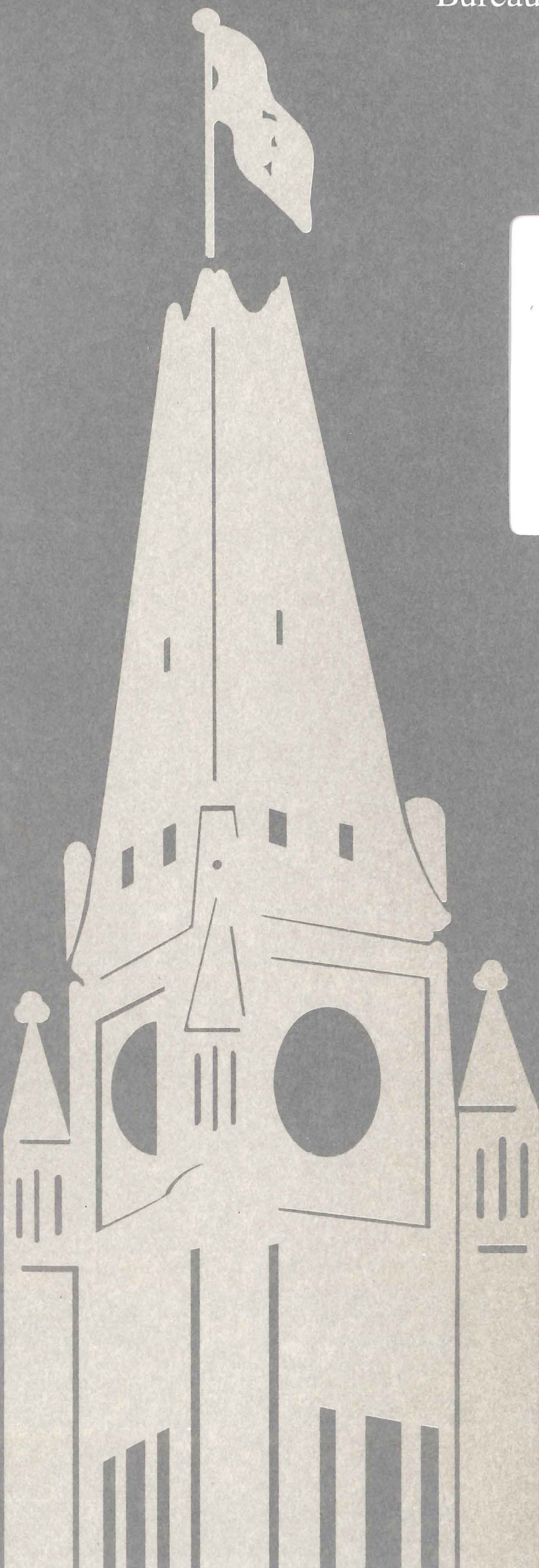
Office of the Auditor General of Canada
Bureau du vérificateur général du Canada



Report of the Auditor General to the Northwest Territories Legislative Assembly

for the year ended 31 March 1996

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AUDITOR GENERAL OF CANADA
VÉRIFICATEUR GÉNÉRAL DU CANADA

240 Sparks Street
Ottawa, Ontario
K1A 0G6

29 April 1997

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

Dear Mr. Gargan:

I herewith transmit my Report, in English, 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 financial statements of the Government of the Northwest Territories for the year ended 31 March 1996 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.

Contents

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 1996 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 1996 on the consolidated financial statements was qualified for expenditures made in excess of amounts appropriated. Further detail is provided in Chapter 2, "Compliance with Authority and Financial Statement Issues".

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 1996 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
Aurora College	30 June 1996	Minister
Nunavut Arctic College	30 June 1996	Minister
Northwest Territories Power Corporation	31 March 1996	Minister
Northwest Territories Housing Corporation	31 March 1996	Minister
Northwest Territories Development Corporation	31 March 1995	Minister
Northwest Territories Business Credit Corporation	31 March 1996	Minister
Workers' Compensation Board	31 December 1995	Minister

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

Audit	Year-End	Reported to
Northwest Territories Liquor Commission	31 March 1996	Minister
Petroleum Products Revolving Fund	31 March 1996	Minister
Legislative Assembly Retiring Allowance Fund	31 March 1996	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.

Report Clearance

Our Office maintains a policy that deals with obtaining management comments to audit recommendations. The policy suggests that audit observations and recommendations should be referred to the management of the audited organizations for comments. The Office should obtain from the entity, where appropriate, written responses to recommendations contained in audit chapters.

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Helene Demarcke
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*Contractor

We provided to the Office of the Comptroller General, the President of the Northwest Territories Development Corporation, and the President of the Northwest Territories Housing Corporation our draft report for comments and management responses on 30 January 1997.

To date, we have received comments and, where appropriate, management responses to recommendations from both of the Crown corporations. Discussions have taken place between our Office and the Office of the Comptroller General concerning Chapter 3. But for Chapters 1, 2, and 4 we have received no comments or management responses to recommendations.

Our Thanks

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

Chapter 1

Matters of Special Importance and Interest

Purpose

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

Corporations and Public Agencies Reporting Requirements

In our prior year's report, we noted the government's legislative reporting requirements and commented on the performance of territorial corporations and public agencies in meeting these requirements. Part IX of the *Financial Administration Act* (FAA) requires corporations to produce annual reports and corporate plans, which together should provide an accountability framework. The FAA also provides guidance on when the annual report should be presented to the responsible minister. Our report concluded that no corporation met the reporting deadlines as stipulated in the FAA and that the corporate plans of the same entities did not contain all the information required, particularly in the area of reporting on results.

The government was supportive of the recommendations proposed by our Office. It indicated through its written comments that changes were being pursued to help corporations enhance the quality of their performance information and assist wherever possible to increase their ability to report in a timely manner. Any assistance corporations receive in this area will strengthen accountability to the Legislative Assembly and to the people of the North.

Government Reporting Requirements

The government is the largest entity in the North. Like the corporations, it has its own reporting requirements. The *Northwest Territories Act,* sections 27 through 29, and the *Financial Administration Act*, sections 73 and 74, set the reporting requirements for the Public Accounts (the government's financial statements). Section 73 of the FAA outlines the scope of what is to be included in the Public Accounts and section 74 outlines the timing for tabling the financial statements in the Legislative Assembly.

Deadline for tabling

Section 74 of the FAA states, "Unless the Legislative Assembly otherwise fixes a date, the Public Accounts must be laid before the Legislative Assembly on or before 31 December following the end of the fiscal year or, if the Legislative Assembly is not then in session, not later than 15 days after the commencement of the next session of the Legislative Assembly." The government meets the statutory deadlines established in the FAA, but they are often almost 11 months after the year established in the FAA, because normally the Legislative Assembly is not sitting at the end of December. It normally reconvenes in the middle of January. This means that tabling of the Public Accounts is not required until February, almost 11 months after the year end. This raises the question as to whether the expectations for tabling the Public Accounts are set too low.

In our prior year's report, we noted that information useful for accountability and future-oriented decision making has to be both accurate and timely. The Legislative Assembly requires financial statements for corporations to report within three months after the year end but allows the government a different standard.

It would be better if the Legislative Assembly received timely information to assist it in making responsible decisions and holding people to account. The standard for timely reporting could be more consistent for all government entities in the North.

The government should implement changes in its accounting process that would result in the earlier production and tabling of its public accounts.

Results information

We also commented on the need for information on results. Territorial corporations are mandated by the *Financial Administration Act* to report on results in their corporate plan. The government is not legislated to do so. Reporting by means of financial statements shows that the government was successful in raising revenue and that the money was spent in a variety of areas. Financial statements do not demonstrate that government spent money economically, efficiently and effectively.

