

**11th Assembly**

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**Standing Committee  
on Public Accounts**

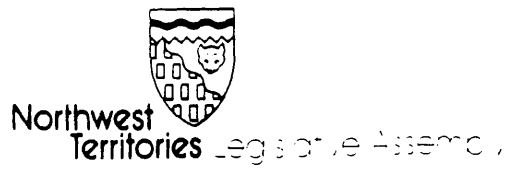
Review of the Financial Statements of  
the Government of the Northwest  
Territories and the Report of the  
Auditor General of Canada "On other  
matters" for the Fiscal year ending  
March 31, 1989

**Proceedings**

**May 1-2, 1990**

**Nick Sibbeston  
Chairman**

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STANDING COMMITTEE ON PUBLIC ACCOUNTS

YELLOWKNIFE, N.W.T

May 1, 1990

Committee Members

Mr. Nick Sibbeston (Chairman)  
Mr. Henry Zoe (Deputy Chairman)  
Mr. Bruce McLaughlin  
Mr. Don Morin  
Mr. John Ningark  
Mr. John Pollard  
Mr. Ludy Pudluk

Alternates

Mr. Peter Ernerk  
Mr. Sam Gargan  
Mr. Brian Lewis

Committee Staff

Mr. David Hamilton  
Mr. Mike Bell

Transcript

Marie Coe, Editor  
Mary Bybliw, Transeditor  
Helen Lawson, Transeditor



STANDING COMMITTEE ON PUBLIC ACCOUNTS

YELLOWKNIFE, N.W.T.

MAY 1, 1990

COMMITTEE MEMBERS PRESENT

Mr. Gargan, Mr. McLaughlin, Mr. Morin, Mr. Ningark, Mr. Pudluk, Mr. Sibbeston, Mr. Zoe

---Prayer

**CHAIRMAN (Mr. Sibbeston):** I welcome you all to the public accounts committee. I will start by introducing the public accounts committee Members. For the record, I am the chairman; Members present are Ludy Pudluk, John Ningark, Sam Gargan, Don Morin, Bruce McLaughlin, Henry Zoe. Mr. Pollard, who is also a Member, is not here today, partly because of it being spring and usually this time of the year there is concern about flooding in Hay River.

I will ask Don Young, who is assistant auditor general for the western region to introduce the people that are with him.

**MR. YOUNG:** Thank you, Mr. Chairman. With me is Roger Simpson, who is the principal in charge of our Edmonton office and who is heavily involved in overseeing the work in the Northwest Territories; on his right is Dale Shier, who is the manager in charge of the audit of the government; and in the background here is Ian Campbell, who assists Mr. Shier in that role of auditing the government and some of the subsidiaries.

**CHAIRMAN (Mr. Sibbeston):** Thank you. The general procedure for the day is to have the Auditor General officials give us an overview of the role they serve in doing their work here in the North. After that, beginning at 10:00 o'clock, we will have the Department of Finance appear before us with respect to matters that have been raised in the report. This afternoon we will have the Department of Economic Development and Tourism. Tomorrow, we will have the Department of Health, Social Services, Department of the Executive and Finance, the Department of Education and Arctic College. That is the general line up that we have.

I welcome the public, the media, that are here. I will ask Mr. Don Young if he could begin or have his officials begin their brief overview.

Comments From The Office Of The Auditor General

**MR. YOUNG:** Thank you, Mr. Chairman. The Office of the Auditor General of Canada performs the legislative audit function on behalf of the Legislature of the Northwest Territories. That is a mandate that derives from the Northwest Territories Act. We are your Auditor General and it is our role

to service the Legislature. A large part of that responsibility is to work with the public accounts committee which is the vehicle through which we communicate with the Legislature and the vehicle through which the results of our efforts are dealt with. That is certainly going to be on your agenda for today and tomorrow.

The role is one that goes back some considerable period of time and certainly since the inception of the public accounts committee we have been involved from the beginning. The public accounts committee has had an active involvement since that time. We support very strongly the need for a strong public accounts committee. One of the most encouraging aspects of our role over the years has been the evolution of the public accounts committee and its growing influence in the full scheme of things. That is very encouraging. We hope to be a part of that for some period of time and see the evolution continue.

I am going to turn the mike over to Roger Simpson who is going to talk a little bit about the actual work we do in a very brief way to give you an idea of the evolution that has taken place in that area as well, so it will put some perspective on the report that is going to be considered over today and tomorrow.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson.

**MR. SIMPSON:** Thank you, Mr. Chairman. Over the past few years, most of our audit effort has concentrated on the annual attestation of the public accounts, which is a mandated responsibility of the Auditor General. Also, under the Auditor General Act, there are some other responsibilities, most notably to call to the attention of the House those areas where in our work we find that due regard has not been given for economy and efficiency, and where the government does not have adequate systems in place to measure the effectiveness of its programs. Over the past two or three years our audit effort has been evolving away from the pure financial attest audits into these broader areas. The report that you have before you today shows the evolution of our audit efforts, along with the evolution of government generally and the growth in responsibility of this committee. For each of the sections on today's agenda, I am going to ask Mr. Shire at the appropriate time to give a brief overview of the audits that we have conducted in each of these departments. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Did that conclude your general overview? Thank you. Shall we now proceed to the Department of Finance. I will ask Mr. Eric Nielsen if he would introduce his staff for the record and give him an opportunity to make some general opening remarks.

**Comments From Department Of Finance**

**MR. NIELSEN:** Mr. Chairman, on my left is Jim Nelson, Comptroller General for the government, and on my right is Mr. Voytilla, the secretary of the Financial Management Board.



First of all, I would like to thank the committee for this opportunity. It is a new approach, certainly on the basis of what was circulated to us; and I think a fairly refreshing approach because, to some extent, it gets into the conceptual and overall kinds of concerns that the committee and the government might have.

With respect to the Finance department process, I could say that our internal processes in the department very much parallel the processes of the overall government. First of all, we would start off with the Legislative Assembly approving the budget for the government, which provides the overall framework within which each department operates. That budget, in addition to allocating dollars for specific purposes, also provides definitive objectives, and those definitive objectives outline the particular projects which will be addressed during the budget year. Those projects, those objectives and, as well, the structural objectives of the department, which are the ongoing objectives and which are really provided for with the base funding provided to the department, are also supplemented by the objectives and goals which are discussed with each manager at the start of every year when we go over the performance appraisals. Not only do we discuss previous years performance with managers, we also set objectives for the coming year for each manager. As I said, those objectives, which I consider to be personal objectives, very much parallel the definitive and structural objectives which are identified for each of the managers.

During the year we have an ongoing monitoring process. I believe the committee has discussed and reviewed the variance reporting mechanism of the government in the past. Our department has that same process. We very carefully review on a monthly basis the variances for each of the divisions of the department. We do not only look at the dollars and determine whether or not the divisions are in fact spending approximately what they indicated they would, but we would also question whether or not they are achieving their results. And we do this in a number of ways.

In addition to the variance reports which are done on a monthly basis within the department, we also report to the Financial Management Board quarterly on the variances within the department. We have work plans within the department whereby each of the divisions identifies what projects it has on its agenda and identifies who they are assigned to and their estimated dates of completion.

In addition to that we have fairly regular management meetings and certainly at the divisional level those management meetings are quite regular, at the senior level they are done on a periodic and as needed basis more so. Any indication of financial variances or any issues relating to the achievement, over achievement or under achievement of objectives, are brought to the managers attention at that time.

With respect to the definitive objectives, it is a relatively straight forward process to determine whether or not a project is being done or has been done, whether a project has achieved its results. This is a little

part of the overall system. The variance reporting system where we report on a monthly basis is an almost automatic thing. The financial information system produces variance reports every month for all departments. Each deputy minister receives an overall summary of the department and the financial officer for the department and the deputy minister review that to determine if there are any divisions that look like they are heading into trouble.

In addition to that, there is a quarterly variance report which is provided to the Financial Management Board and every department is required to report at the activity level to the Financial Management Board, identifying what the cause of any variances are year to date and as well trying to project what they anticipate the variances will be to the end of the year and identifying what the reasons for that would be. That is the one system which is the variance reporting system. Of course, any expenditure system is not effective by itself. You would want to identify whether or not you are achieving your objectives, and in addition to that we have the management for results system which provides an opportunity for each deputy minister to obtain information from the division managers. In our department the division managers are required to provide reports to the deputy minister, and then the deputy minister reviews what is submitted to him and identifies any areas of concern. It would be at the deputy minister level.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Mr. Zoe.

**MR. ZOE:** Thank you, Mr. Chairman. That is the system I was interested in, the last one that Mr. Nielsen talked about. Does it go further than that, does the deputy minister forward that on to Finance? I realize that he finds out if they are meeting the objectives for their own department, but who co-ordinates the overall? Does it go further than the deputy minister's office? Does it go to FMB or the Executive?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, the management for results system is a relatively new system to the government. For the last few years we have really been concentrating on the implementation of that in departments. For the 1990-91 fiscal year, the management for results system will be incorporated into submissions to the Financial Management Board so that any requests for supplementary funding or identification of issues during the variance reporting, anything that is of a substantive financial nature, will require a submission as well identifying the related management for results system information.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Thank you. In other words, Mr. Chairman, in the 1988-89 fiscal year we did not have anything in place so this particular report that the deputy minister received did not go further than the deputy minister's office. Am I correct?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, that is likely the case. I do not recall any instance of management for results system information going to the Executive level related to, say, a funding request.

**CHAIRMAN (Mr. Sibbeston):** Could I ask Mr. Young if he would comment in a general way.

**MR. YOUNG:** Thank you, Mr. Chairman. I am going ask Mr. Shier, who spearheaded the audit work in that area, to provide the overview.

**CHAIRMAN (Mr. Sibbeston):** Mr. Shier.

**MR. SHIER:** Thank you, Mr. Chairman. Obviously with Finance having a strong central agency function for the entire financial functions within government, a lot of our audit effort is directed toward that department. For example, we reviewed the department's central financial information computer system which is key to finance within the government, payroll system, the comptrollership function which provides the financial statements and, of course, other functions such as the Financial Management Secretariat.

In our report this year we deal with two issues of non-compliance with acts which we have addressed to the Department of Finance. In the first case, on page 2 of our report, we talk about overexpenditures. Overexpenditures are situations where more money was spent than is allowed by law, in this case the Financial Administration Act. When this occurs, it is referred to as an overexpenditure. Each year the Legislative Assembly passes an Appropriations Act which specifies how much money a department can spend and the Financial Administration Act sets a cap that no department can spend more at the activity level than is permitted by the Appropriation Acts and Supplementary Appropriation Acts.

This year page 3 of our report shows a table that indicates that indicates that in this year three cases occurred where there were overexpenditures and these overexpenditures, Mr. Chairman, total over three million dollars. To put this in perspective the total overexpenditure of three million dollars are at a total spending of about \$850 million.

Another way of putting this into perspective is to compare it to overexpenditure last year as well. Last year the government overspent by some two million dollars in total but did some in some 20 cases. So the number of instances of overexpenditure has gone down but the total value associated has increased.

#### Special Warrant Violation Re Acquisition Of Power Corporation

The other issue we addressed on violation of authority through the Department of Finance is on page six of our report and that refers to the

use of special warrants. Special warrants are ways of spending money in emergency. For example, when you have a flood, when you have fires, it is not practical to obtain the permission in advance from the Legislative Assembly to spend money. The special warrants are a method by which the Commissioner can authorize the temporary spending of money in emergency situations.

This year the government had a total of about \$19 million in expenditures which are authorized in the first case by a special warrant. Ultimately all of those were ratified by the Legislative Assembly by supplementary appropriation bills. In this case we noticed one special warrant which was, in fact, for the Department of Finance in the amount of approximately \$4.5 million. This special warrant was used to pay interest on some borrowing the government issued when the government acquired Northern Canada Power Commission from the federal government. The government knew it had to pay this interest in June of 1988 and they waited until December 1988 to obtain the special warrant. In this period the Legislative Assembly was sitting in the fall of 1988 and it would have been very practical for the department to go to the Legislative Assembly instead and obtain spending permission from the Legislative Assembly in the first case instead of by a special warrant. As this was not an emergency we feel that they should have gone to the Assembly in the first place.

**CHAIRMAN (Mr. Sibbeston):** Any comments. Mr. Zoe.

**MR. ZOE:** Thank you, Mr. Chairman. The Auditor General gave us three examples that are not in compliance with the act. I want to comment on activity levels. If I recall we have this wonderful system called the FIS system. In the world we have today overexpenditure should not even occur. I am not too sure who is actively responsible for the overexpenditure, is it the Department of Finance who oversees all the other departments, because they are the ones that spit out the cheques? Or is it the individual departments that look after activity levels? Who is responsible for dealing with this problem?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, we do have a good financial information system. It does give us what we want. I think it is important to realize that in any organization you do not manage by control, we can put controls in the financial information system which will prevent any expenditure over \$20 without approval if we wish to. I think the system is designed to provide a certain level of flexibility. It may not be the appropriate level of flexibility at this stage but to some extent that flexibility in the level that is identified has been the direction provided by this committee and the standing committee on finance. When we developed the last Financial Administration Act it went through this committee and I think there was some discussion at that time about allowing activity level controls to be reduced or perhaps increased, maybe even going beyond the activity level control and perhaps not allowing overexpenditures at all at the activity

level. At the present time we do allow for interactivity transfers and that is the way the act is designed.

I think in a short answer, we have to balance the controls and provide a certain amount of management flexibility. We feel that level has been appropriate. Yes, there have been some overexpenditures, and as was pointed out by the Auditor General's office, there are two ways of looking at that. The number of activity overexpenditures has reduced, overexpenditures at the activity level, while the dollar value has increased. The interesting thing is that, as well, the Auditor General identified in his report that the areas where these overexpenditures occurred were in such areas as medical services where, in fact, it is very, very difficult to identify where or how much those expenditures are going to be. I must say I do sympathize with departments who have to manage expenditures where the expenditures might be coming from other areas, for example, from hospitals all across Canada. It is very difficult to try to project what the expenditures will be from provinces when, in fact, they do not really have any idea of the amount of usage.

Now there are ways of managing that I suppose by putting in some sort of sophisticated computer modelling techniques and projection techniques but that does not necessarily mean that you are going to absolutely solve the problem. We always run the risk of overexpenditures at the activity level in such uncontrollable expenditure areas. We think we have come a long way. We have reduced that from 20 down to six. We are currently evaluating what the results of 1989-90 will be. We hope it will be less than six; no guarantees but we hope that there will be some improvement.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, maybe Mr. Nielsen did not understand my question. He is talking about the FIS system and the way it works and so forth. I am interested in that but I would like him to answer my first question. Who is responsible for the problem of overexpenditure? Is it the individual department, or is it the Department of Finance? What is their responsibility? I would like to know. Are they both responsible? I would like to know who has what and so forth.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**Individual Departments Responsible For Control Of Expenditures**

**MR. NIELSEN:** Mr. Chairman, I am sorry, I thought I had answered that in an earlier question. It is very clearly identified in the Financial Administration Act that the responsibility for the control of expenditures is at the department level. Each department is required to manage its own budget and has the expenditure responsibility within that budget.

**CHAIRMAN (Mr. Sibbeston):** But would you not say that the Department of Finance in government is the one department that is responsible for

not recommending that as a solution, but the fact is that our government is reaching the point where we are budgeting very very close and managers are really being put on the spot. They do not have contingency funding in their budgets.

I think it is quite important to realize that the control systems are in place. The reason these things have been brought to your attention is because the control systems are in place. I do not think we should try to underestimate the number of management accountability mechanisms that are already in place in our government. Reviews such as this committee and reviews by the Auditor General do bring to the attention of the Legislative Assembly any instances where there are problems, and that is what has happened in this particular case.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Mr. Zoe, final question and then we will take a coffee break.

**MR. ZOE:** Mr. Chairman, this is a complex issue. If I recall correctly, the department also indicated that they were going to try to work out options and they were going to consult with the Auditor General's office and the standing committee on finance. I wonder how far they went with regard to that. This is a complex and complicated issue. How far have you gone on this? We have to find some kind of solution to this problem.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, as we have identified in our response to the Auditor General's report, we again felt that first of all we had changed the Financial Administration Act; we had in fact put more accountability on the shoulders of the departments. The first year of operation we had some problems. We believe those problems have been reduced, if not in size, certainly in number. We feel that the problems will be further resolved this year. It is our view that we would like to wait and see what the results of the 1989-90 fiscal year are and as soon as those results are known we intend to discuss this with the Auditor General's staff and with the committee.

**CHAIRMAN (Mr. Sibbeston):** Last comment by Mr. Young.

**MR. YOUNG:** Mr. Chairman, Mr. Nielsen has indicated that the primary responsibility for overexpenditures rests with the program manager. I am wondering if, just for illustrative purposes, it might be useful, or the committee may want to pursue the overexpenditure in Finance, even though it is a very minor one in terms of dollars, but to look at the process within the department itself and how it deals with an overexpenditure; whether it might be useful just to follow the process that gave rise to the overexpenditure in Finance.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, the overexpenditure in debt financing in Finance is \$582, I might mention. This should never have happened. All that happened in this particular case was that the department evaluated its requirements in another activity. The debt financing activity was deemed to have some surplus funding and funding was taken out of that activity. Unfortunately, there were charges that were subsequently made which were not anticipated. In fact, the activity ended up originally having enough funding in the activity and eventually ending up, as a result of incorrect adjustments, not having the money.

**CHAIRMAN (Mr. Sibbeston):** We will take a 10 minute break.

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**CHAIRMAN (Mr. Sibbeston):** The committee will come to order. Mr. Nielsen, did you have a matter you wanted to raise?

**MR. NIELSEN:** Yes, Mr. Chairman. I just wanted to correct some remarks I made just at the time we were closing. I had unfortunately addressed my response to a different problem. I realize that it was debt financing activity in this case that was overspent. The debt financing activity was overspent because the department identified what the requirement was in its supplementary estimate but unfortunately when it went to the Financial Management Board, the Financial Management Board secretariat truncated the amount and they truncated it down instead of upwards, so instead of coming up with a rounding figure that would have covered it, they come up with a rounding figure that went down. So, in fact, the Financial Management Board approved an amount that was incorrect. That was simply an error on the part of one staff member in not understanding that we had in the debt financing activity we had to pay the exact amount, we could not pay something that was \$500 less.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**Overexpenditure In Department Of Personnel**

**MR. ZOE:** Mr. Chairman, in this specific overexpenditure, I wanted to get a response from the Department of Finance. I assume that the other departments that overexpended must have given a response either to the Comptroller General or else to the Department of Finance as to the reason why they overexpended. I am particularly interested with the Department of Personnel in their overexpenditure in total. That means they overexpended their department in their operations and maintenance by \$485,000. Mr. Chairman, this is the only department that overexpended the overall department. I wonder if the Department of Finance had any response from Personnel for the rationale behind their overexpenditure. Mr. Chairman, I may suggest if the response from the Department of Finance is not adequate in my view then I may ask the committee to consider calling the Department of Personnel to appear before our committee. Mahsi cho.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, I do not feel comfortable responding on behalf of the Department of Personnel but I can certainly try to outline our understanding of how this occurred. As I understand it, Mr. Chairman, the costs for this overexpenditure relate to employee benefits. These are contractual costs. Again, as I understand it, the department attempted to identify what its requirements would be. Again, I guess, recognizing that the government's financial management is very much decentralized, not only to departments but to regions, this overexpenditure occurred in regional operations. The department did go to each of the regions and request information on what their anticipated expenditures would be in these employee benefits areas. Unfortunately, the amounts provided did not meet the contractual obligations and the department had an overexpenditure.



**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, as Mr. Nielsen indicated, he is sort of hesitant to answer on behalf of the department. This is the only department that exceeded its overall money that was budgeted for Personnel. It is a large amount. I realize what the deputy minister of Finance is saying, but I think that maybe our committee should call the department to appear before us so that we can get further clarification as to how this overexpenditure occurred.

**CHAIRMAN (Mr. Sibbeston):** Is it generally agreed that we should invite the Department of Personnel to answer the questions raised? Agreed. Then we will have our staff inform the Department of Personnel we wish to see them and we will find an appropriate time today or tomorrow. Mr. Zoe.

**MR. ZOE:** Mr. Chairman, we are on chapter 1 and there are three main issues that we are dealing with in chapter 1 of the Auditor General's report. I wonder if the department could appear before us before we conclude chapter 1, so that it coincides with what we are dealing with.

**CHAIRMAN (Mr. Sibbeston):** I am open to that possibility. If the Department of Personnel has staff that could be contacted and asked to come. We will ask our staff to see to that. Perhaps we will see if they can come at 11:45 a.m. with the view that we try to get through all of the matters we need to deal with with the Department of Finance before noon. Can we get into the issues? Mr. McLaughlin.

**MR. McLAUGHLIN:** It is a general question on the Financial Administration Act. I remember being on the town council in Pine Point and there was no point in having a by-law if no one was going to enforce it. We have a financial act which actually is a law which is supposed to be complied with. Whose job is it to blow the whistle or enforce the law? If no one is doing it, why bother having the act.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, I believe it is a combination of responsibilities. Obviously, the Auditor General is blowing the whistle. I think the government was aware of this well in advance and, again, I cannot speak for the Financial Management Board because it is the Financial Management Board who would have the overall responsibility for the management of departments. I do know in this particular case it was considered to be a very critical issue. I do know that it was discussed and was a strong concern at the Financial Management Board level.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** When you go through a stop sign in your vehicle, it does not make any difference whether you did it on purpose or through negligence, you are going to get a moving traffic violation ticket from the

policeman who sees you. In this case, who has the responsibility to lay down the law, not necessarily legally but at least morally on the people that are in the situation to cause these overexpenditures. I can understand how overexpenditures happen. It happened in my department when I ran then but we usually had supplementary estimates to cover it. What I am thinking about is at the end of the year, I know that in the office here and I would imagine it is the same in all the other departments that the two or three weeks leading up to March 31 and the couple of weeks after they are stamping "old year" on all these things to make sure that even though the cheques get issued after March 31, they are issues against the previous year's budget because they are commitments coming out of that budget. When the cheque is already issued, plus those one that are stamped "old year" add up to more than what the department is allowed to spend, who makes the decision to actually issue those cheques or not. That is what the question is. In fact, then you are actually going beyond what the act says you are allowed to do. Someone has to make that decision. Is it the Financial Management Board that makes that decision to ignore its own act or is it an officer in one or two departments?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, in answer to the Member's question, I believe the system worked pretty well. I think we are seeing that work right now. The ultimate accountability is to the Legislative Assembly. The Legislation Assembly is the one that passed the Financial Administration Act. The standing committee on public accounts is, at this point in time, demanding an accountability for these overexpenditures. On that basis, I think the process is working. Certainly at the Financial Management Board level, at the Executive level, the Executive branch of government, the issue as I had identified has been thoroughly reviewed. I think in determining what is done it is not simply a case of saying there is an overexpenditure, heads must roll, I think it is a case of saying that we have had an overexpenditure, we must examine the circumstances that were behind that overexpenditure and determine whether or not there is something wrong in the process or somebody has done something wrong in the process. That is the responsibility, I believe, of the Executive branch of government. I think that process has worked well. I think that accountability has taken place.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** What I am getting at is that there are two kinds of overexpenditure. There is an overexpenditure of the main estimates that occurs you are in a situation where you have to have a supplementary appropriation through the Assembly or a special warrant, but what we are talking about here is a case where the overexpenditure occurs and everybody knows they will be spending more money than, legally, they are allowed to spend. Who makes that decision to make that overexpenditure -- the Financial Management Board through some sort of a motion or an officer of the government?

The example of the Department of Health is a good one because you are not all of a sudden going to stop medical transportation of patients in a life threatening situation because the budget is going to be overspent. So when it comes to people's attention, do officials in the department say, "We are going to spend more money than these people have in their main estimates and the supplementary estimates, and even beyond special warrants." Does an official in the Department of Health make that decision, the Department of Finance, or does it go the Financial Management Board to decide to make these overexpenditures above and beyond what is approved in the Financial Administration Act and the Appropriations Act? That is what I am asking, who decides? Is it done by an official or is it done by the Financial Management Board itself?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, as I indicated before, I do not think there is a conscious decision of someone setting out to make an overexpenditure. Again, I think we have to look at the types of overexpenditures that occurred. They were expenditures that were as a result of receipt of invoices, for example; knowledge that came to the attention at the deputy minister level or at the director level, or maybe even at the regional superintendent level, subsequent to year end. There were obviously some calculations or projections that were made that did not turn out to be the case. In these particular instances, the approval of the expenditures took place after year end. It is not a case of somebody before the year end saying, "We are approving these." Again, as I have identified, that is covered within the Financial Administration Act.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** I have one question for Mr. Nielsen and one for the Auditor General's staff. It seems to me that, for example, this year when it came to the attention after the year end that this was happening, we were actually sitting as an Assembly and a supplementary estimate could have been done. I think last year or the year before we were sitting after March 31st as well. Last year the Assembly was actually in session and when it came to someone's attention at year end, a supplementary estimate could have been passed. That is one question.

