

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



**Report of the Auditor General
to the Northwest Territories
Legislative Assembly**
for the year ended 31 March 1995



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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Ontario
K1A 0G6

15 May 1996

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

Dear Mr. Gargan:

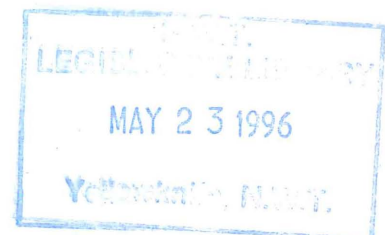
I herewith transmit my Report to be tabled before the Legislative Assembly in accordance with the provisions of Section 30(2) of the Northwest Territories Act, R.S., c.N-22,s.1.

The report deals with "Other Matters" arising from our audit of the accounts and financial statements of the Government of the Northwest Territories for the year ended 31 March 1995 that, in my opinion should be brought to the attention of the Legislative Assembly. The report also includes our recommendations and related management responses.

Cordially yours,

L. Denis Desautels, FCA

encl.



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Introduction

Our Vision

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

Our Mission

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

Our Mandate

In accordance with the *Northwest Territories Act* section 30(1), we audited the accounts and financial transactions of the Government of the Northwest Territories to express an opinion on the government's 1995 consolidated financial statements.

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

Our audit opinion is included in the Public Accounts. The *Auditor's Report* of 31 March 1995 on the consolidated financial statements was qualified for expenditures made in excess of amounts appropriated. Further detail is provided in Chapter 3, "Compliance with Authorities".

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

contains items of concern, our recommendations and management's responses.

This report comments on items that we believe will be of interest to members of the Legislative Assembly, but that are not, individually or collectively, significant enough to require a reservation of opinion in the *Auditor's Report* on the government's 31 March 1995 consolidated financial statements.

We also issued audit opinions on the following government entities:

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

Audit	Year-End	Reported to
Arctic College	31 December 1994	Minister
Northwest Territories Power Corporation	31 March 1995	Minister
Northwest Territories Housing Corporation	31 March 1995	Minister
Northwest Territories Development Corporation	31 March 1994	Minister
Northwest Territories Business Credit Corporation	31 March 1995	Minister
Workers' Compensation Board	31 December 1994	Minister

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

Audit	Year-End	Reported to
Northwest Territories Liquor Commission	31 March 1995	Minister
Petroleum Products Revolving Fund	31 March 1995	Minister
Legislative Assembly Retiring Allowance Fund	31 March 1995	Legislative Assembly

Our People

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

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

Our Thanks

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

<p>Deputy Auditor General Raymond Dubois</p> <p>Assistant Auditor General Don Young</p> <p>Principal Roger Simpson</p>

<p>Government Team</p> <p>Susan Meilleur Murray Duncan Elaine Hoy Nancy Liston Gordon MacFadyen Carol Mah Vivian Simpkin Tina Swiderski Rob Wilson Dave Vanduynhoven</p>

<p>Crown Corporation Team</p> <p>Peter Yeh Michael Baboneau Wing Shing Ma Kevin Mulcair Bill Sawchyn Tammy Squires Dan Stadlwieser Randy Fries*</p>
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<p>Arctic College Team</p> <p>John McCullough Anita Auriti Guy Legras Ed Mollard Signey Shaw</p>

<p>Other</p> <p>Donna-Lee Shaw Helene Demarcke Robert Beaudin Legal Services Edit and Graphics Services</p>
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*Contractor

Chapter 1

Matters of Special Importance and Interest

Purpose

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

Changing Conditions Require Good Information

In his 13 December 1995 address to the Legislative Assembly, the Premier stated, "There is going to be change. Make no mistake, change is coming." The need for change is driven not only by the upcoming division but also by fiscal reality. In less than three years, the NWT will be divided into two separate territories. During the next three years the Legislative Assembly will face important decisions that will shape the establishment of, and the future directions for, the two new territories.

These major decisions will be made in a climate of significantly fewer financial resources contrasted with a rapidly increasing demand for government services and support. In making such future-oriented decisions, much can be learned from the experiences of the past: in particular, experiences of previous program activities and the results they have achieved. Yet few departments and corporate entities can demonstrate in a comprehensive way what they have achieved over the years. It is much easier to show where the money was spent than to demonstrate that it was spent effectively.

Government departments need to be able to show their program results in terms of objectives achieved. This also applies to the government's corporations and agencies, particularly where they deliver programs to the people of the NWT. In Chapter 5 of this report, we comment on the ability of government corporations and other agencies to provide meaningful information on results. In previous reports we have commented on a lack of such information from departments.

Changing Numbers

There is rapid change in the population of the NWT. The Premier noted that the population is growing at two and a half times the national rate. This population growth puts tremendous pressure on such programs as education, health care, community infrastructure and social services. A summary of these program costs for the last three years is outlined in Exhibit 1.1. During the same time period the change in revenues collected was as shown in Exhibit 1.2.

The two exhibits reflect that increases in funding are not keeping pace with program costs. Chapter 2 outlines in detail some of the other challenges facing the government as it tries to meet the needs of the people with the financial resources available.

Changing Government Operations

The Premier in his address also stated, "Our main priority remains balancing the budget as early in our term as we can." The current financial situation of the government, the recently introduced *Deficit Elimination Act*, and the division into two new territories are factors contributing to the importance of a balanced budget. The challenge for the government is to rethink, reinvent, and restructure government operations, including its corporations and agencies, to ensure that it can provide essential services cost-effectively. This means prioritizing programs, restructuring some and possibility eliminating others. This is where good information on program results can be extremely valuable.

Changing the way the government does business is difficult and time-consuming. As we point out in Chapter 4, the Department of Health and Social Services has begun making changes to the health care system but is progressing more slowly than expected. Many of the difficulties encountered by the Department are not unique, and should be considered as other areas of the government undergo change.

Exhibit 1.1			
Total Expenditures (non-consolidated)			
ACTIVITY	YEAR		
	1995	1994	1993
	(\$ millions)		
Education	257.5	238.9	217.7
Health Care	187.4	194.7	188.7
Social Services	91.5	86.6	79.1
Justice	69.1	67.3	64.1
Municipal and Community Affairs	101.4	98.5	97.2
Housing	101.3	95.4	86.5
All Other Programs	436.1	442.3	394.1
TOTAL	1244.3	1223.7	1127.4
Total \$ increase in expenditures 1993-1995		116.9	

Exhibit 1.2			
Total Revenues (non-consolidated)			
	YEAR		
	1995	1994	1993
	(\$ millions)		
From Canada	1004.1	974.0	910.8
All other	213.9	214.3	222.5
TOTAL	1218.0	1188.3	1133.3
Total \$ increase in revenues 1993-1995		84.7	

Conclusion

The challenge ahead for the members of the Legislative Assembly is to implement change based on relevant

information, including reliable and timely information on results. The right changes will enable the government to continue delivering services needed and valued by the people of the NWT.

