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NORTHWEST TERRITORIES
10TH ASSEMBLY, 9TH SESSION

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**Report to the Legislative Assembly
of the Northwest Territories
on "any other matter"
for the year ended March 31, 1986**



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Canada

12 February 1987

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

Dear Mr. Stewart:

I herewith transmit a report to be laid before the Legislative Assembly in accordance with the provisions of section 23(4) of the Northwest Territories Act, R.S.C. 1970, c. N-22.

The report deals with "any other matter" arising from my examination of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1986 that, in my opinion, should be brought to the attention of the Legislative Assembly. The report also includes my recommendations and the related management responses.

Cordially yours,

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

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

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**REPORT ON "ANY OTHER MATTER"
FOR THE YEAR ENDED MARCH 31, 1986**

INTRODUCTION

I have completed the audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1986. The purpose of my examination was to allow me to express an opinion on the financial statements and to report to the Legislative Assembly of the Northwest Territories in accordance with the Northwest Territories Act. These requirements were met in my report to the Legislative Assembly of August 22, 1986 in respect of the fiscal year ended March 31, 1986.

I have also examined the financial statements of the Workers' Compensation Board (Northwest Territories) for the year ended December 31, 1985, and the financial statements of the Northwest Territories Housing Corporation, the Northwest Territories Liquor Commission, and the Legislative Assembly Retiring Allowances Fund (Northwest Territories) for the year ended March 31, 1986. I have reported thereon, in the cases of the Northwest Territories Housing Corporation and the Northwest Territories Liquor Commission, to the Executive Member responsible, in the case of the Legislative Assembly Retiring Allowances Fund (Northwest Territories), to the Chairman of the Management and Services Board, and in the case of the Workers' Compensation Board (Northwest Territories), to the Commissioner, as required by their respective Acts.

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

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

I. SPECIAL WARRANTS

In its second report issued in October 1985, the Standing Committee on Public Accounts "...recommended that the Auditor General of Canada audit the Schedule of Special Warrants to the Territorial Accounts in the course of the regular audit of the accounts and financial transactions of the Government of the Northwest Territories to ensure that Special Warrants have been issued in accordance with established legal authority". To comply with the request of the Committee, we reviewed all special warrants approved during the year. Our review was based on section 18(1) of the Financial Administration Act (Northwest Territories) which states that

When the Legislative Assembly is not in session
and the Board reports that in the public interest an
expenditure of public money is urgently required with
respect to a matter and that

- (i) there is no appropriation under which
an expenditure with respect to that
matter may be made, or

- (ii) there is an appropriation under which
an expenditure with respect to that
matter may be made but the authority
available under the appropriation is
insufficient,

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

Section 18(3) further provides that special warrants are deemed to be interim appropriations until covered by supplementary appropriation acts, which formally authorize the funding required.

Schedule 5 of the Territorial Accounts provides a list, by activity, of all special warrants issued during the year. Those warrants affecting more than one activity are presented under each affected activity. Consequently, there are several references to many of the warrants in schedule 5. The schedule also identifies the date of approval for each warrant, which is the date approved by the Financial Management Board. These dates should be considered in relation to the sittings of the Legislative Assembly, as follows:

6 February 1985 to 28 March 1985

6 June 1985 to 13 June 1985

16 October 1985 to 29 October 1985

12 February 1986 to 13 March 1986

During 1985-86, 25 special warrants were authorized. The effect of doing so was to increase operations and maintenance budgets by \$3,420,000 and capital budgets by \$3,670,000. The number of warrants issued during the year compares favourably with 1984-85 when 159 special warrants were approved with an overall budget increase of \$10,937,000 for operations and maintenance and \$7,298,000 for capital.

In our opinion, 7 of the 25 special warrants do not meet the criteria for use as outlined in section 18(1) of the Financial Administration Act. Our comments follow.

