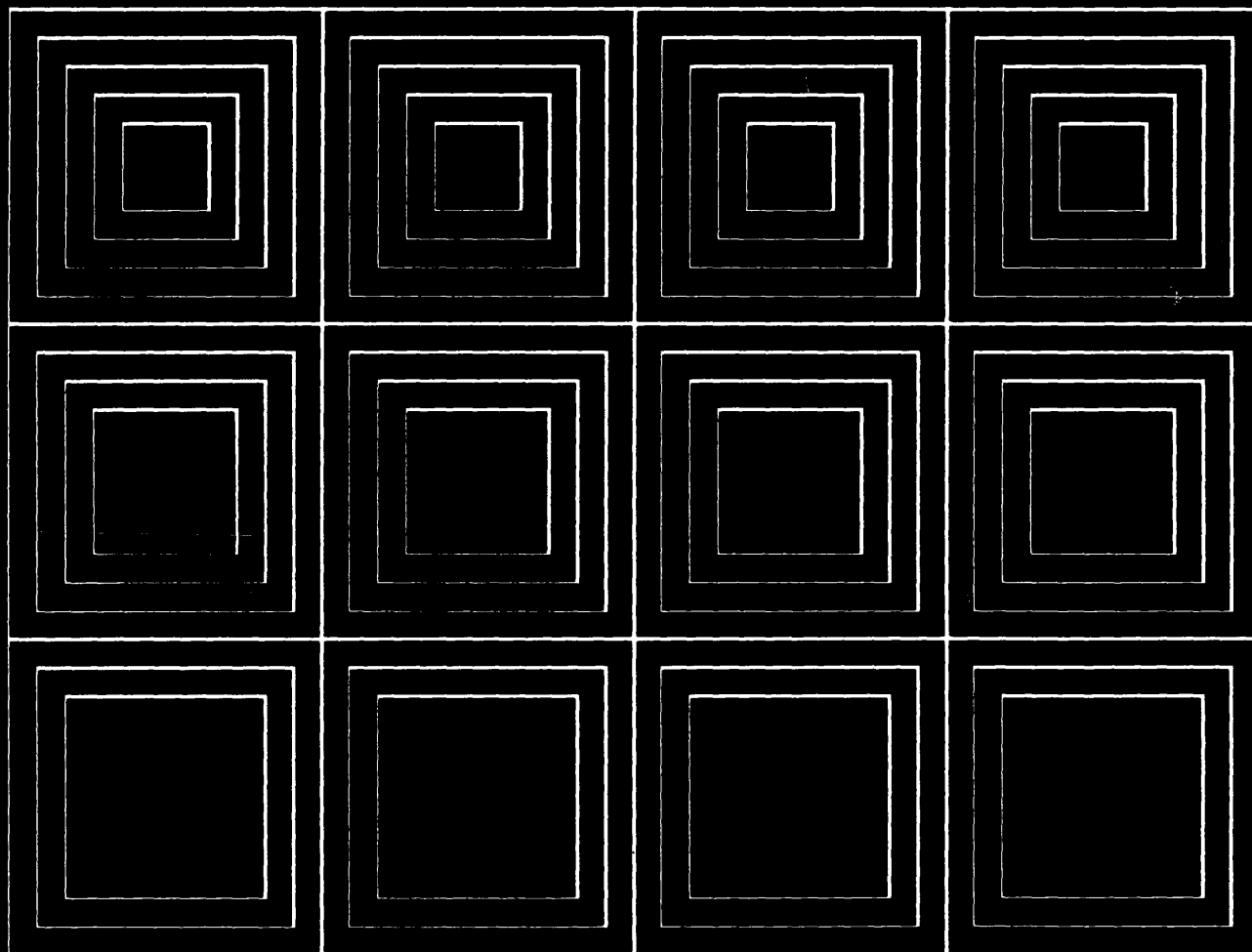




**Report to the Legislative Assembly  
of the Northwest Territories  
Other Matters  
for the year ended March 31, 1990**





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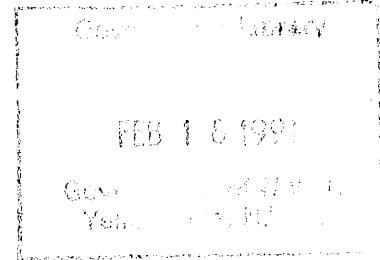
AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

Ottawa, Ontario  
K1A 0G6

December 14, 1990

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



Dear Mr. Nerysoo:

I hereby transmit a report to be laid before the Legislative Assembly in accordance with the provisions of section 30 of the Northwest Territories Act, R.S.C. 1985, c.N-22.

The report deals with "other matters" arising from my examination of the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1990 that, in my opinion, should be brought to the attention of the Legislative Assembly. The report also includes my recommendations and the related management responses.

Cordially yours,

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

## TABLE OF CONTENTS

|  | PAGE |
|--|------|
| <b>Introduction</b>  | 1    |
| <b>Chapter 1 - Comments on the Government's Financial Statements</b>                     | 3    |
| <b>Chapter 2 - Cases of Non-Compliance with Acts</b>                                     |      |
| 2.1 Departments of Public Works, Transportation and Health -<br>Overexpenditures         | 5    |
| 2.2 Comptroller General - Overexpenditures   | 10   |
| <b>Chapter 3 - Delegation to Health and Education Boards</b>                             |      |
| Detailed Chapter Table of Contents   | 12   |
| <b>Chapter 4 - Items reported in previous years</b>                                      |      |
| 4.1 Department of Finance  |      |
| 4.1.1 Overexpenditures   | 44   |
| 4.1.2 Devolution of Health and Forest Fire Management<br>Programs from Canada            | 44   |
| 4.2 Department of Health   |      |
| 4.2.1 Annual Reports   | 45   |
| 4.3 Department of Economic Development and Tourism<br>Business Loans and Guarantees Fund |      |
| 4.3.1 Write-offs versus Forgiveness of Debts   | 46   |
| 4.3.2 Realization on Personal Guarantees   | 46   |
| 4.4 Department of Social Services  |      |
| 4.4.1 Forgiving overpayments   | 47   |
| 4.4.2 Inadequate controls over Social Assistance   | 48   |

# REPORT ON OTHER MATTERS FOR THE YEAR ENDED MARCH 31, 1990

## INTRODUCTION

This report is part of the Auditor General's Report on the 1990 financial statements of the Government of the Northwest Territories, as required by Section 30 of the Northwest Territories Act. The Act requires the Auditor General to provide a report on "other matters" within his audit scope that he feels should be brought to the attention of the Legislative Assembly. Accordingly, we report the items of concern that follow, along with our recommendations and management's responses. Although we consider these items to be of interest to Members of the Legislative Assembly, they are not, individually or collectively, significant enough to warrant a reservation of opinion in the Auditor General's report on the Government's 1990 financial statements.

We audited the accounts and financial statements of the Government of the Northwest Territories for the year ended March 31, 1990.

The audit was designed so that we could express an opinion on the Government's consolidated financial statements for 1990.

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

This office also audited the following agencies of the Government during the past year, and issued reports:

| <u>Audit</u>                                  | <u>Year End</u>   | <u>Reported to</u>                      |
|---|-------------------|---|
| Workers' Compensation Board                   | December 31, 1989 | Minister                                |
| Northwest Territories Housing Corporation     | March 31, 1990    | Minister                                |
| Northwest Territories Power Corporation       | March 31, 1990    | Minister                                |
| Northwest Territories Liquor Commission       | March 31, 1990    | Minister                                |
| Legislative Assembly Retiring Allowances Fund | March 31, 1990    | Chairman, Management and Services Board |
| Arctic College                                | March 31, 1990    | Minister                                |
| Petroleum Products Revolving Fund             | March 31, 1990    | Minister                                |

The audit staff was given full access to all vouchers, records, documents and files and was provided with all explanations and information requested during the audits of the above accounts. We thank the staffs of departments and agencies for their co-operation.

# Chapter 1

## Comments on the Government's Financial Statements

### *Consolidated Financial Statements*

The Public Sector Accounting and Auditing Committee (PSAAC) of the Canadian Institute of Chartered Accountants recommends accounting policies for governments. This year, the Government of the Northwest Territories is complying with Public Sector Accounting Statement 4 - Defining the Government Reporting Entity. It is one of the first provinces and territories to implement PSAAC 4.

In previous years the Government issued financial statements on its operations, and the various corporations and entities owned by the Government issued their own.

PSAAC 4 requires that the financial results of certain government-owned corporations or agencies be added to, or "consolidated" with, the government's financial statements.

The first step is to identify which entities should be consolidated; the second is to decide which of two consolidation methods should be used.

### *What is included in these statements*

PSAAC 4 has set out detailed definitions of the government entities that should be included in the reporting entity. In general terms, these include all entities that deliver the "executive" functions of government, and all "government enterprises".

The entities that exist to deliver the executive functions of the Government are fully consolidated in the financial statements. "Fully consolidated" means that they are recorded in the financial statements in much the same way as Departments.

The entities considered to be government enterprises are accounted for using the modified equity method. "Modified equity" means that the entities' net assets (assets minus liabilities) are shown in the Government's statements as assets.

The organizations comprising the consolidated government entity are as follows:

#### **Fully Consolidated:**

**Government of the Northwest Territories  
Arctic College  
Northwest Territories Housing Corporation**

#### **Modified Equity:**

**Petroleum Products Revolving Fund  
Northwest Territories Liquor Commission  
Northwest Territories Power Corporation  
Workers' Compensation Board**

The consolidated statements provide a broader view of the nature and extent of the financial affairs and resources of the Government.

*What is not included in these statements.*

It is important to note that these statements do not consolidate everything that could possibly be considered part of Government. For example, because the following are considered to be mostly independent of the Government, they are not consolidated:

Hospitals and health facilities  
Education boards  
Municipalities

These types of entities are not recorded in the financial statements, but the actual transactions with these entities, such as contributions, are included.

*Government takes leadership role*

The Government is one of the first provinces and territories in Canada to fully adopt PSAAC 4. As such, it is taking a leading role in Government financial reporting in Canada.

## Chapter 2

### Cases of Non-Compliance with Acts

#### **2.1 Departments of Public Works, Transportation and Health**

**Issue:**

The Financial Administration Act (FAA) requires that departments control their expenditures at the activity level. Three departments did not comply fully with this requirement during the 1989-90 fiscal year.

**Facts:**

Section 32(1) of the FAA states, "... no person shall incur any expenditure that causes the amount of the activity set out in the Estimates upon which the appropriation is based to be exceeded". It is the responsibility of departmental managers to prevent overexpenditures.

Five activities totalling \$1.5 million were overexpended in 1989-90. TABLE 1 provides details.

By comparison, in 1987-88, 20 activities totalling \$2.2 million and in 1988-89, 6 activities totalling \$3.3 million were overexpended. TABLE 2 compares overexpenditures for the three years.

**Discussion:**

We have made similar observations in the past two years.

Each department's operations are made up of one or more activities. Expenditures are made through either operations and maintenance or capital votes.

