

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

TABLED DOCUMENT NO. 70-86(1)

TABLED ON JUNE 18, 1986

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JUN 18 1986



## 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

Proceedings

Arnold McCallum  
Chairman

LEGISLATIVE ASSEMBLY OF THE NORTHWEST TERRITORIES

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

Tuesday, May 6, 1986

Witnesses

Office of the Auditor General

Mr. Raymond Dubois  
Mr. Donald Young  
Mr. Delbert Dahl

Department of Finance

Hon. Tom Butters, MLA  
Mr. Jim Nelson

Financial Management Secretariat

Mr. Eric Nielsen  
Mr. Lew Voytilla

Department of Personnel

Mr. Jake Heron



YELLOWKNIFE, NORTHWEST TERRITORIES

TUESDAY, MAY 6, 1986

Members Present

Ms Cournoyea, Mr. Erkloo, Mr. Gargan, Mrs. Lawrence, Mr. McCallum, Mr. Richard, Mr. T'Seleie

Introductions

CHAIRMAN (Mr. McCallum): I would like to welcome you to the meeting of the public accounts committee, the Legislature of the Northwest Territories. The public accounts committee is one of four standing committees of the Legislature and is responsible for reviewing government spending to ensure that it has been efficient and effective. We attempt to determine if money voted by the Legislature in its annual budget was spent for the purposes approved and the amounts approved.

My name is Arnold McCallum and I am the MLA for Slave River. I would like to introduce the other Members of the committee. Starting at my left, Mr. Ted Richard for Yellowknife South, Mrs. Eliza Lawrence for Tu Nedhe, Mr. Sam Gargan for Deh Cho. On my right, Ms Nellie Cournoyea for Nunakput, Mr. Elijah Erkloo for Amittuq, Mr. John T'Seleie for Sahtu. We have the committee clerk, Mr. Henry Zoe, with us. To my right, Mr. Noel Montagano, who is the committee research officer. We also have Ms Alice Charlie here as a recording secretary. The Clerk is here as well, Mr. Hamilton. We have people from the Auditor General's office; Mr. Raymond Dubois, Mr. Don Young and Mr. Del Dahl.

We will be conducting our meetings for the next three days and we hope that the Minister of Finance has ensured that witnesses we require have been so notified and that they will be available to us. I am sure the Minister will comment on that in his opening remarks.

I have nothing further to say in my opening remarks other than that the work of the committee, as we have our meetings, is taped. There are verbatim records being taken and I would want to indicate to witnesses, as they are called, that they would use the mike and of course, address the Chair, so that we can make sure that the remarks that are being made are recorded to the appropriate person. So with those few opening remarks I would like to call upon the Hon. Tom Butters, Minister of Finance, to make an opening statement to the committee. Mr. Butters.

Opening Remarks By Minister Of Finance

HON. TOM BUTTERS: Thank you, Mr. Chairman. Hello, Assembly Members and members of the Auditor General's staff. I wonder, sir, in the event that there may be some general questions, whether possibly after I make my remarks, maybe I could have Mr. Eric Nielsen, the secretary of the Financial Management Board and Mr. Voytilla, the deputy secretary, join me if necessary?

Mr. Chairman, committee Members, Mr. Dubois, Mr. Young, Mr. Dahl, I am again pleased to address you briefly. Your committee provides an invaluable forum for examining the government's accounts and the report on "any other matter" by the Auditor General of Canada.

The role of the Department of Finance is to prepare the territorial accounts, to supply answers to this committee on the format and content of these accounts and to act as the government's co-ordinator for the departments' replies to the recommendations of the Auditor General and the public accounts committee. Both the territorial accounts and the Auditor General's report are reflective of the state of financial management in this government. I believe my officials will

demonstrate that the government has made commendable progress in correcting those areas of concern identified both internally and by the Office of the Auditor General. That is not to say that there is nothing left to be done, but it indicates the government's desire to maintain and improve its financial management and controls.

In past years the Auditor General has identified issues of concern, among others, from such diverse areas as student financial assistance, regulations to the Financial Administration Act and the Liquor Act, accruals, and grants and contributions policies. Today, significant progress has been made in improving internal controls. For instance, management of student financial assistance has been strengthened. Financial regulations are being drafted and the government now is fully committed to accrual accounting.

Currently, the Auditor General has identified concerns with contracting procedures, payroll and personnel systems and the General Development Agreement. Action is taking place to address these concerns, as our officials will describe for you. Mr. Chairman, the Auditor General of Canada has appointed Mr. Don Young as the audit principal responsible for the audit of the Government of the Northwest Territories. Mr. Young replaces Harold Hayes, retired last October. We were fortunate for the very close and supportive working relationship developed with Mr. Hayes and the staff of the past several years. Government officials in several meetings with Mr. Young report that this level of working relationship is continuing. We look forward to working with Mr. Young and members of his audit team and welcome their suggestions for improving our financial management.

As I mentioned at the outset, Mr. Eric Nielsen, the deputy minister of Finance and secretary of the Financial Management Board, and Mr. Jim Nelson, comptroller general, and Mr. Lew Voytilla, the deputy secretary to the Financial Management Board, are in the room, along with a number of other financial officers of this government. Mr. Nelson and his colleagues will be available throughout these proceedings to answer any questions committee Members may have and provide assistance, if required, to departments. Mr. Nielsen and Mr. Voytilla will be here on request. They will attend as you require them, sir, but they may have other duties which they would have to perform. So, that is the sum total of my opening remarks and if there are any general questions, possibly I could ask Mr. Nielsen to attend and address them with me.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Butters. In past years I have asked the representative of the Auditor General, Mr. Dubois, if he would like to make any opening comments. Have you any at this time, Mr. Dubois?

MR. RAYMOND DUBOIS: Mr. Chairman, I would just like to say we are pleased to be here again to serve the committee. Since the Auditor General will be here tomorrow, I would prefer to refrain from any opening comments because I believe he plans on having some short comments for the committee tomorrow afternoon. Thank you.

CHAIRMAN (Mr. McCallum): Yes, we will have the Auditor General in attendance tomorrow afternoon at our committee meeting. Thank you very much. I think it has been indicated to you, Mr. Minister, that we would be looking at the recommendations of the last report of this committee to ensure that they have been implemented, quite possibly to discuss them. We are looking at the recommendations resulting from the Auditor General's annual report on any other matter and his comments on the territorial accounts, to examine those looking at the format and any changes that we may in principle or procedure, if you like, practices regarding accounting. That is the format I think that has been indicated to you, Mr. Minister, and that is what we will begin with. So, we can start now. Are there any general questions of the Minister from committee Members? Mr. Minister.

HON. TOM BUTTERS: If my presence is no longer required, just to confirm, sir, that the instructions that you did provide to me were circulated to all the departments that were required to appear before this committee and my expectation is that the senior financial officers and the deputy ministers will be available for questions from Members as required.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Butters. That is what we will have then. Thank you for coming. We expect that we will not be dealing with Ministers but that we will be dealing with deputy ministers and their financial people. So, we can begin with possibly Mr. Nielsen and Mr. Nelson or Mr. Voytilla, or all three, I am not sure. Mr. Butters, perhaps if I could just ask you to come back a moment. Mr. Richard has a question, Mr. Butters, if I may. Mr. Richard.

MR. RICHARD: Mr. Chairman, I just wanted to ask Mr. Butters. In terms of the Auditor General's report for this most recent year, we are clearly going to be asking the departmental officials this week about those items that are raised there. In terms of our own recommendations arising out of our review in May of 1985, is it the Minister's understanding that we should follow up with the Minister of Finance and his department on the various items which dealt with Economic Development, Justice, Education, or does Mr. Butters expect that with our own recommendations of May 1985, we would be dealing directly with the departments concerned?

CHAIRMAN (Mr. McCallum): Mr. Butters.

Departments To Answer For Accountability

HON. TOM BUTTERS: My expectation would be that the departments would respond to the recommendations and observations made by your committee. If you are unsatisfactorily answered in this regard, I would expect that possibly Mr. Nielsen or Mr. Nelson could address a global position. But I expect the departments to answer for their own accountability in this area.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Butters. Perhaps we could start by asking -- I am not sure to whom I should address this; Mr. Nielsen, possibly. Perhaps we could get some comment on your particular concern, with Finance and possibly other areas that deal with financing; responses as to our recommendations of last year. I hope you have a list of them and if not we can provide one or at least a summary of those. Could you give some idea as to a status report on them, if you have it, either verbal or you may want to get some kind of a written one if Members would require it?

MR. ERIC NIELSEN: Mr. Chairman, I think as the Minister of Finance pointed out, generally Mr. Nelson will be responding to the reports on any other matter and any follow-up on the territorial accounts. Mr. Voytilla and I will be here specifically with respect to the responses and questions concerning the Financial Management Secretariat and supplementary estimates or main estimates procedures, that sort of thing. So, if you are agreeable then, Mr. Nelson would really be the one that is going to be responding to most of those questions.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Nielsen. Mr. Nelson, maybe I could then refer the question to you. Notwithstanding what Mr. Butters has indicated, I think a lot of these quite possibly involve you. So could I get some indication, let us take it, on the recommendations of our public accounts committee last year?

Response Of Department Of Finance To Recommendations Of 1985

MR. JIM NELSON: Mr. Chairman, if I might just repeat the recommendation of the public accounts committee with regard to Finance. It was recommended that the Commissioner enact appropriate regulations in respect of account verification and payment requisition, cheque issue, receipt and deposit moneys, and accountable advances. For the information of the committee, the department has drafted regulations in all the areas mentioned and they are presently before the Department of Justice in a draft form.

CHAIRMAN (Mr. McCallum): Mr. Nelson, are you in a position to comment on Economic Development and Tourism in regard to the business loans and guarantees fund? Do you know of procedures that have been established that would require disclosure of all individuals or principal shareholders of business entities, who have been involved in past transactions which have resulted in write-offs, prior to getting new loans?

MR. JIM NELSON: No, Mr. Chairman, that would have to be addressed by the department.

CHAIRMAN (Mr. McCallum): Perhaps then Mr. Nelson -- but it is the Department of Finance that approves the write-offs. Is that correct?

MR. JIM NELSON: That is correct.

CHAIRMAN (Mr. McCallum): On the recommendations of last year by the Auditor General on any other matter, have you made or given a written response to the Auditor General on those?

MR. JIM NELSON: Mr. Chairman, you are referring to 1984-85?

CHAIRMAN (Mr. McCallum): Yes.

MR. JIM NELSON: Yes, we have.

CHAIRMAN (Mr. McCallum): No, 1983-84 -- but you have as well with 1984-85.

MR. JIM NELSON: I am sorry, I am not quite following you.

CHAIRMAN (Mr. McCallum): On the recommendations of the Auditor General for 1983-84, you have made response to the Auditor General on those.

MR. JIM NELSON: Yes, and those were dealt with in the public accounts forum in May, 1985.

CHAIRMAN (Mr. McCallum): How about the recommendations of this year?

MR. JIM NELSON: Yes, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, you asked about this one recommendation of our own dealing with Economic Development. Now, are we going to have the deputy minister of Economic Development come in and give us some response on that recommendation? Clearly Mr. Nelson is saying that we should be directing that to the department. How are we going to do that if the guy is not here?

CHAIRMAN (Mr. McCallum): I thought that we were going to get the responses to all of these recommendations from Finance. Was that not transmitted to you? I thought we had written to ask you to make these.

MR. JIM NELSON: Mr. Chairman, we have a general statement that we could provide with regard to the department's latest update but responses to any further questions on particular items will have to come from the department.

MR. RICHARD: Let's hear it.

MR. JIM NELSON: Mr. Chairman, I think there is some confusion. The question that was raised on Economic Development actually refers to 1982-83. It is two years old, it is not 1983-84. That seems to be the confusion. Otherwise the public accounts item, business loans and guarantees actually refers to 1982-83 fiscal year.

CHAIRMAN (Mr. McCallum): These are recommendations from our committee from last year.

MR. JIM NELSON: From last year dealing with a year ago prior to that.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: I do not think our recommendation was cast in any particular year. I think we saw a shortcoming in the system of that department, giving out loans without checking the government's previous write-off schedule. We were recommending that there be a procedure to rectify that. I do not think we were looking at any particular loan or any particular write-off or any particular year. I think it was the practice that we were addressing.

Departmental Response To Recommendation

MR. JIM NELSON: Mr. Chairman, if I might just read the department's response and if there are particular questions I would have to defer to the department itself. The department had concurred with the requests of the public accounts committee and indicated they would be establishing the procedures to determine any individual's situation, prior to consideration of new loan applications from each of these persons. The latest information we have received from them is they expect to have the procedures in place by June 1st of this year.

CHAIRMAN (Mr. McCallum): Anything further on that?

MS COURNOYEA: How did you answer it last year?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: I am afraid I do not have the response of the department from last year, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Do you have any comment, Mr. Dubois?

MR. RAYMOND DUBOIS: Mr. Chairman, I believe last year there was no written response. However, the department had appeared before the committee. At the time, while it had replied that it maintained the list of accounts which had been written off, loan applications were not cross-checked against the list. This item may have come up last year during the discussion of the committee. So, the first time the committee has made that specific recommendation was last year, following the committee hearings. It is really an issue that dates back one year. Personally, I would still be surprised why that particular procedure was not implemented almost immediately. I do not think we are talking about something that is very complex.

CHAIRMAN (Mr. McCallum): We dealt with this last year, on the whole procedure of evaluating doubtful accounts. I think that is where it came from. Dealing with uncollectable accounts and the loan applications from previous defaulters was raised last year when we were dealing with Economic Development and Tourism.

Just on that -- I guess on the whole thing -- Mr. Nelson, what role do you see your department playing, if you like, in monitoring the total number of recommendations of the committee? What role do you play or what role do you see yourself playing in attempting to ensure that these recommendations have indeed been responded to positively and any new procedures implemented?

#### Role Of Department Of Finance

MR. JIM NELSON: Mr. Chairman, the comptroller general's role is to actually co-ordinate the responses on behalf of the Auditor General to ensure that they are appropriate and where possible, to follow up to ensure action is taking place as indicated by the departments. The confirmation that action is taking place is actually done by our internal executive audit bureau and by the Office of the Auditor General in subsequent audits. The Department of Finance more or less takes on a co-ordinating role and a monitoring role if you like.

CHAIRMAN (Mr. McCallum): Further questions on this? Ms Cournoyea.

MS COURNOYEA: Just on the business of write-offs. More than likely over the years the question continues to arise that people have the attitude if you have a write-off then you are forgiven. When the write-off occurs, is there a letter that goes out to that specific person acknowledging that there is a write off but that does not exonerate him from the fact that he has to pay eventually or it would be jeopardizing his records in the future?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, normally there is no letter that goes out. It is generally a technical arrangement where the account has been either dead for so long that it is just automatic to write it off, or where there is a major issue with regard to collection of accounts, then communication would be going back and forth. But there is no general approach to sending letters.

CHAIRMAN (Mr. McCallum): You are satisfied that the procedure is in place, at the present time, Mr. Nelson, to ensure that there would be some kind of a check-off.

MR. JIM NELSON: We are taking action to strengthen our internal procedures with regard to collection of accounts, Mr. Chairman. I am not 100 per cent satisfied but things are looking much better.

#### Regulations Before The Department Of Justice

CHAIRMAN (Mr. McCallum): Anything further on that particular recommendation? On the second recommendation you indicated that you have your regulations from Finance before the Department of Justice now. When do you expect to get anything back on those?

MR. JIM NELSON: Mr. Chairman, as a matter of fact the first regulation that we had before Justice has been determined to be not necessary by the Department of Justice itself. They have indicated that our internal directives and the Financial Administration Act itself are sufficient. There is indication that other regulations that are listed, the cheque issue, the receipt and deposit moneys, are also in that same category, and may not be required from a legal standpoint.

CHAIRMAN (Mr. McCallum): That is, regulations with respect to account verification and payment requisition.

MR. JIM NELSON: That is correct.

CHAIRMAN (Mr. McCallum): You say, the cheque issue as well?

MR. JIM NELSON: That is correct.

CHAIRMAN (Mr. McCallum): Do you have a comment on that, Mr. Dubois?

MR. RAYMOND DUBOIS: Mr. Chairman, I wonder if the comment comes from the pending amendment to the Financial Administration Act or is based on past legislation.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: No, Mr. Chairman, the opinion of the lawyer is based on the current legislation in place. The regulations that were listed were not required, or the first one in particular.

CHAIRMAN (Mr. McCallum): Anything further? Mr. Dubois.

MR. RAYMOND DUBOIS: Mr. Chairman, my only reaction is we will have to have another look at it. On the basis of that I cannot respond any more at present.

CHAIRMAN (Mr. McCallum): But for receipt and deposit moneys and accountable advances you were going to have those regulations, or does Justice have any difficulty with those regulations?

MR. JIM NELSON: They have not indicated any difficulty at the moment. They are all over with the department at the moment and the first one came back with the statement that it was not required legally.

CHAIRMAN (Mr. McCallum): I guess we will have to wait and see the response and then have people take a look at it from there. The next area -- and I will skip away from the territorial Housing Corporation -- the Department of Justice and Public Services, Liquor Ordinance, consultation with the Auditor General on legislation including the regulations. Do you have a comment from the department on that recommendation?

#### Amendments To Liquor Act

MR. JIM NELSON: Mr. Chairman, the original recommendation of the auditor was replied to, in the affirmative, that the department was preparing legislation. At the May, 1985, meeting of the public accounts committee, the recommendation was, "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." The department has since responded that the amendments have been passed which will establish the liquor commission as a separate entity and proclamation of the amendments should occur in the near future.

CHAIRMAN (Mr. McCallum): Mr. Dubois, do you want to comment on the amount of input you have had?

MR. RAYMOND DUBOIS: Mr. Chairman, we were consulted on the draft legislation and from my recollection we were entirely satisfied with the amendments which were suggested for the amendments to the Liquor Act.

#### Recommendations On Financial Assistance To Students

CHAIRMAN (Mr. McCallum): Any comments from the Members? We will then move to the next recommendation in the area of the Department of Education. There were three of them dealing with student financial assistance, student loan fund, policies and procedures manuals. Do you have comments from that department as well, on the grants and contributions?

MR. JIM NELSON: Yes, Mr. Chairman, the first recommendation of the public accounts committee was that it is recommended that the department review its present record-keeping practices in respect of living allowance payments to eliminate unnecessary duplication. The department's response was, agreed, that manual record-keeping systems are being phased out as the student services computer record system is enhanced. The department's latest information is that they expect the conversion to the computer system will be complete within the next few months.

CHAIRMAN (Mr. McCallum): Any comments or questions from committee Members?

MS COURNOYEA: Will that be saving any person years, Mr. Chairman?

CHAIRMAN (Mr. McCallum): Mr. Nelson, do you know?

MR. JIM NELSON: That would have to be directed to the department. I am not aware of any person years.

CHAIRMAN (Mr. McCallum): Anything further? The next one, Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, the next one deals with the student loan fund. The recommendation was that the regulations pursuant to the Student Financial Assistance Act be revised and redrafted to clearly set out the government's intent with respect to the provision of student financial assistance, including eligibility requirements. The department's response is, agreed, that present regulations are being revised and redrafted so that the revised regulations should be in place for use by the student financial assistance board at their June meeting in 1986 in time for review of 1986-87 student applications. The latest information is that the regulations have been drafted and are with the Department of Justice.

CHAIRMAN (Mr. McCallum): That is, for next year the new ones should be out.

MR. JIM NELSON: That is correct.

CHAIRMAN (Mr. McCallum): Any questions? This dealt with eligibility for students to make use of the student loan fund. The next one, Mr. Nelson, dealt with a financial procedures and policies manual.

MR. JIM NELSON: Yes, Mr. Chairman, the recommendation was that a policy and procedures manual be prepared by April 1st, 1986, to interpret the regulations and to establish procedures to ensure consistent application and adequacy of audit trails. The department's response is, agreed, and a draft financial procedure manual has been completed. A policy manual will be prepared once the revised regulations referred to in the earlier answer are approved by the Executive Council.

CHAIRMAN (Mr. McCallum): Any comments? If you could stop there for a moment before getting on to the others, Mr. Nelson. Mr. Dubois, do you have any comments on those three?

MR. RAYMOND DUBOIS: No, Mr. Chairman, the only question I have is that all of those things are now in the works, as one may say, and they are all expected to come out next month. I would assume the committee would be interested as to when they do come out, as to when they will be implemented and naturally they will be getting a copy because at that time they will become public.

CHAIRMAN (Mr. McCallum): No further comments from other Members? Then the recommendation on decisions of the GNWT to award contracts to other than the lowest bidder.

MR. JIM NELSON: Mr. Chairman, there were two recommendations here. One was that it was 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. The department has agreed to that, saying that sufficient and appropriate documentation and approval support all decisions where contracts are not awarded to the lowest bidder.

#### Termination Clauses In Contracts

Departmental management has been advised to follow the recommendation concerning termination clauses which is the second recommendation, 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 latest information is the department has eliminated the 30 day termination clauses in the contracts and contracts now are being awarded without termination clauses or with 60 day clauses.

CHAIRMAN (Mr. McCallum): Would you repeat that?

MR. JIM NELSON: The contracts that are being awarded are being done so without termination clauses or with a 60 day clause for termination.

CHAIRMAN (Mr. McCallum): Are there any comments on these? Mr. Richard.

MR. RICHARD: Mr. Chairman, I think we should, perhaps when the Education people are here later this week, follow up on this item because if they are replacing the 30 day termination clause, as we saw it in the one instance last year, with a 60 day clause then the department has missed the point entirely. What we were dealing with last year, the specific contract, was a one or two year catering contract at a college residence that went to tender and the contractor agreed to provide a service for a two year period or a one year period and then government, with all respect, foolishly agreed to a clause in the contract that allowed the contractor to terminate without any reason whatsoever on 30 days notice and as the Auditor General I believe pointed out, that allowed the contractor to hold a gun to the head of government and renegotiate the prices. I think our point as a committee, Mr. Chairman, was that it is not a good practice to allow such a provision to be included in the contract. So, whether it is 60 days or 30 days, if the clause is still worded that way the department has missed the point. So, for myself, I think we should follow up on this with the Department of Education. Although I suppose -- who does contracts? DPW and Government Services also do similar contracts. But if they are doing it in the case of one or two year catering contracts with a 60 day clause then they have missed the point of the recommendation. But perhaps we can leave that for Education.

CHAIRMAN (Mr. McCallum): Further questions or comments from Members? Mr. Dubois.

MR. RAYMOND DUBOIS: Mr. Chairman, the 30 day issue is one of adequate financial management and control and I am convinced that our representatives from Finance would have something to say about that type of management control while they are here.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: I prefer not to discuss that contract until Education is here, Mr. Chairman, but...

CHAIRMAN (Mr. McCallum): Mr. Dubois.

MR. RAYMOND DUBOIS: Mr. Chairman, I am talking about the principle but not necessarily that particular contract, the principle of having the 30 day clause or having a 60 day clause -- a general clause which permits the contractor to walk out of a commitment to the government without any specific reason. On the basis of principle, perhaps Mr. Nelson would have some comments.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, on the basis of principle I think I would have to agree with the auditor that there are difficulties when a contract is one-sided, that allows a contractor to walk away from a contract under such conditions. Again, I have to deal with the specifics of that contract in question.

#### Role Of Department In Contract Negotiation

CHAIRMAN (Mr. McCallum): Mr. Nelson, do you know from other departments, for example DPW, or Government Services -- or is there anything that government has in itself done on the principle? Has the word gone out to other departments? Are you fulfilling a monitoring role, because the first recommendation was not specific to Education, it was to the Government of the Northwest Territories, on the lowest bidder? We were talking in the second recommendation about Government of the Northwest Territories contracts, not specific to Education, using the principle. In any kind of monitoring that you do, do you know in fact if DPW have the same kind of 60 day opting out? Do Government Services? How do we determine that unless we take them in?



MR. JIM NELSON: I am afraid I would have to take a look at the contracts. I am not aware of the situation with Public Works or Government Services offhand.

CHAIRMAN (Mr. McCallum): Government does a lot of contracting; for example, to a degree privatizing contracts for government with DPW for highway maintenance. Do you have any idea of what they are doing, whether these kinds of contracts have that kind of clause in them, 60 day opting out? Does your department play any role in finalizing those or are they done specifically with the particular department?

MR. JIM NELSON: No, Mr. Chairman. The Department of Finance does not get involved in the negotiation of contracts per se. The only time we would be involved is if a major contract was forwarded to us for evaluation or for some other purpose. The financial management group in each of the departments and agencies would be responsible to ensure that those contracts met sound management practices.

CHAIRMAN (Mr. McCallum): Perhaps I could just go back to the first recommendation. Last year when we were talking about this, the regulations at that time were being changed, and we just went through that in the last session. As I understand the reply of the Minister at that time, this past February, that clause was going back into the regulations. Can you indicate to the committee, is that clause back into the regulations; the need for sufficient and appropriate detailed documentation for a decision to award to other than the low bidder?

MR. JIM NELSON: Mr. Chairman, I believe our Minister replied that he would be taking action to ensure that such a clause was, in fact, put back into the regulations. The Department of Finance and the Department of Justice are right now looking at the regulation itself and such a clause will be put in the new regulations.

CHAIRMAN (Mr. McCallum): Those new regulations are now out, is that correct? They were signed on March 12th, is that correct? Contract regulations?

MR. JIM NELSON: Mr. Chairman, that adjustment is still in draft at the moment. The regulations have not been changed.

#### Delegation Of Authority

CHAIRMAN (Mr. McCallum): The new regulations, if I may just digress for a moment, from what I can understand, are certainly that the Executive Council is not bound by the regulations. That is one of the things that is within them. I think Members have copies of those. I think the business of the contract authority can be a delegated responsibility to a department head. It certainly opens it wide in who can -- it seems to me that in one of the areas, the contract authority does not have to go to his Minister on it. I am not sure which one that is in. Do you know of those regulations, Mr. Nelson?

MR. JIM NELSON: Not the technical aspects of the regulations, Mr. Chairman.

CHAIRMAN (Mr. McCallum): I guess the point that I wanted to make was that when we were talking about these last year -- and I think you were a witness, Mr. Nelson, at the time we were talking about those -- we were saying that there had to be certain safeguards and there had to be policies in line and everything else. The government in fact was changing the regulations at that time, in which you agreed with us that there had to be sufficient and appropriate documentation, but the government at the time was deleting that particular aspect within the regulations. I think that is where we had some difficulty, as we later found out. But in regard to that first particular recommendation, will the new regulations require detailed documented documentation?

MR. JIM NELSON: Yes, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, I wonder if it is fair to ask when we might see that reinstatement in terms of the regulation being enacted.

CHAIRMAN (Mr. McCallum): I think it is fair to ask it. Mr. Nelson.

MR. JIM NELSON: I am not sure. I would have to check with the Department of Justice and our own staff to determine the status of that change.

CHAIRMAN (Mr. McCallum): Any further questions on those two recommendations? I think we will come back to it and discuss this because I think we would be concerned that there are other government departments as well. Grants and contributions. Mr. Nelson.

Agreements With School Boards

MR. JIM NELSON: Mr. Chairman, the recommendation was that the Department of Education develop and implement agreements with school boards to identify the terms and conditions governing payments and accountability. The department's response was that the Financial Management Board had decided that agreements with the school boards are not necessary, as the payment directive sufficiently identifies the terms and conditions governing payments and accountability. The latest information is that the department is presently examining the methodology of funding boards and they will be requesting the Financial Management Board to consider the matter of agreement in adjusting the current payment directives in place.

CHAIRMAN (Mr. McCallum): Are there any comments? It seems to me we got into discussion on this last year as well, in Education. Mr. Dubois, do you have any comment?

MR. RAYMOND DUBOIS: Mr. Chairman, I think we are back to square one again.

CHAIRMAN (Mr. McCallum): I agree.

MR. RAYMOND DUBOIS: And I do not think our position has changed. We still think that it would be an improvement over the system if the Department of Education had specific agreements with specific school boards, which would firm up the accountability system. That was discussed quite thoroughly last year at the committee hearings and the conclusion is in the recommendation. I fail to see that anything has changed and I think we are back to the same situation again. Perhaps it should be further discussed with the Department of Education.

CHAIRMAN (Mr. McCallum): That is the same response that we had last year. That the FMB has decided that agreements with school boards are not necessary as the payment directive sufficiently identified terms and conditions governing the payments and accountability. We had talked to the Department of Education at that time, whether that was the FMB or a joint agreement with the department and the department, of course, indicated that both are of the same opinion.

But again as I understand, we were not satisfied with that particular answer last year, which is why we put it in. And you might as well know that we are not satisfied with it again. We have the feeling and we concur with the Auditor General that agreements with school boards should be made, not just payment directives, because payment directives, as we understand it are not legally binding and we emphasized that last year and emphasize it again this year. So we are back, as Mr. Dubois says, to square one. Now, if something has changed in the meantime I can be corrected, but it is my understanding that payment directives are not legally binding and we believe that for those particular grants to the school boards, agreements should be made with them. Any comments from other Members? Well, we will come back with the Department of Education and maybe come back with you people on this at a later time as well, Mr. Nelson. Do you want to comment on the second one or does your response to the first one cover the second as well? That if you do not need them, the department is not going to develop and implement a standard form letter of agreement with recipients for capital contributions, is that correct?

