He told the Committee that the two entities base their financial statement on two different principles of accounting -- 'stated' accounting principles for government and 'generally accepted' accounting principles for the corporation. He stated, "...it would be desirable that generally accepted accounting principles for government be discovered and promulgated and that they be consistent so that you can put your crown corporations together with your government, as a whole, and do a consolidation. ...I would argue that it would be valuable to you, as Members, to have a bird's-eye view of your government and consolidate all of your agencies, your crown corporations, your boards, commissions, and the government itself, to have the whole picture."

**RECOMMENDATION:**

"It is recommended that the Department of Finance undertake a study to determine the feasibility and the implications of ways and means to record the value of fixed assets.

"It is recommended that a study be done to determine the feasibility and implications of providing fully consolidated financial statements for the government and all of its operations."

Department of Public Works and Highways

The Committee called, to appear before it, the Department of Public Works and Highways, which was represented by the Deputy Minister, Mr. Larry Elkin and his staff, Mssrs. Barber, Waddell and Auge'. Discussion centred on the report on, "any other matter".

Report on "any other matter"

The first matter addressed in this report was the matter of inconsistencies in contracting procedures. The Committee noted that changes had been made to the government contract regulations in May 1985 and the department was asked to highlight the relevant changes. The department informed the Committee that one of the changes was the recognition that the Executive Council would have paramount authority in the matter of awarding contracts and could approve or reject any bid, and could award contracts without a formal tendering process. Another change was bidders be 'responsive and responsible'. Another change was the addition of a section on 'proposals' to be used when the exact parameters of a project may not be known for inclusion in a tender call.

The Committee pointed out its concerns in all of these areas, especially in the requirement for adequate documentation in contract awards, especially as they affect the lowest bidder; for the need to have clear criteria for the determination of the terms 'responsive and responsible'; and for the determination of 'best value' as used in the section on proposals.

The Committee also pointed out to the department officials other areas of changes in the contract regulations that were of concern. They were: the definition of contract authority and the extent or limits of the signing authorities at the various levels of contract authority; the removal of the requirement that contracts awarded to other than the low bidder be approved by the Executive Council; and most importantly the removal of the requirement to make available full documentation supporting a decision to award a contract to other than the low bidder.

In response to the examples cited by the Auditor General in the report on 'any other matter' the department provided considerable information to the Committee. It also promised a full report, to include full disclosure of the criteria and examination process used in selecting the successful bidder for the Repulse Bay community complex.



**RECOMMENDATION:**

"It is recommended that the Department of Public Works and Highways, with the participation of the office of the Comptroller General, rewrite and present to the Legislative Assembly at its fall session in 1986, revised government contract regulations to include a requirement that any decision to award a contract to other than the low bidder be fully documented, including the criteria used in each instance for determination of responsive and responsible and/or northern involvement."

**RECOMMENDATION:**

"It is recommended that the Executive Council develop guidelines to govern the appropriate use of its authority under section 4 of the government contract regulations and ensure that in every instance in which it exercises that authority, to have substantiating documentation available."

The second area of concern in the report on 'any other matter' was that contract work was being done without prior approval and that change orders to contracts were processed after work had been completed. A representative of the Auditor General's office informed the Committee that there was an error in this report, discovered as a result of information just brought to the attention of his staff in recent days. The error was in the total value reported for change orders approved after work had been done. The report should read \$405,865, rather than \$1,596,827. Mr. Young in pointing out this error to the Committee stated,

"There was an error in the calculation of that figure...The substance of the comment does not change, but the magnitude of the example does." The department made it clear to the Committee that circumstances sometimes made these late change orders inevitable but that it recognized the need to devise a system that would allow for recording of appropriate approvals, i.e. by telex or some other documental procedure, from an acceptable signing authority. Mr. Elkin told the Committee that the department was making changes to its procedures and they would be putting those in place during this coming year. With that assurance the Committee did not choose to make any specific recommendations but has asked the department to provide the Committee with copies of these procedures before the fall session.

On the final day of meetings the department was called back for a discussion of the rest of the concerns in the report on any other matter. The Auditor General's report had also commented about leases, particularly the matters of charitable leases, leasehold improvements, lease escalation prepayments and the timing of lease payments. The auditors commented that the real value of a charitable lease, that is a lease given for a nominal value (such as \$1. per year), should include the value of the associated

operations and maintenance costs. In 1984-85 these costs were \$729,502. The concern was that these costs were not disclosed in the financial statements and only vaguely indicated in the overall budget figure for lease payments in the department's O&M. The costs were not charged to the individual department offering a charitable lease but rolled up into the DPWH budget.