In fiscal year 1995–96, the government required all departments to present a business plan on departmental priorities for the period covered by the plan, and a strategy designed to meet them. As this process evolves, the business plan could be an appropriate place for departments to communicate to the Legislative Assembly what results indicators they are using to determine whether they have been successful in meeting their priorities. The next stage includes developing a mechanism for regularly reporting the results to standing committees and the Legislative Assembly.

Next steps

The Legislative Assembly and the government support better accountability for corporations. The challenge ahead is for government itself to develop performance objectives and results indicators, measure them regularly, and communicate achievements. Through these reports, the people of the North will know what is and isn't working and be able to make positive changes.

Subsidy Limits

In our report for the year ended 31 March 1994, we noted that various government programs contained large subsidy programs that were hidden in departmental costs. In Chapter 6 of this report, we note that the Northwest Territories Housing Corporation is paying very large subsidies to occupants of rental and mortgaged properties. In addition, the Northwest Territories Development Corporation (DevCorp) continues to provide large amounts of capital and operating assistance to its subsidiaries, ostensibly to provide jobs.

We recommend that the government assemble data on all subsidized programs so that the Legislative Assembly can see the complete picture.

Chapter 2

Compliance with Authority and Financial Statement Issues

Purpose

This chapter comments on whether the government's consolidated financial statements comply with all significant authorities and provides an update of outstanding issues, such as contingencies, from prior years' reports. Also included are comments on the government's financial position for the current year.

Compliance with Authority

Overexpenditures

In the 1995–96 fiscal year, one department exceeded its Operations and Maintenance appropriation, as shown in Exhibit 2.1.

Exhibit 2.1
Legislative Assembly
Operations and Maintenance Overexpenditures
($000)

Total Appropriation	9,471
Total Actual Expenditures	10,015
Total Overexpenditure	544

As in prior years, the overexpenditure by the Legislative Assembly resulted from a year-end adjustment to the pension liability of the Legislative Assembly Supplementary Retiring Allowances Fund. The Financial Management Board Secretariat made the adjustment to ensure that the government's financial statements included all appropriate costs.

This problem has persisted for several years and management anticipated reaching a resolution to the accounting treatment of this overexpenditure in 1995–96. Yet the budget for 1995–96 did not reflect the change. The result is a violation of section 32 of the *Financial Administration Act* (FAA), which prohibits a person from "incurring an expenditure that causes the amount of the item set out in the Estimates on which the appropriation is based to be exceeded."

We note that a number of departments would have overspent this year had they not received supplementary appropriations. For example, the Department of Health and Social Services obtained a special warrant of $14,036,000 for 1995–96 to fund shortfalls in its budget resulting from airfare price increases, unforecasted population growth, and price increases by provincial health authorities. This concern about the frequent use of supplementary appropriations and the effect on the government's financial plan was mentioned in our report last year. The government noted that departments have been advised that there can be no expectation of supplementary funding in 1996–97 because all available funds have been distributed to the various envelope committees.

Contingencies

Pay equity

The dispute regarding pay equity continues to be an issue. In February, the Federal Court of Canada ruled on an appeal that, the Canadian Human Rights Commission has jurisdiction for dealing with pay equity. The government is now trying to have the case heard in the Supreme Court of Canada.

Note 16(b) to the non-consolidated financial statements for the year ended 31 March 1996 says, "it is not possible to reasonably determine the liability, if any, that may result from the claim." Until the matter is resolved, the government will not change its accounting treatment of this contingency, and no estimate or allowance is provided.

Currently, there is insufficient evidence on which to base a decision as to the outcome of this event. Under these circumstances, it would be inappropriate for the government to estimate a dollar value for this contingency.

Environmental clean-up and related restoration costs

An ongoing issue noted in our report has been the absence of an allowance for environmental restoration costs. Note 16 (c) to the non-consolidated financial statements for the year ended 31 March 1996 says, "reasonable estimates of costs attributable to the government cannot be fully determined at this time." The government is waiting for a definitive statement from the Canadian Institute of Chartered Accountants on the disclosure and reporting requirements of environmental costs and liabilities. In the meantime, the government indicated that it is taking an inventory, but is not placing value on its environmental restoration liability.

In submissions to the Standing Committee on Government Operations in August 1996, management maintained, "it would not be prudent to spend millions of dollars quantifying the extent of the government's liability when the rules for such accounting are not clear and we may find afterwards that our efforts need to be redone."

In August 1994, the Department of Municipal and Community Affairs commissioned an engineering report on environmental costs and liabilities. Although the report was inconclusive in terms of determining future cost estimates, it suggested that there could be other benefits to collecting additional data on existing conditions. The report concluded that to arrive at an accurate estimate of costs, a detailed environmental audit for each community or facility is necessary. But collecting preliminary data would allow at least an overall "order of magnitude" estimate of potential costs for redemption of municipal facilities in the NWT.

The bigger issue is identifying contaminated sites that may be a health hazard to northerners, and developing plans to clean them up. The accounting is a reflection of the estimated costs. Failing to identify the sites and plan for clean-up is a serious concern.

The government recognizes that as a minimum, "it is important to take an inventory of all the sites and situations where there may be an environmental liability." The Standing Committee agreed, in its review of our 31 March 1995 report, that the issue of potential liabilities was a serious one, and worthy of decisive action from the government. The recommendation was made to determine an inventory of potential environmental restoration sites on Commissioner's land in the NWT, and report back to the Legislative Assembly before 31 March 1997.

We have been informed that progress is being made toward completing an inventory of sites where potential environmental liabilities exist. However, we were advised that placing values on the costs of those environmental liabilities will not be addressed at this time.

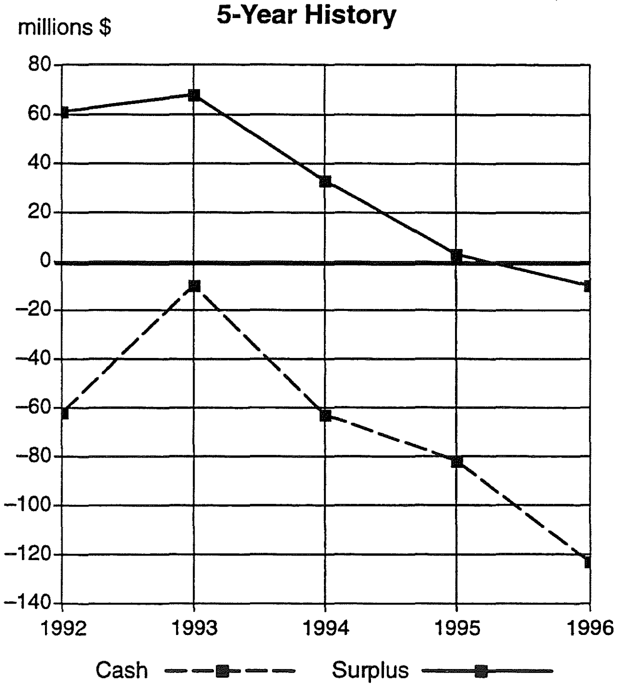
Government's Financial Position

The government's cash and surplus position continues to deteriorate. As Exhibit 2.2 illustrates, the cash balance

Exhibit 2.2

Cash and Surplus (non-consolidated)

5-Year History



for the 31 March 1996 year end is at its lowest point in the last five years. The government finds itself in a position where the deficit continues to grow.

As in prior years, the decline is due to the government spending more than it receives in revenue. In particular, over 80 percent of the government's revenue comes from federal funding through the Formula Financing Agreement (FFA). With current fiscal restraint, these transfer payments are held at the line or are cut back. Yet government expenditures continue to climb. Because expenditures have not been cut back sufficiently, revenues raised have not been enough to cover the increased costs. To date, the government's ability to raise revenue from other sources has been limited.

