

**Report of the Auditor General
to the Northwest Territories
Legislative Assembly**

September 2002

240 Sparks Street
Ottawa, Ontario
K1A 0G6

September 27, 2002

The Honourable Anthony W.J. Whitford, MLA
Speaker of the Northwest Territories
Legislative Assembly
P.O Box 1320
Yellowknife, NWT
XIA 2L9

Dear Mr. Whitford:

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 years ended 31 March 2000 and 31 March 2001 that, in my opinion should be brought to the attention of the Legislative Assembly. The report also includes our recommendations and related management responses.

Yours sincerely,

Sheila Fraser, FCA

Encl.

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Chapter 1

Compliance with Authority and Public Accounts Issues

Purpose

1.1 In the past two years the Standing Committee on Oversight and Accountability has devoted part of its hearing on our reports to aspects of the Government's financial condition, including compliance with authorities and performance measurement. This chapter provides further information on this broad topic, and identifies certain items that the Committee may wish to investigate further.

The Government's Financial Condition

1.2 The Government provides a number of reports on its financial condition. Departmental and corporate plans, budgets and annual reports provide the greatest level of detail. The Government's consolidated financial statements summarize financial reporting for all of its entities. In this chapter, the information comes from the consolidated statements, unless we state differently.

Risk

1.3 In the past few years, it has become fashionable to examine financial affairs from the perspective of risk. Risk analysis for governments can be complex. Among the many questions are two key ones:

- What is the risk of unforeseen costs being incurred? And
- What is the risk of revenues not being collected?

Every good planning and budgeting system has included these two questions before, but without necessarily identifying them as risks.

1.4 We start in this chapter by talking about revenues. The big risks in this area are not identifying what revenues to collect, not collecting them efficiently and on time, and not investing the right amount of resources (people and systems) to manage these risks.

1.5 The Government's largest revenue source is an annual grant from Canada for about 70 percent of its budget. The other 30 percent comes from NWT taxation and a variety of other small sources.

1.6 The grant from Canada is complicated. It is negotiated periodically between the two governments and is set out in a Formula Financing Agreement. The Agreement contains many complex formulae, and determining how much the NWT is due for one year can take many more years to finalize. This is because:

- Part of the funding is based on the NWT's population. Final figures cannot be determined until final census population numbers are known, which can be several years later.
- Another part of the funding depends on spending by the provinces and other territories, and these figures are subject to revision by Statistics Canada and final figures are not available for up to seven years.

1.7 As a result, there is a risk that the revenue figures reported for any given year could be too high or too low. If they are too high, the risk is arguably worse. It means that the GNWT would have to pay some monies back to Canada. If they are too low, then Canada owes additional monies to the GNWT. Either situation makes it more difficult for the GNWT to properly plan and budget for its own activities.

1.8 A good example of this is the unexpected windfall received by the Government in 2000-2001. In March 2000, Canada and the three territories finally resolved an old dispute on the application of revised data that affected years that were "closed" under the Agreement. By resolving this one element, the NWT received a lump sum of \$61 million and an annual increase of \$12 million.

1.9 Another example is the \$130 million windfall a few years ago that came from a lump sum adjustment based on population changes. This payment from Canada turned around the GNWT's financial position in 1997-98.

1.10 These two adjustments were both favourable to the GNWT, and each was for large amounts. Fortunately the adjustments did not go the other way, requiring the GNWT to pay back funds already received and likely spent.

1.11 Major funding surprises like these can change deficits into surpluses quickly. They can also work the other way. Thus, managing the funding risk closely, and keeping the Legislative Assembly informed regularly, are essential to good revenue risk management. Grant revenue will inevitably fluctuate under the current agreement. However, by managing the revenue risks, the Government can increase the amount of lead time it has to adjust its budget for shifts in grant revenues. It will also assist in ensuring the Government receives grant revenue on as timely a basis as possible.

Monitoring Revenue Income and Cost Recovery

1.12 Another large source of revenue for the GNWT is Canada's payment for hospital and medical care costs for Indians and Inuit. These costs run into the tens of millions of dollars annually. Thus it is vital that the GNWT:

- Notes what it spends on Indian and Inuit hospital and medical care;
- Ensures that it can recover these costs;
- Bills Canada promptly; and
- Collects the cash as quickly as possible.

1.13 At the end of March 2001 and March 2000, Canada owed the Government \$19.3 million and \$26.5 million respectively for this program, for money that the GNWT had already paid out. This is tantamount to lending Canada large amounts interest free. The Department has not calculated what this cost the GNWT in lost interest, or in increased borrowing charges. As a rough estimate for the two years, at a nominal 5 percent, the cost would be more than \$1 million. It would be financially advantageous to collect these amounts as quickly as possible.

1.14 The Department of Health and Social Services notes that it did not receive funding from Canada on a timely basis for two reasons:

- Its agreement with Canada was not signed until late in the 1999-2000 fiscal year, and this is why it did not bill monthly.
- The audit for the 1999-2000 claim year had not been completed. As a result, Canada held back payments of funds for the 2000-2001 claim year.

1.15 The Department notes that it has had difficulties reaching a final signed agreement with Canada for this program and that there is no

indication that this will change in the future. Also, the Department notes that there were some unusual factors, such as how to allocate costs under the new compensation scheme for physicians, which have delayed the Department from producing a final auditable claim for 1999-2000.

1.16 When an agreement is known to be expiring on a particular date, the Government should attempt to reach an interim billing agreement with Canada to better match its cash inflows and outflows.

1.17 Management Response: The Department has been advised by the Department of Indian and Northern Affairs of Canada (DIAND) that DIAND can not enter into an interim billing agreement with the Department. The Department has attempted to open negotiations on new agreements prior to existing agreements expiring.

1.18 In our review of federal guidance in the area of interim billing agreements we noted that there are Canada Treasury Board rules allowing interim billing agreements. We did not encounter any federal guidance in our review that would prohibit DIAND from entering into such an agreement. We recommend the Department of Health and Social Services work with DIAND in an attempt to overcome the "obstacles" to DIAND entering into an interim billing agreement with the Department of Health and Social Services.

1.19 The Department should review its processes to see if claims can be finalized and audited on a more timely basis.

1.20 Management Response: The Department is continually reviewing its processes and revising its data collection and analysis in an attempt to finalize the claim in a timely manner. The Department has made changes to the

methodology of calculating certain allowable expenses and to the way it gathers Territorial Hospital Insurance Services information. The Department hopes that both of these will assist it in meeting deadlines while at the same capturing all recoverable expenses.

1.21 Putting early thought into risk management of revenues is crucial. Other departments also have cost shared agreements with other parties, and they too need to ensure that they manage the revenue risks appropriately.

1.22 At the very least, any department or corporation that bills others for costs or fees should minimize its own revenue risk by making sure it has sufficient people and the right systems to identify bills, issue them promptly, and collect the cash on time.

1.23 Management Response: FMBS has implemented a new "Senior Budget Analyst" position. One of the key duties of this position is to coordinate and maintain a system to monitor government's expenses and revenues on a regular basis to assist in ensuring the government's cash resources are being used efficiently and economically. This will entail an overall coordinated cash management system that is expected to be in place by December 2002. Currently government departments are providing monthly expense and revenue variance reports which are reviewed and followed up where there are significant variances.

Expenses

1.24 Increasingly, the GNWT spends a large proportion of its budget (41 percent in 2000-2001) by contributing to outside bodies such as health and education boards and municipalities, and by providing a large number of smaller grants and contributions to individuals and businesses. It also spends 31 percent of its budget on its own operating costs, a further 23 percent on salaries

and the remaining 5 percent on amortization of capital items. If the expenses of the boards and agencies were analyzed along the same lines, the total salaries and wages would account for the largest portion of government spending.

Grants and contributions, and accountability for results

1.25 About 85 cents out of each dollar of grants and contributions goes to health and education boards, municipalities and local housing authorities. The remaining 15 cents goes to smaller grants and contributions programs. These include programs operated by Resources, Wildlife and Economic Development, which are discussed further in chapter 4 of this report. In dollar terms, the program spending by boards, municipalities, etc. is substantial:

	Millions
Health Boards	\$125
Education Boards	88
Municipalities	40
Housing Organizations	29
Others	49
Totals for 2000-2001	<u>\$331</u>

1.26 An important question posed by this spending is: how does the government know that it is getting the results that it wants? At the end of the day, the GNWT is responsible to the public for health, education and housing, even though it works with the boards to deliver these programs.

1.27 Over the years, the public has become used to the boards providing services and the boards themselves have become quite independent of the GNWT, except for government funding.

1.28 The boards guard their independence, while the government departments that are primarily responsible for the various programs have to a large extent become funding and policy shops, with little direct day-to-day involvement in delivering programs.

1.29 It may be time for a serious review of the accountability relationships to ensure that the departmental-board partnerships are working as intended. In chapter 3 of our 1999 report we provided detailed discussions on items for inclusion in good accountability relationships. Since then, the GNWT commissioned an independent study (The Cuff Report), that also explored these relationships. The Cuff Report showed that arrangements can be complicated by many factors, including community expectations, land claims and political developments. All the parties need to work in the common interest, recognizing that political considerations often drive the debate and ultimate decisions. However, all those involved need to keep an eye on costs and appreciate that funding is finite.

