

12th Assembly

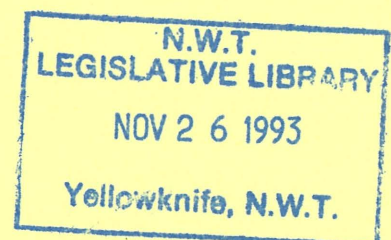


***Standing Committee
on Public Accounts***

Report on the

**Review of the Financial Statements of
the Government of the Northwest
Territories and the Report of the
Auditor General for Canada for the
fiscal year ending March 31, 1992.**

Henry Zoe, M.L.A.,
Chairman





STANDING COMMITTEE ON PUBLIC ACCOUNTS

**REVIEW OF THE PUBLIC ACCOUNTS OF THE
GOVERNMENT OF THE NORTHWEST TERRITORIES AND THE
REPORT OF THE AUDITOR GENERAL TO THE
LEGISLATIVE ASSEMBLY FOR THE YEAR ENDING MARCH 31, 1992**

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**May 4 - 6, 1993
September 13 - 17, 1993**



Northwest
Territories Legislative Assembly / ᓄᓇᓕᓕᓐᓂᓐ ᐱᓕᓕᓂᓐᓂᓐ
Standing Committee on Public Accounts
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November 24, 1993

**THE HONOURABLE MICHAEL BALLANTYNE, M.L.A.
SPEAKER, LEGISLATIVE ASSEMBLY
NORTHWEST TERRITORIES**

Mr. Speaker,

The Standing Committee on Public Accounts is pleased to present its Report on the Review of the Financial Statements of the Government of the Northwest Territories and the Report of the Auditor General for Canada for the fiscal year ending March 31, 1992.

HENRY ZOE, M.L.A.
CHAIRPERSON

STANDING COMMITTEE ON PUBLIC ACCOUNTS

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SECTION ONE: THE HEARINGS

THE AUDITORS GENERAL'S REPORT FOR 1991/1992

Earlier this year, the Auditor General of Canada, Mr. L. Denis Desautels, forwarded his **Report of the Auditor General To the Legislative Assembly** to the Speaker, the Honourable Michael Ballantyne. This document, along with the **Public Accounts 1991/1992**, became the focal point for four days of public hearings in May 1993 and five days of follow-up work in September 1993.

The Auditor General's Report is divided into five chapters:

- Chapter 1: Financial Statement Issues
- Chapter 2: Compliance with Authorities Issues
- Chapter 3: Cash Management
- Chapter 4: Purchasing
- Chapter 5: Other Audit Observations

THE PUBLIC HEARINGS

The following witnesses appeared before the Committee:

TUESDAY, MAY 4, 1993

Auditor General's Office

Mr. Roger Simpson, Principal
Mr. Dale Shier, Manager, NWT Audit Team

Department of Finance

Mr. Jim Nelson, Comptroller General
Mr. Eric Nielson, Deputy Minister
Mr. Lew Voytilla, Secretary, Financial Management Board

Department of Justice

Mr. Miles Pepper, QC, Assistant Deputy Minister
Mr. Bruce McKay, Executive Director, Legal Aid
Ms. Louise Dundas-Matthews, Director, Finance & Administration

Department of Transportation

Mr. Andrew Gamble, Deputy Minister
Mr. Jim Winsor, Director, Finance

Department of Health

Dr. David Kinloch, Deputy Minister
Mr. Darrell Bower, Director, Finance & Administration

Department of Social Services

Mr. Blair Dunbar, Acting Deputy Minister
Ms. Johanne Sirois, Acting Director, Finance & Administration

Department of Renewable Resources

Mr. Joe Handley, Deputy Minister
Mr. Rick Feil, Director, Finance

WEDNESDAY, MAY 5, 1993

Auditor General's Office

Mr. Roger Simpson, Principal
Mr. Dale Shier, Manager, NWT Audit Team
Ms. Sandy Foy

Department of Finance

Mr. Jim Nelson, Comptroller General
Mr. Eric Nielsen, Deputy Minister

Department of Executive

Mr. Pierre Alvarez, Secretary to Cabinet
Ms. Elizabeth Biscaye, Assistant Deputy Minister, Official Languages

Department of Justice

Mr. Miles Pepper, QC, Acting Deputy Minister
Ms. Louise Dundas-Matthews, Director, Finance & Administration
Ms. Lois Toms, Director, Legal Division

