



Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

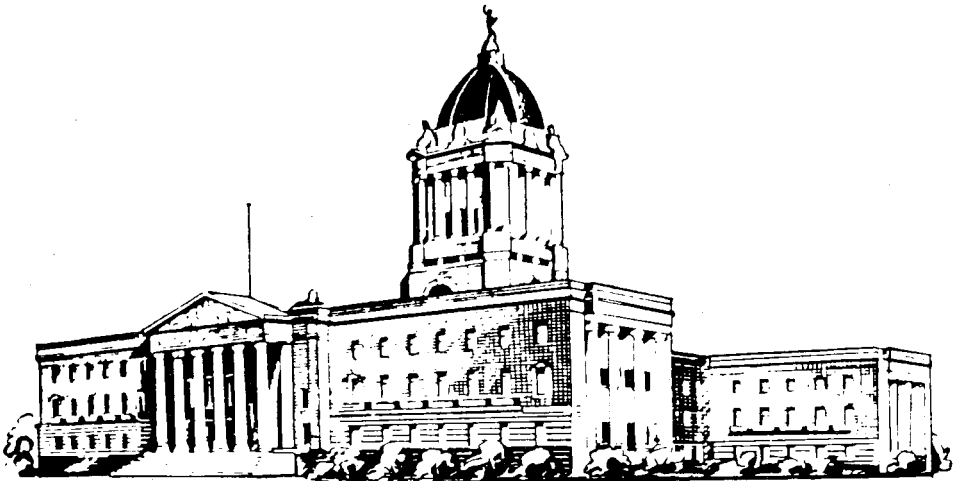
ON

PUBLIC ACCOUNTS

Chairman

David Blake, M.L.A.

Constituency of Minnedosa



10:00 a.m., Tuesday, May 25, 1976

THE LEGISLATIVE ASSEMBLY OF MANITOBA
STANDING COMMITTEE ON PUBLIC ACCOUNTS
10 a.m., Tuesday, May 25, 1976

CHAIRMAN: Mr. David Blake

MR. CHAIRMAN: Gentlemen, we have a quorum so we'll start our meeting and hopefully we can make some progress this morning. We're on Page 11 of the Report of the Provincial Auditor and we hadn't quite concluded the page, and I have no one on my list to speak. We finished the speakers last time the committee met. Mr. Craik.

MR. CRAIK: . . . point, while we have a quorum, we still don't have the Minister of Finance here. I wonder if anyone could tell us whether he intends to come to the Public Accounts meeting.

MR. CHERNIACK: I don't hear well but . . . Minister of Finance, I assume Mr. Craik is asking about whether or not he's coming. Is that it?

MR. CRAIK: Yes, right.

MR. CHERNIACK: I understand he's making every effort to be here. I discussed it with him Friday and he'll try to be here.

MR. CRAIK: Well again I raise the question I raised before, you know, the Minister of Finance should be at the committee. The Minister in charge of a particular committee should be at the committee by all practical and historical precedents, and I find it strange that we're proceeding here without him being present.

MR. CHERNIACK: Mr. Chairman, may I repeat what I said last time, historically I was Minister for at least three-quarters of the period of time that we're covering now.

MR. CHAIRMAN: Gentlemen, shall we proceed. Page 11--pass; Page 12--pass; Page 13--pass; Page 14 - Mr. Craik.

MR. CRAIK: On The Co-operative Loans and Guarantee Board, I was wondering if Mr. Ziprick could give us any updating on these different co-ops. There's the Crane River, Gardenhill, South Indian Lake, Kee-No-Zae on the next page, all in the same category, and there's one portion here that he refers to at the bottom of Page 14. It says... "the departmental auditor and reported on by him. He was not able to express an opinion on results of the operations because of inadequate accounting procedures and lack of controls over sales, cash and inventory." I was wondering if the Auditor can give us any indication of whether the problems that were related here in all of these have changed at all.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: I can give you a rundown on the position now on Page 13 as far as the PEP program is concerned. The 1974 PEP program which was \$500,000, was well handled and accounted for. The 1973 one, there was difficulties, there was \$135,000 that we were having difficulties with. Now a goodly portion of that was taken care of. There was about 38,000 or 39,000 approximately refunded out of that 135,000. There's about 13,000 that is in with the co-ops that hasn't been refunded and it could be that the co-ops have used it for other than PEP purposes and we may not be able to get the refund, but anyway, it's an acknowledged amount that should have been refunded, hasn't been refunded as yet, and there is some material that's on hand with one of the co-ops that they're trying to dispose of, so that about half of the \$235,000 has been taken care of through either refunds or material on hand. There's about \$63,000 was spent and a goodly portion of that has been supported by various expenditures but not fully conclusive. So by and large we got an accounting for quite a substantial amount but some of it will not be accounted for. So the '73 PEP program, there was some difficulties, we had accounted for a goodly portion of it. There is no evidence of criminal misuse of the money but it's been used in the co-operatives generally in addition to what the PEP specifically prescribed for. So that that's the '73 PEP position.

Now as far as the Crane River Co-op is concerned, it's more or less taken care of other than the RCMP are still looking into some areas of it. There were some cheques that were unaccounted for and there's some concern about the cattle, so the RCMP are still investigating the Crane River. We haven't had the latest report on

(MR. ZIPRICK cont'd) where the thing stands, so until the RCMP are finished with the investigation we just won't know how this thing stands. But the province has paid the guarantee, so the guarantee's been paid. As far as the accounting generally, there is some accounting but there was some difficulty with cattle and some difficulty with receipts, cheques not being properly recorded and that's now in the hands of the RCMP and they're investigating that. When they turn in their report then as far as we can see there'll be no further action. It depends on what the RCMP comes up with.

As far as the Gardenhill, there's about \$10,000 worth of inventory recovered and the rest of it is lost. There's no further action on the Gardenhill.

The South Indian Lake, as far as the operations are concerned, if you remember last year, I forget the exact amount, but it's some 200,000 that was attributable to operations. Now there is the very poor accounting and the stock was basically taken out, some of it was not recorded, we have no evidence whatsoever of any criminal activity in there, but it's just the poor accounting. The co-op's auditor had to spend a lot of work in addition to what we've done, he tried to reconstruct in detail but he couldn't get very far, the records were very inconclusive and so really we could not come up with any conclusive accounting for that operation's money. And there's just no way that it can be any more conclusive than that other than all the areas that we've checked into, that the co-op auditors checked into, we have no leads whatsoever that there was any one group or one individual or anything like that had made any kind of attempt at misusing the money. It just seems that in the control over stock, the billing and the use of the stock out in the outlets, they actually took merchandise out to fishing stations and distributed out of there. There's just no way that there can be a full accounting.

As far as the building construction and capital construction, we got a pretty complete accounting for that. The buildings are there, the guarantee has been paid by the province, they're still working on the transferability of the titles of the building between the Federal - because the Federal has put DREE money in - and the co-op and the Province. But the plant's there and all the evidence indicated that it was well built and we saw no abuse of any money there.

As far as the Kee-No-Zae Co-op, that co-op for about a year or so, their records were almost non-existent, the documentation that's available is in such poor state that there's just no way it can be conclusively reconstructed. We have taken a look at it ourselves, and the auditor, they had an outside firm take a look at it, that material, and it would be just a waste of public money to try and do any reconstructing. So the Federal Government, the amount that they have put into it, they are quite prepared to say, well, there's no point in going any further. There again all the evidence in the inquiry and discussion, there's nothing that points to criminal abuses, there's no leads for any criminal abuses, it just seems to be a lack of accounting and running a business in a unbusiness-like way. So as far as we're concerned, the only one that's really open is the Crane River Feedlot one.

Now as far as the co-ops generally, the department in the preceding year, there was very little but whatever activity there was they have tightened up substantially and any new loans or guarantees now are under pretty well-controlled conditions. So that essentially the one million, whatever it was, by and large, this has all been paid out, there's about 152,000 of that was active, and it looks like it was all right. --(Interjection)-- It will be all right, that's good accounts.

MR. CRAIK: The 152 out of the million.