My question to the Auditor General's staff is, are there other jurisdictions which take advantage of what they have in place, similar to FIS, and the Department of Finance does basically blow the whistle, bells ring, and departments are told, "You have overexpended the activity and you cannot issue any more cheques in this area until there has been a supp or until an FMB decision is made to allow you to do this."

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, I understood the question was to the Auditor General's staff.

I think a lot of that credit goes to the role of public accounts committees. This year there was just the one special warrant situation in our report and that is a very considerable improvement over some years back when there were quite a number of them.

**CHAIRMAN (Mr. Sibbeston):** Further comments? Mr. Zoe.

**MR. ZOE:** Mr. Chairman, the Auditor General's office made the recommendation, but the recommendation does indicate to prevent overexpenditures and to hold managers accountable for any overexpenditure which they incur. That does not hold too much meat in my view. I would like to ask both the Auditor General's office and Mr. Nielsen, how can we improve fiscal planning, especially to cover non-discretionary items.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, I do not have a specific answer to the Member's question but I can assure him that we are always playing with a moving target here and that it is certainly not the intention of our government or the Department of Finance to sit back and say we have the best system in Canada, we are happy with it and it is doing everything adequately. The Government of Canada has recently had two projects which have examined the accountability and the flexibility that is present in their system. One project which is known as the public service 2000 and another project which is the increased Ministerial authority and accountability project. One of those is being addressed by the Treasury Board and another one is being addressed through the Prime Minister's Office through a special task force.

We have examined the terms of reference of both of those projects. We have examined the results so far and the direction that has so far been identified. Interestingly enough, from our initial look at that, the Government of Canada has had a far, far more controlled and restrictive system than we have had at a very detailed level and they are removing some of those restrictions and in fact coming to the same position we are. At the same time, they are also doing other things with respect to the accountability and flexibility of management is going beyond where we are. I think that is one of the things we are going to have to look at: should we have controls at the activity level, for example, the way we do now; would the Legislative Assembly be receptive to reducing those controls and eliminating the kind of discussion and problem that we have had just now; or perhaps revamping them, changing them, so there is a different way of managing. There is also the question of the amount of paper work going to the Financial Management Board and to the Executive branch of government generally. Those are things that we will be looking at. I think in general response I would like to say that there are likely changes. Some people might consider them as improvements to the process which could be made. We are actively re-examining some of those things within the government at this point in time.

**CHAIRMAN (Mr. Sibbeston):** Mr. Young.

**MR. YOUNG:** Thank you, Mr. Chairman. I concur with Mr. Nielsen's comments. Things are happening very fast in many jurisdictions across the country in terms of streamlining systems and making systems more responsive to current day needs. Again, I would reiterate the pressure has to come from somewhere and one of those pressures is from legislators and through the likes of the public accounts committee. This pressure does cause improvements to take place and that is how the system works, or should work, and that is how it is working. Those jurisdictions that can keep those things in proper balance, the initiatives of the government and the needs of the legislators, if those can be kept in proper balance then the improvements are seen. That is really how it works.

**CHAIRMAN (Mr. Sibbeston):** Just a question to Mr. Nielsen with respect to his assessment of the changes that have been brought forward under the Financial Administration Act, this being the second year of its functioning and operation. Does he still believe that the control ought to be at the activity level? Is he satisfied with the decision that was obviously made a couple of years ago to have control at this level? If not, does he have recommendations as to what would be seen as appropriate changes? Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, I am quite comfortable with the Financial Administration Act the way it stands now. I think, as I indicated earlier, the process is working and today's meeting is a good example of it. That is not to say that we should not re-examine it and I think we will re-examine it in light of some of the suggestions and comments that have been made today. I think we will re-examine it in relation to what other jurisdictions and the Government of Canada are doing. I think the important thing, my perspective on this, is that the Legislative Assembly have the right kinds of controls and guidelines in place that will make Members feel comfortable that when they vote an appropriation that the moneys will be used for the purpose it is intended. I think really that is the overall objective in whatever system we put in place. It is my view that objective is being achieved with the current Financial Administration Act.

**CHAIRMAN (Mr. Sibbeston):** Are there any further questions of the deputy minister of Finance and his officials? Apparently there are no more questions with respect to this year, but I think Mr. Zoe has a question on a matter from last year. Mr. Zoe.

**MR. ZOE:** Before we finish with the Department of Finance, Mr. Chairman, there were a number of recommendations that were made last year by our committee. I would like to get a response from the deputy minister if these recommendations that we made last year have been implemented and if so, how. Maybe for the record, I can read.

**Status Of Last Years Public Accounts Recommendations Re Department Of Finance**

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Last year our recommendation 1 was: it is recommended that where the potential for earning exists the Department of Finance should consider this potential in the calculation of contribution payments.

Recommendation 2: it is recommended that the Department of Finance complete an analysis of projects on behalf of third parties and report its conclusion to the standing committee on public accounts during the 1988-89 public accounts hearing.

Recommendation 3: the committee requests a commitment from the Department of Finance to provide a complete list of contracts over \$5000 for the fiscal year under review to the standing committee on public accounts prior to the public accounts hearing. Those were the three recommendations that I would like to get a response to, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, with respect to the first recommendation, it is certainly a valid recommendation and it is under consideration. I believe Members are aware that there is a review being undertaken under the leadership of the Financial Management Board secretariat in the government to examine the financial arrangements between the government and all its boards and agencies. This will be one of the issues that will be examined. We have terms of reference and we have talked about the interest and we have talked about the surplus that could be retained by them and a number of other financial arrangements.

Mr. Chairman, with respect to the second issue concerning the projects on behalf of third parties, as the recommendation has identified, the board will be considering that, that has been taking a considerably longer time than we had anticipated. But I can assure Members that it is an issue that is of utmost importance for us to resolve and we anticipate that within the next several weeks there will be a decision made by the Financial Management Board which will then be taken to the standing committee on finance, where this has also been identified as a concern.

The third issue relates to controlling the expenditures at the activity level and I believe that that has been thoroughly reviewed.

The one on contracts over \$5000. Again a report has been developed on contracts over \$5000. It is currently being reviewed to determine whether or not it meets the requirements and the concerns of the committee as previously expressed. Again I expect that that report will be finalized over the next few weeks. All the data has been collected and completed. It is a very extensive process.

**CHAIRMAN (Mr. Sibbeston):** When might this be available?

**MR. NIELSEN:** Mr. Chairman, I would hope it would be available within a few weeks. But again that depends on the Financial Management Boards review and if they feel that it does not adequately address the concerns of this committee they may request that the department reconsider some of the items in the presentation. I think the intention is to ensure that the appropriate information is in the report that the committee had asked for.

**CHAIRMAN (Mr. Sibbeston):** I cannot help but comment and say that it has been a year since this request has been made and the response has not been very fast. In that regard there is probably some disappointment that it has not been provided to us by now. If you could just relay that information to the appropriate Minister who is responsible, that we are anxiously waiting for this. Does that conclude out dealing with the deputy minister of finance and his officials? Mr. Nielsen, we thank you and you officials for coming before us and we will see you again next year.

**MR. NIELSEN:** Mr. Chairman, thank you very much and as I indicated in my earlier comments, we appreciate the opportunity and particularly this year. This is a refreshing approach and in our view I would like to support the comments made by Mr. Young earlier and that is that a lot of the direction that we receive and the identification of problems, assist the Department of Finance and we are very comfortable with the direction we have received this morning and support the committee's direction.

#### Department Of Personnel

**CHAIRMAN (Mr. Sibbeston):** Thank you. I understand officials from the Department of Personnel are available. If you could just state your name.

**MR. BALASKI:** I am Mike Balaski, I am the acting deputy minister of Personnel and Sue Cunningham who is the director of finance and administration for Personnel.

**CHAIRMAN (Mr. Sibbeston):** Thank you. The committee wanted to have some officials from the Department of Personnel here to answer to the fact that the Department of Personnel of all departments was one that overexpended its budget entirely and went beyond its budget as approved by the Assembly. So as a committee of the Assembly and dealing with the finances of the government, we were concerned as to why this occurred. So if you could explain how it is that the Department of Personnel in its regional operations activities overspent by \$485,000. Recognizing that through the course of the year that the Department of Personnel has been given a two million dollar supp to deal with this shortfall.

**MR. BALASKI:** The area that we were overexpended in, there are two areas that are semi-discretionary and one is really non-discretionary. The semi-discretionary is the salaries and wages for Personnel staff. The second is funding for the provision of Personnel services, such as recruitment, benefits, administration and employee relations. The really non-discretionary one is the funding for the payment of negotiated employee

benefits such as vacation travel assistance, medical and orthodontist travel assistance, removal in and removals out and transfers.

As I say one and two are semi-controllable. This means that the payment of expenses is non-discretionary in nature and the altering and deleting of the program is not possible. Personnel expenditures are normally driven by forces outside of the departments control. For example, we cannot anticipate if we are going to get a large turnover or a large number of resignations and go out to recruit, which of course includes a lot of advertising costs and advertising is a big expenditure when it comes to recruitment. Some of this is controllable and we are trying to get that more under control now with very specific guidelines on how and what we advertise and where. In the past this was not that well done.

We do have some new systems in control for this upcoming term. One is we feel that we will be better able to forecast expenses. We have systems in place, such as a computerized staffing system. We will be able to look at averages, trends and so on a little sooner, and then presumably we should be taking appropriate action.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, this is the only department in the 1988-89 fiscal year that overexpended in total. The other departments that have been listed have not overexpended in total but in activity levels. It is quite an interesting note here, I do not know what happened but I understand what the acting deputy minister is saying. But there is a level of control that the department has. The control level is all at the department level, at various activity levels. The department received two million dollars in the course of the year, but they still overexpended over that. Now it raises a question in my mind, the people that we have in Personnel, because it is a departmental responsibility to ensure that they do not overexpend.

The question that I have is, maybe it is financial planning or planning seems to be the problem where they cannot forecast right or the system that we have in place does not pick up the shortfall. There are indicators that the managers should be able to pick up, saying that they are getting short in this area and they need to go forward with a supp. Surely, the people in Personnel that are negotiating with the unions or whatever should have a feel as to what kind of moneys they are looking at. Surely the FMB or the Executive gives them a target to try to settle at so they know that they have a ball park figure that they have to work with. I am not too sure. To me it seems like there is more of a problem here of planning. The responsibility of overexpenditure, as Mr. Nielsen indicated earlier on, is the department head. That is who is supposed to watch what happens within his own shop. It raises a lot of questions. That is why we called in the Department of Personnel so they can explain exactly what is happening there. I still have that question. How can we avoid having this type of overexpenditure, especially overexpending over and above what the department was allotted.



**CHAIRMAN (Mr. Sibbeston):** Mr. Balaski.

**MR. BALASKI:** That is my point, Mr. Chairman. We accept that criticism that we did not have good control over these expenditures. That is why we have these systems in place which we think are going to be a lot more quickly responsive. We would be able to say, "Okay, we are going to be overexpended in this area, let us cut back on this activity." Now, we cannot under the collective agreement, for example, refuse to pay VTAs. They are something that we cannot say we are not going to pay unless we want to get into a major battle with the union. We cannot refuse those kinds of things. We can certainly cut back on such things as our recruiting activities, for example, in advertising, the travel costs to bring applicants up or for our team to go down south if that is the case. These are more discretionary things. As I say, these systems will be able to respond a lot more quickly and this raises a red flag of sorts. Then we say, "Well, let us quit expending or let us dramatically reduce in these very controllable areas."

**CHAIRMAN (Mr. Sibbeston):** Are there any further comments about this? Mr. Zoe.

**MR. ZOE:** Mr. Chairman, he illustrated by using the VTAs as an example, which is non-discretionary. You have to give VTAs out and obviously the department knows how many personnel that we have that works for us, so they should know the ball park figure as to how much they are going to overexpend and they can utilize that by either asking for approval through the FMB to move money within activity, if they have any surplus in other activities, or they can go for a special warrant if the House is not sitting, or go for a supp. But that was not the case here and they overexpended it over and above what was allotted for them.

**CHAIRMAN (Mr. Sibbeston):** Ms Cunningham.

**MS CUNNINGHAM:** What we find, and Mr. Zoe is quite right that VTAs are one of the benefits that perhaps you can get not too bad a handle on, but within a VTA you may know how many people you have but you do not know the mix. You do not know at any one point in time, or who you are going to have in the coming year who is married with three children, who is single, if they are going to take on-land travel, if they are going to take airfare. Therefore, we cannot pinpoint that benefit. The other non-discretionary is medical travel assistance which is one where we have virtually no control over. We can only look at trends, historical trends. If people are referred out by their physicians, we pay from wherever they have to come. Removals, as well, is another entitlement that we do not know at any time. We know what our turnover was the previous year and you can make some kind of predictions but we cannot pinpoint exactly how many people are going to quit, and if they will be those people who fall into the category that get full removal. We are never going to be able to get the exact budget.

vacancy rate because often these vacancies are filled on a temporary basis by casuals. So that is going on in the background.

**CHAIRMAN (Mr. Sibbeston):** If there are no further questions then I would like to thank you. There is one more question. Mr. Zoe.

**MR. ZOE:** Mr. Chairman, I wonder if I could ask if the Auditor General's office has any comments with regard to the Department of Personnel from what they heard so far.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson.

**MR. SIMPSON:** Mr. Chairman, we have no specific comments at this point because this issue came into our report not from a specific audit of the Department of Personnel but through looking at overexpenditures on a government wide basis. The witnesses indicated that there were control weaknesses within the department, which the department has now taken steps to correct. I can say to the committee that we will certainly review those steps that have been taken and over a course of time assess whether or not they are working. That is about all I can really say at the moment.

**CHAIRMAN (Mr. Sibbeston):** I thank Mr. Balaski and Ms Cunningham for coming on very short notice.

**MR. BALASKI:** Thank you.

---LUNCHEON RECESS

Department Of Economic Development And Tourism

**CHAIRMAN (Mr. Sibbeston):** I will call the meeting to order. Mr. Allen could you please introduce yourself and officials in their capacity they are appearing before us. Having done that we will give you an opportunity to give an opening statement for five to seven minutes, not necessarily dealing with the specific problems or issues that are before us, but by way of general comments if you have some with respect to your department. This is what our practice has been so far. Peter.

**MR. ALLEN:** Thank you very much. It is certainly a pleasure to be here. I have been asked by Mr. Noseworthy to make a prepared statement that he prepared for this meeting. On my left is Jim Kennedy, he is our director of finance and administration and on my right is Phil Lee, he is the director of business services within the division of business development. Mr. Chairman, Members of the public accounts committee. As I said, this was prepared for Mr. Noseworthy and these are his words.

Minister's Opening Remarks

I must express my sincere regret for not being able to personally attend this important function. Right up to the last minute I was intimately involved in preparing our response by directing our senior management through several briefings to respond to the Auditor General's observations. I looked forward to my appearance before the committee today, unfortunately it is mandatory that I represent the Minister at a Minister of Tourism's Conference. My participation is obligatory since we are hosting next year's events.

Since I became deputy minister of the Department of Economic Development and Tourism two years ago, I have become very appreciative of the work of the Auditor General's staff in pointing out some of the deficiencies being experienced generally within the department and most particularly within the business loan fund.

It is gratifying that the Auditor General notes a general improvement in the operation of the fund. In fact, with regard to items reported in previous years, the report indicates that there are no recurrences of events reported in previous observations. That is by far the best proof of how seriously I take this exercise.

The Auditor General's office has been helpful, but it only complemented the in depth systematic analysis of the department's organization, its programs and services and our systems and procedures undertaken during the course of our work in developing the economic strategy. I would like to take a few minutes to briefly outline some of the other measures that have been introduced to ensure that managers are accountable for their day to day decisions. Many of these, by the way, are over and above the existing government regulations. These measures can be categorized in four distinct

compliance audit, a program delivery and operations review and quarterly operations reports.

The compliance audit involves tracking the delivery and implementation of programs against existing legislation, regulations, policies, guidelines and procedures. These audits will be conducted by a management consultant or accountants under the direction of the director of finance and administration.

The program delivery and operations review will assess how well programs are being implemented and managed locally, regionally and territorially. This review will be undertaken by a departmental audit review committee. The committee will report directly to the deputy minister and will consist of one assistant deputy minister and one or two other senior managers selected by the deputy minister.

The quarterly operations report will consist of a summary report describing the status of each regions and divisions program delivery activities including budget expenditures, contracting, staffing, public relations, political concerns, and other related matters. This report will comment on various and recommended adjustments related to specific regional objectives, quarterly budgets and the capital plan.

#### Management For Results

Finally Mr. Chairman, on my instructions our management for results system is being revised to incorporate information on the status of proposals in the system and on the status of program budgets. The responsibility for maintaining the integrated system has been given to the registrar of grants and contributions. When completely implemented we should be able to provide information on a timely basis on where our money is going, how long it takes to process an application, how many jobs and how much income is created as a result of our programs.

Mr. Chairman, this concludes my opening remarks. While this department must be sensitive to the needs of the people in the communities we serve, program accountability and fiscal responsibility must be an integral part of the process in which we pursue our objectives. Thank you.

(portion of proceedings not recorded)

#### Write-Offs Versus Forgiveness Of Debts

**MR. SHIER:** ...write-off of loans. A write-off is merely an accounting entry to remove a debt that you do not expect to collect from the books. A forgiveness is something else entirely. Forgiveness implies that the government will no longer attempt to collect the money at any time in the future. Because of that they have much different implications and because of that there is a requirement within the Financial Administration Act that all forgiveness be put forward to the Legislative Assembly for approval, and it should be noted as forgiveness. The observation we have is that we

know of two cases totalling over \$340,000 which amounted to forgiveness, which instead were put forward to the Legislative Assembly as merely a write-off instead of preferably noting it as forgiveness. Thank you, Mr. Chairman.

**MR. ALLEN:** May I respond?

**CHAIRMAN (Mr. Sibbeston):** I am just wondering. It has just been general comments thus far, except what the Auditor General said with respect to the first issue. Do Members have any reaction or thoughts with respect to what has been said to date in a general way? If not, then we will go into detail and deal with the first issue, that of the write-off as opposed to forgiveness of debts. Mr. Allen, would you like to say something on this issue then?

**MR. ALLEN:** Yes. The department certainly realizes now the difference between write-offs and forgiveness. The normal checks and balances that are in place to ensure that we use the proper definitions were not all effective in this particular case. It was not caught by the Financial Management Board, nor the Legislative Assembly when we asked for write-offs as opposed to forgiveness. We have since put in place procedures to ensure that this does not occur again, and we do not anticipate that it will. Did you want to get into the individual cases?

**CHAIRMAN (Mr. Sibbeston):** We have a number of questions that we wanted to put to you. The first is, what criteria does the department use to distinguish between a write-off and the forgiveness of a debt? How does it choose between these two procedures in individual situations? Do you have to go to the Legislative Assembly for a forgiveness? If so, how often have you done this?

**MR. ALLEN:** With regard to the criteria in choosing between forgiveness and a write-off, as the Auditor General says, the write-offs are provided when, in the department's assessment, there is an opportunity to recover at some point in time on the outstanding loan. Forgiveness, of course, is when we have exhausted all attempts and have assured ourselves that there is no possibility of recovering on the loan.

In terms of procedures, after all attempts are exhausted, and that includes trying to realize on personal guarantees, a report is done by the regional superintendent which will make a recommendation, considering a number of factors. One of the factors is obviously the hardship on the individual involved, for example if you are taking somebody's house. There are obviously other factors that come into play. Based on that report a decision is made whether to recommend a forgiveness or a write-off. In either case, we go to the Legislative Assembly and take the appropriate action.

**CHAIRMAN (Mr. Sibbeston):** I think the question, too, was whether you had ever gone to the Assembly for forgiveness. I am aware of the department coming forward with writing-off certain loans and assets in other

departments, but I am not aware of a system for forgiving loans completely. Could you comment on that.

**MR. ALLEN:** In the past, in my recollection and the recollection of my staff, we have not gone forward for forgiveness, even though, based on our analysis, it was clear that there would be no opportunity to realize on the outstanding amounts. In my recollection, we have never gone for forgiveness.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, if I am reading this gentleman right, they have never come forward for forgiveness yet of any write-offs, so I assume that for the last number of years they have not been pursuing the write-offs. You must have a big backlog of write-offs that, technically, even though they are written off you are supposed to be pursuing them. I wonder how many times they have tried to pursue collection of those write-offs. Question one is, how many times have they pursued all those write-offs for the last number of years. According to this gentleman, he is indicating that the write-offs, in their view, are uncollectible so they do not even bother pursuing those. There must be a whole stack of files that are considered uncollectible which should be brought forward to the Assembly for approval for forgiveness. That would then clear off all their records. That is not happening here, so I wonder if he could comment on that.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** With regard to write-offs, obviously we have been treating write-offs as forgiveness in the same way. We only recommend to the Legislative Assembly a write-off, read forgiveness, when all other avenues with respect to the collection of that loan have been exhausted. Just to give you an idea of the process that we follow once a loan is in arrears: after 30 days a notice is given to the borrower indicating that his account is overdue; after 60 days a second notice is given; after 90 days, unless we receive advice from our regional staff that there are some extenuating circumstances, the account is sent to credit and collections. Credit and collections then pursue legal action against the borrower to secure the money owing. In some cases that involves the business failing, going out of business, and then realizing on any assets that are held as security for that particular loan. At that point in time, all security is taken. If the security is inadequate, then obviously we have a balance left over. If we feel there is no opportunity to collect on it, then we advance it for a write-off, first to the Financial Management Board and then to the Legislative Assembly.

The short answer to the question is that we take every option, just as every other lender would, in ensuring that the integrity of the fund is maintained and that we have realized on the securities that we have against the loan.

**CHAIRMAN (Mr. Sibbeston):** What about the question on the numbers. I do not think there has been any answer thus far to that. What are the numbers that have been put forward as write-offs and forgiveness, if any, to date?

**MR. ALLEN:** We can provide that information, but we do not have an up to date listing of all the loans that have been written off. Just to clarify one point I may have made, even after write-off if it is still in credit and collections and if there is some opportunity to realize on the outstanding amounts, action is taken. Even though they are written off, they are still on the books and credit and collections monitors these situations and takes action where it is deemed necessary.

**CHAIRMAN (Mr. Sibbeston):** It has been pointed out to you the difference between write-offs and forgiveness of debt, and this is provided for under the Financial Administration Act. Having had this pointed out to you, does the department have any intention to differentiate between the two? I am aware of provisions for writing off, legislation with respect to the write-off of debts which come forward to the Assembly occasionally; but I have never seen anything with respect to forgiveness. Is that a category of dealing with debts, and does the department intend to use that approach in the future?

**MR. ALLEN:** Where it is appropriate. In the two cases mentioned by the Auditor General's staff, it was appropriate to forgive those loans as opposed to writing them off. If those situations came up again, we would forgive rather than writing those off. We have established procedures in our manuals, et cetera, to reinforce the difference and ensure that our staff, in reviewing the situation, clearly make the distinction between forgiveness and write-off and take whatever action is necessary.

**CHAIRMAN (Mr. Sibbeston):** How would you approach the Assembly with that? How do you propose to deal with that and having it placed before the Assembly?

**MR. ALLEN:** We would present it either as a forgiveness or a write-off, one or the other, whatever is appropriate in the circumstances. We would present both situations.

**CHAIRMAN (Mr. Sibbeston):** Would this come in the form of an act? How would you deal with that?

**MR. ALLEN:** It will initially go forward as an FMB submission, and then it would go forward to the Legislative Assembly. The amount of \$20,000 is the cutoff right now. If it is more than \$20,000 it has to go to the Legislative Assembly, and it would go either as a forgiveness or a write-off. It was a distinction we made at that time.

**CHAIRMAN (Mr. Sibbeston):** Mr. Pudluk.

**MR. PUDLUK:** Mr. Chairman, what is the difference between a write-off and forgiveness?

**CHAIRMAN (Mr. Sibbeston):** They stated that a write-off is where you write off but you can still collect. If a person wins a million dollars, in a few years the government can still go after him to collect a debt. Whereas if it is a forgiveness then it is forgiven, like forgiving a sin. The slate is clean. Much like you do with your wife, you forgive her once in a while. Can I ask the Auditor General if you have any comments on a system for dealing with debts. I am aware of a system of forgiving of debts where it comes forward as an act, where all the write-offs that the government proposes are dealt with. In the case of forgiveness, I do not believe we have ever seen any creature like that. So how would you think the government ought to deal with this?

**MR. SHIER:** Mr. Chairman, the distinction in terms of the administration is fairly simple. You are correct in saying that write-off acts are routinely put before the Assembly for approval and we have reviewed the write-offs and forgiveness for the last three years and there have been isolated cases of forgiveness, where a department has been aware of the distinction and has decided to write off a debt instead of forgiving it. But really it is an administrative procedure and the key really is to make all the people who deal with this aware of the distinction so they can properly classify it in one of two tables, a write-off or a forgiveness chart.