MR. JIM NELSON: Mr. Chairman, the department has indicated that they have a payment directive and guidelines which outline the terms and conditions of their capital contributions and the guidelines are appended to all letters on major capital projects. They have also given additional information that for all future contracts, a memorandum of agreement will be implemented.

CHAIRMAN (Mr. McCallum): Mr. Dubois.

MR. RAYMOND DUBOIS: Mr. Chairman, that response seems to be more positive. I am just wondering when it will be implemented.

CHAIRMAN (Mr. McCallum): Mr. Nelson, do you know?

MR. JIM NELSON: No, I do not know the date, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Last year we talked with this department about 12 different directives as I recall, or there was some confusion between the numbers seven and 12. Do you know, Mr. Nelson, whether this applies only to the school boards? Does it apply to the societies?

MR. JIM NELSON: I am afraid I do not know the financial arrangements of the societies, Mr. Chairman. I believe it just applies to school boards.

Comprehensive Audit Of NWT Housing Corporation

CHAIRMAN (Mr. McCallum): Any further comments from Members? There are two other recommendations. They were both made to the Auditor General. Perhaps we could have a comment from Mr. Dubois on the Housing Corporation, the comprehensive audit.

MR. RAYMOND DUBOIS: Yes, Mr. Chairman. I will just give general comments and perhaps ask Don Young to get into more detail. We did meet in late fall with the heads of the Housing Corporation to discuss the conduct of a comprehensive audit. At that time it was agreed that the best period of the year to do the main part of the work would be the summer, so we had agreed that we would begin the comprehensive audit in the spring of 1986 and conduct the main part of it during the summer and hopefully report in the fall of 1986. Now, with your permission, I would like to ask Don to perhaps give more details to the committee.

CHAIRMAN (Mr. McCallum): Certainly. Mr. Young.

MR. DONALD YOUNG: Yes, Mr. Chairman. Further to what Mr. Dubois has said, we met with the board of directors of the Housing Corporation in late March in Inuvik and discussed the process with them and the potential timing and the logistics involved in the whole process. Since that time we have got our preliminary planning in place and the overview phase of the audit has now commenced. We expect that it will gain momentum as the summer goes on and that we will be into the execution phase, which is the most active phase of the audit, during the course of the summer and that we should be in a position next fall to report on the results.

CHAIRMAN (Mr. McCallum): Any questions by any Members on that recommendation and the comments of Mr. Dubois and Mr. Young? A further recommendation is in the area of special warrants. The committee recommended to the Auditor General that it audit the schedule of special warrants to the territorial accounts. I wonder if we could have a comment. I recognize that within the Auditor General's letter on any other matter there was a comment made at that time. Perhaps, Mr. Dubois, you would like to make comments now, to get it down.

Review Of Utilization Of Special Warrants

MR. RAYMOND DUBOIS: Yes, Mr. Chairman. Following the comments of the public accounts committee of last year, we had a general look at the 1984-85 situation and intend to do a more thorough review of the special warrants area for the 1985-86 year, and report to the committee in our letter of the fall of 1986. The comments on 1984-85 are on pages nine, 10 and 11 of the letter on any other matter of this year. Generally speaking, the main comment is that the government, instead of using section 18(1) of the Financial Administration Act which refers only to urgent expenditures, could have used the section 17(4) and perhaps cut back on a number of special warrants. That was the extent of the comments we made on last year's situation. We only did an overview of the situation because the item had been extensively analysed by both the standing committee on finance and the public accounts committee and we felt that that subject had been covered substantially. At that time I believe Finance had indicated that, or the Minister of Finance specifically, had indicated that action had been taken and that special warrants would be looked at very carefully by the government. We intend to look very specifically at the special warrants utilization in 1985-86 and report to the committee.

CHAIRMAN (Mr. McCallum): Any comments from the Members? Mr. Young.

MR. DONALD YOUNG: If I might just elaborate a bit, Mr. Chairman, we are not only intending to, but that is in process at the moment.

CHAIRMAN (Mr. McCallum): Do Members have any questions? Mr. Richard.

MR. RICHARD: I appreciate that the Auditor General is going to give us more information in the future on this, Mr. Chairman, but in view of the fairly clear comments of the Auditor General in this year's report on any other matter, has the government discontinued the practice of using negative special warrants?

CHAIRMAN (Mr. McCallum): Mr. Nelson? Mr. Voytilla?

MR. LEW VOYTILLA: Mr. Chairman, the government has not issued any negative special warrants in the 1985-86 year and just to identify, although I cannot speak on behalf of the government, the government has reduced the number of special warrants between 1984 and 1985. They are down one-fifth of what they were in 1984-85, what has been issued in 1985-86. So, the use of special warrants has been curtailed extensively.

CHAIRMAN (Mr. McCallum): And those that were used, were not used to increase any funding? The ones that were used, you have cut down a fifth, to a fifth of the number. Of the ones that were used, they were not used to increase any funding? It was just simply transfers then?

MR. ERIC NIELSEN: Mr. Chairman, no, that is not correct. The Auditor General's report identifies in 1984-85 there were 62 operations and maintenance items, special warrant items. There were only 19 in 1985-86 and those items that required an additional expenditure were 16 out of the 19.

CHAIRMAN (Mr. McCallum): They were done by special warrants and then come in as supplementary.

MR. ERIC NIELSEN: They come in subsequently in the supplementary estimates document.

1984-85 Report On Any Other Matter

CHAIRMAN (Mr. McCallum): Any further questions on that recommendation? Perhaps we can turn then to the Auditor General's report on any other matter. As I understand it, Mr. Nelson, you have made responses to this, as well. Perhaps we can take a look at these. I think Members have the particular text again with them, the report on any other matter.

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Departments Of Finance And Perspnnel, Payroll And Employee Allowances

The first one is the Department of Public Works and Highways. We will not get into those, we will have to move over to page six, Departments of Finance and Personnel. Payroll and employee allowances is the first one; the review of pay input documents. The Auditor General indicates that payroll processing procedures do not provide for an independent review of the accuracy of these documents. In the number of instances which the Auditor General's people reviewed, 142 continuing and casual employees, they found that there were 20 per cent which contained errors, in that number. The volume of errors found indicates that current procedures are ineffective. I wonder, could we have a comment from you there whether it is with Finance or whether you want to involve Personnel as well? Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, our department will respond to this. As we indicated in our reply from the Office of the Commissioner, we would have the Department of Finance systems control section review both payroll and personnel procedures to determine the extent of the difficulties. We have just completed the review. Our systems control people have just completed their analysis of the pay and benefits section of both the Department of Personnel and the payroll section of Finance. Their review at this time was indicating a significant reduction in the amount of errors that are taking place. There has been fairly widespread improvement throughout the systems. We have not yet seen their final report so I cannot get into the details at this time but it would seem that there has been a tremendous improvement over last year.

We have also conferred with the staff of the Office of the Auditor General and they also confirm that improvements have been noted. So I think we are quite pleased with the results and it appears that the problems that were identified no longer exist.

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

MR. RAYMOND DUBOIS: Mr. Chairman, we conducted a similar sample this year. Last year out of 142 we had 30 files that contained at least one error. This year we only found five so there is a substantial improvement in the system. Now we are not sure if the decrease is due to an increased

awareness by the clerks of last year's criticism and they are being more careful or if it is the fact of implementation of new procedures that will make sure that this is a continued improved situation and it will not go back down again when people start relaxing.

CHAIRMAN (Mr. McCallum): I guess that is the point. Could you elaborate, Mr. Nelson, on what procedures you have instituted to improve this situation and not make it a rubber stamp exercise?

MR. JIM NELSON: Mr. Chairman, I think the actual procedural changes are not yet complete but the majority, I think, of the changes were probably as Mr. Dubois indicated formerly. The people have been trained better and are more knowledgeable of what the system is. They are looking for the errors and understanding the system better. As I indicated the report is not yet complete so the extent of new procedures or changing procedures which may be required is not yet known. But just the overall reduction in errors would indicate that improvements have been made.

Private Accommodation Allowance

CHAIRMAN (Mr. McCallum): Any further questions? We will move into the next area of the private accommodation allowance. The Auditor General's comment here is that the procedures for monitoring continuing eligibility for the PAA are indeed inadequate and he lists some examples. Can you comment on those?

MR. JIM NELSON: Mr. Chairman, as I indicated the response of the department was that we would undertake a complete review of the whole payroll and personnel procedures function and that is what is taking place. The specific error areas, such as private accommodation allowance and other areas, were all part of that review. Indications are that the improvements have been made, it is a matter now of just determining the extent to which procedural changes will be required and so forth. There are also some changes going on within the pay and benefits section of the Department of Personnel itself, with minor reorganization, which it is hopeful will strengthen this area as well.

CHAIRMAN (Mr. McCallum): Are there any questions? Mr. Dubois, do you have comments?

MR. RAYMOND DUBOIS: Mr. Chairman, one of the observations that we made in the letter was that procedures for monitoring continuing eligibility for private accommodation allowance are inadequate. In fact the way the system works, it lends itself to errors through just falling between chairs. One of the thrusts of the observation, and hopefully coming out of the review that was done, is that there will be a specific monitoring procedure implemented to make sure that there is a check on allowances being paid out and a way that the system can be made automatically aware of a change in an employee's status. For instance just as an example, employees could be required to confirm their accommodation status at least annually. That way the system would catch any changes. This is just an example. Perhaps the review that has been done will come out with more refined suggestions as to how this whole situation should be monitored and controlled.

CHAIRMAN (Mr. McCallum): Do you know, Mr. Nelson, if that is one of the procedures that has been taken into account or looked at with the idea of adopting it?

MR. JIM NELSON: I am not aware of the details of the review, Mr. Chairman. I think the group has looked at all the various systems and procedures. I think one of the things that must be brought to the attention of the committee, too, is the extremely high volume of transactions that are processed through this area. We are talking about processing every two weeks some 4000 payroll cheques, so with the amount, just the vastness of paper that flows through both pay and benefits in Personnel and payroll in Finance, the likelihood of error is always with us, regardless of procedure. We are hoping that the results of this systems review will strengthen the whole area and we will wait and see, I suppose.

CHAIRMAN (Mr. McCallum): Do you have a work force looking at it from Personnel and from Finance as well? Is that what they are doing? I recognize you indicated that it is not ready but when do you foresee it becoming available? Are we going to be able to see it in June?

MR. JIM NELSON: I would hope to see the results of the study complete probably within the next two months or sooner.

CHAIRMAN (Mr. McCallum): We are not going to see it in June.

MR. JIM NELSON: Certainly by the time the audit for this fiscal year is complete.

CHAIRMAN (Mr. McCallum): Mr. Young, do you have a comment?

System Must Be Relied On

MR. DONALD YOUNG: Mr. Chairman, certainly there is a very large volume of transactions going through the system but you know that was our concern. Based on our samples there was a very high incidence of errors so that if it was extrapolated to the population as a whole, it is of some serious concern. But, as Mr. Dubois indicated, our work this year indicates that the incidence of error is down very substantially. In the area of the allowances, from the six examples that were pointed out last year, this year that was only one example and I think that is consistent with the findings in the area of the payroll errors as well. But there is a need to improve the system. The drop in the error rate this year is obviously from more diligence on the part of the people concerned but you cannot always count on that because you have turnover in people and various uncontrollable circumstances. So then you have to rely on your system to take over at a certain time.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, I might update that time frame. We are expected to have the draft in two weeks.

CHAIRMAN (Mr. McCallum): Then once it is finalized we, as a committee, would like to get it. If we can get it during the June session it would be nice. Ms Cournoyea.

MS COURNOYEA: Just for clarification on the private accommodation allowance. I imagine this is the \$450 that normally is available. On the household allowance, it is an allowance which is payable in certain communities to employees who are responsible for 100 per cent of the utility, maintenance and tax costs for their accommodation. It was my understanding that the \$450 was at one time incorporated with the household allowance and there was just a general allowance that was known as a northern allowance, which is non-taxable. I am also aware that in certain circumstances when we deal with household allowance it could be that a person who is staying in Yellowknife, is stationed three months in another community and gets a bit of an extra allowance. But where does this household allowance kick in? It is my understanding that \$450 takes up people living in their private accommodation who generally pay all those costs that are outlined in the household allowance section.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

Purpose Of Household Allowance

MR. JIM NELSON: Mr. Chairman, I am not too familiar with the specifics of how the household allowance is made. The private accommodation allowance is available to any employee who is providing his own accommodation, that is the \$450 non-taxable allowance. The additional allowance is provided in those arctic communities where the additional costs warrant; the extra cost of utilities, for example. I am not sure of the extent of the allowance but it is a certain amount per month to cover the high cost of utilities. Frobisher Bay, I believe, has that extra allowance available to it.

MS COURNOYEA: But it was my understanding, Mr. Chairman, that at a point in time the Government of the Northwest Territories would take a standard cost, say in Yellowknife, which might be about \$350 or \$450, and for a person living in Frobisher Bay, would calculate the difference between, but it still would be the standard private accommodation allowance and would be just an addition for the cost of living in the smaller communities.

MR. JIM NELSON: Mr. Chairman, there are actually additional allowances besides the accommodation allowances. There is a cost of living allowance, for example in Frobisher Bay and in each of the high arctic settlements as well, which again, is in addition to the housing allowances. Mr. Chairman, I notice Personnel is in the back of the room. They could probably answer that far better than I can.

CHAIRMAN (Mr. McCallum): I wonder then if we could ask Mr. Heron to come forward. Is it Mr. Heron that is going to comment on it? Mr. Heron from the Department of Personnel, deputy minister. Perhaps you could try to clarify what is here and quite possibly what the difference is between these two and in addition, the cost of living allowance as well.

MR. JAKE HERON: The cost of living allowance or the household allowance?

CHAIRMAN (Mr. McCallum): Well, I am not sure.

MR. JAKE HERON: The terminology is household allowance, as well as private accommodation allowance.

CHAIRMAN (Mr. McCallum): We have a private accommodation allowance and we have a household allowance and Mr. Nelson indicated that there is a cost of living allowance. Is there any difference between the three?

MR. JAKE HERON: Or settlement allowance...

CHAIRMAN (Mr. McCallum): Or settlement allowances, is that it?

MR. JAKE HERON: That is right.

CHAIRMAN (Mr. McCallum): Perhaps you could comment on them.

Explanation Of Accommodation Allowances

MR. JAKE HERON: There are three of them, that is correct. In the case of the household allowance, in various communities the rates vary, but primarily it is for those people who own their own homes and consequently have a differential between what the utility rates would be in the city of Yellowknife and those of Frobisher Bay or Igloodik or wherever else it might be. That is essentially what a household allowance is for. The settlement allowance is primarily in recognition of the high cost of food, with Yellowknife again being the base for the differential in settlement allowances that are being paid. As well, of course, the private accommodation allowance is the standard allowance for everybody who is not in subsidized housing.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: It seems to me it is both the same thing.

CHAIRMAN (Mr. McCallum): Mr. Heron.

MR. JAKE HERON: Well, unfortunately, the decision is with respect to the utilities and maintenance, if you wish, for those people who live outside of Yellowknife, or who own their own homes, as opposed to those people who live in subsidized housing for example. In Frobisher Bay, as an example, everybody would receive a settlement allowance, so it is for all employees, but those people who live in government accommodation would not receive the extra \$75 a month for operating their own home. So, there is a differential there and the basis, I guess, is home-ownership as opposed to living in rented accommodation.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: Mr. Chairman, under the private accommodation allowance it says, "... if the employee is living in non-subsidized accommodation". It would seem to me that a private accommodation, whether it is your home or whether you are renting, would be categorized as non-subsidized accommodation. I do not see the difference between the two; between the household allowance, how that is categorized, and the private accommodation, how that splits up. It does not matter whether you are renting, because you are probably renting it at a fair economic rate, which is probably about the same as if you were paying a mortgage on a house. It is just confusing to me what the difference is between those two. How does the household allowance kick in when the private accommodation allowance is available?

CHAIRMAN (Mr. McCallum): Mr. Heron.

MR. JAKE HERON: As we probably all know, in areas where rental accommodation is available there is DPW staff. If you have something wrong with your sink or your bathroom or other kinds of things, you give them a call and we go over and clean it up. Conversely, if you are in private accommodation in your own home, you are expected to foot the bill yourself and most of us who live in our own homes will either fix it or hire a plumber in desperation. So, I think there is quite a significant difference as to how these matters have been traditionally handled in the North.

MS COURNOYEA: It was my understanding that at one point in time, the private accommodation allowance or the northern allowance or the non-taxable allowance would be prorated from Yellowknife, depending on how far north you were and what the cost of living was. I guess maybe the confusing part is that the private accommodation allowance is on non-subsidized accommodation. I really do not see the difference between a person renting accommodation and paying a private entrepreneur for the accommodation and what you would pay, even if you were living in your own house, because normally those accommodations are supplied where you pay the rent plus you pay the utilities. I just do not see the difference in those two and why there should be a difference.

CHAIRMAN (Mr. McCallum): Further comment, Mr. Heron?

MR. JAKE HERON: I guess the only defence I would have is that the rules have been made previous to my coming on board here and it is a program that we are administering overall in the Government of the Northwest Territories. If there is a need for further review I would gladly do a review of that, as well as to how we may, if there are some inequities in the system, make them more equitable for the folks that are employed by this government.

CHAIRMAN (Mr. McCallum): Just one comment. It is my understanding the settlement allowance is part of the union contract. Is that correct?

MR. JAKE HERON: Yes, it is.

CHAIRMAN (Mr. McCallum): It is under the union arrangement.

MR. JAKE HERON: That is correct, it is in the collective agreement.

CHAIRMAN (Mr. McCallum): So a union employee gets that automatically?

MR. JAKE HERON: That is correct.

#### Application For Household Allowance

CHAIRMAN (Mr. McCallum): How does one go about getting household allowance? Is that by application? All government employees get the private accommodation allowance of \$450 if they are in non-subsidized accommodation. Union people get a settlement allowance if they are out in the settlements. They get it automatically. Both of those are automatic. How does one go about getting the household allowance? Does one apply to someone for it?

MR. JAKE HERON: I think it is part of the documentation process that we go through -- when we hire an employee for example, or if in fact employees decide to build their own home in Frobisher Bay where we know the allowance is available, then they come in if they happen to know about the program, that there are additional household allowances available to them. There are other avenues as well. Not to complicate the matter but there are tax benefits as a result of fuel subsidies, etc., in certain areas, that people could apply for as well. So there is a relationship between those tax benefits that you get in terms of rebates in conjunction with this household allowance. But it is primarily, I guess the initiative is -- most of us probably know in the small community who in fact own their own homes or do not own their own homes. And invariably those folks that are on stream, who build their own houses, we identify them and most times they come forward and apply for that household allowance.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: I would think that it would be less cumbersome to just create one category -- say on the private accommodation allowance it is an automatic \$450 a month or whatever it is. It would seem that the people who fall under the private accommodation allowance would be all those people



who neglected to apply for the household allowance. All it says here is that it is payable to people who pay 100 per cent of the utility, maintenance and tax costs of their accommodation. And I do not know who that would be other than the people who would fit under the first category.

CHAIRMAN (Mr. McCallum): Mr. Heron.

MR. JAKE HERON: I think there are areas where, for example, some people primarily in communities off the highway, I guess, would pay a flat rate for electricity, or would pay a flat rate for heat and a flat rate for furniture for example. Or in those situations where the fuel costs and heating costs for that particular unit are in some situations beyond the control of any one individual, because they are in an apartment building. I guess the system has been able to accommodate it in an equitable way by saying that the flat rate will be such and such. So it is not necessarily 100 per cent recovery for those utility rates.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: The first part seems to take care of people who probably live in rented accommodation but in terms of the household allowance, and this may go to a private home-owner, in which settlements do they pay their full utility because there is a subsidy for lighting or for electricity which is prorated on Yellowknife, and there is a refundable per cent on the cost of fuel if you put in your yearly piece of paper saying what your recovery should be? And in terms of the tax cost, that is generally taken care of within the mortgage and in a lot of communities, there is a return, for example in Inuvik, you know you can get a tax rebate on your taxes. So, who would fit into the household allowance?

Review Of Household Allowances

MR. JAKE HERON: Well, I think what's happened is that we have done a total review of the household allowances this year and are making some recommendations to the Executive Council as to what those rates should be because of the fact that there are rebates of various natures available to home-owners in the various communities, and there will be an appropriate accounting, if you wish, in terms of our allowance. You will probably see in some situations the allowance going up and in some other situations, in most cases, they are going down, overall. In terms of 100 per cent, I guess because of the rebates, etc., obviously nobody pays 100 per cent unless they neglect to apply for the various rebates that are available. Our rates are going to reflect those particular changes.

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MS COURNOYEA: Mr. Chairman, do you know how much is paid out in household allowances each year? I mean, is it a significant amount?

MR. JAKE HERON: In comparison to the overall salary, I think the number is around \$300,000 for the total government.

MS COURNOYEA: For the household allowance. So, is it because people cannot figure out how to fill out the forms?

MR. JAKE HERON: Well, as you know, it is well understood which communities are going to receive the household allowance and which are not. Unfortunately, I do not have the household allowance list in front of me. I know it primarily is for the people off the highway system and obviously in the High Arctic. I could get the list for you if you want, and the rates that we currently pay. When the new rates are approved, I can also bring that forward.

MS COURNOYEA: Are you going to amalgamate the two?

MR. JAKE HERON: There has not been any consideration for amalgamation at this point in time.

CHAIRMAN (Mr. McCallum): Mr. Young, have you a comment?

MR. DONALD YOUNG: I was just going to try to summarize it to see if my understanding is correct. I think what we have is a hierarchy here of allowances, where the private accommodation allowance goes, essentially, to everyone in non-subsidized housing, whether it's rented or owned, and the settlement allowance is an extension of that if you live in certain communities that are more isolated, and the household allowance is a further extension of the settlement allowance if you happen to own your own home and incur additional expenses as a result of the utilities. Now, I am not sure if that helps or hinders the debate.

CHAIRMAN (Mr. McCallum): I think that is a good summation of what it is.

MS COURNOYEA: In terms of the various refundable items you have when you own your own home, it was my understanding, at one time, that, and maybe you could clarify it, a person would be far better off taking advantage of non-taxable benefits and having a real simple form of delivery. It is \$450 in Yellowknife, or is it less than \$450? What is the rate on this private accommodation allowance? My understanding was that it varied from one place to another, or doesn't it?

CHAIRMAN (Mr. McCallum): Mr. Heron.

MR. JAKE HERON: The private accommodation allowance is universal. It is \$450 everywhere. What varies are the settlement allowances as well as the household allowance. The basis of those is cost of food -- a sample bread basket in Yellowknife, as opposed to what it would cost in Iqloolik or Resolution or wherever. Resolution might be a bad example because I do not think they are on the household allowance.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: Mr. Chairman, I understand the \$75 because that is basically a cost of programs, but these two here seem to be one and the same and it appears to me that it could be a lot simpler to allow people to tap into it. I am not against a household allowance in remote communities but it seems to me it could be a lot simpler to have an easier delivery system and prorate it. My understanding is it does not matter whether you own your own house or rent a place, it is generally calculated on the cost of the unit, plus you are charged the electrical bills, plus you are charged the fuel, whether it is yours or not. It seems to me it is a bit complicated maybe leaving some people out. If a formula could be established that it just comes according to where you are and the cost of where you are.

CHAIRMAN (Mr. McCallum): Mr. Heron.

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MR. JAKE HERON: I think the principle of the household allowance is the encouragement of private ownership of a home. This is just, as I understand it, the government's way of encouraging that, as opposed to saying "Oh, this allowance is available for everybody because we all pay rent and we all pay utilities and we all pay maintenance." At least that is the basic underlying principle of this particular allowance as I understand it.

RIGHT  
MARGIN

MS COURNOYEA: Just one final question. Is the household allowance taxable?

CHAIRMAN (Mr. McCallum): Mr. Heron.

MR. JAKE HERON: Yes, it is.

Place Of Allowances In Main Estimates

CHAIRMAN (Mr. McCallum): The \$300,000, Mr. Heron, that you referred to, is that a separate budget item in the estimates?

MR. JAKE HERON: I do not believe it is. I think it is a part of the overall items.

CHAIRMAN (Mr. McCallum): Any further questions or comments? Mr. Dubois.

MR. RAYMOND DUBOIS: Mr. Chairman, it was just in relation to your question as to where it appears in the estimates and in what form. I am just curious about that.

CHAIRMAN (Mr. McCallum): Mr. Voytilla.

MR. LEW VOYTILLA: Mr. Chairman, in the estimates the household allowance does not appear separately. It appears in the salary and wages control object of the departmental budgets. So it is grouped in with the normal salary cost as are all the other allowances, the settlement and the private accommodation. But they are broken out in the budgeting process in what we call a detailed salary cost.

CHAIRMAN (Mr. McCallum): Any further questions dealing with Finance and Personnel? Mr. Nelson, that is Finance and Personnel. I guess the only other one is to go back and see if there is anything further on the special warrants. Mr. Richard.

Special Warrants

MR. RICHARD: Mr. Chairman, this is admittedly the second year that we are discussing special warrants in this forum and I believe looking at the form of the supplementary estimates that we have seen in the Assembly since last May and in some of the statistics that have been given to us already this afternoon, it appears that there is some improvement in the areas of concern that this committee has expressed in the past. Just to get to the heart of the matter, the Auditor General has reviewed the provisions in the legislation as to when special warrants are permissible. Could I ask if Mr. Nielsen could indicate whether the government is in a position to somehow fine tune the prerequisite of "urgent requirement"? Is the government going to put guidelines on that that would govern the occasions when special warrants are justified on the basis of urgency?

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, we have looked at the Financial Administration Act over the past several years. We have had discussions with the Auditor General's office on the precise wording that should be used for the section on special warrants. Really, I think what we are talking about is a matter of judgment. It is the judgment of a collective group called the Financial Management Board and the way the act is written now, with perhaps some minor refinement in the new draft, seems to accommodate in the best manner possible the requirement that each supplementary estimate request be examined critically and that that request not be approved for inclusion in a special warrant unless it is justified. The reason why, what advice is given to the Ministers, what decisions the Ministers would take in a particular circumstance, really are no different than any other cabinet decision. They are decisions that are taken in the best light of the information available.

It is my view that the decisions that are taken are taken in light of the current Financial Administration Act, the wording in that act, and that the decisions are taken on the basis that they are urgent requests and in the judgment of those Ministers warrant a special warrant. I really do not see, based on the work that we have done in the past several years on the Financial Administration Act, much better wording because if we relax that wording and indicate that special warrants may be authorized in those circumstances where in the judgment of the board they should be warranted or provided, then in effect you end up with a higher level of special warrants. And if you make it much more strict then in effect you hog-tie the Executive branch of government from doing their job.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, it still seems to me that both the Financial Management Secretariat, who are going to be putting the paperwork together to put before the Financial Management Board, both from that end and from the board members' end, those who sit on the board, that there should be some criteria or guidelines that would expand on the bare words of section 18. Perhaps I am asking too much in that. So I am clear, or just so I suppose Mr. Nielsen is clear, essentially what I am suggesting is that there should perhaps be some -- maybe it is something that the board members themselves should consider and we can address it with the board members -- there should be some guidelines to set down their parameters of the section 18 warrant.

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

Submission Of Requests For Special Warrants

MR. ERIC NIELSEN: Mr. Chairman, the Member's comments are well taken and in the past again there have been attempts to try to define more specifically a special warrant or when in fact a special warrant is a special warrant and absolutely required. But again it becomes very much a matter of Executive judgment. I think perhaps one of the things that we have done that might make it clear is that any department that submits a request for funding and indicates that they would like it to proceed in the form of a special warrant, first of all has to have the full support of the Minister. Secondly, that department has to have provided sufficient justification in the view of the Minister and as well in view of the officials in the Financial Management Secretariat. Otherwise probably the Minister will not take the request forward as a special warrant or alternatively the Financial Management Secretariat will indicate to the Financial Management Board that it does not believe that it warrants inclusion as a special warrant. So while there are not specific criteria, there certainly is an onus on the department and the Minister to demonstrate and justify the basis for that special warrant.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: I guess I am looking then, having heard that, to somehow it should be formalized. If you have a check list when the department brings the request through, it goes to FMS first -- you are telling me that there is an onus there and it is being carried out. But I am saying if there was a check list, specific guidelines written down, I think that would go a long way to comfort suspicious minds like mine in the long run. But that is just a comment, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Mr. Dubois, did you have a comment?

MR. RAYMOND DUBOIS: Mr. Chairman, I sort of agree with the comment made by Mr. Nielsen. When we talk about a term like "urgently required", naturally that relates back to the requirement of judgment on the part of those who make the decision. Normally, in those types of circumstances, the system tends to slip, over time, unless proper attention is given to the situation. I think this is a good example where due to the high visibility of special warrants in the last year or so, there has been a tightening of the system. Mr. Nielsen's description of how a department can get a special warrant seems quite reasonable. If that were documented I think it would go a long way toward the guidelines that Mr. Richard was talking about.