MR. ZIPRICK: I think there was about 1,672,000, the total, now about 1,374,000 was paid out; Page 13, see, there's 1,672,000. Out of that 1,374,000 was paid out of the Consolidated Fund and about 152,000 were still active accounts which were all right. Now of that 1,374,000, a substantial portion of that, I think about \$800,000 or in excess, is that big building or complex at South Indian Lake, so that you can't think in terms of the 1,374,000 as not being accounted. Most of it is accounted for and . . .

MR. CRAIK: How many of these are still operational?

MR. ZIPRICK: There was four.

MR. CRAIK: As companies, as co-ops?

MR. ZIPRICK: Yes. On Page 13, six have been discharged and four, amounting to 152,000, were still in effect at that time. Now I don't know the update position right at the moment but as far as we knew at that time, they were good active accounts and we have no reason to believe that . . .

MR. CRAIK: Of these ones, the comment here in the report, I was wondering how many of those are still operational as co-ops in existence or have some of them folded. Maybe the Minister of Co-ops could give us some indication.

MR. CHERNIACK: You're asking if the co-ops are operative or the loans are operative?

MR. CRAIK: No, the co-ops, the co-ops themselves.

MR. ZIPRICK: Well, for instance, South Indian Lake, the Co-op, I don't know, technically I guess it's still in existence. There's still a board and it's still in existence and negotiations are going on as to reactivating the plant. Now quite a number of the others are not active any more.

MR. CRAIK: Yes. Kee-No-Zae and Crane River and Gardenhill and so on.

MR. ZIPRICK: That's right.

MR. CHAIRMAN: Mr. Toupin.

MR. TOUPIN: Mr. Chairman, I believe the record will show that during the Estimates of the Department of Co-operative Development that I indicated in the House, based on information supplied to me by the officials of the department, that there were six in operation, considered to be in operation of these co-operatives.

MR. CRAIK: To the one, two, three, four, I guess there were five, that were commented on by the auditor and I was wondering of those five --(Interjection)-- four, of those four is there only one still operational in South Indian?

MR. TOUPIN: Well, it's considered to be, Mr. Chairman. South Indian Lake, as indicated by the provincial auditor, is still incorporated and still hoping to proceed.

MR. CRAIK: And the other three have folded then?

MR. ZIPRICK: Well, you see Crane River, the RCMP are still looking at it and the people are still around and it's in a native area and so, you know, it's not completely folded. I guess that's the one, yes, it's in voluntary liquidation now. Crane River is in voluntary liquidation and there will be some recoveries we expect, but it's still in voluntary liquidation. Gardenhill is folded; South Indian Lake, I have just explained; Kee-No-Zae, it's folded. So Kee-No-Zae's folded; Gardenhill is folded; Crane River is in voluntary liquidation, it is still active; South Indian Lake is still active.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Well, I apologize for not being here for the first 12 pages, but I did have a very large file on these co-ops and I wasn't too impressed with the procedures to control this and after listening to Mr. Ziprick I can't help but feel and ask for a -- "clarification" maybe is the word. If you start at Page 13 and you work through this thing, it's been straightened out but it talked about a total of 18 had gone down the tube and four were still left, that made 22 - that meant there was two missing. However the Minister of Tourism says there's six still operating so that means that there's two that don't appear in this report that are apparently still operating.

The other thing pertaining to procedures is that in South Indian Lake, the Minister of Tourism says he's still hoping; Mr. Ziprick says they're trying to reactivate it, and he said it isn't a complete loss because we still have a big plant there, a big building. Upon looking, as I say without having my file here, upon looking at it there seemed to be and I wondered if Mr. Ziprick could comment, I realize while this is not to do with procedure, that actually if somebody in his department had to look at the plant, out in the middle of nowhere, why would they build a \$10,000-plus fence. I'm talking about probably the technicalities of the plant, and what would happen if that thing, if you're still hoping to get it occupied, or if it is occupied, are people just sitting around doing nothing? Like Crane River, you mentioned that people are still around and what I'm concerned about is that there's government money involved there. What future controls do we have that they won't build unnecessary things? Is there plans presented to somebody to okay? Because apparently there's a manager's lodging there, there's a manager's boat and motor, there's, as I say, a 10,000-plus fence out in the middle of nowhere and I wonder what this fence is keeping out? That's the kind of thing that I'm concerned with --(Interjection)-- or keeping in, whatever. Maybe rather than try to cover the waterfront

(MR. WILSON cont'd) I'll just concentrate on South Indian Lake and the procedures. Because the reason it says here that poor accounting, poor records and you mention that in the future loans will be pretty well controlled, and that didn't have the confidence of a statement that I would make, where I would say the loans are controlled. "Pretty well controlled" is sort of a vague situation. What loopholes in your opinion are still open that we could control something like this South Indian Lake thing?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: You know, you can't have a guarantee for everything under any circumstances, but the normal kind of procedures apply. They have now established an accounting system, if the people don't have an accounting system of their own, the department will provide an accounting system. So that when a loan comes in for approval it's being considered in its entirety, what it's for and once it's agreed to then there's a monitoring system that flows from there to ensure that whatever has been agreed to and the terms of the loan is what will happen.

Now you can't absolutely guarantee that because even with the departmental officials standing there all the time there's still things can happen. But as far as is reasonably possible, the kinds of controls that are needed are now being built in. So there's a regular audit, there's an accounting system immediately organized and set up to ensure that the money as it's going in is being used for the purpose it was intended.

Now as far as the purpose, of course, well there's a board and policy and that's outside of the auditor's overview as far as the basic purpose. If there's a decision made to build a plant at a certain spot and the kind of plant, then it's a question of, as far as we're concerned, the controls to ensure that this is the kind of plant that's being built, that it's managed during the construction process effectively, and that the money's paid over as the plant is being built with all the reasonable protections, progress payments, holdbacks, and whatever have you. But as to whether there should be a plant there or the size of it or what kind, we don't consider that our responsibility.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Would Mr. Ziprick care to comment on, I realize we're not dealing with specifics, but more or less with the accounting procedures. Would you be satisfied, that if this record is a year old and the actions of the Crane River Feedlot are probably two, three years old, would you be satisfied that the RCMP and the Attorney-General's Department are moving as quickly as possible to finalize this thing? Because that seems like a long time to be chasing down taxpayers' money that may or may not have gone astray.

MR. ZIPRICK: Well, I wouldn't want to comment on the work of the Attorney-General's Department. I think that you should talk to the Attorney-General. The Attorney-General's Department has taken this over and turned it over to the police and as far as we're concerned we have no further interest except to see the reports that are ultimately . . . but we do not do any monitoring or make any assessment as to whether the police are moving fast enough or not, we don't consider that our responsibility.

MR. WILSON: Then would it not be demoralizing to your staff if they go out like watchdogs and find out all these things and file a report, and then find out that two years have gone by maybe and nothing has happened. That's what I'm trying to get at. Is there no follow-up letter that says, whatever happened to our suggestions under Crane River Feedlot? What happened about our suggestions that there may or may not have been some cattle missing or some cheques that they can't find?

MR. ZIPRICK: I wouldn't say that nothing has happened. We know that the police are making enquiries, but we also know the difficulties there are to make these kind of enquiries. So we know that it takes quite a while and then it's all relative. If the amounts are not too large the police can't just drop other areas and spend all their time where in some instances they may find it's not warranted. Now it's not our decision as to how much money is spent to chase criminal elements. After all you can go beyond reason and expend money foolishly trying to track something down that isn't warranted. Now it's not our decision as to whether it should be tracked down to the very last or not, but as far as we're concerned, we have no complaints. The police, when they undertake the job, they usually in their time schedule follow through to make sure that it's carried out in a responsible manner. We have no evidence to the contrary.

MR. WILSON: Well, I'm trying to look at it from somebody from the public looking in. I mean we've got a million point three that appears to be lost and you say, not all that's lost because we do have a plant somewhere out in the middle of nowhere called South Indian Lake, so we do have some inventory. When you get over to this other one here, this Kee-No-Zae Co-op, you say there's no records, it would be a waste of public money to follow it up and the Federal Government says it's a waste of money, there's no point in looking for it. These seem to be incredible statements where we maybe should be looking at the procedure and I'm pleased to say that you did say on new loans there is going to be better control.