The other thing that really is significant is that there is actually a distinction drawn between the Financial Administration Act. While it is correct that any write-off only has to go to the Assembly if it is over \$20,000, in fact the FAA implies that any forgiveness of any amount has to go forward to the Assembly, even if it is under \$20,000. So administratively it is really quite easy. You could put the acts in front of the House on a routine basis as well, simply classifying it between write-offs over \$20,000 and forgiveness of any amount. The real key is making all departments aware that they have to make that distinction when putting those submissions forward to the FMB and ultimately to the Assembly.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, it has been a year now since this problem has been identified to the department. It seems that the department is not responding seriously to what the Auditor General is bringing to their attention. Why is it taking the department so long, especially if it is as simple as the Auditor General is indicating to us? Why is the department not responding quickly, why is it taking so long? We finished session last month -- or even the fall session. We have two sessions to bring forward something such as an act to forgive. Why is it taking so long? Is it that complicated?

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.



**MR. ALLEN:** As the Auditor General suggested, there was a need for procedures to inform staff that there is a distinction to be made. That change in procedures has been implemented. There has been no recurrence of any case that has come up since the observation was made where we have erred. We have followed the procedure and to date there has been no observation that would indicate that we have not complied. We were not under the understanding that we had to retroactively go back to the Legislative Assembly and make the distinction. We are at your disposal in that situation.

**CHAIRMAN (Mr. Sibbeston):** Mr. Ningark.

**MR. NINGARK:** Thank you, Mr. Chairman. Within your department, who makes the initial recommendation for write-off? Is it the loan board or is it the regional GNWT representative? Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** Mr. Chairman, the normal procedure is that if no action is taken, then it goes into a write-off mode. Decisions are taken at every stage of the process to ensure that if there is an opportunity for the repayment of that loan, that every advantage is given to the borrower to allow him or her to live up to the conditions of the loan. We bend over backwards in favour of the borrower to ensure that he has the opportunity to pay. It is only absolutely as a last resort that we would go towards a write-off.

The checks and balances with respect to a write-off are many. The FMB has to make a decision, the loan board has to make a recommendation, the regional superintendent has to make a recommendation. When all those people agree that the loan should be processed as a write-off, it is only then that we take that action.

#### Realization On Personal Guarantees

**CHAIRMAN (Mr. Sibbeston):** Anything further on this point? If not, can we proceed to the second issue which deals with the personal realization on personal guarantees. Do you wish to say something on that, Mr. Allen?

**MR. ALLEN:** Personal guarantees are taken whenever there is a limited company as a matter of course. We take personal guarantees for two reasons. One is to ensure that the borrower has a commitment to repay the loan, and at the same time personal guarantees are to protect the loan, to provide added security if other security is not available. We have two purposes. One is to ensure that the person is committed to paying back the loan, and secondly to provide additional security in a case where security is inadequate.

**CHAIRMAN (Mr. Sibbeston):** The issue is simply the BLGF fund not pursuing personal guarantee provisions. Where someone borrows money, by a company

or otherwise, and a person guarantees, the government is not really going all out to act on a personal guarantee. That is the issue here. Mr. Zoe.

**MR. ZOE:** Mr. Chairman, on this particular issue, maybe I can just ask a general question. How many of these loans, what percentage if the department likes, are backed by personal guarantees?

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** If it is a limited company, almost in all cases there would be a personal guarantee attached, even if it is not a guarantee that provides personal assets as security. It is just to ensure that the individual himself behind the venture has given serious consideration to undertaking whatever expansion or whatever action that requires the money. In almost all cases we take personal guarantees.

Just a point on personal guarantees, it is important to remember that we lend money and we also give away money. Sometimes the distinction between giving away money as a grant or a contribution, or lending money, is not that great. Our objective is to bring people into the normal business environment which means borrowing money. That is part of doing business. Sometimes we take an added risk, recognizing that rather than taking a loan we would probably process a grant or contribution, in which case we would be giving money away. We have to recognize that we are a lender of last resort, our business is to stimulate the economy and sometimes risks are taken that obviously the normal lenders would not be willing to take.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** This whole area of pursuing personal guarantees is a sensitive issue. As the Auditor General has indicated, you have to be a little bit humane. If the department is not going to pursue personal guarantees, who gives that approval, or where do they obtain that approval from? Is it from the board or from a manager?

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** One of the normal terms and conditions attached to a loan would be the amount of the security for that loan. A personal guarantee would be noted in the minutes, and in the approval of the loan it would be a condition of that loan. Normally the board would make that decision.

With respect to the department not being vigilant with regard to trying to collect on personal guarantees, we are vigilant. Through the normal course of events, we are obliged to pursue those personal guarantees. Often a personal guarantee does not come into play until the business is bankrupt, the assets are sold and the only thing that is left is a personal guarantee. When it is referred to credit and collections, it is out of our hands; they take whatever action is necessary, including legal action, to pursue those personal guarantees.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson.

**MR. SIMPSON:** Thank you, Mr. Chairman. Over the past three years the department has written off over \$900,000 of loans in the loan fund, but for those write-offs it has collected very little in the way of guarantees. One question I have relating to this issue, and referring back to the most recent response from the department on this issue, is who makes the decision not to collect on a personal guarantee? The reason I ask this, Mr. Chairman, is that if a departmental officer, or indeed the Minister, makes this decision, I am wondering if it is really within those individuals power because the net effect is very similar to a write-off or a forgiveness. It is basically forgiving an opportunity for the government to realize on assets. In a situation like this, although the legislation may not be very explicit, perhaps this should go to the FMB or to the Assembly.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** Yes, on the amount that is outstanding you are correct. With respect to who makes the decision, the regional superintendent is the first one. Normally it would go through the 30, 60, 90 day process. The first opportunity to really stop that process would rest with the regional superintendent and they are required now to provide a report that would indicate why or why not that should be pursued. If it is pursued, then it goes to the board and then the board makes the recommendation to the Minister to take to FMB. The Minister is responsible for the loan board and ultimately if a decision is made at that point to withhold a write-off, then he would be accountable for that decision. I believe there are normally checks and balances there to ensure that he properly accounts for that decision.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson.

**MR. SIMPSON:** Thank you, Mr. Chairman. I wonder if Mr. Allen could let us know how much of the \$900,000 that was written off was collected on personal guarantees? The second issue is that I think Mr. Allen indicates that the Minister makes the decision not to collect. I am not sure legally if that is within the Minister's power or whether it should go before the Assembly. It is an interesting question.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** I am not aware of any cases where the Minister has intervened. As a matter of course he accepts the recommendation of the board. In fact we are planning on introducing in the fall, changes to the legislation to make the board more independent and report directly to the cabinet and ultimately to the Legislative Assembly. That would remove any opportunity the Minister would have to intervene in any particular case.

With respect to your question about how much of that \$900,000 was realized from personal guarantees. I will provide you with an answer on that. I

would like to have my director of business services provide more detail on that.

**CHAIRMAN (Mr. Sibbeston):** Mr. Lee.

**MR. LEE:** Mr. Chairman, there may be a bit of difficulty in determining through all of these write-offs, what money is coming in as a direct result of recovering against personal guarantees. There are some clear cut cases where we have garnishees against wages, which are a result of taking action on personal guarantees. The others may be a little more difficult to pinpoint, because these funds go through credit and collections and credit and collections is ultimately responsible for the collection of write-offs. For us to sit here and say we can provide that figure, maybe a little presumptuous, because credit and collections is the department responsible for recovery, however we can attempt to obtain that information. I just do not know how clear cut the process of identifying money from guarantees versus money from some other assets will be.

**CHAIRMAN (Mr. Sibbeston):** I appreciate what you say, Mr. Lee, but it seems to me that it is important to know just how effective these guarantees are. There is no use having them if they are never acted upon. So if you could somehow or another find out, and I appreciate it may take some time, but if you could provide that information to us it would be very useful, then we will know whether guarantees are working and whether the government ever acts on them to get back some of this money. Otherwise just forget the guarantees and go with the normal security documents. So I think for your own purposes it seems to me it would be a useful exercise to get that information. Mr. Lee.

**MR. LEE:** Mr. Chairman, if I could just speak to that for a moment. I will discuss the problem of taking personal guarantees, when they should be taken and when they should not be taken and how do you act upon them. I have been in lending for a number of years and my perception is that particularly when you are dealing with shareholders in a corporation, that at all times you should take personal guarantees even if it is used almost philosophically or psychologically, in terms of insuring the integrity of the shareholders toward the company. What it allows you to do is if the shareholders are syphoning money out of the company into personal accounts, then you have better leverage, you have a tool for going after them.

In some cases shareholders have no personal net worth and in those cases the guarantee is merely their commitment to observe the normal day to day practices of running a business properly. In those instances where the personal guarantee is an integral part of your security, normally you would be looking at that guarantor and saying yes, your company is short of security, however you as a guarantor have equity in your house and in order to grant a loan we want your personal guarantee and we are going to take a second mortgage on your house in support of it.

So there are different circumstances under which we should look at guarantees and I do not think we should rule out taking them because there

are circumstances in which we do not recover from them. I think we should take them at all times when we are dealing with a corporation and then we look at the individual circumstance to determine whether or not there is any point in recovering. In some case there is not point because the guarantor has not asset. But it maybe that in the long term it ensures his integrity in dealing with his company and then dealing with the recovery of our loan.

**CHAIRMAN (Mr. Sibbeston):** I would just respond to say that if a person does not have any assets, I mean the one thing you can have is a personal guarantee, particularly in the North where a lot of people live in government housing. You obviously cannot mortgage their house as security, so the one last remaining thing is the guarantee or promissory note of some sort indemnifying the government in any event that the persons business fails and if he ever gets a job then the person is still liable. So it seems to me that the personal guarantee is still kind of a last resort or one secure way of securing the loan. So it may be more useful then we think in a sense that it is a last option but in the North it is a practical one because so many people live in government housing and the promissory note is one last way of securing a loan. Mr. Ningark.

#### Problems With Collection Of Debts

**MR. NINGARK:** Thank you, Mr. Chairman. According to the report by the Auditor General of Canada, the department seems to be very lenient in pursuing unpaid balances of loans, compared to the private member. My personal opinion is that too many people are taking advantage of the system and I would make a recommendation to follow the private members model for unpaid balances.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** It is important to realize that the business loan fund is a lender of last resort. If the loan is bankable, that usually means that there is asset, there is collateral, there is cash flow that would support a particular loan. When all those private lending institutions are exhausted, the borrower comes to the business loan fund. We have in the last year spent about \$10 million -- I think the amount of loans was close to six million dollars and grants were another four million -- so we provided about \$10 million worth of assistance to the start up of businesses. Recognizing that sometimes it is a choice of whether to provide a loan or to provide a contribution, if there is a reasonable chance of recovering on a loan then the department recommends that a loan be given.

With respect to the actual collections, that is another department, the Departments of Finance and Justice. How vigilant they are in trying to collect on the securities attached to the loan is really out of our hands. Going back to Mr. Sibbeston's question on the collection of personal guarantees, I believe that when we look at the figures there will be very few times when we have actually collected on those personal guarantees.

It certainly has helped the integrity of the loan and, as Mr. Sibbeston has said, it puts an onus and makes the owner aware of the responsibility he is undertaking when he takes a loan.

**CHAIRMAN (Mr. Sibbeston):** Mr. Ningark, I think you are advocating a debtors jail or prison, or something like that for people who do not pay their debts. You want the department to be real tough. We found out in the last Assembly, we were questioning whether the government had a heart. I think we now have to ask if the government has any backbone to really be tough to go after the debtors. Mr. Shier.

**MR. SHIER:** Thank you, Mr. Chairman. We are dealing with a couple of issues regarding personal guarantees. One sort of got trailed off when we were dealing with the other one and that was the issue that there is a strong tie-in to the issue of forgiveness here. The committee may want to enquire whether it is the department's opinion and position that not pursuing guarantees is, in fact, the prerogative of the department or whether it feels that they are subject to the forgiveness provisions of the Financial Administration Act, which would suggest that they have to go forward with a forgiveness act to the Assembly in order to not pursue a personal guarantee. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** I think there is sometimes a distinction to be made between our actual collection and our attempts. I think we are very vigilant in trying to ensure that we collect on loans when they are outstanding. It is a big step to go to the Financial Management Board to take somebody who has failed in business or is having difficulty in business and expose them to the whole world that they have, in fact, failed. Obviously we consider that very seriously before we take it to that step. At the same time, we are vigilant and we do attempt to take whatever action is necessary to collect on those loans.

**CHAIRMAN (Mr. Sibbeston):** Mr. Shier.

**MR. SHIER:** Thank you, Mr. Chairman. Perhaps an example might serve to close a bit of a gap that we seem to be having. If a loan is made to a limited company, and a personal guarantee was taken on the sole shareholder, what would the department do if the company was entirely insolvent and the guarantor had large assets that could be realized on under the guarantee? If for compassionate reasons the department decided not to pursue those assets, would the department handle that decision internally or would it take it forward to the Legislative Assembly for a forgiveness act? We have a person with assets you know that you can recover on, but you decide not to. Who makes that decision, the department and/or Minister, or the Legislative Assembly through a forgiveness act? Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** It is my understanding that the department has no authority to forgive. If forgiveness is the required action, the company is insolvent, and there is the presence of either personal guarantees or cross-corporate guarantees, all of those avenues would be exhausted before any attempt was made to bring it back to the board, and ultimately to the Minister and to the Legislative Assembly. The Minister does not have authority to forgive.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Thank you, Mr. Chairman. Again, we just have to wait and see what the department does in pursuing personal guarantees. In the response that we received from the department, they indicated they were going to be meeting with the Departments of Finance and Justice to determine what improvements can be made. To date, have they had any meetings with those two departments? It has been almost a year since they have been aware of the problem.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** In the past year we have met several times on an ad hoc basis. Since we are going through the review of our legislation, we are going to set up a series of formal meetings with the Departments of Justice and Finance and hope we can forever resolve these problems and show that there is a common understanding of procedures that must be followed in these particular instances.

**CHAIRMAN (Mr. Sibbeston):** I could not help but smile a little when you said you meet on an ad hoc basis. That is like meeting out on the street to say hello.

**MR. ALLEN:** There is a little bit of that too, I guess.

**CHAIRMAN (Mr. Sibbeston):** Has the department as yet gone through the process of developing a forgiveness act that will eventually see the light of day and come to some fruition of reality?

**MR. ALLEN:** Yes, the Financial Administration Act establishes those procedures. They are not part of the Business Loan Fund Act. We are obliged by the Financial Administration Act and compelled to follow certain procedures in those instances.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** One of the problems in pursuing collections -- when I was in cabinet we used to every once in a while have departments bringing in requests to do write-offs of loans that were uncollectible. Just the eight of us sitting around the table, you go through the list and say, "I know that person." We found people that were employees of our government, whose company A had gone bankrupt and now they had established company B, and actually had a contract with our government somewhere else. To me, the collections system is not working. I realize that is out of the hands of

your department, the guarantor of loans at the bank for these people, rather than directly giving the money to them ourselves -- I realize there is probably a problem with money coming from EDA that you actually have to give it out, but would it be possible that instead of giving that money out as loans, using that money to do the write-off and use the bank to give the loans out. You can always have a certain amount of write-offs. Because you are going to lose the money anyway. So it is a matter of whether you lose it through the bank or directly to the person borrowing the money. Because what happens a lot of times is these people move to other jurisdictions, banks can chase them around the country, we are not capable of doing that. So what frustrates me is seeing the collection system. People can abuse the system and get a loan and walk away from it. All they have to do is cross the border and that is it.

So it is really frustrating to see. Maybe the people in Finance who are dealing with collections have not lived here that long, they do not know these people. Whereas the eight cabinet Ministers who sit around the table have lived here a long time, they actually know who these people are and they can say that someone just moved from this community to that community or she is married and her name has changed now, or he works for us or he has a new company or he has a contract with us. So it is really frustrating to me to see the collections end of it does not work.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** Mr. Chairman, certainly Mr. McLaughlin raises a very good point. Since I have been there the issue of bank guarantees has come up several times and we have met with the banks and asked them why they are not using our guarantees and the banks are concerned about a number of things. A lot of the extra red tape that they have to incur as a result of these guarantees, but we have met with our counterparts in the federal government and they use almost exclusively guarantees and we are going to be again meeting with the banks to try to change the procedures to ensure that they can use the guarantees.

Obviously if people go to the bank and we guarantee the funds, I mean that is one of our objectives, that brings them one step closer to independence from government. Remember that our fees, we change prime fees for the BLF, so in many cases they might be getting a cheaper loan rate if they are going to the bank. We would just love to do that.

In respect to the guarantee, we have to set aside 90 per cent of the full amount of the guarantee, so in respect of the fund, it is almost as if it is a loan. But because we have to hold it aside in case there is a default on the loan and we have to give them the money.

But one of the things that the federal government is doing, they are acting on behalf of the client. So they decide themselves whether they would give the loan if a guarantee is attached and they make an application to the government. So they maintain that client relationship which we are trying to encourage. So we are going to look at that procedure very carefully and



hopefully if the banks will buy it, we will follow a very similar approach. But I think the question is a good one and we are trying to move in that direction.

**MR. McLAUGHLIN:** I guess it was a comment, but I think a good situation for both you and the Department of Finance and collections is if you went the other route. Surely your Minister and the Minister of Finance can get together and literally tell the bank that we are currently using, as a government, that if they do not do this for us we will deal with another bank. Surely we have some clout with one bank in the Territories that we can make them do something or come around to our way of thinking. Surely we have some clout with the CIBC that we do not have with the other branches.

**MR. ALLEN:** I think it is a good point and it is certainly something that when we discuss things with Finance that we will look at. They are the people that have the relationship with the bank, they understand what kind of leverages they have and certainly I think we would benefit from their assistance in this matter.

#### Relations With Other Lenders

**CHAIRMAN (Mr. Sibbeston):** Any further questions? If not then we can go on to the BLGFs relationship with other lenders. The Auditor General's report says that it seems that our government, the BLF is a bit of a whimp when it comes to pursuing its interest with other lenders. I wonder if Mr. Allen could answer this.

It is not a big issue, it is straight forward in terms we can guarantee that the department starts to act on it. I do not think we need the Auditor General to tell us anything more on that. Mr. Allen, what do you say to the thought of the allegation or the notion that our government or the BLF is a bit of a whimp or softhearted in terms of dealing with other lenders. I think the three examples point to that fact.

**MR. ALLEN:** Thank you, Mr. Chairman. I do not know if we are a whimp, but we have to recognize that one of our objectives here in the department is to bring our clients to the bank. The department does not want to be involved with every client. So when there is an opportunity to involved another lender and in first cases are local economic development officers are encouraged to take the proposal to the bank, to shop it around, as they say. If there is any interest in the loan from the private sector, then they are encouraged to go to the bank or to another lending institution. Remember that the business loan fund is a lender of last resort.

When we get involved, several times it is because there is enough collateral or the bank is willing to provide the necessary funds to initiative a venture, well the BLF gets in a does what it can to make the venture go. In those instances there is always negotiation as who is in first place, who is in second place, who has the securities and who does not. We pursue those negotiations and obviously to minimize the risk to

the fund of default. But in many cases they are a negotiated settlement and we represent the public money the best way that we can.

**CHAIRMAN (Mr. Sibbeston):** Do the Auditor General's officials have a comment? Mr. Simpson.

**MR. SIMPSON:** I do not think we have anything further to add at this stage, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Mr. Ningark.

**MR. NINGARK:** Thank you, Mr. Chairman. On page 16, case three, that is a good example how lenient the department is in pursuing a personal guarantee on unpaid balances.

**MR. ALLEN:** Mr. Chairman, on this particular matter the bank was made the initial and we were in second position. When the company went insolvent then the bank was in a preferable position and they exercised all of the securities that they had and we were in second position and received what was left over.

The recommendation of the regional superintendent in making the loan in the first instance is that it was recognized that this loan was a risky proposition. The judgement was made whether it was an attempt to provide a grant or to provide a loan and there was reason to believe that this particular contractor could support a loan and so a loan was issued. I guess that risk was too great.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Well obviously since the bank had for security, they did everything in their right to do and they collected and got their share of money and we ended up with only \$5.35. But if you look at case two, it is the reverse. When we have the first security on the loan, we did not do the same thing the bank has done, we shared with the other lender. Why did this happen? Why did we not go all out and collect and make sure that our loan was straightened out first and what was left over give back to the second person who has security on it? How come we had to share it?

**MR. ALLEN:** Maybe I could ask Mr. Lee to respond to that.

**MR. LEE:** Mr. Chairman, that case is not quite as clear cut as it might seem. The two lenders involved in here both held first and second positions on different pieces of security. The economic circumstances in Inuvik at that time and the cost of recovery were such that rather than one party or the other initiating the action and absorbing all of the costs, the decision was made that we would jointly take action to recover on our assets.

Now in this particular circumstance, we were in first position on a building that we had financed and we sold that building and we received 100

per cent of the money for the sale of that building. The Federal Business Development Bank took action on those assets in which they were in first position and on those assets in which we were in second position, we got a portion of our money.

I am not 100 per cent satisfied that this case represents our department not fulfilling its obligation. Granted there was a substantial balance left unpaid when it was all said and done, but it was not a case of us taking appropriate action. It was a case of the value of the assets versus the debt outstanding and the involving of other creditors.

I think in this particular case the arrangement that was arrived at with the Federal Business Development Bank probably resulted in us obtaining more money than we would have if we would have proceeded independently, because the cost of proceeding independently would have been prohibitive. There would have been all types of complications in terms of other lenders.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, case two is interesting. It seems like the department is saying, "Well we did everything in our right in regard to having first security on the loan." But that is not how it is written here in the Auditor General's report. I would like to ask the Auditor General's office if they could respond to what the department is telling us?

**CHAIRMAN (Mr. Sibbeston):** Mr. Shier.

**MR. SHIER:** Thank you, Mr. Chairman. I was just reviewing my notes here and perhaps we should get some clarification. It was our understanding that in fact the department mentioned the name of the lender as being FBDB and it was my understanding that the business loan fund held first position of security on a total four blocks of land in titled lots 1, 2, 42 and 43. They had the first position and the FBDB held second position on all four blocks of land and they still shared proceeds with FBDB on the proceeds of those four blocks. That was our understanding and throughout discussions with the department and if there is in fact a discrepancy, perhaps we should get it resolved.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** Mr. Chairman, we looked at this very carefully and asked the regional superintendent to come and visit us and explain to us the circumstances surrounding this particular loan. The information we received was that in fact there were two different assets. In the first asset we were in first position and in the second asset they were in first position. We proceeded with the FBDB together and they exercised their rights and we exercised our rights and unfortunately we obtained all the money in respect to the security we had in the first instance and we were unsuccessful in covering the loan in the second. But we will endeavour to meet with the Auditor General to clarify any misunderstanding that we have on this particular issue.

**CHAIRMAN (Mr. Sibbeston):** If you could provide a report to the committee please. Any further questions? If not let us deal with the matters of last year. I will read out the recommendation that was made last year. "The committee requested a commitment from the Department of Economic Development and Tourism to review policy on northern ownership and report back to the committee during the public accounts committee for the year ending March 31, 1989." Has the department done that?

**MR. ALLEN:** Yes, Mr. Chairman, we looked carefully at our ownership requirements in respect to both the business loan fund and also in respect to our grants and contribution program. As you know, northern ownership has been a provision of all our lending and granting programs, assistance programs to business, since the policies were introduced in the mid 70s. But when we did a research in respect to the economic strategy, we discovered that lack of capital was only one restraint in prohibiting business development in the NWT. Oftentimes there was lack of skilled management, access to local or export markets or there was some technological deficiencies that prevented the development, even when adequate capital was available.

So obviously we thought in respect to our objective, which is to promote and develop the economy, that the northern ownership clause was in fact inhibiting people from coming up who could provide skills or access to markets or introduce new technology. So we are reviewing it and we will be recommending when we come forward with the new legislation, a more liberal interpretation of northern ownership, under the contemplated revisions, removing restrictions and, of course, it will only apply to businesses registered in the NWT and obviously will not apply to companies operating in the South who require funds. We are not going to provide services to them. It is also in recognition that when people are borrowing money they are expected to pay it back. They are paying premium rates for this money and if they are going to, based on an analysis, benefit the economy, regardless of their ownership, we should be in a position to assist if it furthers our department's objectives.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Any further comments on this response? We will now deal with the items reported in previous years. These are just matters that were dealt with last year and there were to have been some corrective measures, to basically get an update on where the department is at on all these issues. There is one general question, "Why does it take so long to introduce corrective measures?" I think the committee feels that inasmuch as these issues were raised with you last year, the department has taken in some cases a long time to respond.

**MR. ALLEN:** As we said earlier, we take the Auditor General's recommendations very seriously and we act as promptly as we can. In most cases, as the Auditor General has indicated in his report, corrective action has been taken throughout the year and as a result there have been no recurrences of some of the observations made in previous years. We take the Auditor General's recommendations very seriously.