Furthermore, as the population in the NWT grows, the cost of delivering many programs also increases. In the past, the Formula Financing Agreement provided for increased funding to correlate with the increase in population, and higher program delivery costs were therefore covered. However, the FFA now provides for a cap on funding irrespective of how the population increases. Therefore, the government delivers programs to a greater number of people, but with a cap on funding.

In an effort to control the deteriorating financial position, the Legislative Assembly enacted the *Deficit Elimination Act.* This Act came into force in April 1996 and was amended by the *Budget Measures Implementation Act* in June of 1996.

The original legislation prohibited the government from incurring a deficit during any fiscal year. If a deficit did occur, there would have to be a surplus in the next fiscal year equal to or greater than the amount of the deficit. The amendments in the *Budget Measures Implementation Act* relaxed these provisions. For the 1996–97 fiscal year, the government cannot incur a deficit greater than $45 million. For the 1997–98 fiscal year, the amount of the deficit cannot exceed two percent of revenues for that fiscal year. For the 1998–99 fiscal year, the deficit must be zero.

If the government's financial position does not meet the conditions of the *Deficit Elimination Act*, as amended, there are provisions that allow the Legislative Assembly to recommend to the Commissioner the revocation of the appointments of the members of the Executive Council.

When the legislation was first contemplated in 1993, the government had a surplus. Although the cash balance began a steady decline, the *Deficit Elimination Act* was enacted at a time when debt of any significance was not foreseen. Therefore, no accompanying debt retirement legislation was enacted. Between the time when the legislation was contemplated initially and now, the government has incurred deficits of more than $75 million, completely eliminating the previous surplus, as shown in Exhibit 2.2.

Conclusion

The NWT is fast-approaching division in 1999. The government realizes that certain matters, if left unsettled, could hinder negotiations for division. The unknown potential liabilities for the pay equity dispute, for environmental restoration costs and for the general state of the finances of the government are some of the examples.

Chapter 3

Approaching Division

Introduction

On 1 April 1999, the Northwest Territories will divide, with Nunavut becoming a separate Territory. Before division can be finalized, there is a complex process to divide the financial and other operations of the Government of the Northwest Territories, as well as the crucial negotiation of future funding allocations under the Formula Financing Agreement. While many of the elements of division to be negotiated are oriented toward revenue splits and related matters, each of the two territorial governments will need to produce its own set of public accounts. In order to do this, there will have to be agreement on the division of assets and liabilities, and on other matters related to accounting and financial statement preparation. In other words, on 1 April 1999, each government will need to produce an opening balance sheet and be equipped to manage and control its own financial affairs. Thus, each will need accounting systems and processes, or some arrangements for sharing.

The government has begun working on how to divide the financial operations, under the leadership of the Comptroller General. Prior to division, it is planning to prepare draft financial statements for both the east and the west, with a view to identifying and anticipating issues that may arise. The exercise will highlight technical details and will expose potential difficulties with data availability and gaps. But there are more than just technical financial issues involved. Some issues will have a direct impact on the financial statements, and others are related.

Financial Statement Issues

For the financial statement issues, we expect the government will produce an accurate inventory of financial assets and liabilities. To facilitate division, all parties involved in the division process need to have a good understanding and knowledge of the financial components.

Assets

It is important for the government to know what it owns and how much the various items are worth for the purposes of both financial statement and insurance. The government relies on its annually published financial statements to present a comprehensive and accurate inventory of its financial assets and liabilities, although current accounting policy values fixed assets at a nominal value. The government does not anticipate this will be a problem for division purposes because these fixed assets are for program delivery in specific geographic locations, and could be divided "as is, where is."

The Canadian Institute of Chartered Accountants, through its Public Sector Accounting and Auditing Board, is working on new standards for disclosure of capital assets by governments that will significantly affect the way that they are recorded. This will in turn affect the government's accumulated deficit. Thus, while knowledge about the values of capital items is currently needed mostly for insurance purposes, the values will likely be needed for accounting disclosure in the near future.

The government also has financial assets, such as loans receivables from municipalities, plus many accounts receivable. For accounts receivable, the government anticipates being able to separate them geographically for attribution to the east and the west. To do this, the government has begun assigning a settlement code to the transaction from which the revenue and the related accounts receivable arose.

The government also has investments in Crown corporations with operations in both future territories, and agreements on which government will own them and how the split will be determined will be necessary.

Liabilities

The government and Crown corporations have short- and long-term borrowings. To divide these may require answers to key questions, including:

- Does the geographic location of where the funds were used need to be determined?
- Can the liabilities be identified on a geographic basis?

At the time of division, the government will have outstanding accounts payable. The government anticipates dividing these by the same method as accounts receivable. The payables will be separated by geographic areas and then allocated accordingly. As well, the government's liability in the investment pool for amounts owed to boards and agencies will need to be identified.

In addition to known liabilities, financial contingencies such as the unvalued environmental liabilities will have to be considered. In Chapter 2 of this report, we note that the government is taking an inventory of a large number of sites where contamination could exist, but it has not valued the cost of cleaning up these sites. Recent discussions with government officials indicated that no effort will be made to estimate the costs of clean-up due to the high price of doing the assessments, unlikely funding in the near future for actual clean-up, and unclear jurisdictional responsibility. Although these costs will be spent in the future, identifying and booking them will increase the government's present deficit. However, having a greater knowledge of the risks and likely costs may be of significant interest to the people of both territories. If the risks and likely remedial costs are not identified, the question becomes whether each territory will accept those risks "as is, where is." These assessment and clean-up costs, as well as the cost of other contingencies, could be quite substantial.

It is important to identify these contingencies for developing accounting disclosure and action plans for clean-up. However, identifying the environmental problems and the estimated costs of cleaning them up will not answer the question of where the money will come from to do the work.

Related Issues

In addition to technical financial details that arise directly from the government's financial statements, there are other matters relating to the government's operations that become significant upon division. Many have legal, legislative and accounting implications.

Computer systems

The government maintains the accounting and computer system. In addition, it controls the information contained on those systems.

- All historical information is on systems belonging to and controlled by the government. There will be a need to transfer or share this information between the two territories.
- The government's computer system has certain capabilities. If Nunavut acquires its own new computer equipment and systems, the government will be left with a surplus in equipment and capacity, and potentially a compatibility problem between the two governments. Many advantages exist for ensuring that both governments maintain compatible systems. One would be the efficiency gained by using existing historical information such as medical records, instead of starting from scratch.
- Once the territories are split, security of the computer systems may be an issue requiring an agreement on access after division to ensure data integrity.
- Given that division is only two years away, will Nunavut be ready to operate its own systems and, if not, what alternatives will be available to it? For example, if Nunavut wants to rely on the Government of the Northwest Territories for services, will the existing government accounting group continue to have sufficient resources to be able to help at the time of division and after?

Contracts and agreements

The government is party to various contracts and agreements. After division, each territory will assume its own obligations and commitments. Existing contracts may need to be identified and amended to ensure that all parties are aware of existing obligations and to separate the obligations between the territories. All contracts may have to be reviewed to determine whether amendments are necessary.

Insurance

Insurance policies may also need to be amended to reflect new obligations. Currently, the government insures its activities throughout the entire territories. At division, presumably each will arrange for its own insurance.

Intellectual property

The government owns intellectual property. If this needs to be divided or transferred, the government will have to complete an inventory and assess value. It may be prudent for each territory to protect its ownership in valuable logos, trademarks, industrial designs, or other intellectual property.

Conclusion

These are some of the issues that deal with the accounting and related concerns. Although the government has begun work on the division of financial obligations, many matters need to be negotiated. While current emphasis focusses appropriately on future revenue allocations, the accounting aspects are important also.