Chapter 2

Financial Statement Issues

Purpose

In this chapter we comment on issues arising from our audit of the consolidated financial statements of the government.

Government's Financial Position

Financial statements are one source of information on how the government is doing. While all the information in the statements is helpful for one purpose or another, information relating to the liquidity and debt condition of the government is increasingly crucial. Exhibit 2.1

shows the trend of the government's cash and surplus balances on 31 March for the current year and the past four years.

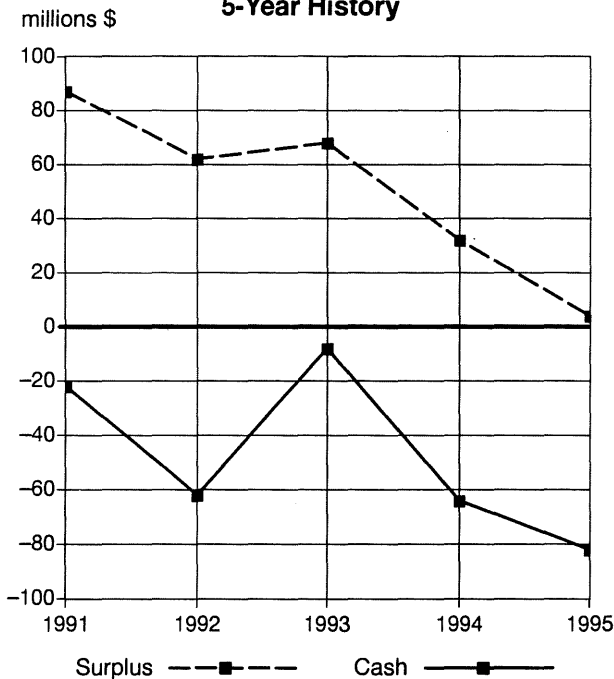
Over the past five years, spending on government programs has increased significantly, by 18.6 percent from 1991 to 1995; but revenue has increased by only 15.9 percent. In the last two years, expenditures were almost \$62 million higher than revenues. This trend has all but eliminated the surpluses achieved in previous fiscal years.

In the Main Estimates for 1994-95 the Minister of Finance presented a balanced budget. This target was not achieved because expenditures were \$44 million more than originally outlined in the Main Estimates. Increased revenues of \$17 million partially offset the increase in expenditures.

Exhibit 2.1

Cash and Surplus (non-consolidated)

5-Year History



Revenues

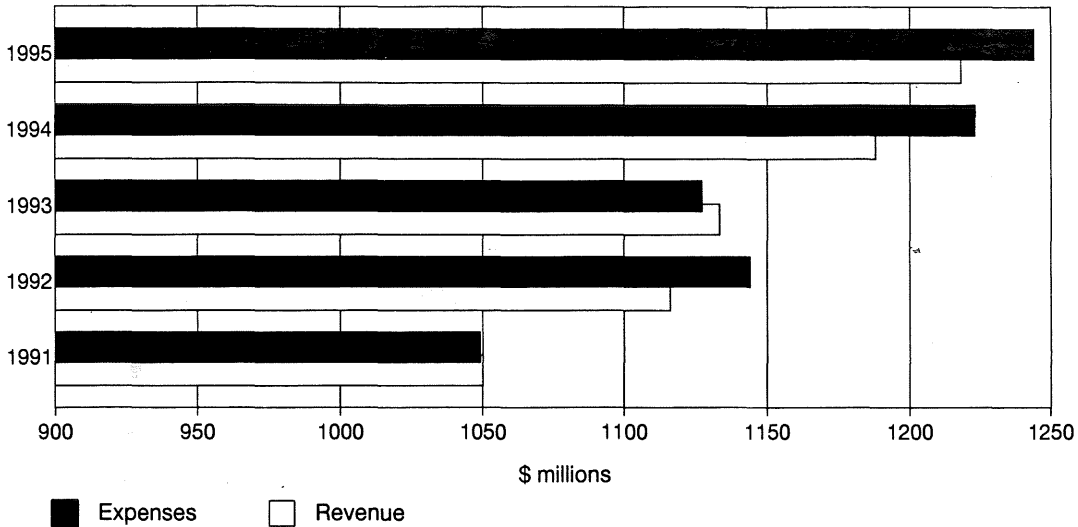
Government revenues can be divided in two groups: transfers from Canada, the major part being a grant determined under the Formula Financing Agreement; and other revenues generated in the Northwest Territories. The transfers from Canada, which account for approximately 82 percent of the revenue collected by the government, are not increasing at the same rate as expenditures. Unless the government can raise additional revenues, factors adding pressure to increase expenditures will lead to a continuing trend toward an accumulated deficit.

Expenditures

The Main Estimates tabled prior to the start of the new fiscal year are the budgetary vehicle for predicting the total financial requirements of the government. If the budget underestimates the government's total financial requirements, and there is no compensating increase in revenue, the likely result is a deficit for the year.

Exhibit 2.2

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



Currently, there are two reasons why the Main Estimates do not tell the full story. The first relates to unpredictable events or circumstances that arise subsequent to the approval of the Main Estimates. Recognizing the likelihood of unpredictable events, the Estimates include a reserve fund. Over the past few years, the reserve fund has not been large enough to meet the spending requirements of unpredictable events such as forest fires.

The second reason relates to a number of government programs that have required annual supplementary appropriations because they were not voted sufficient funds to cover their total program costs. This situation

is referred to by the government as a base deficiency.

To meet the requirements of the new *Deficit Elimination Act*, members of the Legislative Assembly need complete information available to ensure that they can make appropriate spending decisions. The Main Estimates need to distinguish clearly between estimated moneys needed for an adequate reserve fund to deal with unpredictable events and expenditures where the potential exists for base deficiencies, which require a supplementary appropriation.

We reviewed the supplementary appropriations for the past three fiscal years. Exhibit 2.3 shows the activities that required additional allotments each year.

Exhibit 2.3	
Activities Requiring Supplementary Estimates	
ENTITY	ACTIVITY
NWT Housing Corporation	⇒ construction of housing units
Department of Justice	⇒ court services
	⇒ wages in correctional centres
Department of Renewable Resources	⇒ forest fire management
Department of Social Services	⇒ social assistance

Cumulatively, in three years the entities listed in Exhibit 2.3 accounted for almost \$83 million in expenditures beyond what was originally voted in the Main Estimates. Departments other than Renewable Resources stated that the need for additional funding was the result of a base deficiency. The Department of Renewable Resources cited an act of nature as its reason for needing additional funds.