**CHAIRMAN (Mr. Sibbeston):** If we could go item by item through these issues for this department. The first issue is that of a loan which was granted that exceeded the applicant's equity by more than 10 times. This problem was identified last year, and this year there appears to have been two more loans, but this time permission was secured. Mr. Allen, what is the status of the three loans?

**MR. ALLEN:** We have instituted a process, and there is a standard check that is undertaken by an analyst to ensure that the clause preventing more than 10 times the equity has been put in place. To my knowledge, that has been followed in every case. In the two cases mentioned, there is an analysis done and sometimes special circumstances exist and in those circumstances there are sometimes good reasons to waive that requirement. It is just one check of many that the department does when it reviews a loan application. When an exception has been made, it is noted so that the decision makers are aware that that is the case.

**CHAIRMAN (Mr. Sibbeston):** Thank you. With respect to the next issue, that of inadequate safeguards against shareholders taking money out of a business before repayment on the loan, it appears that no similar incidents were reported this year. The fund has included a restriction on shareholders' cash withdrawals. What is the status of the original loan in this case? Can you give us an update please?

**MR. ALLEN:** Mr. Chairman, as the Auditor General has indicated here, a restriction has been incorporated into the letter of offer and there was no observation that that condition was violated, or that it was not placed in the conditions of approval.

**CHAIRMAN (Mr. Sibbeston):** What is the status of the loan in question?

**MR. ALLEN:** It is current at the moment.

**CHAIRMAN (Mr. Sibbeston):** If there are no questions, the next issue is that of a transaction which failed to include true market value in an enterprise between related parties, and the problem identified was that of an individual case. The Auditor General had noted that market value should be the norm, especially between related parties conducting business. There appears to be no similar example this year. What is the status of that original loan?

**MR. ALLEN:** It is current as well.

**CHAIRMAN (Mr. Sibbeston):** Are there any questions on this issue. The next issue is that of a key business success feature not included as a condition of a loan approval of \$400,000. A management contract was an essential element of a loan, it should have been signed prior to authorizing a loan; however it was not. This year the loan is current. However, the business undertook a major expansion without the fund's permission. There is now

a clause in the letter of offer requiring the borrower to inform the fund of any plans for expansion. Again, what is the status of this loan?

**MR. ALLEN:** That loan is current. Actually the paydown is greater than anticipated under the terms and conditions of the loan.

**CHAIRMAN (Mr. Sibbeston):** The next issue deals with an important condition being left out of a letter of offer. Last year it was noted that the loan board required an applicant to get at least 50 shareholders with total equity of \$50,000 before a loan of \$300,000 could be issued. This condition was not included in the letter of offer. This condition was deleted, but did not solve the underlying problem of failure to include a condition in a letter of offer. Management indicated that all letters of offer are now being double checked. Mr. Allen, what kind of administrative procedures has the department put in place to guard against this kind of error? Again, what is the status of this loan?

**MR. ALLEN:** When the board minutes are taken, all of the terms and conditions attached to each loan are reviewed by the chairman. The chairman signs verifying that the terms and conditions as written are accurate and the secretary then signs the minutes and initials the letter of offer. Myself and the deputy minister sign a recommendation to the Minister with respect to the letter of offer, so the accountability trail is established throughout the organization to ensure that those terms and conditions are accurate as reflected in the minutes.

**CHAIRMAN (Mr. Sibbeston):** What is the status of the loan?

**MR. ALLEN:** It is current.

**CHAIRMAN (Mr. Sibbeston):** The next issue deals with venture capital. It seems that an application for some venture funds was approved at \$150,000. This simply sat in the clients account for up to 15 months and I think the rule provides that you use it in one year. I am wondering what is the future of the venture capital program?

**MR. ALLEN:** In the last budget, previous to this year in 1989-90, we had a half a million dollars allocated for the venture capital program. We had lapsed money in previous years and as a result the venture capital program was cut back to about \$240,000. We have undertaken a review of the program and will be making changes to it this year. One of the complaints that has resulted in the review is that it is a very cumbersome process. It was a process that was adopted by some other provinces and those provinces now are changing their processes.

Basically the way it operated is the investor had to set up a separate company, deposit his money until he paid the investment in the other company and our money was then released when we had notice of him putting his money in the original company. That was very cumbersome and really restricted the uptake in the program. We are changing the program to make

investment much more direct and reduce the amount of red tape and we will report on the success of those changes in future years.

**CHAIRMAN (Mr. Sibbeston):** The last issue is that of the use of specialists for business evaluation. In 1987 the Auditor General identified the lack of a clear policy for the use of specialists to help you evaluated loan applications. A bad loan was made. In 1988 an adequate policy was developed and there are no new cases, but over \$130,000 is shown as a receivable in this particular case. What is the current status of the program of using specialists and also what is the current status of the loan in question? Mr. Allen.

**MR. ALLEN:** The department has instituted a number of procedures to ensure that appropriate specialists are contracted that have knowledge of the particular situation. In respect to this particular account, you indicated it is a bad loan, the department has not written it off as yet but is pursuing personal guarantees and if we are unsuccessful you will see a write-off, included in a write-off for future years.

**CHAIRMAN (Mr. Sibbeston):** Any questions? I have one. Has the department been approached for any financial assistance with respect to another venture dealing with production of milk in the Yellowknife area?

**MR. ALLEN:** Not to my knowledge. We have not received any applications. They could be dealing with the regional office and it has not come to our attention yet. We have not received anything at all.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson.

**MR. SIMPSON:** Thank you, Mr. Chairman. This is hopping back to an issue of an hour or so ago on the decisions whether or not to collect on guarantees. I do not want to belabour this point unnecessarily, but I do not recall that we ever got the definitive answer to the question of who makes the decision not to collect on a personal guarantee, whether it is from within the department or whether it goes to the FMB and Legislature. If it is not made within the department, can the department give us some examples of cases where the decision has been made not to collect on a personal guarantee, where the Assembly or FMB has given approval?

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen.

**MR. ALLEN:** Where the department recommended a forgiveness to the FMB and where a decision was made to not pursue it?

**MR. SIMPSON:** Not a forgiveness in the sense, but a decision not to pursue a personal guarantee. I think we are confusing two issues which is why I did not get clarity in the first instance.

**MR. ALLEN:** I think the important distinction to be made here is that the department has really no choice. It goes through the decision making process and once it is sent to credit and collections, it is up to them to

pursue the personal guarantees. We are not disinterested but we are a third party in that. So it is important that we are making recommendations to credits and collections, but it is really up to them to pursue on those personal guarantees.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson.

**MR. SIMPSON:** Thank you for your indulgence, Mr. Chairman. So if I understand you correctly, Mr. Allen, the decision whether or not to accept your advice, rests not with your department but with collections in Finance.

**MR. ALLEN:** That is correct.

**CHAIRMAN (Mr. Sibbeston):** Mr. Allen and Mr. Lee and Mr. Kennedy, we thank you for your attendance here today. My comment with respect to future attendance, if possible I think your deputy minister should attend. I think he should not see this as a precedent of him being away. Next year we will hope that Mr. Noseworthy is able to attend, inasmuch as we accept and appreciate your presence and attendance, I think that we would like to have Mr. Dwight Noseworthy's attendance next year if at all possible. Maybe we can help in letting him know far in advance, but it is not a solution to send lesser officials, with all due respect to you. So you can just convey that message. It would be appreciated.

**MR. ALLEN:** Yes I will and I do extend his apologies for not being here and I assure you that he takes this very seriously and I will make sure that the messages gets back to him and I can pretty well guarantee that he will be here next year.

**CHAIRMAN (Mr. Sibbeston):** We will ask the Auditor General's officials to remain with us, but otherwise we will ask if other persons in the room can excuse themselves. So the public portion of the committee's meeting is adjourned until 9:30 tomorrow morning.

---ADJOURNMENT



STANDING COMMITTEE ON PUBLIC ACCOUNTS

YELLOWKNIFE, N.W.T

May 2, 1990

Committee Members

Mr. Nick Sibbeston (Chairman)  
Mr. Henry Zoe (Deputy Chairman)  
Mr. Bruce McLaughlin  
Mr. Don Morin  
Mr. John Ningark  
Mr. John Pollard  
Mr. Ludy Pudluk

Alternates

Mr. Peter Ernerk  
Mr. Sam Gargan  
Mr. Brian Lewis

Committee Staff

Mr. David Hamilton  
Mr. Mike Bell

Transcript

Marie Coe, Editor  
Mary Bybliw, Transeditor  
Helen Lawson, Transeditor



STANDING COMMITTEE ON PUBLIC ACCOUNTS

YELLOWKNIFE, N.W.T.

MAY 2, 1990

COMMITTEE MEMBERS PRESENT

Mr. Gargan, Mr. McLaughlin, Mr. Ningark, Mr. Sibbeston, Mr. Zoe

**CHAIRMAN (Mr. Sibbeston):** Welcome to the public accounts committee. For the record, I am the chairman and the Members present are John Ningark, Sam Gargan, Henry Zoe and Bruce McLaughlin. Hopefully, other Members of the committee will show up shortly, both Ludy Pudluk and Don Morin.

Department Of Health

We have before us here Bob Cowcill, deputy minister from the Department of Health and one of his officials. Mr. Cowcill, could you introduce your staff? We will let you make a statement if you wish on the matter before us concerning your department.

**MR. COWCILL:** Thank you, Mr. Chairman. I have with me this morning Darryl Bower who is the director of finance and administration for the Department of Health.

Mr. Chairman, honourable Members, thank you for the opportunity to present opening comments for the Department of Health. As you are aware, the mandate of the Health department is to assist residents of the Northwest Territories to attain, maintain or regain their highest achievable health status. In endeavouring to meet our mandate, services are offered to the following programs: hospital care, medical care, medical transportation, extended health benefits, pharmacare, seniors' extended health benefits. In addition, the Department of Health by way of contract with Health and Welfare Canada provides benefits to Status Indian and Inuit residents of the Northwest Territories as per the federal Indian health policy.

The delivery of services is accomplished through a delivery model with Health headquarters operations at the centre providing direction and consultation services. In certain cases it provides components of health promotion: for example, AIDS awareness, nutrition, family life education. The headquarters is also the processing centre for billings received for hospital services rendered in southern institutions, medical services, pharmacare, medical travel, extended health benefits, seniors' extended health benefits.

At the field level, health services are provided through a board mechanism. Currently seven boards are in existence: the Baffin Regional Health Board, Keewatin Regional Health Board, Kitikmeot Regional Health Board, Inuvik Regional Health Board, Stanton Yellowknife Hospital Board, H.H. Williams

Hospital Board, Fort Smith Health Centre Board. There is one further area, called Mackenzie Health Services which, as yet, does not have a board established. In the interim it is operating under a public administrator.

The boards operate under the authority of the Territorial Hospital Insurances Services Board which is established pursuant to the THIS Act. The deputy minister of Health is the chairman of the THIS board. The deputy minister accordingly has two reporting relationships to the Minister of Health: one is deputy minister of Health, the other is chairman of the THIS board. The services and program areas covered varies from board to board. Examples of extremes are: the Baffin Regional Health Board which services 13 communities through a mixture of health centres providing primary care through nursing staff and a hospital providing a range of acute care services; and the H.H. Williams Hospital Board which services one community through a hospital. In general, the THIS board is the legislated mechanism for providing resources to health boards to deliver approved services in their respective areas within the Northwest Territories.

The operations at the department level in Yellowknife are established and managed similar to other headquarters operations. The authority for all operations flows either from legislation or approved policy. Financial control is exercised through the development of an approved budget and fiscal monitoring by way of variance reporting. The majority of headquarters expenditures are, as mentioned, established through legislation or policy and as such are non-discretionary. A component that is discretionary is the staff assigned responsibilities in the area of directorate, consulting or promotion.

The department believes that control over growth and expenditures cannot be realized without strong public promotion and public intervention to prevent illness and injuries before the more established services of a hospital or physician are required.

The mechanism for establishing and controlling board budgets follows a different scenario than that of a department of the GNWT. Individual boards are required to submit their budgets to the THIS board for review. The budgets are analyzed by the hospital and health facilities division, which provides secretariat services to the THIS board, with input as appropriate from other affected program areas. Budgets with secretariat recommendations are then forwarded to the THIS board for review and approval. The two overriding factors are the reasonableness of the request and funding availability as the THIS board recognizes that it must live within an overall budget.

Based on the budgets approved, each individual board is responsible for providing mandated services in a fiscally responsible manner. Each board with respect to its financial administration is required to maintain a minimum standard equivalent to the Financial Administrative Manual of the GNWT. Each board and its administration review expenditures on an ongoing basis. In addition, the secretariat to the THIS board reviews monthly

statements and follows up with board administration as required. At the same time, the THIS board secretariat staff keep the Department of Health executive and financial staff apprised of each board's fiscal status.

Each board is required, on an annual basis, to have an independent audit performed. These audit reports are presented to the local board and copies are forwarded to the THIS board secretariat. The secretariat reviews both the financial audit and any management comments raised. Followup is performed as required to ensure that questions are answered and points addressed.

To date, we feel that overall fiscal control has been reasonable. We are, however, increasing our department's focus at this time to place a greater emphasis on the utilization of our resources in the most reasonable mix of effectiveness, efficiency and economy. With growing demand and restricted financial resources, we must take a careful look at how the health system is operating. In particular, we need to find an acceptable balance between the resources deployed on services versus those resources utilized for health promotion and education. Our immediate goal is to focus on the current medical transportation and referral patterns with a view to ensuring that, where possible, local NWT facilities and services are utilized before referring patients elsewhere. In those instances where a patient is referred south we must reimburse that facility for the service provided. This removes funding from the Northwest Territories economy, subjects the Government of the Northwest Territories to provincial price increases meant to recover costs and support their facilities and does not take advantage of the fixed cost investment we already have in operating our own facilities.

I would like to assure the Members that the current review will in no way prevent residents who require specialized hospital or medical care outside the NWT from accessing these needed insured services.

Mr. Chairman, I have tried to briefly provide an understanding of the operation of the Department of Health and its fiscal arrangements. I would be pleased to expand upon any item that you or other Members of the committee wish. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Thank you, Mr. Cowcill. Can I ask the Auditor General's officials if they wish to say something in response.

**MR. SIMPSON:** Thank you, Mr. Chairman. I would like this morning to ask Ian Campbell from our staff to give a brief overview of the work that we have done in this department.

**CHAIRMAN (Mr. Sibbeston):** Mr. Campbell.

**Comments From The Office Of The Auditor General Re The Territorial Hospital Insurance Services Board**

**MR. CAMPBELL:** Thank you, Mr. Chairman. Page seven of our report discusses the Territorial Hospital Insurance Board and a requirement for it to submit an annual report to the Minister of Health. Quite simply, we observed this year that the annual report was not being prepared. To put this in perspective, in 1988-89, payments to the Territorial Hospital Insurance Board were over \$94 million. This is approximately two thirds of Health's total expenditures for the year, or 13 per cent of the total government expenditures. As has been explained by Mr. Cowcill, the board is important to the people of the Northwest Territories because it is the mechanism which provides health care to them. It is important, therefore, that the board report on how it is carrying out its duties. There are two acts which describe how this reporting should be done. Both the Territorial Hospital Insurance Act and the Financial Administration Act require reporting to the Minister of Health. As we have already said, this was not being done. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Are there any general comments by Members arising out of what has been said? Mr. Zoe.

**MR. ZOE:** Mr. Chairman, it is obviously an oversight from the department. It appears that during our deliberations here the buzz word now is "oversight". I wonder if this was an oversight on their part, the Department of Health, for not ensuring that the annual reports were forwarded to the House.

**CHAIRMAN (Mr. Sibbeston):** Mr. Cowcill.

**MR. COWCILL:** Mr. Chairman, there is no question that the department is at fault on this particular issue. I think all I can say is that with all of the workload related to the transfer and the preparation for transfer over the past few years, it has been a neglected item. We had worked to prepare a document to actually table in the winter session of this year to try and get caught up. I reluctantly had to defer it until the fall because we had quite a lot of trouble with our statistical reports on out-of-NWT hospital use. So we have targeted a catch-up report in the fall which will meet the requirements set out for the THIS board. In addition, we are rolling into that report a health status report for residents of the NWT because we feel that the report from the board should not just talk about finances and operations, it should also tell us something about the health status of northern residents. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Any further comments or questions from Members? Mr. Zoe.

**MR. ZOE:** Mr. Chairman, I just wonder how significant this board is. From what I hear from the Auditor General and the deputy minister, it seems like it is an important board because of what it does, but in my view I think we should seriously take a look at the role and responsibility of this

particular board. I sort of question to see if it is needed or not because we have been devolving a number of programs to boards. I am sure we can -- if I am right, THIS does not get any money, is that right? THIS does not get any money, it just basically reviews the budgets from the health boards and the money comes directly from the department. The make up of the board is basically -- did you say the deputy minister chairs that or the assistant deputy minister? So I just question the need for the board itself. That is basically what I am trying to get at.

**CHAIRMAN (Mr. Sibbeston):** Mr. Cowcill, could you comment on that.

**MR. COWCILL:** Mr. Chairman, just to give a quick bit of history. The THIS board was established many years ago and it provided a mechanism, pre-transfer, for funding the three budget review hospitals that existed in the western Territories, Yellowknife, Fort Smith and Hay River. In preparation for transfer, some amendments were made to the act which enabled us to utilize that same mechanism to fund the new regional health boards which came into play after the transfer.

Another element of the transfer negotiations that some of you may recall was a commitment at the time to proceed with a model of citizen participation which included the idea of local health committees at the local level, regional boards for the actual administration within geographic areas and then a territorial structure which provided some opportunity for representation from the Territories on the board that would actually set the broad policies and divide up the money. In practice, in the two years since transfer, we have put the majority of the department's effort into supporting the new boards that had to get up and running out in the regions. We have not moved to completely implement the revised structure for the THIS board, and one of the reasons for that is that our own Minister has raised the question as to whether, in fact, now that the regional boards for the most part are up and operating, it is necessary to have a territorial level board.

Obviously this is a matter that to some extent is a political question because the negotiations related to the transfer and all the citizen input resulted in that particular model being put forward. I would think that any reconsideration of the model, again, would have to be decided to some extent in the political arena. Basically, because of the present legislative requirements and the agreements made at the point of transfer, we have continued with that operation. Until we get alternate direction, that is what we would plan to do -- but the question has come up.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** Mr. Chairman, I think you will probably remember because you were Government Leader at the time, that when we had our meetings with the native organizations on the transfer basically there were two main things that we promised them. One was that the Baffin Regional Health Board model would be used, and that has basically been set up in a modified way, not really the way we told them it would happen. They wanted to be

in charge of personnel and things like that. In fact, the current Minister of Health, as an MLA at the time, lobbied for that to happen on the regional levels so that the Inuvialuit would be involved in the regional boards and they would have the same powers as the Baffin board.

The second thing we did with the native organizations was that we promised them that they would be on this new board. That would be the way for native organizations having input at the highest level of the health care delivery systems. Those were promises that were made at the time, and I do not think that the native organization would have agreed to the transfer, and their agreement was something that Jake Epp wanted before he would go ahead with the transfer. It is interesting to see that that is one more thing that has not happened, that we told the native organizations we would do for sure.

I am disappointed with the way the new health boards have been set up to start with, compared with what the cabinet actually promised -- it was not just the Minister of Health -- the cabinet approved that promise. Now it looks like we have not moved on that yet. I would say that that territorial level board should stay in operation because it is the only way that the general public has an opportunity to have representatives at that level. Right now, the people on there are just picked from across the Territories by the Minister, but I think that if we set it up right we will have the native organizations having input. I think the native organizations have been preoccupied, both of them, with their aboriginal rights negotiations. Once they turn their attention to this, they are going to be asking what happened to the promises that were made to the regional boards being like the Baffin model and for the THIS board being restructured to give them representation.

**CHAIRMAN (Mr. Sibbeston):** Mr. Cowcill.

**MR. COWCILL:** Mr. Chairman, if I could just clarify one point. There has been no decision made by government to move away from that model. In fact, shortly after the transfer letters did go out to the various native organizations requesting new membership in the Territorial Hospital Insurance Services Board. We received, frankly, a very dismal response to the initial call. That is why we did not proceed initially after transfer. A year after transfer we are beginning to get feedback from some of the new regional boards who are now questioning, "Why do you need another board at the territorial level? We are out here and we are getting a budget allocation and we know what people need in the communities. Why is there a need for another board?" So the question has come up from the new regional boards themselves. I do not believe there is a total consensus one way or the other on this but that is what, I think, raised the question in the Minister's mind. I am sure that before she makes any decision on it, this would be a question that she will be returning to discuss with the House. But no decision has been made, it is just the questions have come up from a variety of sources.



**CHAIRMAN (Mr. Sibbeston):** I will just ask, Mr. Cowcill, you have been involved with the department now for a number of years, and are aware of most everything I am sure in the department. Would you care to give -- maybe it is not fair to ask you -- your view whether the board is really needed administratively or with the changes that have come about in the North, the evolution and the development, as it were. Is the board essential for the proper administration of hospital matters at this stage in our growth in the North do you think?

**MR. COWCILL:** Mr. Chairman, I do not want to answer this obliquely but I can tell you that in other jurisdictions some provinces have chosen to go without a board system at the provincial level; others have chosen to have a department and then have a board similar to the THIS board. Currently, I believe there is only one or two jurisdictions in the country that have decided to continue with a board that allocates all the funding out to the health services. There are a variety of models. Effective administration can take place in either case. In other words, effective administration of the resources and the provision of policy guidance for regional health boards could take place without a THIS board. The decision really rests, I believe, in the political arena as to whether you feel it is important to have that territorial level of citizen participation.

**CHAIRMAN (Mr. Sibbeston):** Right, but in terms of administration, the work that they do could simply be done by the department.

**MR. COWCILL:** That is correct, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** But what about the desirability of having a territorial organization representing all the regional health boards. Would that be a more effective, a more desirable type of organization at this stage? Do you see some purpose in having that kind of an organization which perhaps might even be more effective than the THIS board?

**MR. COWCILL:** Mr. Chairman, if I could just confirm what you are suggesting. If you are suggesting could there be a territorial-level structure perhaps made up of representation from the regional boards which could provide policy guidance to the Minister or perhaps meet once or twice during the year to say, "Here are the critical health issues, Madam Minister, and we want to make sure they are addressed in any planning done by the department." Certainly that would be a potential alternative to a board that basically now is allocating out the dollars approved by the Assembly for distribution to the health system. There is a variety of purposes which such a board could serve, in addition to the administrative and financial purposes which the board is partly playing at the moment.

**CHAIRMAN (Mr. Sibbeston):** Mr. Gargan.

**MR. GARGAN:** Mr. Chairman, both Mr. Cowcill and Mr. Zoe have mentioned the annual reports. It was during the winter session of 1989 that the transfer occurred. Over the last five years there were no annual reports done. I could maybe see why it did not happen last year, and this year the transfer

of the billings so that at least the bills of magnitude of \$1.7 million would not occur? Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Cowcill.

**MR. COWCILL:** The director of finance tells me that this issue has been raised many times, sometimes with individual facilities and even at the federal-provincial-territorial level because everyone has some of these concerns. However, it has been indicated to us that the other jurisdictions simply are not prepared to put in some of the systems to turn these things around, and the best guarantee we have been able to get at the federal-provincial-territorial level through consultation on these issues is that we will get the bill within a year.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson.

**MR. SIMPSON:** Thank you, Mr. Chairman. I would be interested in asking Mr. Cowcill what percentage of the out of Territories billings comes from, say, Alberta. Is that the largest of the jurisdictions that provides the billing? Notwithstanding that some other jurisdictions may be tardy in providing billing, perhaps if Alberta provides most of the out of Territories care, at least we can get a reasonable estimate by working on Alberta. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Cowcill.

**MR. COWCILL:** I think there is probably no doubt that if we pursue the direct negotiations with Alberta to see if some improvement could be made there it could benefit us because a large percentage of out of NWT expenditures do come from that jurisdiction, up to 70 per cent. Again, I believe that part of the difficulty is that the Alberta processing system itself relies on the individual hospitals submitting to them, and then they in turn, through reciprocal billing, bill us back. They are caught in a bit of a bind as well, but certainly we can take that suggestion and see whether there is some way of improving the turn around timing in the Alberta situation.

### Health Transfer Agreements

**CHAIRMAN (Mr. Sibbeston):** I will just ask Mr. Cowcill, your department has been implicated on the issue of devolution which is going to be dealt with by the Department of the Executive when we meet with them later today. Your department has been mentioned with respect to the whole question of devolution as to whether our government is getting a good deal, whether we are properly negotiating the transfer.