To illustrate, the Department of Health has five operations and maintenance activities:

- Territorial Health Insurance Services**
- Medicare**
- Medical Transportation**
- Administration**
- Supplementary Health Programs**



**TABLE 1****Schedule of 1989-90 Overexpenditures at Activity Level**

|  | \$                         | %                          |
|--|----------------------------|----------------------------|
|  | <u>          </u>          | <u>of</u><br><u>budget</u> |
| <b><u>Operations and Maintenance</u></b> |                            |                            |
| <b>Public Works</b>                      |                            |                            |
| Utilities                                | \$ 642,315                 | 2.2                        |
| <b>Transportation</b>                    |                            |                            |
| Highway Operations                       | 319,653                    | 1.9                        |
| Motor Vehicles                           | 2,329                      | 0.3                        |
| <b>Health</b>                            |                            |                            |
| Supplementary Health Programs            | 568,943                    | 4.5                        |
| <b><u>Capital</u></b>                    |                            |                            |
| <b>Transportation</b>                    |                            |                            |
| Transportation Engineering               | <u>12,522</u>              | <u>0.2</u>                 |
| <b>Total Activities Overexpended</b>     | <b>\$ <u>1,545,762</u></b> | <b><u>0.2</u></b>          |

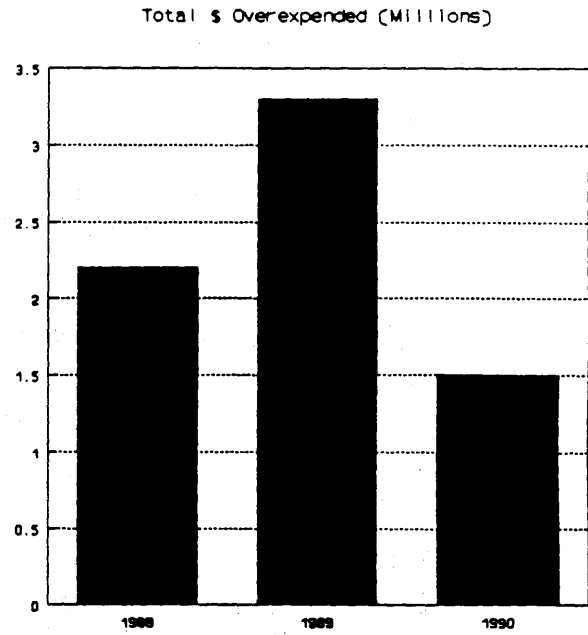
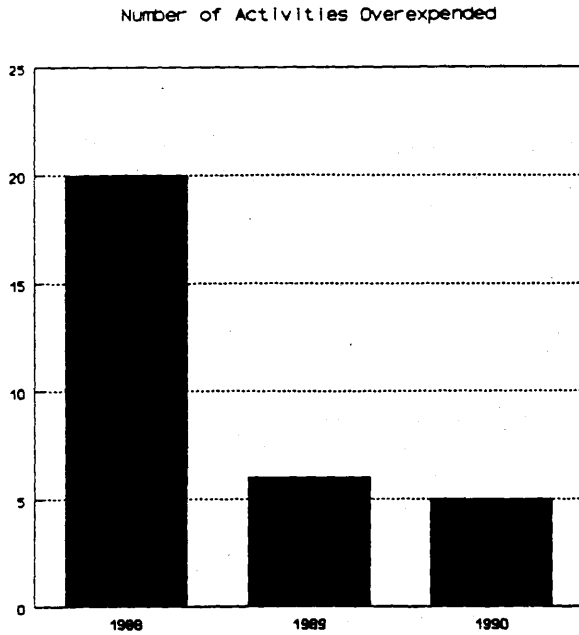
In addition to these recorded overexpenditures, Observation 2.2 following reveals that the Department of Justice also had overexpended by \$359,000.

Some of the overexpenditures at the activity level are in non-discretionary areas.

For example, Health's Supplementary Health Programs costs are overexpended. These programs are provided to eligible residents who do not have access to other medical benefits and who require benefits in addition to those covered under the Hospital and Medical Care Programs. If the number of residents needing additional benefits exceeds that anticipated and budgeted for by the Department, the activity budget will be insufficient to cover the costs.

**TABLE 2**

**Comparison of Overexpenditures Between Years**



Departments should know when they are running into overexpenditure situations and should notify the Financial Management Board far enough in advance to justify a transfer from another activity or to obtain a supplementary estimate.

In response to prior years' observations, the Department of Finance has stated that since 1987-88, the first year of the new requirement, it has taken steps to reduce the incidence of activity overexpenditures. Management states that for non-discretionary areas it is difficult to forecast, and individual managers have limited ability to control the level of expenditures.

**Recommendations:**

**Departments should monitor expenditures and obtain approval (transfers, supplementary appropriations or special warrants) before they spend money.**

**Management Response:**

*Department of Public Works*

**The Department of Public Works does a number of things throughout the year to closely monitor its expenditures to ensure that budgets are not exceeded at the activity or program level, and that approvals are obtained before expenditures are incurred. These include:**

- weekly review of a free balance report,
- monthly review of various FIS reports, and
- quarterly variance reporting.

**The appropriate corrective action (internal transfers, reallocations, special warrant requests or supplementary appropriation requests) is taken where potential problems are identified through these review processes.**

**Despite the thoroughness of these review processes, overexpenditures may still occur, particularly within activities which are non-controllable. Expenditures in these activities are largely incurred as a result of demand which can often vary with little forewarning to allow managers to take corrective action. In instances where corrective action is taken to increase budgets to meet the additional expenditures, such action may be insufficient if projections are low as managers do not have any control over the actual expenditures that may occur.**

*Department of Transportation*

**The Department of Transportation will monitor expenditures closely and take appropriate management actions. However, weather and other factors close to year end may still necessitate overexpenditures.**

**With respect to the Highway Operations overexpenditure, the Department has engaged the services of an outside consultant to conduct a review of the financial management of that Division. One particular focus for the review is to determine whether the budgeting and accounting structure for this activity is sufficient to ensure adequate management and control over the division's expenditures. One of the recommendations likely to come out of this review is to break this activity budget down into additional tasks.**

**The capital overexpenditure resulted from an accident at the Yellowknife river bridge in March, 1990 which necessitated some \$48,000 in emergency repairs. The Deputy Minister approved these repairs pursuant to Section 45 of the Financial Administration Act. As required, a Financial Management Board Submission was prepared giving notice to the Board of the emergency expenditure and seeking supplementary funding. Because of timing, the submission could not be considered until an April board meeting. Because the fiscal year was then operationally completed, the Board did not consider the submission.**

*Department of Health*

**The Department of Health is in agreement that activities should be monitored to prevent over-expenditures in addition to maximizing resources. The over-expenditures primarily occurred in Non-Insured Services, a contract with the federal government for the provision of benefits to Status Indians and Inuit. The over-expenditure was a result of receiving unexpected late billings.**

**The Department of Health will address the lateness of billings in the Non-Insured Services program for the 1990-91 fiscal year.**

**It should be pointed out that the over-expenditures incurred were billable to Health and Welfare Canada for this program.**

## **2.2 Comptroller General**

### **Issue:**

Reported overexpenditures (See Section 2.1) do not include some \$361,000 in unbooked 1989-90 expenditures by the Department of Justice, which would have caused it to overspend its budget by this amount.

### **Facts:**

Note 22 to the audited consolidated 1989-90 Financial Statements shows that Government departments overexpended their activity budgets by \$1,545,762. An analysis of this is provided in TABLE 1. These overexpenditures reflect expenses incurred and booked in excess of available budgets.

In addition, we noted that the Department of Justice received some \$361,000 in invoices after year end which it did not record in its books during the year. These expenditures relate to legal aid and other non-discretionary expenses for the 1989-90 fiscal year. Government departments have until May 4 to make bookkeeping entries for invoices received after year end, but relating to the old year. After that date, any later adjustments are made by the Comptroller General's Office.

Had these expenditures been recorded, the Department would have overexpended its Operations and Maintenance vote in total by approximately \$359,000, and this would have been shown in TABLE 1.

### **Discussion:**

The Department of Justice did not record these invoices in the Government's books because it did not become aware of them until after its deadline for recording expenses. However, it did report them to the Comptroller General.

The Financial Administration Act (FAA) gives the Comptroller General the power to record liabilities under his own authority without a department's consent. The Department had notified the Comptroller General's Office on June 25 that \$307,200 of expenses had not been recorded. The remainder of the \$361,000 was identified and reported later. The Comptroller General reviewed the situation, and decided not to record the liability because he felt that the total of all unrecorded liabilities of all Departments were immaterial. On August 27, the Comptroller General informed the Department of Justice that he did not intend to record the liability.

Since neither the Department of Justice nor the Comptroller General recorded the liability, Justice's Operations and Maintenance vote is shown as underspent by \$1,700, although it should have shown overexpenditure by some \$359,000.

In 1989-90 no other departments overexpended a vote in total. As such, this overexpenditure is a significant authority matter which should be reported to the Legislative Assembly.

**Recommendation:**

**Unrecorded Liabilities should be reviewed to determine if recording them would cause a reported underexpenditure to be reported as an overexpenditure in the Financial Statements and the Public Accounts. If so, the liability should be recorded.**

**Department of Justice Comments:**

**When this difficulty with the Legal Services Board was brought to our attention, the Department of Justice secured their agreement to implement a computerized tracking system to assist them in estimating potential liabilities. This will allow better prediction of such non-discretionary statutory obligations arising from the massive increases in case load and time spent in the Courts, and recognizing expenditures in the proper fiscal year well before invoices are received for payment.**

**Management Response:**

**Agreed. For the 1990-91 year end, we will review the unrecorded liabilities and record any liability that would result in an overexpenditure or is material in scope.**

## **Chapter 3**

### **Delegation to Health and Education Boards**

#### **DETAILED CHAPTER TABLE OF CONTENTS**

|             |  |           |
|-------------|--|-----------|
| <b>I.</b>   | <b>MAIN POINTS</b>                         | <b>14</b> |
| <b>II.</b>  | <b>INTRODUCTION</b>                        | <b>15</b> |
| <b>III.</b> | <b>AUDIT SCOPE</b>                         | <b>18</b> |
| <b>IV.</b>  | <b>OBSERVATIONS AND RECOMMENDATIONS</b>    | <b>18</b> |
|             | <b>1. Mandate</b>                          | <b>18</b> |
|             | <b>Introduction</b>                        | <b>18</b> |
|             | <b>Transfer Policy</b>                     | <b>18</b> |
|             | <b>Financial Administration Act</b>        | <b>21</b> |
|             | <b>Enabling Legislation</b>                | <b>21</b> |
|             | <b>Other Executive Policies</b>            | <b>22</b> |
|             | <b>Financial Administration Manual</b>     | <b>22</b> |
|             | <b>Community Education Councils</b>        | <b>22</b> |
|             | <b>Conclusion</b>                          | <b>24</b> |
|             | <b>Recommendations</b>                     | <b>24</b> |
|             | <b>2. Funding</b>                          | <b>24</b> |
|             | <b>Introduction</b>                        | <b>24</b> |
|             | <b>Date When Departments Notify Boards</b> | <b>24</b> |
|             | <b>Timing of Contributions</b>             | <b>25</b> |
|             | <b>Conclusion</b>                          | <b>27</b> |
|             | <b>Recommendations</b>                     | <b>27</b> |
|             | <b>3. Board Operations</b>                 | <b>27</b> |
|             | <b>Introduction</b>                        | <b>27</b> |
|             | <b>A) Departmental Support to Boards</b>   | <b>27</b> |
|             | <b>Training</b>                            | <b>28</b> |
|             | <b>Manuals</b>                             | <b>28</b> |
|             | <b>Recommendation</b>                      | <b>28</b> |