In his 13 December 1995 address to the Legislative Assembly, the Premier said that a priority for the government is to balance the budget and that this will require tough decisions, including spending cuts. He also noted that the combination of growth in current program costs and a reduction in federal transfers will lead to a deteriorating financial position unless changes are made. The question remaining is how to balance the needs of the people of the NWT with what is affordable.

In conjunction with the directives to cut spending, the Main Estimates should contain all likely departmental program expenditures and include an adequate reserve fund to ensure that the government can balance the budget and meet the requirements of the Deficit Elimination Act.

Management response: *The Financial Management Board has approved a budget development process for 1996–97 that addresses the need to eliminate the deficit. The process includes the establishment of the strategic direction of the government; approval of multi-year expenditure and revenue targets to guide the budget development process; and the development of multi-year business plans that include target expenditures and results targets.*

After the review of the initial business plans and available resources over the next three years, the Financial Management Board has approved revised expenditure targets for the three Envelope Committees. The final business plan, expected to be approved in March 1996, will form the basis for the 1996–97 Main Estimates.

Departments have been advised of the importance of providing for all expenditure requirements in the final business plans along with the plans for accommodating them. In addition they have been advised that, as all available resources have been allocated, there can be no

expectation of supplementary funding in 1996–97. It is therefore incumbent on departments to adequately provide for all proposed expenditures in the Main Estimates and not to rely on the Reserve for Supplementary Estimates.

A Reserve for Supplementary Estimates will also be included in the Main Estimates to provide for any unforeseen items that may arise during the 1996–97 fiscal period.

Government's Requirement for Borrowing

Currently, the government is spending more on programs than it raises in revenue. As shown in Exhibit 2.1, the government's year-end cash balance has been negative for the last five years. To cover the cash need, the government has borrowed.

When the government borrows there are three important factors that impact the amount of interest paid: the amount borrowed, the duration of the loan, and the interest rate charged.

In 1993–94 the government borrowed up to \$72 million, but only for the months of February and March. In 1994–95 the government borrowed up to \$100 million for almost three months, January through March. The Department of Finance projects that for 1995–96 the government will be required to borrow up to \$105 million. The borrowing started the second week in October and lasted until the end of March. This means increased interest costs.

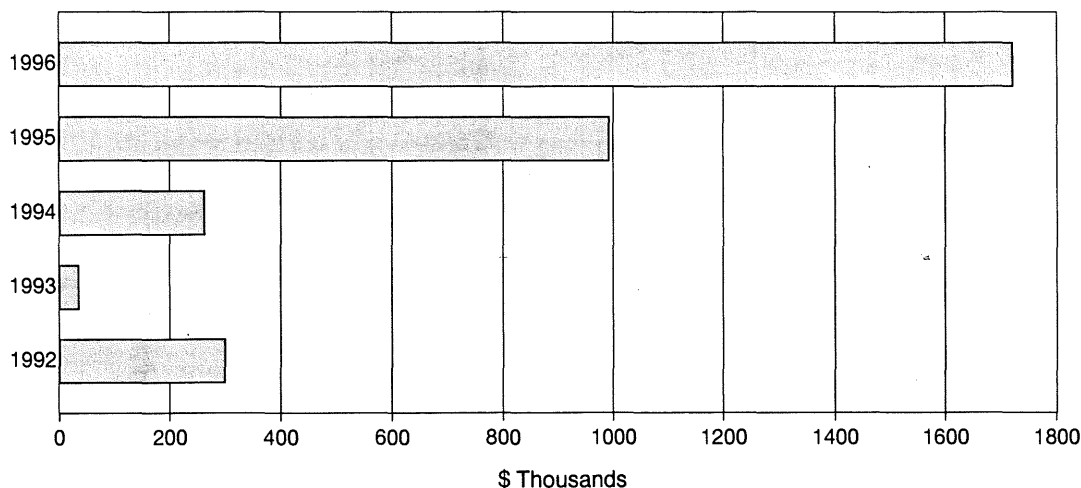
Exhibit 2.4 shows the government's cost of borrowing. It is important to note that the government does not receive any funding from Canada for interest costs. Increased interest costs use moneys previously spent on regular programs.

Contingencies

Contingencies are claims on the government that may become actual costs if certain things happen. If and when settled, contingencies can affect the government's cash and surplus balances. Two significant contingencies are pay equity and environmental restoration costs.

Exhibit 2.4

GNWT Interest Costs



* 1996 represents the Department of Finance's best estimate as at 21 February 1996

Pay equity

The dispute between the government and its union over pay equity continues. Note 16(b) to the government's consolidated financial statements discusses the current situation, which has not changed since our last report.

Management comment: *The Federal Court hearing on whether the equal pay complaint falls under the jurisdiction of the Canadian Human Rights Act was held on 6 and 7 February 1996. The Federal Court judge did not indicate when a decision will be rendered.*

Immediately following the results of the ruling, recommendations for future action will be forwarded to the Financial Management Board for consideration.

Government accounting policy and environmental restoration costs

The government has adopted formally as its accounting policies the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants (CICA). Fundamental to this policy is the accrual basis of accounting, whereby costs are recognized in the

financial statements in the period when they are incurred or become known, even though the cash may not be spent until some time in the future. Employee leave and termination benefits are examples where the government makes provision for current costs for which some of the money will be spent in future years.

A more recent accounting evolution deals with environmental restoration costs. Accepted accounting policies require the government to recognize today the current or future costs of restoring environmentally damaged sites to their original condition. Clearly, some of these costs will not be paid until actual clean-up occurs, which may be many years into the future; but the accounting for them has to be in the periods when the damage occurs or when the situation becomes known. Note 16(c) to the government's consolidated financial statements discusses the current situation.

The government has agreed to develop a process to deal with the recognition of environmental restoration costs that will identify, measure and report them. The provisions for clean-up costs will increase the deficit.

To date, the government has done insufficient work on this issue to be able to make provisions for environmental clean-up costs. Thus it is not complying

with its own accounting policy, and the true extent of its financial position is not known.

The government should move quickly to determine the potential effect of significant contingencies and record them in its accounts to ensure that they are fully considered in the move to balance the budget.

Management response: *The government recognizes the importance of reporting the potential environmental costs and liabilities in its financial statements.*

We understand that the CICA presently has a task force to develop expanded guidelines and standards on accounting, recognition, measurement and disclosure of

environmental costs and liabilities in the financial statements.

The intention of the government is to provide full disclosure in the financial statements once the guidelines and standards are published by the CICA.

While the government awaits pronouncements from the CICA, some departments are gathering information that will be necessary to implement full disclosure of environmental costs and liabilities. In particular, the Department of Municipal and Community Affairs has prepared two reports from which it intends to use the cost estimates developed to determine the potential liability to which the Department is exposed.

