

13th Assembly

Legislative Assembly of the Northwest Territories

Standing Committee on Infrastructure

*Review of the Report of the Auditor General
on the
Department of Municipal and Community Affairs*

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Department of Municipal and Community Affairs

Ed Picco, M.L.A.
Chair

June 1998

Standing Committee on Infrastructure

June 02, 1998

THE HONOURABLE SAM GARGAN, MLA
SPEAKER OF THE HOUSE

Mr. Speaker,

Your Standing Committee on Infrastructure has the honour of presenting its Report on the Review of the Report of the Auditor General of Canada on the Department of Municipal and Community Affairs, and commends it to the House.



Edward Picco, MLA
Chair



**Members of the Standing Committee on
Infrastructure**

Edward Picco
MLA, Iqaluit
Chair

Seamus Henry
MLA, Yellowknife South
Deputy Chair

Levi Barnabas
MLA, High Arctic

Jane Groenewegen
MLA, Hay River

Vince Steen
MLA, Nunakput

Alternate Members

David Krutko
MLA, Mackenzie Delta

John Ningark
MLA, Natilikmiot

Jake Ootes
MLA, Yellowknife Centre

Staff Members

Doug Schauerte
Committee Clerk

Doug Pon
Committee Researcher

List of Witnesses

Department of Municipal and Community Affairs

Ms. Penny Ballantyne, Deputy Minister

Mr. Graeme Dargo, Assistant Deputy Minister for Community
Development Empowerment

Ms. Lynn Fogwill, Director of Community Monitoring and Evaluation

Ms. Susan Craig, Acting Director, Corporate Affairs

Mr. Don McDonald, Senior Advisor, Community Monitoring and Evaluation

Ms. Rosemary Keenainak, Nunavut Senior Management Trainee

Office of the Auditor General

Mr. Roger Simpson, Principal Auditor

Ms. Tammy Squires, Auditor

1. Introduction

1.1 The Standing Committee on Infrastructure is pleased to present its Report on the Review of the Auditor General of Canada's Report on the Department of Municipal and Community Affairs. The Thirteenth Assembly's committee structure enables the Standing Committee on Infrastructure to consider the Auditor General's comments and recommendations in conjunction with other relevant issues that have been examined by the Committee.

1.2 The Legislative Assembly requested the Auditor General on October 8, 1996 to conduct an independent review of how the Department of Municipal and Community Affairs assesses and determines the financial health of communities through municipal reporting processes. The Auditor General's report was tabled in the Legislative Assembly on February 18, 1998, and referred to the Standing Committee on Infrastructure for review.

1.3 The Standing Committee met to discuss the Auditor General's Report from Monday, April 20th 1998 to Wednesday, April 22nd 1998. The Deputy Minister of Municipal and Community Affairs and her staff appeared as witnesses before the Committee, and took the opportunity to present additional responses to the Auditor General's Report.

1.4 The Committee also received a briefing from the Department of Municipal and Community Affairs on April 22, 1998, on "Monitoring and Evaluating for Community Development Results". This

initiative is intended to ensure that community development is goal oriented and client focused, states expected results, commits to high quality programs and services, specifically measures performance and allocates limited resources according to priority.

1.5 Members of the Standing Committee on Infrastructure appreciate the cooperation of the Deputy Minister of Municipal and Community Affairs and her staff in appearing before the Committee, responding to the Members' requests for information and providing their perspective on the issues being considered. Committee Members carefully considered all information provided.

1.6 Finally, the Committee Members appreciate the helpful participation of the Principal Auditor and staff from the Edmonton Office of the Auditor General of Canada.

1.7 The objective of the Office of the Auditor General of Canada was to conduct an independent review of how the Department of Municipal and Community Affairs assesses and determines the financial health of communities through financial reporting and other processes.

1.8 In addition, the OAG had three subobjectives:

- to acquire sufficient understand and information to enable the OAG to identify significant issues and management activities pertaining to municipal financing;

- to inform Members of the Legislative Assembly and others about current and potential issues in municipalities that have financial and accountability issues; and,
- to provide comments and observations on municipal management, from both the local and the departmental side.

2. Senior Administrative Officer

2.1 All municipal officers and politicians are individually and collectively accountable to residents and to the GNWT for delivering and administering programs locally. Financial leadership is part of this overall responsibility, delegated through municipal legislation to the Senior Administrative Officer (SAO). The SAO is a key person in municipal management. While not all SAOs handle finances and accounting on a daily basis, they are responsible for these functions. As the Auditor General's report suggests, in order for a municipality to be financially healthy, it must retain a capable SAO.