Chapter 4

Revenue, Receivables, and Receipts Management

Purpose

In this chapter we report on our review of the government's management of revenues and its systems for collecting and monitoring receivables. Our review focussed on revenue received from third parties and excluded revenues resulting from the Formula Financing Agreement, Crown corporations, interdepartmental transactions and other related parties.

We paid particular attention to the following areas:

1. Revenue Initiatives;
2. Timeliness of Receivable Invoicing;
3. Collections;
4. Cash Handling; and
5. Accountability.

Background

The government has put in place various initiatives to reduce spending and increase its own revenues. Despite the efforts, however, deficits have resulted since 1993–94. The deficit for the 1995–96 fiscal year amounted to $27 million.

As discussed in our 1995 Report, the government spends more on programs than it raises in revenue. Over the past few years, this has resulted in a negative cash position and, to cover its financial needs, the government has borrowed. At 31 March 1996, the government's short-term borrowings totalled $104 million.

In May 1996, Cabinet determined that action should be taken in light of the government's fiscal recovery plan. The resulting Expenditure Management Plan stated, "In past years, periodic monitoring of government expenditures and revenues has not been a high priority..., and as a result, the government has adopted an Expenditure Management Plan, which includes monitoring, corrective action, and contingency planning."

The *Financial Administration Act* (FAA) and the government's financial policies establish a number of controls over expenditures to ensure that the government does not spend more than allowed, that proper authorizations are obtained and that bills are paid promptly. Ministers and their departments are fully accountable for the funds voted and spent by them.

The FAA sets some controls over revenue, as do some financial policies, but sets out little policy on accountability. There are no incentives for departments to spend valuable and decreasing program delivery resources on identifying, billing and collecting revenue.

Revenue Initiatives

The government has been discussing and seeking new revenue initiatives for the past few years. These range from the sale of reports and maps through the Department of Renewable Resources (estimated at $3,000) to the implementation of the payroll tax administered by the Department of Finance – Taxation Division (estimated at $12 million).

Implementation of the payroll tax produced gross revenue of approximately $12 million in 1994. The tax was introduced as a way of collecting taxes from companies operating in the north that have workers in the north and south. The plan was to tax employees working in the north but living in the south. For employees living in the north, a Territorial Cost of Living Credit was implemented concurrently to introduction of the payroll tax.

We were informed by officials of the Department of Finance that although the two initiatives are not "linked", they can be combined to see the net benefit to the government. Exhibit 4.1 shows the real benefit to the government of the payroll tax.

Exhibit 4.1

Net Effect of the Payroll Tax

(in thousands of dollars)	*1993*	*1994**
Payroll Tax Revenue	$ 5,896	$ 11,796
Cost of Living Credit	5,207	10,843
"NET"	689	953

* At the time of receipt of the information, 1994 tax returns were still being received and therefore figures could be subject to later adjustments.

The net receipts of about $1 million represents approximately eight cents on every dollar of payroll tax collected but does not take into account the costs of administering the tax.

The Department of Finance, Taxation Division, evaluated operational procedures in April 1996 and identified 3.4 cents as the cost of collecting each payroll tax dollar. When this cost is included, the net receipts for 1994 are reduced by approximately $ 400,000.

Another cost to the economy, which is difficult to quantify, is the increased administration expended by employers who remit the payroll tax and the related loss of goodwill that any tax generates.

The Minister of Finance stated in the Legislative Assembly, "we are looking at the possibility of a re-examination of the payroll tax."

For future revenue initiatives, the government should calculate the full cost of collection and administration to ensure that revenue initiatives have the desired effect.

Timeliness of Receivable Invoicing

Clearly, invoices should be issued quickly to ensure that revenue and cash are collected as soon as possible.

While departments are responsible for identifying the revenue item, they do not issue invoices themselves. This is the responsibility of the Financial Management Board Secretariat (FMBS). However, central invoice production may contribute to a lack of feeling of ownership by departments of the revenue item to be collected.

We reviewed eight receivables greater than $500,000 at 31 March 1996, and others that were brought to our attention by staff. We examined how quickly the bills were issued and whether the underlying agreements were the cause of problems.

Exhibit 4.2

Examples of billings issued subsequent to the date allowed in the agreement

Indian and Northern Affairs Canada
Receivable balance at 31 March 1996 – $68 million

The agreement between the Governments of Canada and the Northwest Territories commits Canada to paying for hospital and physician services rendered to the Status Indians and Inuit residents in the Northwest Territories.

In March 1995, Indian and Northern Affairs Canada and the government settled a long-standing dispute about the contribution. At this time, the parties signed an interim agreement allowing the government to bill Canada. The agreement indicated, "...Canada may, if the Territories so request, make advance payments... Advances may be made for one month at a time." This was not done in either the 1994–95 or the 1995–96 billing. Staff advised that the delinquent billing was due to the department finalizing old-year claims; but for 1996–97, advance billings are being made.

Exhibit 4.2 (cont'd)

Examples of billings issued subsequent to the date allowed in the agreement

Elections Canada
Receivable balance at 31 March 1996 – $345,946

The contribution agreement between Indian and Northern Affairs Canada and the government for funding assistance to the Nunavut Capital Public Vote allowed for payment in late 1995. We noted various expenses incurred from April 1995 that were not billed to Elections Canada until March 1996. The Legislative Assembly staff intended to bill on a monthly basis, but said that they lacked financial staff to do this.

Correctional Service – Inmates
Receivable balance at 31 March 1996 – $736,738

The agreement with Canada specifies that quarterly invoices will be provided. We noted the following situations, with one invoice having up to a four-month delay in billing. Department of Justice staff could not explain why there was late billing.

Service Date	Invoice Date	# Months Delay
Jan. 1 – Mar. 31, 1995	Jun. 9, 1995	2 months
Apr. 1 – Jun. 30, 1995	Nov. 6, 1995	4 months
Jul. 1 – Sept. 30, 1995	Nov. 30, 1995	2 months
Oct. 1 – Dec. 31, 1995	Mar. 22, 1995	3 months
Jan. 1 – Mar. 31, 1996	May 3, 1996	1 month

The three examples included in Exhibit 4.2 show late billing of government revenues. We noted additional billing delays in other departments; however, the reasons given for late billings do not seem to be justified. The effect of not billing in a timely manner is not having access to the cash that collections would generate. If departments do not bill, debtors will not pay.

The Financial Management Board Secretariat should communicate to departments their responsibilities for timely billing to customers, and review on a regular basis the timeliness of departmental billings.

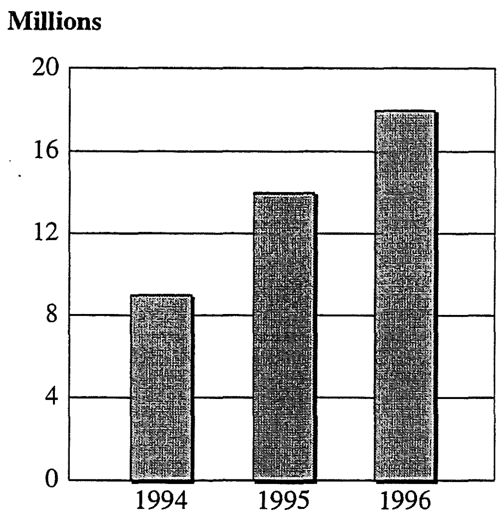
Collections

General collection activity

Section 900 of the Financial Administration Manual (FAM) addresses the accounting and control of revenue. Within this section of the FAM, the government established directive 908, which deals with the collection of outstanding receivables. The directive states: " The collection of outstanding receivables shall be actively and vigorously pursued, so that the credibility of programs that generate revenues and recoveries may be maintained; and so that receivables may be realized in cash as quickly as possible." The directive requires departments to transfer all unsuccessful collection efforts to the FMBS, Credit and Collections Division for further action or disposition. Unsuccessful collection efforts are described as accounts at least 60 days in arrears where a minimum of two collection attempts have been made and documented.