Chapter 3

Compliance with Authorities

Purpose

Our audit report on the government's consolidated financial statements includes an opinion on whether it complies with all significant authorities, based on transactions that came to our notice during the audit.

We report to the Legislative Assembly the following area of non-compliance with the *Financial Administration Act* (FAA) for 1994-95.

Overexpenditures

The FAA section 32 states, "No person shall incur an expenditure that causes the amount of the item set out in the Estimates on which the appropriation is based to be exceeded."

To violate section 32, a department must have overspent its operations and maintenance or capital appropriations. In 1994-95, four departments exceeded their operations and maintenance appropriations, as shown in Exhibit 3.1

Exhibit 3.1 Departmental Overexpenditures	
Department	Overexpenditure (\$ 000)
Legislative Assembly	1,207
Municipal and Community Affairs	5
Health	894
Social Services	1,646
Total	3,752

The overexpenditure by the Legislative Assembly resulted from a year-end adjustment to the pension

liability of the Legislative Assembly Supplementary Retiring Allowances. The adjustment was made by the Financial Management Board Secretariat (FMBS) to ensure that the government's financial statements were accurate.

The overexpenditures by the other departments are the result of their exceeding departmental estimates. The overexpenditures occurred even after the departments received supplementary appropriations. For example, the Department of Social Services, now part of the Department of Health and Social Services, had original Main Estimate spending of approximately \$80 million. This was subsequently increased by \$7,657,000, almost 10 percent, through Supplementary Appropriations but this was still not enough to cover the Department's expenditures. The Department has the responsibility of preparing accurate and complete forecasts of expenditures for inclusion in the Main Estimates, based on statutory and other program needs.

Management Comments

Legislative Assembly: *The Legislative Assembly has had an extensive discussion with the FMBS on the accounting treatment to record and report the government's contributions to the Legislative Assembly Supplementary Retiring Allowances. The government is responsible for any deficiencies and unfunded liabilities in the plan. The plan is a contributory defined-benefit pension plan.*

A resolution to the accounting treatment will be reached this year and the budget for the government's contributions to the plan will reflect these changes.

Department of Municipal and Community Affairs: *The Department managed its Operations and Maintenance appropriations to within .007 percent or \$5,000 of the funds allocated to carry out its programs and services. During the fiscal period, the Department*

undertook four comprehensive reviews with senior managers throughout the Department to effectively monitor the resources to plan, and adjustments to the plan were made as required. Except for the slight overexpenditure, the Department delivered its programs and services within the resources available to it.

Department of Health: *The largest and most significant area to account for the overexpenditure in the Department of Health is medical travel. The Supplementary Appropriation in January 1995 used the most recent information on usage of medical travel in the Northwest Territories. It was slightly lower than the previous year. While it was anticipated that this was indicative of lower spending, the year ended with higher spending, resulting in approximately \$3 million of overspending in that activity.*

Department of Social Services: *The Department of Social Services overspent its appropriation by \$1,646,000 for the year. The overexpenditure consisted of \$827,000 for Social Assistance, a statutory program, and \$635,000 for unfunded positions of social workers delivering statutory programs. The remaining \$447,000 was for casuals, overtime and severance costs associated with the amalgamation of the Department of Health and Social Services.*

Steps have been taken to rectify the underfunding of this activity.

Effective Budgeting and Cost Control of Statutory Programs

The Department of Health and Social Services delivers various programs, some based on eligibility and others on entitlement. Programs that respond to entitlements are often referred to as statutory programs. Departments have little option but to pay the costs of these programs when a situation occurs that creates such an entitlement. The costs of statutory programs are consequently more difficult to control than those where the departments have spending discretion. Often the only way to control

spending on statutory entitlement programs is to change the nature and extent of the specific costs covered by a program. An example is outlined in Exhibit 3.2.

Exhibit 3.2 Describing a Case of Statutory Program Entitlement
<p>A situation entitles a claimant to receive funding of \$1,000. Overall fiscal realities might dictate a reduction in government spending, which in turn requires a re-engineering of all program expenditures to ensure that essential programs are funded appropriately. Programs not essential for meeting the government's objectives may be considered for cutbacks. In entitlement programs such as the hypothetical example here, the only saving possible is if the entitlement funding of \$1,000 is reduced to some lower amount. Making decisions of this nature is difficult in the face of public expectations. But unless the government institutes such changes, it will be hostage to the events that drive entitlements and will have no ability to control its costs.</p>

Management comments: *The current business plan approach to the budget process is addressing these programs. Non-essential programs may be eliminated and others amended to provide services to those most needing them.*

Additionally, the Department of Health and Social Services is actively reviewing the means by which services are provided, in an effort to lower costs and make the most effective use of resources available. Medical travel and foster or residential care are two of the fastest-growing spending areas for the Department. Both of these areas are being actively addressed in the business plan process with the intent of reducing or containing costs.

Chapter 4

Follow-up to 1992 Comprehensive Audit Department of Health

Purpose and Scope

In this chapter we review the actions taken by management of the Department of Health to address the observations and recommendations of our 1992 comprehensive audit and of the Standing Committee on Public Accounts (PAC). We restricted this review to areas discussed in the 1992 comprehensive audit report.

Background

Our 1992 report focussed on the fundamental organization and operation of the Department's systems, and the relationships among the Department, the regional health and hospital boards, and other interested parties.

In summary, we reported the following:

- The government needed to define a Northwest Territories health care model giving clear direction to the boards and the Department.
- Once a health care model was in place, the Department needed to make organizational changes to clarify roles and responsibilities, and the government needed to make legislative and policy changes to allow the model or plan to be implemented.
- Systems used to plan for the future and to monitor current developments needed a major overhaul.
- Human resource issues needed to be addressed, including equity programs, training and performance measurement.
- Information systems needed to be more effective to give managers timely and accurate information.
- Financial accountability and capital asset management needed improvement.

In early 1993, the PAC held public hearings in three locations in the Northwest Territories. The recommendations made by the PAC closely reflect those made in our report. In this chapter, "recommendations" refer to the recommendations in our report that were supported by the PAC.

Subsequent to our report, the Department amalgamated with the Department of Social Services to form the new Department of Health and Social Services, effective April 1995.

Conclusion

Overall, progress in addressing the recommendations has been slow.

The Department has fallen short of developing a long-term plan that will set the direction for the delivery and administration of health care in the Northwest Territories. This process has begun, but there is still much work to do.

However, the Department has made progress in certain areas. It has defined its own and the boards' responsibilities. It has improved communication. Work on nursing standards and protocols has been done, and the standards are being piloted. Some activities have been carried out to address human resource issues.