#### Analysing Reasons For Urgency

One query stays in my mind. The term "urgent" is something that evolves in time. When a department makes a request and justifies to the Minister and the secretariat that it urgently requires additional funds through a special warrant, I am just wondering if there is a procedure in place for differentiating between, not the fact that it is not urgent, because let us say that the situation is that it is urgent, but analysing the situation as to the reasons for the urgency. Because in many cases in our experience, at least at the federal government level, an item becomes urgent because it has not been planned properly and because action has been taken too late. Then you are faced with an urgency due to improper planning and improper management and in those cases we would hope that the Financial Management Board or the secretariat or the Minister or someone could send a message back to the department that, "Okay, it is urgent in this case but if you did this and this in the future, it would not be required." If one has a system to protect that type of situation then you prevent slippage through time where people get accustomed to utilizing a last minute procedure to do what they could have done a long time ago if they had planned their work properly.

CHAIRMAN (Mr. McCallum): Do you have a comment, Mr. Nielsen?

MR. ERIC NIELSEN: Mr. Chairman, I think the comments made are valid suggestions and comments. I think I personally feel quite comfortable that the process in place is a good one and I think that the comments, or I should not say the comments, but I suppose the monitoring mechanism that has been in place over the past several years has demonstrated that there is an onus on the Ministers to demonstrate that the special warrant is required and that is one of the reasons why there has been such a dramatic reduction in special warrants in the last couple of years. In my view, if the special warrants are coming before the Legislative Assembly, before the standing committee on finance, then I think the same sort of rules apply. In other words, the same level of justification is going to be expected of the Minister in appearing before the Legislative Assembly and the standing committee on finance to demonstrate why that special warrant was urgently required and in the public interest. So, I think that monitoring mechanism is there already and between the tightening up of our processes as a result of the concern expressed by the standing committees -- we feel that the internal processes are working well, effectively -- and that there is very much onus on departments to demonstrate that requirement, now the special warrants coming before the Legislative Assembly are in our view expected to be able to be put to the test.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Just a follow-up comment on that, Mr. Chairman. I think the distinction has to be made though, as to passing the test at that level. It does not matter whether you pass or fail a test in the Assembly, the money has been spent and legally because of the Financial Administration Act. The only penalty I suppose is political but the people's money has been spent, so I think we have got to ensure that it passes the test in the Laing Building first before it does in the Yellowknife Inn. But that is true -- it is going to have to meet the political scrutiny but hopefully it has passed the test before the money has been spent as well.

CHAIRMAN (Mr. McCallum): Mr. Gargan.

MR. GARGAN: Mr. Chairman, I know we discussed it this morning but I am interested in finding out, concerning special warrants, how the Executive goes through the process of scrutinizing all these different warrants that are required for different activities. This morning they mentioned that there were 45 special warrants on December 12th. That is a substantial amount to deal with in one day and I am very much interested in finding out exactly how much scrutinizing you do when you go through these special warrants and whether it is more of a rubber stamp exercise or not. That is what I am very much interested in finding out.

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

Process For Approval Of Warrants

MR. ERIC NIELSEN: Mr. Chairman, one of the things that we have done for the committee and it may be again something you might want to consider, is that we prepared a brief overview of the budget process which we are prepared to circulate to Members and which Mr. Voytilla could go through, if you would like to run through how the budget process works. The variance reports and things like banking days might apply in some cases to demonstrate how additional funding is provided, the process by which our government determines whether more funding is required than was in the main estimates and as well, identify the specific procedures with respect to warrants. So, that I am prepared to circulate.

To address the question raised by the Member, it is a fairly thorough process in that every department first of all has to identify a need for the funding. There must be some reason for it. That department is required to develop what we call a Financial Management Board submission within the department. That Financial Management Board submission must be approved and signed off by the Minister. That is submitted to the chairman of the Financial Management Board who must agree with it. The chairman of the Financial Management Board then submits that to the secretariat. The secretariat examines that submission thoroughly and provides its comments. If, in fact, those comments are extremely negative, the department may decide to withdraw the submission or submit it in a different manner but in any case at some point in time that submission may come then with the secretariat's comments to the Financial Management Board. At that point the Minister then is required to explain the requirement for the funding and then the board, as a group, decide whether or not they feel that submission is required urgently for the public good as a special warrant and at that point in time will decide whether to approve it or disapprove it. Once it is approved, if they do approve it, then the signatures are affixed to the documents and that provides the additional budget authority for the secretariat to increase the budget for the department.

CHAIRMAN (Mr. McCallum): Mr. Gargan.

MR. GARGAN: Thank you, Mr. Chairman. Did you need a special warrant for overtime that day? It is just that on December 12th there were three surplus funds identified from various projects in the amount of about \$120,000. Does this category fall under special warrant? It is a surplus fund so I do not know whether it was more expenditure.

MR. ERIC NIELSEN: Territorial accounts?

MR. GARGAN: Yes, page 56. I thought special warrants were more to do with expenditure rather than with surplus.

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, the warrants identified would all have appeared at one Financial Management Board meeting, those particular three. In this particular case, we are talking about funding transfers which would be reductions in this particular case and that money would be allocated to another project. In other words, what we do is we manage the capital budget on an ongoing basis and there may be a requirement during a period of time to maintain the total level of capital but in fact to try to finance that from another activity. So in this particular case there were surplus funds identified within the Department of Education in these three particular areas and those funds were used on other projects but in total, presumably there was no increase. The reason for the special warrant is probably because in this particular case those funds were used outside that department. If they were used within that department there would be no need for a special warrant.

CHAIRMAN (Mr. McCallum): Mr. Nielsen, how long does that process take that you described, to go through all the hoops and steps? When is it decided it is to be an urgency? Before you go through the process or after?

MR. ERIC NIELSEN: Mr. Chairman, there are degrees of urgency, I guess.

CHAIRMAN (Mr. McCallum): I guess so.

MR. ERIC NIELSEN: I think, first of all, the most important thing is that the expenditure be in the public interest. It is important to recognize that we are not talking about expenditures that are made lightly; these are expenditures that are in the public interest and, therefore, become urgent. I also think we have to remember that we are talking about large gaps of time between when the Assembly sits. If the Assembly was sitting full-time, we would not be having these kinds of requests because they would be coming forward to an early sitting of the Assembly. Part of the reason these become urgent, for example, is that if there is a June sitting, toward the end of June there may be something come to the attention of the Executive or to a department which indicates that an expenditure is going to have to be made over the summer or, perhaps, in two or three months. It is not urgent to the extent that a decision has to be made that week, but it is urgent to the extent that you cannot wait until the next sitting of the Legislative Assembly. So, again, it is urgently required that that expenditure be made; it is in the public interest that that expenditure be made prior to the next sitting of the Legislative Assembly.

Now, there are other situations as well. There may be emergency relief or something of that nature, that comes up. While this sounds like a fairly complex process, people are quite familiar with it and a Financial Management Board submission can be made up in one day. Once the information is made available, it can be analysed by the Financial Management Secretariat and submitted to the Financial Management Board the next day -- if all of those three things happen to happen on the right days. It can happen.

#### Previous Abuse Of Special Warrants

CHAIRMAN (Mr. McCallum): It is not a case of people being familiar with the process. It is a case of them being, in the past, obviously, too familiar. It is a situation, you know. I do not think anybody is trying to curtail the operation of government when there is an urgency and in the interest of government. I am sure other members of the committee, as well as the Legislature, now appreciate the change in the government's use of special warrants. Before, I think it was safe to say, there was abuse of special warrants, as when you get a special warrant done by the government in the past, as in June of 1984, when the session of the Legislature sat from, I think, June 27th to 29th in 1984, and the Commissioner okayed a special warrant on June 28th, while we were in session, for Personnel, staff relations, \$439,000. Somebody must have known beforehand that it could have been done other than via special warrant while we were in session. Nobody is against the government trying to look after the welfare of people of an urgent nature. Our concern is that there have been instances in the past when there was a session, either on the horizon or coming very quickly. For example on October 17th, when we were in session from October 31st to November 9th, the FMB approved Local Government for \$507,000. Then it was signed by the Commissioner on November 26th. You knew about it before we went into session, but it was not signed until after we finished. That is the kind of thing that rankles Members.

The other thing is the paperwork that must be involved. To quote an example again, Government Services requested, December 12th, two particular additional fundings for systems and computer services and petroleum products, in the amount of \$247,000. You knew at that time you also had three surplus amounts, in some instances in the same activity. In systems and computer services, you wanted \$37,000, and you had \$113,000 surplus in it. In petroleum products, you wanted \$210,000, you had \$130,000 in it. Overall, it was a difference of \$1000, but you went through six particular special warrants. That must keep somebody in that particular department going for a while to prepare them.

I appreciate that there has been a change. It often makes me wonder what would have occurred, with these systems that you have in place now. Would they have occurred had this not been raised in the past? I realize we are going back over the past and I recognize that there are some new things coming on and there is less use of them. Again, I want you to know, nobody is against having the government operate and or is trying to curtail its operation, but there are, or were, blatant instances of abuse of special warrants and no need of them. Assembly was either in session, we had

just finished a session, or there was a session coming up in a matter of a couple of weeks. To go through the negative ones, it makes you wonder, I guess, who approved these transfers, and why so many were approved, how they were. The examples that the Auditor General documented, here, that go through our territorial accounts book, take up 10 pages of special warrants. It seems to us that there obviously is some reaction to what has been going on, but, certainly, we wonder if it would have gone on had we not raised the issue.

Certainly, I know that, in the Canadian group, when we raised it there, there is a greater awareness in other jurisdictions of special warrants now too, because it was raised by us at that particular place. But those are the things that we have and we would expect, for this coming year, since there has been a dramatic change, the Auditor General's comments will be such that they would be much more favourable. In the past, these special warrants back a year or two -- when you get something occurring such as when a session of the Assembly was on June 27th, 28th, and 29th, and there was a special warrant in Health for \$417,000 approved on June 28th, while the House was in session, it is a slap at people. It seems ridiculous that, in Health as well, in the NWT share of health care services, on June 20th, there was pretty near two million dollars surplus, and there were two particular territorial hospital insurance services special warrants in June and September, that year, for a little over one million dollars. It does not make sense.

I guess what we are trying to emphasize is that that kind of thing has got to change and to recognize that you have made a change. I do not want to go on with the examples, but we have these examples here and we look at that territorial accounts book and 10 pages of special warrants when, in fact, you have the legal means by which to accommodate what you are trying to do under the Financial Administration Act. For government to go through that whole business of going through special warrants just boogles the mind or is, in Larry Mann's words, "awesome".

MR. ERIC NIELSEN: Mr. Chairman, I am not aware of any special warrants that were authorized while the Legislative Assembly was in session, or approved while Legislative Assembly was in session. I would have to check the dates so, perhaps, if you could provide me with a summary of the specific ones, then I could relate that to them.

CHAIRMAN (Mr. McCallum): These were approved by FMB before the session but were signed by the Commissioner during the time the session was on in 1984. June 28th, 1984, Local Government in recreation for \$403,000, Health for \$417,000 and both were approved and Personnel at the same time for \$439,000. We were in session June 27th, 28th and 29th, 1984. These were signed by the Commissioner on June 28th, approved by the FMB on June 20th.

Now the urgency is not there, it could not have been. Granted we do not sit that often, I appreciate that, but while we are sitting as a Legislature, I think is just not good enough. The past practice, hopefully, changes and I would hope that in the next year's review by the Auditor General that we will not come across those things, in this coming year. At least I am sure I speak for the rest of the committee in saying that and for other Members of the Legislature as well.

#### Understanding Of Criteria For Special Warrants

Have you been in touch with your people, the Minister if you like or the FMB? Have you been dealing with the Auditor General's people so that there is an acceptance and an understanding between both about the special warrant process? If you haven't, do you anticipate what you have under way now is going to be okay? Have you talked back and forth, with your Minister or the FMB? Do you know if there have been talks between the secretariat and the people in the Auditor General's office about the understanding of what this whole process of the special warrant entails?

MR. ERIC NIELSEN: Mr. Chairman, my understanding is that the Auditor General's office is examining special warrants as part of its review and that as soon as that review is completed, they will be talking to us on their findings. If there are any issues that are raised they will be raised at that time.

CHAIRMAN (Mr. McCallum): Further questions? Any comments?

MR. RAYMOND DUBOIS: Just to confirm what Mr. Nielsen said, we have begun the review of the special warrants on the basis of the FMB's record of recommendation and we will complete that during our year-end audit exercise after we have received a complete list of all the warrants that have been issued. We have been communicating quite often on that basis. I do not think there is any



misunderstanding on the subject matter at all. In fact I could say at this point in time, at least as far as volume is concerned, the volume has certainly reduced substantially from last year, in 1985-86.

CHAIRMAN (Mr. McCallum): Mr. Young.

MR. DONALD YOUNG: Mr. Chairman, if I could just add a little bit to what Mr. Dubois has said. This discussion has been helpful to us, as well, in terms of determining some of the criteria or determining when a special warrant is justified. So, certainly the transcripts of this hearing will be helpful and also we will be having some dialogue with Mr. Nielsen and his staff in terms of those criteria so that we can audit to those criteria. That is, I think, the important thing that has come out of the session today.

CHAIRMAN (Mr. McCallum): Now again, I just want to emphasize to Mr. Nielsen's people, that we are not trying to curtail the working of government. What we are saying is that you have in your own Financial Administration Act the means by which you can accommodate what you are doing. There is no need to do it in the way it was done in the past. I mean there is no need to have 10 pages of special warrants in the territorial accounts. You could have accommodated them in half that number, if that, by utilizing your own Financial Administration Act under the sections that are there -- Section 17 or 18(1), whichever.

Any further questions on this area of special warrants? I recognize that we will have the Auditor General here tomorrow and obviously a lot of the things to get in in the limited time that is left to us. He may very well have comments on these as well. But obviously we want to deal with them to some degree and we can, I think, begin dealing with the format and the accounting policies, if we may, from that and I guess it will come from the Auditor General's comments on your financial statements. We will deal with them with the notes. I think they begin on page two.

Schedule Of Revenues By Department

I am sorry, let's get the right music. Do you want to take a look at section III, page 27 of the territorial accounts? Supplementary schedules to the financial statements. It begins on page 27, we are in the schedule of revenues and they go on by department in O and M and in capital. And I must say that I am impressed right off the bat. One thing struck me right off the bat and it was under capital, and you could break down to the fine things. Under Economic Development, the Snowdrift Craft Shop, you even included the two dollars that was involved there. Fantastic. It is on page 35, Eliza. Here we are talking millions of dollars and we are right down to the two bucks that was made in the capital. What the hell did you sell for two bucks?

---Laughter

I don't believe it.

MR. RICHARD: Or was that the whole shop?

CHAIRMAN (Mr. McCallum): Yeah, maybe we sold the whole shop for two dollars. I thought the nominal price was one dollar. You got two of them over there.

---Laughter

I guess the one thing that comes to mind here, and I will just lead it off, is that in a lot of instances, the main estimates bear little, if any, resemblance to the actual revenues and expenditures. Just to give you one example, on page 29, under Finance, power subsidy recoveries, main estimates \$250,000. You wanted a supplementary one, \$500,000. So, a total of \$750,000 and you actually got \$138,668. What happened?

MR. JIM NELSON: Mr. Chairman, that is a typographical error.

---Laughter

CHAIRMAN (Mr. McCallum): A good size, too, Jim. Okay, it really is.

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MR. JIM NELSON: What that item is actually, is that \$250,000 is the sundry revenue for the territorial government, the \$500,000 was an estimate increase of the expected yield from total government sundry revenue. The way we have reported sundry revenue, if you will notice in the other departments, the actuals are shown in all the other departments. This was simply where the budget was located for control purposes.

CHAIRMAN (Mr. McCallum): Is it not possible to estimate what you are going to get in from POL?

MR. JIM NELSON: From POL?

CHAIRMAN (Mr. McCallum): You do not estimate you are going to get anything but you pick up one and a half million dollars. Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, the pricing for POL is done in the fall of a year because that is the time when the resupply occurs and, based on the prices that are developed in the fall, those prices occur over the following fiscal year and part of the prices in the following, so you in effect have an overlap of two to three fiscal years on pricing within the POL program. The particular problem in this case was that the prices were set and then subsequently a negotiated arrangement with the Churchill resupply resulted in a one million dollar saving to our government. Supply services negotiated with the corporation concerned a reduced cost on that Churchill resupply and that was a one million dollar saving to our government. That is what accounted for the substantial proportion on this one.

CHAIRMAN (Mr. McCallum): Mr. Richard.

#### Main And Supplementary Estimates Of Revenue

MR. RICHARD: Mr. Chairman, I want to ask a question just on the format here. Over on the later pages where they talk about expenditures, I understand the terminology there and that there are main estimates and supplementary estimates which we deal with in the Assembly and then you total that up and then compare it to actuals but on the revenue side, on these pages, 29, 30, etc., under main estimates that must be the figure that, when we receive the main estimates documents in the Legislature in February, are revenue items in detail. I appreciate that in that document but I do not recall that in the Assembly we ever again see any updated or revised or adjusted revenue figures, so when I see in the territorial accounts here a column entitled "supplementary estimates" I am not sure why that terminology is used. Where do they come from? When are they done? How often are they done? In the examples that Mr. McCallum, the chairman, has already pointed out, the POL profits, while it appears that maybe in February of 1984 you did not anticipate any POL profits, sometime during the year you obviously reviewed the revenue estimates and -- it was before or after this negotiated contract with the contractor -- you again did not anticipate any profits but it turned out we made a million and a half. I am sorry, the other example Mr. McCallum gave was the miscellaneous which I think Mr. Nelson has explained but could I just have an explanation of what that second column means in terms of the process through the year?

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, the titles on those columns are quite incorrect. The main estimates column would be correct, the supplementary estimates really should have a title something like "revised projections" or something of that nature and the total estimates column really should be, again, "total revised projections", something of that nature. The process is somewhat similar to what you describe. First of all these are revenue figures which are included in the main estimates document. They are not voted upon. They are provided for information.

Secondly, during the course of the year we request departments on a quarterly basis to provide us with information on the variances that have occurred in both expenditures and revenues so that we have quarterly financial statements that are prepared by the government. Where those variances are significant, where the actuals are different from what the department projected would occur, they are required to report on the reason for those variances to the Financial Management Board. Then we would upgrade our revised projections based on their submissions. The figures that would be put in here would be the last revised projection received by the Financial Management Board which would be comparable to the expenditures. In other words, we develop a fiscal framework which the board sees on a regular basis and the last fiscal framework report that they see for that year that includes those supplementary estimates, the revised or all the supplementary estimates, would also

have the most recent revised revenue projections for that year. That works in most cases. In the case of the petroleum products revolving fund, it does not work and perhaps the best reason for that is that there is a substantial delay on billing information. It is not as bad as it used to be but there is a substantial delay. It does take 30 to 60 days for information to get in on consumption. We are oftentimes faced with differing weather conditions and of course the revenue that we receive is based totally on the consumption so if we have a very difficult, hard winter as happened last year, our revenue increases and we make more money. If we have a good year, a very mild year, in fact there is more likelihood of a loss but we oftentimes do not get that information until a few months after the end of the year and in fact I think our auditors would agree the final information on the petroleum products revolving fund is likely to come in close to two to three months after the year end. So it is extremely difficult to include a revised projection. Right now, for example, we are getting the first indications of what we think are reasonably accurate figures on what the petroleum products revolving fund profit or loss will be for 1985-86 and here we are in May, which is a full month after the year end.

Effect On Formula Financing Negotiations

CHAIRMAN (Mr. McCallum): I like Public Works, sundry. You figure you are only going to get \$20,000 but you got \$465,000. I guess the concern that I have here is, in this estimating of revenue, does that have any effect on any kind of formula financing negotiations?

MR. ERIC NIELSEN: Mr. Chairman, the revenues are estimated in total for the year and that is the figure that is used in developing the grant under the formula. If subsequently that revenue figure turns out to be widely different, then the grant is simply adjusted for the difference, so the total revenue to our government does not change but the make-up of that revenue as to whether or not it is in a grant or in the form of a revenue does change, that is assuming there have been no rate changes in revenue. There are a few exceptions to that but generally that is the principle.

CHAIRMAN (Mr. McCallum): But if you estimate you are going to receive some money, for example, from a transfer payment from the federal government under Education, training, and in fact you do not get it, does that not have some...

MR. ERIC NIELSEN: That particular one is perhaps one that should not be referred to because that is outside the agreement. But if we were to take, let's say, transfer payment for Canada Assistance Plan as an example. In the case of the Canada Assistance Plan, if we receive, let's say, six million dollars and we have projected to receive five million dollars, then we would keep the six million dollars but our grant would be reduced by one million dollars. So it would just be the source of the revenue that would change, it would not be the total amount. The source would change from grant to other revenue for the type of revenue.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: I would like clarification on page 28 of this ration repayments under Personnel. What is that?

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, that is where the Department of Personnel provides a ration advance for employees -- a one-time ration advance for employees who are going into high arctic communities and they require assistance in carrying the sealift. It is recovered by a payroll deduction.

MS COURNOYEA: Where is the recovery shown?

MR. JIM NELSON: That is the recovery.

MS COURNOYEA: Where is the expenditure?

MR. JIM NELSON: The expenditure would be considered an advance.

Liquor Profits

MS COURNOYEA: On page 29, just to get away from confusion and all the arguments we always have about liquor and liquor profits. Do you think that that should be categorized as liquor profits? Because when we come up and suggest that liquor profits should be used for other means, there is always a rationalization that there are no profits, that it is an equalization across the Northwest Territories and is in a different category from profits.

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: We could call it "liquor revenues". The profit is on the operation of the liquor system, the operation of the liquor revolving fund. It is not profit on all the expenditures our government incurs. If we were to add up all the expenditures our government incurs as a result of liquor usage in the Northwest Territories, we would have a very large deficit. Our health costs are part of that problem and social assistance costs. All of these things would add up to substantially more than the eight million dollars that is being identified as profits. So the point certainly is well taken, but we have not tried to or perhaps would not be successful in trying to earmark all of the expenditures in relation to the revenues that we derive from that. Perhaps it should simply be identified as net liquor system revenues or something like that.

MS COURNOYEA: Well, the argument, Mr. Chairman, is always made when various Members come forward and suggest that if there are profits, the allocation should go specifically to different projects. You know, rather than rationalize to say that it is covered off when someone gets ill, the desire is often to pass a motion to the Legislative Assembly to say that if that is the profit then automatically a percentage of that should go to the Alcohol and Drug Co-ordinating Council or something very specific. And up to this time, this is the first time that I have seen it identified as profits and in such a manner that an ordinary Member can look at it and say, "Well, if you have made nine million dollars or \$10 million on the liquor sales...." Rather than trying to rationalize, it is not fair to say it goes into a point where you have National Health and Welfare paying for most native people's well-being within the hospital system. So you cannot say that the liquor profits are generated toward someone who gets ill or sick and is categorized as status, because that is a direct transfer from the federal government. And that is just a bill-back. But if you have \$10 million sitting there, I do not believe the past arguments from the territorial government have been fair to people who requested and suggested that it go specifically to various other projects. I certainly would not want to assume that the cost of hospital care of status native people is taken from liquor profits because that is not true.

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, as I mentioned earlier, our government does not earmark revenues to specific expenditures. We do not say that a particular revenue is for a particular expenditure. If we did that, again we would have very little left over in terms of revenue. And we certainly would not be able to cover all of our expenditures. Again, remember we only get 20 per cent of our revenue from our own sources, liquor revenue being one of them.

The liquor revenue might look high at \$10 million, but if you look at the expenditures that our government is making in areas such as health, such as social services, social assistance and in justice, the expenditures that we make on liquor-related issues far, far exceed the revenues that we get from those. And in fact if we were to start earmarking liquor profits, we would have to find other sources of revenue to pay for the liquor-related expenditures that our government incurs.

MS COURNOYEA: It is an ongoing argument so I will not go on any more on that one.

CHAIRMAN (Mr. McCallum): Mr. Richard.

POL Profits

MR. RICHARD: Mr. Chairman, I tend to agree with Nellie's comment on that term, "profits". I do not think it is appropriate, given what both Nellie has said and Mr. Nielsen. Similarly on the next one, POL profits. Now, I do not know and I do not want a detailed explanation of POL financing because I know it is not simple. But again, I am assuming that within government, there

are expenditures whether they are administrative costs or whatever, that are using up that million and a half dollars in this one year or over a period of time. But if I was in one of those communities or if I was one of the customers of the government buying POL and I saw in these public financial statements that the government made a million and a half off customers like myself, I would call for a decrease in the price of POL. I am asking, I guess, if Mr. Nielsen would agree that "profits" is perhaps an unfortunate term in that item as well.

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, it is the intended pricing policy of the government to break even on the petroleum products distribution system. As I mentioned earlier this was somewhat of a fortunate or unfortunate occurrence that we made \$1.5 million of revenues in excess of expenditures during that particular year. The intention is that those revenues will be returned to the taxpayers, the consumers of our product, in ensuing years and in fact we are currently having discussions with a former individual on the Auditor General's staff, with a view to developing an act which may or may not include a stabilization fund. There is some question as to whether a stabilization fund is appropriate, but certainly with a view to developing a piece of legislation which will identify more specifically what the pricing policy is of the petroleum products distribution system.

So, you are quite right. The terminology perhaps is unfortunate. It certainly is not intended to be profits, it is intended to be an excess of revenue over expenditure for that particular year which will hopefully be returned to consumers with reduced prices in ensuing years.

CHAIRMAN (Mr. McCallum): We can go through a number of different items, Mr. Nielsen or Mr. Nelson, on revenue. Some of them kind of stand out. On the supplementary schedules, I just wonder what real value there is in terms of estimating if there is such a wide discrepancy in the numbers. What does it do other than create some of the situations that both Members have referred to and give the wrong impressions? Is there any way that it can be finer tuned? Can you be more accurate? Is there any possible way to do that?

#### Improvement In Accuracy Of Estimates

MR. ERIC NIELSEN: Mr. Chairman, I think the refining process of revenues is improving. I think it has improved over the last several years. The 1985 results and estimates of revenue were better than 1984. It is our view that 1986 is better than 1985 and that 1986-87 will be even better, or well improved. Again, partially as a result of us moving toward formula financing where it has become quite significant for us to try to estimate our revenues more carefully. We were not in formula financing for the 1984-85 fiscal year. Secondly, as a result of our requiring departments to now explain variances in revenues which was not done two or three years ago, we are now in a position, we believe, where revenue estimates are far more accurate than they were before. That is not to say that they are perfect but we think they are getting very, very close to the point where the revenue estimates are approximating the accuracy of the expenditure estimates.

CHAIRMAN (Mr. McCallum): I look at the one on page 32 under Economic Development, the EDA agreement. The actual revenue is less than the main estimate but there was a supplementary estimate of close to a million dollars more. It is very difficult to understand that.

MR. ERIC NIELSEN: Mr. Chairman, first of all in the case of the Economic Development Agreement, the revenue estimates are based on the best estimates of when applications under the Economic Development Agreement will be received, so I think first of all it is a very difficult estimating job because the department really has little or no control over the timing and amount of applications that will be received. Secondly, with respect to coming forward with a supplementary estimate in that particular year, the department was under a misunderstanding in that they had made commitments totalling or approximating the total amount in the main estimates and felt or understood that they had to come forward to obtain additional appropriation authority. We did not realize it at the time but have subsequently discussed this with the department and they now are aware that, while they would be setting up the commitment for the total amount of the project, if it appears as though that project will not be proceeding they can readjust the commitment downward which will give them the appropriation authority they need. So, in that particular year, what happened was that they came forward and asked for more appropriation authority they needed simply because they had to make additional commitments but a large number of projects did not proceed before the end of the year so they did not require the funding until the following year.

CHAIRMAN (Mr. McCallum): On page 34, under Health, again, inpatient recoveries from other provinces are estimated only at \$354,000 but in fact were \$628,000. There is a substantial difference in that. Do you have any idea why there was such a large increase? Does that mean we have more people come into the North?

MR. ERIC NIELSEN: Mr. Chairman, I cannot account for the reason for it but that is exactly what it does represent, more use of our inpatient services by out of town residents.

CHAIRMAN (Mr. McCallum): How about hospital care, medical care and medical recruitment? Looking at those, especially the hospital care, Indian and Inuit, estimated over \$14 million and received \$11.5 million. That is \$2.5 million. Why that? Is that a situation where if you do not get it there, you get it somewhere else, under the grant?

MR. ERIC NIELSEN: Mr. Chairman, that is correct and in fact there should be an offsetting reduction in the expenditure side as well, so it essentially represents lower costs, lower revenues. Mr. Chairman, under THIS there was a lapse of approximately four million dollars.

CHAIRMAN (Mr. McCallum): On the capital side, there is, Local Government for example, land sales; you estimate you are going to get \$240,000, you in fact get \$372,000. Does that represent a better price or selling more? We can go through all of these and I am not too sure that it is necessary to go through all of them but there certainly are some questions. For example, even in the expenditures, debt financing on page 37. Does that mean you were going to pay off some and you did not? A million and three-quarters and you actually did pay \$1.4 million. So, obviously you did not pay off something that you had intended to pay. Is that correct? Mr. Nelson.

MR. JIM NELSON: I think it was just an error in estimate here, Mr. Chairman, between two years. This is the second of a year that we went to full accrual accounting and I think the department made some error in the calculation of interest expense.

#### Estimates Of Expenditures

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CHAIRMAN (Mr. McCallum): It is very difficult I guess to estimate revenue but is it that difficult to estimate the expenditures? Because there are a number of large ones here, Public Works and Highways, utilities, estimate you were going to spend \$28.3 million and you spend \$27 million. That is over a million and a half in utilities. Is that a good winter versus a bad winter, to use your term?