1.30 The GNWT needs to continue to improve relationships with the boards delivering its programs, and ensure that there is appropriate accountability for wise spending and the achievement of objectives.

1.31 Management Response: As a large part of the Government's budget goes to third parties who deliver services on behalf of the Government, accountability must be extended to follow all the Government's funding. An accountability framework is being developed which is intended for application with third party organizations in addition to the Government itself.

Performance measures

1.32 For several years, the GNWT and other governments have been developing ways of measuring how well they are achieving their objectives. This is not yet a perfect science and

each year governments can and do make changes to the ways they collect and report information. The GNWT is no exception. The Government's financial reporting through its public accounts is of a high calibre. It is also putting more effort into reporting on how it has spent its money and what it has achieved by that spending.

1.33 Deciding what to measure is the first step in evaluating performance. This requires managers to set out clearly what they are mandated to do, what they intend to do, and how they plan to achieve those results. Surprisingly, governments and other public bodies often have great difficulty in articulating their objectives.

1.34 After setting clear objectives, governments can then take the next step of setting goals and targets. These are usually much more specific and time-related, and should answer questions like:

- What do we plan to achieve?
- Over what period will we achieve it?
- How much will we spend to get there?

If this step is done well, the things that require measurement become more obvious.

1.35 The GNWT is improving its culture of performance measurement. Recent developments include the 1999-2000 Results Reports, and a much improved report for 2000-2001 called "Towards Improved Accountability". Before the latest report, the number and type of performance measures were inconsistent, and the use of different terms made it confusing for readers to know if they were comparing apples to apples.

1.36 The 2000-2001 report has eliminated these inconsistencies and all departments have used the same terms. As collecting information to measure performance is expensive, establishing a few key indicators and doing them well would set a good basis on which to build for the future to serve users' needs.

1.37 One highly important question for performance measurement is whether to report on activities (outputs) or achievements (outcomes). As programs are designed to achieve certain benefits for constituents, it is usually most useful to measure outcomes. Yet, these are often more difficult to define and measure than outputs, and departments sometimes resort to measuring what they do, not what they achieve. That is not to say that output measurements themselves are useless. In many situations, building a program to achieve overall objectives can take a long time. Having a plan that shows where things are along the path to a final objective is useful. But, in the absence of a full plan, output measures alone often tell too little of the story.

1.38 The Government should distinguish clearly between outputs and outcomes in future reports, and link them back to goals and objectives. This will help to highlight the results being achieved compared to what is being done.

1.39 Management Response: For several years the Government has been refining its system of performance measurement and results reporting. The Government is in line with other governments across Canada who are still dealing with terminology and measurement issues. The Financial Management Board recognizes that work needs to continue in this area and departmental education needs to be ongoing. Accountability and the relay of results for resources will continue to improve as departments and staff become more comfortable with the logic model of performance measurement, its terminology and use.

Projects on behalf of others

1.40 For years the GNWT has delivered programs for Canada, and more recently for Nunavut and others. In 2000-2001, the GNWT spent \$41 million doing this (\$50 million in 1999-2000) under agreements to collect the money back

from the other parties. Because these are not considered as GNWT projects, they are not included in voted expenses approved by the Legislative Assembly.

1.41 Yet, many of the projects recur year after year. For all intents and purposes, they have developed characteristics of GNWT programs, albeit funded from different sources. As the total dollar value is significant, consideration should be given to whether these expenses and related revenues should be disclosed in the Main Estimates.

1.42 The financing of projects for others is of particular interest. Usually the GNWT puts its money up front to pay for these costs and then recovers funds from the other parties, often considerably later. For example, at the end of March 2001 Canada owed the GNWT \$6 million for projects, and Nunavut owed \$3 million. Delays in collecting the cash mean that the GNWT is financing these other parties for programs delivered or administered on their behalf.

1.43 The Government should consider whether to continue financing these projects out of its own money (in effect providing interest-free loans) or whether it should obtain project financing that better matches its cash outflows.

1.44 Management Response: Due to the way the Formula Financing Agreement treats interest earned by the Government there is no benefit to the Government in negotiating such terms when the Government is in a cash surplus position. During the 2000-2001 fiscal year the Government was in a cash surplus position. Any interest earned on the advance would have reduced the Grant by an equivalent amount. However, in years where the Government is expected to be in a cash deficit position, negotiating an advance would be beneficial to

the Government as interest expense is borne by the Government.

Using the Government's Public Accounts

1.45 In recent years, the public accounts have not been produced early enough to have an impact on the budget preparation process for the upcoming year. Budgets are prepared in the fall preceding a budget year, and usually tabled early in the new year before the start of the applicable budget year.

1.46 Realistically, because they come months after the year end, the public accounts are of significant use for broader accountability. The public accounts are prepared on a consolidated basis, which means that they include accounts of territorial corporations. As a consequence, the accounts give a full picture of the Government's financial transactions and its financial health as of March 31 in a particular year. The accounts contain detailed explanatory notes setting out the GNWT's accounting policies, and further analyses of various balances included in the statements. These notes help a reader to understand what the summarized figures mean.

1.47 The Statement of Financial Position (also known as a Balance Sheet), for example, provides details of the Government's assets, liabilities and equity. Assets are the things of value that the Government owns, such as loans due from others. For the 2000-2001 fiscal year the statements contain, for the first time, details of tangible capital assets owned, such as land and buildings. On the other side, liabilities show what the Government owes to others, as well as how much is left at the end of the year as either an accumulated surplus or deficit. The notes supporting some of these figures help to explain the various risks taken by the Government in its activities. The explanatory notes also help readers to better understand the future spending commitments that have been made, as well as

other important information, such as the Government's exposure under loan guarantees.

1.48 Although the public accounts themselves trail the budget by up to 18 months, they can indicate clearly and credibly where the government stands financially at the beginning of the budget cycle and also provide a good historical comparison with the original budget plans for the applicable year. This allows a reader to see if the budgetary process was accurate, or if it was too aggressive or too conservative. A good variance analysis explaining the differences between budget and actual figures can contribute to lessons learned that will help members in future budgetary deliberations.

1.49 Members may be interested to know that the public accounts can provide valuable information on revenue/expense trends, as well as a history of spending by departments on some specific items, such as highways or airports, children's programs, tax revenues by source, and a variety of other items.

1.50 We are pleased to note that the Government completed its 2001 consolidated financial statements much earlier than in recent years. A lot of the credit is due to the accounting staff in both the GNWT and the Corporations who worked hard to shorten the time lines. For its 2002 year-end, the Government completed its accounts even earlier and this allowed us to finalize our audit by mid-September. This is excellent progress towards providing past accounting data as useful inputs into the budgeting cycle.

Authority and compliance

1.51 In a parliamentary system, essential control of the public purse is maintained by having a consolidated revenue fund and ensuring that all expenses from it are authorized. The authority usually comes from the budget process, including

appropriation acts, backed up by legislation such as the *Financial Administration Act* (FAA).

1.52 The FAA requires that money be available before anyone makes a commitment to spend. Each department gets a budget allocation, so it is an annual part of our audit to review and report on any instances where a department has spent more than it had in its approved budget.

1.53 In serious cases, we may issue a qualified audit opinion on the financial statements. This is a highly important event as it informs the public that the Government has not followed its own legislation, and essential controls did not work.

1.54 For the 2000-2001 and 1999-2000 fiscal years, we qualified our audit opinion for the equal pay issue, a carry-over issue from 1998-1999. This issue was discussed publicly at the last meeting of the Accountability and Oversight Committee. In our opinion the Government did not receive the proper technical authorization from the Legislative Assembly to make payments for equal pay. As the payments for equal pay were and are being made over many years, the same issue will carry over into the 31 March 2002 financial statements unless proper legislative approval under section 31(1) of the FAA is obtained by the Government for the continuing payments. For the record, we note that the Financial Management Board Secretariat believes that it obtained all proper authorities.

1.55 Our audit opinion for 1999-2000 was also qualified because the Department of Health and Social Services overspent its approved budget by \$1,024,000, in spite of receiving supplementary estimates of almost \$4 million for that year. The Department cited two causes for the overspending:

- Higher than forecasted costs for Out-of-Territories Hospitals; and

- A shortfall in Physician Programs due to fee increases, increased aging of the population and increased health awareness.

1.56 The Department's need for supplementary estimates has been an ongoing problem for many years. In spite of previous discussions before the Accountability and Oversight Committee (and its predecessors), the Department has not been able to come up with more effective methods of predicting these costs.

Tangible Capital Assets

1.57 Historically, governments have prepared their financial statements differently from the private sector, particularly in the area of capital assets (buildings, equipment, and the like.) The private sector has shown its capital assets on their balance sheets as assets, and then charged (amortized) part of the value each year as an expense against revenue, as the assets were used up or otherwise decreased in value. Governments, in contrast, showed their capital spending as expenses, with no ongoing value reported as an asset. In other words, governments wrote off their capital costs in the first year, whereas the private sector wrote off the costs over the life of the asset.

1.58 But things have changed. Following recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, governments are now starting to show their capital spending as assets with a multi-year life. For the 2000-2001 year, the GNWT adopted this new approach, and budgeting was changed to recognize capitalization and related amortization.