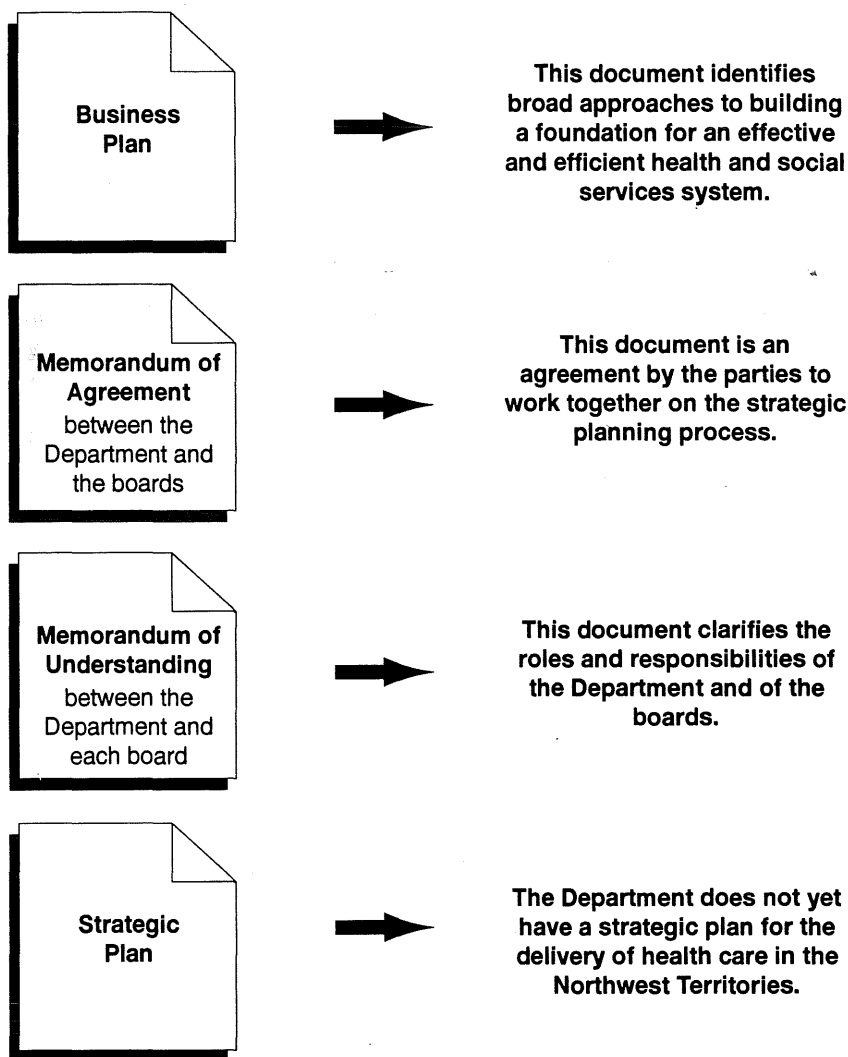
Individual initiatives taken may help develop a long-term solution. To ensure that individual initiatives are on track, a comprehensive long-term plan outlining a clear direction for health care can be helpful.

Observations

Our observations are based on discussions with representatives of the Department, and on a review of various documents and reports provided by the Department.

Exhibit 4.1

Progress toward a Strategy for the Future



Planning for the Future

We recommended that the Department, in consultation with the boards, develop a long-term plan outlining what the government expects health care to be and how it intends to achieve it. In other words, we recommended that the Department set a strategy for the future.

Exhibit 4.1 shows what the Department has achieved so far in working toward a strategy for the future.

The Department is developing a business plan that is meant to set the general direction for the Department of Health and Social Services for the next three years. The plan outlines broad directions to reduce costs, better manage available resources, and improve management.

The Memorandum of Agreement that was signed by the Department and all the boards outlines their intent to work together toward a “preferred future”. The Department and the boards agree to participate in a strategic planning process to clarify future directions,

establish priorities, and develop and implement effective strategies. But the Memorandum of Agreement is only a plan to develop a plan. It contains specific action plans with target dates for various issues. The Department and boards agreed to present a comprehensive plan to the government in April of 1996. However, progress toward meeting this target date for the development and implementation of the comprehensive plan is behind schedule.

We recommended that the Department develop appropriate workload assessment tools and standards to ensure that health care resources are distributed to communities on a fair basis. The Department developed a nursing workload measurement tool to assist in the planning process. Although the development has progressed well, the Department is unable to implement the workload measurement tool because of inadequate community computer resources. The Department still needs to develop an information system that incorporates the workload measurement tool.

The Department has made progress on other program and service standards. It has circulated among stakeholders a draft of the *Community Health Nursing Program Standards and Protocols*. The Department is piloting the standards in this draft document for six months, until January 1996. Further, the Department participates with the Canadian Council on Health Services Accreditation, which is developing national standards for community health centre accreditation. Two sites in the Northwest Territories, Cambridge Bay and Fort Resolution, were selected as pilot sites for this national initiative.

Mandate and Organization

Roles and responsibilities

We recommended that the Department clarify the respective roles and responsibilities of the Department and of the Boards.

The Department has defined its role and responsibilities and those of the boards, and the relationship between them, in a Memorandum of Understanding (MOU). The MOU consists of a generic contribution agreement, with terms of reference specific to each board. All of the boards have signed a MOU with the Department.

The MOU requires the Department to recommend policy and legislation; to co-ordinate the planning, management and delivery of health services through the boards; and to approve the health services provided through each facility. The MOU delegates to the boards specific authority to provide the authorized programs and services; to establish operational policy; and to manage, control and operate the health facilities for which they are responsible. Boards are required to submit a corporate plan to the Department setting out objectives, strategy and evaluation of the efficiency, economy, and effectiveness of the board. The MOU will be useful to effect change once the Department develops and implements a long-term plan for health care in the Northwest Territories.

Organizational structure

We recommended that once roles and responsibilities were defined, the headquarters organization structure should be reviewed. The Department's amalgamation with the Department of Social Services led to the elimination of some senior administrative positions. Although a functional review was done by an independent consultant subsequent to our 1992 report, this was not the catalyst for the reorganization. The headquarters organization structure will likely require another review once a strategic plan is determined.

Communication

We recommended that the Department improve communication with the boards. The Department has made efforts to do so. For example, the members of the Department's Planning Team (Steering Committee), which meets four times a year, include the chairs of all boards. The role of the Committee is to guide, monitor and approve the steps and outcomes of the strategic planning process and to provide direction to, and monitor the work of, the various working groups. Since the purpose of this Committee is to develop the Health and Social Services Strategic Plan for the Northwest Territories, the Department is in direct and continuous communication with the boards. Based on our cursory review of the Steering Committee minutes, the meetings appear to have value in moving the process forward and including the boards in a meaningful way. The Department should suggest that all parties to the meetings conduct periodic self-evaluations to see if the meetings are adding the value the parties expect.