The Committee indicated that this problem was also apparent in the practice, sometimes utilized by departments, to transfer funds budgeted and approved for Capital expenditures for the procurement of facilities, into O&M and then to enter into long term lease arrangements. The auditors indicated that this is a process that might be reported in a category of Capital Leases in the Schedule of Expenditures - Capital.

The department agreed that clearer policy direction was needed in the many areas of concern with leases. Mr. Elkin told the Committee that a proposal for a leasing framework has been completed and forwarded to the Minister, Mr. Wray, for his consideration and that of his colleagues on the Executive Council. It was further indicated that, ".....in the revenue lease area, the policies are in the midst of being prepared and it has not been completed but it will be during this current year."

Mr. Elkin also indicated, and this was later confirmed, that the Department of Finance was assisting in the development of policies and that ways to consistently address the question of using O&M or Capital monies for leases and leasehold improvements would be considered.

This response satisfied the committee and it has asked the Department to table copies of these new policies and procedures at the next session of the Legislative Assembly. One recommendation was suggested.

**RECOMMENDATION:**

"It is recommended that the Department of Public Works and Highways, with the cooperation of the Department of Finance, study the feasibility and implications of recognizing 'Capital' Leases as Capital items to be reported and voted upon as such in the main estimates review by the Legislative Assembly, and report their findings and recommendations to this Committee at the fall session 1986."

### Department of Education

The department was first questioned about the Student Loan Fund. In his report on any other matter the Auditor General recommended that students should be required to acknowledge receipt of a loan and the terms and conditions under which it was made. The department indicated to the Committee that it had not yet adopted any procedure but the Deputy Minister stated that he was, "...confident that we can have an arrangement in place, maybe in the form of a letter of agreement that the student signs when their loan application is approved, indicating that they understand and they agree with the conditions of the loan and the terms under which they are taking it." With that response the Committee will make no recommendations but as this agreement should be in place for the upcoming academic year the Committee will ask the department to send a copy of the letter of agreement form, or other procedure to be used, before the end of the June 1986 session of the Assembly.

Repeated here are the recommendations made earlier in this report:

#### **RECOMMENDATION:**

It is recommended that the Department of Education enter immediately into signed, formal agreements with School Boards and Districts which make legally binding the terms and conditions governing payments and accountability for grants and contributions, including notification of the right to have audits done by the government's auditor, on the premises of the recipient.

#### **RECOMMENDATION:**

It is recommended that the Department of Education prepare all the regulations, policies, procedures and manuals, as requested by this Committee in May 1986, for the Committee's review in advance of the Fall sitting of the Legislative Assembly.

SCHEDULE OF MATTERS REQUIRING FOLLOW-UP NOT INCLUDED IN THE  
RECOMMENDATIONS MADE BY THE COMMITTEE

Department of Finance

1. The department is to provide the Committee with the legal opinions obtained relating to each of the new regulations proposed in the recommendations made in May 1985. It is expected that some are available immediately and that the balance will be provided prior to the fall session.
2. The department is to provide the report of the Systems Control Section, along with recommendations for procedural changes, relative to the pay and benefits section of the Department of Personnel and the payroll section of Finance. This report is expected prior to the June session.
3. The department is to provide a report, with the cooperation of the Department of Economic Development and Tourism, on the present status of outstanding General Development Agreement (GDA) claims. This report is expected before the June session.
4. The department is to provide, before the June session, a listing of names of all individuals or businesses for which accounts were written off in 1984/85.
5. The department is to provide, before the June session, copies of the departmental responses it received relating to the previous year's recommendations of this committee.

Financial Management Secretariat

1. The committee is to be provided with figures for review and comparison that indicate the total costs to government for school districts and the number of students they serve, as well as comparable figures for schools run by the Department of Education.

Office of the Auditor General

1. The committee would ask that a copy of the study, referred to by Mr. Dye, written by Kelly and Hanson, relating to public accounts committees, be forwarded at the first opportunity.
2. The committee asks that a brief report be provided that outlines the processes and legislation by which this government enters into loan guarantees on behalf of the NWT Housing Corporation. It is hoped that the Auditor General can provide this report before the conclusion of the June session.

Department of Public Works

1. The department is to provide, prior to the June session, a report on the process of contract award as relates to the Repulse Bay community complex.
2. The department is developing, in cooperation with the Department of Finance, comprehensive policies and procedures to govern all aspects of leasing. The Committee would ask to see these tabled before it, for discussion and review, prior to the fall session of the Assembly.
3. The department is asked to provide procedures relating to approval of contracts and contract changes, where matters of emergency or urgency exist.
4. The department is asked to provide the committee with a copy of the present manual governing contracts.