1. Executive Council Office - Program Transfers

Two special warrants provided for transfers of program responsibilities among departments.

- The first, approved 6 November 1985, transferred \$3,003,000 to the Department of Information from the Department of Justice and Public Services, the Department of Local Government, and the Executive. The transfer implemented a recommendation of the Executive Council, approved by the Commissioner on 19 August 1985.

- o The second warrant, approved 4 December 1985, transferred \$501,000, representing the Emergency Measures function, from the Department of Justice to the Department of Government Services.

Section 18(1) of the Act refers only to urgent expenditures that are not covered or are insufficiently covered by an appropriation. It provides no authority to reduce the amount of an item as voted by the Legislative Assembly, which results when transfers are made between items.

Further, the supporting documentation for these warrants provided no evidence that emergency situations existed that could not wait until the next session of the Legislative Assembly.

Recommendations and responses

- (i) **Special warrants should be requested only when additional funds are urgently required. They should not be used to reduce appropriations or effect transfers of funds.**

Agreed. Special Warrants will only be used in urgent situations. The Minister of Finance has indicated he, on behalf of the Financial Management Board, will be requesting all Ministers to ensure that requests of this nature proceed through our Five Year Operational Plan and Main Estimates processes or supplementary appropriations.

- (ii) **Special warrants should not be used to reduce the amount of an item as voted by the Legislative Assembly.**

Agreed. Special Warrants will be used as intended. The Minister of Finance has indicated he, on behalf of the Financial Management Board, will be requesting all Ministers to ensure that established policy is followed with regards to Special Warrants.

2. Department of Government Services - Hay River Flood Compensation

Four special warrants covered claims for disaster assistance following the flood in May 1985:

<u>FMB Approval Date</u>	<u>Amount</u>
3 July 1985	\$ 229,267
18 December 1985	74,200
18 December 1985	46,000
29 January 1986	233,500

Each warrant covered actual approved claim costs at the time of the submission. There is no question that the disaster assistance was urgently required and that the July 1985 warrant was justified. However, for the estimated additional funding requirements, it would have been preferable for an estimate of total funding requirements to have been submitted for approval to the October 1985 session of the Legislative Assembly. The December and January warrants could likely have been avoided except to the extent that any supplementary funding estimates underestimated the actual requirements.

Recommendation and response

Whenever possible, details of disaster assistance requirements should be presented to the Legislative Assembly to obtain its advance approval of estimated funding requirements.

Agreed. A procedure has been developed and approved to deal with future disaster funding requirements.

3. Department of Renewable Resources - Transfer of Forestry

Of the two special warrants providing for the transfer of forestry management and fire suppression responsibilities to the Government of the Northwest Territories from the Department of Indian Affairs and Northern Development (Canada), the first warrant for \$60,000 appeared to be fully

justified. This warrant was approved on 11 September 1985 and covered implementation costs of Phase I of the Federal Program Transfer Study. The second warrant for \$154,000, approved 6 December 1985, covered costs associated with Phase II of the Study. The Study, prepared in advance of the Financial Management Board meeting held 11 September 1985, indicated a timetable to effect the transfer and included an estimated total cost of \$170,000. Sufficient information was available to include an estimate of the transfer costs in Supplemental Estimates presented to the Legislative Assembly in its Sixth Session held 16-29 October 1985. Although a second warrant may still have been required if ultimate costs exceeded the initial estimate, the Assembly would at least have been able to consider reasonably full costs of the transfer in advance of their incurrence.

Recommendation and response

Additional funding requirements of program changes should be estimated and presented to the Legislative Assembly at the earliest opportunity, thereby minimizing the need for special warrants.

Agreed. Additional funding requirements of program changes will be estimated and presented to the Legislative Assembly at the earliest opportunity whenever possible.