Staff of the Credit and Collections Division indicated that they receive sparse documentation from departments regarding collection attempts. Possible consequences of the lack of departmental involvement in the collection process are shown in the constant increases in the accounts receivable outstanding at year end, noted in Exhibit 4.3.

Exhibit 4.3
Accounts Receivable



Balance as at 31 March

Credit and Collections staff generally determine which receivables require their intervention by reviewing a 90-day outstanding receivable report. If departments have not pursued collections during the period from when the invoice is issued and when the Credit and Collections Division begins monitoring, this could mean that receivables are at least 91 days old before any active collection is attempted. Ordinarily, the best chance for collection is with accounts less than 90 days old, and the departments are in the best position to attempt collection.

Exhibit 4.4 summarizes the general comments we received from departments concerning the monitoring of accounts receivables. These comments indicate that there is confusion about who is responsible for monitoring of accounts receivable.

Recently, the government's Credit and Collections Division started pursuing more aggressively the collection of account receivables through setoff. Setoff is a process whereby payments due to an individual or business are not made and instead are applied to amounts owed to the government. An example where this procedure is currently in use is for payments to be made in the Student Financial Assistance and Social Assistance program. In addition, Credit and Collections staff are looking at potential setoff opportunities with the federal government.

The government should be more diligent in its collection of delinquent accounts, with increased effort to collect receivables prior to 90 days in arrears.

The government should actively pursue additional opportunities for setoff.

Exhibit 4.4
General Comments on Monitoring of Accounts Receivable

- There is no conscious follow-up policy currently employed by departments.
- There needs to be some mechanism whereby departments are notified of actions initiated by central agencies, such as recovery of payroll overpayments.
- No action other than preparing requests for invoices is generally taken by the department.
- Few set-off initiatives are made by departments.
- Credit and Collections is responsible for monitoring of accounts receivable.

Missed opportunity – interest on overdue accounts

The Territorial Audit Bureau's last report on Credit and Collections for the period 1 April 1988 to 30 September 1989 noted that interest is not charged on overdue accounts receivable although required by regulations pursuant to the *Financial Administration Act*. FAA section 17 (1) states: "Subject to the *Income Tax Act*, the Board may direct that interest be charged at a prescribed rate on any late payment made in connection with a debt owed to the government." FAM Directive 915 requires interest to be charged on outstanding amounts 30 days after the due date on the invoice. Invoices issued by the government contain a notice that interest will be charged, but as of August 1996, this has not been done.

We followed up the recommendations made by the Territorial Audit Bureau and were informed that the cost to include interest calculations in the current computer system is approximately $ 300,000, and the cost of completing the calculations manually exceeds the benefit. Another suggestion was to purchase a microcomputer to complete the task, but to date no action has been taken.

We noted that the federal government charges interest on overdue accounts.

The government should find an efficient way to implement its policy to charge interest on overdue accounts.

Cash Handling

In all aspects of business, effective cash-handling procedures are essential. Funds should be deposited on a timely basis to safeguard the asset and to mitigate any potential loss of funds and interest revenue.

FAM directive 909 states: "where total cash on hand exceeds $250 or where no deposit has been made for a week, departments must deposit the cash on hand in the Consolidated Revenue Fund or a Transfer Account, or deposit the cash on hand through the mail to a regional or the headquarters Finance Office by way of a postal money order, a bank draft, or courier services."

Our results indicated that, for the most part, deposits are made on a relatively timely basis given the territorial logistics. The range we observed was from 1 to 14 days from collection point to deposit at the bank. We obtained from the departments in question various explanations, some of which are summarized in Exhibit 4.5. It would appear from these comments that cash-handling procedures require more specific direction or emphasis.

Exhibit 4.5
Various Explanations Regarding Deposits

- The departments are sometimes slow in sending cash receipts to the Financial Management Board Secretariat.
- At Parks, revenue is sent to the Hay River office, which purchases a money order and forwards it to Fort Smith via internal mail (courier) for deposit.
- Delays can sometimes occur when it is a busy time period, holiday period and with staff turnover.
- Cash is sent by Museum staff to the Department of Education, Culture and Employment, which makes the deposit.

The government should amend Financial Administration Manual Directive 909 to require more timely deposits.

Accountability

Before individuals can be held accountable for their actions, they must have been given clear responsibility to do the things necessary for success. Revenue management is divided among departments; a clearly defined statement of responsibilities is lacking and accountability needs improvement. Departments are normally responsible for raising revenue through identifying its sources or responding to central agency policies. They are also normally responsible for initiating invoicing and collections efforts and for the front-line management of actual receipts. But if billed revenues are not collected within a defined time, the departments pass the delinquent receivables on to Credit and Collections. The government needs to re-examine the division of responsibility to determine if all parties are equipped to carry out their respective roles and, in particular, whether departments are doing all that they should to collect receivables quickly. Each year the government writes off uncollectible debts owing to departments as well as government corporations such as the Housing Corporation, the Business Credit Corporation, DevCorp and others.

We have observed serious cases of late billings where the government loses the use of the cash it would have had if these bills were issued and collections made quickly. We noted that generally departments banked cash receipts within reasonable time frames, given the difficult banking situation, but that the guidelines for handling cash are too vague and need tightening up.

The departments we examined, and the central agencies, have many reasons for not doing certain things, ranging from "too few staff" to "too time-consuming". But in the end, bad debts, late collections, and delinquent billing practices cost too much. A serious effort now could help to improve significantly the government's future cash situation.

The present definition of accountability in section 11(3) of the FAA needs improvement. The section says: "Each Minister shall report, in the form that the Board or the Minister of Finance may direct, to the Executive Council or the Board on the financial affairs of each department for which he or she is responsible." FAM directive 302–1 requires departments to prepare second, third and fourth quarter variance reports for presentation to the Financial Management Board (FMB). A cursory review of fourth quarter variance reports shows that both revenue and expenditures are included in the variance report. The Expenditure Management Plan mentions, "these reports are presented to the FMB regularly but have not generally been subject to detailed scrutiny or resulted in the FMB directing that corrective action be taken."

A lack of accountability is most apparent with the receivable due from Indian Affairs and Northern Affairs Canada for hospital and physician care. The financial impact of this situation is outlined in Exhibit 4.6. The consequence in this example is a loss in interest revenue or, conversely, the additional interest expense incurred due to borrowing. Being deprived of the use of these funds, the government had to increase its borrowing limit over the past couple of years to help offset the lack of available cash.

In the Expenditure Management Plan, the government emphasizes that accountability is a priority that has been largely ignored in the past. The situation of Indian and Northern Affairs Canada was a problem many people were aware of; however, no one was held accountable.

The Expenditure Management Plan introduced procedures for tighter monitoring of revenues and expenditures. As of early September 1996, one month (July 1996) had been reviewed by the FMBS Budgeting and Evaluation Division, and no exceptions or items of significance were noted.

We support the Management Expenditure Plan because it stresses as much importance and emphasis on revenues as it does on expenditures. This is an important change from the past whereby expenditures were closely monitored and revenues just duly noted.

Exhibit 4.6
Example of the Cost of Late Billing to Indian and Northern Affairs Canada

Fiscal Year	Amount Eligible for Billing	Date Billing Allowed	Actual Billing Date	Foregone Interest(1)
1994–95	$33.5 million * 90%(2)	March 1995	March 1996	$1,959,750
1995–96	$33.5 million * 90%	monthly starting April 1995(3)	April 1996	898,219
	TOTAL			**$2,857,969**

(1) Assume rate of return or interest charge is 6.5%.

(2) The maximum payment under agreement before final claim is 90%.

(3) The government was eligible to make monthly billings in the amount of 1/12 of the amount eligible for billing.

