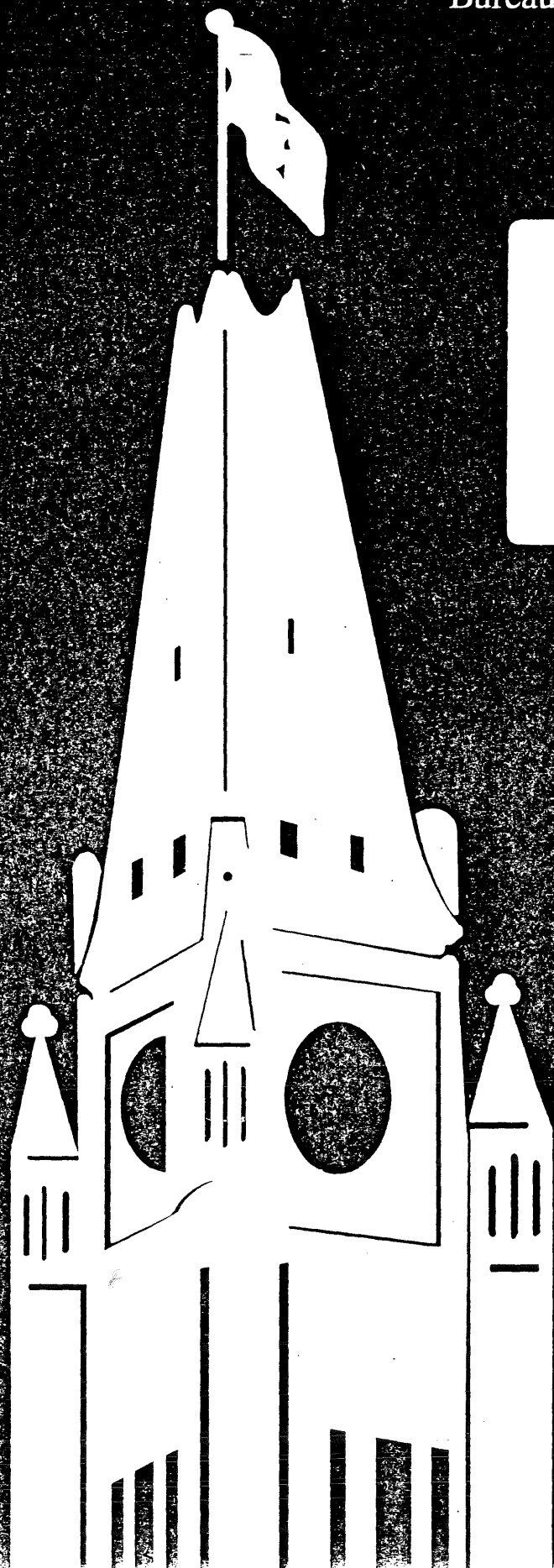


Office of the Auditor General of Canada
Bureau du vérificateur général du Canada



**Report of the Auditor General
to the Northwest Territories
Legislative Assembly**
for the year ended 31 March 1994





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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Ontario
K1A 0G6

28 March 1995

The Honourable Sam Gargan, MLA
Speaker of the Northwest Territories
Legislative Assembly
Legislative Assembly
Yellowknife, NWT

Dear Mr. Gargan:

I herewith transmit my Report to be tabled before the Legislative Assembly in accordance with the provisions of Section 30(2) of the Northwest Territories Act, R.S., c.N-22,s.1.

The report deals with "Other Matters" arising from our audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended 31 March 1994 that, in my opinion should be brought to the attention of the Legislative Assembly. The report also includes our recommendations and related management responses.

Cordially yours,

L. Denis Desautels, FCA

encl.

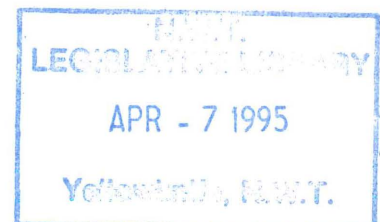


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Introduction

Our Vision

We are committed to making a difference for the people of the Northwest Territories by promoting, in all our work for the Legislative Assembly, answerable, honest and productive government.

Our Mission

The Office of the Auditor General of Canada conducts independent audits and examinations that provide objective information, advice and assurance to the Legislative Assembly. We promote accountability and best practices in government operations.

Our Mandate

In accordance with the *Northwest Territories Act* section 30(1), we audited the accounts and financial transactions of the Government of the Northwest Territories (the Government) to express an opinion on the Government's 1994 consolidated financial statements.

Our audit included reviews of certain operating, legislative and financial control systems and financial management practices, with detailed tests as we consider necessary.

Our audit opinion is included in the Public Accounts, Volume I. The *Auditor's Report* of 31 March 1994 on the consolidated financial statements was qualified for expenditures made in excess of amounts appropriated. Further detail is provided in Chapter 3.2, Compliance with Authority Issues, Overexpenditures.

This *Report of the Auditor General to the NWT Legislative Assembly* is part of our audit. In accordance with the *Northwest Territories Act*, section 30(2), the Auditor General is to report on any "other matter" arising from the audit that he feels should be reported to the Legislative Assembly. Accordingly, this report contains items of concern, our recommendations and management's responses.

This report comments on items that we believe will be of interest to members of the Legislative Assembly, but that are not, individually or collectively, significant enough to require a reservation of opinion in the *Auditor's Report* on the Government's 31 March 1994 financial statements.

We also issued audit opinions on the following government entities:

- in accordance with the *Financial Administration Act (NWT)* Section 99:

Audit	Year-End	Reported to
Arctic College	31 March 1994	Minister
Northwest Territories Power Corporation	31 March 1994	Minister
Northwest Territories Housing Corporation	31 March 1994	Minister
Northwest Territories Development Corporation	See section 2.6	See section 2.6
Northwest Territories Business Credit Corporation	31 March 1994	Minister
Workers' Compensation Board	31 December 1993	Minister

- in accordance with ministerial or Management and Services Board appointments:

Audit	Year-End	Reported to
Northwest Territories Liquor Commission	31 March 1994	Minister
Petroleum Products Revolving Fund	31 March 1994	Minister
Legislative Assembly Retiring Allowance Fund	31 March 1994	Chair, Management and Services Board

Our People

An audit is carried out by many people, with different skills and experiences. It is the sum of these many aspects that allows our Office to make a difference. The team responsible for the audit of the Government of the Northwest Territories includes:

For comments or questions on this report please contact Roger Simpson at (403) 495-2028.

Our Thanks

Management provided full access to all documents, explanations and information requested during our audit. We thank the staff of the Government and its entities for their co-operation.

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Chapter 1

Matters of Special Importance and Interest

1.1 Role of the Auditor General

The Auditor General of Canada's vision, mission and mandate in the Northwest Territories (NWT) is set out in the introduction to this report. The purpose of this report is to provide the Legislative Assembly with information to help fulfil its accountability role.

We comment on current situations to inform the Legislative Assembly and to highlight areas of concern. Our recommendations are forward-looking. We believe that if the Government acts upon the recommendations, it can improve its accountability and reporting to the Legislative Assembly.

This year we have added a "comments" section to some items in this report. The purpose of this section is to add analysis and information that we hope is useful to report readers.

1.1.1 A word about departmental responses

Part of our reporting process includes asking named departments to provide written responses to our recommendations. To facilitate this process, we made two trips, in September and December 1994, to clear facts and orally brief departments on the contents of this report. The Office of the Comptroller General assists us by co-ordinating the written responses. Obtaining written responses for this report has taken some five weeks.

In several cases the responses are long explanations of issues or policies, comments that departments can better make directly to the Public Accounts Committee. Thus, we summarized some of the department's written responses in this report.

1.2 Purpose

In this chapter we discuss issues that we feel are of particular importance to the Legislative Assembly and people of the Northwest Territories.

1.3 Current Economic Situation

The economic situation in Canada and the Northwest Territories is changing. In the past, Canada gave the Government enough money to cover its operating and capital costs. Facing its own economic crisis, Canada increasingly challenges requests for more money.

The North's economy is unique. Vast distances mean high transportation costs. Population growth at rates higher than the rest of Canada means increasing demands for the Government to spend more on programs.

The Government and the Department of Finance know the Formula Financing Agreement with Canada is not keeping up with rising costs. It also admits its own revenue-generating ability is limited. Thus, keeping costs down has been a major focus of the Government, through the Department of the Executive, Financial Management Board Secretariat (FMBS), in recent years. In everyday terms, this means the Government is trying to do more with less.

Even though the Government decentralized operations, consolidated departments and devolved some responsibilities to communities to keep costs down, it still went into a deficit this year. In the future, keeping costs down will mean doing old things in new ways (reform) and balancing what is wanted with what is affordable (setting priorities).

Government policies need to acknowledge fiscal realities and changing circumstances. It is essential that policy makers set priorities to guide the allocation of resources, rather than past spending patterns effectively setting policy. What was a good idea a few years ago

may no longer be practical or necessary today. Chapter 6 highlights one program, Municipal Loans, where changes may help to streamline processes and save cash.

1.4 Information to the Legislative Assembly

The Legislative Assembly needs the right kind of information to make decisions, including what programs to prioritize or reform. Government, through the Department of the Executive, FMBS, must provide accurate information in a timely manner.

We have identified and highlighted a few "Hidden Subsidies" in Chapter 7. These are activities where departments provide benefits to other public agencies or outside organizations. But are members aware of these benefits? Is information on these benefits readily available?

1.5 Results Measurement (Program Evaluation)

The Government must get the best value for each and every dollar it spends. But how does it determine the value it gets? How does it know whether a program achieved what it intended or wanted? One important way to answer these questions is to evaluate programs by measuring the results and comparing these to objectives. Many programs can benefit from results measurement (program evaluation).

In Chapter 5, we look at results measurement of one program, Student Financial Assistance. This report comments on the objectives, results and costs of this program and identifies issues that need to be changed for today and tomorrow's world.

In order to be effective in these tight economic times, program evaluation needs to ask the tough questions necessary to provide adequate decision-making information to departments and Members of the Legislative Assembly.

1.6 Financial Budgeting

In our Canadian system, public money cannot be spent without approval of Parliament, or the Legislative Assembly. The Government has designed the *Financial Administration Act* to provide for the various authorities necessary. Departments submit their budgets to the Legislative Assembly based on the Government's stated accounting policy, accrual accounting. Accrual accounting recognizes an expenditure when incurred, even though the bill may come in later. Yet some significant, although unusual transactions are not included in the budget process. For example, employee leave and termination benefits are a contractual obligation of the Government. The budget for these costs should include the best estimate of the Government's future payments based on employees' service in the current year.

The fiscal year 1993-94 is a case in point. The Government recorded a \$54 million deficit on a consolidated basis, much of which was due to allowances for bad debts or to accruals for financial obligations that will not be paid until some time in the future. In Chapter 4 we explain this in greater detail.

1.7 Overall Conclusion

Budgets and financial reports should serve the interests of the members of the Legislative Assembly. Key questions need to be posed to members to see if they are getting enough information, in the right format, to make decisions. As we point out in this report, and have mentioned previously, some important information is provided at the end, rather than the start of decision processes and others are provided in a piecemeal fashion that makes them less useful than they might be.

Chapter 2

Financial Statement Issues

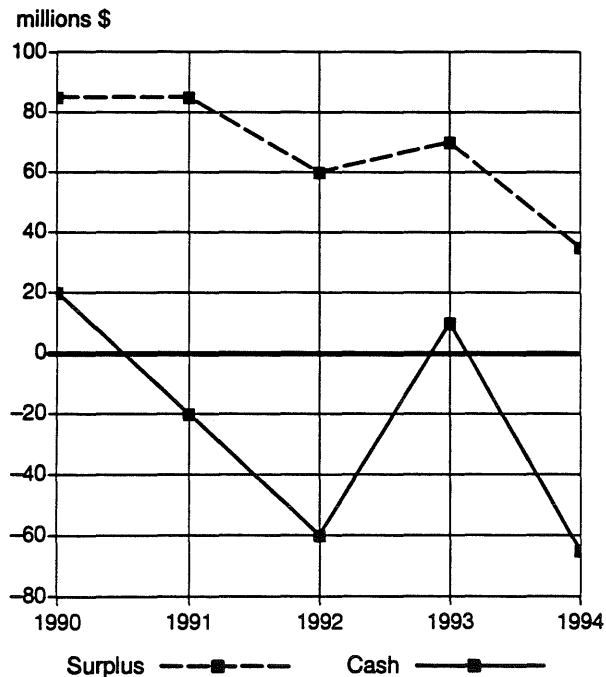
2.1 Purpose

In this chapter we comment on issues arising from the consolidated and non-consolidated financial statements of the Government.

2.2 Government's Financial Position

Financial statements provide a measure of how the Government is doing. While all the information in the statements is helpful, questions relating to the liquidity and debt condition of the Government are increasingly crucial. The graph below shows the trend of the Government's net cash and surplus balances on 31 March for the current and past four years.

**Net Cash and Surplus
(non-consolidated)
5-Year History**



2.3 Net Cash (Net Borrowing) Position

The Government's 31 March net cash balance has been negative for three of the last four years. To cover this negative balance the Government needs to borrow.

After an improved cash position at 31 March 1993, the Government's net borrowing position at 31 March 1994 deteriorated to 1992 net borrowing levels. The financial statements include a *Statement of Changes in Financial Position* that helps to explain the \$56 million decrease in cash (or increase in borrowing) since 31 March 1993.

It is important to recognize that the financial statements reflect cash/borrowing positions annually at 31 March. It is, however, just as important to monitor the cash/borrowing positions throughout the year. In testimony before the Standing Committee on Public Accounts (PAC) in June 1994, officials of the Department of Finance presented a forecast of the Government's 1994-95 cash/borrowing position. This forecast showed a continuing deterioration in the cash position throughout 1994-95.

Revenue and expenditure transactions are a major component affecting Government cash balances. As explained in the *1992-93 Report of the Auditor General to the NWT Legislative Assembly*, transactions other than revenue and expenditures also affect cash balances. The table on the following page highlights how 1993-94 transactions affected the Government's cash balance.

