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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Ontario

January 8, 1985

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

Dear Mr. Stewart:

I herewith transmit my report to the Council of the Northwest Territories on the audit for the year ended March 31, 1984, to be laid before the Council 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, 1984 that, in my opinion, should be brought to the attention of the Council. The report also includes my recommendations and observations relating to the Government, together with comments of the Office of the Commissioner on our recommendations.

Cordially yours,

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

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

**REPORT ON "ANY OTHER MATTER"
FOR THE YEAR ENDED MARCH 31, 1984**

I have completed the audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1984. The purpose of my examination was to allow me to express an opinion on the financial statements and to report to the Council of the Northwest Territories in accordance with the Northwest Territories Act. These requirements were met in my report to Council of September 14, 1984 in respect of the fiscal year ended March 31, 1984.

I have also examined the financial statements of the Workers' Compensation Board (Northwest Territories) for the year ended December 31, 1983, and the Northwest Territories Housing Corporation and the Liquor Control System for the year ended March 31, 1984, and have reported thereon to the Commissioner of the Northwest Territories and, in the case of the Northwest Territories Housing Corporation, to the Executive Member responsible, as required by their respective Ordinances.

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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 Council. Accordingly, I would like to bring to your attention the following areas of concern and our recommendations thereon together with comments of the Office of the Commissioner on our recommendations.

DEPARTMENT OF FINANCE

1. Year-end Accruals - Health Care and RCMP Costs

We noted that significant delays were experienced in obtaining information from the Department of Health for health care expenditure accruals. Even though accruals of health costs were still being recorded to mid-July for out-of-Territories health care billings, we noted in excess of \$176,000 of health care costs were not accrued because of late receipt of billings. As well, we noted that costs under the Police Services Agreement for policing services provided by the RCMP were understated by \$74,000 as a result of underaccrual of costs at year end.

Conversely, we noted that accruals of costs for 1982-83 under the Police Services Agreement were understated by approximately \$722,000 and certain 1982-83 health cost accruals were understated by about \$275,000. Because these amounts were not accrued they were charged as 1983-84 expenditures rather than as 1982-83 expenditures as correct accounting would dictate. There should be a more accurate method developed for determining accrual amounts.

Recommendations	Comments of the Office of the Commissioner
1. Procedures or methods for accruing out-of-Territory health care billings should be developed so as to finalize the accounts and financial statements on a more timely basis.	1. Agreed. The Department will be working with the Department of Health to establish a method to speed up these year-end accruals.
2. Procedures should be established to estimate costs more accurately on major types of expenditures especially those for which agreements exist.	2. Agreed. A review will be undertaken of our major expenditure types with a view to improving the accuracy of estimates. This was the second year of accruals and improvements were noted from the previous year. The Department will work with departments to further improve the accuracy.
2. Regulations	

As reported in our previous management letter, regulations were still to be developed and incorporated into the Financial Administration Manual. Examples of regulations still to be issued include regulations for account verification and payment requisition, receipt and deposit of public money, accountable advances, etc.

Also during our current year's audit, we noted inconsistencies between existing regulations, the Financial Administration Manual and current procedures. For example, the Government Contract Regulations require Executive Committee approval for consulting contracts whereas the Manual only requires Executive Committee approval for those consulting contracts greater than \$10,000. However, in practice consulting contracts greater than \$10,000 are being approved by the Financial Management Board. There is a need to develop regulations and revise existing regulations and manuals to provide consistent and meaningful guidance to employees.

Recommendation	Comments of the Office of the Commissioner
1. Manuals and regulations should be updated and, where required, developed as soon as possible.	1. The Government Contract Regulations will be issued in the near future. A plan for dealing with other Regulations still to be issued and updating manuals as soon as possible is being developed.
3. Accrual of Employee Leave and Termination Benefits	

For the year ended March 31, 1984 the GNWT adopted an accrual basis of accounting for all expenditures except employee leave and termination benefits which are still on a cash basis. This exception was discussed with the Department during our audit. It was our view that a liability should be accrued for such benefits. We were advised that an accrual basis had not been adopted to account for these benefits, due to the complex nature of the calculations and estimates and the time that would be required to perform these calculations. In order to complement the accrual policies adopted to date, the Department should, in our view, establish an accrual policy for employee leave and termination benefits as soon as possible, preferably by March 31, 1985 year end.