The case of the Baffin health care transfer back in 1986 and the increased positions that have subsequently been established to deal with the Baffin health care has been pointed out. As well, the matter of nurses' salaries when the negotiations for health transfer in the west took place. I wonder if you could comment on that, and the question of whether the Department

of Health negotiated a good deal with respect to taking over services and what it places our government in, whether we received sufficient funds as it were. We will be dealing with this with the Department of the Executive, but we would be interested in hearing from you on this point, if you would.

**MR. COWCILL:** Mr. Chairman, in the case of the Baffin transfer I believe it does pre-date me, but I would make one comment and that is that the health transfer agreements, while they have provided for a base transfer to deal with the situation at the time of transfer, they have also included a provision which provided, at least under the previous formula financing agreement, for an annual adjustment which was built into the formula. In other words, there was never an intent that the health system would suddenly become static after transfer and that resources would never increase. As you well know, populations are expanding, service demands are becoming more acute, so if expenses have gone up in the Baffin post-transfer with additional positions and so on, certainly that was expected as part of the ordinary growth of our government.

With respect to part of your second question, the issue of nursing salaries, we have put forward a submission via the federal government to Treasury Board, post-transfer, to deal with certain additional costs which resulted from an adjustment in the federal system, and I believe we may yet have another submission to put forward. Certainly, some of the known potential financial factors related to increasing salaries and so on were negotiated into the agreement. I think it is safe to say, Mr. Chairman, and you all look at the papers as I do, that whether we will be able to keep up with the vastly escalating salary demands coming from health professionals across the country, particularly nurses, because of the North American shortage, and indeed almost a world shortage, is another matter. I do not think it was foreseen at transfer that nurses would become such a scarce resource and hence increasingly expensive.

As to whether we have received in our base sufficient resources in total, post-transfer, my understanding, and you will have to seek the details from the Financial Management Secretariat, is that overall we are pretty close, in the ball park anyway -- we may be a shade lower or higher than we had expected at the point of transfer -- one would need to calculate in what is built into the formula. Obviously, none of us as well foresaw that the federal government would in this past year suddenly slice the whole territorial government budget by a huge amount. I cannot really factor that unexpected impact into where we sit as a government in total at this point in time.

**CHAIRMAN (Mr. Sibbeston):** Mr. Pudluk.

**MR. PUDLUK:** Thank you, Mr. Chairman. I would like to ask a question first about the Territorial Hospital Insurance Board and the Northwest Territorial Hospital Board. Are those boards separate, the insurance board and the hospital board, or do they work toward each other.

**CHAIRMAN (Mr. Sibbeston):** Mr. Cowcill, you will, I am sure, take note of that and do what you can. We are running over time, so we perhaps have one more question from each Member. Mr. Zoe.

**MR. ZOE:** Thank you, Mr. Chairman. I think we are getting off the topic here.

**CHAIRMAN (Mr. Sibbeston):** That is okay. Is your question on the topic?

**MR. ZOE:** I will go back on the topic here, Mr. Chairman. I would like to ask in regard to the THIS annual reports that have not been submitted for the last five years. What measures or what steps is the department taking in regard to the annual reports to ensure that no similar thing happens. I realize they said they are going to consolidate it for the last five years, but what steps are they going to take to ensure that there is no similar occurrence?

**CHAIRMAN (Mr. Sibbeston):** Mr. Cowcill.

**MR. COWCILL:** Mr. Chairman, I had hoped that we would be able to table at the recent session of the Assembly the consolidated five year report, but as it turned out we had some problems with our statistical tables so I have had to delay it to the fall. But in the fall we will be tabling that consolidated version to catch up. In addition, Mr. Chairman, we will ensure that the annual reports come out on a regular basis henceforth.

**CHAIRMAN (Mr. Sibbeston):** It being 10:42, I must thank you, Mr. Cowcill, and Mr. Bower for your attendance. We hope to not see you again next year. I cannot think of a worse thing for a department than to be mentioned in the Auditor General's report, so I know that this coming year you will be diligent and not have to get the attention of the Auditor General. Thank you for your attendance.

**MR. COWCILL:** Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** We will take five minutes and Social Services is on next.

---SHORT RECESS

Department Of Social Services

**CHAIRMAN (Mr. Sibbeston):** I see Mr. Bernie Doyle here before us, the deputy minister of Social Services. Mr. Doyle if you want to introduce your staff and then proceed with your opening statement.

**MR. DOYLE:** Thank you, Mr. Chairman. On my left I have Phyllis Sartor who is the director of finance and administration. The Department of Social Services has four program divisions. The first program division is family and children's services. In that program division we have responsibility for child welfare, family violence and child sexual abuse and a relatively new program, child day care.

The second program division is community and family support services. Within that division we deal with social assistance, programs for aged and handicapped and some devolution programs for our services.

The third program division is corrections and within corrections we deal with adult corrections, both community corrections and institutional programs and young offender community corrections and institution programs.

The fourth and final division is that of alcohol and drugs and community mental health. Within that program we deal with suicide prevention programs.

We deliver those programs in a number of regions, Iqaluit, Keewatin, Kitikmeot and the Inuvik Region, as well as the Fort Smith area, Fort Simpson area and the Yellowknife area.

Mr. Chairman, in addition to the regular and formal financial management mechanisms, such as variance reports that monitor and control performance and expenditures, the department has taken the initiative to enhance financial accountability throughout the organization. Over the past few years our department has attempted to increase its financial controls and accountability through management development. This management development included workshops being provided to senior management on the financial management functions, that is the components in the processes, as well as directions and planning and resource allocation and the monitoring of controlled expenditure. Staff at all levels in headquarters and all regional superintendents were provided training on the use of the financial information system to monitor budgets and levels of expenditures. Mr. Chairman I believe the department has made substantial progress in cost sharing of this year and is attempting to maximize cost recoveries in this area.

Contract administration was another focal point for the department during the past year. A working group was established within the department to standardize the process of contract administration and to ensure that contracts which are developed are legally and financially sound and include evaluation criteria for services provided. This process of contract

are consulting with do not agree with what you are trying to tell them? The rationale behind your argument would be the recommendation from the Auditor General and surely Finance and even Justice would take that seriously and put forward these minor amendments. What appears to be the problem? The deputy minister has indicated that they have done three drafts and they have been consulting with the other two departments. It must be something more than these minor amendments that they are dealing with that is causing a lot of problem.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** The discussions back and forth have been to determine the impact on the Financial Administration Act of the changes that we are talking about, and that is primarily what is holding it up.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** I guess the Department of Finance, because of restraint, are really watching their money but for a minor overpayment such as \$11,000, when we have a budget of about \$800 million plus -- I believe this fiscal year we are almost at one billion dollars -- \$11,000 is minor. I cannot see why Finance would have difficulty in trying to resolve that problem for the Department of Social Services. It is taking so long and it does not seem as if the problem is that big.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** The Department of Justice and our department have also been looking at other options as well, other than changing the act. There have been discussions back and forth on that.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle, is it your hope that the matter can be resolved and are there any legislative implications?

**MR. DOYLE:** We have talked with the director of community and family support services and we anticipate that we should have something within a month.

**CHAIRMAN (Mr. Sibbeston):** Is it with the idea that something can be available for the fall session? Are there legislative amendments involved?

**MR. DOYLE:** Yes, there will be.

**CHAIRMAN (Mr. Sibbeston):** Does this deal with this issue? It is not really a big issue. It seems that the department has it in hand and is agreeable to making the changes.

#### Financing The Young Offenders Program

The next matter deals with the matter of failure to follow an agreement with the federal government which has cost the GNWT \$800,000 more than

necessary to finance the young offenders program. I wonder if we should just ask the Minister of the day then what the problem was and ask him to account, or should we ask Mr. Doyle. Mr. Doyle.

**MR. DOYLE:** We were behind and there were some difficulties within the finance and administration section. We believe we have that cleared up. We have hired a new claims officer and our negotiations and discussions with the federal government have been quite satisfactory. I do not think we will have any further difficulty with that.

**CHAIRMAN (Mr. Sibbeston):** Does the Auditor General's staff have any comments to make on this matter.

**MR. SIMPSON:** Not really, Mr. Chairman, except that perhaps Mr. Doyle could tell us what the current status is of this today.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** Approximately \$9.8 million in advances have been received and claims of approximately \$11 million for prior years 1984-85 to 1988-89; additional claims for this period are estimated at \$1.2 million; claims for 1989-90 fiscal year are up to date and work is continuing towards finalization of prior years claims.

**CHAIRMAN (Mr. Sibbeston):** Can I just ask, Mr. Doyle, there is still a claim of \$1.2 million. What are the chances of recovering this amount, and when will you know the outcome of those negotiations?

**MR. DOYLE:** According to the schedule that we have negotiated with the federal government, we are looking at having all claims in by May 31, 1991.

**CHAIRMAN (Mr. Sibbeston):** Can you say that again, please.

**MR. DOYLE:** We have been negotiating a schedule for the finalization of claims and the schedule that we have agreed on with the federal government indicates that we would have all claims in and completed by May 31, 1991.

**CHAIRMAN (Mr. Sibbeston):** Is that to do with the \$1.2 million?

**MR. DOYLE:** Yes.

**CHAIRMAN (Mr. Sibbeston):** Are Members satisfied that this issue is being resolved to a somewhat happy conclusion?

#### **Financial Controls Over Social Assistance Payments**

The next matter deals with financial controls over payments to beneficiaries of social assistance programs. Mr. Doyle, could you again give us the latest developments on that issue.

**MR. DOYLE:** Currently we have supervisors initialling all of the cheques, and in locations where the department has two or more social workers, two departmental signatures can be accommodated. In other locations, the community executive officers will provide second signatures. In addition, the Departments of Health have also been asked to assist. If the community executive officer or one of the two people were not available the nurse in the community would assist.

**CHAIRMAN (Mr. Sibbeston):** Mr. Ningark.

**MR. NINGARK:** Thank you, Mr. Chairman. Mr. Cowcill, what causes the overpayment? Is it that the social workers in the communities are inadequately trained, what is the problem here?

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** In some cases we are finding that they are inadequately trained and we are trying to take corrective action in providing more training within the regions during statutory workshops.

**CHAIRMAN (Mr. Sibbeston):** Mr. Pudluk.

**MR. PUDLUK:** Following on Mr. Ningark's question, is the overpayment happening in communities that have a social worker, or is it happening where a community does not have a social worker?

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** We found that it is happening in both. Again, it requires our attention with regard to further training and also further direct supervision.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, if I could ask the deputy minister in regard to the second signature required either by the nursing station staff, how is it working right now? Is the department quite satisfied with the way the interim thing they have put in place is working? Is it working as it should be? Is the department quite satisfied with the way things are being done?

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** It has only been recently that we have implemented the recommendation on, for example, having supervisors initial the applications and cheques. We are simply evaluating that through regional visits of the assistant deputy ministers. I think we could give you a better answer on that in about six months.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.



**MR. ZOE:** Mr. Chairman, during the last year, during the observation of the Auditor General, they found that only one person was approving payment and issuing multiple cheques to avoid the limit of \$1000 per cheque. This year, the department is working on correcting these problems, but in the interim they are directing their supervisors to review batches of payment documents after the payment has been made. But it does not guarantee us or the procedure that they have in place will not prevent fraud or error but the only thing it will do is it will detect the problems and allow the department to make corrections to prevent them from recurring in the future. I am just wondering what is happening in this regard. Are they quite satisfied with what they have put in place? Because it still does not really solve the problem of the workers issuing cheques. They cannot issue cheques for more than \$1000, so some of them were using more than one cheque to get around that. I am not too sure I am getting myself clear here, but I am just wondering if this type of thing that is happening is being corrected.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** We have asked for increased supervision and more spot audits by the supervisors when they visit the offices. We are also looking at increasing the social assistance cheque limit from \$1000 to \$2500. The key thing that we are doing is increasing the supervision by having more spot audits. We are certainly aware of the problem and we are trying to deal with it with more supervision.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Mr. Zoe.

**MR. ZOE:** Mr. Chairman, can I get a comment from the Auditor General. Maybe they understand what I am trying to get at. Could I ask them to comment on this issue?

**CHAIRMAN (Mr. Sibbeston):** Yes. Mr. Simpson.

**MR. SIMPSON:** Thank you, Mr. Chairman. I suspect that Mr. Zoe is sharing the same concern that we have and that is a year ago the department indicated that it was going to fix this problem, particularly with regard to the multiple cheques and yet the response that is dated April 24, 1990 still shows that this is an issue in progress. Perhaps Mr. Doyle could tell us exactly what the status of that fix is and when he expects the problem to be fixed.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** I contacted the deputy minister for the Executive Council requesting assistance from the community executive officers and we also wrote to the deputy minister of Economic Development and Tourism and the deputy minister of Health to ensure that there would be two signatures on the cheques in the communities. We have, as well, provided further direction and training to supervisors and to the superintendents in regard to the monitoring of cheques that are issued on a more regular basis. But

in response to last year's concern, we have taken some action on getting two signatures on the cheques.

**CHAIRMAN (Mr. Sibbeston):** Does that clarify the matter? Did you want to say something, Mr. Simpson?

**MR. SIMPSON:** Thank you, Mr. Chairman. I do not think, with all due respect to the witness, it really dealt with the question of what is being done to avoid the cheque splitting, the \$1000 limit. If I can put it a little more colloquially, how long does it take to get a policy change to allow cheque limits to be increased? It is over 12 months now since the department told this committee they were actually doing that. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** We have submitted some time ago a request to the Comptroller General for permission to change the cheque limit from \$1000 to \$2500. We have not received a response on that yet.

**CHAIRMAN (Mr. Sibbeston):** You will undoubtedly be pursuing this until you have accomplished what you wanted on this matter.

**MR. DOYLE:** We will.

**CHAIRMAN (Mr. Sibbeston):** Mr. Pudluk.

**MR. PUDLUK:** Thank you, Mr. Chairman. I also support the two signatures on the social assistance cheques because a number of times we had a really bad social worker in my area and he was issuing cheques to himself. When that happened, did you get the money back from that person? Did you forgive that?

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** There is no forgiveness there. In those cases we would be turning that over to the RCMP.

**MR. PUDLUK:** My question was, would you get your money back when something like that happens?

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** We would.

**CHAIRMAN (Mr. Sibbeston):** Mr. Pudluk.

**MR. PUDLUK:** In that case you did not, is that what you are saying? There were a couple that I know of that were issuing cheques for themselves. I know your department turned it over to the RCMP and the RCMP will have to deal with that person. After that did you get your money back?

**MR. DOYLE:** Not necessarily. It would depend on what happened with the charge and what happened in court. If the judge requested restitution, we would get it back. If not, he would dispense with another penalty.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle, I think it would be useful if we got information from that particular case that you mentioned. Was it up in Resolute that this happened and was the person charged with fraud? I do not really know the full details, but if you could find out and report to our committee then we would know what happened. Mr. Ningark.

**MR. NINGARK:** Thank you, Mr. Chairman. It is my understanding that some communities have their legally bound appeal committees and some communities have social affair committees. I wonder if those communities could be informed of overpayments and other small problems to keep some kind of a tab on the local social workers. Because they are dealing with that person but they are not being informed. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** We have had more direct communication with the local, either social affairs committee or social appeals committee, and we recognize that they also need not only better communication from us but also some training. So we are also provided them with training similar to statutory workshops and that kind of thing is discussed there.

**CHAIRMAN (Mr. Sibbeston):** Does this conclude discussions on this department? Okay, thank you Mr. Doyle and Ms Sartor for your attendance and wish you well. Mr. Young, do you have a comment you want to make while officials are still here.

**MR. YOUNG:** Mr. Chairman, I am just wondering that if while the deputy minister is here if the committee wanted to pursue any line of questioning on the overexpenditures in the Social Services area.

**CHAIRMAN (Mr. Sibbeston):** In 1988-89 Social Services overspent under corrections services, \$180,000; under family and children's services, \$288,000. Do you wish to make some comment on that Mr. Doyle.

**MR. DOYLE:** The overexpenditure in family and children's services activity is a result of three concerns. One was the increased costs in the foster care area where days in foster care increased by 33 per cent for regular care and 28 per cent for special care between 1987-88 and 1988-89. Secondly, increased costs for the planning and preparation of day care and child abuse initiatives. And third, increased institutional care.

An analysis was done in consultation with the regions prior to the cut-off for the interactivity transfers to determine the possibility of overexpenditure in any activities. At that time it was expected that this activity would be borderline. The first year end financial statement produced on March 31st, 1989, showed \$562,000 unspent, with \$454,000

committed, leaving an uncommitted balance of \$108,000, at this point in time in this activity.

In addition an analysis by the Financial Management Board Secretariat in February indicated a departmental surplus was anticipated. We did not anticipate that we were going to overrun in that area, but we were aware of increases in foster care, increases in day care and child abuse initiatives and also in institutional care.

**CHAIRMAN (Mr. Sibbeston):** You were obviously faced with unforeseen costs.

**MR. DOYLE:** The big one was in foster care. One of the difficulties we had also was when we were referring disturbed children to treatment. When we do not have treatment available in the North, they are referred south and that has become an expensive proposition which we are trying to avoid. We are trying to maintain children in the North.

As a result of that we have taken action to centralize those decisions. We work in consultation with the superintendent from the region, but we have centralized that decision making and I think we have it under control and we are trying to avoid sending children to the South. For a child in a treatment centre in the South it costs us approximately \$90,000 a year. It is very expensive and if you are sending three or four children that you do not expect, that will bring the cost up fairly quickly. These children usually are fairly desperate at the time and we have to do something to resolve the problem.

**CHAIRMAN (Mr. Sibbeston):** Any questions. Mr. Zoe.

**MR. ZOE:** Mr. Chairman, as the deputy minister indicated the percentage increase in the cost went up, especially in family and children's services. But the department knew ahead of time that these costs were going up, am I correct?

**MR. DOYLE:** Not to the degree that they went up.

**MR. ZOE:** But the FAA prohibits overexpenditures at the activity level and the department have accessible financial management and control system, they should know when they are running into an overexpenditure situation. If I am right, the deputy minister indicated that they knew they were going to go over and the deadline to do the transfer of interactivity was passed so they could not do transfers within the department. Am I correct?

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** We did not know. The year end financial statement produced on march 31, 1989, showed \$562,000 spent with \$454,000 committed, leaving an uncommitted balance of \$108,000. So we did not know in time. One of the difficulties was that some of the referrals were being done directly from the regions, we have since centralized that and we have more control over it.

**MR. ZOE:** Mr. Chairman, maybe I can seek some assistance from the Auditor General. I am basically concerned with the systems we have in place to catch all these type of things. We have the quarterly reports and so forth and the department utilizes the commitment system, where they commit certain dollars to cover costs and the management for results system. Whoever is looking after this particular activity should be able to pick up and say, "I am going to be over my level", and he should inform his superiors and also the Financial Management Board to do interactivity transfers or even go for a supp. If it is close to year end, our House was still sitting last year and surely they could have come forward with a supp to cover the overexpenditure.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson, would you like to comment.

**MR. SIMPSON:** Thank you, Mr. Chairman. If I understand the figures that Mr. Doyle quoted correctly, when they first ran off the March 31st financial statement, they were showing \$108,000 surplus in that activity budget. The ultimate figures show an overexpenditure of \$288,000, which tells me with some simple arithmetic that close to \$400,000 of outstanding commitment were not known by the department. I would be interested in knowing what sort of information systems the department had or has subsequently put in place to make sure that they do know or have better information on the outstanding commitments, so that these can be booked in accordance with section 32 of the Financial Administration Act.

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** The point that I mentioned earlier was that rather having the referrals done directly from the region out, we have centralized the decision-making and the regional superintendent at the time the referral is being made must deal directly with the superintendent of child welfare, so we have control with regard to referrals.

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson.

**MR. SIMPSON:** Thank you, Mr. Chairman. Can I assume then, Mr. Doyle, that as you become aware of a referral that there is, in fact, a commitment made in the systems under section 32 of the Financial Administration Act?

**CHAIRMAN (Mr. Sibbeston):** Mr. Doyle.

**MR. DOYLE:** We have put that in place now. That was one of the difficulties. It was not in place before.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Any more questions? If not, that does complete our discussion in dealing with this matter. We thank you again, Mr. Doyle and Ms Sartor. We will break until 1:30 p.m. The meeting is adjourned.

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kinds of responsibilities there are. The Department of Finance does have the responsibility once the account has been turned over to it to actively pursue collection action.

With respect to the second part of that question, and that follows from that, once the account has been transferred, or determined to be collectible by the department and transferred to the Department of Finance as a collection agency, the Finance department has the full responsibility to actively pursue collection action, which it does. If that collection action means that the individuals who have provided personal guarantees should be pursued, then that will be done in co-operation with the Department of Justice. That would be a Department of Finance and Department of Justice decision. If the Department of Justice reviews the personal guarantees, determines that the personal guarantees are valid, then the funds would be sought from those personal guarantees.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** If I understand Mr. Nielsen correctly, it is a joint decision between the Department of Justice and the Department of Finance to determine if they are going to pursue the personal guarantee.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, I guess that is one way of phrasing it. Our opinion would always be to pursue the guarantee. The decision of Justice would be as to whether or not it was felt, because of the circumstances surrounding the guarantee and the guarantee itself, whether it would be possible to pursue that in the courts. So it is actually a Department of Justice decision as to whether or not an account can be pursued. I suppose when I say that I should qualify it to the extent that if the Department of Justice is to give us an opinion saying, "Look, we have reviewed the guarantee. We think, as a result of the circumstances surrounding that guarantee, that the government really does not stand a chance in court." Then, obviously, the Department of Finance would defer to the Department of Justice's opinion.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, if I could rephrase my question. I will do it in the reverse order. If the department, since it is Finance that pursues the guarantee people, if it is decided not to pursue to collect from the person who has given the personal guarantee, who makes that decision not to go after it?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, ultimately that would be the decision of the Financial Management Board because what would happen is we would provide a complete description of the circumstances in the case and before the account is recommended for write-off or, alternatively, if the account is

written off and subsequently some action is taken, or a suggestion that perhaps we not take action, then that should be the decision of the Financial Management Board as to whether or not they want to pursue it based on their, I presume, evaluation of the likelihood of success in the court system.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Mr. Zoe.

**MR. ZOE:** Mr. Chairman, if it happens as Mr. Nielsen is indicating, where the FMB decides not to pursue collecting from the personal guarantee and it is recommended for write-off, would not FMS or FMB staff recommend it to be forgiven rather than a write-off?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, again, I think from my reading of what happened with the review of this with the department, there might be a slight misunderstanding with respect to what an account for write-off is and what an account for forgiveness is. An account that is written off by the Legislative Assembly is written off under an act. The government must bring every account that is recommended for write-off over \$20,000 to the Legislative Assembly. Accounts under \$20,000 may be written off by the Financial Management Board. In any case, any account that is written off in that manner is not an account that is deleted. It is an account that stays essentially as a memorandum account within the government accounts and is never deemed to be satisfied in effect. I am not sure if it is collectable but it is certainly subject to being pursued. Again, I think the key word here is, it is deemed not to be satisfied.

A decision is made at the time that the account is reviewed as to whether or not it should be written off or whether it should be forgiven. I suppose the opportunity is always there after an account has been written off to subsequently be forgiven but normally that decision would be taken at the time the account is recommended for presentation to the Legislative Assembly for approval. An account that is recommended to be forgiven is deemed to be satisfied and there would be no subsequent collection action recommended. I think that is a very important distinction. Normally an account that is written off is deemed to be a very legitimate account, it is an account for which someone received some benefit and it is an account for which the government should in its responsibilities pursue.

In the case of an account being forgiven, normally there would be some underlying circumstances which would suggest that perhaps for a moral reason, or perhaps because of a misunderstanding, either an individual perhaps did not receive the benefit that he was intended to receive, perhaps because of some other grounds, the government does not intend to actively pursue that. In such a case, there would be a special forgiveness act that would have to be prepared and presented to the Legislative Assembly, and the circumstances described to the Assembly at that time.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, yesterday when we had the Department of Economic Development before us, to their recollection I do not think they ever pursued a personal guarantee. I asked for figures, but I do not think they had those on hand yesterday, on the percentage and so forth. If, say, a company went bankrupt and it is uncollectible, and it goes to the FMB for a write-off or forgiveness, and the collection division decided not to pursue a personal guarantee, I think they would have to pursue the personal guarantee first based on the circumstances of the company. If it is decided at FMB not to pursue the personal guarantee, just to be humane and so forth, rather than putting it forward as a write-off, I think it should be put forward as a forgiveness so that the case is closed, rather than keeping it on the books where it could be pursued at a later date. I believe that we have a number of write-offs that legitimately should have been forgiven. Surely we must have hundreds of write-offs because every year we get a write-off act in the House, but I have never seen a forgiveness act yet.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, there has been at least one forgiveness act presented to the Legislative Assembly, I believe, for the Department of Public Works one or two years ago. With respect to the question on whether or not we would actively pursue guarantees, I can certainly assure the Member that that is a process that is undertaken. There have been personal guarantees that have been actively pursued and I understand that there have, in fact, been some receipts as a result of that, some of which may have been through a subsequent payroll deduction.