I did want to comment on another thing. It seems to me that a group of civil servants, in looking at this, were set up as a co-operative or whatever to buy all the goods for the co-ops. Now that seems to be incredible to me that you have the government here and another government team of paid civil servants here that set up a non-profit co-op; the question I want to ask you is in that co-op did they pay themselves any salary? Did they get any commission for volume buying? Did they get any overrides or did they get any benefits that you can see in your report pertaining to the group of government employees that set up their own non-profit co-op over here to buy all the goods for these? Is that not sort of slightly confusing to the person outside saying, well, why would they have to go to the trouble of setting up this buying organization, and this is where I'm a little lost.

MR. ZIPRICK: The logic for this kind of operation is quite sound. The bulk buying, of course, has merit and so this was the whole idea of a bulk-buying proposition, except that one it wasn't incorporated and it should have been, and then there should have been a board and the thing legally structured. Now as far as the procedures and the accountability, there were records and we did establish full accountability. For instance, the motors that were bought, all the motors were accounted for and sold and the money came in to offset it. Now whether there was any behind-the-scenes payoffs, for instance, to the people that were bulk-buying, there's no way that we could find out unless some third party squealed and there is no evidence to that effect anywhere. So we just assume that the purchase was made in accordance with tenders that were placed, getting the lowest price, the payment was made to that corporation for the purchase of the X motors, then they were charged out to the co-ops and the money came in to offset it. There was a small profit that remained which I think the Attorney-General just made a decision for the disposing of it, and it's being turned over to, I think, a new bulk-buying arrangement that's going to be legally set up so that the small profit that remained from this operation is being turned over to a new bulk-buying arrangement that's being set up. Now the Minister can inform you more on that. So there is now going to be formally a bulk-buying operation set up to bulk-buy and distribute to these co-ops, as I understand it, and the balance profit that remained from this previous operation is being transferred over as working capital to this new co-op.

MR. CHAIRMAN: Mr. Toupin.

MR. TOUPIN: Well, Mr. Chairman, I believe . . . is needed pertaining to directors and/or employees of co-operatives, none of which are civil servants. Directors of co-operatives are not paid and that's within the by-laws of the co-operative in question. Employees of the Board of Directors that are elected by the member co-operatives, those employees are paid.

Now pertaining to having any illegal actions occurring in any of these co-operatives by either directors, employees or outsiders, they're certainly subject to prosecution and they should be prosecuted and found guilty.

Pertaining to bulk-buying in the future, there has been the setting up of a Federation of Fishing Co-operatives in the north and it is hoped that this federation will be doing the bulk-buying for the fishing co-ops. So the Federation of Fishing Co-ops is composed of members of those fishing co-ops doing business in the north - actively doing business in the north, so hopefully that that will be a better mechanism than what we've seen in the past. The advice had by the Department of Co-operative Development is just that, advice, consultation. The Department of Co-operative Development itself is not held legally responsible. The Co-operative Loans and Loans Guarantee Board could be in some instances, depending on the type of guarantee that we've made.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Well, again, I wish I had my file here because my records seem to indicate that these fellows were indeed civil servants, so I'll stand to be corrected.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Mr. Wilson is referring to an item we reported a year ago and it was a Co-op Federation that was run by a group of civil servants and it was not a legal entity. It was just an operation run by the department really as far as we're concerned.

MR. CHAIRMAN: Mr. Cherniack on a point of order.

MR. CHERNIACK: I just want to make the suggestion, that I don't want to suggest that anybody withhold questions or go to anything in depth. But we are now going into an area which is behind us and I don't say it shouldn't be revived or kept alive if somebody wants to. It's just that it was considered, I believe, a year and more ago and it's not germane, I believe, to this report. Having said that, by all means I don't want to dissuade anybody from pursuing it, but I think it ought to be pointed out that the matter now being discussed is not in this report nor do I think it's in the accounts.

MR. CHAIRMAN: I have Mr. Spivak on the list. Are you on a point of order, Mr. Wilson?

MR. WILSON: I haven't finished because what I'm trying to get at is I have a book here which I don't care if it's a year old or a year and a half old, it's got this stuff in it. I'm trying to get the new accounting procedures. Mr. Ziprick said "pretty well controlled". To me that is not as emphatic a type of answer that I would have liked to have seen. "Pretty well" means there has been some improvements. I was trying to get the answers and I did get the answer that they were a group of civil servants, it seemed to me that why would they have a profit if they were in there for the goodness of their heart?

MR. CHERNIACK: Who's that?

MR. WILSON: The Co-op Federation that he mentioned, that he said were not properly set up, that were in the process of buying and allegedly buying in bulk and then billing it out and sending out the products to the co-ops, and yet they showed a profit. Now why would they show a profit if they were a non-profit organization? Would they charge up travelling expenses to the government rather than to . . . this is what I'm trying to get at. Okay, let's put it this way. Has this organization been disbanded and has the Minister said, we now turned this over to the Federation of Fishing Co-ops who will now be doing all the buying in the future. It seems to me that raises another question, why isn't the government involved in the monitoring of the bulk-buying prices?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Well, you know, maybe "pretty well" was a poor choice of words on my part. I would say that it's satisfactorily operated now as far as we're concerned, the department. As far as the Co-op Federation, when it was observed it immediately ceased its operations and was wound up. Now the profit may be a poor choice of words. I think the residue was something like \$1,400 or \$1,500. They were trying to cover some overhead expenses and so you had to put a bit of a markup on. Well, to be on the safe side they were going a little higher and they didn't make any big profits, so I think that the residue that's being turned over is something like - oh, there was some receivables that were being collected. There was about 8,000 receivables and about \$1,500 cash, so approximately it would be about \$10,000; but... all the receivables have not been collected, have they? No. So that there was about \$1,500 or \$1,600 worth of cash turned over and then there was still some receivables that were not collected. Not sure whether those will be collected or not. If they are, they'll be turned over to this new Federation. But this one that's being set up now is being set up in accordance with the co-op laws, and it will be operated by a Board of Directors.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: The last comment is that I would hope that the Federation goes after the accounts receivable with a little more enthusiasm than obviously this group did

(MR. WILSON cont'd) because if we've got accounts receivable it doesn't make sense. So I'll leave it like that. I'm glad he said the word satisfactory now with the new loans going out but I still think there's a lot of money there. It may be history but there's a lot of money there to be recovered and as somebody in the credit industry, I know you can get money when there's something there and I would hope the government would look at it.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: I think there's another question to be asked which is not related to, well it's related to the history of what's happened with the Co-op Federation and the whole department, but it's pretty fundamental, the check that's required with respect to access to funding or access to money or the ability to be able to provide funding. Now, Mr. Ziprick, my purpose isn't to really recite the history, but to be able to understand now what new procedures have been followed, not just for the Department of Co-operative Development but throughout the government where you have civil servants who have access, who have some say in the loaning or the commitment of government with respect to funds that could become available for use by civil servants who in this case, organize themselves into the co-op federation.

Now let me just go through this. The co-operative loans board, made up I believe of the Deputy Minister and others from the Department of Co-operative Development, they guaranteed the loan of the Co-operative Federation, and so in effect, what we really had is we had civil servants who basically acted illegally - no matter what their motives were, and I'm not in any way suggesting that their motives were incorrect and there's been no evidence of that - but who acted illegally in committing the government for funding for a purpose that they thought was correct, and this investigation only came about as a result of general investigation that you did under the Department of Co-operative Development. Because as far as I know, you did not know of this, the government did not know of this, certainly the opposition did not know of this and it was not until you did the total research with respect to the Department of Co-operative Development that you found out about it. Now what I'd like to know, if I'm not correct in that, I'd like Mr. Ziprick to indicate that because that's my understanding of it.