**DETAILED CHAPTER TABLE OF CONTENTS (Continued)**

|  |           |
|--|-----------|
| <b>B) Departmental Monitoring and Control of Board Finances</b>  | <b>29</b> |
| Need to Monitor and Control Board Finances   | 29        |
| Four Steps in Monitoring Boards  | 31        |
| How Health and Education Perform the Four Steps  | 31        |
| i) Receipt and review of financial budgets   | 31        |
| ii) Receipt and review of interim financial information  | 31        |
| iii) Receipt and review of annual audited financial statements and other information required to be in the annual report | 32        |
| Annual Reports   | 32        |
| Audit Reports  | 32        |
| Format of Financial Statements   | 37        |
| Accounting Policies  | 37        |
| iv) Visits to Boards   | 38        |
| Surpluses and Deficits   | 39        |
| Conclusion re Monitoring of Board Finances   | 41        |
| Recommendations  | 41        |
| <br>   |           |
| <b>4. Monitoring Effectiveness</b>   | <b>42</b> |
| <br>   |           |
| <b>5. Accountability to the Legislative Assembly</b>   | <b>42</b> |
| <br>   |           |
| <b>V. MANAGEMENT RESPONSE</b>  | <b>43</b> |



## I. MAIN POINTS

The Government spends increasing amounts of its budget on contributions to boards, primarily as a result of delegating more responsibilities to the local level. The Government gives local boards financial contributions, and the boards deliver programs on its behalf. Over time, this delegation has come to represent a fundamental change in the delivery of Government programs. Given the size of programs delegated to the local level, it is essential for Government to manage these programs effectively.

In order for the Government to manage delegated programs effectively, Boards must be accountable to the Government for the services that the Boards deliver. Recently the Departments of Health and Education delegated services to Health and Education Boards. We examined several issues associated with delegation to these boards.

### **Summary of Findings**

#### **Mandate of Health and Education Boards**

A combination of Government Acts and Policies set the mandate of these Boards. We noted that the policy framework needs to be revised to eliminate contradictions and clarify applicability.

#### **Funding of Health and Education Boards**

The date when Departments notify Boards of their contributions, and the timing of contribution payments are issues that need to be addressed.

#### **Board Operations**

We noted significant differences in how the two Departments deal with Boards:

- Health provides Board Members with specific Health Board Trustee Manuals to help them learn their roles. Education also provides manuals to Board Members, but they need updating and improvement.
- Health and Education monitor Board finances differently. Overall, departmental procedures for monitoring the financial operations of boards are neither sufficient for adequate financial management nor in compliance with the Financial Administration Act. Presently, Health's monitoring of boards is more comprehensive than Education's.

- The Financial Administration Act (FAA) sets out basic guidelines for annual monitoring of boards. This takes two forms:
  - i) annual report;
  - ii) financial statements and an auditor's report.

We noted that both Departments have deficiencies in their compliance with the FAA. Annual reports and financial statements with an auditor's report should be required by Departments, but not just to satisfy the FAA requirements. The information should be used by departments as a tool to allow them to monitor boards more effectively.

#### **Monitoring Effectiveness of Health and Education Boards, and their Accountability to the Legislative Assembly**

Accountability for delegated responsibilities is key to success in providing government programs through local boards. The Government must know globally how effectively Boards are delivering programs, and how each individual Board is performing. We noted that the FAA specifies accountability of boards to the Legislative Assembly through the Minister responsible for each board. To date, the nature and extent of this accountability is still being defined.

## **II. INTRODUCTION**

Contributions now consume more than 37 percent of Government expenditures. This is due to an increase in the number of boards. The growth of contributions over the last four years is summarized in EXHIBIT 1. In the last six years the number of Health and Education Boards has tripled. Contributions to Health and Education Boards now account for 16 percent of total Government expenditures. This is summarized in EXHIBIT 2.

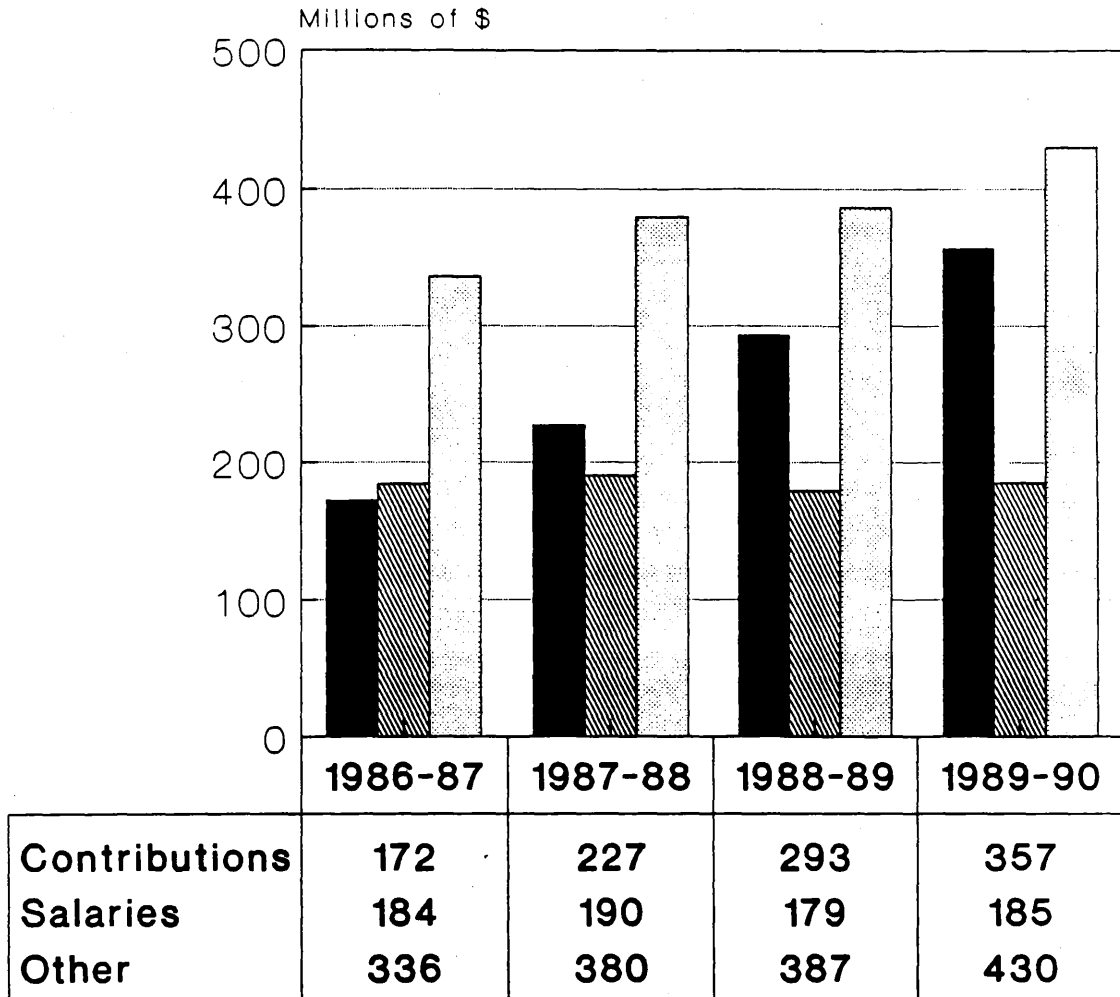
Health and Education Boards deliver programs to the public. There are special risks associated with delegating responsibility for program delivery. These include the potential for:

- deteriorating or inconsistent level of service to the public;
- decreased budgetary flexibility of the Government;
- the Government is ultimately responsible for deficits and for compliance with legislation;
- inefficiencies; and
- frauds

Whether these risks become problems depends on how well the Government manages delegation to boards.

The number of boards has attracted the interest of the Legislative Assembly's various Standing Committees, central agencies and the departments themselves. We note that the role of boards continues to evolve.

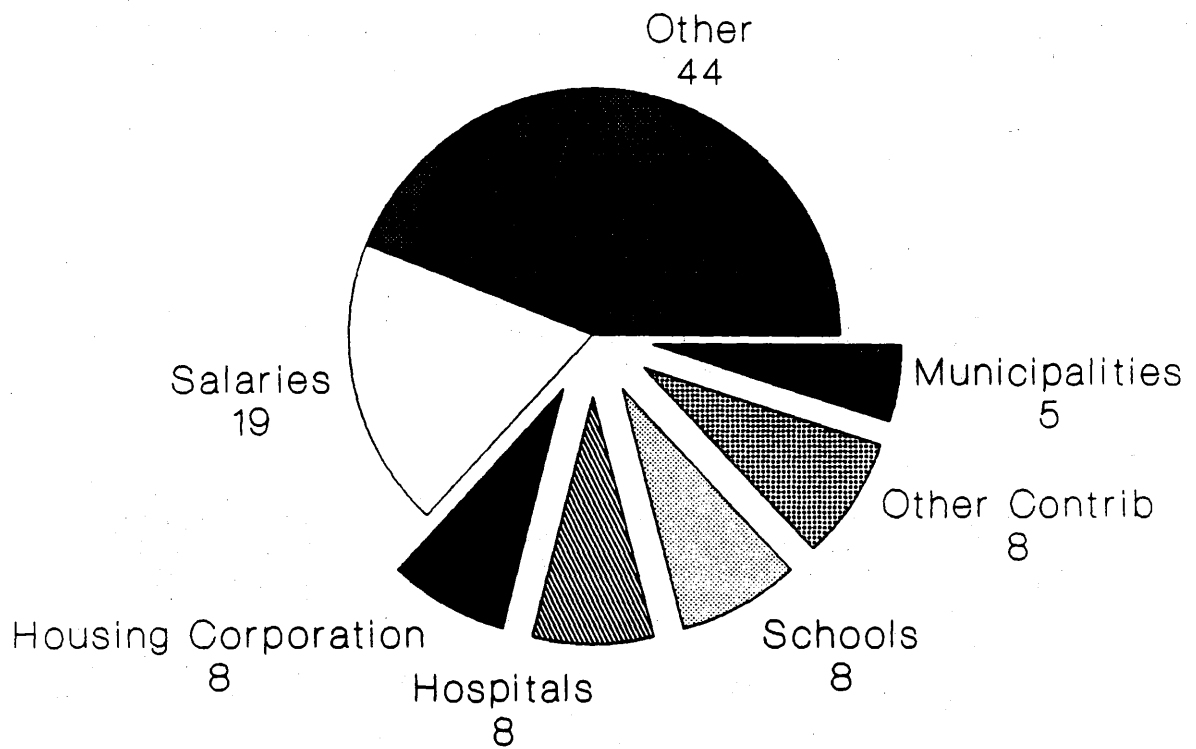
## Exhibit 1 Growth of Total Government Contributions



**Contributions**
 **Salaries**  
 **Other**

**Money spent on Contributions has grown from \$172 to \$357 million or 107 % over 3 years.**

## Exhibit 2 1989-90 Total Government Spending (%)



Sliced pieces are contributions.  
Contributions total 37 % of the pie.