Department of Government Services and Public Works

Mr. Les Clegg, Assistant Deputy Minister

Department of Transportation

Mr. Andrew Gamble, Deputy Minister
Mr. Jim Winsor, Director, Finance

Department of Personnel

Mr. Ken Lovely, Deputy Minister

Department of Municipal and Community Affairs

Mr. Vern Christensen, Assistant Deputy Minister, Capital

THURSDAY, MAY 6, 1993

Auditor General's Office

Mr. Roger Simpson, Principal
Mr. Dale Shier, Manager, NWT Audit Team

Department of Finance

Mr. Jim Nelson, Comptroller General
Mr. Eric Nielsen, Deputy Minister

Department of Economic Development & Tourism

Mr. Roland Bailey, Deputy Minister
Mr. Jim Kennedy, Director, Finance
Mr. Alan Vaughn, President, Development Corporation

MONDAY, SEPTEMBER 13, 1993

Department of Health

Dr. David Kinloch, Deputy Minister
Ms. Elaine Berthelet, Assistant Deputy Minister

TUESDAY, SEPTEMBER 14, 1993

Department of the Executive

Mr. Lew Voytilla, Secretary, Financial Management Board
Mr. Pierre Alvarez, Deputy Minister

Department of Public Works and Services

Mr. Bob Doherty, Deputy Minister
Mr. Dave Waddell, Director of Finance

Department of Justice

Mr. Geoff Bickert, Deputy Minister
Ms. Louise Dundas-Matthews, Director, Financial Management Services

WEDNESDAY, SEPTEMBER 15, 1993

Department of the Executive

Mr. Lew Voytilla, Secretary, Financial Management Board
Mr. Bob Overvold, Deputy Minister, Intergovernmental and Aboriginal
Affairs

THURSDAY, SEPTEMBER 16, 1993

Department of the Executive

Mr. Lew Voytilla, Secretary, Financial Management Board
Mr. John Laratta, Director, Government Accounting

Department of Education

Mr. Hal Gerein, Deputy Minister

FRIDAY, SEPTEMBER 17, 1993

Department of the Executive

Mr. Lew Voytilla, Secretary, Financial Management Board
Mr. Keith Rogers, Director of Information Management, Financial
Management Board Secretariat

IN CAMERA MEETINGS

In addition to the public hearings, the Committee met in camera on several occasions in May and in September to prepare for the public meetings, to discuss the issues raised during the public hearings, and to develop this report to the Legislative Assembly.

SECTION TWO: THE PROCESS

TIMING AND PRESENTATION OF THE PUBLIC ACCOUNTS

- During the May meetings of the Public Accounts Committee, the Comptroller General indicated that an attempt would be made to provide the Standing Committee with Financial Statements earlier than has been done in the past.
- Preliminary 1992/93 Financial Statements were provided to the Committee on Friday, September 10, 1993 in preparation for the meetings which commenced the following Monday. Although the Committee was pleased to receive this critical information early in the cycle, members noted that this did not provide enough time for staff preparation and translation. A detailed, formal presentation of the 1992/93 Financial Statements was given to the Committee on Thursday, September 16, 1993. The Committee found this presentation beneficial and informative.
- The Comptroller General also undertook to investigate ways and means of presenting the Public Accounts in "plain language" - i.e., language understandable to the average layman. The Committee recognizes, however, that in this undertaking, care must be taken to ensure that the Public Accounts meet the necessary accounting standards.

DEPARTMENTAL COMMITMENT TO THE PUBLIC ACCOUNTS PROCESS

- In terms of Departmental commitment to the public accounts process, the Committee noted that while most Departments were represented at the May 1993 meetings by the Deputy Minister, a few Departments were represented by Assistant Deputies. The Committee would like to emphasize the importance of having Deputy Ministers, who are ultimately accountable for the administration of their Departments, present at meetings of the Public Accounts Committee.

CHANGES TO THE FINANCIAL ADMINISTRATION ACT

- The NWT **Financial Administration Act** has been changed effective April, 1992, to raise the level of accountability away from the smaller level of "activities" to a Departmental level. The rationale behind the change is to give the Deputy Ministers more authority over the spending and revenues of their particular Departments, and to hold them accountable for significant variances where they overspend their entire Department budget.
- At the May meetings, the **Auditor General's Office** announced that, due to these changes in the **Financial Administration Act**, this would probably be the final year for which they would be commenting on over expenditures at the "activity" level. Over expenditures will be brought to the attention of the Assembly through the Audit Report only if the Department over expends its total budget. However, the Public Accounts Committee announced that it will continue to monitor at the "activity" level where over expenditures occur. The Committee feels, given past experience, that it is important that the Committee and the public be able to determine where large over expenditures are occurring at the "activity" level of reporting.
- The information required to monitor at the "activity" level will continue to be available in schedule two of the public accounts and the Auditor General indicated that his office would provide assistance to the Public Accounts Committee to look into any specific expenditures at the "activity" level.