MR. ZIPRICK: I would like to, as far as this Co-op Federation is concerned, it became apparent when we noticed some transactions going through and by enquiries. Now admittedly if transactions are not being financed at all - now I understand this Co-op Federation bulk buying was going on for quite some time before this, but there was no loan guarantee, but where it came to our attention is during the course of our regular audit when we noticed a loan guarantee to this organization. Well it's standard procedure in our audit to enquire, well, you know, what's the organization, what's involved, and this is when it became apparent that it was being run by civil servants, it wasn't incorporated. So the regular audit would disclose this thing when the guarantee was made because during the course of a regular audit we examine the minutes of a board, and any guarantees or any loans are looked into, so that this is how it really came about.

MR. SPIVAK: My understanding though, Mr. Ziprick, is that you did take a specific audit or you undertook a specific audit as a result of what was taking place in the House with respect to the questions that were being asked on South Indian Lake and the other co-operatives, and my understanding is that as a result of that audit, you then determined that there was a Co-operative Federation and then followed through on that.

MR. ZIPRICK: The events as far as Co-operative Federation, the disclosure came about when we saw in the minutes, looking at the co-op promotion board minutes, when we saw in the minutes that there was a guarantee to a Co-op Federation. Well then immediately the auditors start asking well who is the Co-op Federation, and was told who's the Federation, well then where are the records, and the records were produced and then we traced back and carried on with the audit. Now if there was no guarantee and it wasn't approved by the minutes, well then unless we'd stumble on this some other way, we wouldn't know an operation being run like that on the side but in this case, the way it was noted was from the minutes.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: I don't think the sequence, I'm not here to argue the sequence, I don't think at this point it serves any purpose. What I am concerned is what recommendations if any have you made to the government with respect to control or a degree of or a new check on those civil servants who in fact have the ability to commit the government, commit money, or commit the government with respect to particular items in which there would either be indiscretion or possible conflict of interest. And my point being that as a result of this experience without knowing what's involved in any of the other departments, are there certain new procedures that must be followed or should be followed by the government, by the Ministers, by the Cabinet and by the other agencies with respect to the ability of or the inability, at least, to commit moneys or commit the government to provide funding for purposes that are not within the competence of the people involved. So that in effect the Legislature is still supreme in relation to trying to control what's taking place.

MR. ZIPRICK: Well the commitment procedures in law are laid out quite specifically that no public servant, no Minister of the Crown can commit the Crown for anything except what's been voted by the Legislature, and that's spelled out specifically in the Financial Administration Act and as far as we're concerned all the systems are generally geared to ensure that. Now if a public servant makes a commitment outside of that, I am not sure even if he made it with the best of intention whether it would be legally binding on the Crown or not, but the commitments that are being made on behalf of the government, everywhere there's a system laid on on how these commitments are to be made. If it's purchasing, there are purchasing orders, purchasing agreements, there are other contractual obligations, it's the same way, but under no circumstances can any public servant or a Minister of the Crown commit the government to anything except what's been authorized by the Legislature and that's quite strictly adhered to. Now in this case there was no question that the Co-op Loans and Loans Guarantee Board acted illegally and there was just no legal authority for it. Now a question was, there was no money lost, the matter was reviewed by the Attorney-General, and their decision was that there should be no action taken. But there was no question that there was an illegal act, that the board acted illegally for doing this. Now there's no way that we can guarantee that some people will not do things illegally but the laws the way they're set up now and the systems that are geared up now are such to ensure that there is no commitment except to the extent that funds have been voted by the Legislature.

MR. SPIVAK: Mr. Ziprick, do you consider it within your province to recommend disciplinary action or do you consider that all you do is simply recite the facts and the action is then taken by the government?

MR. ZIPRICK: We consider that disciplinary action for law breaches is not our responsibility, it's the responsibility of the Attorney-General's Department.

MR. SPIVAK: No, no, I want to clear up something, disciplinary action isn't necessarily the same thing as criminal action, or criminal responsibility, but if in fact there has been a breach do you consider it's your responsibility to recommend that disciplinary action be taken by the government or do you simply say these are the facts, you make the decision of what has to happen.

MR. ZIPRICK: Well if you mean breach of the law, well then as far as I'm concerned, whether criminal or civil, it's a breach of the law and that would fall under the control or the overview of the Attorney-General's Department. If it's a breach in regulations, procedures and good financial practices, well, we observe what kind of discipline is being carried out and we insist that reasonable discipline be maintained because if there isn't reasonable discipline maintained in financial management and in accounting you can get chaos pretty quickly and so as a preventative measure we are very insistent particularly in the accounting and bookkeeping area. Generally we are very insistent that remedial actions be taken as promptly as possible and if not, we take very strong exception to the people that are not doing it, and naturally our ultimate recourse is to report the matter to the Legislature, and we'd have no hesitation in doing that if proper actions weren't taken to make sure that these things happen.

Now I think we discussed last year, both the co-op or the Communities Economic Development Fund, the Co-op Promotion Board and Northern Affairs. The

(MR. ZIPRICK cont'd) operations in the north do present difficulties in accounting and the general overview because of distance and lack of qualified people, so it calls for different kinds of procedures and substantial work has been done towards improving the controlling mechanisms in the remote areas. But I must say that there are much greater difficulties to maintain control in these remote areas than there are in the established areas that procedures have been quite well developed and generally known, but there are educational processes going on and there have been improvements.

MR. SPIVAK: But in this case you've given a report and I'm not sure if that matter was referred to the Attorney-General's office, I don't think it was, the Co-op Federation, because . . .

MR. ZIPRICK: Yes it was.

MR. SPIVAK: All right. But insofar as you are concerned as Provincial Auditor there was no recommendation that any disciplinary action should be taken with respect to those - and I don't want to get involved in personalities - but those who had direct responsibility of loaning money to the co-operatives, who knew that when they were loaning the money to the Co-op Federation they were doing something illegal.

MR. ZIPRICK: Well as far as to whether any legal action should be taken. . .

MR. SPIVAK: No, I'm not asking for legal action . . .

MR. ZIPRICK: But as far as the other area, you know, we observed and we did say that the department changed its ways. Now whether some people should have been fired or not, you know it gets into a highly subjective and judgmental area, but the procedures have improved to the point that we consider them satisfactory now and as long as this continues we have no complaints. If the people that were doing it before observed and noticed their errors and have changed and are doing it effectively now, that would be, as far as we're concerned, considered satisfactory action, disciplinary action to get him to do things properly. Now as to what to do about the past sins or legal breaches, well that gets into another area.

MR. SPIVAK: May I ask on the principal terms of the Co-operative Loans and Loans Guarantee Board who have to write off essentially 80 percent of the money that they have loaned, or that they guaranteed, was there any recommendation to the government about disciplinary action with respect to that result? In other words, you know, effectively what's happened is 80 percent of the money has been written off, you've had an opportunity to investigate a number and there are certain matters that you reported, you obviously haven't reported all of them and it's not necessary, I understand that. But was there any recommendation as Provincial Auditor to the government with respect to the personnel who were involved in the Co-operatives Loans and Loans Guarantee Board who in effect were responsible for guaranteeing, you know, almost a couple of million dollars for various co-operatives, most of which money has been lost.