4. Department of Culture and Communications - Radio and Television Equipment

A special warrant for \$56,000 was approved 17 May 1985, as a Chairman's List item, to provide the community of Kakisa with radio and television services via satellite. The need for additional funding for this purpose came to the Department's attention in November 1984, after the deadline for the 1985-86 Main Estimates. The requirement for additional funds should have been known, however, in sufficient time that a request for a Supplemental Appropriation for 1985-86 could have been presented to the Legislative Assembly in the session of 6 February to 28 March 1985.

Recommendation and response

Special warrants should be requested only for urgent requirements. If the funding shortfalls are known in time for presentation direct to the Legislative Assembly for approval by Supplemental Appropriation, that process should be followed.

Agreed. In future when funding shortfalls are known in time for presentation directly the the Legislative Assembly for approval by supplementary appropriation that practice will be followed.

II. EXECUTIVE COUNCIL OFFICE - AUDIT COMMITTEE

An effectively functioning audit committee can serve as a vehicle for promoting improved financial management and control in government and as a basis for enhanced accountability between the administrative and executive arms of government. In particular, it can:

- Provide support for the Audit Bureau by
 - approving its annual audit plan;
 - reviewing the results of its audit activities, including problems and experiences in completing audits;
 - facilitating the implementation of audit recommendations;
 - providing independent consideration on staffing and budget matters;
 - providing recourse in the event of unsatisfactory administrative support or inappropriate direction.

- Provide support to the Comptroller General in his role of promoting sound financial management and control in government.

- Serve as a forum for the Auditor General to
 - review his audit plan with senior government officials;
 - review the results of the annual audit, including management letters and the Auditor General's report on "any other matter" to the Legislative Assembly.

- Serve as a forum for discussion and resolution of important issues relating to financial management and control and value for money.

- Review responses to the recommendations of the Public Accounts Committee.

During our annual audit activities and through discussions with various levels of management, we have become concerned over the relative inactivity of the

Audit Committee and the lack of clarity regarding its role, structure and relationships. More particularly, we have observed:

- Meetings were infrequent until May of 1986 when they became more regular. They were essentially limited to reviewing and approving the Audit Bureau's annual work plan.
- There is no formal policy governing the Committee's organizational status except to the extent that certain duties are spelled out in the Audit Policy in the Government's Policy Manual.
- There are no elected officials on the Committee. To be effective, the Committee must derive its support from the executive arm of government. One of the ways to achieve this support is through a member of the Executive sitting on or chairing the Committee. A consequence of not having an Executive Member on the Committee is that the Committee may not be perceived as having sufficient clout to deal effectively with important issues. As a result, the roles of internal audit and the Comptroller General could be less effective.
- The relationship of the Comptroller General with the Audit Committee and the Audit Bureau is not clear.
- The Committee's relationship with the Auditor General is uncertain.
- The organizational status of internal audit in the Government is unclear. As a consequence, internal audit activities are being carried out by both the Audit Bureau and the Department of Finance.
- There is no appropriate forum for reviewing responses to the recommendations of the Auditor General and the Public Accounts Committee.

Recommendation and response

The Government should review the role, objectives and responsibilities of the Audit Committee with a view to developing a formal policy directive governing its activities. Areas of consideration should include, but not necessarily be limited to, authority, organizational status, terms of reference, composition, relationships, frequency of meetings, and the role and responsibilities of internal audit in the Government.

Agreed. The Audit Committee commenced a review of the Audit Policy several months ago with a view to recommending revisions to the Executive Council. The scope of this review includes all of the areas identified by the Auditor General.

III. FINANCIAL ARRANGEMENTS WITH THE NORTHWEST TERRITORIES HOUSING CORPORATION

1. Financial Management Secretariat - Borrowings by the Northwest Territories Housing Corporation

Borrowings by the Government of the Northwest Territories are governed by the Northwest Territories Act, primarily sections 21(1) and 24(2). Section 21(1) provides that "The Commissioner in Council may make Ordinances - for the borrowing of money by the Commissioner for territorial, municipal or local purposes on behalf of the Territories". Section 24(2) states "No money shall be borrowed under the authority of this section without the approval of the Governor in Council".