SECTION THREE: ISSUES AND CONCERNS

During the public hearings in May, 1993, the Committee discussed various issues raised by the Auditor General with senior Departmental officials. At these meetings, the Committee requested additional information about these issues from many of the Departmental officials who appeared before the Committee. In September, the Committee reviewed the Departmental information submissions, discussed the issues further and prepared this report. This section of the report summarizes the issues and concerns raised and discussed and presents the Committee's comments.

A. FOLLOW-UP - PREVIOUS YEAR'S RECOMMENDATIONS

Financial Systems and Management Information

- With respect to the issue of **budget control** being exercised by Departments, the Financial Management Board feels that the key area where improvements are required is in the budgeting and forecasting system of the government. The biggest problem identified lies in the lack of management information and program statistics. In response to these identified needs, the Financial Management Board has initiated the development of an "Informatics Strategy" through which improvements are anticipated in forecasting, accountability and budget control.
- A detailed, formal presentation was given to the Committee regarding the government's "Informatics Strategy" initiative. Recognizing that this initiative is an enormous undertaking, the Committee will monitor progress in its implementation and in the achievement of the established objectives.

Role Of The Comptroller General

- **Committee Report No. 13-12(2)** stressed the need for a full review of roles played by senior managers in terms of the responsibility for government-wide financial management. Specifically, the Standing Committee on Public Accounts stated that:

Government should strengthen the roles and responsibilities of the Deputy Minister of Finance and the Comptroller General.

The role of the Comptroller General should be made more independent of Finance -- and the accountability of the incumbent should be spelled out more clearly.

Both the Deputy Minister and the Comptroller General should become more proactive in dealing with spending problems, and they should ensure that all Departments obtain value for money.

- This recommendation was carried as a Committee Motion in the Legislative Assembly on June 25, 1992.
- During the Standing Committee's August 1992 meetings, members indicated that they were concerned that the government's response to these recommendations had been slow.
- In May 1993, the Government Leader announced changes to the organization of Executive Management functions within the government. The Committee's recommendations, with regard to the role of the Comptroller General, were addressed in the larger context of this reorganization. During the September 1993 meetings of the Standing Committee, the Cabinet Secretary gave a formal presentation explaining the reorganization and its implications to the Committee.
- The roles of Comptroller General and Secretary to the Financial Management Board have been combined. The officials reported that the Comptroller General function has been strengthened by making it directly accountable and responsive to the Financial Management Board. This position is responsible for all aspects of **internal** financial management.

- The Deputy Minister of Finance is now responsible for all **external** financial matters, including negotiations with the federal government on financial arrangements, tax policy, macroeconomic policy and intergovernmental agreements.
- The changes made in the various roles of senior financial management will likely require legislative changes to both the **Public Service Act** and the **Financial Administration Act**.
- The Comptroller General said that they are currently conducting a legislative review and that they will be bringing forward legislative proposals to Cabinet for consideration.

Travel Management

- The government has developed and implemented in March of this year a comprehensive policy governing travel. It addresses travel management issues raised by the Public Accounts Standing Committee, the Auditor General, various managers throughout government and boards and agencies funded by the government. The development and implementation of the policy involved:
 - the design of comprehensive new forms;
 - training for all Departments, in all regions;
 - training offered to boards and agencies; and
 - instructions to boards and agencies, including the Power Corporation and the Housing Corporation, which will allow for the development of similar travel management policies.

Asset Control System

- In its previous year report, the Standing Committee on Public Accounts recommended:

- **that the Comptroller General develop a strategy to encourage interdepartmental coordination in the design of asset control systems;**

that he create and carry out a plan to provide maximum coordination in the design and development of inventory control systems -- particularly for DPW, MACA, and the Department of Transport;

and that he report on this plan to the Public Accounts Committee (either in person or in writing) at least twice a year.