### III. AUDIT SCOPE

We looked at how the Departments of Health and Education manage delegation to boards. Specifically, we reviewed the following issues associated with Health and Education Boards:

1. Mandate
2. Funding
3. Board Operations
4. Monitoring Effectiveness
5. Accountability to the Legislative Assembly

### IV. OBSERVATIONS AND RECOMMENDATIONS

The Observations and Recommendations section is organized into the 5 issues listed above under audit scope.

#### 1. Mandate

##### Introduction

The mandate for boards is set out in a combination of Acts and Policies. We noted that this legislative and policy framework needs to be reviewed to eliminate contradictions and clarify applicability.

##### Transfer Policy

The Government's Transfer Policy of February 1988 establishes a framework for transfer of powers to boards. The Department of the Executive is responsible for the Transfer Policy. The Department views it as a "process document" that defines how programs are transferred from the Government to local responsibility. The Policy discusses the two main types of transfer: devolution and delegation.

**Devolution** is the transfer of political and legal authority from the Minister to a board. The Policy indicates that devolution will be given only to Community Governments as defined in the various Community Acts. (For example, in the Hamlets Act.)

**Delegation** is the transfer of responsibility and resources for the delivery of government programs. Political and legal authority are not transferred.

The Transfer Policy considers transfers to Health and Education Boards to be delegation.

The Policy's principles of delegation are listed in EXHIBIT 3.

### EXHIBIT 3

#### Transfer Policy - Principles Which Apply to Delegation

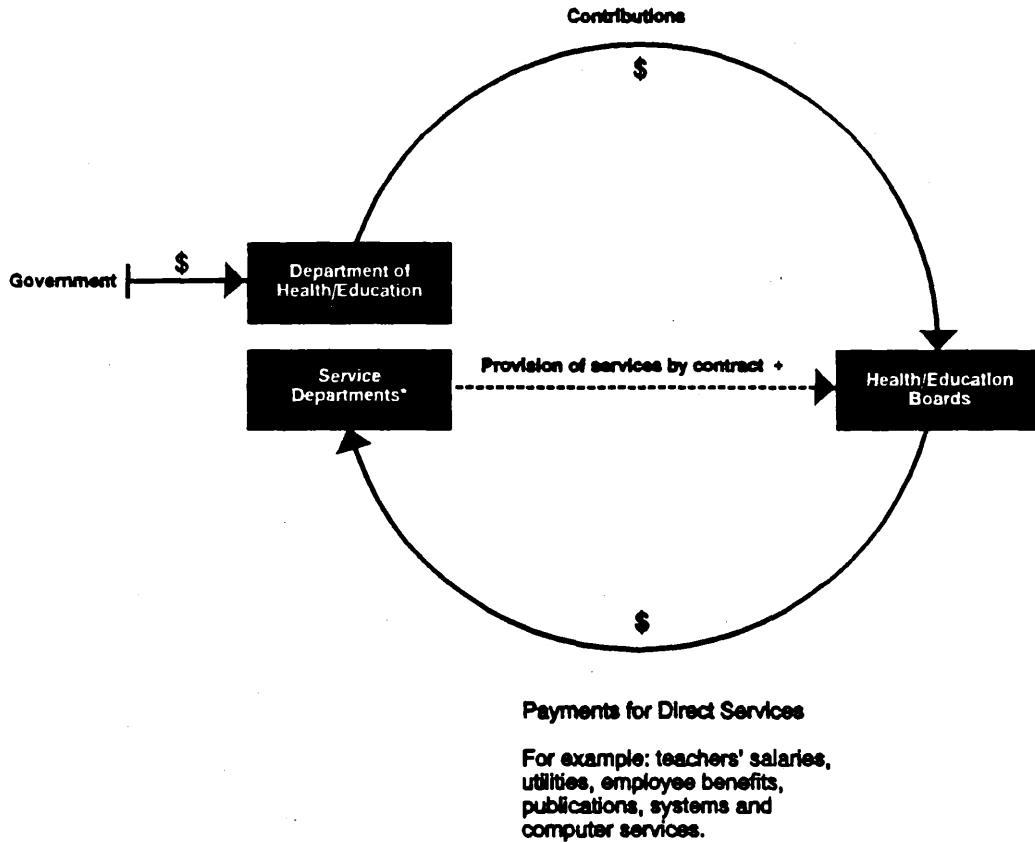
Unless a specific exception has been approved by the Executive Council, the following principles apply.

1. Delegation of programs will include provision of related support services by GNWT service departments through agreements with recipients.
2. Funds for delivery of programs and direct costs of support services will be transferred to the recipients.
3. The timing, conditions and extent of transfer of GNWT programs shall be specified in a Program Transfer Plan.
4. Program quality should not be diminished.
5. GNWT employees affected by a transfer are to be treated in a fair and consistent manner.
6. There should be no net increase in costs to the GNWT.
7. All Executive Council approved policies and directives apply to programs or services transferred by delegation.
8. With delegated programs, centralized collective bargaining remains the responsibility of the GNWT where employees remain public service employees.
9. Decisions made by a recipient subsequent to a transfer which will result in any requirement for increased resources from the GNWT are subject to Ministerial Approval.

**EXHIBIT 4** shows the typical relationship between a board and departments. This relationship is established by the Principles in **EXHIBIT 3**. Government departments provide support services to boards, such as facilities management, purchasing, personnel and payroll, and accounting functions.

## EXHIBIT 4

### Relationship Between Boards and Departments



This Exhibit shows typical relationships between Departments and 'new' Boards subject to the Transfer Policy. There are some differences between Education and Health which are omitted here for clarity.

\* Public Works, Personnel, Finance, Government Services, Justice, Culture and Communications

+ Service departments provide direct and indirect support services to boards. Direct services are paid for by the board, indirect services are provided without charge.

We note that the applicability of the Transfer Policy to those "old" boards in existence at the date of the Transfer Policy has been determined, but is not yet fully in effect. To date, these old boards receive contributions from the Government, but they provide their own support services because they are not required to use service departments. As a result, they generally have more autonomy over their operations. For example, powers of old boards include:

- hiring their own staff, and
- purchasing.

In February 1988, it was decided to apply the Transfer Policy "to all existing boards ... based on a case by case approval by the Executive Council." This approval was to have been completed by September 1989. In October 1989, the deadline for full implementation of the Transfer Policy was extended to April 1991.

In contrast, some Education Boards set up after the Transfer Policy are partially exempted from the Policy. They provide their own administrative services for accounting and purchasing. These exemptions are specifically authorized by Cabinet.

#### **Financial Administration Act**

The Financial Administration Act (FAA) outlines authorities and reporting requirements for boards. This is discussed on page 29.

#### **Enabling Legislation**

The Territorial Hospital Insurance Services Act (THIS Act) and the Education Act outline responsibilities and duties of Boards. In addition, most employees of Boards are considered to be public servants. The Public Service Act provides a framework for relations between employees and Boards, and employees and the Government.

The THIS Act outlines very generally the responsibilities of Health Boards. We found no significant contradictions between the THIS Act and the Transfer Policy.

The Education Act is very specific in its description of Board responsibilities. Some of the descriptions in the Act contradict the Transfer Policy. For example, the recently created Boards are Divisional Boards of Education. Some of the powers of these Boards under the Act include:

- personnel (hiring staff and fixing pay), and
- purchasing.

In fact, under the Transfer Policy, these Education Boards have the pay of their staff, who are public servants, set by the Government under the Transfer Policy. Also, the Government allows Education Boards to do their own purchasing: but only because they have been granted an exemption under the Transfer Policy, not because they have this power under the Education Act.



Boards need to clearly understand their mandate in order to operate effectively. The legislative contradictions between the different sets of powers granted by the enabling Act and by the Transfer Policy make a clear understanding difficult. The current Education Act was written in 1976 and has been amended numerous times since then. The Department of Education is currently rewriting the Education Act.

#### **Other Executive Policies**

Cabinet establishes many other Policies. These are summarized in a Government Policy Manual which is administered by the Department of the Executive. The Transfer Policy (EXHIBIT 3, principle 7) states that all Executive Council approved policies are applicable to boards with delegated powers.

Each policy has a scope statement which should define its applicability to boards, but some policies, especially those written before the Transfer Policy, do not clearly define their applicability. This makes it difficult to determine applicability.

All persons in both boards and departments must understand which policies apply to boards. The Department of the Executive is working to clearly define applicability.

In addition, other Policies such as the 1983 "Public Boards" Policy need to be revised to reflect current direction. The Department of the Executive is working on this.

Finally, we reviewed whether Boards actually receive copies of the Government Policy Manual. Some do and some don't. Since Executive Policies are designed to apply to Boards, all Boards should have copies.

#### **Financial Administration Manual**

The Financial Administration Manual (FAM) is issued by the Comptroller General. It sets out basic financial controls for the Government.

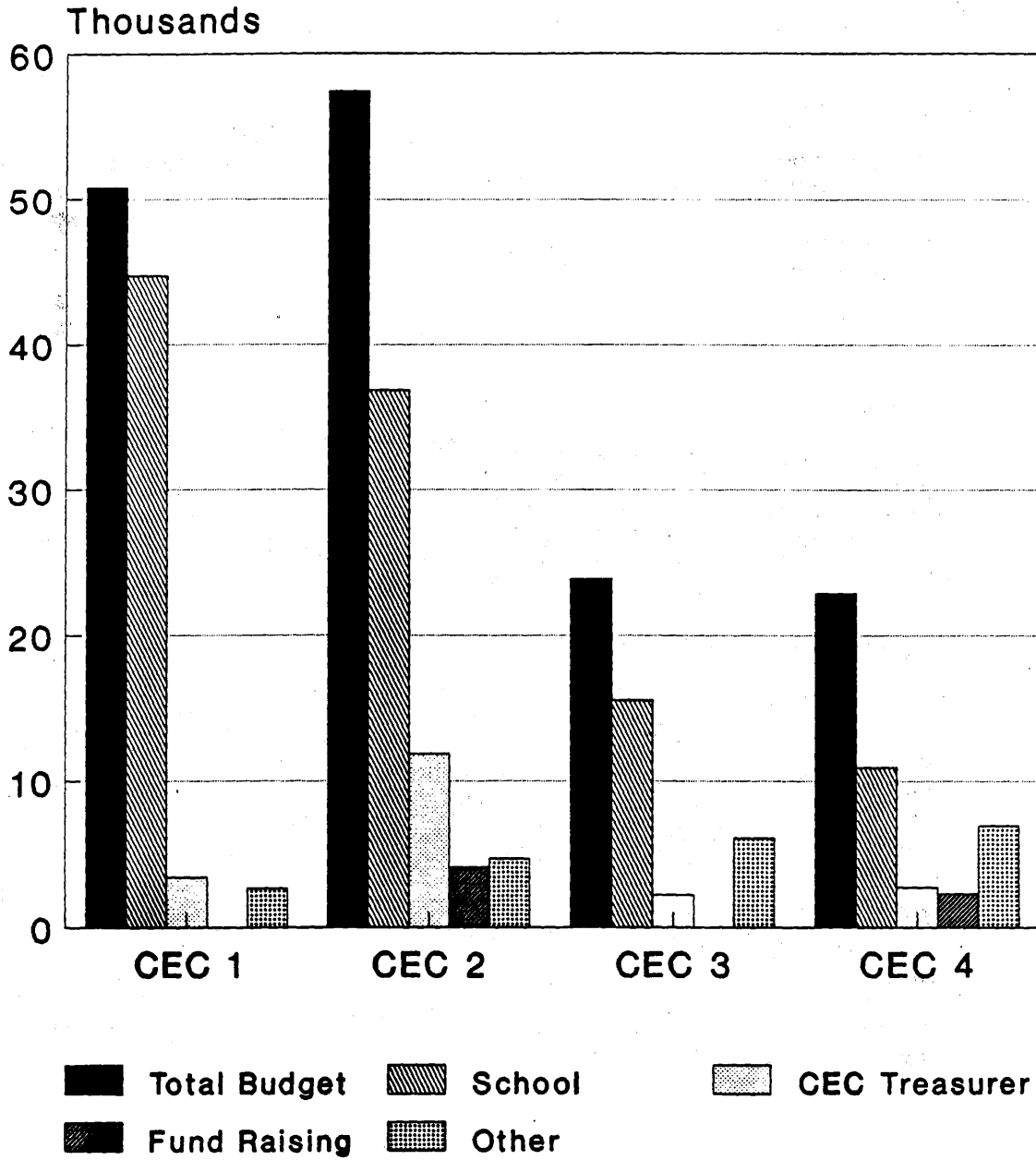
The FAM was not designed for the use of Boards in their financial administration. However, some departments have chosen to use the FAM as the boards' financial policy manual. For example, new Health Boards have elected to use FAM until they develop their own policy manuals.