The government should ensure that the Expenditure Management Plan operates as efficiently and effectively for revenues as the Plan dictates.

Conclusion

Traditionally, most of the government's financial control and accountability, laws and policies have targeted spending. But with the changing financial circumstances, controlling and managing government revenues have become increasingly important.

Revenues, unlike expenditures, have never had systemized incentives for good management. Historically, reward systems have focussed mainly on expenditure management. To address the increased importance of revenue management, the government needs to develop incentives to reward activities, such as defining appropriate timetables for billing receivables, developing an adequate receivable collection process and establishing proper cash-handling procedures.

Chapter 5

DevCorp – Measuring and Reporting Results

Purpose

In this chapter we report on the Northwest Territories Development Corporation's difficulties in meeting its mandated objectives as stated in the *Northwest Territories Development Corporation Act* (the Act), with suggestions for improving its corporate performance reporting.

Background

In our report to the Legislative Assembly for the year ended 31 March 1995, we reported that no territorial corporation presented, for all business activities, appropriate details of its performance compared with previously stated corporate objectives. With this in mind, we reviewed whether the Northwest Territories Development Corporation (DevCorp) has a process to measure and report whether it is meeting its corporate objectives.

Developing an Accountability Model

The *Financial Administration Act* (FAA), section 91, requires DevCorp to prepare a corporate plan that includes a statement of corporate performance, corporate objectives and a strategy for achieving them, expected corporate performance and an evaluation of the economy, efficiency and effectiveness of the Corporation. To meet the requirements of the FAA and demonstrate to the Legislative Assembly that it is meeting the objectives set out in its Act, management of DevCorp should consider implementing a model similar to Exhibit 5.1. This provides a process for turning high-level objectives into measurable parts, and in turn allowing the reported measurements to be linked back to mandated objectives.

Exhibit 5.1

Suggested Steps to Identify, Examine and Report Results

A)	Set specific measurable objectives for each business or corporate activity, as part of the overall legislated mandate.
B)	Identify expected results, achievements or consequences for each business or corporate activity.
C)	Identify key indicators that will show whether expected results are achieved.
D)	Determine how these indicators will be measured.
E)	Measure the results regularly, on an annual or other reasonable basis.
F)	Compare the results measured to the original objectives, and consolidate the results information for corporate level reporting.
G)	Report the comparison to stakeholders.

We reviewed DevCorp's corporate plan and other established guidelines to determine whether an appropriate framework similar to the one outlined in Exhibit 5.1 exists. We also reviewed DevCorp's success in measuring and communicating its results.

Overall objectives

Section 3 of the Act details the overall objectives for DevCorp, as outlined in Exhibit 5.2.

Exhibit 5.2
Corporate Objectives

To create employment and income for residents of the Territories, primarily in small communities.
To stimulate growth of businesses in the Territories.
To promote economic diversification and stability.
To promote the economic objectives of the Government of the Northwest Territories.

The corporate objectives outlined in DevCorp's legislation are high-level, cover a multi-year time horizon and are not easily measurable. To help operationalize the overall corporate objectives, management of DevCorp has attempted to summarize and communicate them to its stakeholders through the development of a mission statement, as follows: "create sustainable jobs and incomes for the unemployed particularly in communities experiencing severe job shortages." To create sustainable jobs and incomes, the DevCorp uses public funds to invest in corporations, either in a majority controlling interest or through a venture investment.

Specific objectives

To develop the next level in the accountability framework, DevCorp should have specific objectives for each segment of its business and identify expected results, achievements or consequences.

We reviewed DevCorp's overall objectives. One objective includes promotion of the economic objectives of the government. This objective should be directed by the government. The other objectives, as outlined in Exhibit 5.2, include creating employment in small communities, stimulating growth in businesses and promoting economic diversification and stability. The strategy to achieve these objectives should be controlled by the DevCorp's Board of Directors.

Linking DevCorp's results to the government's economic objectives

Our review of available information and discussions with DevCorp officials failed to uncover up-to-date specific government economic objectives relating to DevCorp. In the past, the Minister of Economic Development and Tourism (the Minister) would write to DevCorp's Board of Directors giving them a suggested list of investment priorities for the upcoming year as one means of conveying the government's economic objectives. The last correspondence received from the Minister was for 1994–95.

To demonstrate results and to follow the model outlined in Exhibit 5.1, the Corporation should have developed a strategy and indicators that it could measure in response to the last letter received from the Minister. This type of response, commenting on successes and shortcomings, would demonstrate whether the objectives are being met.

We asked officials of DevCorp whether the Board of Directors had ever prepared a response and none could be found.

The Board of Directors should ensure that it harmonizes its objectives with the government's economic objectives.

Management response

The Board does this when it submits the corporate plan for the Minister's approval.

The Board of Directors should develop a plan to meet the expectations of the Minister and report the results at least annually.

Management response

During the past two years, the Board has submitted a corporate plan to the Minister. The Board will report the results of the 1997–98 corporate plan once the year has been completed.

Specific results indicators for other overall objectives

DevCorp has a few specific objectives stated in its Act, and has also developed some others through its investment guidelines. The corporate plan produced for the period of 1997 to 1999 makes several statements that could be used as specific objectives. The plan provides a mandate, a goal statement, policy outcomes, and a list of principles guiding the Board of Directors.

We noted that some of the specific objectives developed could be linked back to DevCorp's overall mandate. However, for the majority of them, there is no systematic and documented link back to the overall mandate as laid out in the Act.

The Board of Directors, in conjunction with the management of DevCorp, should develop specific objectives for all corporate activities. The objectives should flow from and be directly linked to the mandate.

Management response

The corporate plan contains specific objectives. The linkage of the objectives to the mandate needs to be indicated.

Measuring Results

The remainder of the accountability model requires detailed indicators and actual measurement.

Following are some examples of where the Corporation attempts to fulfil the accountability framework.

Venture investments

One of the activities of the Corporation is to make venture investments. Section 21(4) of the Act states: "the Corporation shall not invest in a business enterprise from the Venture Investment Fund unless the rate of return expected within three years from the date of investment is positive."

This can be linked to the overall objective of promoting economic diversification and stability. The key indicator is a positive rate of return within three years of investing.

We reviewed the performance of DevCorp's venture investments against the key indicator and noted that five of the seven venture investments were in a loss position in 1994–95 and the venture investments had a combined cumulative loss of $1.3 million at the end of 1995–96. Exhibit 5.3 details the financial results of the venture investments.

Exhibit 5.3

Financial Results of DevCorp's Venture Investments

	NCSTV Ltd.	Marathon Waterworks Ltd.	175119 Canada Inc. M.S. Norweta	923095 NWT Ltd.	902848 NWT Ltd.	West Baffin Co-operative Ltd.	Wekweti Dev.	Arctic Red River
Date of approval of investment	Jan. 17, & Apr. 23, 1992	Apr. 22, 1992	Oct. 17, 1991	Oct. 17, 1991	Dec. 6, 1990 & Mar. 13, 1991	Mar. 14, 1991	Sept. 16, 1993	Sept. 20, 1993
Amount invested $	650,000	437,401	200,311	263,500	250,000	250,000	220,000	100,000
Fiscal Year–End	Mar. 31	Oct. 31	Oct. 31	Mar. 31	Sept. 30	June 30	Dec. 31	Mar. 31

Exhibit 5.3 cont'd

	NCSTV Ltd.	Marathon Waterworks Ltd.	175119 Canada Inc. M.S. Norweta	923095 NWT Ltd.	902848 NWT Ltd.	West Baffin Co-operative Ltd.	Wekweti Dev.	Arctic Red River
Income (loss) in $								
1991–92	(50,045)	–	(106,110)	–	(21,571)	137,049	–	42,906
1992–93	(262,011)	(111,291)	(135,119)	–	(44,183)	161,775	–	12,385
1993–94	(74,056)	(80,152)	(146,038)	(28,673)	(14,535)	(48,334)	–	(21,791)
1994–95	(105,404)	(166,987)	(100,417)	(28,159)	30,912	(80,490)	133,510 **(b)**	(70,301)
1995–96	Not available	Currently in receivership	(47,445)	(a)	73,353 **(a)**	(130,000)	119,159 **(b)**	(92,293)
Total	**(491,516)**	**(358,430)**	**(535,129)**	**(56,832)**	**23,976**	**40,000**	**252,669**	**(129,094)**

(a) 923095 NWT Ltd. (Bransons Lodge) and 902848 NWT Ltd.(Great Bear Lodge) were amalgamated 1 April 1996.
(b) internally prepared financial draft statements used.