While all cash receipts and payments affect the cash balances on a given day, the two following transactions had a significant impact on the Government's 1993-94 cash balances:

2.3.1 Grant from Canada

Canada gives a grant to the Government based on a complex Formula Financing Agreement, administered by the Department of Finance. Details of how much the Government is entitled to cannot be determined until

Significant transactions affecting cash, for the year ended 31 March 1994 (non-consolidated)	(\$ thousands)	
	Increases Cash:	Decreases Cash:
1993-94 expenditures more than revenues		(3,719)
Paying bills earlier than last year		(2,206)
Taking longer to collect revenue		
• grant from Canada (further detail in 2.3.1)		(11,694)
• other revenue		(5,503)
Refunding excess grant instalments from prior years (further detail in 2.3.1)		(57,971)
Collecting two years of revenue in one year		
• Indian and Inuit hospital care (further detail in 2.3.2)	19,899	
Giving loans to agencies and municipalities		(42,671)
Receiving payments on loans to agencies and municipalities	52,937	
Other transactions		(5,321)
Net decrease in cash in 1993-94		(56,249)

after the end of the relevant fiscal year. Thus, Canada estimates the grant at the beginning of the year and pays the Government monthly instalments based on the estimate. After the year-end, Finance determines the actual grant entitlement based on final year-end results. The difference between instalments received and the grant entitlement results in a balance owing to either the Government or Canada at each year-end. The grant shown as revenue in the financial statements is the final grant entitlement.

Last year, we noted Canada paid \$48 million too much in 1992-93 and \$10 million too much in prior years. We indicated repayment of this excess would result in a significant decrease in 1993-94 cash balances. Note 3 to the Government's consolidated financial statements shows the Government repaid this \$58 million. In addition, in 1993-94 Canada's instalments were \$12 million less than the Government's final grant entitlement. This balance of \$12 million, due from Canada to the Government, was shown on the balance sheet at 31 March 1994 as receivable.

2.3.2 Indian and Inuit Hospital Care

Canada is responsible for Indian and Inuit hospital care. The Department of Health pays the bills for all hospital care in the NWT and recovers from Canada the costs for Indians and Inuit. The Department calculates the amounts it can recover from Canada based on a very

brief agreement. Canada disputes the calculation method. In everyday terms, the Government is paying out more than it is getting back.

The last three *Reports of the Auditor General to the NWT Legislative Assembly* discuss this dispute between the Government and Canada. Note 3 to the 31 March 1994 consolidated financial statements describes the situation and the potential financial impact on the Government. The dispute and related Federal Court of Canada litigation continues. The resolution of this dispute is not predictable.

In 1993-94, cash increased by \$19.9 million when the Government collected some of both 1992-93 and 1993-94 hospital care recoveries from Canada. But at 31 March 1994 \$121 million claimed by the Government is in dispute and had not been paid by Canada.

Delays in collecting these disputed costs are seriously affecting the Government's cash balances. Payments from Canada on resolution of this dispute would increase the Government's cash.

2.4 Surpluses

Over the past five years the cost of Government programs has increased dramatically, but revenue has not increased at the same rate. The diagram below shows that expenditures increased 24.5 percent from 1990 to 1994. During the same time period, revenues increased 22.6 percent. This shortfall caused the Government's surplus to fall 62.8 percent from approximately \$86 million in 1990 to \$32 million in 1994. This past year alone accounted for almost half of the decrease in the accumulated surplus.

The Government originally projected a balanced budget for 1993-94, but did not achieve this primarily because expenditures were \$56 million more than originally budgeted. Increased revenues of \$21 million partially offset the increase in expenditures.

The Government has two options available for dealing with the problem of declining surplus balances. The first option involves controlling program expenditures where possible. For example, Student Financial Assistance is an eligibility-based program where increasing demand is not controllable under the existing rules. The Department of Education, Culture and Employment can not refuse funding to any person who meets the basic eligibility standard. Chapter 5 of this report discusses Student Financial Assistance further.

The second option involves increasing revenues. The Government has noted that its ability to raise additional revenue is limited because Canada, which supplies approximately 82 percent of the Government's revenue, is reducing spending at all levels.

Settlement of outstanding disputes may also affect current and future surpluses. For example, settlement of the Indian and Inuit hospital care dispute could either increase or decrease current surpluses. But more importantly, since every year the Government is paying out more than it is getting back, settlement could also affect future year's surpluses.

The Government must address the problem of operating deficits. If unsuccessful, the Government will have to rely on deficit financing (more borrowing), which would mean increases in interest costs.

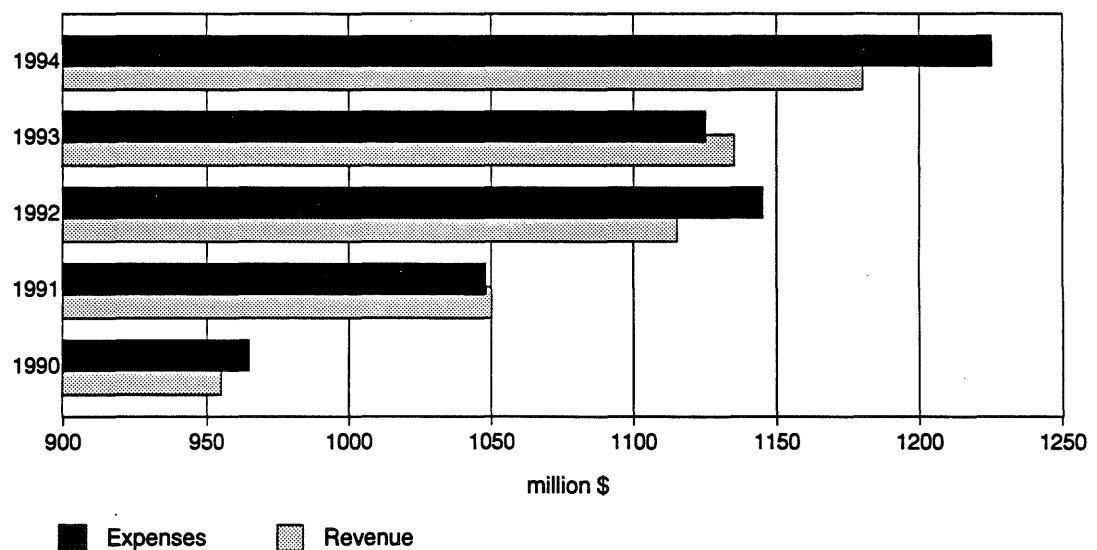
2.5 Contingencies

Contingencies are claims on the Government that may become actual costs if certain things happen. If or when settled, contingencies can affect the Government's cash and surplus balances. Two significant contingencies are:

2.5.1 Pay Equity

The dispute between the Government and its union over pay equity continues. Note 16(b) to the Government's

**Revenue and Expenses
(non-consolidated)**



consolidated financial statements discusses the current situation.

To date, the Government, through the Department of the Executive, FMBS, has not recorded any pay equity liabilities. The impact on the Government's cash and surplus position could be significant. From the perspective of Government finances, in a best-case scenario, there would be no impact; in a worst-case scenario the Government could pay millions of dollars to settle the issue. Anything other than the best-case scenario would decrease the Government's cash and surplus balances by the amount of the settlement.

2.5.2 Environmental Liabilities

Growing public concern is demanding environmental accountability. Nowhere is this more true than in the North.

Financial statements provide information on the Government's financial position and operations. To be complete, financial statements should account for known or reasonably anticipated costs of cleaning up the environment. Accounting for environmental costs means recognizing, measuring and reporting environmental risks and costs associated with the Government's operations. However, accounting for environmental liabilities is still an evolving area.

Note 16(c) to the consolidated financial statements recognizes the Government has a liability for future environmental clean-up costs associated with its operations. To date, the Department of the Executive, FMBS, has not recorded any environmental liabilities. However, the Department plans to identify, measure and report these costs in the 31 March 1995 financial statements. Recognizing and recording these costs will reduce the Government's surplus balance.

The Department set up an environmental committee to prepare for 1995 environmental financial statement reporting. To date, this committee has neither terms of reference nor guidelines to assist in making decisions on what or how to report environmental costs in the financial statements.

Recommendation:

With only a few months until the 1994-95 year-end, the Department needs to better prepare for 1995 reporting. The environmental committee should, as soon as possible, set out terms of reference, establish decision-making guidelines, and start making financial statement reporting decisions.

Executive, FMBS Response:

The issue of environmental reporting is a complex accounting issue. The committee will work towards establishing financial reporting standards.

2.6 Timely Reporting to the Legislative Assembly

The ability to generate relevant and reliable financial information in a timely manner is a basic element of good financial management. Timely financial information is an integral part of the decision-making process. Timely financial information allows readers to identify and analyze any variances from financial plans and to take corrective action.

Over the past several years, the Department of the Executive, FMBS, has made an effort to provide the consolidated financial statements to the Legislative Assembly on a timely basis. But at the same time, the creation of new Government corporations complicates matters.

The Government's accounting policies require that it include (consolidate) its corporations' financial statements in its own. The NWT Development Corporation (DevCorp) must consolidate its own financial statements with those of its subsidiaries before providing results for the Government's statements. To do this, DevCorp must first have financial statements for all its subsidiaries completed and audited.

All of these complexities have put a great strain on completing the Government's own financial statements in a more timely manner.

Section 100 of the *Financial Administration Act* requires DevCorp to submit its annual report, including audited financial statements, to the appropriate Minister not later than 90 days after year-end. DevCorp may request an additional period of 60 days from the Minister of Finance. DevCorp has not complied with the FAA in any of the last three years.

DevCorp's 31 March 1992 and 31 March 1993 consolidated financial statements were only recently completed and audited. On 29 November 1994, the Auditor General's Office received from DevCorp the information required to begin the 31 March 1994 audit. Without DevCorp's consolidated financial statements, the Government cannot adequately prepare its own consolidated financial statements.

The delays in preparation of financial statements for both DevCorp and, subsequently, the Government are costly. The Legislative Assembly should encourage compliance with the FAA if it wants timely financial reporting from the Government and other public entities. Government corporations need to be held accountable for the responsibilities given to them.

2.7 Financial Reporting

The Government has chosen as its accounting policies, the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants (PSAAB). The Government complies with these recommendations wherever appropriate. In 1986, PSAAB released Accounting Statement 3, General Standards of Financial Statement Presentation for Governments. Two recommendations from this statement remain to be followed:

- a comparison of actual results with the Government's original budget; and
- disclosure of the Government's physical assets on hand and available for use.

We recognize that the Government needs time and systems to develop appropriate disclosure. Yet we are concerned, that since the release of these recommendations eight years ago, these disclosures have not been made.

2.7.1 Comparison of Actual Results to Budget

The Government's consolidated financial statements are an excellent source of information to compare actual spending to the spending proposed at budget time. But, in order to provide the necessary accountability, the financial statements and budgets should be on the same basis. The PSAAB recommendations require the Government to include consolidated budget information in the consolidated financial statements.

Recommendation:

The Department of the Executive, FMBS, should prepare and include a consolidated budget in the consolidated financial statements. This consolidated budget would provide a comparison of the original approved entity budgets to the actual consolidated results of the Government.

Executive, FMBS Summary Response:

FMBS will investigate the availability of approved operating and capital budgets for each of the entities included in the consolidated financial statements. If available, FMBS will determine the feasibility of consolidating these budgets with the Government's Main Estimates and Capital Estimates. If meaningful budget information is not available for all consolidated entities, PSAAB Accounting Statement 4 permits the use of non-consolidated budget information. In this event, FMBS will include the GNWT non-consolidated summary schedules of revenue and expenditures with comparative budget amounts in the 1994-95 consolidated financial statements.

2.7.2 Reporting Physical Assets

PSAAB Accounting Statement 3 recommends showing the physical assets used by the Government (land, buildings, furniture and equipment) in the notes or schedules to the financial statements. There is currently no need to show these items on the balance sheet.

Reporting such information would show that the Government has invested in physical assets with a future value. Having information on physical assets available for future use can help when making decisions, such as whether to rent or to build office space. The Government can also use the information to assess asset management and to amortize the cost of assets over their lifetime in order to get a better picture of the true cost of programs.

Current PSAAB developments on capital asset accounting principles may have a significant impact on Government financial accounting and reporting. These principles are for federal, provincial and territorial governments. They uphold the recommendations in Accounting Statement 3 and are suggesting further reporting of public works or infrastructure as assets. The most significant impact on the Government of these

new developments is the proposal to change the focus of financial reporting *and budgeting* from an expenditures basis to a cost of operations basis.

Recommendation:

The Department of the Executive, FMBS, should develop systems to gather the information needed to report physical assets in compliance with PSAAB recommendations.

Executive, FMBS Response:

During 1995-96, FMBS will begin the work towards the development of a system for recording and reporting the cost and undepreciated cost of physical assets.

Chapter 3

Compliance with Authority Issues

3.1 Purpose

Our audit opinion on the Government's financial statements includes an opinion on whether the Government complies with all significant authorities. Our opinion is limited to the transactions that came to our notice during the audit. We report to the Legislative Assembly the following two areas of non-compliance with the authorities.

3.2 Overexpenditures

The *Financial Administration Act* (FAA) section 32 states "no person shall incur an expenditure that causes the amount of the item set out in the Estimates on which the appropriation is based to be exceeded."

To violate section 32, a department must have overspent its operations and maintenance or capital appropriations. In 1993-94, four departments exceeded their operations and maintenance appropriations, as shown below.

Departmental Overexpenditures

Department	Overexpenditure (\$ thousand)
Executive, FMBS Adjustment of Ultimate Removal Liability	1,748 13,839
Finance	1,725
Health	5,398
Education, Culture and Employment	942
Total	23,652

The overexpenditures of the Executive, Finance and Health departments arose from year-end adjustments

made by the Comptroller General. The ultimate removal liability overexpenditure arose due to the Government changing its estimate of the cost of moving people back to where they lived when first hired. These are costs employees are eligible for under the union agreement.

FAA sections 36 and 37 allow the Comptroller General to make year-end adjustments to ensure that the Government's financial statements are accurate. Departmental managers, however, still need to ensure that actual expenditures, including any year-end adjustments, do not exceed their appropriations.

3.3 Signing Authorities

During our audit we observed many cheques, dated as late as 22 April 1994, drawn on bank accounts in Rankin Inlet, Inuvik, and Yellowknife that were signed by the former Comptroller General. The current Comptroller General was appointed 17 May 1993.