MR. ZIPRICK: Well the recommendations were that these kind of things should be stopped forthwith and arrangements should be made to ensure that the people who will be carrying on will know the procedures and carry them on effectively. Now whether some of them should be fired and are not capable of discharging their obligations properly or not, that gets into a highly difficult . . . and as far as we're concerned, if the situation persists and the individual that's in the position is the one that's causing the trouble because he will not or cannot adjust to do things properly, then we feel that there should be a change and there generally is. On the other hand if the matter is corrected and it's working effectively into the future then as far as we're concerned the position into the future has been resolved. Now the losses that have occurred, as to whether there should be any recovery from the individual public servants or if there are any other people involved, to what extent there can be recovery, that's beyond us. We cannot pursue any legal course or any kind of action to make recoveries, or even make recommendations because we don't want to make recommendations unless we had some legal advice to tell us whether we could carry them through, and generally it's the Attorney-General's Department that would decide. And that's why in each one of these we work very closely with the Attorney-General's Department as to whether there should be any legal action and I don't mean just legal action for criminal purposes but whether there should have been any civil suits against the directors or any officials and whatever the Attorney-General's Department would find to be acceptable, that's the approach to be taken.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: I really want to conclude this, I think I understand your position, but my concern is your constant reference to sort of criminal action. Certainly this obviously is an area in which we're not talking of something criminal but we're talking about the exercise of judgment and the exercise of responsibility. And in the course of that responsibility as Provincial Auditor, my assumption was that if in fact there are procedures that are not illegal in the sense, well, they may be illegal but are not of the nature in which the Attorney-General would be concerned about prosecuting because in effect there has been no advancement for the individuals involved but rather that they have exercised foolish judgment in the way in which they've handled themselves or they've been cavalier in the attitude in which they applied themselves to their responsibilities, that there would be a proper procedure from your point of view as Provincial Auditor to indicate to the government that having recognized that there may not be anything illegal or if it can be checked by the Attorney-General but the likelihood is that there will be nothing found to be illegal, it is still our recommendation that what has happened is of such a nature that you should be concerned about the individual. Now I gather that that area of responsibility, you would see as the area for a provincial auditor but in the case of the co-operatives, you've not recommended that and, well, I'm now talking in terms of positions and people at this point.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: No, as far as positions and people specifically, it is very very seldom that we will come out, and outright say you should fire that individual person. But the question, our concern and our position generally is there is a problem. The problem has got to be resolved and resolved as quickly as possible. Now there are probably four or five different kinds of approaches that you can take to resolve that problem. As far as we're concerned, we may suggest and say that from our point of view, this seems to be the most logical approach. But we don't care, if you want to use one or two or three of the other approaches, that's fine, as long as you take immediate action and you correct that problem. Now if in correcting the problem it means somebody has to be fired, that's fine. And generally speaking, we know where the individual has shortcomings, we deal quite strongly with the situation, and the other administrative officers and the ministers also feel the same way and this is when the firings will happen, or shifting of people out of one position into another to resolve the problem. So it gets there but we very very seldom will say, well this person must go. As a matter of fact, our approach generally is that if there's any way that a person could be taught or changed, instructed in any way to do things properly, well then the firing should be down to the minimum as far as we're concerned. The first approach is can anything be done to correct the situation within this kind of environment. If there can't, well the situation then is obvious, that the individual must go and that's all there is to it, if there's going to be any kind of control. Now of course, you know, if there's integrity or lack of integrity, dishonesty, well then the decision is very simple. It's quite clear. There's no way that we harbour criminals under any circumstances and the choices there are fairly simple and the decision is easy. But when it gets down to the competency, capabilities, carrying out the positions, following the procedures and all that area, the education and insistence on good discipline and getting things straightened out, that's the first approach, and if that doesn't work then the second is the firing and doing some shifting.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Well, Mr. Chairman, to Mr. Ziprick, in effect I think as we deal year by year with your report, there are new things that are evolving and I think there is new knowledge that the committee gains and possibly that you gain from us . . . But I must say that I think that when I say to the Chairman as well that I think we reached a point where in effect, and I understand your position, but we reached a point where I think there should be a recommendation that you be given the right or the obligation to indicate very directly the kinds of actions that should be undertaken by government with respect to those situations which are in the area that we've talked about, because I think that at this stage we are left in a very difficult situation. When you have people who have very high positions within the structure of government, and

(MR. SPIVAK cont'd) I'm not talking about the politicians who in effect I think have demonstrated that they are not capable of handling their responsibilities as a result of the kinds of investigations that you have indicated, then I think it becomes very difficult for government to act because it would almost appear to be a reaction on their part to the events of the time. Whereas I think in terms of the protection of the public interest, that in this grey area that we're talking about because we're not talking about anything illegal, well illegal in the sense of criminal action being required, but I think that there really should be some recommendation in a very direct way for both disciplinary action if that's what is needed or for change of responsibility because I think unless that happens then who is going to protect the public. The fact is that something's been uncovered, but the truth is that a lot of money was lost as a result of that.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Which high officials?

MR. SPIVAK: Well I don't want to get involved in names, but I can if you want, I mean, I'm quite capable of doing it. But the people who were involved in the Co-operative Loans and Loans Board were people who hold major positions in government in this sense. I'm not talking about . . .

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Major positions?

MR. SPIVAK: Yes. Well what do you consider major positions?

MR. CHERNIACK: Well you're making the accusation.

MR. SPIVAK: Well, director, or assistant deputy minister, deputy minister, those are major positions and I think those are the people we're talking about.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Well as far as the general improvement in control over financial matters and the general operations and administration of government business, we have made recommendations going back some three or four years ago, starting with the legislative system and improving the budgeting system, so that there is a much clearer understanding of what the commitment is than making comparisons and bringing about a much more effective management system. We've each year indicated that there should be an upgrading of managerial skills. Now we know in some areas the managerial skills in the government are quite high, they're just as high as any successful big business, and other areas there's a lot of improvement needed. So I think a conscientious effort has to be put into these areas, particularly since so much money is being administered. So we're continuously urging and making recommendations. As to whether it gets to specific individuals we work on purely the basis that if after that certain point that individual demonstrates competency and carries out a satisfactory job, we accept it; if he doesn't, then actions have to be taken. Now what went on before and what losses have been sustained before, well, it's a question of what can be done to recover the losses and there only certain kinds of actions can be taken. We feel that the matter has been brought to the attention of the public, the Legislature and whatever action is taken beyond that, we don't feel we can exert an undue, aggressive attitude.

MR. CHAIRMAN: Mr. Toupin.

MR. TOUPIN: Mr. Chairman, recognizing the fact that the Co-operative Loans and Loans Guarantee Board is a possibility of loaning to co-operatives on the last resort basis and recognizing the fact that whether the auditors from within the Department of Co-operative Development and/or the Provincial Auditor have the means now to, or have had in the past and have more so from within the department, the ability to assess the administrative procedures of the co-operatives now in function, and equally recognizing the fact that the co-operatives in question - and I restate for the record that employees of co-operatives are not civil servants, never have been, never will be, under the co-operative structure - employees of the Department of Co-operative Development or any other department of government that are seconded for whatever purpose to assist co-operatives or any other venture, is done so not as a member of a co-operative but done so only to assist those that had been given loans or guaranteed loans for any member co-operative. I would greatly frown upon any co-operative that would not be able to declare an undivided earning at the end of the fiscal year unless they were able to compete very well with any other individual company or group in society. And most

(MR. TOUPIN cont'd) co-operatives do declare undivided earnings, and they should because they have to set aside reserve funds, contingency reserves, declare patronage refunds to lenders, to borrowers from within the co-operatives and from outside the system itself, and that's good. I'm not afraid, Mr. Chairman, of any powers being given now, bestowed upon the Provincial Auditor pertaining to his present duties and any future duties as determined by the House pertaining to loans being guaranteed by the Co-operative Loans and Loans Guarantee Board. I would only hope that if any additional powers are given to the Provincial Auditor to recommend disciplinary action by government or any other agency of government, that it would be made applicable to all other Crown corporations that are lending or guaranteeing loans like the MDC, the Farm Credit Corporation. And I restate, put nine co-operatives in question that we had here over the last three years, and put them against nine small or larger businesses or nine large farmers and we'd compare very easily in regards to the record.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Well in response to the Minister first, it would seem in studying, which is a very valuable document because then with that, you can sort of read between the lines or do whatever you want to do or make your own conclusion. But it would seem to me that in response to the Minister that his civil servants in fact had, in this report they had the Power of Attorney over the co-ops, they literally ran them, and to use the term "advice" is fine, but I wonder if it really was advice because Mr. Ziprick has pointed out that with South Indian Lake, there was no leads, no one was talking, so civil servants didn't keep the records, it would appear, not the people running the Co-op or the people working there, somebody didn't keep the records. And to allude to a fantastic success story today in 1976 merely is, in my opinion, because most of the loans have been written off. So that's dealing with that.