Recommendation	Comments of the Office of the Commissioner
1. The accrual basis of accounting for employee leave and termination benefits should be adopted for 1984-85 and subsequent years.	1. Agreed. The accrual of significant liabilities for employee leave and termination benefits is desirable. The Department in conjunction with the Department of Personnel will determine the feasibility of calculating and recording the liability possibly for 1984-85.

LEGISLATIVE ASSEMBLY

4. Legislative Assembly Retiring Allowances Fund

The "Council Retiring Allowances Ordinance", (ONWT) c.3 (3rd) 1981, as amended, established the Legislative Assembly Retiring Allowances Fund to provide an immediate, compulsory pension plan for Council members into which could be paid such sums as the Commissioner may direct to fund the non-contributory allowances and benefits earned by members and voluntary contributions made by Council members. The Fund comprises amounts paid by the Government to fund non-contributory allowances and benefits earned by members,

voluntary contributions by Council members and investment income earned by the Fund.

The Fund is administered by the Management and Services Board. Investment of Fund assets is done by a Life Insurance Company. Actuarial valuation of the Fund is required at least once in every three year period. The Management and Services Board is required to lay before Council a report on the administration of the Ordinance during the preceding fiscal year. The report is to include a statement of the amounts received for contributions, the amounts paid for allowances and benefits, the amount of any surplus in the Fund as determined by an actuary, and such other information as the Commissioner directs. The Ordinance does not provide for an annual financial audit. The assets of the Fund at April 1, 1984, the date of an actuarial valuation, amounted to \$1,346,000. The actuarial valuation indicated a surplus of \$331,000 based on pensionable service from the date each council member was first elected, but not before the commencement date of October 1, 1979.

The assets are now reaching significant amounts. Furthermore, because of the election held in November 1984, some Council members became eligible to receive pensionable remuneration from that date.

Recommendations	Comments of the Office of the Commissioner
1. Annual financial statements should be prepared for the Fund.	1. Agreed. The necessary financial statements will be prepared annually.
2. The financial statements and auditor's report thereon should be included in the annual report to Council.	2. Agreed. The financial statements will be audited and together with the auditor's report thereon included in the report to Council on the administration of the Ordinance.

LIQUOR ORDINANCE

As part of our March 31, 1984 year-end audit of the Liquor Control System, we reviewed the financial and accountability requirements of the new Liquor Ordinance which came into effect on April 1, 1984. We believe that these requirements have not been adequately addressed in the new Ordinance and clarification is required as soon as possible. Part 1 of the Ordinance refers to the Liquor Licensing Board and Part II refers to liquor stores. We have some serious concerns about each Part, as referred to below.

5. Liquor Licensing Board

The staffing and financial requirements are not clearly addressed:

- (i) Authority to appoint the Executive Secretary is granted to the Executive Member but no reference is made to fixing the Executive Secretary's remuneration, as was done for Board members.
- (ii) Except for the Executive Secretary, there is no reference to other staffing requirements necessary for the proper conduct of the Board's business.
- (iii) It is evident from Part I that the Board will incur expenditures in carrying on its business, but Part I gives no direction that the expenditures shall be paid out of moneys appropriated for that purpose by the Legislative Assembly. Conversely, financing the operations of the liquor stores is recognized in Part II by the establishment of the Liquor Revolving Fund.

Part II dealing with the operations of liquor stores requires the preparation of an annual report for submission to the Executive Member responsible and tabling in the Legislative Assembly. There is no similar requirement in Part I for the Liquor Licensing Board to prepare and submit such an annual report. The Board's activities lend themselves to being reported upon annually. This would establish the Board's accountability.

6. Liquor Stores

The Executive Member under Part I has been assigned responsibility for the Liquor Licensing Board established as a separate entity under Section 4. However, the separate entity approach was not taken under Part II. Under Part II the Executive Member is personally assigned responsibility for the operations of the liquor stores and supervision of staff. We understand that a Liquor Commission has been established to perform the functions of the Executive Member under Part II, as referred to in the 1984-85 Main Estimates, but there has been no formal record of decision to this effect.