The Northwest Territories Housing Corporation has borrowed substantial amounts over the years from Canada Mortgage and Housing Corporation for housing projects pursuant to the National Housing Act, but it has not obtained approval from the Governor in Council for these loans. As of 31 March 1986, loans payable by the Corporation to CMHC totalled \$98,471,000.

In the opinion of our legal adviser, the Northwest Territories Act applies to the Housing Corporation because of the Corporation's agency relationship to the Government. This agency relationship is established by subsections 3(b) and (c) of the Northwest Territories Housing Corporation Act which provides that the Corporation is an agent of the Commissioner and exercises its power only as an agent of the Commissioner.

Recommendations and responses

- (i) **Even though the loans were made in past years, retroactive approval by the Governor in Council should be requested for loans payable by the Northwest Territories Housing Corporation.**

The Government of the Northwest Territories previously obtained written advice from Finance Canada that retroactive

approval of these loans is not required. A copy of the Auditor General's recommendation has been provided to Finance Canada with the request that legal advice be sought in consultation with the legal advisor from the Auditor General's Office. If retroactive approval is required, we will ask Finance Canada to seek this approval.

- (ii) **All Government agencies should be advised that before any money is borrowed, approval by the Governor in Council is required.**

Agreed. Bill 87(1), which is being presented to the Legislative Assembly in the 1987 Winter Session, repeals and replaces the Financial Administration Act. A section in the Bill provides that public agencies shall not borrow without Financial Management Board approval and that the Financial Management Board shall ensure that no public agency shall cause the borrowing limit, as approved by the Governor in Council, to be exceeded. All public agencies listed in schedules A, B and C of Bill 87(1) will be advised of the new legislation, once passed, with specific reference to the borrowing requirements.

2. Northwest Territories Housing Corporation - Financial Agreement

The Government of the Northwest Territories is liable for any operating deficits of the Northwest Territories Housing Corporation as provided for in Section 19(2) of the Northwest Territories Housing Corporation Act. An agreement dated 1 April 1985 between the Government and the Corporation forms the basis of financing arrangements and also specifies how the deficit calculation should be made.

The agreement provides that the deficit reported by the Corporation shall be adjusted for revenues and expenditures not requiring an outlay of funds. It also provides for adjustment to the deficit calculation for principal repayments of

long-term debt. These repayments do not affect the operating results of the Corporation. However, the Corporation receives funds that also do not affect operating results and are not considered in the deficit calculation. These receipts include proceeds from the sale of property and equipment and principal repayment of mortgages. The Corporation, consequently, is accumulating a cash balance that is not identified for any specific purpose other than general working capital.

Recommendation and response

The agreement should be clarified as to the deficit calculation for those receipts and expenditures not affecting operations to ensure that accounting for contributions to the Corporation is carried out as intended.

Agreed. The financial arrangements for 1986-87 have already been finalized. This matter will be dealt with in negotiations for 1987-88.

3. Department of Municipal and Community Affairs - Land Assembly Projects

To develop land, the Corporation has received loan funding from Canada Mortgage and Housing Corporation of up to 90 per cent of the cost. The Government has provided the remaining amounts necessary. Some of the developed land was purchased by the Government. To date, the Government's payments to the Corporation have exceeded \$2.9 million for land purchased.

In determining the price paid for the land, the portion of the land cost that had previously been funded by way of capital grant was not considered. Consequently, the Government has duplicated a portion of the payment since it has paid the full cost of land development to the Corporation.

Recommendation and response

The purchase price of lots assembled by the Northwest Territories Housing Corporation should be reduced by amounts previously funded by the Government through grants or contributions.

Agreed. In future, should a similar situation arise, the Department of Finance will be informed to ensure the Government does not pay for the same service twice.