1.59 As a practical measure the Government has gone back and identified capital assets costing \$50,000 or more, and made a retroactive adjustment to show them in the financial statements. This adjustment comes to a net increase of \$679 million in assets on the

Statement of Financial Position. Items costing less than \$50,000 will continue to be listed as expenses when they are bought.

1.60 It is important to note that including tangible capital assets does not improve the Territory's financial health, but this change has several benefits:

- It can assist the GNWT to match capital costs over the life of service that the assets provide;
- It will require the Government to have good systems to record and track capital assets, leading to better information for safeguarding them;
- It will provide a more complete picture of the Government's financial position; and
- It will allow the Government to develop better information for rate setting, cost recovery and performance reporting.

The amortization of these assets over their useful lives will be charged as an annual expense.

Consolidated versus non-consolidated financial statements

1.61 In the fall of each year the Comptroller General tables a set of the Government's own financial statements in the Legislative Assembly. These statements don't include those of the various Crown corporations, such as the NWT Development Corporation, NWT Housing Corporation, or the NWT Power Corporation. But they do include any payments made to those corporations and any receipts from them.

1.62 The Comptroller General also produces a set of Consolidated Financial Statements that includes the results of the Corporations. These consolidated statements are the official accounting report of the GNWT, and, as noted

above, they are the ones on which we give our audit opinion.

1.63 Consolidated financial statements don't simply add together the statements of all the Government entities. Adding them together would produce some double counting - for example, much of the Housing Corporation's revenue actually comes from the GNWT's contribution. So consolidated statements take out those items that would be included more than once, so that the final product gives a complete picture of the Government's family of entities.

Discretionary versus non-discretionary spending

1.64 Governments administer many different kinds of programs, which vary in complexity and in the way they are administered. For example, a program may give a contribution to a business for economic development purposes, or build a school in a community. These contribution programs are treated as one-time events that are budgeted for and voted on by members of the Assembly each year. We call them discretionary spending, as the Legislature can decide whether to spend or not.

1.65 Some other types of spending are not discretionary. Multi-year leases, for example, must be paid under legal commitments. Without such commitments, owners would be unwilling to do business with the Government. Some programs establish entitlements where people expect to receive a payment, or have some service paid for by the Government. Health care and social assistance are examples of these kinds of entitlements that usually arise through legislation. Any contract that the Government signs that runs across more than one year creates a long-term payment obligation.

1.66 When members consider the budgets, it might be helpful to them to know how much of

the spending is already committed and how much is truly discretionary.

1.67 Management response: FMBS will look at expanding the information contained in the Main Estimates to indicate the volume of expenses that are non-discretionary or result from legislative requirements. Information on lease commitments has been included in the Main Estimates for some time.

Chapter 2

Follow-up on Previous Audit Recommendations and the 1998 Report on the Department of Municipal and Community Affairs

Background

2.1 The Standing Committee on Accountability and Oversight has asked us what happens to our audit recommendations, and whether they are acted upon by government.

2.2 Periodically, we track the recommendations we make in our annual reports, and report on the Government's progress in addressing them. This helps ensure that Members of the Legislative Assembly have more complete and meaningful information at their disposal to help in holding the Government accountable for its results.

Scope

2.3 This chapter provides information on the number of recommendations made to the GNWT and the kinds of issues covered over the last five years. For recommendations that we made between 1995 and 1999, we contacted the Government departments and Territorial corporations involved and gave them a list of the recommendations. We asked them to provide us with an update on these recommendations. We wanted to know whether or not these recommendations had been implemented. If yes, we asked what the current status was. If no, we wanted to know why.

2.4 Due to changing circumstances or priorities within government, some recommendations that we have made have become obsolete. In such cases, departments and corporations were asked to provide explanations why the recommendations were no longer valid. An example of this would be the recommendations that were made concerning the Y2K problem.

Recommendations from the Auditor General 1995 to 1999

2.5 From 1995 to 1999, we made 34 recommendations to the Government in our reports to the Legislative Assembly. The issues varied from financial statement issues to accountability and performance measurement. Some of the recommendations were aimed at particular departments or crown corporations, while others applied to more than one department or the Government as a whole. Exhibit 2.1 provides a summary of the types of issues our recommendations have addressed over the last five years.

2.6 In interpreting the results of our follow-up which are summarized below it is important to keep in mind that our follow-up work is not an audit. We only compiled responses from the GNWT. We did not verify the accuracy of these responses.

2.7 We received responses to all 29 of our recommendations that we followed up on with departments and corporations of the GNWT. The respondents noted that they had addressed 65 percent of our recommendations, were still working on a further 30 percent, and the remaining 5 percent still need to be dealt with.

2.8 Our reports are also reviewed by standing committees of the Legislative Assembly, in particular the Standing Committee on Accountability and Oversight (AOC). The AOC normally presents the Government with its own recommendations

Exhibit 2.1

Recommendations of the Auditor General 1995 to 1999

Year	Number	Issues Covered	Departments
1999	1	Public-Private Partnerships	FMBS, ECE
	3	Alternative Service Delivery and Accountability	HSS
	7	Investment Review and Approval	NWT DevCorp
1997-98	5	Information Technology and Y2K	GNWT, territorial corporations
	2	Accountability and Performance Measurement	GNWT, territorial corporations
1996	6	Revenues and Receivables Management	GNWT, FMBS, Finance
	4	Measuring and Reporting Results	GNWT, FMBS, NWT DevCorp
1995	2	Financial Statement Issues	GNWT, FMBS
	4	Accountability and Performance Measurement	FMBS, territorial corporations, revolving funds

based on the information provided to them, and these are also considered as part of our follow-up work. We received responses concerning 8 AOC recommendations that we followed up on with departments and corporations of the GNWT. The departments and corporations noted that they have made significant progress in addressing AOC recommendations.

2.9 We have not included all of the detailed responses here, as they are voluminous. For example, we made ten recommendations to the NWT Development Corporation, and the Corporation has reported that it has implemented all of them. Three recommendations to Health and Social Services were dealt with either through the Cuff Report, or subsequent actions to that report. The recommendations of the AOC and their current status per GNWT responses are included in appendix A to this chapter.

2.10 Many of the recommendations where further work is required relate to key areas such as accountability and performance measurement. For example, the Financial Management Board Secretariat (FMBS) reports that it is reviewing accountability structures within the GNWT, and is

in the process of drafting a GNWT-wide Accountability Framework.

2.11 We are encouraged that action is being taken by the GNWT on our recommendations. However, work remains to be done on some of the recommendations particularly in key areas such as accountability and performance measurement.

Role of the Comptroller General's Office

2.12 The Comptroller General's Office is the main liaison between the GNWT and our Office in response to our audits and reports. Our staff communicate throughout the year during audits, and also when we are preparing to submit our annual report to the Legislative Assembly. The Financial Administration Manual contains some of the Comptroller's responsibilities.

2.13 One section in the FAM describing the Management of the Financial Function contains a directive which explains the Government's responsibilities in assisting the OAG carry out its legislative audit mandate. The directive states:

Each department is responsible for co-operating with the Office of the Auditor General and with the Comptroller General and for responding to and acting on the observations raised by the Office of the Auditor General relating to concerns arising from audits.¹

2.14 The Comptroller's Office has a more specific role to play in the OAG's follow-up work -that of monitoring the GNWT's progress in addressing our recommendations:

The Comptroller General shall monitor the status of the recommendations in the Report to the Legislative Assembly on Any Other Matter raised by the Office of the Auditor General.²

2.15 The work done by the Comptroller's Office to monitor the Government's efforts in implementing our recommendations is important. It helps departments and corporations stay focused on improving processes and procedures to increase effectiveness and efficiency.

Municipal and Community Affairs

Background

2.16 The Department of Municipal and Community Affairs (MACA) provides programs and services that support the development of self-reliant and accountable community governments within the Northwest Territories.

2.17 In our 1998 Report, we reviewed municipal financing practices in the Department to determine whether MACA was doing a good job monitoring the financial health of municipalities. We found

¹ Financial Administration Manual, Management of the Financial Function. Directive 008 – Legislative Audit.

² Ibid.

that the Department did well in some areas, but needed improvement in others.

Scope

2.18 Our 1998 report contained 18 recommendations on issues such as municipal financial leadership, funding, planning and budgeting, willingness and ability to pay, and monitoring, evaluation and reporting. This follow-up provides further information on the actions taken by the Department to address our recommendations, and outlines any further work that MACA plans to do. We reviewed the information provided by the Department and discussed it with departmental management, but we have not audited the information.

Conclusion

2.19 The Department's progress report to us indicates that it has made good progress in implementing our 1998 recommendations. One recommendation was no longer relevant due to changed circumstances, but the Department reports that it has fully implemented 14 of the remaining 17 recommendations, and is in the process of implementing the other three. If the Department remains on track, all recommendations should be completely implemented by the end of the 2002 – 2003 fiscal year.

2.20 The Department has been engaged in an ambitious effort to address the issues identified by our report. However, there remain two areas where the Department should continue to make progress:

- Municipal planning and budgeting; and
- Monitoring, evaluation and follow-up.

The Department's current status and proposed plans with respect to these areas are shown in Exhibit 2.1.