Subsections (3), (4) and (5) of Section 74 dealing with the financial statements of liquor stores are not current with present generally accepted accounting principles in use for the preparation of financial statements on which auditors are required to report. Furthermore, the auditor is only required to report on the financial statements as provided for by Section 74(7). There is no requirement for the auditor to report whether, in his opinion,

- (i) proper books of account have been kept and the financial statements are in agreement therewith; and
- (ii) the transactions that have come under his notice have been within the entity's statutory powers; or to report on
- (iii) any other matter that, in his opinion, should be brought to the attention of the Legislative Assembly.

These requirements are contained in Section 23(4) of the Northwest Territories Act.

Subsection (8) of Section 74 directs that the books and records shall at all times be subject to examination and audit by the auditor. No reference is made in this subsection to the auditor's right of access to records, or the right to obtain such information and explanations as he deems necessary for the purposes of his examination. Right of access is fundamental to the fulfillment of an auditor's responsibilities.

Recommendation	Comments of the Office of the Commissioner
1. The Ordinance should be amended, as soon as possible, to establish the Liquor Commission as a separate entity and to correct the deficiencies referred to above.	1. Agreed. Legislation correcting the deficiencies and establishing the Liquor Commission as a separate entity is being developed.

DEPARTMENT OF LOCAL GOVERNMENT

7. Expenditures

Our review of payments made to municipalities in respect of grants and contributions and other advance payments revealed the following matters.

Grants and contribution policies. According to the Financial Administration Manual guidelines, grant and contribution program applications must be approved by the Financial Management Board, who must also approve the amount to be voted in the Estimates before any funds are disbursed. The Department made a large number of grant and contribution payments which were not supported by currently approved grant and contribution program (policy) applications. We were unable to determine that a policy for grants and contributions to municipalities for municipal water and sewer projects had ever been prepared or submitted for FMB approval. According to departmental officials these payments were being made on the basis of a Treasury Board Minute dated April 11, 1974, although amounts for this purpose are provided for annually in the Estimates. We also noted that approved grant and contribution policies were not available to support payments for road and sidewalk construction projects and the Service Connection Program.

Recommendations	Comments of the Office of the Commissioner
1. The Department should review its grant and contribution policies to ensure that they are all covered by grant and contribution program (policy) applications approved by the Financial Management Board.	1. Agreed. All grant and contribution agreements will be reviewed to ensure that they are all covered by a program which has been reviewed and approved by the Financial Management Board.

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| 2. Copies of all approved policy applications should be filed as support for payments made. | 2. Agreed. Reference will be made to the Financial Management Board program approval on each payment document. |
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Main Estimates disclosure. Capital programs such as sewer connection, water and sanitation and sidewalks are reflected in the Main Estimates as capital expenditures of the Department. In actual fact the funds under these programs are usually provided to municipalities to carry out these programs. We feel that such provision of funds to municipalities constitutes a contribution and should be reflected as such in the Main Estimates. Contribution policies should be prepared and approved by the FMB.

Recommendations

**Comments of the
Office of the Commissioner**

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| 3. Where capital projects are to be undertaken by third parties, such funds should be disclosed in the Estimates as contributions. | 3. Agreed. The Department's Main Estimates for 1985-86 are being reviewed to ensure that in all instances where capital projects will be funded by territorial capital contributions they will be disclosed as such in the Estimates. |
| 4. After identifying all such expenditures, contribution policies should be prepared and approved by the FMB. | 4. Agreed. Financial Management Board program approvals will be obtained for capital contributions disclosed in the 1985-86 Estimates not already covered by program approvals. |

Agreements. There is no requirement for an agreement to be negotiated with the recipient of funds advanced by the Department for specific purposes. Such practices lead to weakened control over the funds in that there is no accountability requirement. The Government has no assurance that the funds are used for the purposes intended or that the projects are undertaken with due regard for economy, effectiveness and efficiency, or that prescribed government policies are being followed.

We noted one example in which the FMB approved a capital grant of \$533,000 to Fort Simpson for water supply improvements. The funding was requested by the Town after it had made considerable commitments to the project. The Town acted as general contractor and hired its own consultants. There was no assurance that the work was done as economically as possible. A DPW review of the project indicated deficiencies in the plans and design of the project. There had been much previous criticism of the quality of the work of the consultant ultimately used on the project both by DPW, on a previous project, and the consultant's former employers, nevertheless he was still utilized on the project. Additional funds of \$215,000 were required to complete the project and were subsequently approved in Supplementary Estimates No. 4. Agreements should be made

with recipients of funds to ensure that the Government can monitor projects and provide assistance to ensure that proper project management and control is exercised. Such agreements should be entered into prior to commitments being made on projects.