I do not want to create the impression that the Financial Management Board would perhaps wish to consider not going forward with a personal guarantee, because in fact, again to my knowledge, I do not recall a personal guarantee ever going to the FMB and having the board decline to go after that. I think the procedure that I was pointing out was simply that, a procedure. It was not something that has or would necessarily happen in the future. We are actively, I am aware at this time, pursuing two or three personal guarantees. My only reservation on them is that no matter how well someone does a job, it may very well be that, for whatever reason, a personal guarantee turns out to be less valid in the legal context and so on that basis my point is that you would have to evaluate your Department of Justice opinion before you determine whether or not you would actively pursue in the courts, and you would do that not so much on the basis of your evaluation as to whether or not the guarantee should have been there but rather on your likelihood of success in the courts and the amount of money it is going to cost you to pursue that.

With respect to whether or not you should forgive an account that has previously been written off, again, the operative issue is whether or not it is deemed that the debt has been satisfied and whether or not it should remain on the books. Simply because an account has been written off and there is very little chance of success is not in the legislation sufficient



grounds for forgiveness. An account would only be forgiven if it is deemed to have special circumstances. In other words, where, as I pointed out earlier, the government really does not wish to at any point in the future ever pursue that account. I will give you an example. In the case of a corporation you would not want to take the debt off the books because you could subsequently incorporate a corporation with the same name and with the same shareholders which might be deemed to still carry forward the obligations of the previous corporation. An individual, particularly where an individual has perhaps at a particular point in time insufficient funds and there is no chance of success but he might subsequently win a lottery or he might subsequently find himself in a position where he can repay the amounts that he owes. So in most circumstances the government would not forgive an account that has simply been written off.

**CHAIRMAN (Mr. Sibbeston):** Would the Auditor General department like to make a comment on what has been said thus far? Mr. Shier.

**MR. SHIER:** Thank you, Mr. Chairman. A number of interesting issues have been raised here today. When we compare the testimony of Economic Development and Tourism yesterday to the testimony of Mr. Nielsen today, there are a few, as Mr. Nielsen would phrase it perhaps, misunderstandings between Finance and Economic Development and Tourism. So this is a fairly fundamental issue of financial management. Is anybody, in fact, looking after collection activities and who is responsible for it?

My first question that the committee may want to ask the witness is, is there in fact a policy that governs the relationship between a department that has a debt and the Department of Finance as the central agency with credit and collections? That is one of the factors that should probably be dealt with. Secondly, when there is a guarantee on a loan or some other debt that has gone into default, and the guarantee becomes an issue -- there is a guarantee -- the guarantee itself becomes a valuable asset at that point and therefore it should be protected. I was wondering if the committee might want to ask the witness if credit and collections within the Department of Finance separately track the guarantee itself as an asset to see whether at any point in the future that asset can be recovered on as part of their collection activities or as part of a deduction off future payment by the Department of Finance or the government.

Also, Mr. Chairman, over the last three years -- Mr. Nielsen is correct -- it appears that over the last three years, there is only one case where something was put forward to the Legislative Assembly as forgiveness rather than a write-off. Another question would be, is there a central policy or some sort of central direction from Finance and from the Financial Management Secretariat that clarifies for departments what should be put forward for write-off and what should be put forward for forgiveness? Does the witness think there is any problem with the way the write-offs are put forward to the Assembly or classified -- whether some of those are, in fact, forgiveness and should be classified as such.

Finally, Mr. Nielsen raises an interesting question with the Department of Justice with the comment about Justice's opinion on the enforceability of guarantees. Has there been a problem with the enforceability of the guarantees and if so, what steps have been taken to protect the government's interest and make sure that the guarantees in the future are enforceable? Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** We would like to pose those questions and so, Mr. Nielsen, if you have been able to keep track of some of them, are you able to respond?

**MR. NIELSEN:** Mr. Chairman, if at all possible, I would not mind if the witness from the Auditor General's office would repeat the questions one by one and I will respond to them in that order.

**CHAIRMAN (Mr. Sibbeston):** Mr. Shier.

#### Policy Direction For Collection Responsibility

**MR. SHIER:** Mr. Chairman, the first question was, is there some sort of central policy direction that governs the relationship between Finance as a central agency with collection responsibility and the department who originally has the debt to really clearly state who has responsibility for what.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, there is a Financial Administration Manual that defines responsibilities. Perhaps it has not been as clear as it could have been in the past. As a result, there are directives going to the Financial Management Board at this time. I am not sure if they are going forward at tomorrow's meeting particularly, but certainly there are some directives going forward with a view to trying to outline the responsibilities of each of the players in the process.

**CHAIRMAN (Mr. Sibbeston):** Are you satisfied with the response, Mr. Shier.

**MR. SHIER:** Yes, Mr. Chairman, subject to reviewing in due course what those directives would be, that would appear to help clarify the situation. Of course, a policy is good unto itself, but it is important as well that efforts be taken to communicate the policy to departments to make sure that they behave and govern themselves accordingly.

**CHAIRMAN (Mr. Sibbeston):** On the second question to do with the guarantee becoming an asset, Mr. Shier do you want phrase that?

#### Monitoring System For Bad Debts

**MR. SHIER:** Yes, Mr. Chairman. When a guarantee becomes potentially enforceable, it itself becomes a valuable or potentially valuable asset of the government and therefore should be protected. You have already heard

how when a debt is written off it is brought forward in some sort of list and it is periodically reviewed for collectibility in the future. Does any guarantee that would arise out of that same debt get carried forward as well as a separate potential asset that needs to be monitored and protected?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, in the case of bad debts, and I believe this relates to the second question which was raised by the committee, there is a monitoring system for bad debts. Any time there are write-offs, those are accumulated in a central file in the Department of Finance and lists are provided to each of the finance sections in the departments to outline what accounts credit should not be provided for. There is a reference and before any credit is provided by a department, there is a responsibility on that department to refer to those lists.

The overall process so far since that was implemented -- and I might mention that again this is partially as a result of the standing committee on public accounts direction a few years -- to my knowledge is working quite well and to my knowledge there has not been credit issued to an individual who has had a previous write-off since that time.

With respect to the inclusion of personal guarantees on that, again there have not been all that many personal guarantees that have been applied or pursued. Quite frankly, I will simply take that as a very good and strong recommendation and I will go back and see exactly what we are doing with personal guarantees and ensure that wherever personal guarantees have been provided, and they are legitimate guarantees, we will ensure that those are included in the list. Having said that, however, I do want to point out that if there is the slightest chance of collecting on a personal guarantee at the time that an account proves to be uncollectible, it will be actively pursued at that time. The issue really becomes one of whether or not, not unlike the account, that personal guarantee has any likelihood of success.

**CHAIRMAN (Mr. Sibbeston):** Any further response to what has been said so far, Mr. Shier.

**MR. SHIER:** No, Mr. Chairman. Is the committee satisfied with that question?

**CHAIRMAN (Mr. Sibbeston):** I think so. Actually, Mr. Ningark had his hand up earlier on. I do not know whether it is about this matter. I wonder if we should just finish dealing with these questions that have been raised by Mr. Shier. Mr. Ningark.

**MR. NINGARK:** Mr. Chairman, I have a question about the write-off accounts. Given that the write-off accounts technically remain open, has there ever been a subsequent collection on the accounts?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, again, it is my understanding that I am not personally aware of any situation but, yes, I am given to understand that there have been a number of collections on accounts subsequently where individuals have subsequently become more solvent.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** My question is just on the personal guarantees. From the way I understand it, let us say Economic Development is going to use the guarantee as part of the back up when they give out a loan, in order for that person to be in a position for the loan fund to think that this personal guarantee is worth anything that person probably has to own something like a house or a couple of automobiles or something like that. He has to have some sort of assets or at least a job, another source of revenue other than the business the loan is given for, otherwise the personal guarantee is obviously not worth anything. What I am trying to figure out on this, after the personal guarantee is given, is there some sort of legal paperwork done which makes it impossible for that person, for example, to sell his house to his wife or to sell his house to another company or to sell his automobiles so then he no longer has any assets and obviously his personal guarantee is worth nothing. Is that what you meant by tracking the personal guarantee? That is my question.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, I am not aware of the action taken by whatever department it is on the personal guarantee side, at least subsequent to the granting of the loan. However, I would be surprised that there would be an ongoing review of an individual's account. I think normally what happens is that at the time the personal guarantee is given, there would be an evaluation of the individual's wealth and the likelihood of collecting on that. But subsequent to that, and again I am not sure what the legal position would be of the department or what the individual's personal position would be, I do not believe there is any requirement unless you had an agreement, not only a personal guarantee but some sort of an agreement between the lender and the individual which ensured that he was not entitled to dispose of any assets. So if you did not have that kind of an agreement, I am not sure what your legal position would be, but I suspect it would not be very strong.

**CHAIRMAN (Mr. Sibbeston):** Can we now get back to the questions. I think your third question has to do with whether there was a clear policy between forgiveness and a write-off. Mr. Shier.

**Policies To Determine Between Write-Offs And Forgiveness Debts**

**MR. SHIER:** Mr. Chairman, the third question that the committee may want to consider is just by quickly reviewing the write-offs and remission schedules for the last three years, as Mr. Nielsen says, there has been one case in the last three years it appears, in the case of DPW where a debt

was actually forgiven instead of written off, which begs the question whether or not there are any policies in place to review as write-offs are submitted to FMS and FMB for approval to submit to the House, whether there is any review mechanisms to determine whether any of those put forward for write-off are in fact forgiveness and should be classified as such, and whether there is any system in place to periodically remind departments of the distinction so that when they submit them, they can properly classify them between the two. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, certainly I guess the first thing we will do is go back and take a second look at these directives to ensure that they do clearly distinguish between forgiveness and a write-off. But with respect to procedure, I am not too concerned about it because every write-off for the government crosses either the Comptroller General's office or my office. Every forgiveness or write-off is going to have to be reviewed by us. The write-offs would require a signature and on that basis we would have the opportunity of reviewing each of the proposals. Having said that, I should also point out that a number of these accounts it is not a matter of simply saying this is an account that must be written off. It is an account based on all of the criteria that we would use as officials of the government. It would perhaps meet the criteria of a write-off but that is not to say that account is subsequently going to be reviewed by the Financial Management Board and determined to be a candidate for forgiveness. So, no matter what sorts of procedures you put in, forgiveness is a procedure or a process, an approval mechanism which is probably more likely to be used at the political level than at the bureaucratic level.

**CHAIRMAN (Mr. Sibbeston):** Do you have any more questions, Mr. Shier?

**Problems With Enforcing Guarantees**

**MR. SHIER:** Yes, Mr. Chairman. If the committee is satisfied with that, there would be one final one that the committee may want to consider. Mr. Nielsen earlier referred to going to Justice with a guarantee and obtaining their opinion on whether or not it is enforceable. The question that the committee may want to ask about that is, has there been a problem with the enforceability of some of the guarantees for technical reasons and if so, has the loophole been closed? In other words, once a problem is identified, are the departments notified and the lawyers for the departments notified that in any future guarantees that are issued that the wording is changed to make sure that enforceability is not a problem in the future? Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, yes, there have been one or two problems with guarantees and, yes, we are looking at what those problems are and attempting to close the loopholes, however, I would like to also suggest

that a legal guarantee is not much different than a legal contract. I think a lawyer would be the first one to agree that there is no perfect legal contract. There may always be something wrong with it. I think one learns by experience in the particular cases I am thinking of. The problems have been determined and the legal guarantees rewritten to ensure that there will not be, at least, those kinds of problems in the future.

**Increasing Departments Cheque Writing Limit**

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen, would you answer the last question that I had stated dealing with Social Services and their getting their cheque limit increased to \$2500 from the present \$1000 that they are seeking.

**MR. NIELSEN:** Mr. Chairman, I do not have that one written out. Could you repeat that question again, please?

**CHAIRMAN (Mr. Sibbeston):** It is just a matter that has arisen since we dealt with Social Services this morning. It arose out of their writing off some debts and their believing that it would help them if they were able to get their limits raised. It would avoid people writing a number of cheques. There is a limit of \$1000 and to get around that they would write two cheques. So they deemed it desirable to increase their cheque writing ability and limit upwards to \$2500, I believe. I think they indicated there was some problem in getting this through and they blame the Department of Finance in not being perhaps co-operative or very willing, as it were, in terms of dealing with this. We want to find out from you if you had any problems with Social Services doing this.

**MR. NIELSEN:** Obviously, if a department feels it is necessary to write two cheques to circumvent a procedure, we would be very concerned about what the reasons for that were. I can assure the committee that we will investigate that matter thoroughly and ensure that if the limit needs to be raised, it will be raised.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, the request was made to raise the limit from \$1000 to \$2500. On the other issue, last year the observation of the Auditor General, on the minor social assistance overpayments, they commented that either the FAA or the Social Assistance Act should be changed so that these minor overpayments can be forgiven. I know from the comments of the Deputy Minister of Social Services, he indicated that they brought this forward to your shop, to Finance, and also to Justice. It seems like it is a minor amendment that they are seeking so that these minor overpayments, which surely will occur on a yearly basis and are controllable -- and the FAA specifically states that they cannot make any overpayments -- they must be recovered. How are you going to recover something from someone that is already on social assistance? They would not be seeking social assistance if they were to the good.

The problem here is that they are seeking amendments and it is between the three departments, and the problem still exists. I do not think it is such a big problem to get amendments to either one or the other of the acts.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, again we would certainly be prepared to look at that more carefully. On the surface of what you have indicated, if an overpayment has been made, presumably then we now have an accounts receivable. If we have an accounts receivable, then that accounts receivable can be forgiven under our current legislation. Whether it is worth following through that procedure and ending up with an act of forgiveness for two or three clients for \$50 each is a legitimate question. I think we will take your concerns under advisement and review that with the department, and with the Department of Justice, to determine exactly what we can do under our current legislation and whether that is appropriate, or whether an amendment should be made to cover those kinds of situations.

**CHAIRMAN (Mr. Sibbeston):** Mr. Gargan.

**MR. GARGAN:** Mr. Chairman, Mr. Nielsen did say that there is an ongoing review of accounts, whether there is a need to have a write-off or forgiveness. What is the legal implications as far as the statute of limitation is concerned? Is it five or six years?

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, the Member is essentially correct. If we have an account receivable and if there is no communication from our government, between ourselves and the debtor, then in such an instance the limitations legislation would be in effect and we could not pursue that account. However, that is somewhat amended by the possibility that we might end up in some other kind of an arrangement with the debtor. For example, if there is a judgment made between the time of our last communication and that judgment is against the debtor, then the new limitations period would start at the time of that judgment. Or if we have entered into some sort of a repayment schedule, for example, then from the time that that debtor stops making his last payment then there would be a new six year period added. Essentially, the point is correct that the period of six years from the time of the last communication would be applicable and would be applied as a statute of limitation.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, I will go back to the other issue that you raised with regard to cheques. Last year the Auditor General -- maybe Mr. Nielsen answered it but I did not catch it so I will ask it again -- commented that the social workers in communities were issuing multiple cheques to avoid the \$1000 limit that is in place right now. The Deputy Minister of Social Services indicated that they had asked Finance and Justice, I believe, to

see if they can raise the limit to \$2500. Again, it seems like it is a minor thing to do. This was raised last year and now we are raising it again. Why is it taking so long to try to rectify these small barriers that are encountered by the departments? One is back to the amendments and the other one is on raising the limit per cheque for Social Services. According to our previous witness that appeared before us, the request was made by the Department of Social Services.

**CHAIRMAN (Mr. Sibbeston):** Mr. Nielsen.

**MR. NIELSEN:** Mr. Chairman, I am not aware at the time that the request was made, nor I am not aware of what the reasons might be why there should be a delay. I can assure the committee again that this is something I will look into immediately. The only justification I can suggest that might be a reason for the delay is that this is one part of a number of amendments or suggestions that are being considered, and rather than doing things on a piecemeal basis they would be part of a larger financial arrangement. As I say, that is about the only reason I can think of that it might have been delayed. I can assure you I will look into it immediately and find out what the problem is so that we have it solved, certainly before the next year end.

**CHAIRMAN (Mr. Sibbeston):** If there is nothing more then, I will just thank Mr. Nielsen and Mr. Nelson for appearing again, and invite Louise Vertes to come forward.

#### **Financial Impact Of Devolution From Canada**

The next topic is devolution. It forms a major part of the Auditor General's report to us. There have been a substantial number of devolution matters over the past few years and the Auditor General has had occasion to deal with that and review it and has pointed out a number of problems. I will just ask Ms Vertes to open with a statement.

#### **Department Of Executive**

**MRS. VERTES:** Thank you, Mr. Chairman. This government's commitment to the public regarding devolution is contained in the devolution policy approved in October 1987. The policy states in part, "The Government of the Northwest Territories is seeking the transfer of provincial-type powers and programs from the federal government and to bring these matters within the jurisdiction of the Legislative Assembly."

The term "devolution" has been used to describe both the devolution of program responsibility, such as the transfer of the health program, and the devolution of jurisdiction from the federal to the territorial government. An example of that type of devolution would be the Northern Accord.

Over the last several years we have had success in working toward the achievement of our state of commitment. As you know, Mr. Chairman, we have seen the transfer of the majority of highways program, health programs,



fire and forest management and northern scientific resource centres, to name some of the major transfers. I say success, Mr. Chairman, because these programs directly affect NWT residents and their delivery is now within the purview of the Government of the NWT.

Mr. Chairman, there has been a number of significant issues in the last year or so that have affected the pace and quorum of our devolution efforts. For example there was uncertainty about the eventual terms of the formula financing arrangements with the Government of Canada. The need to integrate any transfer of jurisdiction with the implementation of land claims is also crucial.

For these reasons the government has taken a cautious approach to starting new devolution activities. We continue to try and persuade the federal government to conclude negotiations on a framework agreement covering new devolution activity. Particularly those which involve jurisdictional transfers. Until this agreement is in place, it is difficult to predict what will be our future devolution priorities.

Mr. Chairman, I hope these brief remarks have been useful in describing the current situation with regard to devolution activities and I will certainly be pleased to answer any questions the committee may have. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Do the Auditor General officials have any statements to make? Dale.

#### Comments From The Office Of The Auditor General

**MR. SHIER:** Thank you, Mr. Chairman. Chapter two of our report this year deals with the devolution programs from Canada to the Territories. A table on page eight of our report lists some of the recent programs evolved from Canada since 1982. When programs are transferred Canada transfers funds to pay for them. The money transferred totalled some \$89 million a year for these programs. This has caused a real growth in the GNWTs operations of at least 12 per cent over the last few years.

Mr. Chairman, I would just like to clarify what our review was and what it was not. Our review was not a review of devolution policy. We view that as clearly within the purview of the Legislative Assembly to determine what programs are requested to be devolved from Canada and at what times. Our review was only a review of some of the financial impacts because we feel it is vital for the Assembly to know the financial impact of past devolution, to help it deal with planning devolution in the future.

#### Major Financial Risks In Devolution From Federal Government

With that in mind, our review dealt with three major risks that we feel that the Assembly should be made aware of. First there is the risk that the funding transfer from Canada at any one point in time for any one program is inadequate and in which case the funding deficiency would have

to be made up from the Territories own resources. Secondly, there is the risk of future cost increases which are now borne by the territorial government rather than the Government of Canada. And finally there is the risk that over the last few months is at least partially realized, that regardless of the negotiations that occurred to transfer funds in the past, the federal government can obtain global cuts to the formula financing agreement which essentially cause problems with funding the program which have been devolved from Canada.

We acknowledge that these risks are unavoidable to a large extent. Our recommendation is merely that any future devolution negotiations with Canada, that the Territories identify all these risks and all these costs. Then the Territories can make an informed decision on whether or not to accept future transfers from the federal government. Thank you, Mr. Chairman.

#### 1986 Transfer Of Baffin Health Care Responsibilities From Canada

**CHAIRMAN (Mr. Sibbeston):** If there are no comments then we will go into the specific cases outlined, the first deals with the 1986 transfer of Baffin health care responsibilities from Canada. The issue here seems to be that after the transfer our government decided to increase the number of PYs and so subsequently there is about \$300,000 additional costs above and beyond the moneys transferred to our government. Ms Vertes, do you have any comments?

**MRS. VERTES:** Mr. Chairman, I do not have anything to add other than to the comments from the Department of Health about the specifics of that transfer. I think that has been noted in the general response to the Auditor General's recommendation, that yes there is a risk associated. What the government has done is to put in place a process with checks and balances that will ensure those risks are minimized and informed decisions are taken.

#### Acceptable Level Of Risk

**CHAIRMAN (Mr. Sibbeston):** Thank you. We have a number of questions that have been prepared in attempting to analysis the problems and concerns raised by the Auditor General. I will ask them of you. How does management decide what is an acceptable level of risk? What criteria are used?

**MRS. VERTES:** Mr. Chairman, I guess ultimately the decision on acceptable level of risk is made at the Executive level. Certainly it is management who is recommending to the Minister responsible for the transfer whether the risk is acceptable or not, so perhaps I will deal with it from that point of view.

We have gained experience over the years with the different program transfers in our negotiations, to investigate the current cost of program delivery. We have in place, for example with facilities, management

systems and other techniques that are applied in our assessment of assets that may be part of a transfer of program responsibility. Negotiating teams are put together, bringing to bear different areas of responsibility. The lead department, as described in the devolution policy, would be the program experts, who have a knowledge of the subject matter of the program. For instance in the Department of Health, those dealing with Health matters are going to be in a position to comment on the resources required to deal with program delivery once the transfer takes place. Officials from Public Works would be involved in transfer negotiations, as we mentioned, with the assessment of facilities and the cost of operating and maintaining those facilities. We would have access to the records and documents of the federal government, to a large extent, to look at actual costs of past program delivery.

So it is a matter of putting together a team and bringing expertise from the different areas to bear on the program delivery costs; to then sit down with the federal government and negotiate dollars and compare the results and look at our own delivery system where we may have a different structure in place then the federal government has previously, that could effect the way we choose to deliver programs. And again analyze all of those and come up with a dollar and see whether they are the same. Having done that, a recommendation through the Minister, with the Executive level, whether it is the Financial Management Board or cabinet receiving advice directly to them from the central agencies who would be involved throughout the process. And then review the final results and recommendations. Again, basically the process described in the policy, Mr. Chairman. Thank you.

#### Calculating Success Of Transfers

**CHAIRMAN (Mr. Sibbeston):** Our policy states that the basis for calculating resources to be transferred, should be the GNWT program needs. How do we know how successful we have been? How do you explain the difference between a policy and a reality?

**MRS. VERTES:** Mr. Chairman, I think this again gets back to the risk that one of the ways we know how successful we have been or have not been is, in fact, the post devolution audit carried out by our own internal audit bureau and the audit carried out, in this case, by the Auditor General. The principle says indeed that the resources should be the same, that should be adequate to deliver on the program requirements.

The first case described in the Auditor General's report in fact confirms that resources transferred were indeed adequate. The comment is referring to a choice taken after transfer. So we have put in place a mechanism, albeit an audit one, that is after the fact to determine whether or not resources are adequate.

The second case again speaks about the level of resources received. Again we had mechanisms in place to know whether the resources were adequate or not. In one area they were not and action, as previously agreed with the federal government, is being pursued.

equalled the costs in the increase of the financial grant from Canada -- no we have not done that. I am not quite sure, Mr. Chairman, how in fact we would do that, given the variables that would be involved. I tend to think we would be comparing apples and oranges -- if there had been changes in service levels for some reason, post-transfer, because the program was now within the purview of the territorial government that did not happen when it was within the purview of the federal government. Perhaps the committee has some advice in that regard.

As far as the specifics of the question, I do not know, but perhaps Mr. Nielsen might have something to add in that regard. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** I think a lot of these questions are an attempt to get at determining whether our negotiations have been successful and whether the amounts of money that we received were adequate at the time. Over the course of years has time shown us that our negotiations have been good and successful? Also, if an analysis has been done then it bodes well and could be useful in terms of future negotiations. I think this is what the committee is interested in finding out. I think there is a feeling that there ought to be some analysis, otherwise we may never get the results or know how these transfers have been. It is all trying to get at that. Perhaps there has not been enough years to see a trend or see any real signs of the effects of the negotiations, good or bad. I do not really know. It seems to me that apart from your audit function, there ought to be at some point a real analysis in terms of an evaluation of all devolved responsibilities to see where we are after a number of years. Is that something the government would consider doing, Mr. Nielsen?

**MR. NIELSEN:** Mr. Chairman, I should point out that in the annual review of these, there is effectively an annual evaluation. We all know how the budget is developed and we know what the base is in that budget, and we know what the responsibilities are. Let us take the example of the health transfer. We have, as a government, had that responsibility starting with the transfer of the Baffin Region since, I believe, 1986. We have had that experience for several years now, and we have also had the experience for a few years of the transfer of the remainder of the health facilities.