Exhibit 2.1

Status of Action Taken on 1998 Recommendations
of the Auditor General (1998 MACA Report)

Areas Reviewed in 1998 Report	Total	Completed	In Progress	No Longer Relevant
Municipal Financial Leadership	5	5		
Municipal Funding	2	2		
Municipal Planning and Budgeting	3		2	1
Willingness and Ability to Pay	2	2		
Monitoring, Evaluation and Follow-up	6	5	1	
Total Recommendations	18	14	3	1

Observations

Municipal Planning and Budgeting

2.21 In 1998 we suggested that all departments and agencies preparing plans for a particular municipality consolidate them through MACA. Since then, the Department has contracted a private firm to develop a community infrastructure planning framework that will guide municipalities in their planning for services such as water, sewage, roads and public buildings. The Department is also part of an infrastructure review committee, which includes representatives from all GNWT departments. This committee assists in the coordination of long-term capital plans for NWT communities.

2.22 Our Office also recommended that the Department provide municipalities with resources to implement broader kinds of planning at a reasonable pace. We believe that MACA should help communities develop a “planning culture” to support future community growth and development. In response, MACA has begun to draft new legislation and policies that cover many

areas of municipal funding, and which provide for municipalities to take responsibility for their own plans and priorities. Although MACA’s efforts in this area are still in progress, the new legislation and policies should provide a framework in which municipalities are significantly more involved in planning and budgeting for their own needs.

Monitoring, Evaluation and Follow-up

2.23 Previously, we recommended that the Department assist municipalities to improve bookkeeping and accounting processes in order to be able to provide regular, timely and accurate data. We also suggested that the Department use municipal inspection provisions to help evaluate the success of municipalities and MACA in achieving growth and development.

2.24 The Department has developed an interim reporting tool for municipalities which provides MACA with more timely information on revenues, expenditures, and various other indicators of financial performance. This should allow them to detect problems within communities

before they become difficult to manage, and should assist in evaluation activities.

2.25 In order to provide support and training to municipal finance staff, MACA has created the School of Community Government in partnership with other stakeholders involved in municipal governance. This school offers training in several different fields relevant to municipal management, including finance and administration. Although these training programs and the interim reporting tool are new and not yet fully implemented, they will help to improve the ability of communities to report credible data to the Department, and consequently allow for better monitoring and evaluation.

AOC Recommendation(s)	Status as per Government Responses (unaudited)
"The Committee" refers to the AOC and its predecessor the Standing Committee on Government Operations	
<p>The Committee recommends that the <i>Financial Administration Act (FAA)</i> be reviewed to address requirements for accountability frameworks, monitoring and tracking systems, and more tools for ensuring compliance with policies, regulations, directives and procedures. (1997/98 Report)</p> <p>The Committee also issued a follow-up recommendation that the above recommendation be addressed.</p>	<p>The Financial Management Board Secretariat has undertaken a review of accountability structures within the GNWT, and has included also provision for third party service providers. Gaps in the <i>FAA</i>, GNWT wide policy and departmental policies have been identified. An over-arching GNWT Accountability Framework is in the draft stage, and has been discussed by stakeholders. The recommendations on the policy (or legislation) for the framework will include provisions for reporting relationships, roles and responsibilities, compliance, monitoring, evaluation, budgeting, and feedback.</p>
<p>The Committee recommends that the Government take immediate steps to improve the process for handing cash receivables and that the process be made more stringent and that the opportunities for direct deposits and other such mechanisms be explored to minimize theft potential and losses to the Government. (1996 Report)</p>	<p>The Department of Finance has implemented a mechanism for handling receipts of Payroll Tax through the Canadian Imperial Bank of Commerce. The bank accepts payments of Payroll Tax in the same manner as banks receipt utility bills. The Department analyzed the business risk and from this, focused on methods to receipt tax revenues that had many small transactions, such as Payroll Tax and did not focus on ones that had few large transactions, such as Tobacco and Petroleum Taxes. The one exception is that one Petroleum Products Tax remitter deposits tax remittances directly into the GNWT bank account and has a notice of the deposit sent to the Department for verification. The creation of a Credit and Collections Officer position in the Department of Finance has improved the process so that all Property Tax accounts in arrears now receive effective and continual collection attention.</p> <p>Per FMBS:</p> <ul style="list-style-type: none"> • Section 250 of the Government Financial Information System (FIS) Procedures was extensively rewritten and followed by internal awareness seminars given to every region and Department. • 3rd parties have been contracted to collect cash for items such as driver licenses and license plates, thereby transferring some risk. GNWT receives a cheque in bulk payment of items rather than handling the cash directly. • Provision has been made whereby the GNWT has allowed for large deposits to be made by direct deposit. The enhancements currently under way to the banking module will encompass more direct depositing ability. • The GNWT now accepts credit cards and debit cards for many types of payments. Credit card payments can be made by long distance improving the collection of receivables as well as reducing the risk of lost cash. • The various procedures implemented above have reduced the cash flowing through FMBS by a tremendous amount, minimizing potential loss.
<p>The Committee recommends that the next financial information system purchased for use by the Government have the ability to calculate and compound interest on overdue accounts (1996 Report).</p>	<p>The requirement to have flexible interest charging capability will be a part of the requirements when looking at replacements for FIS.</p>
<p>The Committee recommends that the NWT DC identify positive linkages between the Corporation's Business Plan and the end result in its 1997/98 year end statement, paying particular attention to the results achieved that can be attributed to the administrative changes implemented by the new management. These</p>	<p>Implemented. The Board of Directors meets regularly with the Minister to discuss its objectives. Furthermore, Corporation staff have a continuing dialogue with RWED where matters of this nature are discussed. As well, the Corporation's activities are undertaken consistent with a pre-approved corporate plan that is approved by the FMB.</p>

AOC Recommendation(s)	Status as per Government Responses (unaudited)
"The Committee" refers to the AOC and its predecessor the Standing Committee on Government Operations	
<p>results should be presented to the Standing Committee on Resource Management and Development at the earliest opportunity, for their review. (1996 Report)</p>	<p>Annual reports are prepared and tabled. The corporate plan includes specific objectives and performance indicators. Job measures are audited and reported by the Corporation. The corporate plan identifies additional performance measures.</p>
<p>The Committee Recommends that the Government determine amounts to be entered into the Public Accounts reflecting the potential liabilities surrounding the pay equity complaint and environmental restoration costs, and that they do so before March 31, 1997. (1995 Report)</p>	<p>The Government of the Northwest Territories in its 1998 and 1999 Public Accounts recorded its best estimate of the liability resulting from the Equal Pay dispute. The Business Plan currently calls for the Departments which have implemented a method of evaluating their environmental liability to provide an estimate of the liability for remediation by March 2003. Those Departments not having such a program in place have until that time to ensure one is in place and have until March 2004 to estimate their potential liability for remediation. FMBS has been preparing and providing to the Legislative Assembly a report on environmental liabilities, which details the environmental liabilities by department. This report contains estimated costs of remediation as well as actual costs where remediation has been done. As noted in the report, most departments have an ongoing program of identifying and remediating sites as time and money permits. This report will undoubtedly form much of the basis of the departmental estimates of remediation costs. The CICA has not yet made any pronouncements regarding the recording of environmental costs.</p>
<p>The Committee recommends that the Government amend relevant legislation, regulations, and/or policies to provide that Crown Corporations and other entities of the Government which do not meet the requirements of the <i>Financial Administration Act</i> regarding corporate plans and annual reports have their budgets withheld until such time as these requirements of the Act are met. (1995 Report)</p>	<p>Under the proposed Accountability Framework, the Crown Corporations will be required to report on results and performance. Currently, the GNWT publishes its own Results Reports, based on the prior year's Business Plan. All departments have had training in the area of performance measurement and are required to produce results reports annually. However, not all of the Crown Corporations have had the same training. Additional workshops for these Corporations are pending.</p>
<p>The Standing Committee recommends that the <i>FAA</i> be amended to provide for regular examinations of Crown Corporations and other entities of the Government, similar to the provisions in Part X of the <i>Financial Administration Act (Canada)</i>. (1995 Report)</p>	<p>The <i>FAA</i> has not been amended. Section 91 gives authority for regular and special examinations of Public Agencies but does not specify a timeline as is done in the Federal <i>FAA</i>. There is provision in the Act for tabling Annual reports. All Public Agencies were subjected to intense scrutiny as part of the division process.</p> <p>Section 91 to 100 of the <i>FAA</i> provides for the submission and approval of corporate plans, budgets and financial statements of corporations as well as provision for an annual audit by the OAG in the case of a territorial corporation or an approved private sector auditor in all other cases.</p> <p>The proposed Accountability Framework will address evaluation, monitoring and performance audit as well as the reporting requirements and feedback mechanisms to the Crown Corporations, and other non-governmental entities. At the present time a review is underway by RWED on the roles and accountability of the BCC and the NWT Development Corporation FMBS is reviewing Northwest Territories Power Corporation with the same objectives.</p>

Chapter 3

Department of Resources Wildlife and Economic Development: Grants and Contributions for Small Business Development

Overview

3.1 The Department of Resources, Wildlife and Economic Development (RWED) has a Grants to Small Business (GSB) program, and a contribution program called the Business Development Fund (BDF). These programs and the policies that guide them are several years old, and need to be updated to reflect today's needs and realities. Our audit identified a number of deficiencies in eligibility criteria, program administration, and performance measurement and evaluation.