Recommendations

**Comments of the
Office of the Commissioner**

5. Contracts or agreements should be entered into with recipients of funds to ensure that sound management practices and accountability can be achieved.

5/6. Agreed. Standard agreements are being developed which will be used to enter into arrangements with municipalities to ensure that the relationship between the two parties is clearly established prior to making project commitments.

6. Such agreements should be made prior to making project commitments.

Advance payments. Payments of \$1.5 million in January 1984 and \$300,000 in March 1984 were paid to the City of Yellowknife for water and sanitation projects. The payments were not supported by any formal agreement to indicate the amount and timing of payments or accountability. Subsequent to the March 1984 payment of \$300,000, the City of Yellowknife provided an accounting for the projects undertaken. This accounting revealed that the Department had over advanced funds in excess of \$387,000 to the City. We understand that these excess advances will be applied to 1984-85 projects. Although the payment of \$300,000 was properly authorized, it is apparent that there was no evaluation of the need for the additional payment having to be made.

Recommendations

**Comments of the
Office of the Commissioner**

7. Contributions or advances should not be made in advance of need.

7/8. Agreed. Each agreement will include a payment schedule, and capital contribution funds will be disbursed in accordance with that schedule. The schedule will be developed after evaluating and taking into account the financing needs of the project.

8. Proper evaluation of projects should be undertaken before funds are advanced.

DEPARTMENT OF EDUCATION

8. Student Financial Assistance -Supplementary Grants

The Student Financial Assistance Ordinance provides for, among other benefits, supplementary grants for eligible students attending post-secondary education institutions. These supplementary grants are available to provide financial assistance for a variety of student needs including living allowances, child care allowances, air fares, etc. Our review of the systems and procedures concerning supplementary grants and tests of payments revealed the following deficiencies.

Living allowance rates. The Student Financial Assistance Regulations outline the rates to be paid to eligible students for living allowances included as part of the supplementary grants. Our review revealed that payments of living allowances exceeded the amounts authorized by Regulations.

The Department increased the rates for living allowances payable to eligible students with, and without, dependants to match those rates paid by the Department of Indian Affairs and Northern Development (DIAND). The Executive Council authorized the increase for those students without dependants but no Executive Council authority was obtained for the increase granted to those students with dependants. In neither case, were the Regulations amended to reflect the new rates and that portion of living allowances paid to eligible students in excess of the amounts prescribed in the Regulations was paid without proper authority. Since the Department has adopted DIAND rates, it would be appropriate for the Regulations to identify that the living allowances payable to eligible students are, subject to approval of the Executive Council, at rates determined from time to time by the Department of Indian Affairs and Northern Development.

There is an anomaly in the authorized change to the rates for students without dependants, in that the Record of Recommendation decision increases the living allowance from \$20 to \$24 per day, whereas the Regulations outline rates on a weekly basis. The Department has interpreted a week to be five days so the living allowance rate has been increased from \$100 per week to \$120 per week. This should be clarified with the Executive Council since it is not consistent with the rates referred to in the Regulations which are presumably based on a week of seven days.

Recommendations	Comments of the Office of the Commissioner
1. Retroactive approval of the Executive Council should be obtained for the increase in living allowances paid to students with dependants.	1. Agreed. Retroactive approval will be sought prior to January 1, 1985.

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| 2. Since the Executive Council decision provides the authority for amending the Regulations, it should be clear from the decision whether the allowance is to be paid for a five or seven day week. | 2. Agreed. Effective September 1, 1984, all students will be paid allowances on the basis of a seven day week and this will be reflected in the Executive Council decision being sought in 1 above. |
| 3. The Regulations should be amended to recognize that the living allowances are payable at DIAND rates with the approval of the Executive Council. | 3. Agreed. Regulations will be amended by January 1, 1985 to indicate that the living allowances are payable at DIAND rates. |

Living allowance calculations. Our tests revealed inconsistencies in the payment of living allowances. We noted that in some cases deductions from weekly living allowances were made for statutory holidays falling on a school day, whereas full weekly rates were paid for Christmas holidays. While it may be appropriate for adjustments to be made to living allowances for students living at home, it is not covered by the Regulations. Furthermore, the Regulations do not define a week.