MR. ERIC NIELSEN: Mr. Chairman, in fact you are looking at the page 38?

CHAIRMAN (Mr. McCallum): Yes.

MR. ERIC NIELSEN: The \$1.6 million lapse, a large portion of that did occur as a result of mild winter conditions in the Eastern Arctic, that is correct and the supp requirement was for a different purpose. The supp requirement was for water and sewer and garbage pick-up over and above price increases. This was for increases where the municipalities had increased the rates, which I believe you will recall.

CHAIRMAN (Mr. McCallum): Again, I can appreciate that there is difficulty with some of these. It is difficult I guess in some instances to estimate some of these but I would expect it would be a lot less difficult to estimate expenditures than it would be revenues and what we are concerned about here is that there has to be a better way of getting somewhat more accurate. Any further comments? Well, I do not know where we want to go on this. We indicated we were going to finish today at 4:30; we have five minutes left of it. All we are going to be able to do is pick out more of these items -- Social Services, family and children's services -- you know, we are lapsing a million dollars.

MS COURNOYEA: There is \$315,000 dollars on CEIC...

CHAIRMAN (Mr. McCallum): Well, Mr. Nielsen referred to it, did you not? That was underestimated revenue. Yes, I see, it is on page 32. You estimated getting \$315,000 thousand dollars from CEIC, when, in fact, you got nothing. If not, why not? A transfer payment was approved as a...

MR. LEW VOYTILLA: Mr. Chairman, that CEIC amount is the same as the top line, continuing special education, and, in fact, should not have been shown separately. The actual revenue that was received was all shown under the line, continuing special education, which accounts for a significant portion of the excess amount we received over what was estimated. So, actually, it is a presentation error. The line, CEIC, should have been incorporated in the continuing special education line.

CHAIRMAN (Mr. McCallum): On a transfer of payments?

MR. LEW VOYTILLA: That is correct.

CHAIRMAN (Mr. McCallum): Are there any further questions? On the schedule of expenditures by activity, or the schedule of revenues by department? I guess, again, Mr. Nelson, Mr. Nielsen, that the concern is, and I think it was expressed very well by other Members, that putting in these amounts and having such a discrepancy in it -- if one was to look at the schedules, out in the communities, one could get the wrong impression of what is going on. I do not think that it is all going to come out exactly because you are estimating, but in particular, line objects, where you are getting close to a million or more dollars -- half a million -- that seems, to me, a fairly large discrepancy when the main estimate itself is, in some cases, less, than what was over or under the appropriation.

Budget Process Is Being Refined

MR. ERIC NIELSEN: Mr. Chairman, again, I think the comments are certainly well taken and will provide some direction to the government to try to tighten up some of these requests and projections. There are a couple of things I would like to comment on. I guess, in comparing ourselves to other jurisdictions, I think, over a period of years, we have refined our budget process to the extent that we very definitely know what the expenditure requirements are for those programs that are within the general control of management, and I am putting things like financial assistance a little bit outside their control, again, because it depends on, to a very large extent, the anticipated usage which may not materialize but, generally speaking, our budget has been refined very, very closely. We are using things like person years, instead of positions, which a number of the provinces may not be using, and that means there is far less contingency funding within a departmental budget, so there is, perhaps, more justification for coming forward with supps if you have a very tight and well-controlled budget process. By the same token, one would not expect that that would be something that would be condoned or something that would happen on a continuing basis, and I did want to bring to the committee's attention the fact that, in terms of our total lapse and in relation to our total expenditure program, if we were to look at the past three years, we have moved from averages approaching 6.4 per cent of the total budget in both 1983-84 and 1984-85, to about 4.8 per cent of the budget being supplementary estimates requests. So, there has been quite a reduction. Now, again, that does assume that there will not be any significant supplementary requests as a result of year-end overexpenditures, but we are hopeful that that will not be the case.

By the same token and, as I mentioned earlier, by this budget management and pinning down the budget, we are looking at a lapse from main and supplementary estimates moving from 3.4 and 3.5 per cent in each of those years down to a two per cent lapse in 1985-86, so I think that does indicate that substantial progress is being made and, hopefully, we will not have any significant lapses or supplementary estimates that we are not aware of that will occur, or will come to fruition over the next few months when we are finalizing our financial statements. Certainly, we are not going to be worse than prior years and it does look as though we are going to be substantially better.

CHAIRMAN (Mr. McCallum): Thank you. We would want to continue tomorrow with you because there are other areas. We have some comments about the schedule of grants and contributions to start and then, of course, there are the comments of the Auditor General in his notes on the public accounts that we will want to deal with, as well.

I will close this session and we begin again tomorrow afternoon at 1:30, with the open meeting, and we have our own meeting at 9:00 o'clock tomorrow morning. Thank you very much.

MR. ERIC NIELSEN: Do you want some copies of this budget process?

CHAIRMAN (Mr. McCallum): Yes, you can give them to Noel and he will get them out.

MR. ERIC NIELSEN: Did you expect to have or require a little bit of explanation or briefing on that at any time?

CHAIRMAN (Mr. McCallum): It is pretty hard to say, but Mr. Voytilla is going to be around regardless -- is that correct?

MR. ERIC NIELSEN: He will be only on call. He will not be available, he would be on call so if you want him, he could...

CHAIRMAN (Mr. McCallum): Okay, if it does occur, then we could get in touch with you. Is that copacetic? Thank you. We have the Auditor General in tomorrow and you recall that we have a luncheon date with the Auditor General tomorrow, as well, at 11:30, in the Gold Room.

---ADJOURNMENT

SECRET  
MORNING

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, May 7, 1986

Witnesses

Office of the Auditor General

Mr. Kenneth Dye, Auditor General of Canada  
Mr. Raymond Dubois  
Mr. Donald Young  
Mr. Delbert Dahl

Department of Finance

Mr. Jim Nelson  
Mr. Fred Barrett

Financial Management Secretariat

Mr. Eric Nielsen  
Mr. Lew Voytilla

Department of Public Works and Highways

Mr. Larry Elkin  
Mr. David Waddell  
Mr. Gordon Barber



YELLOWKNIFE, NORTHWEST TERRITORIES

WEDNESDAY, MAY 7, 1986

Members Present

Mr. McCallum, Ms Cournoyea, Mr. Erkloo, Mr. Gargan, Mrs. Lawrence, Mr. Richard, Mr. T'Seleie

CHAIRMAN (Mr. McCallum): We are very pleased to have with us today the Auditor General of Canada. I want to welcome Mr. Dye to this public meeting. I wonder if I could prevail on him to make some opening remarks. I understand, sir, that you would like to make some comments on your letter on any other matter and possibly on the accounts and the financial transactions of the Government of the Northwest Territories, your comments on that. Mr. Dye.

Opening Remarks By Mr. Kenneth Dye, Auditor General Of Canada

MR. KENNETH DYE: I must say I feel very welcome here and thank you for inviting me back. I enjoy coming north and I come too rarely from my perspective. I would like to come more often but it is not often possible.

As the committee would know, I act as the external auditor reporting to your Legislative Assembly here in order to help you as Members of the Legislative Assembly and particularly you on this committee of public accounts, to hold your government accountable for its actions and therefore aid the Members of the Legislative Assembly, and therefore maybe the citizens of the Territories, to feel that government is accountable to them. We play, I think, an important role and we view you as a very important client of our office. Most of our work on behalf of the Territories is done from our Edmonton office, although Don Young, principal responsible, is based in Vancouver and Raymond Dubois, my Deputy Auditor General, is based with me in Ottawa. We do enjoy having you as a client. It is a great honour that you would ask us.

We get very good co-operation here from government officials. We find that the working situation is such that we can get at the information that we require and we get full co-operation from the staff and I am very pleased to say that that helps us complete our work as efficiently as we can and get on to reporting to you.

As you may know one of my prime responsibilities is to give you an opinion on the accounts of the Northwest Territories. Although we do not give you an opinion on the very schedules, our opinion does extend to the accounts and I see they are available to the public and of course, to your committee. Again, we have been able to give what we call in the profession a "clean opinion". 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 and that their revenues and expenditures and changes in financial position are presented fairly. I am pleased to say that, because I cannot do that on the federal scene. I qualify the accounts of Canada on three significant issues and here I give you a clean opinion, so here you are ahead of the feds.

Our review extends to every nook and cranny of the government on a statistical basis but we do emphasize certain departments from time to time. In our rotational plan for last year we gave extra special attention to the Department of Public Works, the Office of the Legislative Assembly, the Department of Social Services and to the Fort Smith Region. We try to rotate our audit so that over the period of four or five years we have covered the entire organization.

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There was a major change in your accounting policies during the year where you have recognized the employee leave and termination benefits payable. That meant that you put through a one-time charge to the accounts of almost \$16 million and that is a significant change and, I think, improvement in your accounting policies. It is properly described in the accounts. You have also shown the receivables from Canada according to your financial agreements and that booked another almost nine million dollars. That comes under your new economic arrangements on the fail-safe adjustment that you have there. I note that because of your strong cash position you have been able to repay all your debts to Canada and to CMHC.

So, possibly if I confine my comments to the accounts at this time, Mr. Chairman, that might be far enough to do right now and we can get on to the other matters as the meeting evolves. Thank you, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Dye. Yesterday we were dealing with the Department of Finance and we stopped short -- I think we were talking about accounting policies at the end of yesterday's meeting. Perhaps just before we get into that, I wonder if I could just pose a question to you on the role of the standing committee. As you are well aware it is fairly recent but it continues to grow and accept new responsibilities. I wonder if you could indicate to Members of the committee what is the role or how public accounts committees work in other jurisdictions, what they are achieving and what we might expect to be able to achieve in the future in our role here.

#### Role Of The Public Accounts Committee

MR. KENNETH DYE: Thank you, Mr. Chairman. The role of the public accounts committee is a very significant role. If you look to the British Parliament, it is the most senior and most significant committee in the Parliament. I think the reason for that is because it is non-political. Now in your consensus-style government here, without your defined parties, you do not quite have the same situation, but in Great Britain and in the Canadian Parliament you have the interesting situation where a Member in opposition chairs the committee. And I think that is one of the significant reasons why public accounts committees anywhere in the Westminster model style of government, which extends all around the world, seem to be a different type of committee. Its experience and traditions are that the Members, even though they might have different philosophical views of how one governs, hang their political hats on the peg outside the door and walk in and concern themselves with value for money. All of them are interested in the taxpayers' welfare. So you see around the world a very similar activity where, in most of the countries, there is an opposition chairman and usually government has sufficient Members on it to have the majority on the committee.

An interesting study was done on the role of the public accounts committee. That was done in 1981 by two people named Kelly and Hensen and if your committee has not had that report you might find in it some very useful ideas because it explores the role of the public accounts committee in each provincial jurisdiction, federal, and in a few of the British Commonwealth countries. I would be happy to have that report available to you. What it does is identify the role and the significant activities of the public accounts committee which is basically the audit committee of a Legislative Assembly, in order to aid the Legislative Assembly in holding the government of the day accountable.

There are a number of mechanisms which they can use. It is interesting to compare the frequency of meetings, the nature of the topics that they tackle, the number of reports which they issue, the follow-up procedures which the committees employ, in order to have impact on the Legislative Assembly and to have impact on the public servants who implement public policy.

As a result of the publication of that report, most public accounts committees in Canada actually debated the study. By the time you get down to chapter six or seven, there is a check list of what a committee might do and it made for very interesting debate in many jurisdictions. There was a debate federally and I know most provincial audit committees took it up. The Quebec public accounts committee which had not met for five years and was cited as not meeting in the report, now meet. So there is one direct benefit -- the good citizens of Quebec have their public accounts committee in action.

I think your committee is extremely important. It is our connection, as your auditor, to your Legislative Assembly. You are the people that we have a chance to discuss our findings with. So you are extremely important to my office. You are the next link in that process of accountability

and if you were not to exist, we could produce all the reports you like -- if parliamentarians do not pick it up and insist on accountability of government to the parliament, then our role is really rendered meaningless. So my office looks to your committee as being essential in the effective role that parliament should play of holding a government accountable and we try to offer assistance in that area.

You will see public accounts committees bring Ministers before them in some jurisdictions. That tends to politicize meetings. The federal procedure is to very, very seldom -- I can only recall two occasions in the five years I have been in Ottawa, where Ministers have been present, when I have made presentations. The traditional style pretty much around the world and certainly in the mother Parliament of Britain is to not have Ministers. They are not particularly to cast blame, although the Canadian public accounts committee with the new Parliament seems to be more interested in casting blame on particular public servants for programs that are not working or activities that have failed. The British do not do it that way. They would claim that they really are trying to learn and take some lessons from past experiences and go forward having learned from the past without casting blame on individuals. As you would know it is pretty difficult to assess who is responsible anyhow. In a bureaucracy accountability is diffused and where you have a blend of the political involvement in affairs, one really does not know in the end whether the result is a combination of good luck and good management both political and administrative or a combination of anything else. It is very hard to tell. I do hope your committee continues to evolve. It looks like you have made very good progress as a public accounts committee. I commend you for that and I think if you keep your eye on the objective of value for money out there, your committee will do a good service for the people of the Territories. Thank you.

CHAIRMAN (Mr. McCallum): Thank you. Do Members of the committee have questions of the Auditor General before we call Finance back? If not then I would like to call back as witnesses, Mr. Nelson and Mr. Nielsen.

#### Schedule Of Grants And Contributions

Yesterday just to refresh Members we had a tab under Finance. We finished in the middle of page five yesterday dealing with the accounting policy and the estimates. We went through various examples of the estimate process. If there are no further questions on that particular topic I would like to move into item four, grants and contributions. They are in the annual report of territorial accounts on pages 44, 45, 46 and 47. If you do not have them in the regular book, they are in the briefing book as well.

Perhaps I could lead it off. Mr. Nelson or Mr. Nielsen, to indicate to you that one of the recommendations and I am not sure if it was last year or the year before from the Auditor General, as well as from the committee, was that this government should be moving toward the use of contributions to a greater extent than had been done in the past for the obvious reason that there must be accountability. I still note that within these four pages of schedule 3 there are a significant number of grants still being used by the government. I wonder if you would comment to us as to how far you have gone to make that distinction between grants and contributions. Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, the criteria that are utilized, I believe, are similar to those used in the federal jurisdiction. What is required is that prior to any grant or contribution policy being approved it must meet specified criteria and these criteria are approved by the Financial Management Board. In its review of the grant or contribution proposal, the Financial Management Board examines the nature of that payment and determines whether or not they agree with the department as to whether or not it is a grant or a contribution. There may be some areas where grants or where, federally, something might be considered to be a contribution because there is a minor accountability requirement. Our government has generally taken the approach, unless it is a material amount then it would just as easily qualify as a grant. But generally speaking, the rule is that if there is an accountability requirement, regardless of how small, then it is required to be a contribution. I believe that is a similar requirement federally.

CHAIRMAN (Mr. McCallum): Do Members have any questions on the grants and contributions? Note as well within the schedule that we have, that there are changes that are made from the amounts budgeted to the actuals. For example on page 45 under Renewable Resources, fur incentive program was budgeted for \$360,000 but the actual was only \$266,000; gasoline subsidy budgeted at \$140,000

and the actual was only roughly a little over half of it. Further along in grants there were contributions made for which nothing was budgeted. I wonder if you could indicate to me how and why there is a difference in what is budgeted for these grants and/or contributions. Why the changes?

MR. ERIC NIELSEN: Mr. Chairman, there are grants that are made by a department, for example, in this case in Renewable Resources, on the basis of applications which are received which would apply in the case of the fur incentive program and the gasoline subsidy program. So in those cases, in the event that the applications received were less than originally anticipated, then obviously the actual expenditure would be less. I cannot speak to the specific reasons as to why those applications were less but I assume it was that in those particular years there was less requirement for a fur incentive or gasoline subsidy to be paid. Generally in those instances where there is a grant or contribution program which is made directly by a department and subsequently accounted for, it may equal exactly what the budget amount is. But generally, again, the budgeted amounts are based on prior years' experience and the best estimates of what the department feels will be the anticipated utilization during that year.

CHAIRMAN (Mr. McCallum): Mr. Gargan.

Contributions To Boards Of Education

MR. GARGAN: Thank you, Mr. Chairman. I just wanted to ask Mr. Nielsen regarding contributions given to regional councils and contributions given under the Department of Education to boards of education. I know that accountability for regional councils is a must. However, I would like to question Mr. Nielsen about the boards of education where there is over seven million dollars that is contributed to them. Do they have an accountability scheme for these boards?

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, in the case of the boards of education, the payments are made on the basis of a formula and that formula is applied to a per student amount. For example if it determined by the formula that a board of education is entitled to \$5000 then that payment is made on the basis of the actual enrolment at the end of, I believe, the first quarter, the statistical figures, and that is the amount that is provided to the board of education. The boards of education that we are talking about here are Education District Nos. 1 and 2 in Yellowknife.

CHAIRMAN (Mr. McCallum): Mr. Gargan.

MR. GARGAN: Mr. Chairman, I guess what my question was leading to was whether these boards of education or districts are accountable. Do they go through a process where the amount that is expended is accounted for? If you are going on a formula base, do the regional councils also go under this particular formula base? They are accountable; they have to go through an audit and account for the amount of money that is being spent. The question I am leading to is whether these boards of education or these districts account for the amount of moneys that are being spent.

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, in fact the boards of education are perhaps more accountable than the regional councils because the boards of education are elected by the local authorities. So in the case of Yellowknife there are two boards of education which are elected by the Yellowknife residents and they are accountable to those residents because 75 per cent of the budget comes from the tax which is paid by the taxpayers of Yellowknife. In addition to that, of course, they must have the same accountability requirements in preparation of financial statements and having those financial statements audited.

CHAIRMAN (Mr. McCallum): Mr. Gargan.

MR. GARGAN: Mr. Chairman, am I correct in saying then that amounts like the \$7,352,000 are a portion of the contributions that are going to these boards? And that over and above that, because they are in a tax-based municipality, that they also get moneys through that area too?

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, there are no other contributions to the boards of education. There is money derived by Yellowknife taxpayers paying actual property taxes for education purposes.

CHAIRMAN (Mr. McCallum): Any further questions on grants and contributions? Perhaps I could just note that the schedule of these is not consistent with the schedule of expenditures and revenues or other schedules and I wonder if there is a particular reason for it. Is there some way perhaps that you could better divide or separate the grants and contributions? You have them combined; you have what are grants from each department and what are contributions. Is there any particular reason why it has a different format than the schedules of revenues and expenditures? Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, it just evolved that way. I suppose the Department of Finance would be more than willing to change the format and presentation of the schedule to meet whatever the public accounts committee decides.

CHAIRMAN (Mr. McCallum): Does the Auditor General have any comments on the schedule of grants and contributions?

MR. KENNETH DYE: As to the format?

CHAIRMAN (Mr. McCallum): Format or otherwise.

MR. KENNETH DYE: I am impressed with the information that you provide in your other schedules. This certainly tells you current and actual. You certainly have a very full disclosure in your other schedules where you get your supplementary information in. It might be worth looking into, to see what your Members believe. I am not prepared to make a recommendation because I have really not been thinking about it but it looks to me like your other schedules are very full.

CHAIRMAN (Mr. McCallum): That would be the point we are making. Because it has evolved to this, maybe we could speed up the evolution and get it consistent. Any questions? Further comments on grants and contributions, schedules? When we call the departments we may very well get into this whole business of the grants and contributions to the schools and I think we decided we will when we have Education in. We will move along then. The next schedules are the schedules of special warrants. In the Auditor General's comments on the accounts I think it refers back to the document. Mr. Nelson, note 16.

MR. JIM NELSON: Mr. Chairman, I wonder if I might ask Mr. Barrett, our comptroller to come in.

#### Reclassification And Comparative Figures

CHAIRMAN (Mr. McCallum): Yes. Mr. Barrett, if you would like to come in. This deals with the comparative figures. Note 16, comparative figures on page 12. These have been provided here because of what is termed reclassification and for conformity of presentation. I wonder if I could ask Mr. Nelson or Mr. Barrett why this is necessary and will this kind of thing continue? Do we look forward to this recurring? The list that is there on that page, I wonder if you could comment on it.

MR. FRED BARRETT: This note was added late in the session but it primarily had to do with changes in the reclassification. We had moved things around from one department to another and we had to just account for it. At any time you have a major transfer of a department or parts of a department to another location you may get this type of note to explain that to the readers of the statements.

CHAIRMAN (Mr. McCallum): Mr. Barrett, this was to deal with the whole training function being moved from other particular departments into Education. Is that correct?

MR. FRED BARRETT: That is substantially what it was, yes.

CHAIRMAN (Mr. McCallum): And this will occur as you say if there is another major reshuffle of responsibilities from one department to another. Are there any being contemplated?

MR. FRED BARRETT: I don't know. I have not heard of any but maybe Mr. Nielsen might have some comments on that. The thing is the main estimates may be derived based on one department having an activity. If it is then decided by the Executive to move that activity to another department then in our reporting the main estimates figure does not change. So it is difficult for our reader to realize why the expenditures are varied unless we put a note into the statements to advise them that there has been this major shift in the way we are doing business.

CHAIRMAN (Mr. McCallum): Any comments? I do not mean to jump around with Members but if we could get into using the same text -- at least the one that I am using dealing with the notes to the financial statements. There are certain particular terms that are being used that at times may be confusing to people dealing with accounting practices and policies. The term is being used now as to accrual accounting and I am sure that some of you have explained that at different times and I am not sure that it has come across so that everybody would understand. I wonder if you would like to just comment and indicate to us again an explanation of this whole business of accrual accounting and how it may have changed the way we have been used to seeing things being put before us. Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, as simply as possible, the term "accrual accounting" is I suppose a technique that is used whereby you recognize your revenues and expenses when they are either realized or incurred as opposed to when actual cash money is being paid. The major difference in terms of these accounts is that these accounts would reflect expenses when the government actually went out and incurred them as opposed to when they actually paid them which could have a significant bearing toward the end of the year, for example where governments traditionally on the cash basis of accounting had a major expense increase toward the end of the fiscal year in an attempt to charge all expenses in the fiscal year. Under the accrual basis, when the bill is paid makes no difference. It is when the actual expenses occurred or the revenue was actually realized or billed.

#### Recording Of Fixed Assets

CHAIRMAN (Mr. McCallum): In the accounting policies again there are terms that are being used. The term "fixed assets" shown in the statement of assets and liabilities at the nominal value of one dollar. We have other particular terminology that is there. Again I guess some of these can be confusing to people and I am not sure whether we want to go into the whole area of getting an education on it. But there are some questions that could arise on the use of those terms. I guess the obvious one is fixed assets. Why are they shown in the statement of assets and liabilities at a nominal value of one dollar?

MR. JIM NELSON: Mr. Chairman, normally in the acquisition of assets in the business sense you buy something and it is used to create profits or generate income over the life of whatever you are buying. For that reason you usually record the asset at the value that you purchase it at and then charge it off for depreciation, as they call it, over a period of years.

In the case of governments, however, the general principle is that assets are acquired for political or social or other economic purpose and are an expense in the year of purchase. We show ours at one dollar just to reflect that we do in fact have assets even though they are unrecorded at their value.

CHAIRMAN (Mr. McCallum): Would you have a figure that would indicate what the actual market value of those assets are?

MR. JIM NELSON: We have for inventory and for insurance purposes a number that changes from time to time depending. We do not depreciate assets, therefore it is not necessarily reflective of current market but I would say it is in the order of a billion dollars.

CHAIRMAN (Mr. McCallum): Do you have a comment on any of that, Mr. Dye?

MR. KENNETH DYE: Mr. Chairman, we have been thinking about this question of how do you value fixed assets in a government because traditionally around the world you will find everybody uses one dollar. And we wonder whether that is adequate. We have done a research study and spent a great deal of money consulting on the needs of users. These would be people who lend money to governments, people who are analysts in banks, in corporations that get involved with government activities. We have spoken to media people and to parliamentarians and we found that the needs of

users vary from the practice of writing off assets on acquisition. The users all tell us that they would prefer to see at least the historical cost of assets there. So that would give you some idea that perhaps there is a billion dollars worth of long-life assets being employed by GNWT.

There is another advantage I think to considering booking all the fixed assets and that is to look at their consumption. Managers in public service traditionally are not held to account for their consumption of assets. If a government were to apply the costs of the resources used by a manager, such as the space which they use in a building or the trucks which they use to haul gravel or whatever the fixed assets are, then I think you might give managers more information which they can use to manage better. It is one thing to hold them accountable for the cash that flows by so that they do not spend beyond the amount that you have appropriated as a legislator. But I think public servants in this day and age in many governments around the world and particularly in Canada and the United States, where there is great strain now on the available public resources, would be able to manage better if they had better management information. So I think there is some merit in considering booking the fixed assets and depreciating them and using that system which would give managers at the managing level the information they need and roll it all up to summary financial statements so that you as legislators can get a bird's-eye view of what this government is. So I think there is some thinking to be done on this area and my conclusion is the government should book fixed assets and depreciate them.

CHAIRMAN (Mr. McCallum): Comments? Mr. Richard.

Value Of Fixed Assets In Program Costs

MR. RICHARD: Mr. Chairman, I think Mr. Dye's comments are interesting in that in recent experiences in our government there seems to be a trend or more incidence of government leasing capital buildings for their own use over long periods of time, 20 year leases or whatever, and I take it that in a department's budget the annual lease payment is included there as an O and M item. In that sense that program manager or department manager is aware of that cost of delivery of his program, whereas in the case of a department or a program manager who is in a government-owned building, our government's own financial statement says it is worth a dollar and he need not worry about the depreciation or the consumption of that asset over a long period of time. The two situations, we are not comparing apples to apples. If we say on the one hand that with a 20 year lease there is a hefty lease payment going out to some private owner for the use of that government-leased building and on the other hand with the government-owned building we say in the books it is only worth a dollar, there is a discrepancy there. I would agree maybe we should look at going to setting out the value of the fixed assets on the books.

CHAIRMAN (Mr. McCallum): Do you want to comment, Mr. Nelson or Mr. Nielsen?

MR. ERIC NIELSEN: Well, Mr. Chairman, first of all I would like to advise the Member that at the present time we do not allocate lease costs to departments, they are all accumulated and paid for in one department. They are not assigned specifically and they are not included in individual departmental budgets. That is certainly something that we are looking at and that among other things, because at the present time our main estimates and actual results do not take into consideration any real estate costs within a department. For example, the Department of Education budget does not include any of the maintenance costs or allocated costs of capital leasing or anything of that nature in its budget. That is all accumulated in one department, DPW. But with respect to the philosophy behind charging these things off or not charging them off, I do not think there is an easy or correct answer to that. I think as Mr. Dye has pointed out there are recommendations and beliefs and a lot of studies being done and I think that probably what will happen for our government is once the public sector accounting and auditing committee of the Canadian Institute of Chartered Accountants has completed its recommendations in this area that I suspect our government would follow suit with respect to whatever those recommendations are.

I have some difficulty in setting them up on the financial statement unless there is some method by which there are charges allocated or something of that nature. There is not, in my view, an awful lot of point in simply setting something up on a balance sheet which we could just as easily disclose by a note unless in fact there is going to be some use made of that amount. I suppose the danger is that if we set this amount up on the books at one billion dollars, immediately we will have a capital surplus set up on our books of one billion dollars as well. That does not mean we have one billion dollars available and I think it could lead some people to misread the financial statements. The fact is that we are using those assets in the ordinary course of conducting

government business but as was pointed out there is not really any bottom line to measure the allocation of that. I think what is perhaps most important is there be some sort of internal costing so that managers can recognize what it is costing their programs for each of the buildings which they occupy.

Advance To Northwest Territories Housing Corporation

CHAIRMAN (Mr. McCallum): Any further comments? We can move along then to look at the note here, note five on page five, the advance to the territorial Housing Corporation. Here it is indicated that the Housing Corporation had an excess of \$778,000 in operating costs and \$2.489 million in capital. All or both of which could be refunded at the request of the government and I guess the question there is, was there a request made for refund of it and if there was, was it refunded and this under the terms of the financial agreement? If we did not request it, why not? Because from what we can understand the Housing Corporation statements indicate that they intend to use that \$2.489 million capital to finish, or to complete projects that they have. I wonder if you could comment on that, or do you know, Mr. Nelson or Mr. Nielsen?

MR. JIM NELSON: Mr. Chairman, it has not been the intent of the government to recover these amounts and as far as I know it is not at this time. These are simply the end result of each year's operations of the Housing Corporation and as you indicated, particularly in the capital areas, those are funds probably committed by the corporation for the completion of their capital program. It has not been the intent of the territorial government to take that money back into operations.

CHAIRMAN (Mr. McCallum): How do we determine or is there any documentation that indicates that the money was used for the purposes for which it was intended? How do they use this O and M portion?

MR. JIM NELSON: Mr. Chairman, I suggest that would be reflected in the financial statements of the Northwest Territories Housing Corporation.

CHAIRMAN (Mr. McCallum): Are there any further comments? Any comments from the Auditor General? Mr. Richard.