Recommendation:

The Government and the Comptroller General should, immediately upon a change in the responsible officer, update all cheque signing plates and inform the appropriate financial institutions of such changes.

Office of the Comptroller General's Summary Response:

We agree that when signing authorities change we should change the respective cheque signing plates immediately. The process for changing the authorities was not the issue. The delay in changing the signing authorities resulted from the review of authorities and accountabilities as a result of the re-organization.

Chapter 4

Audit Observations

4.1 Purpose

In this chapter, we discuss various items of concern arising from our audit. Specifically, we would like to make the Legislative Assembly aware of these items and make recommendations to assist Government in making future decisions.

4.2 Information Technology

Timely and accurate information is essential to government, and information technology is a vital tool for providing it. Innovative and cost-effective use of new information technology can help the Government improve the quality of service when providing information to management and the Legislative Assembly. These qualities apply to all information systems, including financial and results measurement systems.

The Government currently spends over \$12.5 million a year on information technology equipment, people and services. The Government has over 120 information systems in use or under development. These information systems vary in size, complexity and number of users.

The largest Government financial system is the Financial Information System (FIS). This system provides financial information on departments and programs, obtaining some information from the smaller systems. FIS is over 12 years old, and many changes must be made annually to meet users ever-changing needs.

4.2.1 The Need for New Information Technology

The current challenge is to improve or replace an aging FIS and other financial systems to meet the Government's current and future financial information needs. NWT's division into two territories by 1999 adds further incentive to this need. The two new territories can either inherit aged, technically obsolete financial information systems or can start fresh with new, state-of-the-art systems. As the Government is possibly unwilling to change their financial information systems and commit Nunavut to something it may not want, this subject may be open for negotiation.

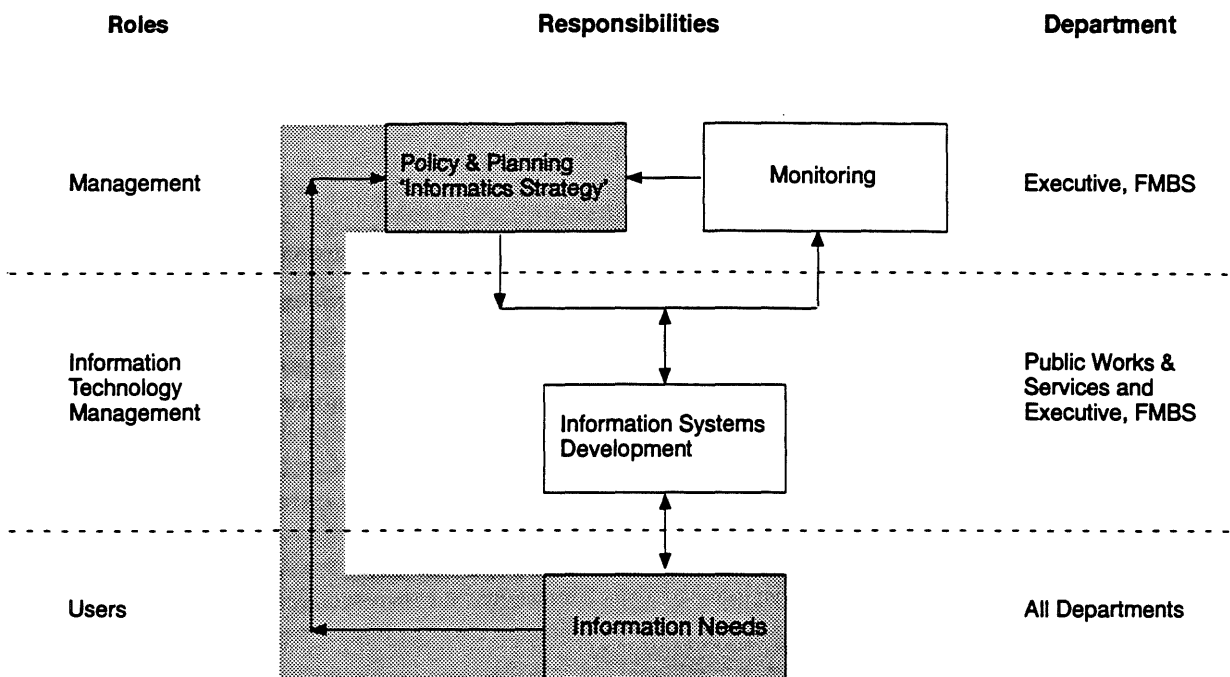
The Government will need to make a decision soon either to maintain the existing financial information systems or develop new ones. The process to develop an information system is long and complex. In other jurisdictions, systems have taken three to ten years from project planning to final implementation. In addition, information needs change and technological advances continue throughout the entire process. The development process must be flexible to handle changes as they occur.

4.2.2 Information Systems Development

Whether the Government decides to replace systems now or later, it is important to develop systems right the first time. The Government needs to keep costs, risks and problems to a minimum. Private and public sector experience in developing systems consistently shows that ongoing commitment and attention by senior management are essential. In addition, money and people need to be available to get the job done on time.

The Canadian Institute of Chartered Accountants (CICA) has guidelines to assist organizations in developing systems. The following table summarizes the CICA guidelines.

Information Systems Development Process



Source: CICA Computer Control Guidelines

The Government, through the Department of the Executive, FMBS, has taken the first step in this process, shown in the shaded area in the table, with its approval of an "Informatics Strategy" in September 1994. The Strategy is the Government's plan to identify current and future information needs and to provide guidelines for system development. The next step is for the Government to follow-through on the strategy initiatives and then to start the actual systems development. The development process requires, at all stages, management, skilled technician and user involvement.

4.2.3 Comment

Large-scale systems development need significant amounts of time, money and people effort. In times of financial restraint, the Government's challenge is to use

its resources wisely to complete new systems on time and within budget.

4.3 Expenditures Recorded at Year-End

In recent years, expenditures recorded at year-end have caused departments to have overexpenditures. Our comments are meant to provide a better understanding of the Government's accounting policies. Our recommendations should help departments stay within their appropriations and show their financial results fairly and accurately.

4.3.1 Government Expenditure Accounting Policy

The Government, through the Comptroller General's Office, outlines its accounting policy for recording expenditures in Note 2(i) to the consolidated financial statements. The accounting policy requires recording

“operations, maintenance and capital expenditures on an accrual basis.” This means that Departments should record expenditures in the financial statements when incurred, regardless of the payment date or the year the Legislative Assembly appropriates the expenditure. When payments are made in advance, they are prepaid expenses. When expenditures are incurred but not yet paid, they are accrued expenses.

On the revenue side, the Government also records most revenues when they are earned, not when they are received. This often creates accounts receivable at the year-end, and these are shown on the balance sheet. Yet the book value of accounts receivable is not always the real value. If the real value is less than book value, the difference becomes an allowance for doubtful accounts that is shown as an expenditure and is charged against the appropriate department’s budget. An example is the allowance made against the Department of Health’s claim for recovery of Indian and Inuit hospital care costs.

4.3.2 Basic Accounting Principles

The accounting profession recognizes certain accounting principles to record and report financial information. The Comptroller General uses these accounting principles when preparing the financial statements. Two important accounting principles are objectivity and caution.

Objectivity means the Government tries to record all amounts based on actual costs rather than estimates. However, on occasion, the Government may need to record valuation allowances on disputed revenue or expenditure transactions based on estimates.

Caution means the Government uses care and good judgement primarily not to overstate, but also not to understate the Government’s financial affairs. Often the Government can not finalize its accounting entries until after the year-end, when more information is available.

The Government uses these principles in the following example.

Canada is disputing the Department of Health claims for Indian and Inuit hospital care. The Department considers the full amount of its claim, based on objective values, to be due and payable by Canada. Nonetheless, the Department is being cautious by not recording some amounts as revenue and estimating a valuation allowance on other amounts recorded as revenue. (From Note 3 to the consolidated financial statements.)

4.3.3 Budgets and Appropriations

The budgets, Main Estimates and Capital Estimates, represent the Government’s annual plan of action. They project all expenditures to be incurred and all revenues to be earned. The Government presents the budgets to the Legislative Assembly for approval. Once approved, the budgeted expenditures are called appropriations.

An appropriation is the amount of money that the Legislative Assembly authorizes a department to spend. In the past, appropriations were closely linked to expected cash payments. In recent years, appropriations are more closely linked to the accrual basis. However, the Government does not present to the Legislative Assembly some significant, although unusual, accrued items and costs attributable to doubtful accounts or other asset write-offs through the budget process. Thus they are not appropriated until after the year-end.

The Legislative Assembly may not be aware of such an item’s effect on the annual deficit until tabling of the Public Accounts. By this time the events giving rise to these expenditures is long past.

Following are some departments that had overexpenditures because known items were not appropriated before year-end.

Department	Cause of Overexpenditure	Year	Overexpenditure (\$ thousand)
FMBS (formerly Personnel)	Year-end estimate and accrual of leave and termination benefits	1993-94	1,748
		1992-93	683
Finance	Loan with concessionary terms recorded at realizable value (discounted)	1993-94	1,725
Health	Valuation allowance for Indian and Inuit hospital care dispute	1993-94	5,398
		1992-93	75
		1991-92	11,312
Justice	Year end accrual of disputed expenditures	1992-93	146
Economic Development and Tourism	Accrual of disputed litigation action settled after year-end	1992-93	174

In order to provide the necessary accountability, the financial statements and budgets should be prepared on the same basis. Changing the budget process to include these items in the appropriations would put the budget on the same basis as the financial statements.

The Government incurs costs by not appropriating such items in the budget process. The Comptroller General and the Auditor General must report overexpenditures to the Legislative Assembly. Accountable departmental officers must appear as witnesses before the Standing Committee on Public Accounts to explain their overexpenditures.

Recommendation:

The Department of the Executive, FMBS, should prepare the budget and supplementary appropriation requests using the same accounting policies as the reporting process. The budget should include appropriations for all known and estimated accrued items or costs attributable to doubtful accounts or other asset write-offs.

Executive, FMBS Summary Response:

The Government uses the accrual basis to prepare its budget. The Government uses non-appropriated reserves when departments cannot adequately estimate and substantiate known budgetary requirements to justify their inclusion in a voted appropriation. The Government prefers the use of reserves over voting appropriations for contingencies. As information systems, evaluation capabilities and forecasting methods improve, the use of reserves will decline.

4.3.4 Changes to Appropriations

In the past two years, we noted the following cases where communities started work on Government-funded capital projects in the year prior to Legislative Assembly approval of the projects. This means expenditures incurred do not have an appropriation. We discussed in the *1992-93 Report of the Auditor General to the NWT Legislative Assembly*, Chapter 3, the Government's need to apply judgment when recording community capital project costs in its financial statements.

In 1992-93, five tax-based communities started capital projects. The Legislative Assembly approved funding of these projects for 1993-94, through the Department of Municipal and Community Affairs. The Comptroller General applied judgment and the caution principle to record the expenditures as incurred.

In 1993-94, a hamlet started a community capital project. The Legislative Assembly approved funding of this project for 1994-95. The Department applied the caution principle to record the expenditure as incurred.

The Legislative Assembly approves the Government budgets using appropriation acts. These appropriations approve the Government's original annual plan of action. During the year, the Government's plan may change as circumstances change. To deal with these changes the FAA provides many options:

- supplementary appropriations, FAA section 29;

- transfers between department activities, FAA section 32.1;
- special warrants, FAA section 33;
- multi-year contracts, FAA section 44(2); and
- emergencies or protection of public property, FAA section 45(2).

But the above examples do not fit easily into the Government's approval process or its accounting philosophy. No expenditure can be incurred unless it is first approved by the Legislative Assembly. This includes any person giving "comfort" to a community to go ahead with a project on the understanding that funding will be provided in a later year.

Yet in the above cases such comfort has been given which means that the Government is committed to the costs and the Comptroller General has no option but to book the liability. There appears to be no easy way out of this difficulty unless changes are made to the *Financial Administration Act*.

Recommendations:

1. *Ministers or other Government officials should commit the Government only to projects and expenditures already approved by the Legislative Assembly.*
2. *Departments should make changes to appropriations only as allowed by the FAA.*

Executive, FMBS Response

The Government agrees with this recommendation but notes that because of its commitment to open government, departments disclose many plans and projects in advance to communities through consultative mechanisms. No matter how well qualified these consultations are, expectations are raised and communities may, as independent entities, take some action in anticipation of Legislative Assembly approval. Provided the Government does not encourage or in any way sanction these plans and projects, then the Government recognizes no liability. However, MACA is considering means to avoid situations where independent action could lead the community into significant financial difficulty.

4.3.5 Responsibility for Recording Year-end Expenditures

Departments must record all their costs in the year they are incurred. This also includes, under FAA section 35, identifying and recording any expenditures incurred but not booked before the year-end, plus any other necessary accounting adjustments, such as allowances for bad debts.

FAA section 32 stipulates that total expenditures incurred (whether they are booked normally, or as year-end adjustments) must not exceed the department's appropriation.

The caution principle applies to all departments. It is the Comptroller General's responsibility under FAA sections 36 and 37 to make sure they do. This gives the Comptroller General the authority to book items incurred that have not been recorded by departments, even when this causes an appropriation to be exceeded.

Some examples of the Comptroller General exercising this responsibility include:

Example (Department)	Reason
Indian and Inuit hospital care revenue and receivable valuation (Health)	Canada disputing hospital care claims
Municipal loan receivable valuation (Finance)	Loan with concessionary terms
Transport Canada account receivable valuation (Transportation)	Canada disputing cost overrun on airport construction
RCMP extra billing for strike-force costs (Justice)	Government disputing extra costs

Recommendations:

1. *Departments should record all expenditures on an accrual basis, as required by Government accounting policies.*
2. *Departments should review accounts receivable, inventory and long-term loan receivable valuations. Where necessary, the Departments should record valuation allowances.*

Office of the Comptroller General's Response:

My office has advised all Departments of these recommendations. Departments acknowledge their

value and will adhere to these recommendations. The FMBS staff are continuing to work with departments, regarding financial reporting issues.

Recommendation:

The Comptroller General should continue to identify and record any expenditures and valuation allowances he considers necessary, even if the Departments have not so provided.

Office of the Comptroller General's Response:

Agreed. My office consults with departments when preparing adjustments and allowances. Consultation usually results in a mutually acceptable solution. My Office will continue to identify and record any expenditures and valuation allowances considered necessary for the fair reporting of economic transactions if Departments have not provided for them in their accruals and adjustments.