We also noted that a full month's living allowance was paid to students whose school year began before the 15th day of the month or ended after the 15th day of the month. If the school year begins or ends at another date during the month, the weekly rate from that date is paid to the student. Since the Regulations do not stipulate the eligible duration for payment of living allowances, there is no legislative authority for this method of payment.

Recommendation

4. The Regulations should be amended or directives prepared and approved to clarify the correct method of calculating living allowances during the school year so that there is consistency in the application of rate payments to students.

Comments of the Office of the Commissioner

4. Agreed. A directive will be prepared and issued by April 1, 1985 to clarify the calculation of living allowances.

Supporting documentation and payment. Payment requisitions for allowances are not adequately supported by detailed calculations. Without documentation showing how amounts to be paid are calculated, difficulties are created for the officer exercising payment authority. As well, audit verification of amounts paid is difficult.

Recommendation	Comments of the Office of the Commissioner
5. Payments with respect to living allowances paid to students should be adequately supported by detailed calculations to facilitate verification by the payment authority, as well as for audit purposes.	5. Agreed. Ledger sheets showing calculations are now being maintained for each student.

Grant payments. Allowances under the supplementary grant provisions of the Regulations are paid to the students in advance for a two-month period. The Regulations contain no provision for making advance payments.

Recommendation	Comments of the Office of the Commissioner
6. The Regulations should be amended or directives prepared and approved to prescribe the conditions under which allowances may be paid in advance.	6. Agreed. Regulations will be amended to comply with this recommendation.

9. **Students Loan Fund**

The Students Loan Fund was established in 1982-83 and is operated under the authority of the Student Financial Assistance Ordinance which established a ceiling of \$2.25 million for the aggregate of principal balances outstanding up to March 31, 1984. The ceiling is to be increased in each of the next three years to a maximum of \$7.15 million by March 31, 1987.

As at March 31, 1984, there were 455 outstanding loans totalling \$1,864,000. Our review of systems and procedures covering operation of the Fund revealed the following deficiencies.

Eligibility. The Regulations state that for a student to be eligible for a loan, he must have been a resident in the Territories for at least two years and was so resident within two years immediately preceding the date of registration for the semester or semesters to which the loan relates. In last year's Report to Council we referred to the case of a student who had obtained a loan but did not appear to meet the residence requirements.

The Report was considered by the Public Accounts Committee during the period April 25-27, 1984. In the course of its meetings, the Department advised the Committee that the student was eligible for the loan because he had maintained residency through his parents from June 1979 to the date he commenced the semester for which the loan was awarded. We had reported that the student was not eligible for the loan because he had only resided in NWT from June 1961 to August 1962. Because of this conflict in evidence before the Committee, we believed that we should review any additional information available in the Department and report back to the Committee on this particular case.

We have completed our review and find the facts reported by us were correct, as agreed with the Department at that time.

The parents of this 22-year old student, had become resident in NWT two years before the student had applied for and received the loan. During this period he was attending a post-secondary educational institute in Eastern Canada. However, based on the Regulations referred to above, the student in question was not eligible for a loan under the residency requirement rules applicable in this case.

To support its position, the Department appears to have interpreted the Regulations, based on provisions elsewhere in them related to dependancy and residency, by deeming the student in question to be a dependant and, thus, eligible simply because the parents were resident in the Territories for over two years. The Department has no documentation to support the fact that the student was legally dependant on his parents. However, neither the Ordinance nor the Regulations deal with dependancy requirements in order for a student to be eligible for a loan. The Regulations deal strictly with student residency requirements and not those of parents or guardians.

Recommendations	Comments of the Office of the Commissioner
1. The Regulations should be clarified and revised to more adequately define loan eligibility requirements, particularly with respect to dependancy and residency requirements.	1. Legal interpretation of clause 2(3) has been requested. If further clarification is required the Regulations will be amended.
2. Documentation should be on file to support dependancy status of students.	2. As of September 1, 1984, where applicable, students are now required to substantiate dependance by completing a statutory declaration providing the necessary details.

Part-time student. Section 33(1) of the Student Financial Assistance Regulations provides that student financial assistance shall be awarded only to a full-time student at an approved institution except that the Review Board, in any other case, may award student financial assistance to a part-time student, subject to such conditions as it thinks fit, where the applicant satisfies the Board that exceptional circumstances warrant such award. A full-time student is defined as a person who is enrolled as a student at an approved institution for an academic year during which he will be taking at least 80% of a full course load of studies at a post-secondary level.