In addition to Steering Committee meetings, other communication methods such as telephone discussions are often used for ongoing issues and concerns. The Department needs to continue its efforts at improving communication with the boards.

We recommended that the Department ensure effective communication with Northwest Territories residents about the health care system. The Department has developed a communication strategy to ensure that all interested parties are informed about its policies, activities, programs and services. The strategy includes television, radio, newspaper and newsletters, and requires that all communication campaigns be evaluated upon completion to check their effectiveness.

Managing People

With respect to human resource issues, we recommended that the Department develop a strategy for attracting and supporting Aboriginal people who want to enter the field of health professions or health administration, and that it prepare a comprehensive affirmative action plan.

The Department undertook a number of activities to address these recommendations:

- It hired a career promotions officer. This individual facilitates programs to encourage Northwest Territories youth, not just Aboriginals, to enter health career professions; provides materials and information on health careers; and helps place recent nursing program graduates.
- It published a student post-secondary funding directory that lists bursaries, scholarships, awards and financial assistance available to students.
- It supports financially the development and management of health education programs such as Aurora College's Northern Nursing Program. It also gives consulting advice to Aurora College. The Department co-ordinates the tracking of students and review of funding with the Department of Education, Culture and Employment.
- The Department promotes the visibility of successful Aboriginals in health careers through videos and other publications.

Although these activities are a step in the right direction, the Department has not implemented any tracking or evaluation methods to measure the effectiveness of the initiatives. According to informal statistics obtained from the Department, the number of Aboriginal employees in the Department and in health careers has remained relatively constant over the last few years. We asked management for documentation of specific targets for affirmative action programs, but we did not receive any. It may take some time for the results of the programs to become evident, but the Department has not developed any indicators that can be used to measure effectiveness.

Information Management

We recommended that the Department's information system be improved to enable users to collect and process information relevant to planning and monitoring health care in the Northwest Territories.

The Department is working toward better management of its information systems, but little has actually been developed or implemented. The Department took an inventory of databases to identify duplication. Its intent is to have a fully integrated information system based on decentralized databases, capturing all patient encounters and other relevant information. A proposal dated 6 June 1995 setting out a plan for the development of the information network has not progressed as far as the implementation stage. The proposal anticipates a significant capital expenditure during the implementation of the information network, and proposes covering this expense with funds from the Department's capital budget.

The accounting systems of the boards are now standardized with the implementation of "Presto" software in each of the health facilities. The system provides for a standard accounting code structure and a standard reporting schedule.

Capital Assets

We recommended improvements to the management of capital assets.

The Department has implemented the Controllable Asset Management System in all of the health facilities. The system is a database designed to keep track of

controllable assets and their historic value. The health facilities compiled a list of all capital assets, and now the Department's Controllable Assets Management Committee is evaluating accounting policies to be used for valuation of old assets and for amortization issues.

Management comments: *The Department has implemented significant changes that have delayed it in resolving all the issues identified by the Auditor General in 1992. In 1994, the government directed two of the largest departments, Social Services and Health, to consolidate. The consolidation took longer than anticipated because the magnitude of the changes required was not fully anticipated when the process began. In addition, major programs were transferred to other departments. For instance, Corrections Services were transferred to the Department of Justice, and Social Assistance to the Department of Education, Culture and Employment.*

The combined Department undertook substantial downsizing at headquarters as a result of the

consolidation and transfer of responsibilities. This reorganization is critical for positioning the combined Department to address strategic issues.

The framework for the future delivery and administration of health care in the Northwest Territories is under development and encompasses a much broader spectrum of community services than just health care.

The Department's current business plan reflects the overall government strategy for community empowerment and a move toward block funding.

The Department has also developed the groundwork for a long-term plan. The consolidation of Health and Social Services will result in a more co-ordinated approach to programming. The community wellness philosophy changes the focus of the health care system and brings it into partnership with other departments within the Social Envelope.

Chapter 5

Crown Corporations, Revolving Funds and Other Public Agencies: Accountability and Performance Measurement

Purpose

Over the years, the government has established several entities outside of departmental programs to deliver programs or provide services to the people of the Northwest Territories. These entities, established under territorial legislation, include boards, revolving funds and separate corporations. Some of the public agencies, such as the Power Corporation and the Workers' Compensation Board, are driven by marketplace realities and function without dependency on the public purse. Others, such as the Business Credit Corporation, the Development Corporation, the Housing Corporation and the colleges, deliver programs and are dependent financially on government funding for their operations. Two major revolving funds are the Liquor Commission, which markets alcohol products and produces significant net revenues for the public purse, and the Petroleum Products Revolving Fund, which supplies fuel in the communities. Other public agencies include the health and education boards, which are outside of the scope of this chapter.

Each of these public agencies has a responsible minister, but the operations and achievements are somewhat removed from departmental operations and accountabilities. The Liquor Commission and the Petroleum Products Revolving Fund are accountable through their respective departments.

In this chapter we comment only on the legislated requirements for territorial corporations and public agencies to provide information to the Legislative Assembly through their respective ministers, on their compliance with these requirements, and on the need for a review of their accountability framework.

All of the entities referred to in the chapter, along with the Secretary to the Financial Management Board, were

asked to provide responses to the recommendations. The responses have been summarized and therefore may not precisely reflect individual entity responses.

Legislative Reporting Requirements

All public agencies are subject to the provisions of Part IX of the *Financial Administration Act* (FAA) and to their specific enabling legislation. The following represent the principal reporting requirements of the entities to their ministers, as set out in the FAA:

- Section 91 requires territorial corporations (but not revolving funds or other public agencies) to prepare and submit a corporate plan. This section requires that the plan include statements of corporate purpose, corporate objectives and a strategy for achieving them, expected corporate performance and an evaluation of the efficiency, economy and effectiveness of the corporation. The plan is also to cover all business activities, including investments.
- Sections 92 and 93 require territorial corporations to prepare and submit an operating budget and a capital budget.
- Section 96 requires every public agency to prepare and submit an annual report. The annual report must include the financial statements, the auditor's report and any other information required by the FAA or other acts.
- Section 100 requires every public agency to submit an annual report not later than 90 days after year-end. An entity may request an additional 60 days to fulfill this requirement.

The FAA sets out this accountability framework for territorial corporations and other public agencies. For the framework to function effectively, all entities must provide useful and timely information to the Legislative Assembly through their ministers. The information provided can be used by ministers, the Legislative Assembly, government departments and the public to judge corporate performance.

We reviewed the entities that we audit, to determine those that met all the requirements of this accountability framework for 1994–95 (see Exhibit 5.1).