Background

3.2 Prior to 1996, the Department of Economic Development and Tourism (ED&T) was responsible for the GSB and BDF programs. In 1996, ED&T merged with the Department of Renewable Resources and Energy and the Department of Mines and Petroleum Resources to form the Department of Resources, Wildlife and Economic Development (RWED). The programs in support of small business development were adopted by RWED, the new department. The Department's programs with respect to economic development have remained essentially unchanged since 1993.

3.3 Administratively, the territory has been organized into five regions, plus a headquarters located in Yellowknife. Each region is responsible for delivery of the GSB and BDF programs, and each regional office is managed by a superintendent, with a small staff responsible for the day-to-day running of the programs. Typically the staff includes a Manager of Trade and Investment, and a small group of Economic Development Officers (EDOs), sometimes called Business Development Officers (BDOs).

3.4 These officers are the first line of contact with clients applying for funds. They make the first assessment of the proposed project and make recommendations. A panel that includes the Regional Superintendent then considers the project and the officer's evaluation, and decides whether to approve or reject funding.

3.5 Expenditures over the last few years for these two programs show a downward trend. Both programs have been reduced by approximately 2/3 since 1998-99, when the Department spent approximately \$9.5 million on the Business Development Fund, and \$670,000 on Grants to Small Business (Exhibit 3.1).

Exhibit 3.1

BDF and GSB Program Spending

Program	2000-2001	1999-2000	1998-1999
BDF	\$3,000,000	\$4,096,000	\$9,435,000
GSB	\$229,000	\$316,000	\$670,000

Source: Public Accounts of the Northwest Territories

Audit objectives

3.6 We examined the programs to see if adequate controls existed, covering eligibility, management, evaluation and measurement.

Scope of the Audit

3.7 This audit covers expenditures in these two programs for the year 1999-2000. The Business Development Fund provides funding under six schedules, and all six were considered as part of the audit. Exhibit 3.2 outlines the BDF schedules and the type of funding provided. The Grants to Small Business program offers up to \$5,000 lifetime funding to arts and crafts producers, as well as to renewable resource harvesters in the NWT.

3.8 We tested a sample of 20 files from the GSB program, and 46 files from the BDF program. We randomly selected GSB files across all five regions. For the BDF sample, we randomly selected files from across all regions (including headquarters) and schedules, with the exception of Schedule G – where we gave these files a greater weight due to it being a somewhat separate program.

3.9 In addition to the file review, our staff also interviewed key RWED staff in each of the regional offices and headquarters, and reviewed documentation regarding the BDF and GSB programs. Our observations and findings incorporate information drawn from all of these sources.

Exhibit 3.2

Business Development Fund Schedules

Schedule	Types of Project Funded
A-1 Planning and Development A-2 Pilot and Demonstration Projects	Engineering studies, feasibility studies, business plans. Pilot or demonstration projects to test new technology in current or planned ventures.
B-1 Business Creation or Expansion B-2 Venture Capital Contributions	Start-ups of new businesses, or expansions of existing businesses. Contributions for venture capital to expand business base of NWT
C Market Development and Product Promotion	Assist NWT businesses to generate sales of products in new markets, or develop markets for new products.
D Business Skills	Assistance to upgrade or acquire new skills, hire short-term assistance or develop training plans.
E Business Relief	Short-term, emergency assistance for businesses in difficulty, or businesses winding down.
G Community Initiatives Program	Initiatives that support community-based strategies for the development of a stable economic base.

Source: Department of Resources, Wildlife and Economic Development

Audit Criteria

3.10 For the purposes of this audit, we adopted a set of criteria based on our Office's experience in conducting grant and contribution program audits. This includes best practices that have been identified in the delivery of grant and contribution programs across a variety of departments and agencies. In essence, we felt that the Department of Resources, Wildlife and Economic Development should design grant and contribution programs to:

- Achieve expected results;
- Manage risk; and
- Ensure accountability and due diligence in spending of public funds.

More specific sub-criteria were applied, and our audit observations and findings based on those criteria are discussed below.

Observations and Findings

3.11 Our observations and findings are provided to bring attention to the areas where we feel improvements can be made. We recognize that the Department must make trade-offs between various objectives: ensuring fairness of programs, maximizing economic development, controlling costs of programs and others. Therefore, in reviewing our findings the Department should take into account its various objectives in assessing what actions it should take.

3.12 We also recognize that a large number of the grants and contributions made under the BDF and GSB programs are not individually large. In designing management and control processes the Department balances the need for and cost of internal controls against the value of the payments made. Our observations are designed to assist the Department clarify, refine and communicate existing policies and procedures.

Criterion: RWED should exercise due diligence in spending public funds.

3.13 Our review of grant and contribution files found a number of cases where due diligence was not demonstrated. We found some applications were lacking information and supporting documents, and some were unsigned. In the contribution program, eight of the files, or 17 percent of the sample, did not have applications at all. Management felt that letters from the applicants requesting funding were acceptable as applications. This practice was amended after our visit and RWED now requires applications before funding can be approved.

3.14 In both the GSB and BDF programs, projects were funded although they were ineligible according to program policy. In some cases, projects did not meet the purpose set out in policy, and in others the person applying did not meet eligibility criteria. In our review of GSB files we found a significant number of approved projects where it was not clear if the eligibility criteria of the program were met. For example, projects were approved by management to fund "extraordinary costs, which if not provided, may in managements' opinion threaten the continued viability of the business". The GSB policy provides for this. For projects we reviewed that were approved under this policy, we questioned whether these were in fact "extraordinary costs". Consideration should be given to provide more detail on what constitutes an "extraordinary cost" for purposes of the GSB policy.

3.15 In our BDF program file review, we discovered that some ineligible projects had been funded: 7 out of the 46 files examined, or 15 percent of the sample received funding despite no evidence that they met all eligibility requirements under the policy. This represents nearly 10 percent of the total value of BDF files sampled (\$91,698 out of \$971,702). Management believes that the policy allows for some interpretation regarding eligibility. The exceptions brought to its attention have been noted and managers informed

of the need to ensure compliance with the policy. One of the main criteria for receiving assistance under the GSB and BDF programs is need. Primarily, this is interpreted to mean financial need, but the Department has no practical way of calculating or defining this need, leaving staff to make judgements based on the information they have available. Often, the financial information is unclear or missing in the applications, and staff are unable to determine need. Of the 28 BDF files selected from schedules A to E (schedule G technically does not use need as a criterion), 11 or 39 percent were deficient in documentation which demonstrated that the criterion of need was met.

Criterion: RWED should ensure the funding is used for the purpose intended.

3.16 An important exercise of due diligence in the spending of public funds is some form of project monitoring to ensure that the funds approved are being used for the purpose intended. For example, under contribution agreements, which are considered accountable, recipients must demonstrate that they have used the funding received for the project that was approved. Under the BDF program, this normally means that the recipient must account for their expenditures, with copies of receipts and invoices. This accounting shows the Department that the money was spent according to the agreement signed between the recipient and RWED.

3.17 Of the 46 BDF files reviewed, 15, or 33 percent had no accounting in the files, although the deadline for submitting it had long since passed. A further five files (10 percent) had incomplete accounting, in that they did not provide enough receipts to demonstrate that they had spent all of the contribution on the project as agreed. In some of these cases, the Department had taken steps to recover the funds not accounted for, but in the majority of cases, the Department did not take immediate action. Management states that all contributions have now been accounted for and invoices issued where there was a deficiency noted.

3.18 Waiting for recipients to submit their accounting is the Department's main method of monitoring contributions. During the period when the project is being carried out, RWED staff do not follow up with contribution recipients, although interviews with staff indicated that they wished to have more contact with clients in this phase. Time pressures and staffing issues make it difficult for RWED officers to spend much time with clients beyond the assessment part of the funding process. Although some form of business counselling and aftercare is done in some regions in individual cases, there is no program-wide effort to monitor and support projects as they are being carried out.

Criterion: RWED should know whether programs are achieving their intended results.

3.19 The Department has not conducted a review of the GSB program, and the last review of the BDF program covered fiscal years 1993-94 to 1997-98. RWED does produce an annual report and recipient listing for the Business Development Fund. This includes some analysis of how much has been funded in different areas and how much support has been given to aboriginal businesses. However, the reliability of data collected by the regional offices and fed into headquarters with respect to jobs created and maintained is questionable. Applicants estimate these numbers on their applications, and often provide no indication of whether any jobs will be maintained or created. Usually RWED staff have to estimate the job numbers, but these are not verified. Management feels that regional staff have a good knowledge of projects because many are small and are in local communities, which assists staff in making estimates.

3.20 RWED does not have the data to determine whether these programs are achieving their intended results. To some extent, this is due to the complexity of measuring concepts like economic development or economic impact. However, in large part it is because the Department has not put

in place a means to obtain accurate and verifiable data (such as jobs created) that could be used in performance measurement. If RWED is interested in having these programs increase income and jobs, and contribute to a diversified and sustainable economy, it needs to have more information on what happens to these recipients after they have received funding. The sorts of questions that the Department will have to address are:

- What is a job?
- How many jobs were created? and
- How long did they last?

3.21 The issue of performance measurement is crucial. Without the right kind of reliable information, the Department cannot report on achievement to the Legislative Assembly. If policy makers lack meaningful information on program performance, they will not be able to decide if programs are working, or if they need to be changed.

Criterion: RWED should ensure that headquarters effectively monitors and evaluates regional management of grant and contribution programs.