4. Department of Social Services - Joint Funding

During our examination of payments by the Department of Social Services, we noted two payments to the Northwest Territories Housing Corporation (NWTTC) totalling \$200,000 toward the cost of a senior citizens' home in Fort Simpson. The Government is paying 25 per cent of the cost; Canada Mortgage and Housing Corporation (CMHC) is paying 75 per cent of the cost; the NWTTC is administering the project. According to the 1985-86 Main Estimates, the total estimated cost to the Government is \$620,000.

The payments of \$200,000 have been recorded as "buildings and works" and have been charged against the Department's capital budget. This is a correct method to record expenditures for assets owned by the Government. However, there is no formal agreement among the Department of Social Services, NWTTC and CMHC and, because of the absence of an agreement, ownership of the assets and the extent and timing of government funding requirements are unclear. If it is intended that the NWTTC retain and manage the assets, the Department's funding should be recorded as a contribution, rather than as "buildings and works".

Recommendations and responses

- (i) **Formal agreements that specify the responsibilities of all parties should be prepared for all joint venture arrangements.**

Agreed. Work is underway to prepare formal agreements.

- (ii) **In cases where Government provides partial funding for capital projects, and where ownership rests with a third party, funding for construction should be by way of contribution, and formal contribution agreements should be established.**

Agreed. Where it is established that ownership rests with a third party any Government funding for construction will be made by way of a contribution and formal contribution agreements will be established.

IV. DEPARTMENT OF EDUCATION

1. Contributions to School Districts

In 1983-84, we recommended that arrangements or agreements with school boards should be prepared to identify clearly the terms and conditions governing payments to them and requirements for them to account for the use of the funds. This matter was discussed in meetings of the Standing Committee on Public Accounts in 1985 and again in 1986. The Committee included our recommendation, with modifications, in their 1985 and 1986 reports. Action taken at the time of our audit to implement this recommendation was limited to entering into formal agreements for capital contributions.

Recommendation and response

The Department should, as quickly as possible, complete the process of entering into formal agreements with school boards.

Agreed. The Department will prepare and enter into agreements with School Districts in the new fiscal year.

2. Students Loan Fund

The Fund was established in 1982-83 and is operated under the authority of the Student Financial Assistance Act.

In previous years, we reported on various problems regarding the administration of the Fund. The problems have been related to lack of adequate procedures for administering the Fund and regulatory matters that required clarification.

For the year ended 31 March 1986, we noted these problem areas:

- Unofficial manual records were being kept by loan fund clerks, but they were not reconciled to the central accounting system (FIS) during

the year. Both the manual records and FIS records were inadequate for year-end accounting purposes. The Department of Finance had to recalculate the loan fund balances. This delayed finalizing the year end.

- There was inadequate action taken to follow up on overdue accounts.
- Remissions were not processed on a timely basis.
- Remissions were granted in cases where full-time employment was less than three months. The Department is seeking a legal opinion to determine whether this practice complies with the Student Financial Assistance Act.

These comments were the subject of a report, dated 26 August 1986, by the Department of Finance, Systems Control Section. The Department has indicated that remedial action has been or will be taken.

Recommendation and response

The Department should accelerate its efforts to improve administration of the Students Loan Fund.

Agreed. A computerized loan system has been developed and implemented. As well, staffing action has been taken and organizational changes made which will contribute to the improved administration of the fund.

**V. BUSINESS LOANS AND GUARANTEES FUND -
DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM**

Several deficiencies were noted in the administration of the Business Loans and Guarantees Fund (BLGF). They are summarized as follows:

1. Inadequate Reconciliation of Subsidiary Records

During the year a computerized Loan Accounting System (LAS) was developed and implemented. Differences arose between the LAS and the central accounting system (FIS) records that should have been identified by reconciling the two sets of records. Reconciliations, although done during the year, were not done properly, and at year end there were unidentified differences between subsidiary records and LAS and FIS control records.