Entity Accountability

Territorial corporations have a different accountability relationship to the Legislative Assembly from that of

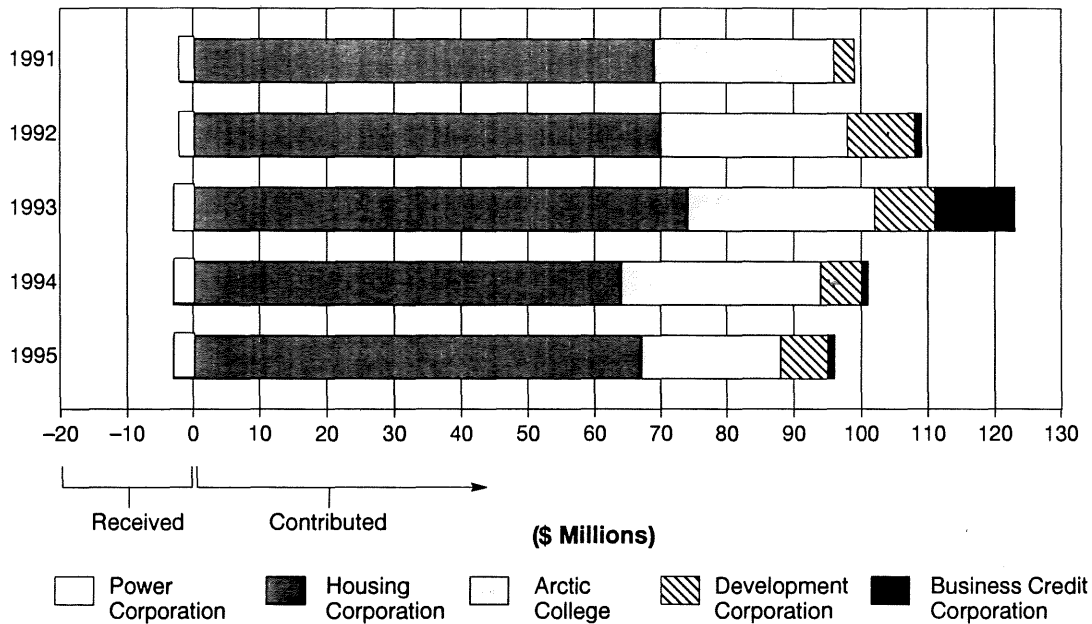
government departments. Many have boards of directors and other interested stakeholders.

Governments have an obligation to make sure that public spending through public agencies meets the same standard for achieving results as departmental spending. During the past five years, the Government of the Northwest Territories has spent over \$ 531 million through the Arctic College, the Housing Corporation, the Development Corporation, and the Business Credit Corporation. Some entities contribute to the government's finances; for example, the Power Corporation has contributed almost \$16 million over the last four years. Exhibit 5.2 shows amounts contributed to or received from the territorial corporations mentioned above over five years.

Exhibit 5.1					
Compliance with Accountability Requirements					
Entity	Section compliance				
	(91) Corporate Plan Requirements Met	(92) Operating Budget	(93) Capital Budget	(96) Annual Report	(100) Annual Report on Time
Arctic College	No	Yes	Yes	Yes	No
Northwest Territories Power Corporation	No	Yes	Yes	Yes	No
Northwest Territories Housing Corporation	No	Yes	Yes	Yes	No
Northwest Territories Development Corporation	No	Yes	Yes	No	No
Northwest Territories Business Credit Corporation	No	Yes	Yes	Yes	No
Workers' Compensation Board	No	Yes	Yes	Yes	No
Northwest Territories Liquor Commission	N/A	N/A	N/A	Yes	No

Exhibit 5.2

Contributions Paid to/Received from Corporate Entities



Given the large contributions that the government has made to various territorial corporations, and the FAA reporting requirements outlined earlier, we have the following observations.

Corporate Plan Content

A corporate plan is an important tool to communicate mandates, missions, corporate objectives and time-related goals and targets to inform members of the Legislative Assembly what entity management intends to achieve in a given time period. These plans can serve as a useful reminder to legislators of why the entity exists, and can prompt reflection on whether a particular entity's role is still important to government policy.

In times of increasingly scarce resources, a corporate plan should detail the corporation's expected outcomes to ensure that this part of public spending is still necessary.

Section 91 of the FAA sets out content requirements for corporate plans. The Act requires the plan to encompass all of the corporation's businesses and activities, including investments.

We reviewed the corporate plans to see if they contained all of the information in the format required by section 91 of the Act. The entities all presented some information on the economy, efficiency and effectiveness of their operations but we could not see that they had included, for all business activities, appropriate details of their performance compared with previously stated corporate objectives.

For example, the recent corporate plan of Aurora College sets out a comprehensive framework for evaluating future performance on key strategies but did not include details of past achievements compared with its previous plans when it operated as Arctic College.

The NWT Power Corporation is subject to regulatory reviews by the Public Utilities Board (PUB), which is responsible for approving rates. The Corporation informs us that under a verbal agreement with a former minister, the PUB would review in the course of its hearings the Corporation's economy, efficiency and effectiveness. As these hearings are open to the public, this process satisfies a number of stakeholders, although it may not be a substitute for accountability to the Legislative Assembly as required by the FAA.

The Workers' Compensation Board (WCB) also has other stakeholders interested in its affairs and results. The WCB manages an investment portfolio of some \$135 million on behalf of its stakeholders. In 1993 the income from the Board's investment holdings was reported in its financial statements as \$13.6 million, some 60 percent of its assessment income for that year. In 1994, investment income fell to \$4.8 million, and represented less than 20 percent of assessment revenue. The WCB's recently tabled corporate plan contains a reference to the Board's 1994 investment returns being lower than projected, but notes that increased assessment revenue and reduced operating costs managed to offset this adverse effect. However, this does not explain, as explicitly required by the FAA, the year-over-year changes in returns from this significant business activity. Without information on results, the Legislative Assembly cannot review the effectiveness of investment management by the Board.

All of the entities believe that they fulfil the requirements of the FAA through appearances before committees, meetings with ministers and the reports they produce. In our view, the effectiveness of the process can be improved if the Legislative Assembly, through its committee structure, outlines clearly its expectations for entity report content if it needs more than the requirements set out in the FAA. The FAA is silent on when the corporate plan must be submitted, but logically this should be prior to the submission of annual budgets.

Each entity, in concert with its minister and standing committees, should ensure that its corporate plan meets the FAA and Legislative Assembly content requirements on a timely basis to demonstrate that it is meeting its stated objectives economically, efficiently and effectively, and should ensure that any variances from those objectives are explained clearly and in sufficient detail.

Entity and central agency responses: *Changes to the FAA are being considered in this specific area of accountability and performance measurement. In addition, numerous other changes have also been contemplated that would result in a complete overhaul of the Act.*

The Financial Management Board is proactive in clarifying the program evaluation criteria with the

entities and agencies to ensure that the corporate plans meet all the FAA and Legislative Assembly content requirements.