MR. RICHARD: Mr. Chairman, just on that point. I guess not being an accountant but a layperson in terms of accounting, I am still concerned as to why those two items -- when we look at what I call the balance sheet but I guess it is the statement of assets and liabilities, there it shows under current assets, an advance to the Housing Corporation of some \$2.2 million. I understand that item and why it is there, but under note five, there are these two other items that Mr. McCallum has referred to, one being \$778,000 of O and M funds that our government gave the Housing Corporation beyond what they needed and another \$2.5 million of capital money that we gave them beyond what they needed. Why are not those two figures, as well, set up as current assets of our government in that it is prepaid or an advance. If we are on the accrual system, why do not we consider those assets of our government in that sense? Maybe my lay terms are not well expressed, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, the \$2.2 million is a receivable, due to the Territories under an arrangement with the Northwest Territories Housing Corporation, and therefore it is reflected as a receivable. I suppose the argument with the \$778,000 and the \$2.4 million capital is that those are only receivables when the government deems to exercise its option under its financial agreement with the Housing Corporation and it has chosen over the past few years not to at this point in time.

CHAIRMAN (Mr. McCallum): It seems to me that in the Housing Corporation's statement, that they listed \$770,000 as payable to you, that is to the Government of the Northwest Territories. Again, we will have to jump but it is in the back of your book as well. They list the \$770,000 under liabilities, accounts payable, Government of the Northwest Territories, \$770,000, 1985.

MR. RICHARD: Is it the same money though?

CHAIRMAN (Mr. McCallum): Is it not the \$778,000? Mr. Nielsen.

MR. ERIC NIELSEN: The amount that is shown under liabilities, where we say, "due to the Government of the Northwest Territories", I believe is included under note seven. If you add up the two, the \$2.210 million and the \$778,000 I believe that should come pretty close.



CHAIRMAN (Mr. McCallum): Okay, \$2.98 million. Yes. It is just that there is a confusion. Mr. Dye.

MR. KENNETH DYE: There are two different bases of accounting. You have, in the government, the \$2.489 million is expended and shown as an expenditure for the year. Over in the corporation, it is saying, "We are going to expend it," and they are carrying it as a liability. So you have stated accounting principles for government, which vary slightly from the corporation's accounts and that is why you get the confusion. You would have trouble consolidating the two. You would have to make an adjustment to the operations of the government because I think the corporation is on generally accepted accounting principles, whereas the government is on stated accounting principles. So, they are using two different game plans to put the numbers together and I would suggest that, over time, 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.

CHAIRMAN (Mr. McCallum): You people understand what he's saying, eh? Whatever he said sounded good. Do it. Again, until such time as it can be reconciled, it does present some problem to those of us who are lay people and not too smart regarding these accounting principles, but perhaps we'll be able to learn as we go along. Is there any further comment? Do you have anything further, Mr. Richard?

#### Housing Corporation Loans Guaranteed By GNWT

MR. RICHARD: On a separate matter, Mr. Chairman, but it also deals with our relationship with the Housing Corporation. I am referring to a note to our financial statements, note 15, which says, in layman's terms, that our government has guaranteed loans in excess of \$100 million, loans made by the Housing Corporation. Maybe the concern I have is more addressed to the Auditor General, perhaps in his capacity as looking after the feds and not so much looking after us, but I am aware that the federal statute that creates our government, the Northwest Territories Act, puts a limit on our borrowing power. Our government just cannot borrow as much money as it wants to; it has to have the approval of the federal government. In comparison to \$100 million, I understand that figure is a low figure and I am wondering if there are not limits on our government as to how many loans of others that we can guarantee, and I include a crown corporation like the Housing Corporation as an "other". Now I appreciate that, annually, perhaps not now, but we used to, through the Legislature, authorize the Housing Corporation to borrow the money in a given year but it appears to me, from this note, that our government is guaranteeing each of those loans and they now total \$100 million. So if the Housing Corporation went under tomorrow, our government owes \$100 million which is a lot of money, because as I look at our liabilities on the balance sheet, we owe \$11 million. But if we are ever called on our guarantees, we owe 10 times that and, if our parent, the federal government, in its wisdom put a limit on us -- treating us as a colony, I suppose -- and said you can only borrow this many dollars, are we, in a sense, circumventing that restriction by freely signing guarantee after guarantee after guarantee of our child, the Housing Corporation? I am wondering if either Mr. Nelson or Mr. Dye could comment on that, Mr. Chairman, because, although I appreciate the original borrowing that the Legislature, on a piecemeal basis, has authorized the Housing Corporation to borrow, and we are then probably paying it back by giving an operating grant each year to the Housing Corporation so that they can make their principal interest payments on these loans but if you take away all the veils, the smokey mirrors, we have borrowed \$100 million -- our government has, in that sense.

CHAIRMAN (Mr. McCallum): Mr. Dye.

MR. KENNETH DYE: Mr. Chairman, I think the point is extremely well taken, here, in a situation where your Members of your Legislature are not quite sure what the public debt is, here in the Territories, because of the legal forms in which the government operates, and you have got them in different cookie jars. You have got a debt over here in the Housing Corporation; you have got the government, and one guarantees the other.

#### Consolidation Of Accounts Advisable

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 so that you do, indeed, know what the debt is. The Government of Canada displays its operations the same way and the crown corporations would

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argue that they are independent and not dependent on government. That is not my view of it. It seems to me that all of these crown corporations, federally, are an instrument of public policy and where the Crown guarantees the debt of a crown corporation, it seems to me that crown corporation is getting quite a considerable benefit by reducing its interest rates and knowing that the government will bail them out if everything fails. I think that the lender feels that the government is behind the corporation that borrows -- certainly where there is a stated guarantee. I really do not see much separation -- is the post office that much different because it is a crown corporation or a government department? They still deliver the mail and, essentially, it is the same taxpayers carrying the freight in terms of paying for the deficiency.

It seems to me that it might be valuable for you. It would be a consolidation of your accounts of this kind in question. It could be answered in that you could look at the consolidated accounts of the Northwest Territories. Really, when you total up what are the obligations of the government in its government form and in its corporate forms as subsidiaries, then you will know what you are dealing with. So I would pull them together in a consolidated statement.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, I think you are talking to the converted. We are looking seriously at the possibility of consolidating the financial statements. I know the auditors will be pleased with that in terms of the audit side. We expect to have something within the next year as to what the entity could look like.

Financial Responsibility For GNWT

CHAIRMAN (Mr. McCallum): I am not sure where the responsibility for this rests at the present time. In the past it would be with the Commissioner. With the emergence now of an Executive Council that excludes the Commissioner, what are the ramifications there now? Or is it fair to ask you people or should we be asking somebody else? The Commissioner is not on the Executive Council now or he sits there I guess once in a while but he is not the chairman of the Executive Council. What is the situation now? Is it the Executive Council as a total or the Leader?

MR. ERIC NIELSEN: Mr. Chairman, I am not quite sure what the question is.

CHAIRMAN (Mr. McCallum): In the past the government guaranteed loans but the final responsibility under the NWT Act then rested with the Commissioner. Is that not correct?

MR. ERIC NIELSEN: That is correct.

CHAIRMAN (Mr. McCallum): Does that still hold true today with the set-up of the Executive Council as it is now?

MR. ERIC NIELSEN: Mr. Chairman, in fact the question is timely.

CHAIRMAN (Mr. McCallum): I am sorry -- the approval for these loans?

MR. ERIC NIELSEN: Mr. Chairman, I believe the question is timely in that I have already asked the Auditor General's staff a question with respect to financial responsibility for the government under the new direction provided from the Minister which provides for the Commissioner to step down as chairman of the Executive Council. At present the Commissioner sits as a full member of the Executive Council but not as a chairman or deputy chairman.

With respect to the guarantees, I think the Auditor General's staff and ourselves should be looking at this because I was not aware that there were any guarantees and I am not aware that any guarantees have been signed on these loans. To my understanding those loans are all negotiated and signed by the Housing Corporation and Central Mortgage and Housing and unless there is some sort of an understanding or agreement that I am not aware of, then our government is not guaranteeing those loans.

AN HON. MEMBER: It says that in here.

MR. ERIC NIELSEN: It says that in the statements but to my knowledge there is no written guarantee.

CHAIRMAN (Mr. McCallum): Well, if she goes under, who cares? Is that what you are saying?

---Laughter

MR. RICHARD: But they should not say that if they are not...

CHAIRMAN (Mr. McCallum): I guess that is the point, Mr. Richard. If there is not, I do not think that it should be stated as such. Mr. Nielsen, you indicate you have been talking to the Auditor General's staff as to where this responsibility -- somebody is going to have to be responsible some time down the way.

MR. ERIC NIELSEN: That is correct. Under the NWT Act the Commissioner is still responsible. However, the act has been amended through new direction given by the Minister and the question is to what extent that applies to the financial responsibility for the government -- the financial administration, and that is a question that I have posed to the Auditor General's staff.

CHAIRMAN (Mr. McCallum): Perhaps I could ask for a comment or if you have had an opportunity to delve into that, Mr. Dye.

MR. KENNETH DYE: Mr. Chairman, I am going to have to duck personally because my understanding is our audit team found that there were broad guarantees on the government statements to show us there are guarantees on the Housing Corporation, and it shows the other side of that -- that the loans in the end are guaranteed. I am not close enough to it and I am not quite sure who I might ask. Ray, do you know the answer?

MR. RAYMOND DUBOIS: My understanding is it is a blanket guarantee. All loans of the Housing Corporation are automatically guaranteed by the government but I do not know where it comes from.

CHAIRMAN (Mr. McCallum): By the Government of the Northwest Territories.

MR. KENNETH DYE: We will find out, Mr. Chairman, and report back to you as soon as we know.

CHAIRMAN (Mr. McCallum): It does present a good question as to where it is going to go in practice or simply as things go on, whether there is going to be a change to the act, in relation to the financial transactions.

MR. RICHARD: If we have not guaranteed them, maybe we should not pay them.

CHAIRMAN (Mr. McCallum): Somebody is going to call a loan and will not know to whom to call.

MR. ERIC NIELSEN: Take back all their houses.

CHAIRMAN (Mr. McCallum): Anything further on that or on any other notes in the accounts? Perhaps I could just ask about Economic Development, to clear the outstanding items that related to the General Development Agreement. The Department of Economic Development and Tourism have indicated that they approached the FMB and they were authorized to take the necessary action to clear outstanding items related to the EDA and it is in the report on any other matter. I wonder what action had been authorized and payment write-off, as to legal action, etc. What has been done and what is the status of the GDA at the present time? I again apologize for jumping around. Can you follow it, Mr. Nelson? Page eight.

MR. JIM NELSON: Mr. Chairman, I am not aware of the status of the outstanding claims on GDA. I could find out and report back to the committee very quickly though.

CHAIRMAN (Mr. McCallum): Okay, I would appreciate that.

#### Leases And Contracts

Mr. Nelson or Mr. Nielsen, continuing on with the report on any other matter, the business of leases, tendering of contracts. I understand that regarding the tendering of contracts, particularly as they affect lowest bidders, there has been a revamping of those regulations. I wonder if you could explain those regulations now. I recognize that with DPW we will get into more particulars on it but can you indicate to us what is going on with the regulations?

MR. JIM NELSON: Mr. Chairman, the overall information relating to regulations is rather complex and detailed with regard to leases. Are there specific questions? I possibly could deal with those one by one, I think. If we are talking about the authority for leases, at the present time there is no special provision or authority required outside of normal contracting authorities. There is no special provision for leases at the present time.

Charitable Leases

CHAIRMAN (Mr. McCallum): Charitable leases are highlighted in the report. There were a number of them identified, 23 leases with organizations, municipalities, etc. Nominal rental revenue was received, usually a dollar a year. Obviously, there is a cost in maintaining these leases of nearly \$750,000 a year and it is broken down. In effect, those charitable leases obligate the government to provide grants for the operation of, or a lease to the value of the operating grant, to the value of the operation cost relative to the lease. I wonder if you could indicate to me if you intend to record those as such, get them included in the territorial accounts under a schedule or if not, why not?

MR. JIM NELSON: Mr. Chairman, at the present time the Department of Public Works is formulating a policy on these leases and we are hoping to have something within the next few months presented to the Financial Management Board for approval. I think it has been the intent, or we would like to see government report the expenditures on these kinds of leases in the actual operating budgets and reflect them properly. However, that is a management decision and is something that would have to be addressed in the policy at the Financial Management Board.

CHAIRMAN (Mr. McCallum): Any comments? Anything else of the Department of Finance? Have you any further comments, Mr. Dye?

MR. KENNETH DYE: Mr. Chairman, I hope your officials do conclude there should be disclosure. I keep arguing in favour of full information for Members of the Legislative Assembly so that they can understand what is going on. If there are charitable leases the extent of them should be known. The value should be disclosed. I would encourage full disclosure of financial information.

CHAIRMAN (Mr. McCallum): Anybody have any further questions? Mr. Gargan.

Grants And Contributions To School Districts

MR. GARGAN: Mr. Chairman, with regard to the statement by Mr. Nielsen with regard to the grants and contributions for the Yellowknife Education Districts No. 1 and No. 2 and accountability because of their elected people, I guess the same would apply for regional councils too. However, I would like to find out from the Department of Finance whether we might be able to get copies of the type of expenditures and cost-effectiveness of those expenditures by those districts as compared to government-operated schools, because there might be something that might be useful to this committee with regard to what happens and how effective these districts are. When they are given an amount and they operate within that amount, how effective are they when they operate under such a system? I would like to find out that information.

The other area I would like to find out about is concerning special warrants. I know Mr. Nielsen explained yesterday that they go through a certain procedure but if you again go to the meeting on December 12th, 1984, there were 45 warrants and it actually meant that it took the Executive 10 minutes to deal with these special warrants if you go under the normal working hours. I would like to find out too, how long it actually took the Executive to deal with 45 special warrants that day, whether it took 12 hours or 16 hours or did it take the normal working hours to deal with those particular warrants? Those are the two questions that I would very much like to get answers to, and am interested in finding out what the results are.

CHAIRMAN (Mr. McCallum): Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, with respect to the costs for school districts, we would be most pleased to provide the total costs of the government for the school districts and the number of enrolled students and provide comparable information with the total costs of the Department of Education and the number of students that they administer and provide that in a comparative form. As to efficiency, I suppose one would have to draw their own conclusions based on the dollars that

have been provided but recognizing as well that it is more costly to administer a school in Pond Inlet than it is to administer a school in Yellowknife with the same number of students. So, in fact the cost per student would be dramatically higher in Pond Inlet than it would be in Yellowknife.

Loans To Canada Paid Off

CHAIRMAN (Mr. McCallum): Anything further then on the Department of Finance? I just would like to raise one final thing if I may. I know that the government has chosen to pay off its loans to Canada, some of them at a very small rate of interest, I think as low as less than six per cent. I wonder, what was the rationale used in making that decision? Can you comment on it? Why was it done and what was the purpose of paying off the small interest bearing loans? Mr. Nielsen.

MR. ERIC NIELSEN: Mr. Chairman, under our formula financing arrangement the additional revenue that we receive as a result of loans that we have made is subject to a formula arrangement and normally if we had paid off a loan we would also have remitted that money to the Government of Canada. The loans that we have incurred, or let us say the loans that we made and paid off, simply reduced our balance. We simply reduced the amount of money that we had available for investment. That simply meant that we are earning less income and there was therefore less income available to be fail-safed under the financial agreement.

CHAIRMAN (Mr. McCallum): Anything further? Mr. Richard.

Schedule Of Write-Offs

MR. RICHARD: On another matter, Mr. Chairman. One of the schedules of the financial statement, schedule 10, is the write-offs. It concerns me that there is not sufficient detail here for this public document in that the write-offs of the government in amounts less than \$5000 are not disclosed individually whereas schedule 12 errs perhaps on the other side in that our public servants have the size of their outstanding travel advances on March 31st of each year disclosed for all to see. In comparison to that detail, I personally do not feel that there is sufficient detail in the schedule of write-offs. I say this, Mr. Chairman, in the context of the concern that we had expressed last year that perhaps in the Department of Economic Development when they are loaning money to businesses and individuals, they are not checking previous government records as to whether or not those individuals have received loans that were written off in previous years. For this year, Mr. Chairman, I would ask that the department provide this committee with the detail of the miscellaneous item of \$43,200 and I would later, at an appropriate time, be asking our committee to recommend that there be disclosure in the future of schedule 10 in more detail. But for now I would ask that the department undertake to provide us with the details of this particular figure.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Mr. Chairman, it is a case where a schedule has been in the territorial accounts for many, many years and we have been following in this case the Financial Administration Act in disclosing those items in excess of \$5000 and lumping together those under. We will certainly take it under advisement to provide a schedule of those under \$5000.

CHAIRMAN (Mr. McCallum): Thank you. Anything further? Mr. Dye, it is my understanding that you have received written responses from the Department of Finance on your comments in the letter on any other matter. I am not sure you had anything on the accounts.

MR. KENNETH DYE: I think the responses of the department are reported in any other matter. I am a bit at sea as to the responses on the accounts. I do not know if they were expected or required.

CHAIRMAN (Mr. McCallum): Anything further with the Department of Finance? I understand that you will be around, Mr. Nelson. It may be that we will want to come back to you before we end up. So if there is nothing further. Mr. Richard.

MR. RICHARD: Mr. Chairman, when the Department of Finance officials appeared yesterday and we were first questioning them on our own report last year and you were asking as chairman for the official follow-up or response to our recommendations, I had the impression that Mr. Nelson was reading out departmental responses and I am wondering if those documents could be tabled with our committee so that we have a record of them as being the responses from the government to our recommendations.

CHAIRMAN (Mr. McCallum): Mr. Nelson.

MR. JIM NELSON: Yes, I will have copies made.

CHAIRMAN (Mr. McCallum): You can give them to Mr. Montagano. Thank you very much. We will be back to you before we end.

MR. JIM NELSON: Mr. Chairman, one final item. I have a number of copies of a document entitled "Guide to the Territorial Accounts for 1984-85" which are available if the Members wish to read them at their leisure.

Department Of Public Works And Highways

CHAIRMAN (Mr. McCallum): Why not? I would like to call now on the Department of Public Works and Highways. I am not sure who will be coming. I expect Mr. Elkin will be here. Perhaps you can come forward and if you have anybody else. We are going to deal with the document, the Auditor General's report that deals with any other matter arising from the examination of the accounts and financial statements. Perhaps I can ask Mr. Elkin to introduce yourself and your position and your colleagues.

MR. LARRY ELKIN: Thank you, Mr. Chairman. My name is Larry Elkin and I am the deputy minister of Public Works and Highways. On the far left is Mr. Gordon Barber, who is one of the assistant deputy ministers for the department and on my immediate left is Dave Waddell, who is the new chief of finance for the department but he was not the chief for the particular year we are being questioned on. Thank you.

CHAIRMAN (Mr. McCallum): Thank you, Mr. Elkin. There are a number of issues that have arisen in terms of the Department of Public Works and Highways as a result of the Auditor General's review of the accounts and statements of the government in reference to your department. In it there are recommendations that have been made and I would like to deal with those recommendations and the department's response in relation to the particular issues that are there.

The first issue is the inconsistencies in the contracting procedures. There were two particular examples: Repulse Bay community complex and the Liard River dredging project. The recommendation, as a result of those, being that Executive Council approval should be obtained for all contracts awarded to other than the lowest bidder, prior to the awarding of the contract. Your department replied that it is aware of the requirement to obtain proper approvals before contracts are awarded. Exceptions do occur 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. That is the first recommendation dealing with the inconsistencies of contracting procedures.

The second recommendation was that experience should be considered before issuing invitations to tender. Your department responded in saying that it 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 the contractors' capability prior to reviewing a proposal.

I wonder, before we go into those, Mr. Elkin, if you could comment about the differences in the regulations concerning contracts. Could you indicate to us, or explain to the committee the regulations regarding the tendering contracts, particularly as they affect low bidders? Why were the regulations changed a year ago, particularly because they changed the level of authority required to award contracts, when in fact in 1984-85, the year we are talking about, the authority rested with the Executive Council? I understand that there are new regulations already in place that change the ball game again in a number of areas. I wonder if you would first, before we go into the actual aspect of it all, comment on that.

Changes To Government Contract Regulations

MR. LARRY ELKIN: Yes, I would. Thank you, Mr. Chairman. The regulations that you refer to are the government contract regulations and they were reviewed, revised and changed as of March, 1985. The key changes in those regulations, from what we had before, were basically in these areas. The

first area is that the contracts include clauses that relate to awarding a contract when a contractor is responsible and responsive. Responsible in this context means that they have the capability in all respects to carry out the contract. Where this change becomes very, very key, this does not add a new element in the awarding of the contract, in addition to the issue of cost. The way that the Government of the Northwest Territories interprets this particular clause is that even though a contracting firm's bid may be low, if in fact it is deemed by the person who has signing authority for the level of that contract, not to be responsible or responsive then in fact they are not low. The low bid therefore is not that particular firm but the next firm who, in fact, is low. That clause, though, in terms of its application is applied with very great care. Obviously the intent is to be totally open and fair to all concerned.

On occasion, on the very few occasions where that has been applied, although it is not a formal requirement as far as the government is concerned, the matter has been taken to the Executive Council in total to approve, to ensure that the decision that is being made in regard to that particular contract is in keeping with the wishes of the majority of cabinet. That is a fairly important change to the contract regulations that were made in 1985. There was a previous clause in the financial administration manual that was, I believe, used to achieve the same end but I believe it was deemed if, in fact, that level of authority was going to be exercised then that needed to be more clearly stated within the contract regulations so that it was clear for all concerned and that it was fully understood.

One other area that I believe was changed as of 1985 is to expand and clarify the fact that the Executive Council has paramount authority when it comes to the awarding of contracts. In other words, the Executive Council, regardless of bids or regardless of any other reason, if they deem it is in the best interests of the Northwest Territories, they in fact have the authority to award a contract to anyone they so wish. Obviously, though, that authority is exercised with great care. It is exercised by the Executive Council as a whole and in exercising that obviously the Executive Council is broadly accountable to the Legislative Assembly in total.

The one other area that the new regulations include is a section that pertains to proposals. Proposals are another form of contract that are primarily used when we choose not to define the exact nature of the project in very precise terms and therefore we are outlining various options as to how it can be carried out. When we do use proposals, however, the criteria must be very clearly stated, on which the proposals will be assessed, and how we will award the contract and the contract must be awarded according to the criteria outlined. If any decision is made not to award on that basis then again, it must go to the Executive Council to be approved and of course that authority is used extremely sparingly for obvious reasons.

One other section, Mr. Chairman, that is new. The regulations do provide for a formal framework for hiring of architects and engineers who provide contract services for the Government of the Northwest Territories and the rules and procedures with regard to those contracts are now outlined within the regulations as well. I believe those, from the Public Works point of view, are the basic changes from the regulations as they were outlined and stated previously.

#### Contract Signing Authority

CHAIRMAN (Mr. McCallum): Thank you. There are some areas of obvious concern. Perhaps I can start it off. In the interpretation clause of the government contract regulations, it deals with the contract authority. It states that it means unless otherwise stated the Commissioner, a Minister, a department head or person designated by any person mentioned in the first three areas to act in his stead. I wonder if I could get an indication of how far down the line would that go?

MR. LARRY ELKIN: Yes, within the last two years the level of signing authorities in the department was increased to reflect the fact that it had not been changed for quite a few years and had fallen far behind inflation and also to relieve the burden of every contract or a very large percentage of contracts having to go to, in effect, your treasury board to be approved. So that we were consistent with the practices and procedures that are applied in the provinces and in other areas in Canada. So the signing authorities for contracts were changed and if you wish I can give you an indication of what those are now. I am relating to what I think are the key areas of interest here; major construction contracts, contracts related to O and M and leases. In all of those areas, as long as the contract is awarded to the bid that is low, the Minister of Public Works has full signing authority. In terms of other staff, in terms of myself, when it comes to service contracts I have \$100,000, construction \$250,000, and leases \$100,000. Those figures are all in

relationship to the full term of the contract. In other words if it is a construction project that is over three years it is based on that value for the full three years. If it is for lease it is 20 years or 10 years, then it is the value of that contract for that full period.

The assistant deputy ministers in the department have a lower signing authority and the chiefs who report to them and who have responsibilities with regard to these areas, have some authority as well. To give you an indication; the authority for a chief for a service contract is \$50,000, construction is \$50,000 and lease is \$50,000. Our individual managers, who are immediately under the chief and are responsible in effect for project management for a category of projects such as schools, their limits in all of those areas is \$20,000. So they really do not have that level of authority because our cost of construction, generally speaking in the Northwest Territories when you look at the isolated communities, is roughly 100 per cent higher than it is elsewhere.

Determining "Responsible And Responsive"

CHAIRMAN (Mr. McCallum): There are other differences. Obviously you have changed from the old regulations which was section 12 to a new one in section 14. The only time you get the Executive Council involved is when there are two identical low bidders. But the contract authority could be anybody depending upon, as you indicate, the value. To refuse all tenders and award the contract to no one, again, the contract authority only awards a contract as a result of that individual being responsive, responsible. I wonder if you have any kind of guidelines to determine those particular two states, responsible and responsive. Given that a contract authority can be anybody depending upon the value, is there a set list that is a check-off for responsibility and responsiveness or will it change depending upon whom the contract authority is?

MR. LARRY ELKIN: The level of the way in which this is applied, is going to reflect to a certain degree the particular senior manager in our department that exercises the authority. Very clearly defined and understood parameters are used. Obviously to exercise this authority it has to be above question and if there is any doubt whatsoever whether a contractor meets the criteria of being responsive and responsible then it is always recommended by the department that it be awarded to the lowest bid, unless it is very clearly demonstrated that the person who submitted the low dollar bid is simply unable to fulfill the contract either because of background or lack of equipment or a whole host of reasons that apply to each individual contract. So if there is ever a gray area it always falls on the side of being recommended to the lowest bid to ensure that fairness is maintained for all concerned.

CHAIRMAN (Mr. McCallum): Mr. Elkin, it is those parameters that I guess I am concerned with. You and I may look at responsibility and responsiveness in the same way but I am not too sure that everybody is the same as you and I, if I am one of the contracting authorities and you are one. I guess it is the parameters where there has to be some consistency. Mr. Richard may not have the same idea of responsibility and responsiveness as I.

MR. RICHARD: Maybe better.

CHAIRMAN (Mr. McCallum): Maybe better. Again, if these parameters are not put down, how then is this done equitably for particular people who tender?

MR. LARRY ELKIN: Mr. Chairman, to clarify that point I think one of the tests, of course, is the extent to which the contracting industry accepts that they are being treated in a fair way. Now I stand to be corrected and I will ask for clarification from my own staff, but to my knowledge in the very, very few cases that this has ever been applied, I cannot recall a case in the last two years where somebody who may not have achieved a contract because of this reason, has appealed. I am not aware of any complaints from contractors as a result of the application of these rules by our staff.

Mr. Chairman, one further point is that the criteria that we use are not just out of anyone's head. They are very clearly stated because the level of contracting by the department relative to the Northwest Territories is very large. For example, we issued 1154 contracts in the particular year that we are appearing on here. We do have very well defined procedures in this area and there is a manual which outlines all these procedures, these criteria.

CHAIRMAN (Mr. McCallum): You could make that manual available to us?

MR. LARRY ELKIN: I certainly can.



Contracts Based On Proposals

CHAIRMAN (Mr. McCallum): Again, it is for that particular reason, because you do give out a lot of contracts, that it, in effect, is a concern. I just want to go into one further thing and then I will have other people who may want to, and that is in the new section 17. This is the part dealing with proposals. Where a contract is to be awarded as a result of proposals, it is awarded to the proposer who is responsible and whose proposal potentially provides the best value. Again you get a judgment. Can I get an indication from you who determines that best value then, when it is a proposal? Mr. Elkin.

MR. LARRY ELKIN: Yes, Mr. Chairman, I think the best way to answer that question would, in fact, be to refer to one of the projects which has elements in it related to the question you have. That is the Repulse Bay community complex. When it was determined that that complex was going to be constructed, it was decided that one of the major goals to be achieved was a high level of local involvement. A high level of local involvement, in this particular case, meant a high level of local employment of people living in that community, in the area and in the Northwest Territories. It meant maximizing use of local hotels; it meant using local contractors; it meant using local firms that are available in the community to transport materials from the airport to the site and from sealift, as well. For that particular contract, we built criteria into the tender call that very clearly spelled out that, in addition to price, there were other goals we were trying to achieve and a level of local involvement was going to be a criterion that we would take into account in awarding of the contract. That is exactly the criterion that was applied in this case. The criterion, as I indicated, was very clearly spelled out so therefore, the managers on our own staff responsible for that job, applied that criterion. The recommendation was then made up the line to me. It was determined, in this particular case, that the one that offered the most benefit to the Government of the Northwest Territories in terms of the criteria that had been outlined, was the firm whose bid, from a straight dollar point of view, in fact was the highest.

As a result, the Minister of the department took the content in the proposal and the results and discussed them informally with the Members of the Executive Council to ensure that they were fully aware of the criteria behind the call and on what basis he was proposing the award. The Executive Council, on an informal basis, because it was not a formal meeting, concluded and agreed to whom it should be awarded at that time. It was awarded on the basis that the Government of the Northwest Territories, in this particular case, paid a premium, a straight dollar premium, of \$48,326, on the understanding that the employment benefits alone, the local employment that had been promised by the contractor, was \$195,000 higher than the lowest bid from one of the other firms. The Executive Council decided that it did meet their test and was in the best interests of the Government of the Northwest Territories to award this contract.

If I could, Mr. Chairman, on the two tenders, because it does relate to another issue, the contract was awarded before the Executive Council, as a formal body, approved it. The Executive Council...