Improved reconciliations were prepared for 1985-86 subsequent to the year end with the assistance of the Territorial Audit Bureau. However, this procedure should have been performed by BLGF staff during the year.

Recommendations and responses

(i) Formal reconciliation procedures should be established.

Agreed. Formal procedures have been established and will be promulgated in the users manual for the Loan Accounting System.

(ii) Subsidiary records should be reconciled monthly to LAS and FIS control accounts and adjustments should be recorded promptly.

Agreed. Reconciliations have been completed to December 1986 and will be done on a monthly basis thereafter. Adjustments arising from the reconciliations will be recorded promptly.

- (iii) **Reconciliations should be reviewed regularly by departmental financial staff to ensure that proper control procedures are being carried out.**

Agreed. The departmental Finance Officer will regularly review the reconciliations.

2. Incorrect Calculation of Loan Arrears and Interest Revenue

The computerized loan accounting system has several deficiencies:

- **Arrears are not properly reflected. Arrears are calculated in the system by multiplying the number of missed payments, times the scheduled payment, less amounts received. If a client makes a lump sum payment, which is received as one payment, the arrears are overstated.**
- **An aging of arrears is not provided in the loans register.**
- **Interest revenue is not calculated properly. The LAS calculates interest as of the date the payment is recorded rather than when it is received by a Government employee. A manual adjustment to reflect properly the timing of payments is done later.**

As a result, the loans register is of little use to management for identifying and collecting slow paying accounts and for establishing the accounts to be included in the allowance for doubtful accounts.

Recommendation and response

The LAS program should be modified to provide more accurate and meaningful information.

Agreed. Version 3 of the LAS is currently under development and is targeted for implementation March 1, 1987.

3. Deficiencies in Loan Files

We reviewed a sample of 12 loan files for loans issued during the year, and 7 files for previously issued loans.

Four of the 12 files for new loans

- bore no evidence to show that outside financing was sought and turned down or that this requirement had been waived by the Loan Board;
- did not indicate that debtors' accounting records were being monitored by the Department to ensure that debtors could meet financial reporting requirements;
- did not contain copies of insurance policies, showing the Government as the loss payee.

The seven files of loans issued in prior years

- did not contain copies of current financial statements, as required by loan agreements;
- bore no evidence of periodic monitoring for compliance with loan agreements after loan issue.

Recommendations and responses

- (i) **New loans approved should be adequately documented before issue.**

Agreed. Direction will be given to the Secretary to ensure that new loans are adequately documented prior to issue.

- (ii) **Debtors' financial reporting obligations should be complied with, and compliance with loan agreements should be monitored after loan issue.**

Agreed. Procedures will be developed to ensure that financial statements are actually obtained and retained in the Regions. These procedures will include the requirement for compliance with loan agreements through a monitoring process.

4. Security Loans

A Contract Security Pilot Project was initiated during the year. The Project's objective is to assist Northern contractors to bid on construction projects in cases where they cannot meet bonding or security requirements.

We reviewed two of five security files. Neither of them contained a general assignment of contracts payable to the Government, as required by the written procedures for the pilot project.

Recommendation and response

Written project procedures should be followed.

Agreed. Direction will be given to the Secretary to ensure that written procedures for the pilot project are complied with.

**VI. DEPARTMENT OF PUBLIC WORKS AND HIGHWAYS, AND
DEPARTMENT OF FINANCE**

Revenues and Recoveries

During the year, the Department of Public Works and Highways recovered \$2,390,000 from Canada, representing a pro rata share of lease escalation costs that had been paid by DPW&H from 1978 to 1984. The possibility of this recovery was identified after the 31 March 1985 year end; however, an adjustment was not made in the 1984-85 accounts. After the 31 March 1986 year end, when it was learned that 1985-86 revenues included \$2,390,000 relating to prior years, it was also learned that similar recoveries for 1984 to 1986 should have been but were not recorded. An adjustment was then made for \$1,099,000, representing the estimated recovery for 1984-86. To correct the accounts, comparative figures in the financial statements were restated to present the revenues in the correct accounting periods.