#### **Community Education Councils**

The Education Act provides for local involvement in education matters. For example, at the community levels, there are organizations called Community Education Councils (CECs). These receive small budgets from the Boards. EXHIBIT 5 shows how 4 of these autonomous CECs have authority over their own budgets and spend their budgets in different ways. This creates another level of accountability. We discuss accountability to the Legislative Assembly later in this report.

## Exhibit 5

### How 4 Community Education Councils (CECs) spend their budgets



## **Conclusion**

Our review identified inconsistencies in the Policy and Legislative framework of boards. Since the role of boards is evolving rapidly, this is not unexpected. But major inconsistencies should be avoided, as they can create operating problems and lead to disputes with boards.

Responsibility for this framework lies with several departments including Health, Education, Executive and Finance. These departments must work together to identify and eliminate inconsistencies.

## **Recommendations**

- 1. The Government should review the consistency of the legislative framework and its applicability to Boards. Policies and Legislation should be updated.**
- 2. Boards should be provided with Policy Manuals and any other manuals that apply to them.**

## **2. Funding**

### **Introduction**

Most boards rely entirely on funding from departments. We reviewed the methods departments use to calculate annual contributions, the date when they notify boards of the amount of contributions, and the timing of contribution payments. We noted that boards do not know the amount of their Government contribution until a fiscal year has begun. We also noted significant differences in the timing of contribution payments by Health and Education.

### **Date When Departments Notify Boards**

The Government and most Boards have a March 31 year end. Both Health and Education Boards have significant fixed costs. For example, Boards have a large number of employees so salary costs are the bulk of their budgets. To allow for meaningful budgeting and prudent management, it is desirable that boards learn what their actual contributions from the Government will be as far in advance as possible. It would be best to know what the contribution is well before a fiscal year begins, so that staff levels can be adjusted accordingly.

For the 1989-90 fiscal year, the Legislative Assembly approved main estimates on March 16, 1989. Boards were not informed of their actual contributions until June.

Discussions with both Health and Education indicate that they plan to inform Boards of their 1991-92 contributions before the beginning of the fiscal year.

### **Timing of Contributions**

Both Health and Education pay contributions to Boards in instalments. We compared the timing of their contribution payments.

When recipients of contributions receive payments in advance of their cash needs, they temporarily have excess cash which they can invest and earn interest on. Instalment profiles are compared in **EXHIBIT 6**.

This exhibit illustrates that Education Boards receive a large portion of their annual contributions at the beginning of the fiscal year. In addition, they receive their quarterly contributions in advance. The Department of Education notes that the large contribution at the beginning of the year is made to allow Boards to pay teachers their summer vacation pay.

Health Boards receive monthly contributions which approximate their budgeted cash flows.

**EXHIBIT 9** compares the interest income to total income for nine Education and five Health Boards. The average Education Board receives 2.8 percent of total income from interest. The average Health Board receives 2.2 percent of total income from interest. Earning interest on payments made in advance of need illustrates good financial management by Boards. But it presents a problem for the Assembly's approval of Contributions.

Parliamentary tradition holds that the Legislative Assembly should approve all expenditures. If payments are made far enough in advance of need that Boards can earn significant interest, in effect this interest represents a contribution not approved by the Assembly.

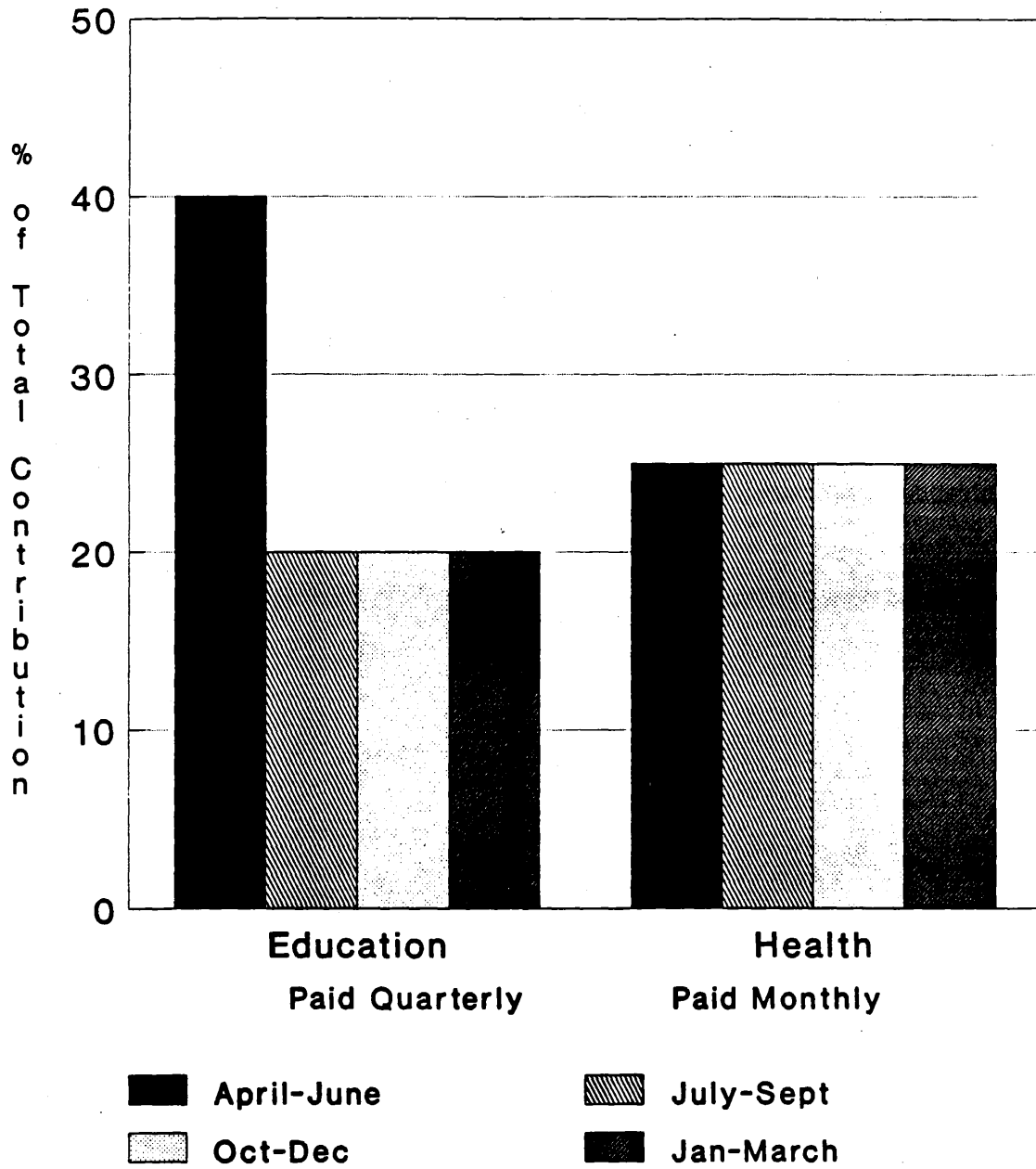
Another way of viewing this is as a transfer of interest revenue from the Government to the Board. If the contribution payments were not made early, then the Government would have the excess cash and earn the interest itself.

Resolution of this problem is not as simple as 'taking away' Board's interest revenue by changing the timing of contribution payments. Departments must determine the actual needs of each Board. The Assembly should be basing its decisions on the actual needs of the Boards.

The Financial Management Board has approved a policy that contributions not be made in advance of need. Education is studying the impact of this policy on its contributions. It expects this review to be completed by March 1991. Decisions concerning payment schedules will be made after the review.

# Exhibit 6

## Typical Timing of Contribution Payments



## **Conclusion**

Boards do not know the amount of their Government contributions at the beginning of a fiscal year. This handicaps their financial management. There are significant differences in the amounts of interest revenue earned by Boards. This interest revenue constitutes expenditures by the Government which are not approved by the Assembly.

## **Recommendations**

1. **Departments should notify Boards of the amounts of their contributions as soon as is practicable.**
2. **The timing of contributions to Boards should be determined by their needs. Alternatively, estimated expenditures presented to the Legislative Assembly for approval should include the amount of interest earned by Boards on contributions made in advance of need.**

## **3. Board Operations**

### **Introduction**

We examined two aspects of Board Operations:

#### **A) Departmental support to Boards**

Both Health and Education provide Board Members with training for their roles. Health provides useful written manuals for Board Members.

#### **B) Departmental monitoring of Board Finances**

Health and Education monitor Board finances differently. Overall, departmental procedures for monitoring the financial operations of boards are neither sufficient for adequate financial management nor in compliance with the Financial Administration Act.

#### **A) DEPARTMENTAL SUPPORT TO BOARDS**

Members of Boards are selected for community representation. Members of Education Boards are elected, and Members of Health Boards are appointed by the Government based on community recommendations.

Like most provinces or territories, most new Members do not have any advance training for their new role. To maximize the effectiveness of board management, departments should provide Members with appropriate training and manuals.

## **Training**

Both Health and Education provide members with training sessions on their roles as Board Members. We have not audited the quality of these training sessions.

## **Manuals**

Although both provide manuals to Board Members, we found that Education's manuals need to be updated and improved.