We noted an instance where a student was awarded a full loan and was paid one-half of the full amount prior to his commencing post-secondary education as a full-time student. In November 1983, the Department was advised that this student ceased taking some courses and, by definition, ceased to be a full-

time student. Section 34(8) of the Regulations states that, if, at any time, the Review Board considers the performance of the student to be unsatisfactory, the Board may terminate, suspend or continue to pay his loan on a probationary basis. During January 1984 he was paid the full amount of the second loan instalment even though the Department had been advised that he had ceased to be a full time student. As such, continuance of the loan should have been approved by the Board. There was no indication that the student's situation was reviewed by the Board.

Recommendations	Comments of the Office of the Commissioner
3. The Board should review all cases of unsatisfactory performance before loan payments are made.	3. Agreed. The Board will review all relevant transcripts before further loan payments are issued.
4. Such reviews should be evidenced in minutes of Board meetings.	4. Agreed. Reviews will be documented in minutes of Board meetings.

Subsidiary loan records. Suitable loan records have not been established. Existing records do not indicate essential information such as dates of issuance of loans and repayment dates, interest rates, interest due dates and interest and principal repayments. The records should also distinguish between advances and those loans under repayment or remission. Adequate records are necessary to maintain proper control over loans.

Recommendation	Comments of the Office of the Commissioner
5. Adequate loan records should be established and maintained to provide proper control over loans.	5. Agreed. This is now being done.

Loan agreements. The Student Financial Assistance Regulations require that a borrower enter into a consolidated loan agreement with the Commissioner within six months after ceasing to be a full-time student. This agreement is to be in a form approved by the Deputy Minister of Education.

The loan agreement forms were not printed and made available until June 1984. This suggests a lack of foresight in the administration of the Fund which has now been operating for almost two years. As a consequence, the Government is not collecting loan payments for those students that are no longer full-time students and are required to repay their loans.

Recommendations	Comments of the Office of the Commissioner
6. Loan agreements should be executed as soon as possible for those loan recipients who should be making loan repayments.	6. Agreed. Arrangements are now underway to enter into consolidated loan agreements with recipients required to make loan repayments.
7. Procedures for collection of loans should be developed as soon as possible	7. Agreed. The procedures for collecting loans will be developed prior to April 1, 1985.

Remission. On commencing employment in the Territories, a borrower may apply to the Commissioner, in a form approved by the Deputy Minister of Education, for remission of the loan that is outstanding. The Commissioner may grant a remission of \$750 for every three months of full-time employment in the Territories by a borrower.

As of April 1984, application forms requesting remission have yet to be printed. As a result, remission of loans has not taken place for eligible borrowers. Again, there appears to have been a lack of foresight in the administration of the Fund and the remission process.

Recommendation	Comments of the Office of the Commissioner
8. Application forms for remission should be made available to borrowers as soon as possible so that the backlog of applications that the Commissioner must consider for remission is minimized.	8. Agreed. Application forms have been made available to borrowers and are now being processed. Remissions should be on a current basis in 1985-86.

10. Policies and Procedures - Student Financial Assistance

It is apparent from our review of the student assistance program and the matters now being brought to the Department of Education's attention that there is a critical need to develop a policies and procedures manual to administer all types of student financial assistance. A manual is needed to deal with interpretation of the Regulations and establish procedures and records to properly operate and administer the Student Financial Assistance Ordinance. The procedures should include guidelines for the calculation of the various forms of assistance and for other matters related to the administration of the Loan Fund.

Recommendation	Comments of the Office of the Commissioner
1. A policy and procedures manual should be developed as soon as possible to interpret the Regulations and establish procedures so that they may be consistently applied.	1. Agreed. A subcommittee of the Student Financial Review Board has been established to decide on the policies and procedures to be included in the manual. The manual will be completed in draft by April 1, 1985.

11. Catering contract - Thebacha College

As part of our audit we reviewed the Department of Education's internal audits done by the Territorial Audit Bureau. We noted that the catering contract at Thebacha College - Fort Smith provides for food services to students in residence at Thebacha College. The contract to provide this service was tendered in 1980 and awarded to the Contractor for a two-year term commencing on September 1, 1980 with a two-year renewal option, despite the fact that the Contractor did not submit the lowest bid. The Deputy Minister at that time recommended that this Contractor should not be used. There was, however, no documentation available justifying awarding of this contract to other than the lowest bidder, although, the Government Contract Regulations require that reasons be documented for not accepting the lowest tender, which must be approved by the Executive Committee.