There may be some merit in doing a more detailed evaluation, internal audits, or whatever, in specific cases. I think it is also important to realize that each year, as the department comes back, we have a base amount, and we know what that amount is. That amount was the amount that we received from the Government of Canada at the time the transfer happened. The following year the department does not automatically get more funding. The following year the department is expected to do the job, the same job that the Government of Canada was doing, with the same amount of resources, perhaps adjusted by inflation. That is it. There is very clearly a conscious understanding that when the department comes back, if it is going to need more resources, that is going to become very quickly apparent to the Executive.

As Mrs. Vertes has pointed out earlier, in the case of the additional person years that were added in the case of Health, that was very clearly a decision by the Executive.

I think it is important to recognize that one of the reasons we are taking over these programs is because of the political and constitutional development that our government and the Legislative Assembly wish to see progress. In the course of doing that, we provide for a certain level of flexibility in the budget. We take over the program and all of the resources. In some cases we might get a little bit more than we thought we were going to get, in some cases a little bit less. I think on the basis of the programs that have been transferred to date, it would certainly be my view that the government is fully aware of those programs that are problematic and those programs which are not.

I would suggest that the only program at the present time that appears to be of some concern is the forestry transfer, and the forestry transfer is of concern because the final negotiations have not taken place. The forestry agreement does provide for a subsequent review and it could very well be that there would be additional funding coming to the Government of the Northwest Territories following further negotiations. That agreement is still open and the final amounts have not been determined.

**CHAIRMAN (Mr. Sibbeston):** I believe that Mrs. Vertes indicated earlier that the current government review on devolution is to generally go slowly and very cautiously. Is this because the current government now realizes that devolution has not necessarily been a windfall, and necessarily has not been positive in terms of the financial gain. Not to say that that is the territorial government's fault; the federal government is at a certain advantage in that our government wants to take over these responsibilities and act responsibly, but the federal government has all the cards and limits us with the money that they transfer. What is the government's view in this regard? Have they been positive experiences or has the government been burned?

**MRS. VERTES:** Thank you, Mr. Chairman. I do not think we have been burned. I think that the cautious approach that the government has taken now is for a number of reasons. I mentioned that there has been a slowdown in the last several months to a year. The uncertainty of the formula negotiations was certainly a contributing factor and as you mentioned part of a financial concern. I think at the same time that another reason for caution is that we are now getting into discussions of transfer jurisdictional areas, rather than simply programs. This government has had the legislative authority, for instance for hospitals, since the NWT Act was enacted, what we did not have was the program delivery responsibility. That is what was transferred to it. There did not need to be a change to the NWT Act to enable us to take over responsibility for health programs and other programs such as highways and things of that nature.

Where we are now, that we have in fact had some success in achieving the objectives set out in the devolution policy, is getting in areas -- and I

know there is the question of Northern Accord later -- but into areas like the Northern Accord, where we are talking about changes to the jurisdiction and authority of this government, rather than simply a transfer of program responsibility.

We have had experience with program transfers which has certainly assisted us in preparing for things like the Northern Accord. Not surprisingly it is a slower process in that it is more complex. When we talk about jurisdictional matters we have to ensure that it complements, does not infringe upon, the very recent signing of the final agreement with the Dene/Metis, we are at least at the agreement in principle stage with the Tungavik Federation of Nunavut. So these are new elements that are introduced into the whole devolution process.

What the government has been trying to do and in fact has been trying to do since about 1985, is to negotiate what sometimes has been called an "umbrella" and sometimes been called a "framework agreement" with the federal government to assist in carrying out the balance of devolution activities with jurisdictional transfers as well as some of the remaining programs like the B and C airport transfers. We are pleased to note the renewed interest of the federal government in recent months in concluding negotiations on such a framework agreement.

So Mr. Chairman I would say that all of these factors have contributed to the government's cautious approach to devolution activities and certainly, as I said earlier, the financial considerations are indeed one of those. And have we have done in the past, we want to make sure, especially in times of federal restraint, that we do have the facts and we can make informed decisions on transfers under way. Thank you, Mr. Chairman.

### Office Of Devolution

**CHAIRMAN (Mr. Sibbeston):** Could you outline what the situation is with devolution. Has the government lessened its forces in the past few months in this matter?

**MRS. VERTES:** Thank you, Mr. Chairman. I think you are aware that the devolution office is not fully staffed. I think the Government Leader may have mentioned before some of the things that I referred to in talking about the complexity of devolution activities right now. I think in particular with the jurisdictional versus program transfers, the resources that the Department of Executive have contributed to devolution activities have changed and changed because of the nature of the subject matter. The principal secretary as well supported by our secretary to the political and constitutional development committee, have taken on a number of the policy responsibilities that were held by the Office of Devolution in the past.

I think in some respects it is not a surprise that the government is looking at the best way to bring the Executive or central resources to bear on devolution activities, is coming up as a question at this time. When the office was originally established it was established with a fixed life.

The thinking being that the office was one that facilities, not one that was going to have implementation responsibilities. So once transfers had occurred, then there would no longer be a need for an Office of Devolution.

I am having difficulty answering your question because we are still thinking it through. What are the best combination of resources to bring to bear the devolution activities now that they have changed and shifted from program to jurisdictional transfers? What is the best way to ensure the integration of implementation of land claims in the broader interest throughout government that that brings to bear to devolution discussions with the federal government. Some changes that have been made as a result of our experience with program devolution activities to date and the inclusion of some Financial Management Board assistance on a regular basis, so that some of the activities that the Office of Devolution used to perform in that regard, are now being carried out in another central agency. All of these things are going to effect the decision. But as far as the decision, one has not been made. But those are the factors that are being brought to bear in looking at it. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. Ningark.

**MR. NINGARK:** Thank you, Mr. Chairman. Why are we taking all the programs from the government when we do not seem to have the financial resources? Are we taking this over to do the administration? Where is the call coming from? Is it that we do not get good negotiators or we do not have a good budgetary control? Do we not have a capable accountant that can project the cost of taking over the programs?

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes.

**MRS. VERTES:** I would have to go back to the statement in the devolution policy as to why we continue to negotiate transfers of program responsibilities or jurisdictional transfers. It is to bring those programs and services that are important and that directly effect residents of the NWT within the jurisdiction of the government of those people, in other words, the territorial government. That commitment to the public is still the objective that the government is trying to achieve. It is still the governing instrument and cabinet has reconfirmed its commitment to the public for continued devolution activities. The only thing that may have changed is the pace and the caution that the Government Leader has expressed for the reasons that I have stated.

I would say we do have people capable of projecting the costs of devolution.

**CHAIRMAN (Mr. Sibbeston):** We want you to prove it.

---Laughter

Mr. Ningark.

**MR. NINGARK:** When we take over the programs there seems to be additional costs. Are there any projections taken from the actual operating costs from the previous years when it comes to taking over responsibilities from the federal government.

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes.

**MRS. VERTES:** Thank you, Mr. Chairman. First my answer to the Member that we do have capable people -- I base that in fact by going back to the report of the Auditor General. I am not sure what the Member is referring to that we seem to have been deficient or that we are not receiving the funds that are need to carry out the program. One of the cases that has been pointed out as a known deficiency, we knew about it, and the government made the decision that that risk -- as we have been terming these things -- was an acceptable risk and it was important enough to take on that program, so we did.

In the other situations, I believe it should be clear that we negotiated adequate funds to deliver the program. So that is the reason for perhaps my hesitancy, Mr. Chairman, is that I am not sure what the Member is getting at. I can say we did in fact we did receive the dollars necessary to deliver the programs.

**CHAIRMAN (Mr. Sibbeston):** We should have a five minute break.

---SHORT RECESS



(portion of proceedings not recorded)

**MR. ZOE:** ...good job or not, and from what I get out of what the Auditor General is trying to say, I think that is the main thrust of what he meant by the one general recommendation made saying, "to ensure that all future costs are known and that its financial interests are protected." In my view, Mr. Chairman, that is a major thing that has to be undertaken. I do not know if the Executive is planning to do this or not, but I think it is required.

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes.

**MRS. VERTES:** Thank you, Mr. Chairman. If I could paraphrase the Member's question, it is whether we are getting a good deal or not. I think that in some ways we have to define a "good deal". The post-devolution audits that we have put in place -- the first one was of the Baffin health transfer, the second the forest and fire management transfer -- and we will as a matter of course be concluding an internal audit of the health transfer. Those will tell us, and in fact some of the results are reflected in the Auditor General's report, about the financial arrangements. The results that we have seen to date have identified costs. In some cases they have said that we received adequate dollars. In other cases they have identified what was known at the time and was taken into account in making the decision, in talking about the third case of the forestry transfer, that it was important enough, knowing as we did that we were not receiving the dollars that we would need in that salary area, that we would still go ahead with the transfer.

I think that for part of the good deal definition, we have a process in place. If a good deal also means, once we have the program, taking those resources and delivering an effective service to the public, I think the Member is quite right that for not only programs that have been transferred to us, but to other programs and services, evaluation is an important thing to carry out to determine the effectiveness of program delivery. In responding to the Member, I think that we would continue with our post-devolution audits to look at financial arrangements and the adequacy of those. The Member's comment that we need to look at the effectiveness in that "good deal" sense; that too is something where the committee's advice is most welcome. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, surely the Auditor General's staff must have reviewed those internal audits that the deputy minister has referred to, otherwise I do not think the Auditor General's office would question or raise this concern. They raised these concerns because they must feel that there is something wrong. It is being brought to our attention by them going through those files and through that audit. I am not too sure if I am making myself clear, Mr. Chairman, but from the Auditor General's people looking into the audits, they picked up certain things that they felt

should be brought to our attention. In my view, the negotiations for the transfer of programs have to be looked at again seriously.

That is why I think they basically recommended that, they put it in a broad statement saying that, "In negotiating future program transfers, for example, interprovincial/territorial highways and class B and C airports, the government should ensure that all future costs are known, and that its financial interests are protected." I realize that the Auditor General's office is not saying what should be done, but they are saying that our financial interests should be protected. How else could we protect our interests if we do not do this evaluation. We have to know if we are doing a good job or not in negotiating.

If we look at cases one, two and three; for example in case three, the fire and forest management transfer, the housing allowance was totally left out. I do not know if that was an oversight, but that is a major cost. The \$24 million that has been transferred to us does not include the housing allowance, yet our government's policy is to pay a housing allowance to all our employees.

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes, do you want to respond to some of the points raised?

**MRS. VERTES:** Thank you, Mr. Chairman. Perhaps if I, too, could go back to the Auditor General's recommendation. As the Member has said, it certainly would not be there unless the Auditor General had some thoughts and some recommendations. In fact, it would be very useful, certainly for me, to hear what the Auditor General has to say in that regard.

Perhaps before getting to that, I would have to go back again to the specifics that the Member raised. He is quite right when he says that it is there in black and white that the estimates for the funding did not include the housing allowance. As I have said, that was not an oversight, we knew that, and it was a matter of whether that was an acceptable risk to take to accept that program transfer knowing that that shortfall would be there, or not to take on program delivery responsibility and continue with the situation of the federal government administering the program. That being the choice, the government made its decision and chose to accept the transfer.

I think, in going back to the recommendation, I personally would be quite curious to know how the government can ensure with certainty that all, every one, future costs of a program will be known. What we can do is ensure that we have the best process, that we have the checks and the balances, that we bring the best combination of resources to bear in negotiating these transfers, the best people that we have learn from our experience and ensure that an informed decision is made. I am not sure, quite frankly, how we can put in place a process that will enable us to see into the future and every contingency that there might be. We can certainly anticipate some.

We can look at trends and the fire and forest management transfer is a good example. We had to negotiate in place something that had never been done before. As Mr. Nielsen has said, even having done that and being satisfied that we tried the best we could, the negotiations on that transfer are still not complete. We negotiated and it was accepted that it could not be complete until we tried it out for a little while, and that is what has gone on over the last three years. We are now going back to the table, will bring our best efforts to bear and say, "we thought this was how it was going to work, here is what has happened in the three years, how can we best predict the future, how can we make up some of things that neither party anticipated and go from there."

With something like the health transfer, there was not that volatility in the future, such as is a fire going to start or not. The same arrangement was not made in that case. We tried to look at them and ensure that the interests are protected. In terms of crystal ball gazing, I am not sure how we would do that. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, I do not know if the negotiators that we have -- I realize there are certain risks that have to be taken, but I not too sure if the negotiators take into account, say, capital replacement -- surely if they are negotiating they must know what is already in place such as nursing stations -- I will use health as an example -- what condition they are in. They must know if a station is deteriorating and if it has to be replaced within a year or two. I am not too sure if they consider all these things.

Once we take over these programs, even with the increase in our formula funding, I do not think that will cover all these additional costs to us. I think that is one of the things that the Auditor General is trying to say, we have to be more careful to protect our financial interests. I am not too sure if our people are doing that right now.

We still have to negotiate the Northern Accord. If we cannot find out how we have done in the past, with regard to health and forestry and the other programs that have been devolved, it is going to make it difficult for us to negotiate. We are just going to be negotiating and negotiating and no one is doing any evaluation to see how good of a deal we are getting. I think that is one of the points that the Auditor General's office is making; you have to do something and you have to protect your financial interests.

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes, do you have anything further to say on that? You have tried as hard as you could, I guess, to persuade the committee that all is well and the government has done as good a job as possible, but there are still some doubts. What the committee, I know, will be satisfied with is a statement or some commitment that there is going to be an evaluation of things that have occurred to date, and this

evaluation would be useful in terms of future negotiations. There is a desire to have that kind of analysis done. Is that possible?

**MRS. VERTES:** Thank you, Mr. Chairman. The fast answer is, yes, of course. I would hope that from the two internal audits that have been completed to date the various things that the Member and the committee would like to see have, in fact, happened. If, Mr. Chairman, you are asking me to make the statement that not only will we continue to do that, but we will do more of the same, then that is a very easy answer and it is, yes. Obviously we gain from it in our current and future negotiations. As you say, Mr. Chairman, it only makes sense. Thank you.

**CHAIRMAN (Mr. Sibbeston):** In that regard, maybe if the Auditor General's office could make a statement in terms of what, in their view, is really needed. What does the government need to do in terms of a full analysis and complete review so that it can be beneficial to future transfers to the North. Mr. Young.

#### Reasons For Auditor General's Review Of Devolution From Canada

**MR. YOUNG:** Thank you, Mr. Chairman. Just a little bit of background first of all, our reason for looking at this area was because of its obvious importance and significance to the government. Our review looks at the process first of all to see if there is a process in place to adequately deal with the very important negotiations and things that have a very significant financial result. That was the nature of our review.

Our review is not to form a judgment as to whether it was done well or was not done well, but rather to bring out exceptions, where perhaps the process did not work as well as it might, with a view to reporting that information to the Legislature so that the Legislature, through the public accounts committee, has an opportunity to ask the appropriate questions. That is what the committee is doing, and certainly that is what it should do.

As a result of the extent of our review, there are no devastating criticisms on the process, but rather there are exceptions which the legislators should be aware of. As a result of the discussions that have taken place, I think Mrs. Vertes will probably take the comments back and perhaps the process will be refined somewhat. I think a very important part of that, which is coming out of these discussions, is an evaluation beyond the financial implications perhaps, into whether the objectives of the initiative are being achieved or not.

Certainly in terms of the financial implications, there are a couple of areas where we have indicated that the forecasted information could have been more complete than it was. I am sure that will be considered the next time around.

With respect to our recommendation to ensure -- I ran into this same argument in another jurisdiction some time back and I found that the word

"ensure" does not mean to guarantee. It does not mean, as it implies, to guarantee, but it is a term used a lot in legal circles to make sure that things get done. Certainly there are no guarantees in life, and certainly not in the financial world.

I think, just to sum up, clearly our role is to bring the concerns we had to the Legislature and through this process these have been examined. I think that if the committee makes some recommendations, I am sure the Executive Council Office, in conjunction with the Department of Finance, will undoubtedly act on those recommendations, and the process has worked as it should. Those are the only comments I would make, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Are there any further questions? Mr. Ningark.

**MR. NINGARK:** Thank you, Mr. Chairman. To conclude what I was saying earlier before the break, adding basically what Henry Zoe and I were saying, no matter how attractive the deal seemed to be in terms of taking over controls of programs, I think the financial aspects and implications should be taken into consideration quite seriously. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** Just one thing relevant to the forest fire transfer and the establishment of a fund that would go up and down depending on how bad the forest fire was, that piece of legislation was brought before us and there was talk of injecting a figure of around six or seven million dollars into this fund and I asked the stupid question, "Where is the six or seven million dollars going to come from?" The government withdrew the legislation and we have never seen it again. That is sort of germane to this. What has happened to all of that?

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes.

**MRS. VERTES:** Mr. Chairman, I am sorry I cannot, because I am not sure, answer the Member's question. As Mr. Nielsen has said, the negotiations on that transfer are not concluded. I certainly will undertake to get back to the committee with a detailed response to the Member, but I am sorry I do not have that information.

**CHAIRMAN (Mr. Sibbeston):** Mr. Gargan.

**MR. GARGAN:** Mr. Chairman, Mrs. Vertes referred to a devolution policy. I would like to know what this devolution policy is with regard to the transfer, is this a policy or guideline that is used by the department while negotiating with the federal government or is this a policy that used after negotiating a transfer to the regions?

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes.

**MRS. VERTES:** Thank you, Mr. Chairman. Mr. Chairman, the devolution policy that I referred to is a policy of the government found in the policy book. Because I was referring to it so often, I did bring extra copies with me, Mr. Chairman, if it would be useful to pass it to the Members.

**CHAIRMAN (Mr. Sibbeston):** What was your question again, please, Mr. Gargan?

**MR. GARGAN:** Is the devolution policy a guideline that governs negotiations or is this an Executive policy on devolution which is used after negotiations or after the transfer, the conditions of the transfer are then put into policy for devolution. I am just trying to get a clear picture on that.

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes.

**MRS. VERTES:** Thank you, Mr. Chairman. I am sorry, the Member is right, I did not answer. The policy is the instrument that governs the negotiations. In other words, before we even start the negotiations this is what guides them. It is the measuring stick that the Executive uses when submissions are brought before it to see whether or not the submission has met the guidelines contained in the policy. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Is this matter concluded then? Are Members finished with their questioning on this matter? Mr. Gargan.

**MR. GARGAN:** Mr. Chairman, with regard to the transfer of the Baffin health board, this was done between the federal government and the region, is that right?

**CHAIRMAN (Mr. Sibbeston):** Our Government of the Northwest Territories. And it eventually was transferred to the Baffin health board. And we did a darn good job, we thought at the time. Mr. Zoe.

**MR. ZOE:** Mr. Chairman, if we are concluded with this matter, I would like to raise another concern, while we have Mrs. Vertes, the deputy minister for the Executive here.

**CHAIRMAN (Mr. Sibbeston):** Are we finished then talking about devolution? Mr. Zoe, on another matter but still relating to the responsibilities of Mrs. Vertes. Mr. Zoe.

#### Audit Committee

**MR. ZOE:** Mr. Chairman, I think it was a couple of years ago our committee raised the question of the audit committee. There are a number of recommendations. I think it was a recommendation made by our committee. I wonder if the deputy minister would indicate to us how the audit committee is set up, because if I recall right we recommended that the audit committee should be headed by a Minister, an Executive Member, so

that the people that make up the committee has somebody there to make it stronger and to give directions to the Audit Bureau.

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes, can you respond to that, please?

**MRS. VERTES:** Yes, Mr. Chairman. I certainly recall the committee's recommendation. The recommendation was reviewed with the Government Leader. The Member may recall at the time that in reviewing audit committee's across the country, we could find only one example and I believe it was the Yukon, if I am not mistaken. I hope you will not hold me to detail since I am going from memory here. The decision at that time was that the audit committee as structured was considered to be acceptable. There are changes that have been made in order to, I trust, meet the intent of the what the Member was trying to get at which, I believe, raising the profile of the Audit Bureau and the need for that independent analysis of government programs and advice to senior management and Members of the Executive and, I think to paraphrase the Member, to give teeth to some of the recommendations in the internal audit reports. What we have done is to more frequently refer -- a case in point would be post-devolution -- audit reports not solely to Ministers responsible but to the Financial Management Board as a whole, so that audit reports are receiving wider Executive-level distribution and as a result distribution and review. It is not just a post office function.

What has been happening with the major audits that have taken place has been Financial Management Board direction behind the recommendations contained in some of the major internal audit reports. Something has changed in that regard, however, the advice at the time to consider the structure of the audit committee, the advice was certainly taken, the structure was considered and the result was to leave it as the Membership was when the Member first raised it. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, I wonder if I could get a comment from the Auditor General's staff. They must recall when we raised this issue a couple of years ago. I would like to bring that whole issue back on the table again.

**CHAIRMAN (Mr. Sibbeston):** Mr. Young.

**MR. YOUNG:** Thank you, Mr. Chairman. I, too, have to rely on my memory somewhat. As I recall we had a number of concerns, as did the committee, I think, as a result of the deliberations that were conducted at that time. Our overriding concern at the time was that simply the audit committee was not functioning very effectively and was not meeting regularly and simply, in our opinion, was not doing the job. That was the overriding concern and the issue that had to be dealt with. Now we saw the problem as being a two-fold one. One was the make-up of the committee. It was made up of strictly deputy ministers who really are the people being audited and therefore there was a lack of objectivity and independence on the audit committee and they were essentially passing judgement on themselves. That

was the one issue. We thought that, and the committee, I think, agreed with us, the committee needed a little more clout, if I could use that term, and therefore one of the solutions might be to have an elected Member, preferably a Member of the Financial Management Board, to chair the committee because of the Financial Management Board's overall responsibility, interest and concern for most of the issues that would be addressed by the audit committee. So that was a recommendation, I believe.

The other area of concern was reporting responsibility. We originally had concerns that by reporting into the Executive Council office that was somewhat too close to the policy and political area of government and too far away from the financial area where a lot of the functional direction would be coming from in terms of the things that they would be auditing. That is as best as my memory serves me at this time about the concerns that were raised. What would be interesting, I think, to the committee if Mrs. Vertes could just update the committee on just how regularly the audit committee is meeting and how it is functioning at the present time. Certainly, the one point that she raised about passing on the audit reports to the Financial Management Board is a very positive step in terms of bringing them into the picture because that was one of our concerns that they simply were not in the picture in areas where they perhaps should be. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** I would just like to ask Mrs. Vertes whether these concerns have been dealt with. Mrs. Vertes.

**MRS. VERTES:** Thank you, Mr. Chairman. Again, we are both relying on our memories. As I recall, the original observation was based on an audit that was done, I think, in the 1986-87 fiscal year. After that time, to get specific, the audit committee tries to meet quarterly. I will not say, Mr. Chairman, that we have been successful in doing that every year. I think one year there were three meetings rather than four. The quarterly figure came again from our survey of internal audit committees, as opposed to external committees, legislative committees such as this one. In our review of other jurisdictions we found that to be a common figure and I think in our discussions with the Auditor General's staff that was a number that came up frequently. I would hope that over the past three or four years that the frequency has indeed improved. Another criticism of the report in 1987 was the membership on the committee and the imbalance, perhaps, between service and program departments. That, too, has changed with the addition of certainly one -- and I am trying to think of what has changed over the last three years -- one, if not two, program department representatives. The tie, of course, to things financial is through the membership of the Comptroller General as, in fact, the only named member of the committee by position; other members serve as appointed and we have formalized that the appointment is from the Government Leader rather than from among the committee members themselves as took place prior to 1987, if that was the year. I mentioned the distribution and review of the audit reports as something ensuring the significant issues have been brought to the attention of the Financial Management Board Members as well as individual Ministers concerned, not limiting it to the Minister



responsible. I think those are the highlights of the changes, Mr. Chairman, as I say, since the original observation was made. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, if I can ask Mrs. Vertes, deputy minister for the Executive, about the question of the objectivity issue. All these people that we have sitting on the audit committee. Who decides who is going to get audited? Surely, the FMB must recommend certain areas to be looked at and the committee must seriously consider that and look at things that the FMB wants, but if they do not ask you to look at certain departments then your committee is the one that decides to do certain audits within all the departments. I sort of question that. I wonder if Mrs. Vertes could elaborate on that issue.

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes.

**MRS. VERTES:** Thank you, Mr. Chairman. Mr. Chairman, the internal audits that are carried out each year are carried out on the basis of a work plan. The work plan is put together in a manner that takes into account requests from management, and again we are talking about internal audit as a service to management. There are annual call letters asking each deputy minister what they would like to have audited. That is one area where a deputy may want some advice from someone not involved. There are audits that are included in the work plan on the request of the Comptroller General who, for whatever reason, may have observed that a particular area should be monitored. Those audits are also included in the work plan. As the Member mentioned, there may be specific requests from an Executive committee, including the Financial Management Board. There are audit committee requests that are also included. It was from the audit committee itself that the post-devolution audits got started.

The other source of candidates for the work plan would be requests from the Ministers themselves, that again they may want to have a particular area of their responsibility reviewed. Those requests would come into play. I did neglect one area, and that would be statutory audits that would be completed as a matter of course.