### *Department of Health's Trustee Handbook*

The Department of Health has prepared a 2 volume Handbook which helps Board Members (Trustees) to learn their role. This was written recently to deal specifically with the new Health Boards. It provides the following concise definition of the role of Health Board Members:

"Trustees are responsible and trusted members of the community who represent the interests of patients in the operations of the health care delivery system. They are appointed by the Territorial government. It is their job to ensure that the health care services provided to their communities meet the needs of the community and are of the highest reasonable quality for the lowest reasonable cost. In other words, it is their job to protect both patients and health care resources. As such, they hold a very important position of trust."

The handbook further defines these responsibilities. For example, one of its 22 chapters deals with the nature of trusteeship.

In sum, the Trustee Handbook is a useful product.

### *Department of Education's Local Education Authority Member's Manual*

The Department indicates that it provides this manual to Members of School Boards. Our review noted the following areas for improvement:

- The manual was written in 1979 and is addressed to Members of Local Education Authorities (LEAs). LEAs are a level of local authority which are similar to Community Education Councils (CECs). In contrast, Boards are a form of regional authority whose Members are drawn from CECs.
- The manual is 81 pages long. Its 17 chapters deal with a range of topics, from the roles of LEAs, principals and teachers, to elections. But it does not deal with the role of School Board Members.

## **Recommendation**

**The Department of Education should develop an up-to-date manual for School Board Members.**

## **B) DEPARTMENTAL MONITORING AND CONTROL OF BOARD FINANCES**

### **Need to monitor and control board finances**

The introduction to this chapter summarized some of the risks in the Government's providing programs through boards. Whether these risks become problems depends on how well the Government manages delegation to boards. The Government manages delegation by **monitoring** Boards, and when necessary, taking steps to **control** Boards.

In other words, **monitoring** is the process of watching what Boards are doing. **Monitoring** is a matter of sound financial management.

**Controlling** is the process of, when necessary, acting to correct problems.

**Control** is a policy matter which is beyond the scope of our examination. For example, the fundamental decision of whether to transfer political and legal authority (devolution), or merely responsibility and resources for program delivery (delegation), will influence the Government's degree of control. Government's control over boards with devolved responsibilities will be less than over those with delegated responsibilities.

### *Requirements of Financial Administration Act (FAA)*

The FAA sets out basic requirements for financial operation and reporting of boards, and monitoring by Departments. Some of these key sections are summarized in **EXHIBIT 7**.

### *Ongoing Monitoring of Boards*

Monitoring of Boards' finances is important to ensure that Boards:

- are not in financial difficulty;
- are complying with agreements and authorities;
- are providing reliable information; and
- are achieving program results.



**EXHIBIT 7**

**FAA REQUIREMENTS FOR FINANCIAL OPERATIONS  
AND REPORTING OF BOARDS**

- Section 77** Public agencies are ultimately accountable through the Minister to the Legislative Assembly
- Section 80** Public agencies cannot borrow without FMB approval
- Section 82** Write-offs > \$ 20,000 must be approved by the Assembly
- Section 83** All Forgiveness must be approved by the Assembly
- Section 89** Every board shall:
- (a) ensure that annual audited financial statements are prepared.
  - (b) establish financial records and systems.
- Section 96** Every year, boards shall submit to the Minister an annual report including:
- (a) statement of activities;
  - (b) financial statements;
  - (c) the auditor's report.
- Section 97** Financial statements must be prepared with an appropriate disclosed basis of accounting and include a:
- (a) balance sheet;
  - (b) statement of income;
  - (c) statement of changes in financial position.
- Section 98** The accounts of every public agency must be audited annually.
- Section 99** The auditor must be approved by the Minister and the audit report shall report and include opinions on:
- (a) the financial statements;
  - (b) books of account;
  - (c) compliance with authorities.

#### **Four steps in monitoring Boards**

There are four important steps in a department's monitoring of the finances of a Board. Each of these steps serves a different and important purpose.

**i) Receipt and review of financial budget**

Review of budgets can help detect problems before they occur (example: a board may plan to spend more money than it has).

**ii) Receipt and review of interim financial information**

Review of interim financial information can help detect problems early (example: a board actually spends more money than it has).

**iii) Receipt and review of annual audited financial statements, and other information required to be in annual reports**

Review of audited financial statements provides a look at an entire year's operations. Also, the fact that it is audited provides independent confirmation that the statements are reasonable. For example, there would be no confirmation that the statements are reasonable if an audit report states that they are incorrect.

**iv) Visits to Boards**

Visits to Boards can help Departments to monitor both finances and operations.

#### **How Health and Education perform the four steps**

**i) Receipt and review of financial budgets**

Health receives and analyzes budgets submitted by Health Boards. Education prepares funding contribution schedules which it gives to Boards. Education Boards then make their own changes for items such as interest revenue and CEC expenses. Education Boards do not provide the Department with a formal budget.

**ii) Receipt and review of interim financial information**

Health receives and reviews interim financial information from Boards. In contrast, Education does not.

**EXHIBIT 8** provides an analysis of the annual financial statements of nine Education Boards and five Health Boards. This includes a comparison of annual budgets to actual results.

For example, this exhibit shows how one Education Board (Number 1 in the exhibit) budgeted an annual deficit of \$586,700 for 1989-90. The actual annual deficit was \$901,400, and the cumulative deficit as reported was \$593,300 at March 31, 1990. Education has provided correspondence which indicates that it was aware of this Board's financial difficulties during the year. Education attributes the problems primarily to poor budgeting by the Board. Nonetheless, this unfavourable difference of \$300,000 between budget and actual is alarming. Education indicates it reviews budgets; yet it did not notice the budget problem early enough to prevent this huge deficit. This calls into question the timeliness of Education's budget review.

- iii) **Receipt and review of annual audited financial statements and other information required to be in the annual report.**

#### *Annual Reports*

The FAA requires that Boards must submit annual reports to the Minister (Department). These reports must include:

- a) a statement of the activities of the board;
- b) financial statements of the board.
- c) auditor's report on the statements.

We reviewed the annual financial reporting of nine Education Boards, and five Health Boards. Our review, summarized in EXHIBIT 10, found that only three of the 14 Boards submitted the required annual reports.

#### *Audit Reports*

Auditors have additional annual reporting requirements:

- a) an audit report addressed to the Minister responsible;
- b) auditor's opinion on the financial statements;
- c) auditor's opinion on adequacy of the board's records;
- d) auditor's opinion on the board's compliance with financial authorities such as Acts and Policies.

EXHIBIT 10 also illustrates that no auditor complied fully with these requirements.

Under the FAA, Boards report to the Minister, and Boards' auditors also report to the Minister. But none of the audit reports were addressed to the Minister as required by the Act. All were addressed to the Boards.

Complementing a formal audit opinion is usually a letter to management highlighting systems, processes and managerial deficiencies, often with recommendations for improvements. As the audit reports are addressed to the Board, the management letters are also addressed to the Board. Management letters can be an important tool in a Department's monitoring of Boards. But if they are addressed to the Board, the Departments have no assurance that they are aware of all management letters issued.

Exhibit 8  
Result of Review of Boards' Financial Statements  
Surpluses and Deficits

| Type of Board | Fiscal Year End Examined | Budgeted Annual Surplus (Deficit) | Actual Annual Surplus (Deficit) | Cumulative Surplus (Deficit) per Financial Statements | Cumulative Surplus (Def) Recalculated by OAG to Include Vacation Pay (Note 1) |                    |
|---------------|--------------------------|-----------------------------------|---------------------------------|---|---|--------------------|
| E1.           | Education                | March 31, 1990                    | (586,700)                       | (901,400)   | (595,300)   | (2,615,700)        |
| E2.           | Education                | March 31, 1990                    | 36,000                          | (66,300)  | (272,000)   | (644,300)          |
| E3.           | Education                | June 30, <1989>                   | 0                               | 226,000   | 110,900   | (204,100)          |
| E4.           | Education                | March 31, 1990                    | 0                               | 358,000   | 358,000   | 101,900            |
| E5.           | Education                | March 31, <1989>                  | 91,218                          | 111,600<br>(Note 2)                                   | (523,300)   | (1,178,900)        |
| E6.           | Education                | March 31, 1990                    | Not Specified                   | 243,600   | 145,500   | (318,400)          |
| E7.           | Education                | March 31, 1990                    | 42,500                          | 191,700   | 110,900   | (266,100)          |
| E8.           | Education                | June 30, <1989>                   | (321,400)                       | 300,900   | 1,354,100   | 1,354,100          |
| E9.           | Education                | June 30, <1989>                   | Not Specified                   | 153,300   | 651,900   | 651,900            |
|               |                          | <b>Total Education</b>            |                                 | <b>617,400</b>  | <b>1,340,700</b>  | <b>(3,119,600)</b> |
| H1.           | Health                   | March 31, 1990                    | (351,000)                       | (649,000)   | (34,500)  | (34,500)           |
| H2.           | Health                   | March 31, 1990                    | 0                               | 204,800   | 8,500   | 8,500              |
| H3.           | Health                   | March 31, <1989>                  | Not Specified                   | 864,900   | 864,900   | 864,900            |
| H4.           | Health                   | March 31, 1990                    | 0                               | 96,600  | 278,900   | 278,900            |
| H5.           | Health                   | March 31, 1990                    | 0                               | 383,700   | 446,100   | 446,100            |
|               |                          | <b>Total Health</b>               |                                 | <b>901,000</b>  | <b>1,563,900</b>  | <b>1,563,900</b>   |

Note 1 -

- \* Comparison of Boards are not meaningful unless Accounting Policies are the same. Accounting Policies are discussed on page 37.
- \* The "Adjusted Cumulative Surplus (Deficit)" Column (above) includes the liability for teachers' summer pay which is not included in Education Boards' reported surplus or deficit.
- \* Teacher's summer pay is discussed under "Liability for Vacation and Termination" on page 38.

Note 2 -

- \* Adjusted to be comparable with other Boards.

Exhibit 9  
Results of Review of Boards' Financial Statements

Interest Revenue

|     | Type of Board          | Fiscal Year End Examined | Interest Income     | Total Income          | Interest as % of Total |
|-----|------------------------|--------------------------|---------------------|-----------------------|------------------------|
| E1. | Education              | March 31, 1990           | 509,100             | 22,058,000            | 2.3 %                  |
| E2. | Education              | March 31, 1990           | 99,600              | 6,330,000             | 1.6 %                  |
| E3. | Education              | June 30, <1989>          | 130,400             | 3,356,200             | 3.9 %                  |
| E4. | Education              | March 31, 1990           | 103,540             | 6,174,400             | 1.7 %                  |
| E5. | Education              | March 31, <1989>         | 216,500             | 11,227,700            | 1.9 %                  |
| E6. | Education              | March 31, 1990           | 322,700<br>(Note 1) | 9,719,200<br>(Note 1) | 3.3 %                  |
| E7. | Education              | March 31, 1990           | 44,300              | 4,313,900             | 1.0 %                  |
| E8. | Education              | June 30, <1989>          | 504,800             | 9,506,600             | 5.3 %                  |
| E9. | Education              | June 30, <1989>          | 248,200             | 5,994,100             | 4.1 %                  |
|     | <b>Total Education</b> |                          | <b>2,179,140</b>    | <b>78,680,100</b>     | <b>2.8 %</b>           |
| H1. | Health                 | March 31, 1990           | 213,600             | 22,804,000            | 0.9 %                  |
| H2. | Health                 | March 31, 1990           | 27,700              | 4,438,800             | 0.6 %                  |
| H3. | Health                 | March 31, <1989>         | 225,600             | 14,720,200            | 1.5 %                  |
| H4. | Health                 | March 31, 1990           | 214,000             | 5,522,200             | 3.9 %                  |
| H5. | Health                 | March 31, 1990           | 598,300             | 11,019,800            | 5.4 %                  |
|     | <b>Total Health</b>    |                          | <b>1,279,200</b>    | <b>58,505,000</b>     | <b>2.2 %</b>           |

Note 1 - This Board uses a different method of recording interest from other Boards. We have adjusted to make it the same.