3.22 In our audit we found little evidence to suggest that headquarters monitors and evaluates regional management of these programs, other than in a financial sense (i.e. managing their budgets). Headquarters does have information on how much funding each region has available for these programs, and has a system for collecting information on individual grants and contributions from the regional offices.

3.23 The Department gave responsibility for program administration to regions a number of years ago, but headquarters still needs to closely monitor how the programs are managed. For example, different regional offices have evolved different practices for administering these

programs – such as setting up regional policies for assisting trappers under the GSB program, or assisting businesses to make computer purchases prior to Y2K. Some offices have detailed written procedures for assessing and approving funding, while others are not as rigorous. Some offices keep more detailed minutes on the discussions leading to funding decisions, and some only record the decision that was taken. The Department notes that senior management meetings are held periodically to give managers the opportunity to share information. However, we believe there are areas where more sharing of information and best practices could improve the programs overall, and headquarters should play a role in ensuring a level of consistency for program delivery across the territory.

Criterion: RWED should make reasonable efforts to harmonize and coordinate its activities with other organizations delivering similar programs.

3.24 RWED is currently doing some work to harmonize and coordinate its activities with other organizations, but further efforts are needed. Coordination efforts with the federal government include the Canada/NWT Business Service Centres, which provide information and assistance on federal and territorial programs to northerners seeking business assistance. At the regional level, and in the communities, RWED staff need more understanding of federal programs, so they can assist clients to access federal funds. The Department could also look at harmonizing more of its efforts with federal departments such as Human Resources Development Canada (HRDC), Indian and Northern Affairs Canada (INAC) and the Business Development Bank of Canada (BDC). Management notes that there is regular dialogue with INAC and BDC, but agrees, that more cooperation is possible.

3.25 Within the Department, a Business Review Committee has been working on the issue of bringing together elements of business funding

which are now managed across several entities in the NWT. The Department administers the GSB and BDF programs, as well as many other smaller grant and contribution programs, while the NWT Business Credit Corporation (BCC) provides small business loans, and the NWT Development Corporation (DC) invests in a variety of NWT business enterprises. The final report of the committee recommends that the GNWT amalgamate the BCC and DC into a single crown corporation with responsibility to administer business assistance programs. The committee also recommends that this new corporation take over RWED's business assistance programs and funding for Community Futures, as well as management of the Canada/NWT Business Services Centres. The approach suggested by the committee is to streamline and simplify the process for northerners seeking business support through a "single-window" approach.

Schedule G – Community Initiatives Program

3.26 This schedule is a program that evolved from a federal-territorial cost-shared economic development program that ended in the 1990's. It was approved separately from the other schedules of the BDF.

3.27 We are concerned that schedule G is not consistent with other schedules under BDF. For example, while other schedules are quite specific as to what activities are eligible for funding, schedule G allows a great deal of latitude in what it will fund. This makes it an attractive vehicle for funding purposes over other schedules. In 1999-2000, contributions worth \$2.2 million were approved under schedule G, while \$1.9 million worth of contributions were approved under schedules A to E. Since schedule G is less stringent, it can also lead to laxness in accountability: of the 15 BDF files examined that did not have accounting in them, six (40 percent) were schedule G contributions. Management reports that all accounting has now been provided as required.

Business Advice and Support

3.28 Part of the role of RWED staff in the regional offices is to provide advice and support to clients trying to develop their businesses. Although all the regional offices recognized this role, these activities are not clearly articulated in the business assistance policies. Many of the front-line staff we interviewed indicated that they felt it was just as important, if not more important, to be able to offer support, guidance and training to northern entrepreneurs as it was to "just give out money". Most expressed the view that more businesses would become successful if more time was spent with clients helping them develop business knowledge and skills. However, most staff indicated that their other responsibilities made spending time with individual clients very difficult. This was especially true in areas where Economic Development Officer turnover was high, or EDO positions sat vacant.

Program Performance and Evaluation

3.29 As mentioned previously, the Department does not have reliable information with which to evaluate the performance of the GSB and BDF programs. This is an issue that the Department will have to address in its initiative to collect all business assistance mechanisms under a single public agency. Otherwise, it will be difficult for the GNWT to know whether it is being effective in its economic development activities.

3.30 The Financial Management Board (FMB) has delegated responsibility to each GNWT department for establishing and implementing a grants and contribution policy that follows guidelines in the Financial Administration Manual. RWED is responsible for measuring and evaluating its performance, but the Financial Management Board Secretariat (FMBS) should also be monitoring and evaluating the performance of departments such as RWED in the management of grant and contribution programs.

Conclusion

3.31 By all accounts, the GSB and BDF programs are important vehicles for economic development in the NWT. Department staff are motivated and committed to doing all they can to assist northerners to be successful business owners.

3.32 There are some significant challenges to be faced, however, in order for the Department to be able to demonstrate the full value of these programs. RWED's accountability is at risk because of:

- A lack of clarity in policies and procedures;
- Insufficient co-ordination between head and regional offices;
- Unreliable data collection; and
- Insufficient monitoring and performance measurement.

The spending of public money in these programs requires a more effective exercise of due diligence, without adding to the bureaucratic burden officers already face. The Department also needs more credible information so that it can report on the performance of these programs to the Legislative Assembly, and to the people of the NWT and Canada. The Department should bear these things in mind as it continues implementing the recommendations of the Business Review Committee.

3.33 While the public is entitled to know how these grants and contributions are performing, they also bear some responsibility for improving the situation. Those individuals, communities and organizations who receive public funding for economic development activities must also accept the responsibility of maintaining accountability as a fundamental part of good management and good government.

Recommendations

3.34 The Department of Resources, Wildlife and Economic Development should:

- **Include a thorough review of policies and practices with regard to grants and contributions for business assistance, whether the GSB and BDF remain with RWED, or are assumed by a new corporation (see paragraph 3.18);**
- **Ensure that grants and contribution policies in support of businesses meet FAM requirements, and also contain clear, measurable objectives and clear eligibility criteria (see paragraphs 3.13, 3.14, 3.26 and 3.29);**
- **Ensure that definitions of important concepts like jobs created, need, and sustainability are consistently understood and applied across the territory (see paragraphs 3.14 and 3.19);**
- **Ensure that adequate due diligence procedures are in place for business assistance programs, to ensure that only eligible applicants and projects receive funding, and that funding is used for the purposes approved (see paragraphs 3.12 to 3.16);**
- **Be clear about the difference between business development, and community or social development, and reflect this in policies and programs;**
- **Consider whether providing business advice and support is a priority for assisting NWT businesses (see paragraph 3.27);**
- **Develop the means to acquire reliable data on program performance, and ensure that the information is meaningful, timely, and linked to**

program objectives (see paragraphs 3.18 and 3.19);

- **Ensure that RWED staff are adequately trained and employed to carry out their responsibilities across the territory (see paragraphs 3.17 and 3.27);**
- **Harmonize and coordinate, to the extent possible, and where it makes sense, territorial business assistance programs with federal programs (see paragraphs 3.23 and 3.24).**

3.35 Management Response: The Department of Resources, Wildlife and Economic Development is in agreement with the recommendations as they are fundamental to the operation of these programs. The Department will endeavour to ensure that the recommendations are distributed to program managers and followed to the extent possible while the program is administered by the Department and subsequently are incorporated into the operating guidelines of the new Business Development Agency when it comes into being next year

Chapter 4

Other Audit Observations – NWT Housing Corporation

Introduction

4.1 This chapter contains observations and recommendations on the NWT Housing Corporation that we believe should be drawn to the attention of the Legislative Assembly, in accordance with section 30(2) of the *Northwest Territories Act*. Our concerns are discussed under four headings:

- Borrowing and Risk
- Mandate and Risk
- Corporate Accountability to the Legislative Assembly
- Collection of Mortgage Receivables

Borrowing and Risk

Overview

4.2 The NWT Housing Corporation (NWT HC, or the Corporation) has an agreement with the Canada Mortgage and Housing Corporation (CMHC) to administer over \$ 44 million in mortgages in the Northwest Territories. The contract holds the Corporation liable for this amount to the CMHC. Although the Financial Management Board (FMB) approved entering this agreement, the Board's approval did not specifically authorize the Corporation to take on the new debt. It is also not clear that the Corporation has a "blanket" approval to take over individual mortgages, as it has in one case involving a non-profit detoxification facility.

Background

4.3 In 1997, CMHC signed a Social Housing Agreement (SHA) with the Corporation to transfer the administration of NWT social housing from the federal government to the GNWT. As part of this agreement, the Corporation was to administer over \$44 million of mortgages of non-profit and co-operative housing programs. The Corporation took over all the rights and responsibilities that the CMHC had under separate agreements with these organizations. The Corporation is responsible for making payments to CMHC even if it does not receive payment from individual mortgage holders. To mitigate this risk, NWT HC received a one-time funding grant from CMHC (subsequently shared with Nunavut) to cover contingencies arising out of the administration of the SHA.

4.4 During 2000, one non-profit organization, a detoxification facility, defaulted on its mortgage. The Corporation purchased the facility from the owners at an appraised market value of \$1 million. As part of the purchase, the Corporation assumed the previous owners' defaulted CMHC mortgage for approximately \$800,000, without obtaining specific approval for the borrowing as required under legislation.