CHAIRMAN (Mr. McCallum): Excuse me, Mr. Elkin. We are going to get into the details of that. Those were tenders. I am referring to the proposals. You are saying that, in effect, what is appropriate for tenders is applicable to proposals, as well.

MR. LARRY ELKIN: There is a very fine line between a public tender and an invitational tender and a proposal. I think I could get into endless debate with the Auditor General's staff as to where one starts and the other...

CHAIRMAN (Mr. McCallum): We are not going to do that.

MR. LARRY ELKIN: I will do...

CHAIRMAN (Mr. McCallum): Again, because in your contract regulations you make the distinction between tenders and proposals, I raise the question, who provides that evaluation of the best value? I do not disagree with you getting the best value, that is what we are here for in all areas, but I just point out that there is a concern as to who determines the best value in it. I think that may be three areas that I have a concern with in those contract regulations.

Do any other Members have concerns? It may not be fair for me to ask the question about the removal, in the past, back in 1984 -- we could save that for another time but it is obviously of interest, who removed the infamous clause out of the regulations and why. It may not be fair to

ask you, unless it was done by your people, but that is one that still remains. However, those are the new regulations and I wanted to pre-empt it before we got into the actual examples that are here. Then you can go on to answer any kind of questions that do arise over the particular instance. I was not so much concerned with the examples because we have that in the whole business of new contract regulations. We were told by the Finance Minister that "the infamous clause" in the regulation was put back in or he was sure that it would be put back in. That was during our February sitting, or was it March? I forget when we sat. Whatever.

MR. RICHARD: I am not sure what his commitment was. We would have to get the Hansard out, but I do not think it was as ironclad as you suggest it was.

CHAIRMAN (Mr. McCallum): Obviously not. I guess that is what we will have to do. We will come back to it. Are there any other questions on this whole business of the regulations? Are there any comments from the Auditor General?

#### Criticisms With Respect To Tendering Process

MR. KENNETH DYE: The departments testify that they have not had any criticisms with respect to contracts. Possibly your committee should know that I have had four businessmen of your community, here, complain to me about the tendering process. The theme of their complaints is one of too much ministerial discretion and of the application of the concepts of affirmative action where the criteria are unknown to everybody. Their view is that it is not fair in terms of everybody having an equal opportunity to understand how the rules are applied.

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

MR. GARGAN: Mr. Chairman, in awarding of contracts, Mr. Elkin did indicate that the people have to be responsible and responsive and also, there are further amendments to the contract regulations. I would like to ask Mr. Elkin whether these new regulations and criteria for awarding contracts would actually jeopardize chances of new companies actually ever getting contracts awarded to them.

CHAIRMAN (Mr. McCallum): Mr. Elkin.

#### Negotiated Contracts With New Firms

MR. LARRY ELKIN: Mr. Chairman, I believe that the issue being referred to is the practice that has been raised within the last few weeks, having to do with negotiated contracts with native firms. That practice has been carried out in a few instances. It was carried out within the framework that, before the decision was made to negotiate in the first place, that proposal went to the Executive Council as a whole and the Executive Council as a whole determined that it was in the interest of the Government of the NWT, with regard to a newly developing firm, to negotiate a contract with that firm, with the understanding that if it was left simply to the market place to judge, because the firms were new and did not have the experience and expertise that established firms have, that they would never be successful in winning any contracts. So as a result, in terms of their commitment to support the development of new native companies in the NWT, they thought it important in the cases at hand that we would enter into negotiations.

That has occurred, as you are all aware, in a few cases. It was always with the approval of the Executive Council in total. The actual details of the details in the contract are always brought back to the full FMB so that they can fully review and finally approve the financial elements of the contract because it is negotiated in the first place. Does that answer your question?

CHAIRMAN (Mr. McCallum): Mr. Gargan.

MR. GARGAN: Thank you, Mr. Chairman. When you do a tender call for a particular project you also indicated that you do sometimes put in there a criterion that you would give preference to people that hire more northern or local employees and local contractors. So if that is a criterion then that would give an opportunity to a lot of new companies to be actually awarded those particular contracts, rather than going through the responsibility or responsive criteria.

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: Just further to that point. Again as I believe most of you are aware, because of the Government of the NWT's commitment to supporting northern employment and the developing of firms in the North, the government and the Executive Council with the support of the Legislative Assembly has, over the last two or three years, put into effect a whole range of programs that in effect give various preferences to northern people as a whole and encouragement for people doing business in the North to maximize the level of local employment. Business opportunities are provided to firms who are deemed to meet the criteria of being northern, as opposed to meeting the criteria of being from elsewhere.

This government has put those policies into effect on purpose to achieve a stated goal. I believe the policies are not intended in any way to go on forever but are considered very vital and important at this time in developing the northern economy and giving some degree of protection to northern firms until they achieve the same maturity and competitiveness as some of their colleagues from the South.

CHAIRMAN (Mr. McCallum): Anything further on the regulations? Perhaps then we can go into the first note that is here and it deals with those inconsistencies. As I indicated, Repulse Bay community complex. I recognize that I cut you off previously, Mr. Elkin. If you wanted to make that comment now, go ahead.

Repulse Bay Community Complex

MR. LARRY ELKIN: Thank you, Mr. Chairman. The key point that I want to make on this particular project -- there are occasions when we face this problem -- is that the requirements from the client department to build the facility were later than we would ideally like in terms of planning. With the best intentions in the world the planning of all these facilities sometimes does not adhere to the ideal schedule that you and I would ideally enjoy. As a result, by the time the criteria were built in as to how, in fact, this contract would be awarded and it was tendered, it was getting on fairly late in the spring for this particular job to be constructed during the season it was supposed to be. The successful contractor had to have his material purchased and delivered to the shipping site by July 27th. The next meeting of the Executive Council, when the bids were in and the recommendation was being made, was scheduled for July 21st. Ideally all the contractors, so that we would not unduly constrain them, wanted a decision by June 9th.

Through friendly persuasion we got them to agree to a delay in the awarding to June 13th and in the meantime the Minister, on an informal basis -- we admit fully that it was on an informal basis because there was not a formal meeting planned -- the Minister went to his colleagues on the Executive Council and outlined fully the background to them and what he proposed to them for approval and it was approved along those lines. If we had waited for formal approval on the 21st, the job would have been delayed one full year with all the ramifications. The benefits to the community both in having the facility and the employment and the business opportunities would have been delayed a year, and there is always the potential danger that the cost of actually doing the project could well have escalated from one year to the next because, unlike the situation that has happened elsewhere in Canada where the economy has suffered severely, the NWT has been in the position of a fairly significant construction program and we have found that we have not had the same reduction in prices that has been experienced elsewhere.

CHAIRMAN (Mr. McCallum): Questions. Mr. Elkin.

MR. LARRY ELKIN: Mr. Chairman, if I could I would like to add one other point of clarification. Of course, this project was handled under the old contract regulations and under the old contract regulations there was not that section that we outlined and spoke of before, with regard to being responsible and responsive. There was however, at that time, within the financial administration manual for the Government of the Northwest Territories, such wording that the interpretation that we have been given is that that wording as well, could have been used to award it to the firm that had not the lowest price but where the combined benefit to price would have been the lowest, but we decided not to exercise that. The Minister did and, although he thought he had the authority, wanted to ensure that it was taken to the full Executive Council so that they would approve it. I emphasize that point because, although the regulations even the old ones and particularly the new ones, can give a level of authority that may be of some concern, I want to reassure you that in fact the practice has been not to rely heavily on those clauses but in fact to be doubly sure and in fact to take it to the Executive Council to be approved. I have every reason to believe that kind of climate will continue and certainly not go the other way.

CHAIRMAN (Mr. McCallum): Any questions? I guess the concern has to be indicated and I would not want to disagree with anything you have said but I guess the question I would like to ask is, who in this instance did the awarding of the contract? Was it done within your department or was it done by the Minister? Did you people make the award?

MR. LARRY ELKIN: The decision to make the award was the Executive Council's. The actual signing of the piece of paper...

CHAIRMAN (Mr. McCallum): In this informal get-together? The decision was made...

MR. LARRY ELKIN: Yes, it was the Executive Council.

CHAIRMAN (Mr. McCallum): By telephone or however was it done?

MR. LARRY ELKIN: It was done by walking from office to office. That is exactly how it was done. The actual signing of the document would have been done by whoever had appropriate signing authority and I believe in this case it certainly was not me; the Minister had the formal authority, but that is a formality.

CHAIRMAN (Mr. McCallum): That occurred eight days later.

MR. LARRY ELKIN: I do not have before me the actual date on which the actual physical contract was signed. Possibly some of my staff do.

CHAIRMAN (Mr. McCallum): Is there any documentation available, to your knowledge, that this was done?

MR. LARRY ELKIN: Oh, yes. In fact, here again I stand to be corrected but I believe the letter of intent -- and as long as the Minister signs a letter of intent it has the same force as does the contract -- the letter of intent was signed I believe, by the Minister, on June 13th. I stand to be corrected. I may be wrong because we have so many figures here but I believe the Minister signed the letter of intent on the 13th.

CHAIRMAN (Mr. McCallum): Is that a letter of acceptance?

MR. LARRY ELKIN: Yes, it is called a letter of intent and that formally obligates our government to enter into contract with the firm involved.

CHAIRMAN (Mr. McCallum): It was done on the basis of this consultation, walking from office to office?

MR. LARRY ELKIN: Right. They agreed and then he issued the formal letter of intent. That is correct.

CHAIRMAN (Mr. McCallum): And then the Executive at a regular meeting a week later did in fact accept...

MR. LARRY ELKIN: They formally ratified the decision that they made. They went through the formal motions, that is correct.

CHAIRMAN (Mr. McCallum): It was done, Mr. Elkin, because of the urgency, as I understand you to say. An urgency of a matter of eight days, contrary to the regulations that existed at that time because the regulations that were in effect at that time, would be to get Executive Council approval, is that not correct?

MR. LARRY ELKIN: Yes, that is correct. Of course as we have indicated before, when you are doing construction and contracting in the northwest Territories where you have a very short construction season and materials have to be shipped, there are occasions if you wanted to get the job done and therefore get best value for the taxpayers' dollar by not delaying it a whole year, then you exercise that judgment. You make a decision and on the rare occasion, as in this case, you have it ratified after the fact. That is exactly right.

No Opportunity To Discuss Contract Collectively

CHAIRMAN (Mr. McCallum): Just before I ask Mr. Dye to comment, but the Executive Council would not have any time then to consider it collectively, not individually, and their meeting was simply a rubber-stamping of what was done at that time. There would be no discussion. There could have been all or less than all of the Executive Council Members contacted during this informal consultation process. When they were together there was no opportunity for them to discuss the actual wording of the contract because of the letter of acceptance and they were held by that. It was done eight days prior and the eight days prior, in your department's view, would have necessitated delaying this for a year?

MR. LARRY ELKIN: Yes, there is no question the project would have been delayed one year.

CHAIRMAN (Mr. McCallum): Mr. Dye.

MR. KENNETH DYE: Mr. Chairman, I am aware of how important it is to get on with these projects in the short time available to actually go through the construction process. Perhaps there are two opportunities for improvement here. It would seem to me that the project was known long before the approval was required and maybe a little more advance planning could have been applied. I mean, we come along and we complain about subsequent approval which in effect is rubber-stamping. If there is so much activity going on in a period when it is vital and urgent that things be done perhaps the Executive Council could meet more frequently. Apparently they were all there and a Minister had to go around from office to office. Perhaps more meetings could be called so that these urgent matters in the sense of a period of time could be properly dealt with.

CHAIRMAN (Mr. McCallum): That is a good point. Are there any further comments, or questions? Mr. Richard.

MR. RICHARD: One other thing, just learning from what Mr. Dye has said, in this information here it indicates the tenders closed on May 31st. We are talking about the activity of the department; their Minister assessing the two tenders and deciding to go with other than the lowest tender; the Minister visiting the offices of his colleagues; sending the letter on June 13th and then proper approval being obtained on the 21st of June. All of this in three weeks. I myself cannot be too critical of the Minister and his colleagues and the department during that three week period, or really that two week period up to June 13th, but I think the flaw is possibly the May 31st deadline in that the department and that the government should have given itself the month of May and had the deadline at maybe something like April 30th. In that way the construction season is not two weeks away, or the shipping season, and maybe if the process, as Mr. Dye says, with better planning was backed up on the other end we would not have had this problem.

CHAIRMAN (Mr. McCallum): In this particular project you talked about the companies that contracted for it being asked to give more information on their northern involvement. Again, are there parameters to measure that and if so have you got them down in your manual or is it simply discretionary? Mr. Elkin.

MR. LARRY ELKIN: No, there were clear parameters and they were stated in the tender call. Now, having stated that...

CHAIRMAN (Mr. McCallum): Obviously, you raise the question, why did you bother to open them if they did not have them?

MR. LARRY ELKIN: Pardon?

CHAIRMAN (Mr. McCallum): You wanted more information and they did not have them....

MR. LARRY ELKIN: Excuse me, Mr. Chairman. I am not sure I understand your question.

CHAIRMAN (Mr. McCallum): You said these parameters were in the call for tender. Then you asked for more information.

Complexities Of Assessing Northern Involvement

MR. LARRY ELKIN: No, we did not. No, the parameters were in the tender call and we assessed according to those parameters. The other comment that I would make, Mr. Chairman, is that even though you have a parameter set, the more parameters, the more issues, the more indicators or

factors you build into a contract, the more complex it becomes. When it is just on price then that is straightforward. When you add how many local people you are going to hire, that is another one, then you get how much local cartage and then you have a whole bunch of these factors. And how much you are going to use the local hotel? These all add elements in it and I cannot sit here and say to you that does not complicate the process. It certainly does complicate the process. In fact, part of the reason for problems in timing is that for our staff to analyse these contracts properly and do a good job of it and be fair and honest to all concerned is a process which takes time, but, because the staff of course are committed to achieving the goals that the Executive Council wants to achieve in this area, they are diligent, in fact, doing that. I would not want to leave the impression this is a totally exact science. It isn't and the more elements you add, the more margin there is for a judgment and all we can expect our staff to do is to be skilled people who exercise reasonable judgment.

CHAIRMAN (Mr. McCallum): Further comments on that particular example? Mr. Gargan.

MR. GARGAN: Mr. Chairman, with the five year capital plan you actually go through, the construction season is supposed to start the following year. The first year is usually designated for planning and design of a particular structure. Following that, once the new fiscal year comes, then you actually should have a design of a building that you are going to be constructing so you do not have to delay. You have an estimate on how much it is actually going to cost to build and that goes out for tender. Presumably it would take about April, May and by June you should have your tenders in place. I notice that in a lot of cases that is not the way it goes and that you end up in most cases -- I do not know whether Local Government and Department of Public Works do co-ordinate their efforts but you end up with most major capital projects starting in late fall or winter. This seems to be a problem and I would like to perhaps find out what has been done in both departments to try to address that particular problem. I know that starting construction in the fall and working during the winter time is just an added factor, or an added cost to your main estimates. I do not know how you would address that.

CHAIRMAN (Mr. McCallum): Would you like to comment, Mr. Elkin?

MR. LARRY ELKIN: Mr. Chairman, the points raised of course are all valid. If there is any place in Canada where you need some proper planning, it is in the Northwest Territories because we are faced with a severe climate and restrictions that are not as constraining elsewhere. So the need for proper planning is very important.

Planning is a lot better than it has been in the past. We do not, frankly, have any more complications with any one client department than another, whether it is Local Government or Education or Renewable Resources. But there always are cases where through no fault of anyone, the planning that you refer to is compressed into the same year as construction. We are not the dog, we are the tail and the tail always gets blamed when it doesn't get done. So we bend heaven and earth trying to meet the valid needs of the client and quite frankly the Repulse Bay project is one of the products of things being compressed, new rules compressed. So your chances of doing things that you maybe ideally would like to do are not always going to be there. We are improving though and it is getting better but it all boils down to better long-range planning. It is as simple as that. But our chairman has heard that for the last 10 years.

---Laughter

#### Liard River Dredging Project

CHAIRMAN (Mr. McCallum): Any further questions on Repulse Bay? In terms of the Liard River dredging project, there are a couple of things here that differ from the former one. In the former, that is the Repulse Bay one, there was a letter of acceptance of offer sent to the highest bidder. That is not so, as I understand it, in the Liard River project. There was no letter of acceptance of offer on file but you indicated that was so in terms of the Repulse Bay complex.

The other thing in this is obviously the tenders were by invitation only and yet when you invited particular groups to do it, one of the reasons for refusal was that they were not acceptable. I guess that obviously has to beg the question, why did you ask them in the first place if they are not acceptable? Again, how come there is no letter of acceptance on file in this particular instance? If you could comment on those, Mr. Elkin.

MR. LARRY ELKIN: I will be pleased to, Mr. Chairman. First of all though I think it would be useful just to get a little bit of background to the project in the first place. The dredging of the Liard River project came about as a result of the planned visit of Pope Paul II to Fort Simpson in September 1984. It was determined, as part of the planning for that major event that was going to occur, that the volume of people that were going to converge on that community was going to increase the community by many, many times and unfortunately to get to Liard you had to cross the river. We simply could not accommodate that with the ferry we had serving the area and we, therefore, had to move a larger ferry in to complement the smaller operation we had. All these decisions again, were made fairly late. The reason they were made late is that it was still at the beginning of the summer when the armed forces and the Government of Canada were still considering the various options, including building a temporary bridge. But it was deemed at a fairly late date that the only thing that seemed to make any logical sense was to increase the ferry capacity.

Therefore, we had a fairly urgent requirement, once the decision was made that the Merv Hardie would leave Fort Providence and operate in that area for that period, for we knew that the landing had to be dredged because the larger ferry could not operate there. We did not have time to develop one set of specifications as to how that should be done. So therefore we went to invitational tenders to every single firm in the North that we thought had the capacity to do the work, plus firms in the South. There were 15 firms all told. We went with a broad enough invitational tender call that we left it open as to the various proposals and options for them to achieve the job. In other words, they were not precise specifications that we would normally give if we were having somebody build us a garage. How they were going to accomplish that and the timing, the equipment and just the whole approach was left pretty much up to them. Since those were the criteria, we did not want to arbitrarily restrict who might put in proposals. So when the proposal came in that was low, it was rejected. It was a proposal that when it was assessed, we determined that the particular company involved simply did not have the approach and the equipment to complete the job in time for the event that was going to occur.

CHAIRMAN (Mr. McCallum): I do hope they were not Catholic, were they?

---Laughter

MR. LARRY ELKIN: That was not one of the criteria taken into account. So as a result the decision was made, in effect, to award it to the number two bid although it could have been argued that they did not have a valid bid and the other firm was low anyway, but it was taken again to the Executive informally to be approved, which it was and the contractor actually signed the contract on the 7th of August. The Minister of Public Works and Highways signed it after he got concurrence from his Executive colleagues on an informal basis on the 27th of August. Now the reason that a letter of intent was not given is because a letter of intent is not always required. A letter of intent, though, is a useful vehicle to give out right away before you actually finalize the contract. In this case I understand we did not use a letter of intent but it was actually the formal document itself that sealed the contract.

CHAIRMAN (Mr. McCallum): Any questions? Any comments from the Auditor General?

Auditors Unaware Of Definition Of "Lowest"

MR. KENNETH DYE: Mr. Chairman, one of the reasons we raised this is because we are not aware of the government approach where the lowest contract was not deemed to be responsive, that the next lowest becomes the lowest by definition. I am not aware our auditors were aware of the process and I think we were not aware of the definitions used by the department. I think that may be part of the reason why we raised this issue and we are learning, at least I am learning today, that the definition of lowest is not necessarily the smallest.

CHAIRMAN (Mr. McCallum): Just in relation to the new contract regulations -- because we are going into another area, there are no further questions on that first note. I thought the "in thing", now more so than ever, was the use of the term "Minister". Who drafted the new regulations? Justice? They are still hung up about "Executive Member" and "Minister". I mean we get laws now, bills now, that say "Minister". This just didn't come up a year ago. Anyway. All right, the next one on page three is work done without prior approval.

Documentation Under Section 14(2) Of Regulations

MR. RICHARD: Mr. Chairman, I wonder, not on those specific projects, but, since you were referring to the contract regulations, I take it that Mr. Elkin and the department have been working with the new regulations for the last year and, in the context of the request that we have made of the Minister to change these regulations, I wanted to ask what the practice is on these two judgment calls that are made under 14(2), where the contract authority makes a judgment call and determines who is responsive and responsible. Is there a practice by the contract authority, whether it is the deputy minister or the Minister, whoever -- perhaps Mr. Elkin cannot speak for the Minister -- but is the practice to write that down, "I have looked at these three tenders and tender 'A' I deem not to be responsive and responsible for the following reasons and, therefore, tenders 'B' and 'C' are responsive and responsible; 'B' is lower, so 'B' gets it." Are those written down somewhere and put away and locked up in a safe, presumably away from the eyes of the Chamber of Commerce?

CHAIRMAN (Mr. McCallum): Mr. Elkin?

MR. LARRY ELKIN: Mr. Chairman, in the very few cases where that is exercised, and I want to emphasize that too, in the very few cases where that has been exercised, it is very well documented and is duly recorded on the files.

CHAIRMAN (Mr. McCallum): Mr. Richard?

MR. RICHARD: And as a follow-up, Mr. Chairman, then for the Auditor General's staff, over the next year, if they were to choose to review particular contracts, would that document be available to the Auditor General's office in the normal course?

MR. LARRY ELKIN: Yes, it certainly would.

Work Done Without Prior Approval

CHAIRMAN (Mr. McCallum): Thank you. Anything further? All right, on page three, work done without prior approval, change orders, service contracts, engineering services agreement. Perhaps, Mr. Young, you would like to make a comment before we get started here?

MR. DONALD YOUNG: Thank you, Mr. Chairman. I would just like to advise the committee and those present that there is a change in the number on the first line there. The figure that reads as \$1,596,827 should now read \$405,865. There was an error in the calculation of that figure which only came to light last week. The substance of the comment does not change, but the magnitude of the example does.

CHAIRMAN (Mr. McCallum): If we just take these in order, Mr. Elkin, the change orders and service contracts, they were approved after the related work had been done and, in one instance, seven contracts were signed after work was under way and, in some instances, after work had been completed.

You have indicated that in an emergency situation work has to begin before authorization can be obtained and before service contracts can be signed. The recommendation was, "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." You agree with that in your response that you recognize the financial control implications of incurring contract liabilities on behalf of the government prior to receiving the appropriate approvals.

I wonder if you want to comment more on that. You say that where it is necessary to proceed with work before it is approved, the documentation as to the necessity will be on file and it would be prepared within a reasonable period of time. What are we talking about here in terms of a reasonable period of time, then, and why would you sign a contract change order after it has been completed? During the course of it maybe, but after the job has been completed? Mr. Elkin.

MR. LARRY ELKIN: Mr. Chairman, yes, I will be pleased to respond. First of all I would like to just emphasize again, not that one does not always strive to be perfect but in that particular year we did have 1154 contracts and about 400 plus change orders so these instances should be understood within that context...



CHAIRMAN (Mr. McCallum): Okay, you were overworked, okay, come on.

MR. LARRY ELKIN: Not overpaid, just overworked. Further to that though, obviously as we have stated, we certainly agree fully with the point. What plays a big part in the problem is that our projects, a lot of them, do take place in isolated communities. There are changes to contracts that come up on the spot and a judgment has to be made by our staff in the field. They do not have the proper signing authority in the field to actually formally approve them and so we agreed that we need to have a system whereby they can get telephone or telex approval with formal documentation being signed, for such change orders, after the fact. At least that would improve the whole system in the process.

The other fact is though, and we do want to make this clear, in the service contract area four of the seven cases were related to companies who have the responsibility for repair of certain types of heavy equipment. They were hired to go into very isolated communities to undertake repair work on caterpillar equipment and that kind of thing. Because they are firms not located in the Northwest Territories, although they were authorized fully by telex to proceed with the work and we fully knew what work was going on and we fully knew the price, there was not actually a formal signed service contract until after the work was completed, simply because our person with the signing authority is in Yellowknife and the person doing the work is flying out of Edmonton. Having stated that, even when those cases do occur, there should be telephone and telex approval and as it was the case here, we should not be signing a service contract three months later. There are some cases where it was simply an administrative error and they were not signed until considerably after the fact. I am not going to sit here and say we agree with that. I mean that is simply not correct.

#### Use Of Change Orders To Adjust Contracts

One other issue though I would like to raise and it is related in part to four of the change orders which in fact make up the bulk of the money that is indicated under the new revised total for the change orders issued, of \$405,000 plus. Four of those change orders in effect certainly were signed after the fact but they were all related to unit price contracts. In other words, we did not know how much we were going to pay until the contract was done. Three of them were hauling of gravel. We pay on the basis of how much gravel is hauled and then we verify the gravel. We have agreed in the contract beforehand that they do have a price so we know what the price is but the actual amount we pay cannot be verified until the contract is done and so clearly maybe we are using the wrong vehicle. Maybe that is the problem. Maybe change order is not the vehicle to use. But we use the change order to adjust the contract to conform to the final quantities, but maybe that is the wrong vehicle because obviously a change order cannot be signed in that case until the contract is finished. So, we are probably using the wrong tool to achieve a proper end and possibly the Auditor General and his staff have some suggestions as to how we can improve that. It is an after-the-fact thing and we frankly do not know how to avoid that problem.

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

MR. KENNETH DYE: Mr. Chairman, normally I think it would be acceptable to accept a per unit price and know what the deal is, based on a reasonable estimate. Obviously in this case the adjustment to the original contract is two times the original contract and it would need subsequent review. It is not one that you could base on your original thinking because you have wound up with a price that is considerably higher than planned, so they moved a lot more gravel.

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: If I could, Mr. Chairman, just clarify that point. That is correct. In I think two of the cases, the amount of gravel is far more than you would normally expect to see through a change order. Otherwise you would seriously question the person who estimated the amounts in the first place.

Having stated that, for two of the cases in addition to having to wait until the gravel was hauled, federal money was received from the Department of Indian Affairs to meet the impact of resource development in Tuk where two of these contracts refer to. In order for us to spend the federal money, that we got approval for on March 27th, by April 1st which was a fairly short period of time to haul the gravel, frankly, rather than calling new tenders, we simply did a change order on these two contracts. So we were doing two things and I suppose we could be criticized and maybe properly so for not going out to contract but if we did we would have lost money. I mean, it is as simple as that. So we chose to do it through a change order.

CHAIRMAN (Mr. McCallum): Mr. Young.

Lack Of A System To Deal With Emergency Situations

MR. DONALD YOUNG: Thank you, Mr. Chairman. Two points. One, our main criticism was really the lack of any system in place to deal with these emergency situations and I guess our concern continues to be that the departmental response does not really address whether they are going to institute a system or not. Certainly, Mr. Elkin is indicating that there may be a better system than the one that he is describing or the one that is effected by the change order. So I think it is the issue of the system that has to be addressed.

Secondly, Mr. Elkin also quoted the number of change orders that they processed in the year. I do not want to leave the committee with a wrong impression. We do not look at all the change orders, we only sample a few through the course of our audit, so our findings are based on our sample, not on the total population.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: Just a note because I know something of this contract. The initiative to funnel extra funds into the territorial coffers to spend on this gravel haul was done between the community of Tuk and myself and the federal government; it was negotiated. The only way we could channel it through to get it done in time was to put it through the territorial accounts. So it was not extra territorial money going into that gravel haul.

CHAIRMAN (Mr. McCallum): Just on a point of the new procedures, Mr. Elkin, then and trying to find adequate ones I guess -- are you developing or trying to develop something on those?

MR. LARRY ELKIN: Yes, I did want to. By illustrating some complications, I certainly do not want to leave the impression that we do not fully understand and appreciate the problem. We are making changes to our procedures so that although there cannot always be formal service contracts signed and change orders always signed before the end of the contract -- I am not going to sit here and say that there can be because I know that is not correct -- at the same time we will have systems in place where at least, whether through telephone or telex, we have a form of proper approval given with formal documents being signed after the fact. We give you assurance that we are putting those in place and will have those fully in place during this coming year.

CHAIRMAN (Mr. McCallum): Just to indicate to you, you can rest assured that we will be asking for those assurances through procedures at another time because I think that is maybe one of the things we do not do enough of. It may very well be indicated to you by means of a recommendation that those procedures have to be put in place by such and such a time so that we do not have a continuation of this kind of thing. I recognize and appreciate the comments you have made. You cannot finalize it all. With regard to the change orders, who has the authority for those change orders?

MR. LARRY ELKIN: Our policy on change orders is that the signing authority can approve change orders up to 15 per cent either way of the value of the contract or it can be over 15 per cent if it is within the signing authority of the person who is responsible for it.

Engineering Services Agreement Projects

CHAIRMAN (Mr. McCallum): Are there further questions on the change orders, service contracts or the engineering services agreement? In the response to the recommendation regarding the engineering services agreement, that you should obtain project approvals from DIAND before carrying out the work under that agreement, you say you recognize a need to obtain project approvals before carrying out the work. However, there is again the short season, the length of time for formal approval and you say it should be noted that this is only done with DIAND's full knowledge and informal concurrence. Is that documented or how informal is it? Is it by telephone, telex? What is it and is the documentation available? Mr. Elkin.