I did want to thank Mr. Ziprick for his very enlightening - as a newcomer - his very enlightening statement that it's the law that we cannot commit funds to the Crown, that civil servants cannot commit the government, in other words, basically, all of us sitting around here really make election promises and we can't do anything without the Legislature passing the money and all the rest of it. So it would seem to me that then I would have to ask, based on that lesson this morning, that why doesn't Mr. Ziprick when he says the department requested the Attorney-General's Department to give them advice, and based on these legal opinions, they didn't decide to pursue the matter of doubtful expenditures and so on and so forth. My question then to Mr. Ziprick is does he feel, and maybe this is an unfair assumption, but does he feel possibly some members - depending on who you talk to - of that department aren't aggressive enough because as civil servants they can keep their job merely by shuffling paper around. And I would think that maybe this is an area where sometimes your department should recommend outside legal advice because the private sector seems to be more aggressive when it seems to be in the area of recovering money and taking civil action and things like that, and this is the area . . . because the Minister himself in his Estimates said, how dare I say to give up on the CFI inquiry because it was a matter of principle. To me, as a newcomer, it's a matter of principle that we've got a heck of a lot of money here that the Minister has written off and now is talking about a success story, and I think that we should go after that money, because if the same principle applies for the Minister to carry on, then it applies here.

And my last point is, why doesn't Mr. Ziprick have the authority to make the recommendations that people of questionable ability, it can be in a written form, they don't have to have any legislative power, but they could be recommendations that some of these people that are, as a street term, political hacks or people that are not qualified, have these positions, there should be an area where his department can recommend changes because I would like to know, and I'm going to write to the Attorney-General and ask him, who are these people that were on the loan board, where are they now, have they been replaced, does the situation still exist. I know I'm not in a position under these five pages to call for an inquiry but I'm telling you, there's some answers even though this is history, that I have no guarantee sitting here today that it couldn't happen again. And Mr. Ziprick told me a few minutes ago in answer to my question that there has been some improvements and there's improvements every year but he

(MR. WILSON Cont'd). . . . still couldn't guarantee, and his quote was "pretty well controlled" and he corrected that, he said it's satisfactory.

Those are my comments, I think it's terrible that all of these irregularities have gone on and we are responsible for okaying that money and I'm not satisfied that the system to recover it is good. In other words, when the money goes out, I, together with the members of the government, vote for that money to go out but when it comes to recovering it, it goes to an individual. It's the responsibility of an individual, whether it's the Minister of Consumer and Corporate Affairs or if it's, in this case, the Attorney-General. So I think that we should have some say as to we're dissatisfied that the way of recovering it is not there.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, I'm looking for some information and maybe some assistance here and my question is probably both to the Executive or the Legislative Assistant to the Minister of Finance and also to Mr. Ziprick dealing on Pages 14 and 15 of the Auditor's Report. First of all with the Crane River Feedlot Co-op Incorporated, it states in the second paragraph, "The Province has made a payment to the lender in the amount of \$106,719." Then in Gardenhill Indian Crafts he says, "The Province has made a payment to the lender in the amount of \$80,708." Under South Indian Lake, "The Province has made a payment to the lender in the amount of 783,576." Under Kee-No-Zae it says, "The Province has made a payment to the lender in the amount of \$107,087." Well I won't go any further. Just where do those figures appear in the Public Accounts of the province? Under what section could I find them?

MR. CHERNIACK: Do you mean the individual payments? In the supplement to the accounts.

MR. GRAHAM: In the supplement. We have a section here, the Government of the Province of Manitoba, cash payments to corporations, firms, individuals, municipalities, cities, towns and villages, arranged in alphabetical order.

MR. CHERNIACK: Are you talking about the supplement?

MR. GRAHAM: Yes. I fail to find any of those in the supplement. I was just wondering where I could find them in the . . .

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: When we are putting out our reports we update the situation right up to pretty close to the end of December so what's in our report is all updated information as we know it at the time that we issue. Now pretty well all these payments were made after March 31, 1975, so they will show up in the 1976. Now they will not show up as a payment to Kee-No-Zae. They will show up as a payment to the bank or credit union, whoever their guarantee was.

MR. GRAHAM: . . . development and the Co-op Loans and Loan Guarantee Board?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: No I don't. These were made directly to the guaranteed people. This was another thing. Arrangements were made to ensure that we got all the protection when the payment was made so that all the releases were obtained from the various boards so when the province made the money, it had all the documentation to place all its claims on whatever assets are remaining or may be found or whatever have you to recover this money. So that the payments are all legally gone through and made in accordance with legal direction, all the assignments and whatever have you. But all these payments have been made after March. They will appear in the next year's supplemental but not under South Indian Lake or Co-op Board but to the specific. . .

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Then your report for the fiscal year ending 31st March, 1975, actually covers activities that go beyond that date.

MR. ZIPRICK: The originating action happens in 1975, but we update the position right to at the time within about two or three weeks when we close off the report for printing. We feel it's not right to be putting in a report knowing that the situation has changed so significantly, so we bring it up to date and this is the position as we know it at the date of reporting.

Now we don't deal in any new transactions that happened in 1976 in the 1975 report unless of course there's something has happened so major and earth-shaking that

(MR. ZIPRICK Cont'd). . . . we feel that it would warrant the attention of the Legislature that soon. But otherwise we would deal with it in the next year's report.

MR. GRAHAM: We'll see those figures appearing in next year's financial Public Accounts statements then.

MR. ZIPRICK: That's right. Then they will appear under . . .

MR. GRAHAM: I was just curious. I wanted to know. That's fine; that's all I wanted to know.

MR. CHAIRMAN: Page 14--pass; Page 15--pass; Page 16--pass? Page 16 - Mr. Craik.

MR. CRAIK: Mr. Chairman, Mr. Ziprick made some comments here on Page 16 with regards to the Department of Finance, inconsistencies in monitoring procedures including a lack of independent certification that funds have been expended for the purposes intended. I wonder if Mr. Ziprick could advise us what the present state of affairs is with regard to discussions for closer monitoring of funds.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Yes. We've had discussions and the Department of Finance is in the process now of devising a system whereby the auditors of the organizations will be notified directly of the moneys, the amount of grants, that these organizations are receiving. Then they will confirm back to me that the grants have in fact been received and have been recorded in the Accounts. So there'll be a direct confirmation of the grants of all the organizations that are audited. Now if there are some small organizations that are not audited, those we will have to take a look at and see what it is. But through this system we will have an audited certification in every instance that a grant is being made to another organization which we do not audit.

Now as far as the money being spent for the purposes intended and certification by outside auditors, it would require some work because the direction is sometimes fairly general in the grant and so it'll be more subjective, judgmental. But there will be no doubt whatsoever that the money has been received by that organization and it's been spent by that organization and is recorded in the financial statements. We will have audited financial statements available in each instance to back that up.

Now the inconsistencies, we've been working on it for a number of years and some departments meticulously did get audited financial statements and files that we could examine, others weren't available and this is where the difficulty is really encountered. Even with the audited financial statements we could not identify necessarily the provincial grant in there because the financial statements may be quite substantial and there's other moneys and it's all summarized and the grant could not be positively identified. To ensure that there's no misdirection of funds, when this new system goes into effect there will be a positive identification by the auditor that this money has been received and has been recorded and expended by that organization.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: The draft directive you refer to as having been submitted to Cabinet for approval, what you're saying here is that that has been approved and the procedures are set up now.

MR. ZIPRICK: I haven't seen the formal directive but Finance can bring you more up to date. Our last meeting, Finance is gearing up to run through the computer the payments, gearing up to get the auditors from the departments of these organizations so that there would be a direct listing sent to the auditor and the auditor would then confirm to me and say, yes, that grant has been received, has been recorded and has been expended and is included in these financial statements that I have audited.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: Your last paragraph, Mr. Ziprick, under Finance it says on the basis of present procedures your office can only carry out a limited verification of the accountability of grant expenditures. What you're saying now is you'll be able to tighten it up a lot more with the procedures under way. Your ability to provide more accountability isn't dependent on this approval by Cabinet you refer to, it's an approval of a different system by Finance then primarily.