- **that Departments with asset custodial responsibilities work together to identify where systems, methods and processes can be combined to save money. All asset inventory systems should be completed promptly, and should contain all pertinent information about the assets, including all legal descriptions and maintenance data.**

- **that the Department of Culture and Communications develop a comprehensive policy to properly manage historical and cultural assets;**

that the policy provide procedures for acquiring, assessing, classifying, maintaining, protecting, insuring and controlling these assets;

and that the Department develop a system, and establish procedures, for conducting an inventory of historical and cultural assets - including those which are the responsibility of other GNWT Departments, agencies and institutions.

- **that government take immediate steps to stop Departments from splitting capital purchases into smaller components and classifying them as O & M expenditures.**

- The Comptroller General indicated at the May 1993 meetings that an initial draft of a proposal to undertake the development of an asset control system has been completed.
- At that time, the Chairman indicated that he was not satisfied with the timeliness of the Comptroller General's actions, with respect to the development of an asset control system, and that the Committee would therefore continue to monitor this area.
- In September 1993, the Comptroller General provided the Committee with an explanation of the work undertaken, to date, in the area of asset control management. He indicated that a full review of the controllable asset systems had been undertaken. The government is now at the stage of designing the data base for asset control. Once the data base is defined, they will proceed to the programming of a government-wide asset control system.
- It is anticipated that the data base will be defined within a month and that the system will be complete and in place by the end of this fiscal year. This work is being undertaken, internally, by the Government Accounting Division of the Financial Management Board Secretariat and the Property Management and Systems and Computer Services Division of Public Works and Services.
- The following documents, in support of the government's work in the area of asset control, were provided to the Committee at the September meetings:
 - A draft copy of the "Report on Controllable Assets"
 - A draft report on "Controllable Assets System Review"
- The Committee is satisfied that the Comptroller General has now adhered to its recommendation and was impressed with the work in progress.

JUSTICE - LEGAL AID

- In May 1993, the Committee was disappointed that the Department of Justice had not made more progress with respect to the Committee's recommendations of the previous year. The context in which these recommendations were made is one of increasing costs and a substantial need to monitor and predict the volume and cost of delivering an effective and fair legal aid service. The previous year's recommendations to which the Committee referred, are as follows:

The Committee recommended that:

- **The Department of Justice and the Legal Services Board develop adequate information systems - at the earliest possible date.**

These systems must provide managers with the information they need to monitor both costs and the quality of services.

- **Clear deadlines must be set to develop these systems and put them in place.**

The Committee recommended that:

- **Government develop eligibility criteria to determine who can receive Legal Aid, and under what conditions. These criteria must be made available to the public.**

- **A "means test" be developed to help determine how much individual clients can afford to pay for Legal Aid services. The means test must be applied consistently.**

- The Committee noted, in May, that the Department of Justice has an action plan in place which addresses these recommendations but there has been no significant progress made in its implementation.
- During discussions with members of the Standing Committee on Public Accounts last year, Department officials said that they had been awaiting the recruitment of an Executive Director and a full membership on the Legal Services Board in order to implement the Committee's recommendations. Committee members suggested that many of the changes required to improve the delivery of legal aid services could not wait and should have been developed and introduced by available personnel resources.

- During the September 1993 meetings, the Deputy Minister informed the Committee of progress made in the Legal Aid program since an Executive Director had been recruited. He said that he felt that Legal Aid was an essentially “good news story” at this time. He went on to provide a number of indicators of this success.
- The Deputy Minister reported that legal aid expenditures were down substantially in the last fiscal year.
- It was also reported that there has been some tightening up, at the Executive Director level, in assessing the financial criteria and eligibility for legal aid.
- With respect to the issue of a legal aid management information system, the Deputy Minister reported that work has commenced and that the Department is currently developing a detailed requirements document. The terms of reference for this project, which is being undertaken internally by Legal Aid and Department of Justice personnel, in consultation with the government’s Systems and Computer Services Division, were provided to the Committee.
- The Deputy outlined the system requirements for the Committee. The requirements include:
 - the system must provide for the management information needs of the government such as allowing for statistical breakdown by community, region, ethnicity or types and costs of cases;
 - the system must be a tool which assists the operational staff with the administration of legal aid;
 - the system must provide an interface or connection with the government’s financial information system;
 - wherever possible, the system must take advantage of the information available on other government automated information systems;
 - the system must provide for the reporting requirements under the cost-sharing agreement with the federal government; and
 - the system must provide for the annual reporting requirements for Statistics Canada.