2.2 Committee Members emphasize that successful fiscal management requires not only qualified staff, but also sustained long-term cooperative effort. It appears that a number of SAOs are rarely consulted on municipal issues, despite the fact that they are responsible for a comprehensive array of programs and services. As well, adequate support is a concern, and the smaller the community the proportionately smaller the pool of qualified personnel available to properly support the SAO and

perform necessary administrative, managerial and financial responsibilities.

2.3 Members recognize that the Department's position is that the recruitment and hiring process is the responsibility of the municipality. However, in the Committee's view, minimum-hiring standards would contribute to an improvement in the quality of SAOs and their support staff. As almost all of the municipal funding is derived from the GNWT, the Department should have a stake in the hiring process. A tri-lateral hiring process should be explored, involving the Department and the NWT Association of Municipalities in addition to the municipal council. The active participation of these authorities may also reduce potential transparency concerns related to the hiring process.

2.4 The Office of the Auditor General observed that there has been a high turnover rate for SAOs for several years. This is a recurring problem in many remote communities.

2.5 The Office of the Auditor General and Members of the Standing Committee discussed the development of a cultural awareness program for new-hire SAOs. The completion of a cultural awareness program should be mandatory for SAOs recruited from outside the community and especially for those hired from outside of the NWT. The program should be successfully completed prior to the SAO candidate's transfer to the community. In the Committee's view, this approach may help to reduce the high SAO turnover rate.

2.6 The Committee also discussed the need for improved communication between the SAOs and their respective municipal councils. Consultation and frequent dialogue between the two parties may also assist municipalities to retain SAOs.

Recommendation #1

2.7 *The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs develop a set of performance guidelines for Senior Administrative Officers to ensure that the needs of the municipality and the priorities of the municipal council are met. Feedback should also be obtained from the municipal council to properly and accurately evaluate performance.*

Recommendation #2

2.8 *The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs assist in the recruitment of qualified administrative, financial and management staff to provide satisfactory support for Senior Administrative Officers.*

Recommendation #3

2.9 *The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs develop in conjunction with the NWTAM, a process for the completion of exit interviews for departing Senior Administrative Officers.*

Recommendation #4

2.10 *The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs assume a more significant role in the hiring process of Senior Administrative Officers.*

Recommendation #5

2.11 *The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs establish minimum guidelines for the hiring of Senior Administrative Officers.*

Recommendation #6

2.12 *The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs draw up a detailed standardized job description for Senior Administration Officers for provision to municipal hiring boards for their reference. The job description should include operational guidelines and basic qualifications. This job description should also be made available to potential Senior Administrative Officers for review.*

Recommendation #7

2.13 The Standing Committee on Infrastructure on the advice of the Office of the Auditor General recommends that the Department of Municipal and Community Affairs require the completion of a cultural awareness program for Senior Administrative Officers recruited from outside the municipality and particularly those hired from outside the Northwest Territories.

3. Municipal Inspections

3.1 The Department of Municipal and Community Affairs is mandated by municipal legislation to conduct annual municipal inspections. Section 189 of both the *Cities, Towns and Villages Act* and the *Hamlets Act* requires that every municipal corporation must at least once a year and at any other time that the Minister may require, have its:

- records, books, and accounts examined;
- management and administration reviewed; and,
- financial affairs examined

by a municipal inspector.

3.2 With greater municipal empowerment anticipated, the Department needs to know on a regular basis how well municipalities are doing, not just financially but administratively as well.

3.3 Effective monitoring and evaluation forms the basis for accountability in the use of development resources. The resulting

increased transparency may improve the management and implementation of current and future municipal responsibilities.

3.4 In the Committee's view, there is a need for closer attention to the accurate monitoring and evaluation of municipal management information, both to support the ongoing implementation of municipality objectives and to feed back into the design of new initiatives. More detailed regular municipal inspections will result in a reliable flow of information to the Department and to the municipalities enabling the participants to keep accurate track of progress and adjust operations based on experience.

3.5 The Standing Committee emphasizes the need for comprehensive guidelines and qualified inspection staff to accurately evaluate municipal responsibilities and performance on a regular, preferably annual, basis.

3.6 The Department informed the Committee that inspections are carried out according to the needs identified by the Department: community operations are becoming increasingly more difficult to monitor, and more commitment is needed by the municipal councils to get feedback from the Department. The Department also monitors value-added programs and services in addition to the fiscal bottom line.

3.7 The Committee notes that some of the Department's concerns may be due to a shortage of qualified staff and resources as well as the interplay of political influences in some municipalities.

Recommendation #8

3.8 The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs adopt a risk-based approach to municipal inspections. This approach should focus the inspection process on responsibilities and programs that have a greater risk of adverse financial or administrative consequences.

Recommendation #9

3.9 The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs ensure that regular and mandatory municipal inspections are integrated with personal visits and that guidelines are implemented to effectively monitor and evaluate municipalities.