This contract was extended for a further two years, commencing September 1, 1982 through an option clause in the contract extending the contract for another two years. Use of the option clause in the contract made tendering unnecessary. Section 5(c) of the contract states that "Either party may terminate this Agreement for whatever reason, giving the other thirty days notice in writing of its intention to do so". The Department could have taken advantage of this clause to terminate the contract and retender for the catering service in view of the fact that the Contractor had not submitted the lowest bid at the time of the initial contract award.

The renewed contract contains a guarantee of 95 meals per sitting for the period from September to the end of May. This represents an increase in guaranteed meals from 75 under the original contract to 95 when the contract was renewed on September 1, 1982. This increase was incorporated into the contract despite the fact that the original guarantee formed the basis of payment for over 80% of the daily sittings.

Since the original contract did not result from the lowest tender, and taking into consideration the increase in the number of meals per sitting provided for in the renewed contract, there is no assurance that the catering service at the College is being provided in the most economical manner.

Recommendations	Comments of the Office of the Commissioner
1. Periodic tendering should take place to ensure that catering is acquired in the most economical manner.	1. Agreed. This will be done with future contracts.
2. The Department should ensure that it complies with the Government's Contract Regulations when awarding contracts other than to the lowest bidder.	2. Agreed. This will be done with future contracts.

12. Grants and Contributions

Policies. According to the Financial Administration Manual grants and contribution directive, departments are required to develop grant and contribution program applications (policies) which must be approved by the Executive Committee or the Financial Management Board before any funds are disbursed.

We noted that, of the twelve grants and contribution policies administered by the Department, as listed in the Main Estimates, only the policy for grants to applicable school districts has been approved. This was done late in the fiscal year and is the only currently approved policy. An approved copy of this policy is still not available at the Department. Other policies have been prepared as of June 1984, however, they have not been submitted to the Financial Management Board for approval. About 19 per cent of the Department's budgeted operations and maintenance expenditures relate to payments of grants and contributions and, as such, strong controls should exist over the payments.

Recommendation	Comments of the Office of the Commissioner
1. The Department should ensure that current grant and contribution policies are on file to support all payments of grants and contributions.	1. Agreed. Revised payment directives for School Societies and Committees have been submitted to the Financial Management Board. Other outstanding payment directives will be revised and forwarded to the Board prior to January 1, 1985.

Policy definitions. A grant is defined in the Financial Administration Manual as an unconditional transfer payment made to a recipient for which the government will not receive any goods or services. There is no provision for audit requirement.

A contribution is defined as a conditional transfer payment made to a recipient, subject to audit, and for which the Government will not receive any

goods or services. Contribution payments are conditional upon performance or achievement and are subject to audit.

The operating funds provided to school districts are defined as a grant both in the Main Estimates and in the policy. The policy is conditional upon the school districts, or boards, providing educational services and is based on student enrolment. There is also an audit requirement. The funding provided and conditions attached would, in our view, meet the definition of a contribution. Further, no formal agreement or arrangement exists between the recipients receiving the funds and the Department. Operations and maintenance funding to school districts or boards are expected to exceed \$6.4 million during the year. We feel amounts of this magnitude should be subject to strict control to ensure proper accountability.

Recommendations	Comments of the Office of the Commissioner
2. The Department should ensure that funds provided for school districts or boards are described in the Main Estimates and policy as contributions.	2. Agreed. This will be done in the Main Estimates for 1986-87.
3. Arrangements or agreements with School Boards should be prepared in order to clearly identify the terms and conditions governing payments and accountability.	3. Terms and conditions of the payments and accountability are clearly identified in a Financial Management Board Payment Directive. The Board is reviewing the need for entering into agreements with the School Boards.

Budgetary and financial disclosure and control. We noted that funds for capital purposes are simply shown in the Main Estimates as budgetary capital expenditures although the funds may be provided to third parties, such as school boards to undertake the work. Since the funds may be issued to third parties for a specific purpose, they, in effect constitute a contribution. The funds are not identified in the Estimates as contributions which would make them subject to the same controls as any other contribution. Further, no formal arrangements seem to exist with recipients for the spending of these funds.