- The Deputy reported that they expect to have the system up and running in the coming fiscal year, 1994/95.
- With respect to the issue of the recovery of legal aid monies, it was reported that, in the last fiscal year, the recovery of monies from legal aid recipients has increased substantially. The Deputy went on to explain that the recoveries are never substantial in terms of contributing substantially to the cost of providing legal aid services, nor is this expected. It is, however, an important philosophical component of the legal aid program.
- With respect to eligibility criteria, the Department's position is that:
 - the eligibility criteria are adequately detailed in the Act and in the Regulations;
 - the Legal Aid program will never be in a position to provide the kind of detailed information (paper trail) apparently required by the Auditor General, without a considerable increase in program resources -- given this, the Department does not intend to pursue this matter any further; and
 - there is room for improvement in communicating the eligibility criteria to the public. He said, further, that although a number of methods have been explored and a number of these are in place, this continues to be a difficult area.
- In closing the meeting, the Committee encouraged the Department of Justice to keep the Committee informed about progress made in the area of legal aid.

B. OVER EXPENDITURES OF DEPARTMENTAL BUDGETS

- During the 1991/92 fiscal year, five Departments over expended their budgets. The Departments and the amount of the over expenditure are listed below:

Transportation	\$ 711,113
Renewable Resources	\$ 14,687
Health	
• Territorial Hospital Insurance Service	\$15,317,110
• Supplementary Health Programs	\$ 152,278
Social Services	\$ 857,659
Economic Development & Tourism	\$ 1,217, 159

- The Departmental officials from **Transportation** indicated that the problems which created over expenditures could be addressed, to some extent, by making improvements to the Department's financial management system so that expenditures would be accounted for in a timely fashion. These improvements were reportedly under way in May of this year.
- **Department of Transportation** officials also informed the Committee that they felt a need to establish better contracting arrangements with communities so that they will be less likely to over expend without first discussing and advising the Department of their needs. The Department could, then, take appropriate action in other areas in order to avoid budgetary problems.
- The **Department of Health's** over expenditure of \$15,317,110 is related to the ongoing discussions with the Department of Indian and Northern Affairs with respect to funding for Indian and Inuit health care. The matter is currently before the federal court of Canada.
- The other over expenditure for the **Department of Health** in the amount of \$152,278 relates to supplementary health programs. Departmental officials noted that this over expenditure is exclusively

related to the non-insured health benefits program which is administered on behalf of Health and Welfare Canada through a contributions agreement which runs through to March 31, 1994. It was noted, further, that this program is managed through the health boards and that the Department is dependent on the boards for timely expenditure information. For example, the late reporting of expenditures does not allow the Department to make the necessary internal transfers to cover over expenditures. The Department suggested that the management of this program has improved over time. The Department is getting better information from the boards and is consequently able to more accurately project their year-end position.

- **Social Services** Departmental officials indicated that their over expenditure was in large measure due to their inability to accurately predict caseloads. They anticipate that this ability will be greatly enhanced with the implementation of their new Social Assistance Information System. The Standing Committee was provided with a demonstration of the new system on September 15, 1993. This system is in the process of implementation, with a number of communities remaining "off-line" at this point. The Public Accounts Committee will continue to monitor the ability of the Social Services Department to accurately predict caseloads and thereby enhance financial controls.
- The relatively small over expenditure for the **Department of Renewable Resources** was caused by an administrative error.

C. INVESTMENT POLICY

- The Comptroller General indicated that revisions have been made to the government's investment policy and guidelines in order to alleviate the kinds of problems previously encountered and subsequently noted by the Auditor General. It was noted, as well, that the Investment Committee has been reactivated.
- More specifically, the Comptroller General noted that changes have been made to **new** investment pool agreements such that any capital gains and losses, and any other gains or losses, are shared according to the participants' percentage in the pool. Previous agreements had been silent on the issue of how to allocate losses. The auditors felt that this situation involved considerable risk to the GNWT in the event that losses might occur; in that, it may be deemed that the GNWT would be responsible for the total loss.

D. CASH MANAGEMENT

- The Auditor General noted that the net cash position of the Government of the Northwest Territories has deteriorated significantly over the last three years. It is further noted that this will be a potential concern to the government because the bulk of the government's funding currently comes from Canada, and the territories have a limited ability to raise taxes to repay debt.

- The Auditor General noted significant delays in many situations in submitting final claims for projects or submitting bills. There were also delays in collecting funds. Bills were often being paid early with no documented reason and funds were being given to boards and agencies often in advance of needs.