The other entities' responses vary, from agreement with the recommendation to the belief, in one case, that it already meets the requirements of the FAA. In addition, the Power Corporation believes that the PUB does this review based on approved return on equity and is concerned about possible duplication.

Annual Report Content

The *Financial Administration Act* (FAA) sets out requirements for every public agency to prepare and submit an annual report. Unlike the requirements for corporate plans, which relate only to territorial corporations, the annual report requirement also applies to other public agencies including boards.

The annual report is an important part of the accountability process. The report can provide standing committee members, on behalf of the Legislative Assembly, with important information to help them hold entity management accountable. Apart from including financial statements and auditors' reports, these documents present an opportunity for the public agency to provide other data on achievements during a given time period.

Section 96 of the FAA sets out the required minimum content for annual reports, but provides for more if required by other acts or the minister. At present, section 96 requires public agencies to present financial statements in annual reports but does not require further information on achievements or results. By way of comparison, the federal FAA requires that corporate annual reports include information on the extent to which the entity has met its objectives for the period, providing a clear link back to the original corporate plans.

As the legislative requirements of section 96 of the FAA are not restrictive, public agencies can be asked to include more relevant performance information in their annual reports. Information comparing actual performance with the original objectives set out in the corporate plan will help improve accountability.

Until the government contemplates any further changes to section 96 of the FAA, ministers and committees could specifically request public agencies

to include information and assertions on the extent to which they have met their objectives for a fiscal period.

Entity and central agency responses: *The Financial Management Board Secretariat notes that changes are being considered to the FAA in this specific area of accountability and performance measurement.*

Three entities responded and either agreed with the recommendation or indicated that they will be providing additional information in future.

Other Characteristics of Information Reporting to the Legislative Assembly

Information for historical purposes has an important place in the public record. But information useful for future-oriented decision making has to be both accurate and timely.

The FAA does not set any deadlines for corporate plans, although it does for annual reports. At present, the corporate plans are considered at about the same time as capital and operating budgets. Earlier preparation of corporate plans might help ministers and the committees to decide whether changes in entity direction could be beneficial prior to the submission of detailed budgets.

Section 100 of the FAA requires that annual reports be submitted to the appropriate minister within 90 days of the entity's year-end. If delays occur, management of the public agency can request an extension of a further 60 days by writing to the Minister of Finance for approval.

The table in Exhibit 5.3, compiled as of 31 December 1995, details some of the public agencies and when each annual report was tabled. None met the statutory reporting deadline.

We also noted that three of the 1994-95 annual reports were subsequently tabled in the Legislative Assembly on 16 February 1996.

Some of the public agencies are able to complete their accounting and have audits completed within 90 days of their year-end, and others request the 60-day extension. But none of them were able to complete their annual reports within the 90-day time period set out in section 100. Section 96 requires the annual report to state the activities of the public agency, include the financial statements, the auditor's report and any other information that the FAA, any other act, or the minister may require. Delays in getting all the data assembled in a timely manner make it unlikely that any annual report could be produced by the 90-day deadline.

Entity	Year-End	Date Submitted to Minister	Days Elapsed	60-Day Extension Requested
Aurora College	30 June 1995	Not Submitted	At least 180 days	Yes
Nunavut Arctic College	30 June 1995	Not Submitted	At least 180 days	Yes
NWT Power Corporation	31 March 1995	Not Submitted	At least 240 days	No
NWT Housing Corporation	31 March 1995	30 September 1995	180 days	No
NWT Development Corporation	31 March 1995	Not Submitted	At least 240 days	Yes
NWT Business Credit Corporation	31 March 1995	Not Submitted	At least 240 days	No
Workers' Compensation Board	31 December 1994	29 May 1995	150 days	No
NWT Liquor Commission	31 March 1995	Not Submitted	At least 240 days	No

Public agency managers should improve the timeliness of year-end closings and financial statement preparation.

Entity responses: *The entities note that, for the most part, they can prepare financial statements within 90 days, but that they need additional time to prepare annual reports.*

Periodic Reviews of Mandates

In the past, starting a new government program was difficult but, once started, it was more difficult to stop. The same is true of government public agencies.

In times of tough fiscal realities, some governments such as Canada have been examining the extent to which their Crown entities meet current and future policy needs. Entities not meeting policy needs are being eliminated. As well, other entities that can be shown to improve service and reduce costs while continuing to protect the public interest are being privatized.

Some other government jurisdictions in Canada are reviewing and fundamentally changing their Crown entities. These reviews are important both for future policy direction and to assess the continued relevance of current mandates. The review can be a useful process leading to changes in direction and improved managerial accountability.

The federal government has recognized the different accountability relationship for its own Crown entities, and has made changes to its legislated accountability

framework. The federal *Financial Administration Act* (federal FAA) Part X was amended some years ago to require most Crown corporations to undergo a “special examination” every five years. The examination requires an independent auditor to examine and provide an opinion on whether entity systems and practices meet the requirements listed in Exhibit 5.4.

The federal FAA special examination requirement was introduced to improve the accountability of Crown entities to the responsible ministers and to the House of Commons. No similar legislation exists in the NWT.

Changes in current government policy and the realities of the current declining financial position warrant that every non-departmental entity be reviewed critically on a regular basis. A regular program for reviewing entities can consider what the entity has achieved and at what cost, and whether the resources consumed have been the best use of government funds. Such a review could also consider future policy directions, whether the original objectives for the entities are still valid and whether the programs can be delivered more effectively through departments.

The government should consider reviewing all of its non-departmental entities on a regular basis to determine the entities’ continuing relevance to government policy.

Entity and central agency responses: *In August 1995 the Financial Management Board directed deputy ministers to undertake a review of government structures and processes, in order to identify areas for potential savings and efficiencies.*

Exhibit 5.4	
Federal Crown Corporation Requirements	
SYSTEMS AND PRACTICES	REQUIREMENTS
<ul style="list-style-type: none"> • Financial and management control systems • Financial and management information systems • General management practices 	<ul style="list-style-type: none"> • Assets safeguarded and controlled • Financial, human, and physical resources managed economically and efficiently • Operations carried out effectively

The Financial Management Board has also implemented a multi-year planning process and a strategic planning process to review the mandates of the entities.

As a result of these initiatives, some public agencies will be privatized and some will be restructured.

Furthermore, during the annual budget process, the Financial Management Board reviews the mandates,

legislation, corporate plans, and the annual reports of all its non-departmental entities. This process further ensures that the entities are meeting the changing expectations and needs of the public as well as the changing economic conditions, and that the mandates continue to be pertinent to government policies.

The other entities generally agree with the recommendation but appear to have different reasons for doing so.