Recommendations	Comments of the Office of the Commissioner
4. Payments to third parties for the purposes of funding capital expenditures should be identified as contributions in the Main Estimates.	4. Agreed. Capital projects to be undertaken by third parties will be identified in the Estimates as contributions, effective 1986-87. Contribution payment directives will be submitted to Financial Management Board for approval.

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| <p>5. Arrangements or agreements with recipients of such contributions should be prepared in order to identify terms and conditions governing payments and accountability.</p> | <p>5. Agreed. Letters outlining our arrangements with recipients will be used and will identify terms and conditions and accountability.</p> |
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Contributions to Education Committees. Contributions are regarded as a form of accountable advance under the Government's accounting system. In our review, we noted that Education committees had reported unused portions of contributions paid to them by the Department. Despite this, the Department made the ensuing year's contributions without adjusting for prior year's unused portions, thereby allowing these Committees to accumulate unnecessary funds.

Recommendation

**Comments of the
Office of the Commissioner**

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| <p>6. Ensuing year's contributions to Education Committees should be adjusted for unused portions of prior year's contributions.</p> | <p>6. Agreed. This has been addressed in a Payment Directive approved by the Financial Management Board on November 28, 1984.</p> |
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13. Recoveries under Occupational Training Agreement with Canada

The Northwest Territories has entered into an agreement dated August 27, 1982 with Canada represented by the Canada Employment and Immigration Commission (CEIC) under which CEIC will remunerate the Territories for the provision of courses for adult occupational training. This agreement is in effect until March 31, 1985. Approximately \$3.8 million is estimated to be recoverable by the Territories during 1983-84. Our review of the agreement and related recoveries indicated a number of concerns.

Certification of costs. The agreement with CEIC requires the Territories to submit outstanding statements of cost within an 18 month period from the effective date of the agreement, this being September 1, 1982. CEIC may suspend payments if outstanding cost certifications are not received. Under previous agreements we have noted that the Department has not submitted certified claims since the 1977-78 fiscal year. Although the agreements do not call for adjustments to be made on the payments for programs in retrospect, as confirmed by a legal interpretation, there is a possibility that payments by CEIC could be terminated unless outstanding statements of cost are submitted as soon as possible.

Recommendation

**Comments of the
Office of the Commissioner**

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| <p>1. Outstanding certification of costs should be completed as soon as possible to ensure continued recovery of costs.</p> | <p>1. Agreed. This will be completed by December 31, 1984.</p> |
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Cost recoveries. Amounts are recovered from CEIC monthly and include a per diem based on a negotiated rate multiplied by training days purchased. According to the Agreement, the per diem rates are to be calculated to closely reflect actual costs and include amounts for variable and fixed costs and administrative and institutional overhead costs. As referred to above, there has been no certification of costs for several years. As the agreement focuses on production of actual costs, so that meaningful rates can be negotiated for subsequent years, an independent certification of costs may reveal any miscalculation of per diem rates that may occur. We also noted that remittances from CEIC were not being checked to negotiated course rates or course purchase notices to ensure that amounts received are correctly calculated.

Recommendations	Comments of the Office of the Commissioner
2. The Territorial Audit Bureau should be requested to provide a certification of costs as soon as possible to ensure that rates negotiated cover all recoverable costs per the agreements.	2. Agreed. The Audit Bureau has indicated they will certify costs prior to December 31, 1984.
3. Remittances from CEIC should be checked to ensure that amounts are correct.	3. Agreed. Monthly reconciliations are now being done.

KEEWATIN REGIONAL OFFICE

14. Revenues - Leases

We noted that a Government-owned building in Whale Cove is being operated as a Transient Centre by a private concern. The lease on this building expired in 1980 but has not been renewed. Government employees use this Centre fairly often and are charged \$90.00 per day.

Under the expired lease the Government received a monthly rental of \$200 plus 10% of gross revenues and the operator paid all utilities. The Government now pays the costs of the utilities, which for 1982-83 amounted to approximately \$8,770. Since the lease has not been renewed, the Government is in effect foregoing revenues to which it was entitled under the expired lease.

Recommendation	Comments of the Office of the Commissioner
1. Leases should be kept current so that all rental revenues due to the Government are identified and invoiced.	1. Agreed. Every effort is made to keep leases current. A lease for the Transient Centre is under negotiation with the new operator who is claiming hardship.