- There was a great deal of discussion, with the Comptroller General and the Deputy Minister of Finance, about the subject of cash management during the May 1993 Public Accounts Committee meetings. These discussions focused on two separate issues:
 1. GNWT payments to boards and agencies; and
 2. Vote 4/5 projects (i.e., mostly Contribution Agreements with the Government of Canada). This issue is discussed in more detail below, under a separate heading.

- The Deputy Minister of Finance indicated that payments to boards and agencies have been adjusted so that they are made in response to particular expenditure and cash flow needs of the boards and agencies, as opposed to being made earlier than required. This adjustment was made in response to a previous recommendation of the Auditor General. The Auditor General noted, however, during the May 1993 meetings, that boards and agencies have continued to earn a large amount of interest, suggesting that they may be receiving funds from the GNWT earlier than required.

E. VOTE 4/5 PROJECTS¹**General Comments and Observations**

- A number of difficulties with Vote 4/5 projects were noted during the May meetings. These included:
 - difficulties in negotiating these agreements with the Government of Canada;
 - difficulties in receiving timely payments, regarding these projects, from the Government of Canada; and
 - practical difficulties in complying with GNWT policy which states that work should not commence on Vote 4/5 projects until the contribution agreement negotiations are complete.
- The Public Accounts Committee suggested at the May meetings that the government has to do a better job of negotiating these agreements. It was further suggested that representatives from the GNWT Departments of Finance and Justice should be involved in the negotiations no matter which other Department may be the primary signator of the agreement.
- The Public Accounts Committee further suggested a need to set up some internal accountability mechanisms so that representatives who negotiate on behalf of this government are held accountable.

¹ Vote 4/5 projects are those which are financed by Canada for limited periods of time under contribution agreements which are not required to go the Legislative Assembly for approval. Vote 4/5 projects have in the past included such things as the Government of Canada's responsibility for highways before it was transferred fully to the territorial government and the responsibility for airports, where the territorial government was delivering the program, but it was funded under a contribution agreement with Canada. The same arrangement exists now with aboriginal and French languages which are funded with contribution agreements with the Government of Canada.

Government of Canada's Contribution to Legal Aid Services

- The Auditor General noted that of about \$1.6 million, which represents Canada's share of legal aid, \$1.4 million was received very late. Two problems were identified with respect to the late receipt of this money. First, there is a problem with the late submission of audited legal claims by the GNWT. These are required by September 30th of each year. Second, there is a delay on the part of the Government of Canada in paying the claim.
- Department of Justice officials described the complex and time consuming process to prepare and audit the claim that must go to the federal government by September 30th each year. Before the audited claim can be completed and submitted, the Territorial government is required to have audits from each of the legal aid clinics certified by their auditors. Compiling this information across the Territories has proven to be difficult.
- In response to these problems, Department of Justice officials are proposing to reopen the agreement with the federal government. It will be suggested that the GNWT receive interim payments during the course of the year up to an amount which is 90 per cent of the cap (there is a pre-established cap on what the Government of Canada is prepared to pay for legal aid each year). The remaining ten per cent would be dependent upon submission of the final claim. This would avoid late payment of most of the money.
- The issue of collecting the federal government's contribution in a timely manner was discussed again at the September 1993 meetings. The Deputy Minister reported that NWT Legal Services has completed its work earlier than usual and the Audit Bureau anticipates being able to complete their work early. The end result is that the claims will be submitted to the federal government earlier than is usually the case.
- The Deputy indicated, further at that time, that he plans to pursue a change in the agreement with the federal government in order to receive progress payments rather than a lump sum at the end of the fiscal period.

F. CONTRACTING

LEGAL CONTRACTS

- The Auditor General noted that only the Department of Justice has the legal ability to enter into contracts for legal services on behalf of the government. Of the 20 payments to law firms reviewed by the Auditor to determine whether or not Justice had been properly consulted in authorizing the purchase, 12 of the payments were for what the auditors considered to be legal services and 12 of them were engaged by other Departments without any evidence that Justice had been consulted. The auditors indicated that this could put the government in a difficult position.
- Justice Department officials indicated that all contracts submitted to them were reviewed. Further, they have arranged to standardize contracts by type so that once they are agreed to in form and, as long as they are not substantially changed, they could be entered into without being reviewed by Justice and without creating substantial risk to the government.
- Departmental officials said that they could write to Deputy Ministers reminding them of the requirements of the two policies concerned, and asking them to emphasize that to employees who are engaged in negotiating contracts.
- The Public Accounts Committee suggested that the Department of Justice must take a more proactive role in ensuring that legal contracts entered into on behalf of the government receive the appropriate review. The Committee suggested further that this should be undertaken with the active assistance of the Comptroller General's office.