Issues

4.5 Under section 14 of the *Northwest Territories Housing Corporation Act* (the *Act*), the Corporation is authorized to borrow funds for its activities. However, section 15 of the *Act* limits the borrowing authority of the

Corporation, making it subject to Part IX of the *NWT Financial Administration Act (FAA)*.

4.6 Part IX, Section 80 of the *FAA* prohibits public agencies from borrowing money without the approval of the Financial Management Board (FMB). Agencies must have the recommendations of the responsible Minister and the Minister of Finance. This approval process allows the FMB to study the matter and analyze the risks involved. As well, it permits the GNWT to monitor the overall debt load for compliance with the limits for the total amount of debt the Territories can take on.

4.7 The Minister responsible for the Corporation, the FMB, and the Executive Council approved the Social Housing Agreement. However, it is not clear that the Executive Council or the FMB considered purchasing the facilities of mortgagees in default and taking on related debt as a part of their approval. Specific authorization to take on debt under Section 80 of the *FAA* was not obtained by the Corporation before it purchased the detoxification facility.

4.8 We discussed this with the Corporation and the Department of Finance. They indicated that approval was not sought because the FMB and the Executive Council had in essence approved the contingent liability when they approved the SHA. Therefore, they argued, there was no need to obtain approval when the contingency was realized. From our perspective, it is not obvious that the approval of the SHA contemplated such actions by the Corporation.

4.9 Although the Corporation was liable under the SHA for loan payments on the defaulted mortgage, it could have looked at other options, including foreclosure. Because the Corporation did not seek approval to take on debt, the FMB was not provided the opportunity to analyze these options.

4.10 Further, the *FAA* requires the Corporation to detail any planned capital purchases in its corporate plan, but this purchase was omitted from the 2000-2003 capital acquisition plan. Any changes to the corporate plan, including activities not previously considered, need to be approved by the Minister. According to Corporation officials, they received written direction on November 3, 2000 from the Minister to proceed with this transaction. Management did not consider that the net change to its appropriation in the amount of \$285,000 significant enough to require it to return for budget approval.

4.11 A similar situation could happen again. The lack of clarity as to what was approved for the implementation of the SHA permits interpretations that may not be in line with GNWT's intent in entering the agreement.

4.12 This is an important issue for the Legislative Assembly to be aware of, for several reasons. First, any borrowing by public agencies adds to the overall debt of the Government, and there is a statutory limit to the total amount of debt that it can take on. Second, when agreements of this nature are entered into, all implications and risks should be identified and understood prior to receiving approval. It would be helpful for the FMB and Executive Council to clarify exactly what they are approving and relate approvals to any legislation that may be relevant to the situation.

Recommendation

4.13 The Corporation should seek clarification from the FMB and Executive Council on whether they concurred with the assumption of the mortgages at the same time as approving the Social Housing Agreement. For any future arrangements of this type, the Corporation should specify each condition that requires approval relative to existing legislation, and request that each be approved by the FMB.

4.14 *The Corporation's response: The Corporation initially prepared a draft FMB Submission on January 17, 2000 to request approval to acquire a Detoxification Facility and its corresponding debt from one of the third party non-profit organizations included under the Social Housing Agreement. The Corporation also requested clarification from the Central Agencies of the GNWT on whether or not it would be necessary to go to the FMB for approval to assume the existing debt for which the Corporation was already contingently liable. Through this consultation, it was decided that it would not be necessary for the Corporation to proceed with a FMB Submission to finalize this acquisition.*

4.15 *The Corporation's Response: A later transaction of this nature where third party non-profit organizations defaulted on their mortgages, required the Corporation to take action. We have already gone through the process to request and receive FMB approval to acquire the asset and assume the debt.*

Mandate and Risk

Overview

4.16 The Corporation has entered into a deal to act as a general contractor in the construction of housing units in the state of Alaska. It is not clear whether the Corporation has the legal authority to engage in such out-of-territory activities. If the Corporation is acting outside of its legislated mandate, it may be exposing itself and the GNWT to financial risks.

Background

4.17 In March 2000, the Corporation announced a deal with Alaskan authorities to sell them a five-unit seniors' housing complex. Described as a pilot project, the deal included using NWT contractors to build the complex,

with local labour from Alaska and materials from the NWT.

4.18 The Corporation, as the contractor in this deal, signed the agreement on May 10, 2000 for the amount of \$695,426 US (approximately \$1,040,000 Cdn). The expected completion date was November 30, 2000. The Corporation later sub-contracted the construction to a northern company for \$943,536 Cdn., although we understand that the final costs exceeded \$1 million.

Issues

4.19 We have concerns that the Corporation may have exceeded its mandate and authority by acting as a general contractor in the construction of the complex in Alaska. It seems clear, reading the legislation that established the Corporation, that NWT HC was created to address the housing needs of residents of the Northwest Territories.

4.20 The Corporation uses a liberal interpretation of some sections of *the Northwest Territories Housing Corporation Act* (the Act) to support its involvement in activities that are not specifically mentioned. This includes participating in housing projects outside of the territory.

4.21 Section (4) of the Act authorizes the Corporation to provide, develop, maintain and manage housing for seniors, individuals, families, students and other groups. Besides these activities, the Act states that the Corporation may carry out other duties and functions "that may be assigned to it." This mandate has been interpreted broadly by the NWT HC as allowing it to engage in any activities that have some connection to housing. However, we believe that the implied authority to assign duties and functions to the Corporation rests with the Legislative Assembly.

4.22 While selling housing packages to parties outside of the Northwest Territories may be interpreted as a legitimate activity, there are risks.

4.23 If the Corporation is involved in activities outside of those that its legislation authorizes, it may be in a legal situation called *ultra vires*. If so, these activities become invalid, or void, and the Corporation's normal rights and protections under the law do not apply. The rights and protections it might lose include enforceability of contract (particularly revenue collection) and public liability beyond that normally bestowed on contractors.

4.24 NWTHC, like other territorial Crown corporations, was created to serve territorial objects. We encourage the Legislative Assembly to carefully examine the financial and legal risks of engaging in any activities that may be interpreted as lying outside of this territorial scope.

Corporate Accountability to the Legislative Assembly

4.25 The above examples remind us that a Crown corporation is accountable, through the responsible Minister, for all of its activities. The Minister must approve corporate activities in the corporate plan, as well as capital and operating budgets. If a corporation wishes to change its plans or budgets, it must first obtain the Minister's approval.

Recommendation

4.26 **The Legislative Assembly, and in particular the Executive Council, is ultimately responsible for all areas of management of the Government, including setting policy and managing finances. The activities of crown corporations do affect the activities of the Government as a whole; any intended activities that put the GNWT at**

risk, such as taking on debt, or exceeding their mandates, should be communicated to the Legislative Assembly in an appropriate manner. For example, relying on business plans for implied authorities is not, in our opinion, a good substitute for specific authority requests, discussions and approval by the Legislative Assembly.

4.27 *The Corporation's Response: It is the Corporation's contention that the review and approval mechanisms established by the Government sufficiently addresses the concern that the Legislative Assembly may have not been properly informed on this matter. The Corporation identified this activity as one of its four main business areas in its 2000-2001 Business Plan. The Standing Committee on Social Programs, the Minister and the FMB approved the Business Plan*

4.28 For any proposed new lines of business, the Corporation should ensure that it has the legal capacity to do the work under its own Act. When relying on the authority contained in its legislation to carry out other duties that may be assigned to it, the Corporation should ensure that the duties have indeed been assigned to it by the Legislative Assembly.

4.29 *The Corporation's Response: The Corporation had political support to proceed with its activities in Alaska and the NWT Housing Corporation Act does not specifically limit the activities of the NWTHC to the NWT. It has however decided to take a cautious approach and will not pursue any further general contracting activities in other jurisdictions without a clear legislation framework to support its activities.*

Collection of Mortgage Receivables

Overview

4.30 The Corporation has struggled to collect mortgage monies owed to it in an efficient and equitable way. Our Office has spoken to management each year since 1996 about the need to improve in its collections, yet no real improvements have been made. In the interest of fairness to the people of the NWT, and in keeping with sound financial management practices, the Corporation needs to make better efforts to address this weakness.

Background

4.31 Throughout the history of the Corporation, it has provided housing to the less fortunate of the NWT through various public housing and home ownership programs. The home ownership programs provide mortgages and grants to clients who either purchase or build their own home or renovate their existing dwelling. Over the past ten years, there have been a variety of sub-programs under this initiative.

4.32 Since 1996-1997, the Corporation has been targeting its capital expenditures towards home ownership programs that require the

client to pay back a portion of the cost of their housing purchase or renovation costs through mortgages with the Corporation or with lending institutions. The home ownership programs are mainly directed at social housing recipients who have enough income to pay utilities and a portion of the costs of building the home or performing renovations. Mortgage payments are based on the recipient's income. Homeowners with mortgages through NWT HC have an additional security net of reduced payments if their income level drops.

4.33 Beginning in 1997-1998, the Corporation replaced most of the previous homeownership programs with two new ones: the Extended Downpayment Assistance Program (EDAP), and the Independent Housing Program (IHP). These programs provide clients with grants and forgivable loans for the majority of the cost of the home.