4.4 Judges' Pension Plan

On 1 February 1994, the Territorial Court Judges' Registered Pension Plan (the Plan), set up by *Territorial Court Act* Regulations, came into force. The Plan is a fully funded, non-contributory defined benefit pension plan. This plan was set-up to recognize the independence of the judges and is separate from the rest of the public service pension plans. Currently, the only members of the plan are five territorial court judges.

The Department of Justice (Justice) administers and pays the costs related to the Plan. Justice paid direct pension consultation costs in excess of \$85,000 to set up the Plan. Estimates of annual direct costs to administer the plan are:

Actuary	\$ 5,000
Custodian	3,600
Investment Manager	<u>5,900</u>

\$14,500

or \$2,900 per plan member

These direct costs do not include the judges' pension benefits nor department administration, audit or other indirect costs. The total costs of administering the Plan are high for so few plan members.

Recommendation:

When the Government sets up other new pension and other complex benefit plans, it should find the most cost-effective way to administer the new plans within available alternatives.

Justice Summary Response:

The Government agrees that pension and benefit plans should be cost effectively administered and will take this fully into account. The Judges' Pension Plan is 'fully funded' up to the limits allowed in a registered plan. The limitations allowed in a registered plan created a complication in setting up this Plan which contributed to the high consultation costs.

There are only five judges on the Territorial Court Bench. The plan was not established to include individuals other than territorial court judges. It appears that the issue of independence of the judiciary was also a significant factor in the decision to create a separate plan for the territorial court judges.

Chapter 5

Student Financial Assistance

5.1 Purpose

In this chapter, we discuss the Student Financial Assistance program, including the cost impacts of the growing demand for student financial assistance, the need for clear program objectives and more effective results measurement. The chapter continues our theme of previous years' observations about the need for all departments and agencies to have clearer objectives and improved results definition and measurement.

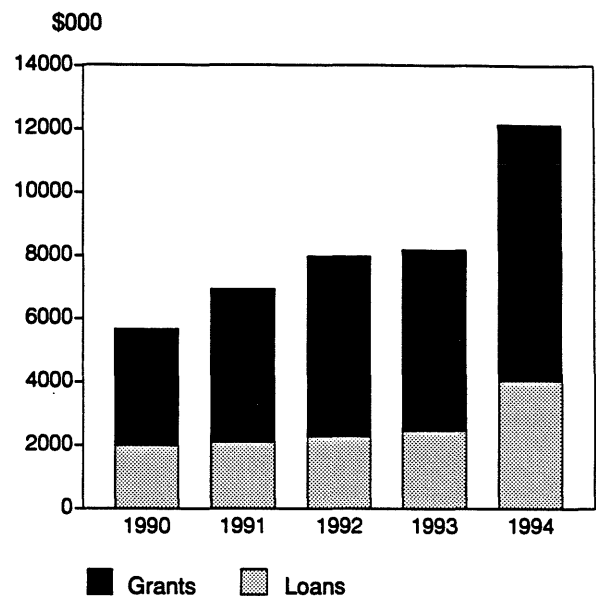
5.2 Introduction

The Department of Education, Culture and Employment, through the Student Financial Assistance program, provides income support to NWT post-secondary students mainly through loans and grants. The students go to Arctic College or to institutions inside and outside the NWT to study adult upgrading, certificate, diploma and university degree programs. Correspondence students also receive financial assistance.

Over the last five years, the Department's payments to students for student financial assistance has soared. In 1993-94, combined loans and grants to students exceeded \$12 million; about \$8.1 million of this was for grants. For the last four years, twice as much in grants have been given as loans.

The increase in the demand for grants is shown by 1993-94 results. The Department budgeted \$6,286,000 for grants and gave out \$8,123,000. This caused an overexpenditure, prior to supplementary appropriations, of about \$1.8 million, almost 23 percent more than originally budgeted.

Student Financial Assistance
- Loans and Grants
5-Year History



The Student Financial Assistance program gives grants and loans as allowed by the *Student Financial Assistance Act* and regulations. Tuition, books and living allowance rates are paid up to a maximum amount. Travel is funded at cost.

5.3 Recent Trends

There are some noteworthy trends in NWT education: both high school enrolment and numbers of graduates are increasing. During the four years between 1990-91 and 1993-94, the number of students going to high school increased by 1,225 students (77 per cent). The number of students graduating from high school is also growing, although at a slower rate.

Senior High Enrolment and Grade 12 Graduation 4-Year History

	1990-91	1991-92	1992-93	1993-94
High School Enrolment	1,589	2,018	2,409	2,814
High School Graduates	203	221	254	261

Source: NWT Statistics Quarterly

This rise in high school enrolment and graduation is more apparent when looking at the overall education levels of all Northerners. Today, a higher percentage of the NWT population has a high school diploma or a university degree.

Education Profile Of NWT Residents (whether educated in the NWT or not)

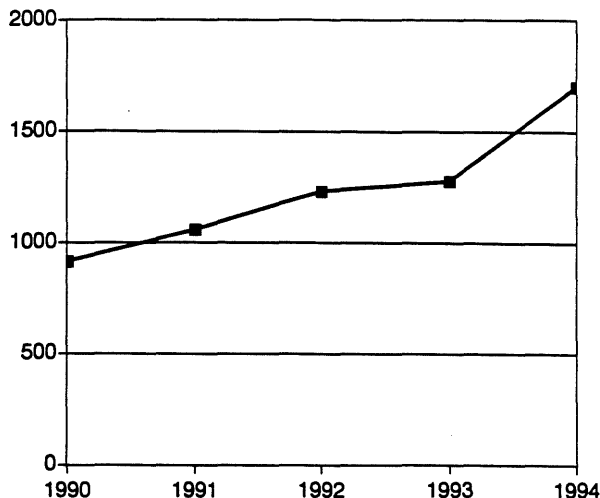
	1986	1991	1994
	(Percentage)		
No Diploma			
Less than Grade 9	33	27	26
Grade 9 to 11	23	19	19
	56	46	45
Diploma or Degree			
High School Diploma	13	14	15
Other Certificate or Diploma	23	30	28
University Degree	8	10	12
	44	54	55
Total	100	100	100

Source: NWT Statistics

One consequence of the growth in high school graduation is that more students are enrolling in post-secondary courses and are eligible for financial assistance. The increased demand has led to significant annual growth of financial assistance to students. Another encouraging trend is the increase in post-secondary enrolment of aboriginal students.

Recipients of grants and loans for the five years 1990 to 1994 follow.

Students Receiving Assistance



Source: GNWT Statistics Quarterly; 1994 Figures from SMART Report

Status of 1993-1994 Students

Aboriginal	
Dene	332
Inuit	462
Metis	164
	958
Non-aboriginal	744
Total	1,702

5.3.1 Comments

All Governments face great challenges constantly, including the present day one of reduced spending options as resources shrink, particularly where the public is reluctant to pay more in taxes and fees.

This Government has the challenge of allocating scarce resources to its departments where the demand for services exceeds the supply of money. The Legislative Assembly makes resource allocation decisions based on its priorities and the available funding.

In the case of student education, future demands for financial assistance could be greater than the resources

available. This puts a challenge on the Department to use innovative ways to continue the encouraging trends.

We start from the premise that any learning is beneficial. Most people continue to learn throughout their entire lives. The issue is whether public funding should be used to pay for all learning at the discretion of the student, particularly when the money is tight and communities have specific needs. This question is being debated across Canada as governments face spending cuts. Should governments fund education in subjects that will not add to an individual's job prospects?

In the face of these current and future challenges, tough decisions will be needed. But these tough decisions are no different than others in that decision makers need good information to help the process along. In particular they need current, accurate information on what the program has set out to do, what it is achieving, and what are the costs of the achievement.

If adequate information is available, decision makers are better equipped to face the challenges.

5.4 The Case for Clearly Defined Program Objectives and Results Measurement

Allocating resources for public services is only part of the issue. Making sure that the right things are done and that people are held accountable for what they do, closes the loop. In simple terms the responsibilities are broken down as follows:

- The people elect Members of the Legislative Assembly (MLAs) to represent them.
- MLAs make policy decisions and pass legislation setting high-level objectives for program delivery. The MLAs also collectively allocate resources to programs.
- Ministers and their departments deliver services to carry out the policies. They need to have more detailed statements of what they are aiming to achieve and how they will measure both activities and achievements. Part of their responsibilities involve accounting for the money spent and the results obtained.

In this chapter we comment on one program of the Department of Education, Culture and Employment. This program is part of a bigger picture comprising all the department's policies and objectives.

Thus, student education objectives and results should blend into those of the Department, but should also be separately set, measured and accounted for. The Department's high-level objective is that "people of the NWT have access to learning opportunities for continued personal development..." and that they "...acquire the knowledge and skills to make informed choices, resulting in productive lives and contributing to a strong and prosperous society." The Student Financial Assistance program is part of the tool box of the Department to make the high-level objectives work.

The program itself should have clear objectives setting out for management what they can target and support. This must be the starting point to justify spending and provide for results and accountability. These objectives should change when circumstances change. Changing circumstances might include reduced funding or recognition that highly educated people, unemployed or working below their capabilities, can be just as frustrated as those with lesser education.

But high-level departmental policies have multi-year time horizons and are not easily measurable. It is difficult to tell how well a department's goal is achieved or if a specific program is working.

For a department to manage scarce resources well and adequately tell MLAs how well programs are working, they need to expand the high-level policies to:

- set specific measurable objectives for all programs;
- identify results, achievements or consequences from programs;
- identify key program achievement indicators to be measured;
- specify how the key program achievement indicators are to be measured;
- measure the results regularly, on an annual or other reasonable basis and
- compare the results measured to the original objectives.

When setting these narrower program objectives, management must remember that programs exist to meet high-level legislative policies, which in turn exist to meet the needs of the people.

5.5 Program Objectives

The Department has recently completed “A Strategy To 2010” which outlines how it intends to develop learning programs and deliver services into the 21st century. We reviewed the Student Financial Assistance program to see how it fits into the Department’s objectives. We looked for reasons why the program exists and what the program intends to achieve. We found the following.

- **Legislated policies:** The *Student Financial Assistance Act* and Regulations provide policies for the Student Financial Assistance program. The Act states that “...student financial assistance may be provided in the form of a grant, scholarship, loan or in any other form that is prescribed to a person who is eligible for student financial assistance.” This means that any eligible student may receive financial assistance.
- **Departmental objectives:** The objectives as outlined in the 1993-94 Main Estimates are also reflected in the new strategy “to provide people with opportunities to learn ... and create their own futures.” The Department’s strategy reports that almost all adult students in the NWT need support to complete their education and an important part of this support is financial assistance.
- **Program objectives:** The Department continues to work on a *Management for Results System*. As part of this, the Department set a high-level program objective for Student Financial Assistance “to provide financial and counselling support for the residents of the NWT to pursue post-secondary studies in order to improve their employability and personal development.” This program objective fits into the overall Departmental objectives.

The Student Financial Assistance program objectives answers the question, “ why the program exists”, but not, “ what the program intends to achieve.” Measurable program objectives must answer both questions. The following is an example of an incomplete objective.

The Strategy analyses the present labour force of the NWT and concludes that people with higher levels of education have better chances of employment in certain job areas. Based on recent labour market statistics, the Department observed that people with certificates, diplomas or university degrees have at least an 84 percent chance of obtaining a job, but do not identify whether the jobs obtained are in peoples' field of training. The Department informed us they use labour market information to actively counsel students so they can make informed career choices.

Government funded education suggests that there is a reasonable expectation that jobs or other opportunities will be available for graduates, enabling them to use their acquired knowledge. We looked at what areas are being studied by students supported financially by the Department. Based on students approved for financial assistance in 1993-94, areas of study registering more than 25 students are:

Area of Study	Number of Students	Amount of Funding \$	% of Students
* Business Administration	68	415,869	4.0
* Commerce	26	160,507	1.5
* Community School Counsellor	30	336,159	1.8
Computer	45	226,500	2.7
Early Childhood Education	38	245,135	2.2
* Education	60	357,746	3.5
Engineering	26	150,875	1.5
Fine Arts and Crafts	88	560,171	5.1
General Studies	191	1,126,600	11.2
* Management Studies	144	953,091	8.5
Physical Education	28	181,955	1.7
* Registered Nursing	55	421,204	3.2
Renewable Resources	39	296,953	2.3
* Secretarial	44	419,847	2.6
* Social Work	45	390,343	2.7
* Teacher Education Program	194	3,183,809	11.4
Theology	34	226,774	2.0
Upgrading/College Preparation	36	333,244	2.1
Total	1,191	9,986,782	70.0

* Areas of study with better chance of employment per Department's Strategy

This shows that NWT students are studying a diversity of subjects, some of them reflecting where the Department thinks jobs are.

Although the Department has obtained this labour market information and measured some related results, it has not set specific measurable objectives that suggest that one of the intended achievements of the Student Financial Assistance program is for students to obtain jobs in their field of training.

The Department's strategy states that "student financial assistance will be examined over the next two years in conjunction with the Income Support Reform." This would be a good time for the Department to set out measurable objectives that results measured can be compared to the original plan.

Recommendation:

The Department should outline specific measurable program objectives for its Student Financial Assistance program, in the context of overall education goals.

Education, Culture and Employment Response:

The Department agrees with the recommendation. In developing and measuring key performance indicators the Department will also recognize other programs which contribute to the success of NWT students enrolled in post-secondary education programs.

5.6 Results Measurement

Results measurement should identify key indicators that, when compared to the original plan, would show if program objectives are being met. The Department has identified some specific key indicators for the Program.

The 1993-94 Main Estimates state that the Student Services Division "will also focus on the results of the Student Financial Assistance program, including graduation." We assume this means graduation results will be measured.

The Department's 1992-93 *Management for Results* report identifies that it plans to measure the following two categories of indicators.

Departmental Service to Students Indicators

- grant applications distributed and processed
- student's education advanced
- student satisfaction

Departmental Program Results Indicators

- percentage of students who found employment in their area of study within 12 months
- percentage of students who remain in or return to work in NWT

The Department has started some results measurement. The Student Financial Assistance program measures outcomes such as how many students have been funded, how much per student, area of study and changes in aboriginal enrolment. The program also has some information on outcomes such as Arctic College's review of how many students found employment in their area of study.