MR. ZIPRICK: Under The Financial Administration Act these kind of directives can be issued by the Minister of Finance, but when it involves all the departments it's general procedure that the matter is cleared through Cabinet so that - now it doesn't need

(MR. ZIPRICK Cont'd). . . . an Order-in-Council, there discussion in Cabinet so all the Ministers are familiar and then it comes back and the directive is issued. But the directive itself, there is authority under The Financial Administration Act for this kind of accounting directive to be issued by the Department of Finance and I understand that when all the machinery - and everybody understands what's expected - is in place, then the directive will be formally issued and the procedure will be put in effect. Am I correct on that? --(Interjection)-- The Deputy Minister says that there are still some problems with getting the procedures fully on line but I don't think they're insurmountable and it's on its way.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: I'm very pleased to see there is going to be an exchange between auditors pertaining to the government grants that are given out because many people say that the money was supposed to go for this particular purpose and have alluded to the fact that it was indeed used for alternate purposes. My question or probably my observation to Mr. Ziprick is that it would seem that if you could develop this exchange between auditors that if you gave out grants that there was some accountability that the money was indeed to go for the worthwhile cause it was intended to, rather than an alternate cause. Also grants are given out by different departments of government under the motherhood thing for say care beds or something. When you find out that the money went for signage or for large entrances and elaborate facades of buildings and this is the thing that I welcome.

I wonder if he could comment on - again I'm reading from the newspaper. It says that the government gave out a certain amount of money under a particular department. Then you might read again where a particular Minister awarded money out of, say the Lotteries, or out of some other organization to sports and cultural organizations which do not appear to have received the money through some autonomous government board or organization and yet it seems to be the government that's awarding the grants. I wonder if he could explain the difference to me. By that I mean, do you have any control over for instance the Lotteries Commission, the money that they give out?

MR. ZIPRICK: Yes. The Lottery legislation is quite specific that any money that's realized from lotteries is not to go to the Consolidated Revenue Fund and be just used for any purpose of government, it has to go to a special trust account and be placed in this special trust account and it's only to be used for the sporting and cultural activities.

Now as far as the deciding procedure as to which cultural activity, which sporting activities, of course, it's the government that makes that decision. Applications are obtained and the Department concerned considers and evaluates on how much should be given to each organization. Having determined that, then an Order-in-Council is submitted to Cabinet and Cabinet approves it and once Cabinet approves payments to these various organizations, then that's what's been decided.

Now we don't participate and we don't feel it's our responsibility and we don't think it should be our responsibility to participate and determine which organization and how much. This is a government, really political action that is determined and having been established it's approved by Order-in-Council. The Orders-in-Council are immediately made public as to how much money is being received and then the payment is made. Now that's made out of that trust account. The other grants that are made from the departments are made from the Appropriations which are voted generally under Other Expenditures. There's salaries and usually other expenditures and most comes out of the Other Expenditures.

MR. CHAIRMAN: Page 16--pass? Mr. Wilson.

MR. WILSON: My last thing. You say the grants are made public. Is there anywhere that the amount of money in that trust account could be made public? In times of problems many organizations are facing, if the government has a large amount of money in that fund, if the public knew that they had the money then maybe they could lobby a little bit better for it. But they're always told in many cases that the province is broke and that there are no funds available.

MR. ZIPRICK: The trust account is shown in the Public Accounts, the amount and the transactions are reflected in the Public Accounts each year. So you can

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(MR. ZIPRICK Cont'd). . . . trace from Day One: so much has been received, so much has been paid out. It would be shown in there individually but in summary under the main public accounts if you look in the trust section, trust and special division, you will see a balance remaining. Now in the trust receipts and expenditures you will see how much came in, how much went out. If you start with the new balance, you add the total amount received during the year, take off what's been paid out, you will wind up with a closing balance that's shown. So you can trace the money right from inception in the amounts that have been received, paid out and how much is remaining.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: How old is this information? What I'm trying to say is how does the public find out what the balance of that trust account is say within a 30-day period. How does the public find that out?

MR. CHERNIACK: Every 30 days you want a publication?

MR. WILSON: No, not a publication every 30 days. Is that information available to the opposition?

MR. CHERNIACK: Well I think all you have to do is to try by writing a letter and asking what the account is at a certain stage.

MR. WILSON: All right.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: I just want to suggest to Mr. Wilson, who has quoted many people as saying that funds or grants are being used for purposes other than what they're intended, that it would be a responsible act on the part of an MLA to so inform the government so that it can investigate such statements and if correct, do something about it, rather than just hear general and vague accusations in the manner in which Mr. Wilson has given them this morning.

MR. CHAIRMAN: Page 16--pass; Page 17--pass; Page 18--pass; Page 19--pass; Page 20 - Mr. Craik.

MR. CRAIK: In the Manitoba Development Corporation, Mr. Ziprick makes reference here to unaudited annual financial statements for smaller accounts. The officers of the Corporation should be required to check the unaudited financial statements and indicate in their monitoring reports that the financial statements are in agreement with the books and so on. Has any action been taken with regards to that - by the MDC?

MR. ZIPRICK: There has been some discussion but I don't know whether it's been fully resolved. I think that there probably is some difference of opinion here. I think that they feel that they're satisfied, their monitoring officers are satisfied that the financial position is reasonable and so any documentation may not be necessary. I don't know, that may be their approach, but I haven't got the latest on that.

MR. CRAIK: With regards to the other item that you have here, the auditing of Flyer Industries Limited, monitoring of this account was discontinued and an independent review of this operation was not available for our inspection. Can you update us on where auditing of Flyer Industries stands now?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Yes. We took a look at the situation late in December, early in January. The financial statements for December 31, 1974, came out in late November so they're available. There was a substantial loss that we had reviewed and established how it had arisen. We have been working with the auditors that are doing the audit. Now the reason the financial statements last year were so late was because of the horrendous mess, apparently, that the accounting was in and the amount of time that we required to straighten out the accounting, to get the financial statements to the end of fiscal year ending December, 1974. They have improved the accounting and the financial statements for 1975 are still not out, though they expect them to be out by the end of June. They still have run into some inventory computer problems that are delaying the financial statements of Flyer to the end of 1975, December, 1975.

MR. CRAIK: You mentioned here that you recently asked that your office be authorized to carry out a review of the operation. Are you now involved in that or is this audit you're referring to still done by an outside firm?

MR. ZIPRICK: The audit is done by an outside firm and it's not that we were

(MR. ZIPRICK cont'd) concerned about the kind of audit that was being carried out. In addition to what the auditors over there have as an obligation, we have an obligation when we're certifying on the Public Accounts and the Manitoba Development Corporation to know what the position is with regard to the Flyer Industries because it has a substantial bearing on the Manitoba Development Corporation financial statements and also on the Public Accounts. As a result we want more information than just the financial statements. Because there was no monitoring, because there was an interlocking directorate system, we really had no information to make our judgments, as for instance, on Saunders, in addition to the audited financial statements there was an officer, an accounts officer who was looking and supplying the information and we could make evaluations from that. In this case the situation wasn't in that way so unless we disassociated ourselves from the figures in the MDC books and the Public Accounts, we needed some information. It's not that we were questioning as to the kind of audit, but the statements were not available. The only way we could find out what was wrong, why the statements were not available, is to get a formal authorization. We felt it would be unfair for us to approach the auditors or even directors of that company and just say, well, you know, we don't have any legal rights right at the moment but could you please just give us a bit of information so that we could complete our side. We felt that we should have the authority and then they would be free to provide the information to us. This is what's happened. They've provided the information to us and we're working with them on the current year and we will be making an updated report on the situation next year.

MR. CRAIK: So you've been authorized to carry out the review of the operations that you indicated here that you asked for, and you're apparently doing it then?

MR. ZIPRICK: That's right. We are not doing any audit work on our own, we are working with the auditors as far as determining what the position is. Now we are going to take a look at some of the areas that the auditors do not dwell on and that would be the tendering procedures and a few areas that really we in the public sector give more attention to. So we'll probably do a little of that. But other than that, that's all. We're working with the auditors and getting all the information that we need.