Exhibit 10  
Results of Review of Boards' Annual Financial Reporting to Departments  
Compared with Requirements of FAA

| Requirement of<br>Financial Administration Act (FAA) | Level of compliance of 14 Boards we examined |   |         |
|--|--|---|---------|
|  | Education                                    | Health                                      | Total   |
| Audit Report Addressed to Minister?                  | 0 of 9                                       | 0 of 5                                      | 0 of 14 |
| Audit Report in required form (Note 1)?              | 0 of 9                                       | 0 of 5                                      | 0 of 14 |
| Annual Report in required form (Note 2)?             | 0 of 9<br>(No Annual<br>Reports<br>Provided) | 3 of 5<br>(3 Annual<br>Reports<br>Provided) | 3 of 14 |

Note 1: Audit Report must have opinion on 3 separate items:

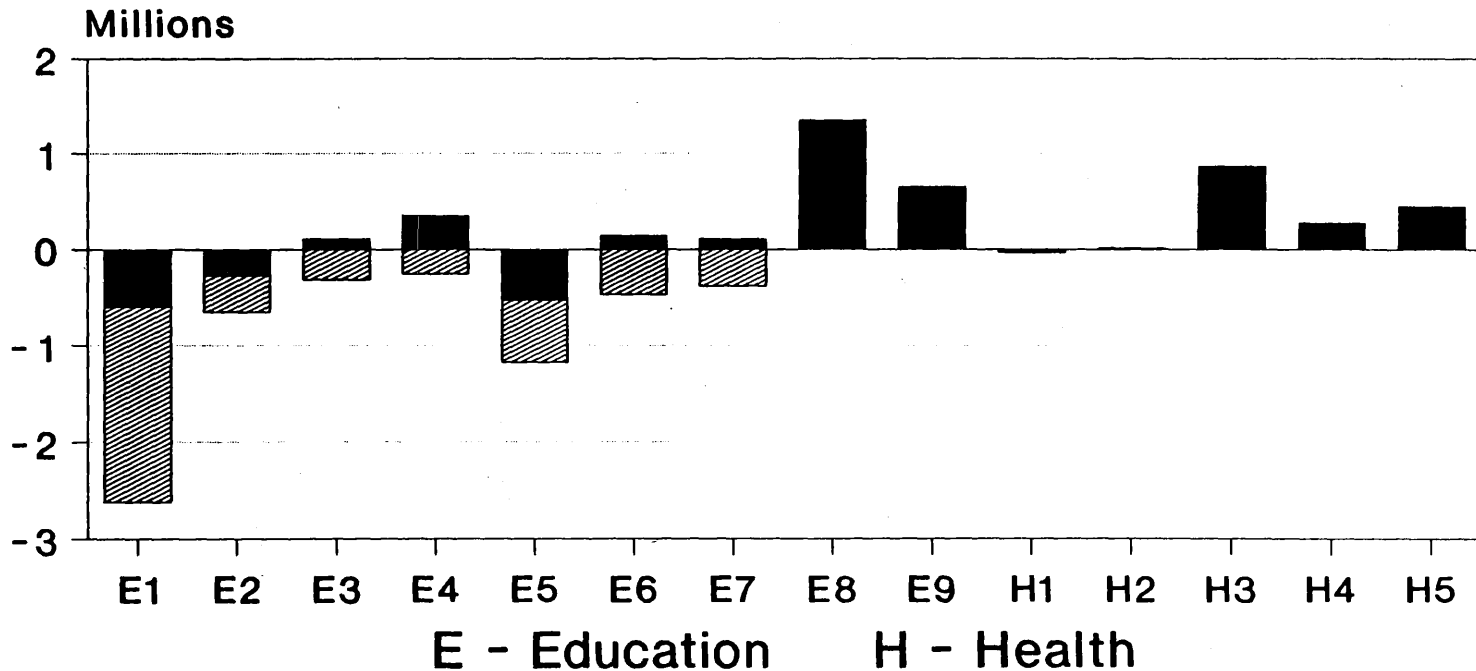
- i) Financial Statements
- ii) Adequacy of Board's Records
- iii) Compliance with Authorities

Note 2: Annual Report must contain:

- i) Comments on Board's Activities
- ii) Financial Statements
- iii) Auditor's Report

## Exhibit 11

(Summary of 2 Right Hand  
Columns of Exhibit 8)



Surplus/Deficit     
  Adjustments

- Surpluses/Deficits are Cumulative
- "Adjustments" are discussed under "Liability for Vacation" on page 38

The Act also requires auditors to give opinions on the adequacy of the boards' records. Again, Departments could use this report as a management tool. None of the audit reports we reviewed included this opinion.

Finally, the Act requires auditors to give an opinion on the boards' compliance with authorities, such as Acts and Policies. Departments could use these to help monitor compliance. But none of the audit reports we reviewed included this opinion.

#### *Format of Financial Statements*

We noted that neither Health nor Education have established standard formats for annual financial statements. This reduces the Departments ability to compare Boards. For example, the largest expense of Boards is salaries, so Departments may want to compare the salary expense of different Boards. This would be difficult since:

- Some Boards have an income statement by type of expense. Here, salaries are shown on the income statement.
- Some Boards have an income statement by program with supporting schedules of each program's type of expenses. Here, management could add together the salaries shown on each schedule to calculate total salaries expense.
- One Education Board has an income statement by program without complete supporting schedules. Here, management cannot calculate total salaries.

#### *Accounting Policies*

Accounting Policies reflect decisions about the content of financial statements. For example, a decision whether to show fixed assets on the balance sheet of a Board is an accounting policy decision.

The Government should develop appropriate accounting policies for the various types of Boards, and ensure they are used consistently. This will make it easier to compare the results.

Also, policies should be selected that serve the people who will be using the statements. We found two areas where this could be improved.



*i) Liability for vacation and termination*

The Government, Health Boards and Education Boards all use accrual accounting. Accrual accounting records expenses and liabilities in the year they are incurred, rather than the year that cash is paid.

One important type of expense and liability is employee vacation and termination benefits. Employees of the Government and Health and Education Boards receive benefits such as vacation, severance pay and moving costs when they leave. Teachers earn their pay over the 10 month school year, but are paid over 12 months. For example, if statements are prepared at March 31, teachers have earned more pay than they have received in cash to that point. So accrual accounting requires recording a liability for the unpaid teachers' pay.

The Government's accounting policy for its own financial statements requires recording a liability for vacation pay for those teachers who still work for the Government instead of an Education Board. However, most Education Boards do not record this vacation pay, even though the Financial Management Board requires that Boards pay for vacation expenses through their regular contributions.

This makes Education Board cumulative surpluses or deficits incomparable to those of either the Government or Health Boards. This is because the Government and Health Boards record all vacation and termination liabilities, but Education Boards do not record a liability for teacher's vacation. EXHIBIT 8 shows two separate cumulative surplus/deficit columns: one as reported in the financial statements, and one adjusted to be comparable with the Government.

*ii) Interest Revenue*

Education Board Number 6 uses a method of recording interest income different from the Government and all other Boards. This also reduces the comparability of the Boards' financial statements. In EXHIBIT 9, Education Board 6's annual income has been adjusted to make interest revenue comparable as well.

**iv) Visits to Boards**

Both Departments indicate that their staffs visit Boards frequently. Visits are done informally, and there are no checklists of what to cover when making a visit, or to document the results. Retaining records of visits would document issues, and provide support for recommendations that the department may make.

## **Surpluses and Deficits**

Excessive surpluses and deficits are one of the key problems that adequate monitoring of Boards' finances can avoid.

When discussing surpluses and deficits, it is important to note that there are two types of surpluses/deficits:

**Annual surpluses/deficits** are the amounts by which a Board spends less than its revenue (surplus), or more than revenue (deficit) for the current year.

**Cumulative surpluses/deficits** are the amounts by which a Board has spent, in total over the years, less than its revenue (surplus), or more than revenue (deficit).

## **Monitoring Surpluses/Deficits**

Since large cumulative surpluses/deficits could be a problem to the Government, it is important for the Department to monitor cumulative surpluses/deficits.

Monitoring is the process of reviewing Boards' financial condition to see if cumulative surpluses/deficits are becoming larger than the Government can accept. Adequate monitoring of deficits requires that Departments perform all 4 of the monitoring steps which we discussed on page 31.

## **Control of Surpluses and Deficits**

As discussed in the introduction to this section (B - Departmental Monitoring and Control of Board Finances), the degree of Control of Board finances is primarily a Government Policy decision. Below we briefly discuss Government Policy on Control of Surpluses and Control of Deficits. We also discuss the key risks of large accumulated surpluses/deficits.

## **Control of Surpluses**

If a department wants to control boards closely, it may want to prohibit them from retaining their cumulative surpluses. If a department wants to give boards more autonomy, it may want to allow boards to retain surpluses.

Education allows Boards to retain surpluses. This means that future contributions are not reduced to eliminate cumulative surpluses.

Health allows Boards to retain a portion of surpluses. When a Health Board has a surplus, a formula is used to determine how much is repaid to the Government.

If cumulative surpluses become too large, this may indicate a problem. Large cumulative surpluses may indicate that the Government has paid cash to Boards that the Boards are not using to deliver services. The largest adjusted cumulative surplus of any of the 14 Boards is \$1,354,100. The total adjusted cumulative surplus of the seven Boards that have a surplus is \$3,728,339.

**EXHIBIT 11** shows graphically the accumulated surplus or deficit reported in the financial statements of each of the 14 Boards we reviewed. **EXHIBIT 11** is essentially a recap of the 2 right hand columns in **EXHIBIT 8**. **EXHIBIT 11** also shows the adjustment to the accumulated surplus or deficit necessary to make their reporting consistent with the Government.

#### Control of Deficits

We have not attempted to determine whether or not the Government may be legally responsible for deficits incurred by Boards.

Small cumulative deficits present no fundamental financial problem to the Government. But deficits could become large enough, especially if several Boards have them, that the financial well-being of the Government as a whole may be jeopardized. Large deficits may ultimately lead to a need for a financial bail-out and additional cost to the Government.

Health monitors deficits, and as can be seen from **EXHIBIT 8**, only one of the five Health Boards we reviewed has a cumulative deficit; a small one of \$34,456.

The Department of Education's policy on deficits varies according to type of Board. The nine Education Boards we reviewed were subject to three different deficit policies:

- Six of the nine Boards are Divisional Boards of Education. A Memorandum of Understanding (MOU) between Education and the Boards states:

"The Board shall not budget for a deficit for the normal expenses for the current year."

This policy does not prohibit actual annual deficits, it only prohibits budgeting for them. Nor are cumulative deficits even mentioned.