However, some important performance indicators identified by the Department are not yet adequately measured. Students who found employment in their area of study has been measured only for Arctic College students. In addition, the Department was unable to provide us with graduation results or information on how many students remain in or return to work in the NWT.

Measuring program results is for many purposes, including, but not limited to:

- to justify the program continuing;
- to make changes to the program in light of changing needs or in response to changing economies and efficiencies;
- to substantiate yearly budgets or
- to provide ministers with political accountabilities.

To be more effective, the Department should measure program results regularly, on an annual or other reasonable basis. Shorter time-frame objectives allow for measuring and assessing results without waiting for many years to see if a specific program is working, or if the Department's objectives and the legislative policies are achieved.

Recommendations:

1. *The Department should identify and measure key performance indicators relative to specific objectives.*
2. *The Department should systematically and regularly measure and report program achievements.*

Education, Culture and Employment Summary Response:

The Department agrees with the recommendations and will examine cost-effective ways of improving its management for results information. The objectives outlined in our strategic plan will guide this work. The

Department will consider the full range of post-secondary training and support programs when measuring program results.

5.7 Managing Program Costs

The *Student Financial Assistance Act* and Regulations set out eligibility criteria and maximum rates of grants and loans. Any student eligible, may get financial assistance at prescribed rates. This means that there are few options to control program costs.

The Department's assistance program has two streams of eligibility based on aboriginal and non-aboriginal descendency. Eligibility within either stream may depend on NWT residency, education in the NWT and acceptance at a post-secondary institution.

Grants are given for tuition and travel to all eligible students. Aboriginal students receive a supplementary grant for books, supplies, family travel home and living expenses. Non-aboriginal students receive loans for living expenses. A summary of grants and loans available follows.

The Department equals the federal government's aboriginal student living allowances and travel assistance payments. However, the Government's definition of an aboriginal student is wider than the federal government's. The number of NWT aboriginal students eligible for grants from the Government is more than would be eligible under federal policies.

Student Financial Assistance is provided through loans and grants. Grants are "free" money without repayment conditions. Loans have a potential for repayment but are subject to forgiveness features. The forgivable features of loans are attractive incentives to return to the NWT. A student who leaves full-time studies, completes at least 60 percent of their program and returns to the NWT is entitled to receive remissions. Full remission is worth \$3,000 per year.

There are important issues facing the Department. Does the Government have the financial ability to continue the program in its current form or does it need to consider other options? Can it continue to support a generous forgivable loan program?

Type of Assistance	Non-Aboriginal	Aboriginal
Basic grant	<ul style="list-style-type: none"> tuition up to \$2500 per year airfare - two return trips per year for self only one time transitional allowance \$295 single or \$1480 with dependants 	<ul style="list-style-type: none"> same
Supplementary grant	<ul style="list-style-type: none"> not applicable 	<ul style="list-style-type: none"> books \$400 per year airfare - two return trips per year for dependants monthly living allowance \$675 single monthly living allowance if married with one dependant starts at \$850 per month housing allowance by separate application day-care by separate application
Primary loan	<ul style="list-style-type: none"> single \$3200 to \$4000 per year married \$4000 to \$5200 per year plus \$500 per dependant remissible 	<ul style="list-style-type: none"> not applicable
Secondary loan (if not eligible for primary loan)	<ul style="list-style-type: none"> same as primary not remissible 	<ul style="list-style-type: none"> not applicable
Needs-assessed loan	<ul style="list-style-type: none"> up to \$105 per week not remissible 	<ul style="list-style-type: none"> same
University College Entrance Preparation	<ul style="list-style-type: none"> not applicable 	<ul style="list-style-type: none"> same as basic and supplementary grant entitlement
Correspondence courses	<ul style="list-style-type: none"> up to \$250 per course 	<ul style="list-style-type: none"> same

With fewer resources, other governments are changing or considering moves towards greater recognition of the economic needs of post-secondary students seeking financial assistance. Proposals include increasing the number of loans and reducing the number of grants.

The Department's strategy identifies an increasing demand for Student Financial Assistance and recognizes that the Government's financial resources are limited. The Department expresses a need to consider the following options that would let it better manage program costs:

- limiting the number of years students may access assistance to four years;
- reducing or eliminating remissions on loans;
- introducing a means test;
- lowering the level of funding available to students;
- providing funding based on success; and
- directing Student Financial Assistance towards priority occupations.

The Department recognizes that difficult decisions need to be made to better manage program costs. As we discussed earlier, these decisions can be helped along by having better information on how programs are performing and their sensitivity to funding changes. Measurable program objectives are necessary for the Department to be able to determine how to better manage program costs. At present, the strategy does not contain such program objectives nor any intended achievements.

5.7.1 Comment

Increased demand for student financial assistance is likely to continue. With shrinking resources government-wide, working with smaller program budgets is a reality.

Changing program funding entitlements is always difficult, especially when they are traditionally expected. But the practicality of supporting all post-secondary students, irrespective of their own ability to pay at least some of the costs, may no longer be affordable. Future support on the basis of need may be more feasible in today's economic reality. In addition, a combination of more loan and less grant assistance to all students may be less costly to the Government.

Recommendations:

1. *The Department should pursue options to better manage program costs.*
2. *The Department, in conjunction with the Department of the Executive, FMBS, should evaluate the Student Financial Assistance program to determine what combination of grants, loans and remissions best provide value to the Government, meet high-level legislative policies and meet the needs of Northerners.*

Education, Culture and Employment Response:

The Department is working with the FMBS to review the Student Financial Assistance Program. One of the results of the department's review of Student Financial Assistance will be recommendations to make the program more cost effective.

Chapter 6

Municipal Loans

6.1 Purpose

In this chapter, we comment on several issues about municipal loan authority, special municipal funds, loan arrangements and loan lending practices. This chapter continues our theme of previous years' observations about the need for all departments and agencies to improve cash and asset management.

6.2 Introduction

In the NWT, tax-based communities are created and governed under rules established in the *Northwest Territories Cities, Towns and Villages (CTV) Act*. The *CTV Act* covers incorporation, administration, by-laws, municipal programs, financial affairs and borrowing.

To pay for various local projects and programs, tax-based communities collect taxes from residents. The Government provides additional funding for both general operations and financing capital and land development projects.

Many capital and land development projects are financed by loans which in turn are "secured" by debentures. These loans are provided by the Government through the Department of Municipal Affairs and Community Affairs (MACA). The Department of Finance (Finance) administers these approved loans. At 31 March 1994, the Government had the following outstanding loans receivable totalling \$45.7 million.

Municipality	Amount Outstanding (\$ thousands)
Fort Simpson	195
Fort Smith	4,525
Hay River	5,661
Inuvik	2,837
Iqaluit	2,493
Norman Wells	918
Yellowknife	29,040
Total	45,669

6.3 Land Development Project Loans

As communities grow, they need to improve their stock of developed land for housing and commercial development. Management of land development is complex and expensive, involving testing, grading, power, water and sewage lines, roads, etc. Many of these tasks have to be paid for "up front" before any land is ready for sale or lease, hence the need for loans.

According to rules, community governments can finance land development through the normal budgetary process where the taxpayers are ultimately responsible for paying off the loan. But as happens in most cases, the financing is kept outside of the normal taxing process and the money borrowed for development is repaid only from later sales of developed land.

In ideal circumstances, the communities should "break-even," that means the sale proceeds should just cover the costs of the project. Communities could also "make a profit" on land development and later use that profit for other community needs. But if things do not go as well as planned, the Government could be on the hook for the loss. A recent example is the Town of Iqaluit.

Iqaluit borrowed \$6.2 million from the Government to develop land on Apex Road. This loan was secured by a debenture. The Town has not been able to sell the developed land for a price high enough to recover its costs. Thus, Iqaluit has not been able to repay the loans from land sales revenue. The Government has foregone about \$4 million of future interest on the loan.

There are several issues in these land development loan arrangements.

6.3.1 Authority for Community Borrowing

Section 150 of the *CTV Act* obliges municipalities to obtain the approval of their taxpayers before borrowing money for most long-term capital projects, including land development projects. Where the municipality intends that a land development project will be self-financing such as where it develops land for sale, it can request a waiver of taxpayer approval. In these cases, the community is to repay the loan only from the sale proceeds, not out of its general tax revenues. Waivers are not automatic. The municipality can initiate the request under the *CTV Act* but needs the explicit approval of the Executive Council.

In addition to these authorities, the *CTV Act* also puts restrictions on what kind of municipal funds the community can use to repay loans.

6.3.1.1 General Revenue Fund

Tax-based communities collect tax revenue from residents and businesses. These moneys, along with other general funding from the Government, become part of its general revenues. The *CTV Act* (section 150) does not allow a municipality to repay land development project loans from its general revenue fund if the municipality obtains a taxpayer approval waiver.

In the case of Iqaluit, the Government can not recover the outstanding land development project loans from Iqaluit's general revenue fund because the need for taxpayer approval has been waived.

6.3.1.2 Other Special Community Funds

The *CTV Act* (section 143) allows municipalities to create other pools of money, special funds, usually to set aside cash for specific purposes. The municipal council can define the purpose for setting aside these funds and rules for how they use the money. When this is done, the money in the fund can be used only for the purpose it was created and not for other community needs. A land development fund is one type of special community fund.

In the case of Iqaluit, the Government can not recover the outstanding land development project loans from any of Iqaluit's other special funds.

6.3.1.3 Comment

Particularly in times of fiscal restraint, it does not make sense for the Government to be at risk without recourse because of a problem municipal loan. A change to the *CTV Act* may be necessary to clarify the risks that the Government wants to accept.

Recommendation:

MACA should review criteria for waiving ratepayer approval of debentures.

Municipal and Community Affairs Summary Response:

In November 1993, the Department established a Debenture Review Committee to develop a process for debenture application reviews. The process addresses the additional information required in order to assess 'self-liquidating' land development projects. From this information, the Committee evaluates the risks involved and makes recommendations to the Deputy Minister and Minister regarding waiving of ratepayer's approval.

Recommendation:

MACA should propose changes to allow the Government greater flexibility in collecting delinquent loans from a community's general and special funds. A part of the proposed changes may require changes to legislation.

Municipal and Community Affairs Summary Response:

Unless the ratepayer's approve long-term borrowing, the Government has little recourse in collecting

delinquent loans. Under the circumstances the Department supports more rigorous scrutiny of long-term borrowing where ratepayer's approval is waived. The Department believes it should carefully assess the risk involved in making the decision to waive ratepayer approval. Before proposing changes to legislation, the department will evaluate and monitor the success of the process established to waive ratepayer approval.

6.3.2 Improvements to Loan Arrangements Needed

Existing loans by the Government to communities for land development are structured on a fixed term repayment schedule. This does not make sense today as it does not allow or require a municipality to pay off a land development loan early if proceeds come in quickly. This means that the Government is exposed longer than necessary at times when it could use the cash, and the municipality has an obligation to repay loans long after it has sold the developed land and received the proceeds. Because the present loan agreements call for annual repayments irrespective of when the developed land is sold, the Government risks default because, in the meantime, sale proceeds may be spent on other municipal needs.

Part of the reason Finance wants to lend to municipalities is the Formula Financing Agreement with Canada. Under this agreement, most interest earned by the Government reduces the grant from Canada under the "clawback" provisions. But interest earned on municipal loans does not reduce the grant from Canada. To some, this makes municipal loans attractive as a Government investment.

With Government's cash resources currently under strain, it needs to consider the risk/reward trade-off. Would it be more beneficial to get early repayment of municipal loans and use the cash received for other purposes, or leave large loans outstanding for a long time to earn real interest revenue from municipalities? Does it make sense for the Government, short of cash itself, to borrow from banks at or near year-end, in order to lend money to municipalities throughout the year? In the future does it make sense for the Government to borrow specifically to lend to communities?

The loan or debenture agreement used by Finance is simple, perhaps too simple. The *CTV Act* does not specify how the Government should structure its loan agreements, that is, how they should be administered and how repayments should be made.

The *CTV Act* requires a municipality to set out in its long-term loan by-laws the purpose of the loan, the amount, debenture terms, interest rate, method and terms of repayment and the underlying value of municipal property. But as the municipality's by-laws are not a part of the simple loan agreement, they may not be useful to the Government in enforcing loan conditions.

Recommendation:

Finance, in conjunction with Justice, should restructure its loan agreements to make it easier for the Government to collect on the loans yet still permit flexible loan management.

Finance Summary Response:

New agreements with municipalities were under development at the time of the Auditor General's review. The Department recently finalized a new Financial Administration Manual directive with the assistance of MACA and Justice officials. We will be forwarding the new directive to the FMB before the end of March 1995.

6.4 Loan Lending Practices

6.4.1 The Need for a Review of Lending Practices and Financial Impact

The Government has loaned many millions of dollars to tax-based municipalities for capital projects. Given the changing economic realities and the tight cash position of the Government, it may be time to look at alternatives. For example, tax-based communities may be able to attract private sector financing for capital projects which could free up significant amounts of cash for other Government needs. This would have an additional benefit of helping to improve commercial lending experience in the North. In the early stages, the Government may have to offer some form of loan guarantee to commercial lenders as an inducement, but as communities grow, their ability to service commercial debt secured by assets in land should gain marketplace confidence.

Obviously this can be done for future capital and land development funding in tax-based communities, but it can also be used to re-finance some existing loans. An example follows.

Last year, the City of Yellowknife approached the Government to renegotiate interest rates on the City's capital and land development debenture secured loans. Interest rates had fallen significantly since the loans were issued. The City advised that it had an offer to refinance its Government loans from a commercial bank at lower rates. Instead of supporting this commercial refinancing, the Government reduced the interest rate on its loans to the City. At the same time the Government reduced the loan interest rates to other tax-based communities.

By doing this, the Government missed an opportunity to gain early repayment of millions of dollars, cash that it could have used for other programs or to reduce its own borrowing.

Recommendation:

MACA and Finance should investigate the willingness of the private sector to finance tax-based capital and land development projects, with appropriate security, and report to the Legislative Assembly on the results of its study.