The aim of the whole exercise here is that the work plan is set out in such a way that it provides enough flexibility that all significant areas are covered in the six year cycle so there is no choice in terms of the committee itself. The choice would enter into timing and scope in trying to ensure that as many, if not all, requests from all of these different sources can be covered with the staff and contract money that we have available to complete audits. If someone in that sense is able to bring to bear undue pressure, I do not think so. I have not observed it, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Thank you. Mr. Gargan.

**MR. GARGAN:** Mrs. Vertes, with regard to the Office of Devolution, is your office responsible for carrying whatever the agreement is? Once the transfer occurs -- I know that there were certain conditions that the aboriginal organizations wanted and it is up to the government to implement that -- do you carry out this function to ensure that the agreement as agreed upon is followed?

**CHAIRMAN (Mr. Sibbeston):** Mrs. Vertes.

**MRS. VERTES:** Mr. Chairman, no, my office does not do that.

**CHAIRMAN (Mr. Sibbeston):** Any further questions. If not, we will thank Mrs. Vertes and Mr. Nielsen for their co-operation, indulgence and patience in answering all our questions. Thank you very much.

#### Department Of Education

Mr. Handley, welcome to our public accounts committee and thank you for coming on such short notice. If you do not mind introducing the people with you.

**MR. HANDLEY:** Thank you, Mr. Chairman. With me are Mark Cleveland, president of Arctic College, and Cindy Fair, manager of finance and administration for the Department of Education. She is here on Mr. Devitt's behalf today.

**CHAIRMAN (Mr. Sibbeston):** The reason the committee has requested your attendance is to deal with the funding arrangement that exists between Arctic College and your department. There is a statement by the Auditor General that, "The funding arrangements for Arctic College are being made without appropriate financial controls, resulting in weakened financial management." Of course, there is a report in the Auditor General's report about that. We wanted to get your opinion or statement with respect to this matter.

#### Funding Arrangements For Divisional Boards And Arctic College

**MR. HANDLEY:** Mr. Chairman, I would just like to make a few comments about the funding arrangement both for divisional boards and also for Arctic College. We are aware of the concerns with regard to controls, and are continuing to establish greater control and accountability of funds that are spent within the department, and money that is provided to the boards and agencies.

First of all, in terms of the boards, the divisional boards account for a large proportion of our education funding. They all operate now on a standardized financial system which was developed specifically for school boards. This system allows for monitoring and comparison of board expenditures. There are also memorandums of understanding with each board outlining requirements for funding. Each board is audited annually, and most of the boards belong to the GNWT investment pool -- in fact I believe

they all belong to the investment pool except for the Catholic school board. This ensures that public funds earn a high rate of return.

Approximately 70 per cent of the total school boards budget is for salaries. Although the boards budget for salaries, the responsibility for providing payroll service remains with the Department of Finance. The department has now established procedures whereby boards make payments to the GNWT for permanent salaries on pay day, regardless of when they receive an invoice. In the past they waited for invoices and this often resulted in money being held by the boards for an extended period. These procedures minimize the interest revenues earned during delayed invoicing, and we are continuing to refine that process.

The Arctic College runs on a financial system that was developed for post-secondary institutions and is used in other jurisdictions as well. This allows for comparative data to be readily produced. We are satisfied that this system is a good one and one that generally meets our needs. The college has a financial committee which reviews operations. At this time, the college is in the final stage of a contract to establish a more structured form of funding from the department to the college. The college also has procedures for paying payroll within a few days of pay day, so there are no long delays there any more.

As with boards of education, more must be done to ensure that all service departments, not just Finance, invoice and receive payment on a timely basis for services provided. To date emphasis has been on payroll services because that is where 60 per cent of the budget is spent. We also want to look at all the service departments.

It is also the department's intention to do an overall review of the college. We have done two evaluations for divisional boards, looking at the relationship between the department and the boards, as well as internal operations. We intend to do the same sort of monitoring with Arctic College.

A few other things we are doing in order to tighten up the system -- we are currently implementing a new student records system to provide accurate and consistent student enrolments, and this improved information will be used for the funding formula and contributions toward a more equitable funding level for schools. The department is currently preparing requests for proposals for further formula development. We are also doing a total review of student financial assistance, as well as a review of the financial and management division of the department to ensure that it is operating as efficiently as it can. Mr. Chairman, those are, very briefly, a summary of the actions we are taking to ensure that all the controls possible are in place. Thank you.

**CHAIRMAN (Mr. Sibbeston):** I will just ask the Auditor General's department to make some comments if they wish on this matter. Mr. Shier.

**Comments From The Office Of The Auditor General**

**MR. SHIER:** Thank you, Mr. Chairman. I would just like to make a brief comment. First of all, I would like to clarify what we are saying and what we are not saying. Our observation has to do with the timing of contribution payments to Arctic College. Once Arctic College receives the money, we are not saying that Arctic College in any way did anything improper. In fact, we would put the onus otherwise. We would be disappointed if Arctic College had this money in their bank and were not earning interest income on it. In fact, what our thrust is, is that because of the timing of the payments, the Government of the Northwest Territories could have been earning this interest revenue instead of Arctic College. Also, Mr. Chairman, the other point that is relevant is that we are happy that the department is broadening the scope when they are doing this review to include a review of the contributions to school boards, as well as Arctic College, because many of the issues may be similar between the two. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Was there a consequent adjustment to the funding provided to Arctic College as a result of the interest that they made with the moneys that were advanced to the college in the year in question? Mr. Handley.

**MR. HANDLEY:** Mr. Chairman, no, we have not reduced their budget by the amount of interest they have earned. But certainly in developing the budget and planning for priorities and programs over the year, we did take into consideration the fact that they were earning considerable interest.

**CHAIRMAN (Mr. Sibbeston):** Would it be agreeable to ask the president of Arctic College about this matter? Mr. Handley, you do not object to us questioning Mr. Cleveland? You have been the beneficiary of these moneys, not yourself personally of course, but the college. What did Arctic College do with the moneys?

**Arctic College's Uses Of Funds From Investment Income**

**MR. CLEVELAND:** Thank you, Mr. Chairman. The funding from the investment income is used for several purposes. One is that in developing the budget for the college on an annual basis as part of the main estimates process the college plans for interest income which is included in the overall planning of revenues and then the subsequent budgeting for expenditures.

Secondly, Mr. Chairman, the funding has been used for a series of activities within the college. These include such things as supporting program delivery: some specific examples which would include heavy equipment operation program; interpreter-translator program; and a range of other programs which required funding for development or delivery the expenses of which might have been unexpected when those programs were initially considered.

As well, Mr. Chairman, a portion of the funding has gone to supporting the development of such activities as libraries on the campuses of Arctic College. All of the projects, Mr. Chairman, are considered by committees of the board of governors and, in fact, under our internal policies have to be approved by the board of governors before they can be initiated. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Are there any questions arising out of the statements and questions so far? Mr. Gargan.

**MR. GARGAN:** I would like to find out what the reason was for bringing up this revenue. Is this a good or bad practice? I am not too sure. I know the Auditor General's office identified that and I am just wondering whether or not the \$800,000 in interest revenue is good or bad. What is the Auditor General's office trying to get at here?

**CHAIRMAN (Mr. Sibbeston):** Mr. Simpson, could you answer that, please?

**MR. SIMPSON:** Thank you, Mr. Chairman. I think the Member raised a very important and interesting question. As Mr. Shier has said, we are not holding or pointing any finger of blame at Arctic College. In fact, we probably should commend them on investing the money and getting a return on the investment. The one interesting point that came out of Mr. Cleveland's comments, though, was that in formulating the college's budget, it takes into account the anticipated interest that it will earn on these advanced funds and uses that additional money for programs and operations. It has become institutionalized rather than a windfall one year gain. Under those circumstances, Mr. Chairman, it seems to me that this is tantamount to a de facto increase in the contribution from the Legislative Assembly to Arctic College and, as such, should probably be taken into account in the vote approving the contribution funding to the college. I think that is at the heart of our observation, Mr. Chairman. Thank you.

**CHAIRMAN (Mr. Sibbeston):** I am sure from a financial standpoint it is seen as sloppy and as though the government does not really have full control of its finances. Can I just ask Mr. Handley, has the government gone back, retrieved or gone away from the system of advancing the moneys to Arctic College up front or at the start of the fiscal year? Have you moved away from that system and given the money on a quarterly basis to avoid the criticism that has been pointed out? Mr. Handley.

**MR. HANDLEY:** Mr. Chairman, we give the college its contributions on a quarterly basis. In April they received 30 per cent and then the next three quarterly payments are 25 per cent, 25 per cent and 20 per cent. This has been the practice, I believe, since March 1987, so we have not changed that process. I should also point out, Mr. Chairman, that of the \$800,000 in interest earned income, not all of it is a result of payments being made in advance on a quarterly basis. I think a little over half of it comes as a result of that cash flow. About \$180,000 out of it, I believe, comes from the college's own funds that it is generating through

third party contracts and so on. The other approximately \$250,000 results from late invoicing by service departments. It comes from three sources.

**CHAIRMAN (Mr. Sibbeston):** Does the department intend to change and make further adjustments as a result of the criticism of the Auditor General?

**MR. HANDLEY:** Mr. Chairman, we took the issue to FMB last year in 1989-90. They reviewed the payments schedules for both school boards, divisional boards and also for Arctic College and at that time deferred a decision on changing to monthly payments, for example, until 1991. They will be reviewing it again at that point. In the meantime, we have encouraged the college and the divisional boards to use their interest earned income on things that are not generating commitments in the following years so that if it is lost, then we lose some of the extra things we are doing but we are not committing ourselves in the long term.

**CHAIRMAN (Mr. Sibbeston):** With this information, I will ask Mr. Simpson what is the solution? What would satisfy the Auditor General's department?

**MR. SIMPSON:** Thank you, Mr. Chairman. Just as a comment on Mr. Handley's note on how much of the interest revenue is generated from the college's other income, my reaction to that is maybe I should ask him to look after my own personal investments because the rate of return seems excellent.

From our point of view, Mr. Chairman, I think the issue is a fairly simple one, that agencies that are supported by dollars voted by the Assembly should be, as far as possible, for program activities that have been approved and budgeted. If payments have been made before they are needed for expenditure purposes by the agency, for whatever reason, be it late invoicing or payments in advance by the government, that is somewhat clouding the issue. The reality is that if the payments were made by the government to match the expenditure outflow by the agency, then any interest that could be earned would be earned by the government, rather than by the agency. I think that is really one of the key issues in terms of financial management.

I would like to note, Mr. Chairman, that in 1989 -- I will go back one step, Mr. Chairman -- the \$830,000 of interest income that we are referring to is in last year's annual audit report. The following year, that is the college's year to March 31, 1989, it earned \$906,000. It might be interesting to ask Mr. Cleveland what the interest income has been in the year ended March 31, 1990, and perhaps as a followup to that, why it is taking so long to solve this problem? Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Mr. Cleveland, will you reveal everything to us, please, lay everything on the table.

**MR. CLEVELAND:** Thank you, Mr. Chairman. The interest income for the year ended March 31, 1989, was in fact, as has been indicated, about \$906,000. At that point in time we were still experiencing some difficulties with late payment which I understand have now been adjusted, particularly in the

payroll area, adjustments have been made at this point in time. As well, our returns on investment were better for that year. I would still indicate that the interest investment income earned from the cash flow difference that is referred to remains at approximately the same level, just over \$400,000. I am sorry, I do not have the final numbers yet for this fiscal year just ended, but I certainly would expect they would approximate the same numbers, given the increase in interest rates. Thank you, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Can I ask the Auditor General's staff because I think we are all wondering, in the event that financial agreements are changed with respect to funding of Arctic College to eliminate the problem that you have outlined, can the government actually do as well in terms of getting interest, and will it be very disruptive if Arctic College did not have access to these interest generating moneys? What is your analysis of that?

**MR. SIMPSON:** That is an interesting and somewhat tough question, Mr. Chairman. I am assuming that the investment managers for the college and for the government play in the same kind of markets. If the funds are available to either party, presumably they can attract the same kind of return. I really have no comment on that aspect of your question, other than that particular point.

On the other point, I think Mr. Handley has already indicated that the interest is being used on a windfall expenditure basis and has not created expectations for long-term funding because at some point in the future they expect to lose the interest income. I think that is probably a wise decision on the part of the department and the college. I do not know whether that answers your question, Mr. Chairman.

**CHAIRMAN (Mr. Sibbeston):** Maybe I will just ask Mr. Handley this question. We have been advised that the department is doing a comprehensive review of its funding mechanism with Arctic College, and this review is expected to take two years. Do you expect this review to deal with this matter and, hopefully, at the end of it you will have some solution which will be satisfactory to the Auditor General? Mr. Handley.

**MR. HANDLEY:** Mr. Chairman, the Financial Management Board has asked us to come back with a report before they look at this matter again in 1991. At that point we will be dealing with it.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Is that the same report that FMB is conducting with the consultant, Peat Marwick? They are doing a financial review of hospital boards, school boards and divisional boards -- Arctic College is included in that too. So you are doing a totally different study than than FMB is doing now in terms of financial relationship between agencies and our government? My understanding is that by the end of this month that report should be out.

**CHAIRMAN (Mr. Sibbeston):** Mr. Handley.

**MR. HANDLEY:** Mr. Chairman, the study that is being done by Peat Marwick Stevenson and Kellogg is a review more of the processes of transferring funds from the government to public agencies, and they are zeroing in on education boards, Arctic College and health boards. Their focus, though, is more on the process, whether or not the system is efficient. They are looking at whether or not the boards have the expertise to be able to handle the funding that they are getting. They are looking at the transfer policy and those sorts of items. They are not looking specifically at this item. It would be a minor part of their study. What we will do as an overall review will complement what Peat Marwick are doing right now. It will not duplicate it.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, how is it that the department funds the college? Is it on a quarterly basis? That is where they are earning all this interest?

**CHAIRMAN (Mr. Sibbeston):** Mr. Handley.

**MR. HANDLEY:** Yes, it is on a quarterly basis; 30 per cent in the first quarter, 25 percent in each of the next two, and 20 per cent for the last quarter. About a little over half of the interest they earn is because of the cash flow. The other half is from late invoicing. The college also runs programs for other government departments on a contract basis, for CEIC and they generate some revenue themselves from that.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.

**MR. ZOE:** Mr. Chairman, I assume that all the interest that is gained by Arctic College is pumped back into their approved programs, or is it other than what has been approved by the Assembly?

**CHAIRMAN (Mr. Sibbeston):** Mr. Handley.

**MR. HANDLEY:** Thank you, Mr. Chairman. In some cases it is used to supplement programs that the Legislative Assembly approves. In other cases it is used to approve activities for which the college does not have money. It could be for student activities, trips for example would be something they may not have money for. It is also being used to offer additional programs that are demanded once we are into the middle of a fiscal year. It is a way of allowing the college to have more flexibility and meet needs on a timely basis, rather than having to wait for a full year before they offered it.

**CHAIRMAN (Mr. Sibbeston):** Mr. Zoe.



**MR. ZOE:** Mr. Chairman, so they are supplementing the existing programs that they are funded for now. Maybe I could pose my question to Mr. Cleveland, if this interest is taken away from the college, would that hurt the program you are already administering?

**CHAIRMAN (Mr. Sibbeston):** And perhaps do you expect to eventually lose this money? Because obviously everybody is concerned about it and it seems like if you were to follow the proper -- if the Auditor General says it is bad, it must be bad, and they will be on it, I am sure, until it is rectified. It may eventually be lost, so what will happen then?

**MR. CLEVELAND:** Mr. Chairman, first of all, certainly if the revenues of the college are reduced either through the Assembly reducing contributions or through our interest income going down, it is going to affect our level of activity and we would see some reductions in activity. As to our expectations as to whether we expect to lose the interest income, certainly our board has been very aware of the circumstances and the discussions that have taken place. They are concerned, obviously, that they might be in a position to have to reduce activities. They feel quite strongly that the money is being used effectively at this point in time to support the students of the college. Thank you.

**CHAIRMAN (Mr. Sibbeston):** One last question, Mr. Zoe.

**MR. ZOE:** Mr. Chairman, I do not know if the Auditor General's staff, when they reviewed the Arctic College, did you have a surplus that year overall in 1988-89 when you earned \$800,000? If you did, what happens to the surplus? I do not know what type of arrangements you have with Education.

**CHAIRMAN (Mr. Sibbeston):** Mr. Cleveland.

**MR. CLEVELAND:** Mr. Chairman, the operating surplus of revenues over expenditures for that year was \$60,000 on the total budget. The college did, in fact, carry forward some revenues from previous years but if we are just talking about the 1988-89 year, the net value is \$60,000. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** This is a question that makes us wonder if we should have the Auditor General of Canada's staff auditing our books or not, but what concerns me is that if this interest -- let us just say due to their own accounts and whatever they probably generate, say, \$300,000 -- if we hold back, if we change that formula -- say we change it to 27 per cent from 30 per cent and spread it out so we gave them about 23 per cent on the end, instead of 20 per cent, that half a million dollars interest -- let us just assume that people here in Yellowknife are just as capable of investing money and getting a return as the people in Arctic College are -- then the half million dollars would be generated within the GNWT's coffers. Then that money would be available to give to them, still give them \$500,000 but at least we would be voting on what it is for. That all makes good sense but for practical purposes, though, I am afraid that if we generated that

half million dollars within our own government we would lose half a million dollars from the federal government in the fail safe program and we would not have that half a million dollars to give to Arctic College.

**CHAIRMAN (Mr. Sibbeston):** Run that by me again.

**MR. McLAUGHLIN:** If the half million dollars which is maybe what we could generate if we did this -- they said \$800,000 but the way they are talking say it is \$500,000 -- if we generate that here at headquarters in the Department of Finance in Yellowknife that means our revenues are going to go up and we have a fail safe formula that says that we will have this total amount of money to spend and the federal government will make up the difference. So, if we go up here, they will give us half a million dollars less a year. We will not have that half a million dollars to give to Arctic College. Maybe we should just all be quiet and trust that the Auditor General's staff will wear both hats carefully today. That is my problem. I think for practical purposes, we will not have that half a million dollars any more. It will be gone. It will be gone from the total amount of money available to this government and the Arctic College added together to spend. That is what I think would happen to it.

**CHAIRMAN (Mr. Sibbeston):** We just assume that the Auditor General generally has our interests. Mr. Simpson.

**MR. SIMPSON:** Mr. Chairman, just to comment on that, I am sure that auditors have been accused of being schizophrenic in the past but I would like to assure or reassure this committee that although we are employed by the Office of the Auditor General of Canada, we do try to divorce ourselves from federal affairs when we service and look after the affairs of the Assembly of the Northwest Territories. I want to reassure the committee that we are not going to go blabbing to Ottawa. On the other hand, Ottawa is not dumb.

---Laughter

Mr. McLaughlin's suggestion is certainly one that, I am sure, has crossed many minds before. It is an interesting issue. I do not think I propose to comment any further on it but Mr. McLaughlin has raised the issue which is now on the public record. Thank you.

**CHAIRMAN (Mr. Sibbeston):** Mr. McLaughlin.

**MR. McLAUGHLIN:** Just following that up, I think that probably would be the case. What would be the best compromise for us, if that is the case, and it would be interesting to hear from Mr. Nielsen on the ins and outs of the fail safe formula, but I am sure that we would probably lose that half million dollars in the grant given to us by the federal government. So actually this present system is probably better for us but in order to take care of the auditing end of it and the fact that the Assembly should know what is going on, we should be able to figure out some way in the main estimates process so that we, as an Assembly, vote on the expenditure of

those moneys as well, or that it is a piece of information even on the Arctic College page that shows that this amount of money is generated and spent on these programs. I think there has to be something done in the main estimates so that we can approve the expenditure of that money. That probably, for me, would cover off the concerns. We would then be approving where that money is going to without taking the risk of losing the total half million dollars completely.

**CHAIRMAN (Mr. Sibbeston):** Could we get a comment from Mr. Simpson on this?

**MR. SIMPSON:** Thank you, Mr. Chairman. It is a unique suggestion that Mr. McLaughlin has raised. The concept of having a notional vote, which is an information type of vote rather than voting actual hard dollars, I think is a very interesting one. However, there maybe some legal ramifications to that. It is a worthwhile idea that I would recommend be followed up with the Department of Justice to see whether or not it would be legally permissible. The one caution I would raise there, and I think incidentally I agree with Mr. McLaughlin it would get around the authority issue, is that once you have it in your estimates it becomes visible and presumably the Department of Finance in Ottawa can also read your estimates, and on the assumption that there are some smart people there, they can put two and two together and realize that this could be perceived as a way of avoiding the claw-back provisions of the fail safe formula. I just note that for the record, Mr. Chairman.

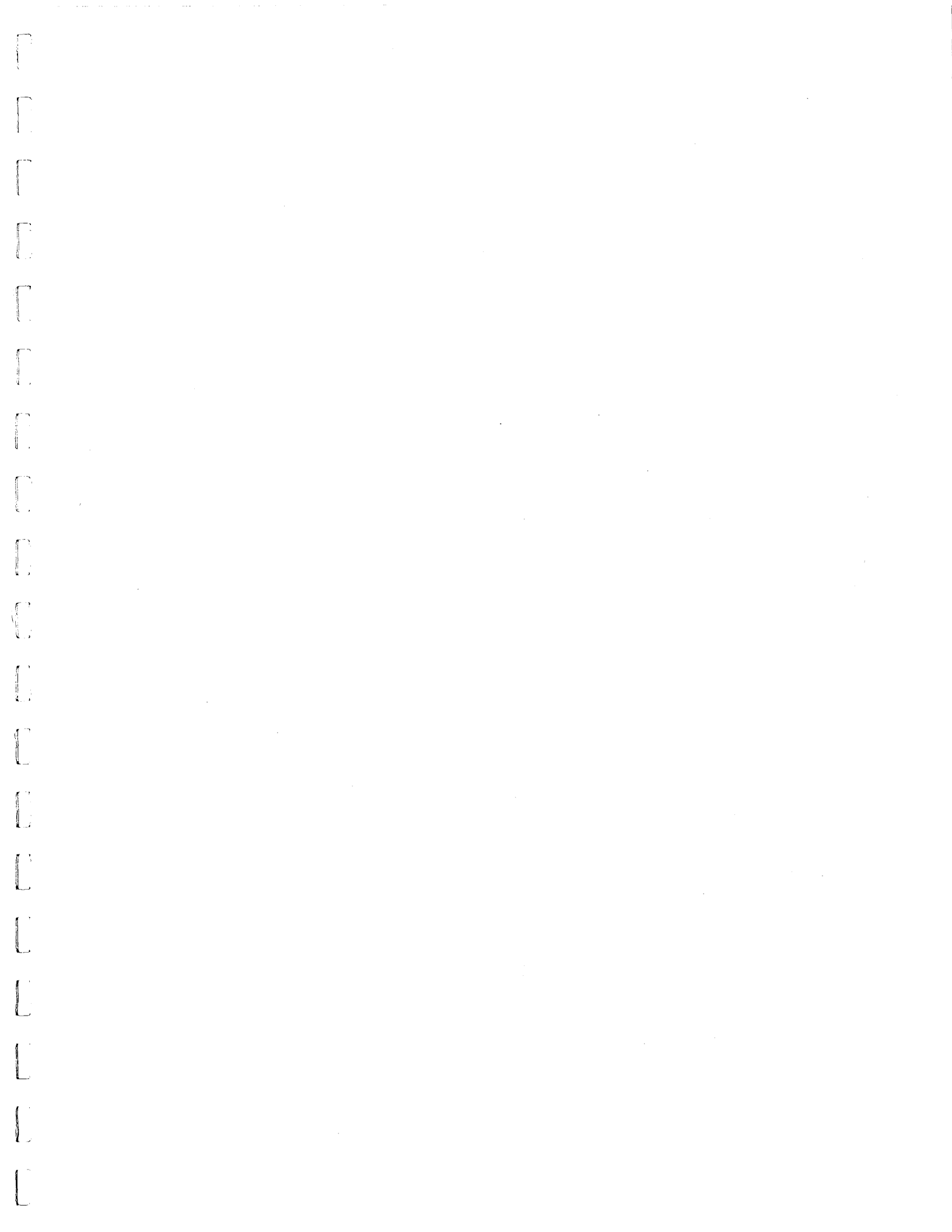
**CHAIRMAN (Mr. Sibbeston):** With that then, are Members concluded in their questioning of our witnesses? Thank you, Mr. Handley and Mr. Cleveland and Ms Fair.

This then concludes the public portion of our public accounts committee and I would like to thank the Auditor General's staff, Roger Simpson, Mr. Shier, Mr. Campbell, who have been here and also I want to thank Mr. Jim Nelson and his staff. If you would convey that to Mr. Nelson and thank you for your participation and indulgence sitting at the back. I understand that you have been very helpful in generally co-ordinating departments' attendance here. Thank you very much.

We can conclude the day's proceedings. We meet again tomorrow more formally in camera.

---ADJOURNMENT





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