- One of the nine Boards has a MOU that states:

"The Board shall not budget for a deficit."

This MOU also lacks any prohibition against actual deficits. And it does not define whether it is prohibited from budgeting for annual deficits, cumulative deficits, or both.

- Two of the nine Boards do not have MOUs with the Department. The Department indicates that these two Boards refuse to sign MOUs. In the absence of MOUs, an internal Government payment directive states that these Boards are responsible for their own deficits.

**EXHIBIT 8** shows that three of the nine Education Boards we reviewed have reported cumulative deficits in their financial statements. The combined cumulative deficit for these Boards is \$1,388,600. **EXHIBIT 8** also shows that, when the cumulative deficits are calculated using the same accounting policies as the Government and Health Boards use, five of the nine Boards have cumulative deficits. The combined adjusted cumulative deficit for these Boards is \$5,227,500.

The issue here is whether cumulative deficits become large enough to be a problem to the Government. The point where this may occur is not fixed. In relation to annual grants to schools of some \$78 million a year, there certainly is not a crisis. Nor is it easy to determine what cumulative deficit figures to use to make this assessment. Should it be the cumulative deficit shown in the Board's statements, the cumulative deficit calculated in accordance with the Government's own accounting policies, or another number? This must be determined.

#### *Conclusion re Surpluses and Deficits*

In sum, cumulative surpluses and deficits for the 14 Health and Education Boards we examined are shown in EXHIBIT 8. This does not appear to constitute a problem for the Government at present. But the deficits of some Education Boards in particular require monitoring to prevent the accumulation of large deficits.

#### **Conclusion re Monitoring of Board Finances**

Improvement in monitoring the finances of the Boards would reduce some of the risks inherent with delivery of programs through Boards.

#### **Recommendations**

1. **The Department of Education should formally and regularly monitor the finances of School Boards throughout the year.**
2. **Departments should ensure that all Boards prepare and submit to the Minister (Department) Annual Reports which comply with the Financial Administration Act.**
3. **Departments should work with the auditors of the Boards to ensure that audit reports comply with the Financial Administration Act and are useful as a management tool for the Departments.**
4. **The Government should develop and implement a standard format for annual financial statements for each type of Board to make it easier for each Department to compare the operations of its Boards.**
5. **Departments should define how cumulative surpluses and deficits should be calculated for use in monitoring Board finances.**
6. **The cumulative surpluses and deficits of all Boards should be monitored to ensure that cumulative surpluses and deficits do not exceed in total defined levels acceptable to the Government.**
7. **Results of annual monitoring should be summarized, and conclusions drawn.**

#### **4. Monitoring Effectiveness**

Effectiveness deals with whether boards are achieving their goals. Monitoring effectiveness requires departments to measure the achievement of goals. Goals must be concrete and measurable to be useful. If they are so ill-defined that everyone appears to always achieve them, they likely are meaningless. Examples of possible measurable goals include:

- Targeted student exam results on standardized achievement tests, or
- Receiving and maintaining hospital accreditation.

These are possible examples only. We are not promoting their actual use to measure effectiveness.

Determining whether departments have systems in place to measure the effectiveness of boards is beyond the scope of our examination. However, effectiveness evaluation is an essential tool to help maximize program delivery by boards and departments.

#### **5. Accountability to the Legislative Assembly**

Section 77 of the FAA states:

**"A public agency is ultimately accountable, through the appropriate Minister, to the Legislative Assembly for the conduct of its affairs."**

Public agencies include Health and Education Boards. We note that because Health and Education Boards are so new, Section 77 is not well enough defined to be meaningfully applied to them. For example:

- Our review of tabled documents showed that few relate to Health and Education Boards.
- Our review of the Government's 1989 Annual Report found that comments on boards and the trend to create new boards were brief.
- As discussed above, Educational Boards provide limited funding to Community Education Councils (CECs). CECs have autonomy over these funds, but there is no standard method for them to be held accountable for how the funds are spent.

Over time, we expect the relationship of boards and the Assembly to become better defined.

## V. MANAGEMENT RESPONSE

*The management response was prepared by the Department of the Executive on behalf of all interested departments.*

Management appreciates the timely observations and recommendations of the Auditor General with respect to the management of our emerging boards and agencies. Most of the issues raised are currently being addressed through government initiatives. In particular, the Financial Management Board has had a review of financial arrangements with boards and agencies undertaken. The preliminary findings and recommendations of this review have been provided to the affected boards, agencies and government departments for comment. Once this feedback is received, the Financial Management Board and Cabinet will deliberate on the recommendations, and determine appropriate courses of action.

Separate studies of board funding formula are also underway. This assessment of board funding mechanisms will provide important information relative to the matter of interest earned by boards.

## **Chapter 4**

### **Items Reported in Previous Years**

#### **4.1 Department of Finance**

##### **4.1.1**

The Financial Administration Act (FAA) requires that the Government control expenditures at the activity level. This is not being done effectively.

We discuss this issue in Chapter 2.

##### **4.1.2**

Devolution of Programs from Canada is a step in NWT constitutional development. However, there are financial aspects that the Government should be aware of in negotiating future transfers.

We reviewed financial aspects of three programs devolved from Canada to determine whether problems occurred, and how the Government addressed them. Two of those programs are followed up here.

#### **1. Transfer of remainder of health care responsibilities from Canada**

##### **Last Year's Observation**

There was an unusual pay issue outstanding between the federal government and the nurses' union around the time of this transfer. At the time, all parties expected this to result in a large one time increase in nurses' salaries, and an additional annual increase in the Government's salary expense. But the agreement between the Government and Canada did not expressly require Canada to fund any Government increases.

##### **Current Year Follow-up**

The Government received additional funding and the Formula Financing Agreement was amended to reflect this.

#### **2. Transfer of fire and forest management from Canada**

##### **Last Year's Observation**

In the three years up to 1990, if the cumulative costs of fighting fires were higher than the three year funding under the transfer agreement, the Government could recover a portion of the excess. After 1990, the Government bears all the risk of fluctuating fire-fighting costs.

### **Current Year Follow-up**

The approximate cost of the Government's forest fire fighting since the transfer has been \$66,450,000:

|                           |                     |
|---------------------------|---------------------|
| Fire operations - 1988    | \$ 19,400,000       |
| Fire operations - 1989    | 17,730,000          |
| Fire operations - 1990    | <u>29,320,000</u>   |
| Total Fire Expenses       | 66,450,000          |
| Total Revenue from Canada | <u>63,420,000</u>   |
| Shortfall                 | \$ <u>3,030,000</u> |

As indicated above, during this period the Government received some \$63,420,000 from Canada for fire fighting: \$58,470,000 through the formula financing base adjustment, and some \$4,950,000 under the 3 year provision discussed above.

### **4.2 Department of Health**

#### **4.2.1**

The Territorial Hospital Insurance Board has not prepared annual reports as required by the Financial Administration Act.

#### **Last Year's Observation**

Both the FAA and the Territorial Hospital Insurance Act require the Territorial Hospital Insurance Board to prepare annual reports and submit them to the Minister responsible.

Management indicated that the last annual report prepared was for 1983-84, and that they are preparing a single 5 year annual report to catch up with reporting.

#### **Current Year Follow-up**

Management indicates that the single 5 year annual report was tabled in the fall 1990 session of the Legislative Assembly. See Chapter 3 for our examination of the Department of Health and its relationship with Health Boards.



## **4.1 Department of Economic Development and Tourism**

### **Business Loans and Guarantees Fund**

#### **4.1.1**

The Financial Administration Act distinguishes between "write-offs" and "forgiveness" of debts. The Department does not recognize this distinction when it seeks the Legislative Assembly's approval for action.

#### **Last Year's Observation**

It is important to inform the Legislative Assembly whether the Department recommends that debts be written-off or forgiven. Each has significantly different implications.

#### **Current Year's Followup**

The Department's management indicates that it is reviewing the Business Loans Fund Act, policies and manuals. They are being updated for all significant issues including write-offs and forgiveness of debts.

The Department of Finance has recently issued a Financial Administration Manual Policy to clarify definitions, roles and responsibilities as they apply to write-offs and forgiveness of debt.

#### **4.1.2**

The Business Loans and Guarantees Fund has a poor record of collection on personal guarantees for defaulted loans.

#### **Last Year's Observation**

We reviewed the Fund's collection experience on guarantees and found that collections are rare.

Management may feel that aggressive enforcement is unfair in all cases. But under the law (FAA) it has no discretion to make this decision. The Financial Administration Act requires the approval of the Legislative Assembly not to pursue personal guarantees.

#### **Current Year Followup**

Management indicates that the issue of personal guarantees has been discussed internally. The issue of personal guarantees are included as part of the Department's current review and update of the Fund.

The Department of Finance indicates that personal guarantees are treated as part of the security on an outstanding debt. They are followed up and collected upon whenever possible, as part of any collection action taken to collect on the debt.

## **4.4 Department of Social Services**

### **441**

**In 1987-88 the Department forgave \$11,000 in minor social assistance overpayments without the required approval of the Legislative Assembly.**

#### **Prior Year's Observation**

**We noted that the Department forgives minor social assistance overpayments without the approval of the Legislative Assembly. The Financial Administration Act (FAA) does not permit this unless the Social Assistance Act states that it overrules the FAA. To solve this problem we recommended an amendment to the Social Assistance Act to exempt forgiveness of minor overpayments from the provisions of the FAA.**

#### **Last Year's Followup**

**The Department's management indicated that it had drafted legislation exempting forgiveness of overpayments from the provisions of the FAA. It was still being cleared with other Departments. If this legislation is submitted to the Assembly and approved, this problem will be corrected.**

#### **Current Year's Followup**

**The Department drafted legislation which it hoped would resolve this problem. However, the draft legislation incorrectly referred to write-off instead of forgiveness. Ultimately, the draft legislation was withdrawn.**

**The Department is now drafting an amendment to the Social Assistance Act to allow forgiveness of minor overpayments. The Department hopes to be able to present this legislation at the Spring 1991 session of the Assembly.**

**111**

**Financial controls over payments to beneficiaries of social assistance programs are inadequate.**

**Prior Year's Observation**

We noted in 1987-88 that the Government pays out more than \$18 million in social assistance payments annually. The controls over these payments were inadequate. Some of the problems we found included:

- only one person approving payments, and
- issuing multiple cheques to circumvent the limit of \$1,000 per cheque.

**Last Year's Observation**

The Department's management indicated that they were working to correct these problems. They did not expect final resolution for some time because some of the anticipated corrections involve changes to forms and computer programs, and the involvement of other departments.

In the interim, the Department directed supervisors to review batches of payment documents after payment has been made. Although this procedure would not prevent fraud or error, it may detect problems so that corrective measures can be taken against their future occurrence.

**Current Year Followup**

The Department has been working with the Departments of Finance and Government Services to make the necessary changes to the forms and cheques. Finance has approved an increase in the cheque limit from \$1,000 to \$2,500.

The Department is implementing minor post quality audits by the supervisors, and reporting on those audits to Headquarters. Headquarters will then know where to focus to make further improvements.

The Department is at the development stage of improving the social assistance information system. This will allow for an edit check on payments and make information more useful to workers and supervisors administering the social assistance program in the regions.