Finance Response:

In discussions with financial institutions, the Department has learned that most of the tax-based municipalities would not be able to meet lending criteria of these institutions. In those situations where municipalities might meet lending criteria or where they might be exempted from the lending criteria, the interest charged would be at higher rates than could be obtained by the Government. If Government provides guarantees, there would appear to be no benefit for either the Government or the municipality. However, the Department will continue to explore alternatives for meeting municipal borrowing needs.

6.4.2 The Need for Updating Operational Practices and Policies

The Financial Administration Manual (FAM) contains guidelines for managing loan collections but these have not been updated for some ten years. For example, although FAM rules exist to match loan repayment schedules with the life of a land development project, these rules have not been applied to many land development project loans.

Presently some land development loans have more than a 20-year repayment term. More recent land development loans have an average 10-year repayment term. One loan provides for payments being the greater of proceeds from sales and leases or a predetermined amortization schedule.

As indicated above, times have changed, and there is a pressing need for improved cash management. Applying the existing FAM guidelines and establishing specific guidelines can reduce the Government's risk. Loan agreements should be made more specific and incorporate the individual terms and conditions of the loan. Staff in Finance have made a start on this re-drafting.

Recommendation:

Finance, in conjunction with MACA and Justice, should update all manuals, agreements and terms and conditions to recognize the changed risks and the need for improved cash management.

Finance Summary Response:

This is a recommendation for action that the Department was taking at the time of the Auditor General's visit. The Department has finalized this work and will complete and forward to the FMB a submission prior to the end of March 1995. The wording in the loan agreement for the only municipal loan made in 1994-95 reflected the proposed new FAM directive on municipal loans.

Chapter 7

Hidden Subsidies

7.1 Purpose

In order for Government to be accountable to the Legislative Assembly for its operations, it must be able to report on how it has managed the resources given to it. Some of the ways Government reports are through the Main and Capital Estimates and the Public Accounts.

Generally, when the Government provides a program to the public, it shows the anticipated costs and revenues in the Main Estimates. It charges both direct and administration costs to the program and then reports all the program costs in the Public Accounts. For example, the direct and administrative costs of providing student financial assistance are reported as costs of the Department of Education, Culture and Employment's Student Services Division.

In the case of some programs or activities, the full costs are not shown in the Main Estimates or properly recorded in the Public Accounts. These uncharged costs range from the costs of capital assets, in the case of the Petroleum Products Revolving Fund, personnel secondments in departments, some administrative costs and various other cases. Without a proper allocation of full costs, the Government is in a weaker position to make appropriate decisions and the Legislative Assembly will not be given the full facts. This means the program or activity is benefiting from a hidden subsidy charged elsewhere.

Some programs recover their costs through fees or other pricing structures. If some costs are hidden, the program will not be able to make full recovery. Even where full cost recovery is not mandated, the Legislative Assembly should know what the full costs are, so that members can see the amount of the subsidy.

In this chapter we report on secondments, Vote 4 and 5 projects and investment pool services. The Department of the Executive, FMBS, has identified two similar

issues, housing subsidies and charity leases or grants-in-kind.

7.2 Secondments

7.2.1 Introduction

Like cash and fixed assets, government employees are resources used to deliver mandated programs. While most employees work for departments or agencies, sometimes the Government lends them to outside organizations, including private businesses, to assist them in achieving some desirable objective. The Government calls these arrangements "secondments out". Secondments can also involve the Government borrowing people from other organizations.

Secondments out provide opportunities for Government employees to add value to an outside organization if they have particular expertise or skills. Seconded employees can also gain extra skills and knowledge through working outside Government and can bring the benefits back with them afterwards.

There are similarities between lending an employee to a business and giving it cash. In both cases the arrangements cost money and have to come from the Government's budget. In secondments, the Government still pays the salaries and benefits of the employee but may recover, from the other organization, some or all of these costs.

Thus it is important that Departments keep track of and report the full cost of secondments to the Legislative Assembly in a meaningful manner. Does the Legislative Assembly know how many people are on secondment? Does it know how much secondments out cost the Government in direct out-of-pocket and administration costs? Unless Departments identify and allocate secondment administration costs to all secondments, the true cost to the Government of this personnel program is unknown.

7.2.2 Outside Secondments

Some secondments are "internal", that is between departments and other wholly owned government agencies. Here, the Government still receives the benefits. But when they go outside, the Government loses the services of the employee for the secondment period. Secondments are usually for a fixed period of time, often one to three years, after which the employee usually returns to his or her department.

At 31 March 1994, the Government has 45 active secondments, of which nineteen are with outside organizations or businesses. Some of these arrangements have the outside organization paying for the salary of the employee. But in six of the above nineteen cases, the Government recovers only a portion, or nothing at all, of its salary and benefit costs. For 1993-94, the cost to the Government of these six employees is over \$225,000. The following is particularly interesting.

In August 1989 the Department of Economic Development and Tourism seconded an employee to an outside developing business organization to provide management assistance. The secondment agreement does not show what the employee is to achieve, when the assistance agreement is complete, nor when the employee expects to return to home base.

In 1993-94, the Department extended the secondment agreement for the third time to July 1995. Only in this last extension does the Government require the business to pay back any costs. The total recovery expected is \$40,000 over the last two years. The cost to the Government for the total period of this employee's secondment exceeds \$550,000.

This type of secondment should be subject to terms and conditions similar to those one would expect of a cash subsidy. As a minimum, it should state what the employee is to achieve and what the Government gets for its half-million dollar plus investment. As this employee has, to all intents and purposes, become an employee of the business, the latest renewal should also state how the Department expects to be able to re-integrate this person into Government operations.

One way of looking at secondments is that they are a direct subsidy to the outside organization, in just the same way that a cash subsidy is. But it is more common to account for cash subsidies than people subsidies. Of the six cases where costs were not fully recovered, only the above example was in the Main Estimates as a grant and voted upon by the Legislative Assembly.

Recommendations:

1. *Departments should ensure third-party secondment agreements specifically state the purpose, conditions and expected results, including the benefits to all parties to the agreement.*
2. *Departments should periodically review the benefit and cost of secondment agreements before entering into or extending the agreements to see if they are really adding value.*
3. *The Government should ensure that it gets regular information on all secondments including the duration, benefit, cost and cost recovered, as well as objectives and achievements.*

Executive, FMBS Summary Response:

The Human Resources Manual Section 1407 requires some of the items requested in the recommendation. All secondment agreements require the receiving organization to provide a Performance Review and Planning Report on the Seconded on completion of the secondment. Secondments which are less than full cost recovery, should have a payment directive that addresses the type of information suggested by the Auditor General. We will review and confirm these requirements as part of the management framework review for grants and contributions that is being conducted.

Recommendation:

Departments should keep track of and report the full costs of secondments to the Legislative Assembly in a meaningful manner.

Executive, FMBS Summary Response:

We require known external secondments to be disclosed in the Main Estimates as grants-in-kind, if less than full cost recovery; and as Projects on Behalf of Third

Parties, if full cost recovery. Management will follow-up any situations where departments have not met these requirements and will promulgate a policy on this to ensure greater consistency.

7.2.3 Secondment Administration

Secondments are a useful tool for Government to be able to spend resources in pursuit of program objectives. But the Government must manage secondments using standards similar to those for managing cash transactions. Yet, in the Government, while there are a myriad of rules concerning cash resources, there are few covering secondments. We expected to find specific policies, guidelines, objectives and criteria for secondment agreements but found none, except for general guidelines in the Human Resources Manual. Thus, each agreement is a unique arrangement without the guidance needed for appropriate control of this high-cost resource allocation.

Departments share the administration of secondments as follows:

Sending Department, Board or Agency

- request secondment

Deputy Minister and FMB

- approve secondment

Executive, FMBS, Human Resources Division

- administer secondment agreement

Executive, Finance and Administration

- recovery of employee benefits

Sending Department, Board or Agency

- recovery of salary

Administering a secondment with these multiple players can be expensive. There is no one department with overall responsibility and record keeping.

Recommendation:

The Government should consolidate administration and evaluation of secondments into one department to avoid duplication of effort.

Executive, FMBS Response:

The process for secondments is currently under review.

Recommendation:

The Department of the Executive, FMBS, should develop clear policy guidelines for secondments, including but not limited to justification, approval, clarity of objectives, performance review and reporting.

Executive, FMBS Response:

FMBS will review Section 1407 of the Human Resources Manual to determine if the manual meets these conditions.

7.3 Vote 4 and 5 Projects For Others

7.3.1 Introduction

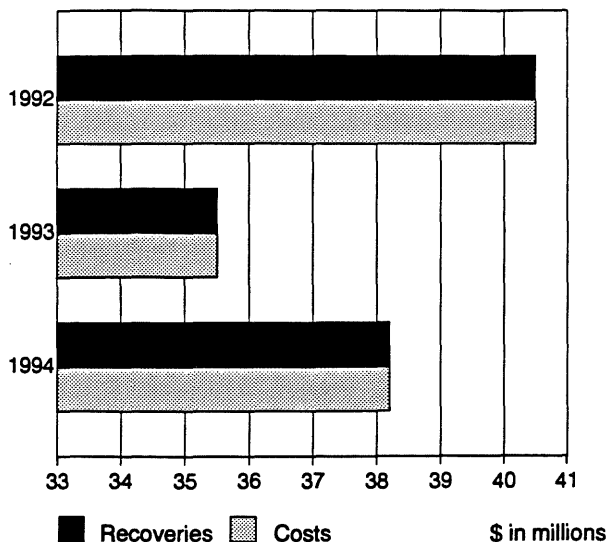
The Government delivers its programs through a normal legislative approval process and later accounts for them through its normal accounting process using appropriate accounting policies. But over the years, the Government has undertaken to deliver other, often temporary programs or activities, for Canada or other governments, usually where the Government does not have its own program mandate.

Examples include language programs shared with Canada, environmental cleanup and community infrastructure development. In these cases, Votes 4 and 5 provide a way for the Government to carry out these projects for others on a "cost recovery" basis. This means that all costs associated with such projects are to be recovered from the other party. Vote 4 (costs) and 5 (recoveries) have no formal legislative approval and limited accounting disclosure. Costs and recoveries under these votes can be significant. The transactions for the past three years are shown on the following page.

7.3.2 Comments

Expenditures under Vote 4 are not subject to the normal budgetary approval process by the Legislative Assembly. These costs and the related recoveries are under a variety of agreements with other parties, most usually with Canada. The Government has established criteria for Vote 4 and 5 projects that require the costs to be identifiable and measurable, and the project to be for a definite duration. In some cases the programs have

Value of Vote 4 and 5 Projects (consolidated)



been going on for many years, and the public likely expects them to continue into the future. Examples of long-term Vote 4 and 5 projects follow.

Project (Department)	1994 Value
French Language (Executive)	\$ 3,602,703
Aboriginal Languages (Executive)	5,616,227
Northern Oil and Gas Action Program (Energy, Mines and Petroleum Resources)	1,009,054
Air Navigation Services and CARS (Transportation)	2,930,009
University and College Entrance Program (Education, Culture and Employment)	365,687

The Government's financial statements account for these projects through a two-line disclosure only, separate from normal program costs.

7.3.3 Hidden Subsidy

Vote 4 costs directly attributable to projects are charged to the projects. However, many other indirect costs that are not easily identifiable are not charged to the projects and are not recovered. These costs can include

management administration, supervision, use of government vehicles, accounting for and auditing of costs, etc. Unless the Departments identify and allocate administration costs to all Vote 4 projects, the full cost to the Government of being involved with these agreements is unknown.

Many private businesses charge and recover such project administration costs through an administration fee. The Government can charge an administration fee of 6.5% on all Vote 4 and 5 projects, but most departments request the FMB approve this fee be waived. Votes 4 and 5 administration fee revenue was \$104,000 in 1993-94. This means that only 3.6% of the total unconsolidated Vote 4 and 5 projects were subject to administration fees. [Note: Although the Government does not charge administration fees in many cases, if all Vote 4 and 5 projects paid administration fees, for 1993-94 this would have been almost \$2.9 million.]

7.3.4 Comment

We are aware that the Government had waived the administration fees in various cases. In some of these cases, the agreements specify the direct recovery of administration costs, and in other cases, the Government shares project costs with the other party and has not levied administration costs. Waiving administration costs effectively gives a subsidy to the other party.

7.3.5 The need to review Vote 4 and 5 projects

Some projects, such as the Aboriginal Language Program, started off as being fully paid by Canada and qualified as Vote 4 and 5. This is now a cost-shared program where both the Government and Canada share the costs. Therefore, this program may no longer meet the Government's definition of a Vote 4 and 5 project. It may be time to account for this and similar projects using more conventional program approval and accounting processes. Accounting for a cost-shared program under Vote 4 and 5 does not reflect the actual cost of the program in the Government's books, and avoids some of the detailed scrutiny from Members of the Legislative Assembly at budget review time.

7.3.6 Comment

Projects, where the Government has a mandate to carry out Vote 4 and 5 projects and agrees to share the project costs with the other party, should be subject to normal budgetary controls and legislative approvals.

Recommendation:

The Department of the Executive, FMBS, should review the method of recording cost-shared projects as Vote 4 and 5 which do not require legislative approval.

Executive, FMBS Response:

FMBS shall initiate a review of the Vote 4 and 5 process to determine if the method of reporting cost-shared projects is appropriate.

7.3.7 Costs to the Government in Excess of Agreements

Historically, these programs have put the Government at some financial risk. Sometimes the Government has to fund the expenditures and later recover the costs from the other contracting party. On one occasion, because of a dispute, the other party was unwilling to refund all of the claimed costs and the Department of Transportation had to write off the uncollectible amount as a bad debt.

Transport Canada disputed extra project costs associated with the construction of an airport. In 1991-92, the Government wrote off \$435,000 when Canada refused to pay claimed costs. In 1992-93, the Government recovered \$217,500 of the write-off from Canada.

The Government accounts for Vote 4 costs and Vote 5 recoveries in its statements on a two-line basis where expenditures and recoveries are equal. This practice suggests that it received "cash" to match the amount actually spent. This is rarely true and often the Government balances the figures by using accounts receivable from or payable to the other party to the Vote 4 and 5 agreement. If the Government does not recover a disputed amount receivable, the bad debt portion shows up as a Vote 1 operations and maintenance expenditure, not a Vote 4 expenditure. This can be misleading.