MR. LARRY ELKIN: Mr. Chairman, yes, here again I think it would be useful if I spent just a minute giving you a little bit of background in these two cases as to what happened. The first project relates to reconstruction of the Mackenzie highway from kilometres zero to 15. The project was started in 1983-84. That project was not completed that year and funds were carried over into

1984-85. From the work that had been done in 1983-84, because of a severe water problem in the soil, it was found that the design standard was incorrect, that we were having major failure of the paved highway that had just been constructed, and therefore corrective action had to be taken that year. Otherwise it would have been a very serious problem for those travelling the highway. The federal government agreed with us that there were design problems and that additional funds would be required. Receiving formal funding approval, as it turned out, was a very slow process. It had reached the point that, because we had to get this particular job done, plus the other project on the same highway further down the road, kilometres 15 to 83, to allow us to get this work done during the 1984-85 construction season so that the road could be used by the public and not closed down, the Government of the Northwest Territories decided the only way that it was going to get it done was to use \$1.6 million of Government of the Northwest Territories funds. So we, in fact, loaned money to the Government of Canada for this job and the federal government did send a formal letter to the government guaranteeing to repay the money in 1985-86. The money finally came through in different instalments in March, April and May of 1985. In effect we loaned the federal government the money because they were having very severe problems at that time getting funding approval. Without it, the project would not have gone ahead and we would have had a very, very, serious problem.

CHAIRMAN (Mr. McCallum): Any comments? We will move on then to the leases. I know that we had indicated that we were going to sit until 4:30. Perhaps, before we go into that, I should ask your concurrence. Do we deal with it, or do we ask the department to come back tomorrow to deal with these leases and leasehold improvements? What is your wish, committee?

Well, Mr. Elkin, you can make yourself and your colleagues available tomorrow afternoon. Thank you then. We will adjourn this meeting until 9:30 a.m., tomorrow morning. We recognize your difficulty, Mr. Dye, Mr. Dubois. So, the public meeting now adjourns. Thank you very much.

---ADJOURNMENT

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Thursday, May 8, 1986

Witnesses

Office of the Auditor General

Mr. Kenneth Dye, Auditor General of Canada  
Mr. Raymond Dubois  
Mr. Donald Young  
Mr. Delbert Dahl

Department of Public Works and Highways

Mr. Larry Elkin  
Mr. David Waddell  
Mr. Joe Auge

Department of Education

Mr. Joe Handley  
Mr. Paul Devitt

Department of Finance

Mr. Jim Nelson  
Mr. Fred Barrett

YELLOWKNIFE, NORTHWEST TERRITORIES

THURSDAY, MAY 8, 1986

Members Present

Mr. McCallum, Ms Cournoyea, Mr. Erkloo, Mr. Gargan, Mrs. Lawrence, Mr. Richard, Mr. T'Seleie

CHAIRMAN (Mr. McCallum): Yesterday I think we left off on some of the recommendations on change order contracts and the engineering services agreement. I would like to continue with DPW and I would like to call Mr. Elkin and his witnesses. Mr. Elkin, for the purposes of the record, would you identify your colleagues, please?

MR. LARRY ELKIN: Good morning, Mr. Chairman. I believe yesterday I introduced Dave Waddell, the chief of finance, to the committee and the new member appearing at the table today, at the far end, is Mr. Joe Auge who is chief of contracts and capital planning for the department.

Charitable Leases

CHAIRMAN (Mr. McCallum): Thank you. Again I remind you that in responses, you or your colleagues use the microphone as we are taping the proceedings. As I said, yesterday we left off with the engineering services agreement and we will move into the third comment of the Auditor General and that is in the area of leases: charitable leases, leasehold improvements, lease escalation prepayments and the timing of lease payments. Perhaps we can start with the first recommendation dealing with the charitable leases. The recommendation indicated that the department should seek policy direction in terms of appropriate level of Executive approval and they should seek policy direction in terms of the need for disclosure in the main estimates. That is, for these leases, the 23 leases identified with charitable organizations, municipalities, etc., for which a nominal rental revenue, usually one dollar a year, is received. The department determined operating and maintenance costs of the leases to be just under three quarters of a million dollars, some of which relates to government-owned property and some to government-leased property. In your response to this recommendation, you indicated that you 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. Can you table with this committee, Mr. Elkin, a copy of that policy that you are establishing, if in fact you have it? If you cannot table it, can you describe to us what the contents will be in some way? Mr. Elkin.

MR. LARRY ELKIN: Thank you, Mr. Chairman. First of all, relative to the observations in the report, both from the Auditor General's office and our response, certainly we agree that this is an area where the government has not had a firm policy in the past and we agree 100 per cent that policy is required and that until this policy is in place it is extremely important that there is a requirement that any such leases go to the Executive Council to be approved. So we certainly have no quarrel there.

Development Of Policy On Subsidized Leases

In terms of the development of the policy itself, we have been addressing the matter in two ways. Although obviously all our leasing practices up to this point have been guided by the contract regulations with regard to how we do all of our contracting in this area, we have developed a proposal on a leasing framework. That policy, from the departmental point of view, has now been

completed and has been submitted to Mr. Wray and he and his colleagues will be reviewing that. In terms of the particular topic we are referring to here, in the revenue lease area, the policies are in the midst of being prepared. It has not been completed but it will be during this current year.

The policy that we would propose will reflect that it will be the fundamental policy of the Government of the Northwest Territories not to enter into charitable leases as an overall framework except where a particular department deems it desirable as part of their program to provide accommodation at less than the going rate. A good example would be day care. In the past there have been occasions when people operating a day care have approached us with regard to acquiring space to use. The real issue is not the extent to which one gives a low accommodation rate or free accommodation for that support but what we as the Government of the Northwest Territories are prepared to do in terms of support of a day care and that relates also to the running of the programs themselves. It relates to any infrastructure that may be required. So we feel that several of these areas are policies of the particular departments involved and not policies of this Department of Public Works. Until those policies are in place, then, the practice will be that all such requests will be referred to the Executive Council for approval.

CHAIRMAN (Mr. McCallum): Is it your intention within this policy that is being developed, Mr. Elkin, to have these leases or grants if you like -- which in effect they are -- reported annually in the accounts, in the schedule of grants and contributions?

MR. LARRY ELKIN: The decision in this regard will have to be made by the Executive Council as a whole but obviously it is common practice in the provinces to provide some degree of reporting in this area and I would have every reason to believe that we, in fact, will be instituting the same kind of policy.

CHAIRMAN (Mr. McCallum): Just further then, regarding the approval of these leases or grants, will this be done on an annual basis or is it for a length of a particular project? I guess what I am trying to find out is, is your department developing it either solely or in conjunction with other departments? Your recommendations to the Executive on this.

MR. LARRY ELKIN: I do not think there is a simple answer to that although I would like to clarify one point. Although the Department of Public Works, as the agency who is responsible for leasing, will develop an overall policy with regard to revenue leases including covering the area we have here, in fact that policy will say that it will be the policy of the Government of the Northwest Territories not to enter into such charitable leases unless there is a specific policy of the program department involved. So in fact what you will have is each of the program departments having policies covering off their particular area, for example, Social Services for day care, Economic Development and Tourism for co-ops, depending on what the subject matter is, related to the lease itself.

CHAIRMAN (Mr. McCallum): Any comments or questions from the Members? Are there any comments from the Auditor General?

MR. KENNETH DYE: We are satisfied.

#### Leasehold Improvements

CHAIRMAN (Mr. McCallum): In the area of leasehold improvements, the recommendations that are made here are basically that the department should endeavour to finalize lease agreements as soon as possible and, secondly, that the scope and dollar value of leasehold improvements should be authorized in accordance with delegated signing authorities. Accounting practices for leasehold improvements should be consistently applied. I guess this has come about because in the audit they found that the department is making lease payments based on a letter of intent, that a lease agreement had not been signed at the time of the audit and that leasehold improvements have been made by the lessor to the premises at a total cost of approximately half a million dollars but no documents were found showing that an individual with appropriate signing authority had authorized the details of the scope and dollar value of those improvements. I wonder if you could comment on that, Mr. Elkin.

MR. LARRY ELKIN: Yes, Mr. Chairman. First of all I think it would be useful to have a little bit of background in terms of this particular lease. The facility and the lease we are talking about is related to the building we are now in. It has to do with the Legislative Assembly and the steps

that were taken, during the period we are talking about here, for the Government of the Northwest Territories to set up a proper home for the Legislative Assembly and the committee work that it is required to carry out. The reason that the lease took longer to sign than is normally the case really relates to four areas. In the first place the lease, in addition to providing the overall space, was to provide for the amortization of the leasehold improvements. In other words, the changes that were made to the interior of the space were to be amortized over the life of the project. What was actually required in terms of facilities for the Assembly to operate in a proper way went through a series of changes and so therefore what the leasehold improvements would be and what they would cost were the subject of negotiations between the Government of the Northwest Territories and the Speaker. That occurred over a certain period.

Another factor that came into play is that, part way through that year, we determined that there were capital funds that we had that were surplus because of changes elsewhere, that could be applied to part of the leasehold improvements rather than amortizing the full amount and the government exercised the option to pay off something over \$200,000 of that toward capital and amortize the rest over the life of the lease. By taking that action we saved the government \$66,000. So, the reason it was done was simply dollars and cents and to get best value.

The other two reasons why the lease was not signed as quickly as it normally would be was, because of the complications and because of the nature of the lease, the lessor himself took three months to review it. A further complication came into effect when the lease was being drafted. As we all know, the lease and the Legislative Assembly are all associated with a hotel and obviously the Legislative Assembly does not sit year round and therefore several of the facilities associated with this building were ones that were to be shared. The Assembly would have them for part of the year and the hotel would be able to use them for banquets and such for the remainder of the year. The Speaker found that that arrangement was not conducive to the Legislative Assembly and its committees working in the proper way. So that was changed from partial use of some rooms to total use and that resulted in more changes to the lease itself.

The final point is that when further changes were requested by the Speaker to the Assembly to meet what he deemed was important in terms of how the Assembly was going to operate, that resulted in leasehold costs that were higher than we had projected in the first place and obviously required negotiations. In fact they were reduced from \$600,000 to \$500,000. All of this was approved by a Minister of the Government of the Northwest Territories. Where the error came in, was that the actual signing of the document for the \$500,000 leasehold was made by somebody who technically did not have that authority, even though the obvious decision was made by the right level of authority within the Government of the Northwest Territories. With hindsight it should have been the Minister of Public Works and Highways who actually signed the lease itself, who actually signed the approval for the leasehold improvements work and it is actually estimated at \$500,000.

CHAIRMAN (Mr. McCallum): Are there further questions or comments? The lease, Mr. Elkin, has been signed?

MR. LARRY ELKIN: Yes, I understand the lease was signed on November 1, 1985.

#### Leasehold Improvements Charged To Capital

CHAIRMAN (Mr. McCallum): The accounting practices for leasehold improvements -- I appreciate what you have indicated, but the normal practice is that they would be charged to operations and maintenance not capital. I take it that in this instance -- and again I appreciate what you responded with, that is not something that will continually go on -- those leasehold improvements should be charged to O and M, should they not?

MR. LARRY ELKIN: Mr. Chairman, I think that is a matter that we need to address because as we are all aware, particularly in these times, we are looking for value for money as a major priority. Obviously the only reason we did this was because the net effect, the cost to the Government of the Northwest Territories, was less. So, I would think it would be somewhat irresponsible of us to say that we want to follow practice that is going to result in the government paying more. I believe we have to address then how to achieve the same end and if that is the wrong means, then we have to see how to achieve that end, because obviously there will be other cases and there have been other cases where it will be desirable for leasehold improvements to be charged to capital, therefore saving the Government of the Northwest Territories funding. Maybe it is the wrong vehicle we are using but we will have to determine then what is the correct vehicle, rather than simply charging it to O and M, resulting in higher costs to the Northwest Territories, which is obviously not what we want to achieve.

CHAIRMAN (Mr. McCallum): There are implications not just within this one instance but certainly in many instances.

MR. LARRY ELKIN: Correct.

CHAIRMAN (Mr. McCallum): If the FMB is making that decision, again is your department proposing or recommending that the FMB or the Minister bring forth something that would get it and use the proper means? If it is better to do it under capital then you know, surely there should be a policy, but the switching back and forth is the problem. If it is going to be consistently inconsistent in practice, then we have problems.

MR. LARRY ELKIN: Yes, Mr. Chairman, we are preparing a proposal to deal with that now, to propose what we think is the way it should be handled.

CHAIRMAN (Mr. McCallum): And is it being developed now?

MR. LARRY ELKIN: Yes, that is correct.

CHAIRMAN (Mr. McCallum): Again, if it is something new, we would want to be made aware of it.

MR. LARRY ELKIN: I understand we are not doing this alone but the Department of Finance is highly involved and we are participating with them.

CHAIRMAN (Mr. McCallum): Are there further questions or comments? Mr. Richard.

MR. RICHARD: Just for my own information, Mr. Chairman, so I can understand. When the government is going to look at developing a policy, it occurs to me from Mr. Elkin's explanation of this one instance and just generally, that it may be that government should look in each case at the costs and benefits of going with capital moneys or with O and M moneys over a period of time. Depending on the project you could go either way, if cost benefit is the rule. Most benefit is value for the dollar as a rule, but is this true also in larger projects? I know recently the government is entering into contracts with proponents to build a building which the government will then lease for a long period of time, like 20 years. Is there a trade-off for the government on one hand to make a decision to build it itself with capital dollars and then you own the building and operate it for your user departments, or on the other hand, as happened recently in some cases, I understand, calling on proponents to put a proposal together to build a building for you that you will then lease over 20 years with all O and M dollars over the term of the lease. Is it the same consideration? Do you have to go through an exercise in each case to determine which route you are going to go, as opposed to having one policy to go the same way all the time?

CHAIRMAN (Mr. McCallum): Mr. Elkin.

Flexibility To Obtain Best Value

MR. LARRY ELKIN: Yes, that is correct. I think that whatever policy we come up with must allow flexibility in the policy to achieve two ends. The first end being as a balance between facilities that the GNWT owns as opposed to those built by the private sector for us and leased to us, in terms of achieving some of the business goals that we spoke about before; also in terms of the extent to which leasehold improvements should be financed either from O and M funds or from capital funds. Frankly, you must take into account the financial position of the government at the time. So I do not think it is one simple answer. We make a judgment as to what this government believes is getting best value for its money in each particular case. Although obviously that must be done within a framework that makes some sense.

CHAIRMAN (Mr. McCallum): I guess the concern would be, once having entered into an agreement, that it is not changed halfway through the project. I think that, in this instance that we are talking about, has been the difficulty. It seems to me that the Auditor General's people have found that in the letter of intent the practice that was proposed for the balance of the cost was to be done through O and M which is an accepted procedure or general practice. But again it was changed and I guess that is what we are concerned with. I think -- I can stand to be corrected -- but I think that is what was found. Mr. Elkin.



MR. LARRY ELKIN: Just a point of clarification. In terms of the particular issue that we are discussing today, my understanding is that in the agreement that we have with the hotel here there is a clause that the cost of the leasehold improvements -- you have the option of buying that out at any time.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Perhaps Mr. Elkin could explain that. It occurs to me that in the face of it that \$500,000 worth of improvements -- I am not sure what the lease is. I understand that we have leased this facility for five years but we have an option for another five years. But if we are only staying here five years, it occurs to me that a half million dollars is an awful lot of money to spend if we are only staying five years. I take it that we cannot take the rugs and stuff with us when we leave but what do you mean by buying it out?

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: What I meant by buying it out -- in terms of taking the \$500,000 we have paid off \$210,000 of that through capital. It is my understanding, and I stand to be corrected by my staff here, that for the balance of \$290,000 which is built into the lease and amortized over the life of the lease, that at any time we can exercise the option to pay the balance off out of capital funds if we have capital funds to do it, therefore, further reducing the overall cost to the Government of the Northwest Territories.

CHAIRMAN (Mr. McCallum): Are there any comments from the Auditor General? Mr. Young.

MR. DONALD YOUNG: Mr. Chairman, the lease-buy decisions are pretty fundamental things and usually that is the thing you do up front after you have had certain negotiations and establish what your needs are. Then you assess whether it is better to lease or buy and there are fairly straightforward and well accepted calculations that you go through for that purpose and usually make a decision which is in the best interests of the government, in this case. So there is a benefit one way or another whether you lease or buy. Obviously the decision would usually be made in the best interests of the taxpayer. I am not clear on just how using capital funds as opposed to operating funds saves the government any money, that is one point.

The other point that I would want to make would be that the nature of the negotiations in this case which you have emphasized, with continually changing scenario, has the potential to put the government in a somewhat captive position in terms of the negotiations as they go along. In other words, you know you get in so deep and you keep getting in deeper and deeper and sometimes the negotiations on that basis are not always in the best interests of the lessee. That was one of the concerns I think that we had.

CHAIRMAN (Mr. McCallum): Any comments on those, Mr. Elkin?

MR. LARRY ELKIN: Just to answer that one point, the way we view the savings is that is the calculation of the interest savings over the life of the lease, utilizing now capital money that we do have, money that ended up being surplus, and by not having to pay out the O and M over the life of the lease and the interest for that period.

CHAIRMAN (Mr. McCallum): Mr. Young.

MR. DONALD YOUNG: Mr. Chairman, money has a value. Even if you save it, it has a certain value. I am not sure that spending it up front like that necessarily saves the taxpayer any money. If you use it for some other purpose and pay down some debt then obviously there is a saving there or if you put it in the bank, there is a saving there as well. Again, I am not familiar with the intricacies of the calculations carried out but I think it is a fundamental of departments that money saved is money earned as well.

CHAIRMAN (Mr. McCallum): Mr. Dubois.

#### Inconsistencies Cause Auditing Problems

MR. RAYMOND DUBOIS: Mr. Chairman, I would just like to make a point on a slightly different base. Mr. Elkin mentioned that they were working on a proposal for a policy with Finance relating to how they would deal with this type of situation in the future. But he also mentioned that he would

think that policy would need flexibility, if you go one way or the other depending on funds available. From an auditing point of view, this could create a problem in the future because our understanding for the past was that there was a general practice in the government that leasehold improvements are only charged to capital if the improvements are undertaken by government. In other cases they would be included into the lease itself. Now, the difficulty we have is with the inconsistency of accounting and that is a fundamental principle in the presentation of financial statements and, if the government moves from one treatment to another by looking at each case, we could end up with a material difference in accounting treatment and that could create a problem in the presentation of the statements. I am convinced that Finance will be seriously looking at that aspect, working on the policy proposal. I just wanted to make that comment.

CHAIRMAN (Mr. McCallum): I guess that is the point that concerns me as well, that it is going to present some problem for Finance if there is a change from the accepted procedure. As Mr. Dubois said, it was always my understanding that with government buildings it was capital and if it is a lessor, then you are talking O and M. That will present some problems, it seems to me, in the development of a procedure or a policy that allows flexibility. It is going to present some problems to the Department of Finance in accounting. Mr. Elkin.

MR. LARRY ELKIN: Just to that point. Obviously, the points stated are certainly important and have to be addressed. I should indicate that in addition to us working on this and the Department of Finance, I understand the Auditor General's staff is participating with us in this review as well. Between us, collectively, we should be able to come up with something that makes some sense.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: In this particular instance I suppose when the decision was made to lease accommodation the choice was that there was a submission on the table for building an entirely new building, an extension to the Northern Heritage Centre and it was the Legislative Assembly who made the decision that it may not be desirable to make those expenditures. Maybe Mr. Elkin can let the committee know what was the cost of that new facility that was supposed to be constructed under capital as an extension to the Northern Heritage Centre, because that was the decision that was made in terms of "Do we go with an entirely new building, an extension to the Northern Heritage Centre, a long-term facility as opposed to lease?" I believe it was the Legislative Assembly that made that decision not to go to a new building.

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: Mr. Chairman. Yes, I would be pleased to speak to that point. The question was raised about the need finally to have a Legislative Assembly building that was by itself. Some very preliminary costing was carried out and it was determined to be roughly in the neighbourhood of \$25 million. At the same time that this issue was being raised, of course, the voting had taken place on the possible future division of the Northwest Territories and then that obviously raised the question of two Legislative Assembly buildings and because this matter was not and is still not resolved as to exactly what is going to happen with regard to this issue, then it was determined that in the short term, the best option open to the Government of the Northwest Territories was to enter into a short-term lease, to end up with a facility that was in keeping with the operating requirements and the stature of the Legislative Assembly of the Government of the Northwest Territories.

#### Role Of Department Of Finance And FMB

CHAIRMAN (Mr. McCallum): Just one further question on this principle of accounting, if I may, Mr. Elkin. When there is a charge being made for these leasehold improvements and a decision is arrived at to charge it to capital rather than O and M, does Finance play a role in that or is the decision made and then it is left for Finance to set up the accounting?

MR. LARRY ELKIN: Mr. Chairman, if I could ask Dave Waddell to speak. I do not know the answer myself.

CHAIRMAN (Mr. McCallum): Mr. Waddell.

MR. DAVE WADDELL: Mr. Chairman, this was actually the first time that this type of situation did arise as I understand. In the past, as Mr. Dubois indicated, there was a practice that was part and parcel of the financial administration process whereby leasehold improvements were in fact paid for out of capital, when in fact they were projects undertaken by the Government of the Northwest Territories. Any other leasehold improvements, that is those undertaken by the lessor of a premise are normally charged over time as part of the lease costs and charged to O and M. That has been the normal practice to date. This particular item was the one and only exception that I am aware of and when the decision was made on this particular item, I am not aware that Finance was approached, but it did go to the FMB.

CHAIRMAN (Mr. McCallum): Anything further? Mr. Garqan.

MR. GARGAN: Mr. Chairman, concerning the expenditure of \$500,000 improvement. I am wondering, I know that with regard to special warrants they do approve room and lodging renovations and purchase furniture for staff housing. I just wanted to ask Mr. Elkin what was the difference between this procedure as opposed to the special warrant procedure. Is this another way of getting away from special warrants? I am just questioning that.

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: Mr. Chairman, the short answer is, no, this is not another way to get away from using special warrants.

MR. GARGAN: What makes this different?

CHAIRMAN (Mr. McCallum): I beg your pardon, Mr. Gargan?

MR. GARGAN: I just wanted to know what makes this different. The procedures that were used in this case were no different from the procedures used under special warrants and what makes this different from using a special warrant?

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: May I confer with my staff?

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: Sorry, Mr. Chairman. We are having a little discussion just to get the question straight. I believe what the question is aiming at is, in fact, did we undertake work without having proper authority and approval for the work in the first place? In other words, was it a project that the Assembly had approved the dollars for? The bottom line answer to that is, yes, it was approved. The \$500,000 for the leasehold improvements were just part of the overall cost but the project in total did have the proper approval.

CHAIRMAN (Mr. McCallum): Mr. Garqan.

MR. GARGAN: Mr. Chairman, this was under the Financial Management Board. Mr. Elkin, you are saying then that this was approved by the Legislative Assembly as opposed to the FMB? Am I correct? If it went to FMB then it had to go through as a special warrant if it did not go through the Legislative Assembly. This is what I am getting at. This is a whole new concept again that we are looking at. I am not too sure whether -- excuse my ignorance.

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: Our understanding is the money for the lease and the work on this new building was included in the estimates, so in other words a special warrant for funding, part way through the year, was not required because it was included in the estimates in the first place.

CHAIRMAN (Mr. McCallum): Okay, Mr. Garqan?

MR. GARGAN: You are talking about the 1983-84 main estimates that went through Finance, in the winter session.

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: It was in the estimates for that year, 1984-85.

CHAIRMAN (Mr. McCallum): You talk about procedures and your response about ensuring the scope and dollar value of these improvements being authorized in accordance with the delegated signing authorities -- you say that you are developing procedures to ensure that you are giving that adequate attention to it. Can you indicate to me what are these procedures that you are developing or that you are reviewing?

MR. LARRY ELKIN: Yes, we are developing procedures, but that should not be interpreted in any way to mean that there are no procedures now. Obviously the department follows established practices that are used elsewhere but we do believe that with the level and amount of leasing that we are entering into, we do need our own formal procedures in this area that cover every and all aspects of leasing and they are being developed at this time.

CHAIRMAN (Mr. McCallum): Any further comments on the business of leasehold improvements? If we have Finance back we will talk to Finance about the development and how they are going to account for these within the whole territorial accounts. So if we get back to them I am sure there will be questions.

#### Lease Escalation Prepayments

I will move on to the next one and that is lease escalation prepayments. Again, the department pays escalation costs to lessors as a condition of the leases to cover inflationary costs. During the audit there was little or no documentation found to support these monthly escalation prepayments that were being made. The recommendation was that they should be more fully documented. You again reply that you agree and that procedures are being developed to ensure this. Does that mean that there were not prior procedures in place and that you are now going to take a look at it, or are you refining procedures you now have?

MR. LARRY ELKIN: Mr. Chairman, yes, there are obviously proper practices in place. Those practices were not precisely laid out and in fact, I understand in this case -- and the observation is totally correct -- that all the supporting documents to support lease escalation prepayments in terms of calculations and such, that should be on the files, were not on the files. It does not mean that the calculations were not done properly but it does mean that they were not on the files where they should be, so that when the audit is made, the audit can be properly checked. Obviously we are instituting procedures to make sure that is the case.

CHAIRMAN (Mr. McCallum): Any comments from the Auditor General?

MR. KENNETH DYE: We are satisfied.

#### Timing Of Lease Payments

CHAIRMAN (Mr. McCallum): The final issue here, Mr. Elkin, is the timing of lease payments. Again, the comment was made that 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. But from time to time these lease payments for these properties had been late. Because the department has been making late payments, right to renew provisions may not be honoured. The recommendation was that in order to fulfil its contractual obligations, the department should make all lease payments on time. You agreed with that and again you are developing procedures to ensure that these payments are processed on a timely basis. If you have these procedures or if there is a policy developed, it would be in both our interests to have these tabled with the committee, because again the response can be read that these procedures were not developed before. Would you comment on that?

MR. LARRY ELKIN: Again, in terms of the observation made and in terms of not always, in all cases, adhering to the proper times, that observation is totally correct. For the number of leases that we have, the number of staff that we have to administer them has been very small and they simply did not keep up. That is a straightforward answer. Obviously those matters are being corrected; we are developing the procedures and we are ensuring that we have adequate resources to properly operate in this whole area.

CHAIRMAN (Mr. McCallum): The concern may be expressed as well, Mr. Elkin, that you want to ensure that you are not paying for escalation over and above what has actually occurred, by having timely payments in.

MR. LARRY ELKIN: Mr. Chairman, my understanding is that part of the reason that we have been late in making payments is that even though we have been short of staff, rather than making payments on time without the proper review, we have taken the extra time to make darn sure that the payments to be made were valid and correct, therefore ensuring that the government did receive full value and did not pay out any more money than they should.

CHAIRMAN (Mr. McCallum): Any further comments? Comments from the Auditor General.

MR. DONALD YOUNG: That is fine on that particular point, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: If we are going to leave this particular area, I would at some point wish to make a statement to the committee with regard to the Repulse Bay project. Is this an appropriate time?

CHAIRMAN (Mr. McCallum): Sure, shoot.

Further Details Of Repulse Bay Community Complex Contract

MR. LARRY ELKIN: Mr. Young called me just before we appeared here today and raised two or three questions that we discussed over the phone with regard to Repulse Bay and getting a good understanding on three or four fairly key issues. Needless to say, properly addressing them in 10 minutes before we were to appear here was not possible, though we consider having a proper and a correct and valid answer on the subject to be extremely important and are totally committed to doing exactly that. One of the questions concerned clarification of a point that I made yesterday, that when the Minister contacted his colleagues to receive their informal input and approval, apparently the impression was left that he contacted all Members of the Executive Council. The point there is that he contacted all Members of the Executive Council that were there at the time. I frankly do not rattle off the top of my head recall exactly who was here. The statement apparently is not verified by some of the formal documentation. I know that the statement is correct. Another issue that was raised was with regard to the nature of the northern content. Here again, although he did not have time to research the full details, I know the details are there and I know the details are correct. So what I would wish to do for the public accounts committee, is to table with you a report that addresses each and every one of these issues, so that we can outline to you in detail exactly how the decisions were made, by whom and on what facts. We do have all of those but I simply cannot give them all to you right at this time.

CHAIRMAN (Mr. McCallum): I would expect that it is appropriate to table a report with us and we then can peruse it and if there are still questions we can come back to one of you. I am sure that would be copacetic with the Auditor General's people too. Mr. Elkin.

MR. LARRY ELKIN: Just further to that, I make the statement that I do believe it is extremely important that the Auditor General's staff and the public accounts committee be fully satisfied that what was done in this area is correct. And we are totally committed to achieving exactly that.

CHAIRMAN (Mr. McCallum): Mr. Young.

MR. DONALD YOUNG: Mr. Chairman, I think just for the record, so that our concerns are clear, we did go back to our files after yesterday's session and with respect to the Repulse Bay contract we find that the documentation that went to the Executive Council indicates that the Minister and one other Member of the Executive Council approved the decision in advance. And what would be interesting in Mr. Elkin's report, would be what procedures they have in place to note the informal approvals that are solicited during a process like that. I believe it is not uncommon in the North because of the time pressures that we talked about yesterday, so we presume that any system in place would have some form of a notation or something that would evidence the informal approval of another Minister or Minister's colleagues.