CONSTRUCTION CONTRACTS

- The Auditor General commented on policies having to do with performance evaluations on construction contracts. The old policy was that all contracts over \$500,000 required evaluations. The new directive places a great deal of discretion upon managers to determine whether or not to do a performance evaluation on contractors. The auditors reviewed ten large construction contracts through Government Services and Public Works and fifteen through Transportation. For the sample of twenty-five, there was no evidence that evaluations had been performed. Further, the auditors noted that given there was no objective criteria for when an evaluation should be performed, they really could not say whether in specific instances they should have or not.
- During the May 1993 meetings, Department of Public Works and Services officials informed the Committee that they participate with all of the provinces and the Yukon Territory in the Canadian Building Technology and Transfer Group, where information on construction and building technologies is shared. They have referred the issue of performance monitoring of construction contracts to that group to see what is being done in other jurisdictions. Following discussion and review in that forum, it is the intention of Departmental officials to make recommendations about the Department's role in policy for construction and consultant contracts within government. The surveys were expected to be complete in three months time.
- In September 1993, the Deputy Minister of Public Works and Services reported that there had been some delays in the work being undertaken with the Canadian Building Technology and Transfer Group. The delays are due mostly to the fact that when the work got underway, the group decided to increase the scope and investigate four areas of contracting. This, then, led to the development of a fairly comprehensive questionnaire. A copy of this questionnaire was provided to the Committee. The Department committed to provide the survey results to the Committee. A new deadline, subject to getting responses back from the jurisdictions, was established.
- Once the survey results are assessed, a policy for contract evaluation will be developed. The Deputy Minister expects that the policy development will take several months.

- The Deputy Minister told the Committee why the current directive is not being followed and outlined the difficulties that are anticipated in developing new policy in this area. The Deputy reported that at present, the Department lacks the infrastructure to train their staff to do proper evaluations. A related concern is that the construction industry in the north is very small. The industry is developing and there are a lot of tensions that are created between government and contractors, in the process of delivering a project. He suggested that if caution is not exercised, tensions can become personalized and can ruin the reputation of a contractor, consultant or supplier. The Deputy said that government employees require sound direction in this area and procedures which provide checks and balances must be established.
- The Committee is very concerned that the Department of Public Works and Services is not following the existing policy with regard to monitoring construction contracts and that the implementation of a new policy is expected to take a number of months. Committee members feel that, given the amount of time "between policies", an interim policy should be developed to guide employees who deal with construction contracts.

EMPLOYMENT CONTRACTS

- The Auditor General noted two issues with respect to employment contracts. The first issue has to do with Departments, who in hiring contractors, are potentially over-stepping the bounds of the contract relationship and becoming an employee/employer relationship. Where this is the case, there are authority issues associated with the hiring practices of the government and there could potentially be some liability issues with respect to the government's responsibility to deduct and remit source deductions for employees. The second issue has to do with relative economy - whether or not it is more cost effective to hire a contractor or to hire an employee to do a specific job.
- The auditors reviewed thirty-four contracts with self-employed contractors. Of the thirty-four, in twenty nine cases it was felt that the employee or self-employed status of the contractor would be open to question. The term "open to question" is used because this is a very complex issue which is typically a matter of some dispute and even court action between Revenue Canada and employers and employees. The auditors also found that of the twenty nine cases where there were concerns, only eight of those had clauses limiting the government's exposure for remittance of UIC, CPP and income taxes, and only four of the twenty-nine had clauses limiting the government's liabilities for workers' compensation premiums.

- The Committee noted, in May 1993, that the number of employment contracts has increased for the year 1991/92 in the Department of Municipal and Community Affairs. Departmental officials responded by indicating that these are being monitored very carefully to ensure compliance with policy.
- In May 1993, the Comptroller General indicated that there was an action plan in place which responded to the Auditor General's observations and recommendations with respect to employment contracts. He noted further that it was their expectation that a revised and clarified financial administration policy directive would be tabled for the Financial Management Board's consideration by late summer or early fall, 1993.
- The Chairman indicated that the Committee would be following up on this issue during their September 1993 meetings.
- When the Comptroller General appeared before the Committee in September, he reported that the responsibility for employment contracts had shifted within government and was now centered in the Financial Management Board Secretariat.
- It was reported, further, that there are two aspects to the question of employment contracts. The first is that every civil servant has entered into an employment with the GNWT. The second is the area of service contracts, where non-civil servants are hired by the GNWT to provide a specified service. The Labour Relations area of Human Resource Management is responsible for the first area. Government Accounting is responsible for the second. The Comptroller General reported that the two groups have, over the last few months, been working on finalizing compatible and complimentary directives governing all employment contracts.
- The focus of the labour relations guidelines is on ensuring that there are clear definitions, directions and procedures with respect to entering into employment contracts so that the process is not circumvented and there are controls over the entire process. The Comptroller General said that the Labour Relations group has developed clear guidelines that will go into the human resource manual and will provide the direction and guidance, for managers throughout the government, in recruiting. The guidelines also address procedures and the authority needed in order to enter into an employment contract. A copy of these guidelines was provided to the Committee.