As a consequence of this, revenues may not be adequately monitored for accuracy and completeness.

Recommendations and responses

- (i) **The Department of Public Works and Highways should establish appropriate mechanisms to ensure that all significant lease agreements are reviewed regularly for their financial and accounting implications and provide the Department of Finance with appropriate reports.**

Agreed. Procedures have been developed by the Department of Public Works and Highways to monitor this important area. The Department of Finance will be provided with an annual list of revenue leases to improve monitoring in this area.

- (ii) **The Department of Finance should review reports received from the Department of Public Works and Highways and follow up where necessary.**

Agreed. The Department of Finance will establish a procedure whereby reports received from the Department of Public Works & Highways will be reviewed and followed-up where necessary.

**VII. PETROLEUM PRODUCTS REVOLVING FUND -
DEPARTMENT OF GOVERNMENT SERVICES**

1. Operations

The Fund, with assets of \$26,777,000 at 31 March 1986 and sales of \$37,890,000 for the year, comprises a significant portion of the Government's operations. Recorded Fund assets consist mainly of accounts receivable and inventories. Because of the Government's policy of recording fixed assets at a nominal value of one dollar, Fund assets do not include major fixed assets such as fuel tank farms.

Recommendation and response

The Government should consider charging the Fund for all of its assets, to enable the full costs of operating the Fund to be readily determined.

Agreed. A study is underway which will examine all the issues and concerns as addressed in the recommendation.

2. Authority

Authority for the operation of the Fund consists of a non-lapsing appropriation, approved by the Legislative Assembly, which establishes a maximum limit for the Fund. The appropriation act providing authority for the Fund does not specify administrative, financial reporting and audit requirements.

Recommendation and response

Administrative and financial requirements should be identified in appropriate legislation or policy directives. Consideration should be given to including provision for an annual audit.

Agreed. These matters are under active review and changes are anticipated in the Fund administration. This review includes a review of the financial reporting and auditing requirements.

VIII. OFFICE OF THE LEGISLATIVE ASSEMBLY

Constituency Expenses

There is inadequate information available to Members of the Legislative Assembly for identifying expenses eligible to be paid out of their constituency allowances. The Members' Handbook, issued in January 1984, provides some guidance but it does not provide enough detail and does not clearly identify restrictions over the use of the allowances. Also, the Handbook also does not provide enough information for the Office of the Legislative Assembly to verify adequately expense claims submitted by Members.

During the year, the Office of the Legislative Assembly prepared a policy review paper, covering constituency allowances and expenses, for consideration by the Management and Services Board. This paper includes the right of Members to make donations, a practice followed in the past but which does not appear to be allowable under the legislation. A legal opinion obtained by the Office of the Legislative Assembly agrees with our view. The legal opinion indicates that donations are "...not in the nature of a constituency expense as contemplated by section 33 of the Act, therefore, if the Assembly wishes an M.L.A. to make such donations, it should appropriate the necessary funds under the proper Item in the Estimates and amend the existing legislation". The policy review paper has not been approved by the Board because of the conflict with the legal opinion. Effective 30 June 1986, no further donations have been processed, on the instructions of the Speaker, pending resolution of the issue by the Assembly.

Recommendations and response

- (i) **The Management and Services Board should adopt clearly defined policies and procedures relating to the definition of allowable constituency expenses.**
- (ii) **Discretionary funds used by Members for donations should be authorized through appropriate legislation. Any such legislation**

should include the requirement that donations be paid by cheque to the organization concerned.

Agreed. The Legislative Assembly has requested the Management Services Board to appoint a commission which, as part of its mandate, will develop policies and procedures concerning constituency expenses and review the legislative requirements of discretionary donations.