The other point was on the northern involvement. Here again, the documentation indicated the contrary to what was indicated. The northern involvement on one contract or the contract low bidder was substantially higher than the high bidder, who ultimately got the contract. Now, I believe the explanation to that is that there was more northern labour employed by the contractor who received the contract and that is the basis. But again, we are concerned as to what

documentation is on file to support that. What does northern involvement mean and what are the policy and procedures associated with the use of northern involvement on contracts, so that when we are auditing we can audit to some consistent standard and some clear indication of government policy because there does tend to be a variance from time to time in that regard. Our interest is more in getting that system in place so that the "i's are dotted and the t's are crossed" and all of that.

CHAIRMAN (Mr. McCallum): Just to comment further on that, I think that is the intent that we have here. Not to pick out the good guys or bad guys, but to ensure that where decisions are being made that the procedures are in place and that they are consistently applied. This whole business of northern involvement, the definition of it, as opposed to what do they call it -- the business incentives policy?

MR. LARRY ELKIN: Yes, that is correct.

CHAIRMAN (Mr. McCallum): You know, get it down so that everybody knows what the rules of the game are. Regardless of which ball park we are in, the rules are going to be the same. I think that is what we are concerned with. Mr. Elkin.

MR. LARRY ELKIN: Mr. Chairman, I made the statement. I did not realize that we were going to get into further discussion on the details. Since we apparently are...

CHAIRMAN (Mr. McCallum): Just for clarification...

MR. LARRY ELKIN: Well, just for clarification...

CHAIRMAN (Mr. McCallum): Mr. Elkin, just hold it a minute. You say you are going to give us a copy of the report, then I think that would be fine. Again, I think Mr. Young is pointing out only for the record, what he had talked to you about.

#### Documentation Lacking

MR. LARRY ELKIN: I would like to make a point for the record. There is inference made that the northern content for the person who was awarded the contract was not as high as another bidder's. I did have time, in the five minutes I had between the phone call and getting here, to check out that item. You will find when we table the report, that the decision on northern content was made properly and in fact the northern content of the firm selected was much, much higher than that of anyone else. Where the problem comes in is that the documentation the Auditor General's staff has is not the complete documentation and that is a problem that has to be corrected. We will be able to show you that, in fact, the northern content was far higher for the firm that was awarded than that of anyone else.

CHAIRMAN (Mr. McCallum): Great. The problem is that they are doing the audit and they can only work with the documentation that is around.

MR. LARRY ELKIN: That is correct and we do appreciate that point.

CHAIRMAN (Mr. McCallum): Mr. Richard.

MR. RICHARD: Mr. Chairman, I think this report is going to come from the department and, with a view to our committee making our own annual report on a timely basis, I wonder if we could ask that the report come to us within the next month because I believe our next meetings are during the June session. I think if we can see the report we may have questions arising out of it and we could then maybe talk to the department again. But with a view to somehow bringing this item to a conclusion for us by the end of the June session at the latest, could we ask for that report within the next three or four weeks?

CHAIRMAN (Mr. McCallum): Mr. Elkin.

MR. LARRY ELKIN: Mr. Chairman, I would be more than pleased to do exactly that.

CHAIRMAN (Mr. McCallum): Thank you. Anything further? Mr. Gargan.

MR. GARGAN: Mr. Chairman, I know that there are a lot of contracts that go out for tender and process. I am curious as to how many of these contracts go through that informal process on the sixth floor, going from office to office?

CHAIRMAN (Mr. McCallum): Mr. Elkin,

MR. LARRY ELKIN: The answer, Mr. Chairman, is extremely few.

CHAIRMAN (Mr. McCallum): Are there any further questions or comments? I just have a couple of quickies if I can. I have to refer to the statement of accounts, Mr. Elkin. Under the schedule of revenues, for Public Works and Highways -- and I am not sure that you have the book but Mr. Barrett may be able to give you one. Again, I am not sure that the pages are the same but the page we have is page 35. It is a schedule of revenues by department, Public Works and Highways. It says "Upgrade HTHW system". Could you identify what the HTHW system is?

MR. LARRY ELKIN: Mr. Chairman, I apologize, I missed the question.

HTHW System, Inuvik

CHAIRMAN (Mr. McCallum): On the schedule of revenues by department on your Department of Public Works and Highways, it says to upgrade the HTHW system. The actual revenues derived were \$100,000. What is the HTHW system?

MR. LARRY ELKIN: Mr. Chairman, that is the high temperature hot water system in Inuvik.

MR. RICHARD: You didn't know that?

CHAIRMAN (Mr. McCallum): No, I did not know what you were talking about. Now that we know what it is, there is no estimate to upgrade it, yet you have \$100,000 revenue.

MR. LARRY ELKIN: Mr. Chairman, that is a study carried out on the system to determine what state it was in...

CHAIRMAN (Mr. McCallum): If the water was hot?

MR. LARRY ELKIN: Not that the water was hot. The physical state of the whole system in terms of energy conservation and the extent to which it could be extended and some of the waste heat could be used. In carrying out that study we used a combination of our money and government money from Ottawa and the revenue item here is Ottawa's share.

CHAIRMAN (Mr. McCallum): Are there any further questions? There is nothing further. Thank you very much, Mr. Elkin.

Department Of Education

CHAIRMAN (Mr. McCallum): For the purpose of the record, Mr. Handley, would you identify yourself and your colleague, please?

MR. JOE HANDLEY: Mr. Chairman, Joe Handley, deputy minister of Education, and with me is Paul Devitt, chief of finance for the Department of Education.

CHAIRMAN (Mr. McCallum): Thank you, we are taping, so I would ask you to speak into the microphone, either of you gentlemen, when you are responding. We are dealing with the Auditor General's report on any other matter, dealing with Education. Perhaps we can deal with that but we may want to go back to recommendations that were made last year by this committee to your department and the response we received in regard to them.

Acknowledgement Of Loan Prior To Disbursement Of Funds

This particular topic, Mr. Handley, involves the student loan fund that was established in 1982-83 and is operated under the authority of the Student Financial Assistance Act with an established ceiling of money and with that ceiling to be increased in each of the next two years up to March 31st, 1987. The Auditor General recognized that there were 455 outstanding loans totalling just

under three and a half million dollars and cash available for new loans of \$372,000. The provisions for loan remissions and doubtful accounts totalled just under two million and this amount, of course, becomes available for new loans as existing loans are remitted or written off.

The audit work included a review of the measures taken by the department in response to matters that were referred to last year in the management letter. However, there is the following matter that remains unresolved and that is in loan agreements. In all of these, the 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. So the recommendation is that the student should be required to acknowledge receipt of the loan and the terms and conditions under which it is made. You agree in your response and all signatures will be obtained prior to the dollars being disbursed. Is that correct? Do you have any further comments on this particular concern and response? Do you want to elaborate further on that?

MR. JOE HANDLEY: No, I do not have any further comment on it, Mr. Chairman. We intend to implement the procedure effective the September 1986 school year. We agree fully with it and I do not foresee any problems in having that in place.

CHAIRMAN (Mr. McCallum): How do you intend to get the signatures? What procedures do you have in place? What kind of procedures do you contemplate using to do this? Mr. Devitt.

MR. PAUL DEVITT: The student services section is working on that right now. It will be basically some type of agreement that is signed by the student, but the work has not been completed yet.

CHAIRMAN (Mr. McCallum): Do you contemplate having the student sign before he gets the loan, while he or she is at college? Is that part of what you are developing?

MR. PAUL DEVITT: It would be signed prior to issuing any funds to the student.

CHAIRMAN (Mr. McCallum): Signed prior to issuing?

MR. PAUL DEVITT: Signed prior to issuing, yes.

CHAIRMAN (Mr. McCallum): I guess that is the question. How do you get that done? Am I going to sign for something but I do not have the loan?

MR. PAUL DEVITT: They would sign acknowledging the terms and conditions under which the loan would be issued. Again I should point out that we have not completed our work in that area, so I cannot tell you the exact nature that the document will take.

CHAIRMAN (Mr. McCallum): When do you contemplate getting it pulled together? You already have now made arrangements to fund students for this next year I would imagine. It is May and students will be going out in September. Have they already made applications for loans for this coming year?

MR. PAUL DEVITT: It would be getting close to that time. It is not in work done in my area.

CHAIRMAN (Mr. McCallum): Pardon me?

MR. PAUL DEVITT: It is not work that is done in the financial area. It is done in the student financial services. I am not sure if they have the applications in yet or not.

CHAIRMAN (Mr. McCallum): Well, perhaps, Mr. Handley, you can comment. If the procedure is not in place as yet and you are going to be making new loans for the coming year, or it is not going to be in place in time for these new loans, are you going to get the same kind of comment from the Auditor General next year?

MR. JOE HANDLEY: No, I am confident that we can have an arrangement in place, maybe in the form of a letter of agreement that the students sign 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. I believe that no loans have been awarded yet for the September school year.

CHAIRMAN (Mr. McCallum): Mr. Devitt.



MR. PAUL DEVITT: The only thing I was not sure of was when the applications were received. The funds do not go out until the fall.

CHAIRMAN (Mr. McCallum): Any comments?

MR. KENNETH DYE: We are satisfied, Mr. Chairman.

CHAIRMAN (Mr. McCallum): Perhaps another matter I could get involved with is in the business of remission and write-off, Mr. Handley. You must have a policy in place that allows for this write-off or when a student is eligible for remission. The concern that we have, given that you have X amount of dollars and the remission takes some time, how do you then ensure that there is enough in there for further loans?

MR. JOE HANDLEY: I will refer that to Mr. Devitt.

CHAIRMAN (Mr. McCallum): Mr. Devitt.

MR. PAUL DEVITT: To ensure there is sufficient money for that purpose we set up an allowance for doubtful accounts, which will cover both the remissions and write-off of bad debts if there are any.

CHAIRMAN (Mr. McCallum): This becomes then, in essence, a contribution, does it not?

MR. PAUL DEVITT: We refer to it as a forgiveness or remission of loans. I know that Revenue Canada does not look upon it as income but I am not sure as to whether they would consider it a contribution or not. Because it is conditional we look at it as a loan. We do not know until after the students have finished their studies whether they will meet the conditions under which we have given the loan.

CHAIRMAN (Mr. McCallum): It would seem to me that presents some kind of accounting difficulty. Maybe not. When the loan is remitted, I would think that it would be a contribution and so identified as such. Maybe I am wrong.

MR. PAUL DEVITT: It is not a contribution as defined by this government, as I understand it.

CHAIRMAN (Mr. McCallum): I guess that begs the question, could it be, therefore, then identified in the schedule of grants and contributions somehow, so that it is accounted for? Do you have a comment, Mr. Dubois or Mr. Dye?

MR. KENNETH DYE: Mr. Chairman, I think the procedures are appropriate. The eligibility criteria for remission are well documented and the student who meets the criteria is no longer required, then, to pay back what was originally granted as a loan. The loan is remitted and the documents are there to prove the point that the student has earned the opportunity not to have to pay it back. It is a forgiveness of the loan and it seems to be properly documented. I am satisfied the process is adequate.

CHAIRMAN (Mr. McCallum): Any further comments? Ms Cournoyea.

#### Student Loans Used In Place Of Grants

MS COURNOYEA: I just have one in terms of the savings to this government. It appears to me that this has been brought up before. Because of the reclassification of people who are under the Indian Act being remitted back as status people, and because of the accounting and how status cards have been given out, I believe that there are a number of young people in the Beaufort area who, just because of the government's misclassification, are going to student loans, when in fact they really qualify for an educational grant under the federal/territorial arrangements. I know in this last year there were about six that went for loan applications and they really should not have gone. That drains the budget when there is another financial arrangement that would take care of them. I do not know what the Department of Education is doing or whose responsibility it is, but there seems to be quite a number of people who, just for that fact that they have the wrong medical card or they have the wrong classification, tend to go to the student loan fund when it is not necessary.

CHAIRMAN (Mr. McCallum): Mr. Handley.

MR. JOE HANDLEY: That is something that we have not looked into. It is a good point and I am not sure exactly how we would do it but I agree with Ms Cournoyea that it is appropriate that we do check into it.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOYEA: It was brought up before but in this last year there were some student applications for people requesting to go to special courses in Ontario or other places. They had come to me to help them fill out a form that they were given. It was a student loan application -- rather than going through the other process. It seems to me that if there is a working arrangement between the federal government and the territorial government and that certain people qualify for these expenditures, that the student loan fund should not really be used. Most of these people within the category would not be able to pay back anyway because they come from families that do not make a lot of money and most of the time are seasonal employees. So it may place a bad reflection on the loan fund because they are not in the position to pay anyway.

CHAIRMAN (Mr. McCallum): Do you have a further comment, Mr. Handley?

MR. JOE HANDLEY: No, I do not but we will check that out with the federal government.

CHAIRMAN (Mr. McCallum): Anything further on the business of the student loans? Perhaps I could go back to the recommendations made by this committee last year. I am not sure whether you have them or not. If you do not, we have a copy here for you.

Personnel Requirements Have Increased

There has been some concern voiced with the responses of the department to those recommendations. There are a number of recommendations dealing with the Department of Education. I understand from the response that you made to the Department of Finance that was given to us on Tuesday that you have now solved the situation of the duplication in record keeping practices. I wonder if you could indicate to us does this result in any kind of reduction in personnel in that? You were to review the record keeping practices in respect to living allowances. If you recall, Mr. Devitt, last year when you were here you agreed that you would look at it and from what we understand you now have stopped doing that. Is there any reduction in personnel?

MR. PAUL DEVITT: The department, at the time the March 31, 1984 audit was made, did not have sufficient staff to meet the requirements of running a loan fund. As a result I think a number of audit observations were made. In responding adequately to those observations it requires more and not less work by the staff.

CHAIRMAN (Mr. McCallum): You require more people?

MR. PAUL DEVITT: Yes, from that time. In fact we now have staffed a loans officer position.

CHAIRMAN (Mr. McCallum): I am maybe confused here...

MR. RICHARD: Mr. Chairman, I myself recall that when the serious deficiencies were discussed by our committee last year, a number of items that the auditor picked up were things that simply were not being done in year three or year two of the loan fund. The department, in responding to last year's meeting, indicated one of their problems was they were short staffed. I recall that they were planning on increasing their staff to do these various clerical items that had not been done, as the Auditor General pointed out. So that was my recollection; rather than saving person years, they were going to be needing more bodies to do the work.

CHAIRMAN (Mr. McCallum): Mr. Devitt.

MR. PAUL DEVITT: Just as a follow-up, this specific action did save some work on the part of the department in that we have now moved into using the FIS system for this purpose. But overall there has been additional work.

CHAIRMAN (Mr. McCallum): Ms Cournoyea.

MS COURNOVEA: It probably just got answered, but it was my understanding when we developed the FIS system that these things would be co-ordinated and as a result there was a reorganization of putting people into that system. The general idea in the long term was that it would cut down because we had a fairly sophisticated system. So I do not know if the Department of Education transferred a couple of person years over to FIS to legitimize it, but maybe it is time to ask for them back if the job is not being done, rather than increasing. We went through a lot of exercise on that system and I am sure if you want to be bored to death, go back and look at the justification of why we made that expenditure. At this time we are talking about increasing rather than decreasing when the whole rationale for the system was to consolidate and provide a more efficient system.

I find it difficult. Each year when we begin talking about accountability and accounts and computerization of pay-outs and pay-ins, we come back to the departments still requiring the same staff. The rationale was that they were no longer needed because we consolidated and we made that very large expenditure. It seems to me there was an adjustment on how many people would move from the Department of Education, with a transfer of responsibility. If it is not working, I think that rather than build up, see if you can get the person year back or whatever and put it back in your department.

CHAIRMAN (Mr. McCallum): Any comment?

MR. JOE HANDLEY: I guess the only thing I could say is, as Mr. Devitt has mentioned, the new FIS system probably has meant some saving in manpower in that specific area of record keeping, but in total the student financial assistance section has grown, so we end up not really having less people but having more because of an increase in workload generally.

CHAIRMAN (Mr. McCallum): Mr. Devitt.

MR. PAUL DEVITT: I think it is also worth while pointing out that this loan fund is a relatively new system and the loan fund did not exist at the time FIS was introduced.

#### Status Of Policies And Procedures Manual On Student Financial Assistance

CHAIRMAN (Mr. McCallum): The student financial assistance policies and procedures manual, we have been told has been drafted and the draft is completed. Have they been approved as yet and if not, when will they be approved? Since we have a concern with them, could they be tabled with this committee?

MR. JOE HANDLEY: The procedures manual is completed or in final draft form. I will let Mr. Devitt go ahead with this as he knows where it is.

MR. PAUL DEVITT: We have the financial procedures manual in draft and have for some time. They are still working on it. In fact they have drafted, as well, the revised regulations which are over with Justice. They are awaiting a response on that and they are just starting to work on the policy manual which they hope to have in place in time for the new academic year.

CHAIRMAN (Mr. McCallum): We would be very appreciative of receiving the new regulations since we finally agreed that you would do them over, and the manual itself, PDQ. It was raised a year ago. I appreciate that it goes through a certain amount of review, but you know it is 12 months ago and you are going to have it ready for September. I guess it is one of the concerns that we have. It has taken some time to do it and we would like to have copies of both of those.

#### Termination Clause In Catering Contracts

In the area of the contracts, we do not want to get into the business of other than the lowest bidder. But on the practice of using the 30 day termination clause, we understand from the Minister that you have taken out the 30 day and you now have a 60 day termination clause. We have heard your response from Finance, that you consider this to be a much better situation. I wonder if you could elaborate on that for us because I think we are very sympathetic.

MR. JOE HANDLEY: In the latest contract that we have awarded, the catering contract that we awarded at Thebacha College, there is no termination clause at all in there. There is no 60 day clause or anything at all. The 60 day one you refer to is the catering contract for the residence in Rankin Inlet. In negotiating the new contract there will not be a termination clause in there either. Our intention is to remove it completely.

CHAIRMAN (Mr. McCallum): Well, that is good. I appreciate that and I am sure that others do too, because it was my understanding in the response that we heard, that you believed the 60 day clause could accommodate things. But I am more than pleased to see that you have totally removed it and hope that would continue and carry over to other departments as well. That was the intent of it.

One other area and that is in the area of development of agreements with school boards, identifying the terms and conditions governing payments and accountability. Last year in your response to us when we were talking about this issue, the department suggested that both you and the FMB saw no need of that, that you were happy with the payment directive policy of FMB. I think you should know, Mr. Handley, that we are not satisfied with that particular response. We concur with the Auditor General in saying that it should not be any great deal to pull it up. We do not believe that just doing it by payment directive is good enough. So you may want to comment on it, but you should know that intent to recommend and keep following up on that. Does anybody have any comments on it or would you like to respond?

MR. JOE HANDLEY: Mr. Chairman, I would just like to indicate that we will also take it back to the FMB for their consideration.

CHAIRMAN (Mr. McCallum): Any further questions on the past recommendations of last year and the comments for this year on the Auditor General's letter on any other matter? Any comments from the Auditor General?

MR. KENNETH DYE: No further comments. We are satisfied, Mr. Chairman.

#### Revenues From CEIC

CHAIRMAN (Mr. McCallum): There are a couple of things that we talked about in the territorial accounts. One of the areas was in the schedule of revenues and the amount of money you were estimating you were going to get from CEIC, Canada Employment and Immigration Commission. You estimated that you were getting \$315,000 but in fact you did not receive any. Could you indicate what happened? Mr. Devitt.

MR. PAUL DEVITT: The CEIC revenues were actually budgeted in three different categories. The first being for the college, which is called continuing special education, the second being for the Mackenzie Valley project and the third which is just called CEIC for \$315,000, which is showing no actual revenues. The real case is that the \$3,763,000 for continuing special education includes revenues received against the \$315,000 budget.

CHAIRMAN (Mr. McCallum): Any other questions of the department? I guess then we have concluded. Mr. Handley and Mr. Devitt, thank you very much.

We have come pretty well full circle. Is it the committee's wish to call any other department or come back to Finance on anything? We were talking to DPW about development of the policy that Mr. Elkin had said he was working on, together with Finance. We mentioned that at that time. We may want to get some explanation. I wonder if it is possible to take a few minutes and ask Mr. Nelson or Mr. Barrett to come back to comment on that. Agreed?

#### Payment For Leasehold Improvements

Mr. Nelson, I trust you recall the discussion we had with Mr. Elkin about the business of accounting for leasehold improvements and the development of procedures or policies in regard to those. Mr. Elkin had indicated that you are working together on something. I wonder if you could elaborate on it. Does it present a problem to you when there is a change in these leasehold improvements going from O and M as a general practice, to capital on separate instances?

MR. JIM NELSON: Mr. Chairman, I think as Mr. Elkin has suggested, the actual vehicle, the financing vehicle, is confused, whether it is O and M or capital. That is a budgetary problem. I think the real question here is whether or not it was appropriate to provide financing up front or during the life of the lease. The Department of Finance has been doing some work with the Department of Public Works in the area of leasehold improvements and in fact in the area of the overall lease policy. We will be addressing the accounting practice that we will be following as a result of that policy. I think the matter could be better addressed as to the question of financing these kinds of things, as opposed to whether the accounting treatment is to be considered in terms of capital or operating or so forth. It is the actual method of payment that is in question.

CHAIRMAN (Mr. McCallum): Comments? Mr. Dye.

MR. KENNETH DYE: Mr. Chairman, I think it is important to understand and separate financing from accounting and in accounting I think there has been a trend in history to account in accordance with legal requirements, to be very careful to report in accordance with legal form. However, I think legal form does not tell you the story. I would argue that economic reality is a better way to portray the financial story than just merely complying with legal form. With all due regard to the lawyers, sometimes they get themselves involved in the accounting questions and we wind up with information that is not useful to a user. So, I would argue that economic reality should take precedence over legal form in order to report to others on their accountability for the use of public funds. I would separate the accounting of what went on from the financing mechanisms.

CHAIRMAN (Mr. McCallum): That is with present company here excluded, Mr. Dye.

---Laughter

Role Of Finance In Monitoring Responses To Recommendations

One other aspect, Mr. Nelson, and again it comes down to this whole business which we discussed on the first day with you, the process of responses and monitoring of them. We made recommendations a year ago and we find that in most instances we are going to get the final draft of these responses or procedures or policies in another month or so. I sometimes wonder if we had waited until June for this, whether it would then be July that we would expect them or August. I am not too sure where the blame for this should be placed but nevertheless I think it is one of the things that does concern the committee, the at times inappropriate responses by departments, in that they are not satisfactory, and the slowness with which departments respond. This takes into consideration your role as Finance and a co-ordinator, how the monitoring goes so that changes are being made for the protection of everybody. We are not here as a committee to do anything other than to ensure that government is not being put out or individuals are being left out to dry and I think the only way that we can do that is if, in fact, we get adequate, appropriate and faster responses to those recommendations. It is not enough for us to make recommendations or the Auditor General to make recommendations and then to have government in a response say, "Agreed, we are going to look after procedures and we are going to develop them" without anybody knowing what these procedures are and when they are coming about, and then to keep putting them off another couple of months. That is the whole concern. We would want to try to develop with you some mechanisms where this whole issue can be resolved and I am wondering if you would want to comment now.

MR. JIM NELSON: Mr. Chairman, I think I indicated Finance's role the other day in terms of how we see ourselves playing the intermediary in this exercise. I think also though, we have a role to play here in ensuring that the answers are given within the time frame that they will be useful to the committee. No question. I think as a result of the discussions this session, I will be discussing follow-up and response time with our Minister of Finance and I would expect he will be discussing the same with his colleagues.

CHAIRMAN (Mr. McCallum): Mr. Richard.

Disclosure Of Capital Leases In Both Budget And Territorial Accounts

MR. RICHARD: Mr. Chairman, I would like to go back to this review that Finance and Public Works are going to do on leases and the accounting and financial and budgeting treatment of that issue. I would ask that the review committee, whoever is doing it within the government, also consider how the capital leases, if you can call them that, are to be disclosed both in the budgeting process on the one end and the territorial accounts on the other end after the fact. We in the Legislature, are now used to various formats in the budgeting process, one of which is this so-called five year capital plan. We are given information on what government's plans are for major projects, capital projects, in various regions of the Territories. We tend to focus on what is happening next year or maybe the year after that, but certainly in the short term.

If, instead of building a \$20 million capital item with capital funds which the government would own, the decision is being made by government to go to lease so that for this next year or the next two years instead of being an expenditure of \$20 million, it is actually only O and M money of a smaller amount like one million or one and a half million lease payment. I do not think we necessarily pick that up because we do not see it in the documentation which we currently have. It

is not identified as government making a commitment of one million dollars or one and a half million in this coming year and committing government to the same expenditures over the next 20 years. I do not think, consciously as legislators approving the funding, we are aware of those as much as we would be aware of a \$20 million project put right in front of us in capital funding.

On the one hand on the budgeting side -- but on the other hand on the territorial accounts after the fact -- again I think when one looks at this document covering a one year period, we see that government spent X million dollars for such and such capital project, and we can comment on that as we see fit, that there were \$20 million spent for such and such a project. What we do not see identified here is that government, in the same year on another project, went over to this capital lease, went that route instead and spent \$1.5 million for the year on O and M but also committed us contractually to a large sum of money over a 15 or 20 year period. That is not disclosed as such in the accounts and I think for disclosure purposes on both ends of the process that is important. So I would ask whoever in the government is going to be reviewing and establishing a policy on this issue, that they consider how it is going to be presented as well in your various things that you are discussing.

MR. JIM NELSON: Mr. Chairman, we will undertake to take a review of the implications. Just for the Member's information, in note 14 to the financial statements the government does show commitments for long-term leases over, say, the period running into 1998. However, there are a number of options available, such as a supplementary schedule to the financial statements, which would declare more fully the extent of leases that the government undertakes. The other side, of course, is in the actual budgetary side where the disclosure might be considered as well.

CHAIRMAN (Mr. McCallum): Any further comments?

#### Further Study On Leasing And Full Life Cycle Costing Recommended

MR. KENNETH DYE: Mr. Chairman, I think those comments are useful, in terms of sorting out whether it is a capital lease and what is a current lease and operating lease. I would recommend further study so that there is consistency in reporting what is really capital and an ongoing borrowing. And the lease payment really is a debt service, you are rendering somebody else's money.

The other aspect of it is when these decisions are being made I would recommend that serious consideration be given to full life cycle costing, so that you know whether you are going to buy or lease, and the extent of your commitments under the lease, as to how much of the property elements the lessee takes over, such as the payment of property taxes, insurance and all those elements. Because when you size it up on a full life cycle basis then you are able to understand what the implications are before you venture into buying or leasing.

CHAIRMAN (Mr. McCallum): Excuse me, I know that Mr. Dye and Mr. Dubois are tight on schedule. Before you get away I just want to make sure that you know how much we appreciated having you people here. I understand Mr. Young and Mr. Dahl will be with us this afternoon but I want to, on behalf of the committee, thank both of you very much for coming here and helping us with our review of the public accounts. I trust that our relationship will continue and improve as we go along. I appreciate the offers that you made, Mr. Dye and your colleagues, to assist in any way that we would require it. Thank you very much.

MR. KENNETH DYE: Thank you, Mr. Chairman. It is a privilege for my office to serve our Legislature and we enjoy the appointment as your auditor. Thank you sincerely for that lovely luncheon yesterday that you put on. That was a nice occasion, I thought, and I look forward to coming back. Ray and I will have to withdraw within the next five minutes in order to catch the plane.

CHAIRMAN (Mr. McCallum): I recognize that and that is why I wanted to get in my two cents worth before you left. Mr. Young.

#### Ongoing Monitoring Strengthens Control Systems

MR. DONALD YOUNG: My comment is a quick one. I guess I am just jumping back to the other project regarding follow-up. I am just suggesting, in terms of carrying out that exercise, that some distinction be made between implementation responsibilities and monitoring responsibilities because someone has to monitor on behalf of the government what progress is being made throughout the year

on the follow-up of audit recommendations and recommendations of this committee so that the committee is not faced with these once-a-year phenomena when everybody tries to scramble to determine what, if anything, has been done. I think it strengthens the control systems of government if someone is that watchdog and is carrying out a periodic monitoring. And that may only encompass receiving periodic progress reports from departments, evaluating them and perhaps if progress is not being made, then bringing some pressure to bear on the departments or in some cases not. Recommendations are not invaluable, there may be some good reasons why they should not be recommended, in which case the reasons should be portrayed. It is just that the ongoing monitoring, as opposed to the once a year type of status report, I think they may want to consider.

CHAIRMAN (Mr. McCallum): Yes, I think the comments are to the point, Mr. Young. Is there anything further of Mr. Nelson or Mr. Barrett? Again then, Mr. Nelson, I would like to thank you very much for appearing. I hope that we will be able to get our recommendations to the Assembly, and then obviously to you, as a result of what has gone on. You obviously know some of the things that we are still very much concerned about. I want to indicate to you our appreciation for your co-operation and through you to the Minister of Finance as well. Again just to indicate that we want to make sure that the government is working the way it should be to the satisfaction of all and that is the end we will work toward. On behalf of the committee I do appreciate the co-operation that you have given us through your office and to the office of the Minister of Finance and his people.

MR. JIM NELSON: Thank you, Mr. Chairman.

CHAIRMAN (Mr. McCallum): If there is nothing else then I would like to call the public accounts meeting closed. I would like to remind Members that we meet again this afternoon.

---ADJOURNMENT