4.34 In 2000-2001 the Corporation spent approximately \$12.5 million on home ownership programs, including EDAP and IHP, and on various repair and renovation programs. Exhibit 4.1 shows there is a significant difference between gross mortgages and net mortgages. The difference is due to the subsidies provided to the mortgagees from the Corporation and the amounts it was unable to collect.

Exhibit 4.1

Mortgage Receivables

	1998/99		1999/00		2000/01	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
Cost of houses – Gross amount of mortgages	37,719,000	100	39,377,000	100	39,303,000	100
Less: Subsidies	29,880,000	79	30,361,000	77	30,826,000	78
Mortgages receivable	7,839,000	21	9,016,000	23	8,477,000	22
Less: doubtful accounts	4,878,000	13	6,228,000	16	6,120,000	16
Net Mortgages Receivable	2,961,000	8	2,788,000	7	2,357,000	6

4.35 The figures from 2000-2001 show that the mortgage holders are expected to pay, on average, only 22 percent of the house cost; the rest is a gift to them. However, the net amount actually receivable is even less, averaging about 7 percent over the last three years.

4.36 District Office staff administer and monitor mortgages receivable and collections. They receive arrears reports monthly from headquarters and send letters to mortgagees whose payments are in arrears. Occasionally a district office representative will talk to the client about their arrears situation. These discussions generally have very little impact.

4.37 The Corporation has had its own internal reviews done of mortgages and loans. As far back as 1994 these reviews showed that collection efforts were found to be highly variable between regions, with little evidence of a corporate-wide commitment to administration and follow-up on a common collection policy. The review also noted that of the files which had been progressed to the point of foreclosure action, a significant portion had been stopped as a result of political intervention.

4.38 We discussed these collection problems in our 1996 report to the Legislative Assembly. At that time we pointed out that almost 60 percent of the Rural and Remote Housing Program were in arrears, and stated that if improvements were not made the problems would intensify, as people became aware that there were no consequences for not making their payments.

4.39 Each year since 1996, we have discussed with management the necessity to improve in this area. To date no major improvement has been made: there is little evidence of consistent corporate monitoring of mortgage receivables and follow-up on collection of arrears. According to management, the Corporation has limited ability to deal with this problem.

4.40 Data on mortgage receivables points to increased problems with arrears. Exhibit 4.2 shows that even after large initial subsidies, about two-thirds of the mortgages are in arrears for over six months. This represents an estimated annual loss of approximately \$400,000 in foregone mortgage payments. If these amounts can be collected they could be used to provide housing to or improve the housing of others.

4.41 During 2000-2001, management developed a proposal to address the mortgage collection problem. In their ministerial decision paper, management acknowledged that the Corporation had failed to properly administer the accounts in arrears, and that as a result it had seriously reduced its ability to help other families in need. They proposed to address the problem by moving the administration of the mortgage portfolio to the Local Housing Organizations (LHOs). The LHOs are successful in collecting approximately 95 percent of public housing rents. Also, management felt that bringing collection closer to the community level would permit better assessment of homeowners' situations. However, no further work has been done since.

4.42 Management has informed us that they are exploring other methods, such as reporting delinquency to the credit bureau. To date non-payment of mortgages owed to the Corporation has not had any effect on the credit rating of delinquent clients, as the Corporation has not reported the problem clients to the credit bureau. We were informed that in November 2001 the Senior Management Committee approved credit bureau registry of individuals who refuse to pay. The Corporation is now reviewing how it will proceed with this measure. It is not certain what effect, if any, credit bureau registry will have on the arrears problem.

4.43 Non-collection creates inequities between the various homeownership programs,

as well as between homeownership and public housing programs.

4.44 One such inequity exists for persons under the Extended Down-payment Assistance Program. The program requires the homeowner to finance a portion of the cost of the home or renovation through a commercial financial institution. If these homeowners do not pay their mortgages, the banks will repossess their homes. Mortgagees with the Corporation are not under this same threat. Further, if homes are repossessed and the homeowners lose their home, it is likely that any who received EDAP monies will return to the Corporation for assistance in finding shelter. In these cases, the Corporation will be paying twice for the same people.

4.45 As can be seen in Exhibit 4.2, some people do pay. It is not fair to these people that the Corporation permits others to ignore their responsibilities without any consequences

4.46 Families in homeownership programs benefit significantly more than those in social rental units. Because of down payment grants and high mortgage subsidies, homeowners can get 80 percent or more of their house value at no cost to them. This is a significant transfer of wealth. In contrast, families in the social housing program pay their rent without the personal benefit of increase in overall wealth.

Exhibit 4.2

Mortgage Payment History

Program	March 31, 1999	March 31, 2000	March 31, 2001
	# clients	# clients	# clients
Current	108	92	80
1-5 payments in arrears	70	77	71
6-24 payments in arrears	100	114	115
Over 24 months in arrears	87	89	91

Source: NWT Housing Corporation

Recommendation

4.47 Management should immediately implement changes in order to administer mortgage receivables in a fair and equitable manner, including collecting on mortgage accounts in arrears. This could include discussions with clients to make arrangement for payments of arrears in such a way as not to create hardship for those involved. In all of these matters, it is important for the Corporation to have the support of its Minister.

4.48 The Corporation's Response: The Corporation agrees with the Office of the Auditor General. The inability of the Corporation to address this important issue results in serious fairness and equity issues and limits its ability to help other families in the communities. The Corporation is currently in the process of updating its mortgage program requirements to include automatic bank debits and assignment of wage authorizations so it can further enforce its collection responsibilities. It is also its intention to put these tools in place with existing mortgage clients as well. The Corporation only wants to implement foreclosure action on those clients who have the ability but not the intention of repaying their mortgages. The Corporation needs the support of all the political leaders at the Territorial, Regional and Community levels in order to implement real change.

Appendix

About the Audit and the Office of the Auditor General of Canada

Our Vision

The Office of the Auditor General (the Office) is an independent audit office serving the Legislative Assembly and the well-being of people of the Northwest Territories, widely respected for the quality and impact of our work.

We promote

- accountable government,
- an ethical and effective public service,
- good governance,
- sustainable development, and
- the protection of the Northwest Territories' legacy and heritage.

We do this by

- conducting independent audits and studies that provide objective information, advice, and assurance to the Legislative Assembly, government, and the people of the Northwest Territories;
- working collaboratively with legislative auditors, federal and territorial governments, and professional organizations; and

- providing a respectful workplace in which our diverse workforce can strive for excellence and realize their full career potential.

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 (GNWT) to express an opinion on that government's consolidated financial statements for the years ended March 31, 2000 and March 31, 2001.

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

This *Report of the Auditor General to the NWT Legislative Assembly*, also known as the Report on Other Matters (ROM), is part of our audit. In accordance with the *Northwest Territories Act*, section 30(2), the Auditor General is to report on any "other matters" arising from the audit that she feels should be communicated to the Legislative Assembly. Each of the significant matters reported in this report was examined in accordance with generally accepted auditing standards; accordingly, our examination included such tests and other procedures as we considered necessary.

Our Audit Work

This report contains comments on items that we believe will be of interest to members of the Legislative Assembly; it also contains our recommendations and management's responses, where appropriate. The matters reported were noted during our financial and compliance audits of the Public Accounts, Crown corporations and other entities.

We did qualify our audit opinion on the financial statements of the Government of the Northwest Territories for the years ended March 31, 2000 and March 31, 2001, due to the Government's handling of pay equity payments, and overspending by the Department of Health and Social Services for the 2000 fiscal year. More information related to these matters can be found in chapter 1 of this report.

We also issued unqualified audit opinions on the following Government entities:

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

Entities	Year Ended
Aurora College	30 June 2000
	30 June 2001
Northwest Territories Power Corporation	31 March 2000
	31 March 2001
Northwest Territories Housing Corporation	31 March 2000
	31 March 2001
Northwest Territories Development Corporation	31 March 2000
	31 March 2001
Northwest Territories Business Credit Corporation	31 March 2000
	31 March 2001
Workers' Compensation Board of Northwest Territories and Nunavut	31 December 1999
	31 December 2000

- in accordance with ministerial appointments:

Entities	Year Ended
Northwest Territories Liquor Commission	31 March 2000
	31 March 2001
Petroleum Products Revolving Fund	31 March 2000

Our People

Many people with different skills and experiences carry out an audit. It is the sum of these resources that allows the Office to make a difference. The team responsible for the audit of the GNWT includes:

Assistant Auditor General	
Ron Thompson	
Principal	
Roger Simpson	

Audit Staff	
Chantal Berger	Marjorie Pound
Kristine Coombes	Megan Picard
Sylvie Fortin	Chris Polselli
Dustin Hoshowski	Anil Risbud
Stephanie King	Alain Sansregret
Susan Meilleur	Donna-Lee Shaw
Mila Simon	Michelle St-Jean
Dan Stadlwieser	Shawn Vincent
Peter Yeh	

Other Audit Services
Annual Audit Practice Team
Edit and Graphics Services
Legal Services

Reporting and management comments

Our Office policy is that audit observations and recommendations be referred to the management of the audited organizations for comment. Where appropriate, the Office obtains management's written responses to recommendations contained in audit chapters.

We provided our draft report to the Office of the Comptroller General, departments and territorial corporations, where appropriate. Management responses are included here in the relevant chapters.

Our Thanks

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

For comments or questions on this report, please contact Roger Simpson at (780) 495-2028.