Comparing these financial results with the indicator stated in section 21(4) of the Act indicates that DevCorp's venture investments have not met the legislated goals. The results also suggest that original investment information was overly optimistic.

Subsidiary investments and job creation

The Act specifies that the Corporation can pay an operating costs subsidy annually for each job directly or indirectly created in a project or a subsidiary. A similar provision exists for contributions from the capital fund. Section 21(2) of the Act sets out 12 factors that the Board should consider in making its decisions on investment from the Capital Fund and Subsidy Fund. These are listed in Exhibit 5.4.

Exhibit 5.4

Factors for Consideration by the Board Prior to Investing in a Subsidiary

Factors for consideration are:

1. the guidelines it has developed;
2. the number of jobs and the amount of income expected to be created;
3. the extent to which the proposed project will use skills or other assets available in the region in which it would operate;
4. the expected profitability and success of the proposed project or subsidiary;
5. the likelihood that the proposed project or subsidiary will continue to carry on business in the foreseeable future without the assistance of the Corporation;
6. any benefit, direct or indirect, which may be gained in the region in which the proposed project or subsidiary would operate;
7. the manner in which the proposed project or subsidiary may disrupt or otherwise affect the market;
8. the cost and risks of the investment;
9. the amount of subsidy that is estimated to be required per year of operation of the proposed project or subsidy and the estimated number of years for which the subsidy will be required;
10. the economic need of the community in which the proposed project or subsidiary will operate;
11. how the investment will affect the distribution of investment between regions; and
12. whether the investment falls within the Corporation's long-term strategy for investment.

DevCorp should have the ability to measure and report on how well it is achieving these factors through its investments. An example of the establishment of a criterion came in the Financial Management Board's record of decision number FB–89–14–8. The decision established a limit that prescribed that annual payments to a subsidiary should not exceed $ 10,000 per job created.

This criterion can be compared with actual events to provide good information on whether job creation by DevCorp is successful. DevCorp's determination of the actual number of jobs created, and subsequent reporting, was sometimes over two years in arrears. Regular and timely monitoring of the indicator is critical to gauging performance.

Wherever possible, indicators should be chosen that can be quantified objectively and are representative of whether or not the goal is being achieved. For example, a relatively inexpensive way of determining how successful the job creation program has been would be to compare the amount of annual operating subsidy with the annual payroll reported by the subsidiary.

The following analysis in Exhibit 5.5 indicates that, on average, for every $ 1.00 of payroll paid by a DevCorp subsidiary, $ .91 is subsidized.

Exhibit 5.5

Total Payroll and Subsidies Paid Year Ended 31 December 1995

Name of subsidiary	Total payroll ($)	Subsidy received from DevCorp ($)	Subsidy per ($) of payroll	Period net (loss) income after subsidy	Accumulated net (loss) income as at 31 December 1995
Jessie Oonark	312,018	254,192	.81	(489,756)	(1,578,419)
Ivalu Ltd.	255,076	112,035	.44	15,106	(46,739)
Pangnirtung Fisheries Ltd.	527,164	418,674	.79	(827,381)	(1,874,123)
Kitikmeot Foods Ltd.	205,519	180,000	.88	(211,322)	(579,616)
Ft. Mcpherson Tent & Canvas Ltd.	289,847	230,000	.79	(48,088)	(954,323)
Arctic Canada Gift Boutique Ltd.	171,107	0	.00	(96,221)	(268,431)
Keewatin Meat & Fish	256,139	220,000	.86	(424,984)	(912,534)
Acho Dene Native Crafts	109,169	82,978	.76	(99,473)	(112,456)
Nahanni Butte General Store	115,677	112,241	.97	(104,624)	(173,322)
Rae Lakes General Store	199,100	0	.00	(112,912)	(176,952)
Arctic Canada Wholesale	217,497	87,877	.40	(130,664)	(139,651)
Aklavik Furs	148,347	186,630	1.26	(45,664)	(45,664
Great Slave Lake Forest Products	145,919	52,618	.36	(95,981)	(343,854)
Northern Forest Products	616,433	1,327,999	2.15	(486,227)	(1,509,141)
Arctic Canada Foods (a)	31,126	6,849	.22	(54,614)	(68,244)
Taluq Designs (b)	73,109	95,166	1.30	(51,798)	(51,798)
Uqqurmiut Arts & Crafts	322,125	247,269	.77	(275,061)	(405,538)
Tuk Furs (a)	19,015	33,017	1.74	(16,209)	(16,209)
Totals	**4,014,387**	**3,647,545**	**.91**	**(c) (3,554,873)**	**(c) (9,257,014)**

(a) allocated 50 percent of cost of goods sold to wages and benefits
(b) includes management fees
(c) Period and accumulated losses include a depreciation charge for capital assets, which is expensed over the original approved subsidy period. In some cases, assets may be already fully expensed but still have economic value.

The example outlined in Exhibit 5.5 can be used as indicators of performance. Management and the Board of Directors should establish indicators for each specific objective to gauge the performance of its subsidiaries.

A review of subsidiaries' financial statements indicates that none of DevCorp's subsidiaries were profitable even after receiving operating subsidies from the Corporation. Exhibit 5.5 shows, for the year ended 31 December 1995, the loss of all the subsidiaries amounted to $ 3.6 million.

A lack of complete results information not only reduces the ability to monitor results but also decreases the information available for future investment decisions.

Management, in conjunction with the Board, should develop a series of results indicators that can be readily measured to improve the information on the future and ongoing investment in subsidiaries.

Management response

During 1997–98, Management will develop and report on specific result indicators, in conjunction with the Board.

Chapter 6

Northwest Territories Housing Corporation Mortgage and Rental Programs

Purpose

This chapter provides information on certain aspects of the Northwest Territories Housing Corporation's (the Corporation) mortgage and rental programs. As the chapter is presented primarily for information purposes, no recommendations are included.

Background

The Corporation prepares financial statements for presentation to its Minister and subsequent tabling in the Legislative Assembly. The statements are prepared in accordance with generally accepted accounting principles and often in a highly summarized format.

One objective of financial statements is to communicate information that is useful to its readers, including managers, for making resource allocation decisions and assessing management stewardship. The financial statements also reflect the results of the decisions made by the Corporation in meeting its corporate objectives and are therefore part of the accountability process.

Rental Program

The rental program is the largest administered by the Corporation. Most of the effort relating to the rental program is conducted through service agreements established with local housing organizations (LHOs). The Corporation's financial statements of 31 March 1996 show that contributions to the LHOs for the operation of 5,868 rental units amounted to more than $85 million. The financial statements, however, do not provide detailed information on how the money was spent.

Explaining contributions to local housing organizations

The amount of contributions depend on the amount that each local housing organization (LHO) needs to operate the rental units in its community. Funding agreements require the Corporation to provide contributions to LHOs for the operating deficits from these units. Exhibit 6.1 summarizes, for the last eight years, the deficit funding supplied to LHOs by the Corporation, the number of units operated by the LHOs and a calculation of the average funding supplied per unit.