In any event, any agreement today that requires the Government to "put the money up front" is risky. With other Governments facing cash shortages, the likelihood of future funding disputes grows, particularly if the agreements are not specific.

These contract delivery projects, whether or not they are cost-shared, commit the Government to making expenditures not otherwise authorized by the normal budgetary approval process. In addition, the Government assumes the cost of administering these projects through the various departments delivering the projects. Although some agreements provide for administrative cost recovery, the Government often waives an administration fee. This again provides misleading accounting disclosure. The current system buries some of the actual administration costs in the respective departments' operating costs, not showing the costs as Vote 4 expenditures.

Recommendation:

Departments should review their Vote 4 and 5 accounting disclosure to better identify uncollectible items and administrative costs.

Executive, FMBS Response:

The Department will do a review this year of the accounting for Vote 4 and 5.

7.4 Investment Pool Services

The Department of Finance, Revenue and Asset Management division, is responsible for managing the cash balances of the Government. In an effort to maximize interest revenue and minimize interest expense, the Government established arrangements with two chartered banks to create an "Investment Pool".

The Investment Pool includes the Government and other institutions, such as Boards, who administer public funds. The Investment Pool allows the Government to consolidate and invest the total surplus cash balances. The pooling arrangement allows each participant to maintain full access and control over its respective cash balances. The participants may withdraw any or all funds without notifying the Government.

Currently, the Department provides the investment service free of administrative fees. However, the service provided to the Pool participants is not free to the Department. The Revenue and Asset Management division dedicate a percentage of their time to carry out the investing and monitoring.

In recent years, as the Government's own surplus cash has declined, proportionately more of the administration

costs are spent managing and investing surplus cash of the other Pool participants. Recognizing that the Government is subsidizing the Pool participants, the Department is currently preparing a proposal to charge an administration fee on all Pool participants.

7.4.1 Comment

Unless the Department charges the Investment Pool administration costs to all Pool participants, the Government is providing a subsidy or grant to the other Pool participants.

Recommendation:

The Department should complete its proposal and submit it to the Financial Management Board .

Finance Response:

This observation and recommendation have been overtaken by events. At the time of the audit, the Department had been considering the cost recovery issue for some time and were preparing a formal proposal. We developed a submission as part of the Department's OPPLAN that was approved by the FMB in October 1994. The associated investment pool revenues are included in the Departmental Main Estimates for 1995-96. The Department sent letters to investment pool participants in February 1995 advising them that we will be implementing fees following Legislative Assembly budget approval.

7.5 Other Hidden Subsidies

Other hidden subsidies have been identified but we have not reviewed them in detail at this time. These include petroleum products fuel subsidies, charity leases and housing rental subsidies.

Last year we identified and reported in a management letter to the Department of Public Works and Services, Petroleum Products division, that their operations did not include all costs associated with providing fuel to the public. The Department is in the process of submitting a proposal to include the cost of capital and inventory holding costs in its pricing structure. Unless the Petroleum Products Revolving Fund identifies and includes the capital costs of the tank farms and inventory carrying charges in the Fund's operations, the true cost to the Government of the price subsidy is unknown.

The Department of the Executive, FMBS, has identified and is reviewing accounting policies related to subsidies provided through housing subsidies, charity leases and other grants-in-kind.

For all subsidies, it is important for departments to identify and disclose to the Legislative Assembly the full and complete cost of any subsidy. Full disclosure would help both management and legislative decision-making.

Index

Departmental References

Department	References	Recommendations
Comptroller General	Chapter 3	Chapter 3 .3
	Chapter 4	Chapter 4 .3.5
Economic Development and Tourism	Chapter 4	
	Chapter 7	
Education, Culture and Employment	Chapter 1	Chapter 5 .5 to .8
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Finance	Chapter 1	Chapter 6 .3.2, .4.1, .4.2
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Municipal and Community Affairs (MACA)	Chapter 4	Chapter 6 .3.1, .3.2, .4.1, .4.2
	Chapter 6	

Matters of Special Importance and Interest

Department	References	Recommendations
Public Works and Services	Chapter 4 .2.2 Chapter 7 .5	
Transportation	Chapter 4 .3.5 Chapter 7 .3.2, .3.7	
All Departments	Chapter 4 .2.2, .3.1 Chapter 5 .1 Chapter 6 .1 Chapter 7 .2.2, .2.3, .3.1 to .3.7, .5	Chapter 4 .3.4, .3.5 Chapter 7 .2.2, .3.7
NWT Development Corporation	Chapter 2 .6	
Petroleum Products Revolving Fund	Chapter 7 .1, .5	



Northwest Territories Minister of Justice

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The Honourable Allan Rock, P.C., Q.C., M.P.
Minister of Justice
and Attorney General of Canada
3rd Floor Justice Building
239 WELLINGTON STREET
OTTAWA ON K1A 0H8

Dear Mr. Rock:

Cuts to Young Offenders

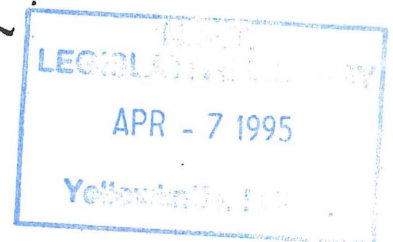
Your letter of March 6, 1995 indicated that the Memorandum of Agreement Respecting Federal Contributions to Juvenile Justice Services Under the Young Offenders Act would be terminated as of April 1, 1996.

The indication that you wish to work together with our Government to negotiate a replacement agreement which will reflect the requirements of the amended Young Offenders Act is welcome. I wish to state clearly that we will be expecting the Government of Canada to provide full financial support for all additional expenses arising out of your legislative amendments. It is noteworthy that your amendments will result in young persons being incarcerated for longer periods of time, as well as a broader range of alternative measures requirements.

I am prepared to designate officials to commence discussions with you concerning the proposed new agreement, as soon as your Department is in a position to begin negotiations.

Sincerely,

Stephen Kakfwi



Minister of Justice
and Attorney General of Canada



Ministre de la Justice
et Procureur général du Canada

cc DM Avison
done 03/23/95

MM

SK

MAR 17 1995

The Honourable Stephen Kakfwi
Minister of Justice
Government of the Northwest Territories
P.O. Box 1320
Yellowknife, Northwest Territories
X1A 2L9

Dear Mr. Kakfwi:

Officials of my Department informed me that the references contained in the second paragraph of my letter of March 6, 1995, was in error. Consequently, and to rectify the situation, I am advising you, as is required under Section 32 of the Agreement Respecting Legal Aid in Civil and Criminal Law Matters and in Matters relating to the Young Offenders Act, that this Agreement will be terminated effective April 1, 1996.

As noted in the aforementioned letter, it is my belief that the negotiation of new funding arrangements will best serve to meet the challenges facing legal aid at this time. In this regard, my Deputy Minister will be writing to his territorial colleagues to further expand on our plans for renegotiations.

In closing, please accept our apology for any inconvenience this might have caused.

Yours very truly,

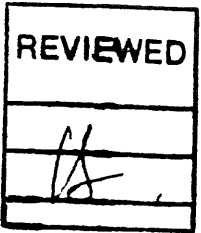
A handwritten signature in cursive script, appearing to read 'Allan Rock'.

Allan Rock

Minister of Justice
and Attorney General of Canada



Ministre de la Justice
et Procureur général du Canada



MAR - 6 1995

The Honourable Stephen Kakfwi
Minister of Justice
Government of the Northwest Territories
P.O. Box 1320
Yellowknife, Northwest Territories
X1A 2L9

Dear Mr. Kakfwi: *Stephen:*

Minister KAKFWI	
Rec'd:	MAR 07 1995
Log #:	7794
Ask:	
NO to: DA	03/03/95
Encl. Req'd:	
Resp. Req'd:	<input checked="" type="checkbox"/>
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OTHER:	mm
BF:	03/03/95
File #:	

As you are aware, the recent federal budget contained a broad range of spending reductions including decreases in the Department's Grants and Contributions Budget. I recognize that the fiscal pressures on the federal government are similar to those facing the provincial and territorial governments across Canada. In turn, we share a common interest in ensuring that Canadians have both an affordable and effective criminal legal aid program. As such, I believe that the best way to meet the challenges facing the criminal legal aid program at this juncture is to re-negotiate the existing cost-sharing arrangement.

Accordingly, and as required under Section 31 of the Agreement Respecting Legal Aid in Criminal Law Matters and in Matters relating to the Young Offenders Act, I am advising you that the aforementioned Agreement will be terminated effective April 1, 1996.

Consequently, our governments must work together in the short-term towards developing a revitalized funding arrangement that recognizes the current challenges facing criminal legal aid. I further hope that we can build upon the co-operative approach displayed through the National Review of Legal Aid towards developing an effective and mutually beneficial agreement.

.../2

My Deputy Minister will soon be writing to his provincial and territorial counterparts to further expand upon our plans for renegotiations.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Allan".

Allan Rock



GRISE FIORD
NORTHWEST TERRITORIES
X0A 0J0
(819) 980-9959 FAX (819) 980-9052

OFFICE OF THE CLERK
JAN 23 1995
Date Rec'd _____
Log 7-1441 FILE _____
Other _____
Clerk's Info _____
Referred _____

January 12, 1995

Legislative Assembly of the Northwest Territories
Yellowknife, N.W.T.

REQUEST FOR AMENDMENT TO
THE LOCAL AUTHORITIES ELECTION ACT

SECTION 18. (2) (c) change to: for municip
population of less than five hundred (500) FULL
mean (or apply only to) Administrative staff and the
DEPUTY MAYOR of municipal council shall not be fill by FULL
EMPLOYEE.

We request this change to allow regular councillors to be allowed to be nominated or to stand as a candidate so that council minded FULL TIME PERMANENT EMPLOYEE could run for council seat.

With our population of just over 130 we had not had election for couple of years, present council members are usually acclaimed or appointed to their positions.

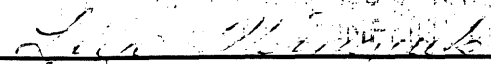
Compared to larger community this situation may result in hindering the decision making process of council when it is members are not politically minded or are not seriously interested in municipal affairs.

Whereas other community organizations in our municipality do not lack candidates at election time with the exception of candidates for municipal council. Most people would rather work for the Hamlet than participate in running it.


When the Act is changed as requested, in the event FULL TIME PERMANENT EMPLOYEE's performance or remuneration is to be discussed the regular councillor could always declare CONFLICT OF INTEREST.

N.W.T.
LEGISLATIVE LIBRARY
APR - 6 1995
Yellowknife, N.W.T.

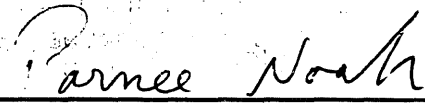
This letter is signed by 4 council members who are attending the regular meeting, since the Mayor is on travel.



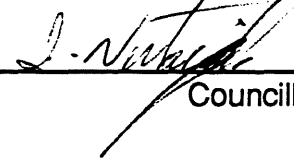
Deputy Mayor



Councillor



Councillor



Councillor

cc: Mayor Abraham Pijamini, Baffin Leaders Summit

Mr. Ludy Pudluk, M.L.A. High Arctic

N.W.T.A.M., Yellowknife



Northwest
Territories Principal Secretary



APR 5 1995

12-02563

April 5, 1995

Mr. Brian Lewis, M.L.A.
Yellowknife Centre

Legislative Action Paper on Recall

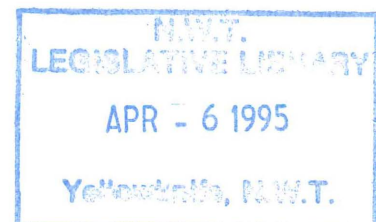
Further to the recent conversation which the Premier had with you on this subject, she has asked that I get in touch with you to discuss the following proposals:

First, the Government is in the process of having a Legislative Action Paper on Recall prepared, with the assistance of the Canada West Foundation. Attached are the terms of reference for the Legislative Action Paper. The terms of reference include all of the topics recommended for consideration last October by the Standing Committee on Rules, Privileges and Procedures.

The Premier has proposed that you be provided with the terms of reference and asked for your comments on additional issues which should be considered in preparation of the Action Paper.

Second, in preparing the terms of reference, the Department of Justice was asked for its opinions on the constitutionality of recall, particularly in terms of recent recall legislation passed in British Columbia and proposals which you had prepared last year.

The Premier has asked that Mr. Avison and I meet with you at your convenience to discuss issues raised by the Department of Justice and other legal or technical issues which are pertinent to the recall issue.



Third, the Government expects that the Legislative Action Paper will be completed by mid-May and presented at the June session. During the next six weeks, we will be reviewing drafts on April 21 and 28 with the final report due by May 12.

The Premier has suggested that it would be helpful if you could participate with GNWT officials in reviewing drafts of the Action Paper and providing suggestions for revisions to the final product.

Finally, there is the matter of Bill 31 and options for how the principle of the bill can be adequately addressed during the present session.

The Premier has asked that we discuss this matter with you.

Further, I would appreciate the opportunity to review a preliminary assessment of your bill done by the Canada West Foundation. Mr. Elton and his colleagues have provided some interesting observations which you may want to consider.

Thank you for your consideration of these proposals. I can be reached at 669-2325 or at the Premier's Office to discuss follow-up.



George Braden
Principal Secretary

c.c. Hon. Nellie Cournoyea
Premier

Mr. Don Avison
Deputy Minister, Justice

TERMS OF REFERENCE

LEGISLATIVE ACTION PAPER ON RECALL

Background:

1. The Legislative Assembly considered the "Recall" issue at its April 1994 Strategic Planning Workshop in Fort Smith, where Members decided that it should be referred to the Standing Committee on Rules, Privileges and Procedures for further review.
2. The Standing Committee reported to the Assembly in October 1994. It's report stated that while the Standing Committee felt the issue is important and deserves serious consideration, the Standing Committee does not have the authority to pursue the issue to its conclusion.
3. Therefore, the Standing Committee recommended that the Government develop a Legislative Action Paper on the issue of Recall of Members of the Legislative Assembly for tabling in the House.
4. The following provides the terms of reference for preparation of a Legislative Action Paper on Recall.

Terms of Reference:

5. Review of Historical and Current Recall Initiatives

The Action Paper should provide a review of historical and current recall initiatives in Canada, the Commonwealth and the United States, including an analysis of their use and effectiveness.