- The Labour Relations group also spent some time in differentiating between an employment contract and a service contract. This is where the Government Accounting group took over. A directive has been drafted which lays out rules, with respect to determining when a contract is a service contract versus an employment contract. The Committee was provided with a draft copy of this directive. The Controller General reported that this directive builds on what the Labour Relations people include in the human resource manual. A lot of time was spend ensuring that the two documents were complimentary and provide clear direction to Departments.
- At the September 1993 meetings, the Committee also addressed the issue of Departments, who in hiring contractors, are potentially overstepping the bounds of the contract relationship and in fact becoming an employee/employer relationship. As noted earlier, where this is the case, there could potentially be some liability issues with respect to the government's responsibility to deduct and remit source deductions for employees. At the September 1993 meetings, the Committee requested that the Comptroller General undertake a survey or inventory of service contracts and assess this potential risk for the GNWT.
- The issue of "value for money" in service contracting was raised at the Committee's September meetings. The Comptroller General informed the Committee that the government does not now have the capability to consistently evaluate value for money in service contracting. However, the Financial Management Board is developing an Evaluation Unit that could, according to the Comptroller General, look at those kind of value for money questions in the context of overall program reviews.

G. DELAY IN PREPARATION OF FINANCIAL STATEMENTS

- The Auditor General noted that there were delays in the preparation of financial statements.
- In response to the Auditor General's concerns, the Comptroller General indicated that his staff has developed more comprehensive year end procedures and instructions which have been circulated to all Departments and regions. Accounting and control staff have met with all Department and discussed the importance of the year-end, its timing and the deadlines. As well, boards and agencies will be notified of the requirement to file within a reasonable time frame.
- The Comptroller General also indicated that his office had been looking at the possibility of providing a different kind of interim financial report that could be provided to the Public Accounts and the Standing Committee on Finance earlier on in the process.
- In this regard, the Comptroller General stated during the May meetings - " We are looking at seeing whether we can provide information earlier which gives a better picture of how the year-end is coming along. To that end, I will probably be asking this Committee for input as to the kinds of information they may need for their purposes".
- Preliminary 1992/93 Financial Statements were provided to the Committee on Friday, September 10, 1993 in preparation for the meetings which commenced the following Monday. Although the Committee was pleased to receive this critical information earlier in the cycle, members noted that this did not provide enough time for staff preparation and translation.
- A detailed, formal presentation of the 1992/93 Financial Statements was given to the Committee on Thursday, September 16, 1993. The presentation was very informative and well received by Committee members. It provided Committee members with an early reading on the financial status of the GNWT at the close of the previous fiscal year.
- The Public Accounts Committee indicated that their major concern with respect to the issue of financial statements was not necessarily related to the timing of the Committee's receipt of the financial statements but rather the format within which the information is presented. The Committee is very concerned that this information be provided in laymen's terms.

H. EXPO '92

- The Auditor General pointed out that budgeted expenditures for Expo '92 were within an acceptable range, i.e., \$5.6 million projected and \$6.0 million actually expended. However, with respect to revenue, a shortfall of \$3.8 million was realized. The problem appears to be one of a lack of expertise in the particular marketplace. The Auditor General suggested that in order to avoid this kind of situation in the future, the government should consider hiring some outside expertise that has experience in the environment in which they are getting involved.
- In relation to the large loss experienced at Expo '92, the Public Accounts Committee suggested a need to ensure that appropriate accountability mechanisms are in place in these "special" cases. Government officials must take these responsibilities seriously.
- Economic Development and Tourism Departmental officials indicated that they expected that this type of thing will not occur again. The process for planning for this type of venture will be more closely monitored, officials will seek expert advice and will ensure that they are receiving adequate information to enable reliable forecasts.