4. Capital Allocation Process

4.1 Careful analysis of the costs and benefits of the existing Capital Allocation Process is key to informed and responsive needs management. It is vital that the relevance and cost of proposed capital projects to the GNWT and the municipality are accurately assessed. It is equally important that the evaluation and allocation process is independent of the bureaucracy that has access to it.

4.2 Although movement towards a more efficient allocation process will hopefully be underway, Committee Members stress the severe resource constraints and the public demands for greater accountability in the allocation process. However, the Committee observes that there may be a lack of commitment to a more responsive and accountable Capital Allocation Process at the bureaucratic level. In the Committee's view, a culture of effective responsiveness and accountability is not in place.

4.3 Part of the dissatisfaction stems from the poor timing of the call letter from the Premier's Office for revisions to the Capital Plan. By the time the letter is received and replied to, there isn't enough time to affect the recommended revisions. With the short construction season and limited transportation infrastructure, it becomes impossible to procure and transport material to the municipality. In many communities, barging is the only economically viable means of transporting cargo. Cargo must be pre-booked, has a limited travel schedule and is operated only in late spring and summer.

4.4 In the Committee's view, there has not been enough attention to the quality and timeliness of information and the need for objectivity and independence in the implementation of the Capital Allocation Process. At times, the political component dominates. The process needs to better serve the municipalities' requirements.

Recommendation #10

4.5 *The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs be the coordinating body for the GNWT Capital Allocation Process to prevent duplication of requests, provide a centralized agency responsible for the provision of capital planning information and establish a one-stop process for municipalities requesting capital projects.*

Recommendation #11

4.6 *The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs direct that the annual call for capital projects from the Premier's office be sent as soon as possible after March 31st each year and require responses from the community regarding any revisions or additions before June 20. If responses are not received by the deadline, funding priorities should remain the same and the Five-Year Capital Plan be adhered to. If either the Government or the community makes any revisions, they should be fully substantiated. The Standing Committee on Infrastructure supports the Auditor General's recommendation that the current Capital Standards and Criteria be reviewed.*

5. Accrual-Based Accounting System

5.1 The Office of the Auditor General observed that all communities currently use a cash-based accounting system throughout the year, and conclude with an accrual based annual financial statement at the end of the fiscal year. The OAG warns that there is a danger of comparing results from different methods. The OAG further noted that while a cash-based system reflects the amount of cash "on hand", the system does not accurately calculate account receivables and account payables as an accrual based system would. In short, a cash based system will not identify bills due but not yet paid. These deficiencies compromise the forecasting and evaluation abilities of the municipality, and violate Canadian Institute of Chartered Accountants (CICA) accounting guidelines. The Committee agrees with the OAG's assessment.

5.2 According to the Department, however, the cash system better serves the needs of the municipal councils, as it more accurately determines remaining cash. The Department added that all municipalities in the Northwest Territories, including the City of Yellowknife, use the same cash based system throughout the year.

5.3 Nonetheless, the Committee agrees with the conclusion of the Auditor General that the current cash system lacks the forecasting and overall evaluation characteristics that are required to responsibly manage the finances of municipalities.

Recommendation #12

5.4 The Standing Committee on Infrastructure supports the Auditor General's recommendation that the Department of Municipal and Community Affairs make efforts to ensure all municipalities move towards the use of an accrual accounting system throughout the year.

6. Municipal Taxing Authorities: Incentives

6.1 There are two distinct categories of municipalities within the municipal funding domain, General Taxing Authorities (GTAs) and Municipal Taxing Authorities (MTAs). The Department funds the categories of municipality differently.

6.2 MTA municipalities have the ability to generate revenues through taxation, resulting in a smaller component of their overall revenues being realized from the Department.

6.3 GTA municipalities have less opportunity for raising local revenues and consequently receive a larger part of their overall funding from the Department.

6.4 The Committee noted during its review of the Auditor General's Report and in discussions with the OAG and the Department, that there are no clear incentives for a GTA community which has the resources to become a MTA to change its status.

6.5 Adoption of MTA status would tend to place an increased burden on residents, as a greater portion of municipal revenues would be locally generated. The Committee acknowledges that in many cases the rational choice for a community may be to remain a GTA.

6.6 However, for a MTA candidate community to remain a GTA would mean a continued and unnecessary financial and administrative burden on the Department, the GNWT and residents of the Northwest Territories.

Recommendation #13

6.3 The Standing Committee on Infrastructure recommends that the Department of Municipal and Community Affairs provide the Committee and all GTA communities with a detailed description of incentives for a GTA municipality to convert to a MTA municipality.

7. Summary

7.1 The Committee reiterates its appreciation for the efforts and time provided by the Department of Municipal and Community Affairs and the Office of the Auditor General of Canada in carrying forward this important review process.