6. The Canadian and Territorial Contexts

Following from this review, the Action Paper should identify the constraints and opportunities of implementing Recall in both the Canadian and Territorial contexts. For example, are there Charter or other constitutional issues which must be taken into account in devising and implementing Recall in the Northwest Territories?

Similarly, are there unique territorial factors which could influence the approach taken to Recall in the Northwest Territories?

7. Legislative Options/Models for Recall Legislation

Taking these factors into account, the Legislative Action Paper will identify potential legislative options/models for Northwest Territories Recall legislation.

In particular, the options/models will address a number of issues identified in the Standing Committee's October 1994 report, including:

- * Should there be specific grounds for recall, such as misconduct or incompetence? Should the grounds for recall be unlimited?
- * Should there be periods in which representatives are immune from recall attempts?
- * How many signatures would be required for a successful petition for recall?
- * Should there be restrictions on spending during the petition process? Who pays for the costs associated during the petition process? Should there be a fee for the petition and what would that fee be? Should there be limits to the number of petition attempts?
- * Should there be a time limit for gathering petition signatures? What signature verification process would there be?
- * How long after a successful recall vote should a by-election be held?
- * Should there be a recall vote or should a successful petition remove the elected official from the seat?
- * Which voters are eligible to vote in a recall election?

8. Conclusions

The Legislative Action Paper should include a conclusion section which identifies the merits and limitations of each option/model which has been proposed.

9. Appendices

Without unduly adding to the length of the Action Paper, consideration should be given to the use of Appendices to provide additional and more detailed information relating to each of the terms noted above.



TABLED DOCUMENT NO. 81 - 12 (7) TABLED ON APRIL 4 1995

**MINISTER OF TRANSPORTATION'S
REPORT TO THE LEGISLATIVE ASSEMBLY
FOR 1994**

TRANSPORTATION OF DANGEROUS GOODS ACT (1990)

**PREPARED BY:
DEPARTMENT OF TRANSPORTATION
GOVERNMENT OF THE NORTHWEST TERRITORIES**

NEW
LEGISLATIVE
APR - 5 1995
Yellowknife, N.W.T.

MINISTER OF TRANSPORTATION'S
REPORT TO THE LEGISLATIVE
ASSEMBLY FOR 1994 - TRANSPORTATION
OF DANGEROUS GOODS ACT (1990)

Γσ'ΑΡΛΔΔ' Δ'ΥΓΔΑΑΑΔ'Δ'Δ' Δ'σ'β'β'
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**MINISTER OF TRANSPORTATION'S REPORT
TO THE LEGISLATIVE ASSEMBLY FOR 1994
ON THE
TRANSPORTATION OF DANGEROUS GOODS ACT, 1990**

INTRODUCTION

The Northwest Territories' *Transportation of Dangerous Goods Act, 1990* came into effect on August 1, 1991. The *TDG Act* is the territorial complement of the federal *Transportation of Dangerous Goods Act (TDG)*. Where the federal legislation applies to the transportation modes subject to its jurisdiction (i.e., air, marine, rail, pipeline and extra-provincial/territorial trucking), the territorial *Act* applies to intra-territorial trucking operations. In the interests of consistency and national uniformity, the territorial *Act* invokes the federal regulations pursuant to the federal *Act*. In this way, hazardous cargoes moving in Canada from one mode of transportation to another and/or between jurisdictions are always subject to the same dangerous goods regulations.

Section 62 of the *TDG Act* requires the Minister of Transportation to table an Annual Report in the Legislative Assembly. It reads as follows:

- (62). 1) The Minister shall, in respect of the administration of this *Act* and the Regulations in a year, cause to be prepared a report describing any:
- a) permit issued under subsection 4(1);
 - b) application made under subsection 7(1);
 - c) amendment, cancellation or suspension of a permit under paragraph 10(d);
 - d) order issued under subsection 31(1);
 - e) report made under subsection 34(1);
 - f) directive issued under subsection 35(1);
 - g) appeal commenced under section 36;
 - h) action taken by the Government of the Northwest Territories for the recovery of reasonable costs and expenses under section 38;
 - i) proceedings instituted in respect of an offence under this *Act* or the regulations; and
 - j) conviction for a contravention of this *Act* or the regulations.
- (2) The Minister shall table the report referred to in subsection (1) at the first session of the Legislative Assembly after the expiry of the year that is the subject of the report.

Profile of Dangerous Goods Traffic on Territorial Highways

The Department of Transportation's Motor Vehicles Division monitors, weighs and inspects motor carrier traffic reporting to its inspection stations at Enterprise and Inuvik. Monitoring of motor carrier traffic is also conducted on the NWT highway system by mobile Highway Patrol Officers from Inuvik, Enterprise, Hay River and Yellowknife. In 1994, 15,762 transports reported to the Enterprise Station for inspection. At the Inuvik scale 4,000 transports were weighed. Of a total of 19,762 vehicles, 3,777 were transporting dangerous goods.

Enterprise Weigh Scale is scheduled to operate twenty-four hours a day, seven days a week. The Inuvik Weigh Scale operates approximately 60 hours a week.

The Officers on duty at the Enterprise and Inuvik Inspection stations record a profile of the types and approximate quantities of dangerous goods moving on the territorial highway system. The following table lists, in order of magnitude, the dangerous goods most commonly carried by truck transports in the Northwest Territories. By volume, the transportation of the hydrocarbon fuels gasoline, propane and diesel oil account for most of the dangerous goods traffic on the highway system. Almost one-third of all trucks on the highway are carrying hydrocarbon fuels.

Substantial increases have been recorded in all commodities reported. These increases are the result of increased resource exploration activity occurring in the North Slave Geological province over the past year.

<u>Commodities</u>	<u>Quantities</u>
Fuel oil/diesel - heating	118,657,000 L
Gasoline - Automotive/Aviation	45,961,000 L
Propane	21,765,000 L
Explosives	1,390,000 KG
Ammonium Nitrate	2,632,000 KG
Sodium Cyanide	1,312,000 KG
Hydrogen Peroxide	300,000 L
Methanol	162,000 L
Chlorine	80,000 L
Compressed Gases	75,000 L

In addition to the above commodities, one hundred and two tonnes of PCB solids, liquids, and contaminated soils, and seventeen thousand litres of PCB oil was shipped to the Swan Hills treatment facility for destruction. This was accomplished as a result of the Government of the Northwest Territories successfully negotiating access to the treatment facility with Alberta.

Permits - 4.(1), Applications - 7.(1) and Amendments 10(d)

The sections of the *TDG Act* dealing with permits, applications for permits and their amendment read as follows:

4. (1) The Minister may, in accordance with this *Act* and the regulations, issue permits exempting the transportation of dangerous goods from the application of this *Act* or the regulations.
7. (1) Subject to subsection (2), an application for a permit and a permit must be in writing in a form approved by the Minister.
10. The Minister may (d) amend, cancel or suspend a permit where the Minister believes on reasonable grounds that the person holding the permit or his or her employees or agents have contravened this *Act* or the Regulations or a term or condition imposed on the permit.

There were no applications for permits and none were issued, amended, cancelled or suspended in 1994.

Orders - 31(1)

Section 31(1) reads:

31. (1) An inspector may issue an order, in accordance with subsection (2), to the owner or person in charge of dangerous goods, where the inspector believes on reasonable grounds that;
 - (a) there is occurring or has occurred a discharge of the dangerous goods from a container, packaging or vehicle transporting the dangerous goods;
 - (b) there is a reasonable likelihood of a discharge of the dangerous goods from any container, packaging or vehicle transporting the dangerous goods; or
 - (c) the dangerous goods are being transported in contravention of this *Act* or Regulations.

There were no formal, written orders issued over the past year. The Department's Highway Transport Officers have received training in the transportation of dangerous goods and have been appointed as inspectors under the *Act*. The officers have discovered minor leaks in the course of their regular vehicle inspections and have issued verbal orders for their repair. In all cases there verbal orders have been followed and the repairs attended to immediately at the site. No further action has been necessary.

Spills - 34(1)

Section 34 of the *Act* pertains to the response to spills of dangerous goods. It reads:

34. (1) Where there is a discharge of dangerous goods from a container, packaging or vehicle transporting dangerous goods, or there is a reasonable likelihood of such a discharge occurring, the person who owns or has charge of the dangerous goods at the time shall, as soon as possible in the circumstances:
- (a) in accordance with the regulations, report any discharge to an inspector or a person designated by regulation;
 - (b) implement the emergency plans referred to in section 1.5; and
 - (c) subject to any order made under section 31, take all other reasonable emergency measures consistent with public safety to repair or remedy any dangerous condition or reduce or mitigate any danger to life, health or the environment that results or may reasonably be expected to result from the discharge.

As provided in 34(1)(a) above, the Regulations of the territorial *TDG Act* require that spills of dangerous goods be reported to the Northwest Territories' Spill Report Line. The Department of Indian and Northern Affairs established the Spill Report Line in 1979 by agreement with the federal and territorial agencies with responsibilities for dealing with hazardous material spills.

The agreement establishes one telephone number to which any and all spills in the Northwest Territories are reported. The Spill Report Line is in constant readiness. When a spill is reported, the operator on duty decides which of the participating agencies has jurisdiction and passes the information on for its response. The Spill Report Line is now administered on a two year rotational basis by Indian and Northern Affairs Canada, Environment Canada and the territorial Department of Renewable Resources. The Spill Report Line works well in quickly directing a report to the proper agency for a prompt response.

In 1994 a total of 222 dangerous goods spills were reported via the Spill Line. Of these, six involved spills by vehicles engaged in transporting a load, or part of a load of dangerous goods. All six spills involved transport of fuel oil and gasoline in tank trailers.

One Spill was an accident involving a tank trailer which hit the ramp while driving off the Fort Providence ferry. Five to ten litres of fuel oil was spilled as a result. The Spill Report stated all of the product was cleaned up.

ገጽ 34(1) - ድንጋጌ

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- b) የሚሰጠው ማህበረሰብ ወይም ሌላ ሰነድ ለማዘዝ ወይም ለማስፈሰስ የሚያስፈልግ ሰነድ የሆነ ገንዘብ ወይም እቅድ ላይ ማሳሰቢያ ማድረግ ይገባል።
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1994-ግ ዓ.ም. ለሚያደርግ ሰነድ ወይም ሌላ ሰነድ ለማዘዝ ወይም ለማስፈሰስ የሚያስፈልግ ሰነድ የሆነ ገንዘብ ወይም እቅድ ላይ ማሳሰቢያ ማድረግ ይገባል።

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Two spills were a result of vehicle accidents where tank trailer units collided with another transport truck damaging the tankers.

The remaining three spills were single vehicle tank truck rollovers. One of the rollovers resulted in loss of the 40,000 litre load of fuel oil. This spill was confined to a natural depression bordered on two sides by bedrock and lined with clay. Prior to cleanup, there was very little migration of fuel which soaked into the snow and organic mat. All three spills were successfully cleaned up and no significant danger to the public or the environment resulted.

Directives - 35(1), Appeals - 36(1) and Recoveries - 38(1)

Sections 35, 36 and 38 of the *TDG Act* refer to ministerial directives, Appeals against Ministerial Directives and Recoveries of public expenditures made to remedy abandoned or discharged dangerous.

35.(1) Where the Minister considers it necessary for the protection of the public, property or the environment, the Minister may direct a person engaged in the transportation of dangerous goods to cease any activity of to perform the activity in a manner consistent with the intentions of this *Act*.

(4) person who receives a directive under subsection (1) may appeal the directive to the Supreme Court within 60 days of receiving the directive, but that person shall comply with the directive until the appeal is finally determined.

36. (1) An appeal to the Supreme Court shall be commenced by

- (a) filing an originating notice with the Supreme Court; and
- (b) serving a copy of the originating notice on the Minister.

38. (1) The Government of the Northwest Territories may claim and recover reasonable costs and expenses incurred in taking any measures under section 24, 33 or 34.

Under either the federal or the territorial/ provincial *TDG Acts*, Ministerial Directives are issued only in exceptional circumstances. The Minister was not required to issue any directives during 1994 and no appeals to directives were made in 1994.

No actions were initiated for recovery of costs of expenses with respect to spills during this reporting period.

Citations and Convictions

Of the 3,777 vehicles transporting dangerous goods, 221 were inspected for compliance with the *TDG Act* and regulations. Two were issued summary offence tickets and three were issued written warnings.

One summary offence ticket was issued for improper documentation of dangerous goods, and one ticket was issued for operating without proper safety marks. One written warning was issued for operating a vehicle transporting dangerous goods without being a trained person. The second and third written warnings were written for operating a vehicle transporting dangerous goods with a missing safety mark.

Cargo Tank Legislation

As of July 1, 1995 cargo tanks used to transport dangerous goods will be required to be manufactured, inspected and equipped in accordance with CSA standards. Recently the Motor Vehicles Division participated in a Transport Canada industry impact survey to determine current compliance rates with selection and use standards for cargo tanks. NWT results showed 90% of extra territorial transport units (highway tankers) and 28% of intra territorial units (urban delivery) in compliance with the applicable standards.

Retrofitting and upgrading of these units would significantly affect the economics of operation for a large number of small NWT carriers and in some cases might even jeopardize the business. The Department has just learned that a "grandfathering" amendment to the federal regulations is being gazetted this month. This provision will exempt until January 1, 2005 hydrocarbon cargo tanks manufactured prior to July 1, 1995. The exemption is conditional on the subject cargo tanks undergoing a visual and/or a hydrostatic inspection every 2 years as required by the applicable standard.

The requirement for NWT intra carriers to bear the cost of bringing certified inspector's into remote communities is an unjustified economic hardship. The Department will be raising these concerns at federal/provincial Transportation of Dangerous Goods Task force meeting's.

SUMMARY

The transportation industry has accepted The *Transportation of Dangerous Goods Act (1990)* as a safe and acceptable set of rules for moving large quantities of commodities which could have a serious impact on the health and safety of the public and of the environment. The continuing high level of compliance with this legislation proves an ongoing responsible attitude towards transportation safety by industry and the Northwest Territories enforcement community. Recently the Department's Transportation of Dangerous Goods Coordinator completed a two week training session at Transport Canada's training centre at Cornwall, Ontario. Participating in federal training programs keeps Transportation of Dangerous Goods inspectors on top of amendments to the legislation.