Of particular significance is that both the number of units operated and the average funding per unit have been increasing steadily over the past eight years. Given the housing shortages that exist in the North, it is important to understand exactly why costs are increasing and whether the increases are reasonable.

Exhibit 6.1
Deficit Funding to Local Housing Organizations

Year ended March 31	Total deficit funding to LHOs ($)	# of units operated by the LHOs	Average funding per unit ($)
1996	85,217,116	5868	14,522
1995	80,809,187	5807	13,916
1994	74,385,775	5711	13,025
1993	70,576,497	5463	12,919
1992	68,401,872	5208	13,134
1991	60,706,402	5003	12,134
1990	58,463,240	4876	11,990
1989	53,801,833	4729	11,377

Exhibit 6.2 provides more detailed information, for the years ended 31 March 1996 and 1995, on revenues collected by LHOs and types of expenditures they fund. In 1996, average revenues per unit fell by $126 while average costs increased by $480.

The contributions paid by the Corporation are based on the audited financial statements of the LHOs. Of the financial statements of the 48 LHOs for the year ended 31 March 1996, two received qualified opinions, two received denial of opinions and one audit had not yet been completed by October.

Block funding

The Corporation is moving toward block funding of LHOs. This will mean more flexibility for the LHOs and less control for the Corporation. Given the large amounts of money spent by the LHOs through the rental program, and the decreased control proposed under block funding, some issues should be addressed.

- What kind of monitoring should be in place under such an arrangement to ensure that adequate and consistent standards of service are being maintained for all units?
- Under what circumstance will additional funding be given to the LHOs if they are unable to fulfil their duties under original agreements?
- What will the amount of block funding be based on? For example, will it be based on prior-year budgeting or will some kind of zero-based budgeting process be established?

Exhibit 6.2
Net Annual Operating Requirements of Local Housing Organizations

	1996 ($)	1996 ($) per Unit	1995 ($)	1995 ($) per Unit
REVENUE				
Rental Assessment	9,306,119	1,586	9,801,465	1,688
Provision for Doubtful Accounts	(238,960)	(41)	(122,207)	(21)
NET RENTAL REVENUE	**9,067,159**	**1,545**	**9,679,258**	**1,667**
Miscellaneous	512,675	87	530,388	91
TOTAL REVENUE	**9,579,834**	**1,632**	**10,209,646**	**1,758**
EXPENDITURES				
Administration	12,701,464	2,164	11,572,453	1,993
Leasing	8,990,561	1,532	6,951,696	1,197
Maintenance and Repairs	23,794,365	4,055	24,116,023	4,152
Utilities	46,931,900	7,997	46,097,821	7,938
Taxes	2,378,660	406	2,280,840	393
TOTAL EXPENDITURES	**94,796,950**	**16,154**	**91,018,833**	**15,674**
NET ANNUAL OPERATING COST	**85,217,116**	**14,522**	**80,809,187**	**13,916**

Conclusion

One of the priorities for the government is to provide an adequate supply of housing to those who cannot afford it. Significant investments have been made by the government through the rental program to attempt to meet this goal. The Corporation should be able to demonstrate if the rental program operates economically, efficiently and effectively because:

- the annual costs of funding the Corporation's rental programs are significant in relation to the financial position of the government and these costs have been increasing steadily over the past eight years;
- the method by which the Corporation funds the LHOs is changing from deficit funding to block funding. This change will give the Corporation less control over how funds are spent; and
- information on economy, efficiency, and effectiveness could influence the approach for dealing with the housing shortage expected to be identified in the Housing Needs Survey. The survey is scheduled for completion in March 1997.

Mortgage Program

The Corporation has responded to reduced funding received from the Canadian Mortgage and Housing Corporation (CMHC) by increasing the activity of the mortgage program. The Corporation, as at 31 March 1996, had issued 407 mortgages with an original total gross value of $ 28.5 million. Exhibit 6.3 shows the value of mortgages issued under various programs. The Ownerbuild Program is the most significant mortgage program with 65 percent of the total.

Exhibit 6.3 also illustrates that there is a considerable difference between the gross value of the mortgages receivable and the balance to be repaid by the mortgagee. The difference is due to subsidies received by the mortgagee from the Corporation and CMHC and amounts deemed uncollectable and expensed by the Corporation through its allowance for doubtful accounts.

Mortgage subsidies

Section 44(1) of the *Northwest Territories Housing Corporation Act* allows the Corporation to subsidize mortgages. Subsidies are granted based on the difference between the mortgage payments due to the Corporation and an assessment of the owner's ability to make the payments.

Exhibit 6.3 details the subsidies provided to the mortgagees. The large difference in the total original gross mortgage value and the amount to be repaid by the mortgagee translates to almost a 70 percent subsidy.

The mortgage program differs from the rental program in that as a result of the subsidy the Corporation is giving houses to people that provide current shelter and that can later be sold or passed on to other generations. As a result, the financial benefit is far greater from a mortgage subsidy than subsidized rent, which provides only current shelter.

Tax implications of subsidy

It is not clear whether the amount subsidized is a taxable benefit in the hands of the owner, and whether consequently the Corporation has an obligation to issue T4A slips to the owners. This issue was raised previously by the Territorial Audit Bureau in a 1993 audit of the Rural and Native Housing Rental Program and the Homeownership Assistance Program.

The Corporation has agreed to seek legal advice on this matter in conjunction with CMHC, but to this point it has taken no action other than to obtain two professional opinions from tax consultants, not legal advisors. If the subsidy does produce a taxable benefit, the parties should also obtain legal advice on whether the Corporation may be liable for any unpaid taxes if it does not issue T4A slips.

Exhibit 6.3
Mortgage Program Details
(Figures as at 31 March 1996 in $ thousands)

Program	Total mortgages	CMHC portion of mortgages	Mortgages excluding CMHC portion	Mortgages subsidized by Corporation	Mortgages subsidized by CMHC	Mortgages to be repaid by the mortgagee
SUBSIDIZED MORTGAGES						
Rural & Remote Mortgages 75% CMHC	2,938	2,204	734	499	1,499	940
Rural & Remote Mortgages 100% CMHC	377	377				377
H.A.P 100% NWTHC	792	–	792	697	–	95
H.I.P Mortgages	1,670	–	1,670	1,290	–	380
Ownerbuilt	19,048	–	19,048	15,735	–	3,313
TOTAL SUBSIDIZED	24,825	2,581	22,244	18,221	1,499	5,105
NON-SUBSIDIZED MORTGAGES	3,732	75	3,657	–	–	3,732
TOTAL	28,557	2,656	25,901	18,221	1,499	8,837

Collection History

A large percentage of the mortgages issued under the old programs are in arrears. To illustrate, almost 60 percent (29 of 49) of the Rural and Remote Mortgages were more than six months in arrears as at 31 March 1996. This is a very high percentage, particularly considering that most mortgages are heavily subsidized under this program. If current Corporation practices continue, it is likely that mortgages issued under the new Ownerbuild program could also encounter collection problems.

The Corporation's collection activities have contributed to this large percentage of arrears. In the current process, the Corporation contacts the mortgagees to inform them that they are in arrears and that they should pay but completes no other collection action.

The Corporation has the power to foreclose on and stop subsidizing mortgagees that are in arrears. To date, the Corporation has never foreclosed on a mortgage in arrears. In addition, mortgages that are in arrears continue to receive subsidies. A household is more likely to stop making mortgage payments if it finds out its neighbour across the street is not being foreclosed on or is not losing the subsidy for not making a mortgage payment.

Conclusion

The mortgage program was stepped up in response to the withdrawal of the CMHC funding for social housing. If the administration of the program continues employing the same level of collection activity, the Corporation will require additional funding above current levels to continue providing new housing opportunities.