MR. CHAIRMAN: Mr. Wilson.

MR. WILSON: Again, Mr. Chairman, I wanted to put on the record - and I don't know if I'm on the right page because I did have this marked and I believe you're gone by one - it was the public auction and tender of goods being disposed of by the government. I look upon Mr. Ziprick as a vehicle against dishonesty and waste and what-have-you and I wonder, you always make these observations but I wonder what action has been taken. I'm referring to the cattle that were disposed of by agents of the Minister of Agriculture and the Minister of Public Works and I wonder what guarantees we have that this won't happen in the future. You refer to violations that took place and your last comment is: however in this instance the disposal was made on the basis of special arrangements. --(Interjection)-- Page 17. I'm concerned because these television convicts have gone out of the cattle business and now that they have I think at least the assets should be maximized to the taxpayer.

MR. CHERNIACK: Who was out of business?

MR. WILSON: You disposed of the cattle business out at Headingley Jail, these television convicts that are out there, they've gone out of the cattle business.

MR. CHERNIACK: What television convicts?

MR. WILSON: Well the people that ran the institutional cattle farm out there, they've sold off the cattle.

MR. CHERNIACK: What convicts are you speaking of?

MR. WILSON: Well the inmates out there used to be in the cattle business. They ran a farm out there.

MR. CHAIRMAN: Mr. Wilson, I think the . . .

MR. WILSON: No, but that's not the question. The point that I'm making to Mr. Ziprick is that goods were supposed to be sold by public auction and by tender and somebody in the department took a certain action. Has that man been disciplined? What action has been taken to ensure that this type of thing doesn't happen again?

MR. CHAIRMAN: This matter was covered in the Farm Credit Corporation Estimates last year quite thoroughly.

MR. WILSON: Well that's fine.

MR. CHAIRMAN: Unfortunately you weren't here.

MR. WILSON: But I'm talking . . .

MR. CHERNIACK: Well that's a matter of opinion. On a point of order. I understood from Mr. Wilson that he was calling the people who dealt with the disposition of the cattle, that he was calling them convicts.

MR. WILSON: No I did not.

MR. CHERNIACK: Television convicts. He said they were responsible for the disposition of the cattle.

MR. WILSON: No. I said that the disposition of the cattle was from an agent of the Manitoba Agricultural Credit Corporation, I did say the Minister of Agriculture and the Minister of Public Works. Somebody from the Public Works Department, an official of the Department of Agriculture, it says here, sold the cattle. He just sold them by a special arrangement. He didn't go to public tender; he didn't go to public auction. He disposed of the cattle. It doesn't say here how many cattle, it says that they got \$24,000 from them.

I was raising the question from the point of Mr. Ziprick, who is the man we're dealing with, what recommendations is he making that we don't have these special arrangements, that things should be sold by tender or public auction. That's what I'm saying. You're generally making the recommendations that we . . .

MR. CHAIRMAN: Mr. Ziprick can give you a quick comment on that, otherwise I would have to rule that question out of order because we've passed that section. But if Mr. Ziprick would care to comment quickly on it. We've covered it thoroughly all before.

MR. ZIPRICK: Yes. There's nothing in the law anywhere that says that these dispositions must be by tender. They generally are by tender to establish the best price but in some instances they can be sold by special arrangements or even given away if this is what the government wishes to do.

Now the only thing we will do is if they're not by tender, we'll bring it to the attention of the Legislature as a matter of information so it's understood. But you can have no assurances that it won't be done again. As a matter of fact it may be appropriate at some time that it be done again just exactly this same way. If there is to be assurances that it wouldn't be done again the only way that could be done is by an act of the Legislature, that under no circumstances would there be disposal except by this and this kind of procedure. But right now there's not a legislative requirement of this nature and the reason we brought it out here is basically as information. Wherever dispositions are not going to be made by tender we will bring it as information to the Legislature, but not necessarily be critical. Some of the information that we've put in our report is not necessarily critical. Here we took a look at it; we've seen nothing devious about the prices or even the way it was disposed of. But it was disposed of not in accordance with what is normally being done, by tender, so we just brought it to the attention as a matter of information and we will continue to do this as a matter of policy.

MR. CHAIRMAN: Page 20--pass; Page 21 - Mr. Craik.

MR. CRAIK: Mr. Chairman, could Mr. Ziprick indicate whether the difficulties he's referred to with regards to the Housing and Renewal Corporation have been changed at all.

MR. ZIPRICK: Yes. There's been a substantial amount of work gone on over there. As a matter of fact a committee has been formed of senior executives and they meet every week, I think, to ensure what progress is being made on all these various difficulties. The auditor, my representative, sits in on the meetings and advises and monitors on the progress that is being made. So there's a real, I would say, real sincere effort, being made to get the thing into shape.

MR. CHAIRMAN: Page 21--pass; Page 22--pass - Mr. Craik.

MR. CRAIK: Could Mr. Ziprick indicate whether the lagoon is now operating effectively or not?

MR. ZIPRICK: I guess so. I haven't heard any complaints to the contrary.

MR. CRAIK: Okay.

MR. CHAIRMAN: Page 23--pass; Page 24--pass; Page 25 -

MR. CRAIK: Pages 25 right through to 37 contain quite a bit of comment with

(MR. CRAIK cont'd) regards to the comparisons of our practices in relation to the recent federal report on the operation of the Auditor. They're pretty involved and pretty long and I think perhaps they're the sort of thing that are valuable to us for debate on the role of the Auditor as far as the debate in the Chamber is concerned. So I don't intend to go into it here but I want to thank Mr. Ziprick for breaking it down this way because we've had debate that's gone on over the last three or four years with regards to the role of the Provincial Auditor. I want to give him the opportunity to highlight any matters he feels should be highlighted but other than that I'd be inclined to take pages 25-37 and use them as reference material for discussion in the Chamber.

MR. ZIPRICK: I would just have one comment and that is this: the extent of auditing going into the effectiveness of programs and the hiring of experts by auditors in addition to just professional auditors like chartered accountants, this area is undoubtedly going to see some quite substantial amount of debate. I understand Canada is working on legislation. Just how far they're going to go in that area I'm just not sure. Even our law, there might be different interpretations placed to a degree but we've always felt, and I think rightly so, that we can only carry out such audits and investigations that are within the competency of professional auditors. The moment that we need any expert advice, outside of professional auditors, that is engineers, lawyers, whatever have you, we can ask for and get it from knowledgeable people in the government and we can rely on their professional advice. There is no independent verification requirement by the Auditor.

Now as you know in the United States and other areas, Sweden I think, the auditors do have these broad powers; they do carry these more broader audits out. Although the Commission did recommend the broader audit, it's not very clear just to what extent. I think that this is the area that's being considered in Ottawa. It'll be interesting when their legislation comes forward just how well it's spelled out and to what extent they will go. That's the main issue that will be up for consideration.

MR. CHAIRMAN: Thank you, Mr. Ziprick. Is it the will of the committee to approve Pages 25 to 37? Pages 25 to 37—pass; Page 38 . . .

MR. CRAIK: Mr. Chairman, Mr. Ziprick makes reference here to the continuing problem of the management system and management audit. This again has been discussed here before. In the final paragraph on Page 39 he refers to his two previous reports recommending improvements in the province's management, development and selection system so that key positions could be more readily staffed with qualified managers. Again I would ask if he can update us on whether any progress is being made on this at this time.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: There is some progress but I should probably say that this observation, to my knowledge, would apply probably right across Canada to the governments generally. In the area where we find it is particularly in new programs. For instance this co-op development experience can be a demonstration that people that take on these new programs may have not had the qualifications or the experience that is necessary to carry out some of these programs. It starts out and too often we find that when we go into these areas and start reviewing the management and business procedures, we find that the people in charge are not fully familiar and conversant with these procedures. So you get into a substantial trial and error method. What we are suggesting is to have a selection procedure whereby when you're taking on new programs the people that are put in charge of new programs or are carrying out programs that they are really quite familiar with the disciplines of good management. There would still be difficulties because there's always growing pains but a lot of this trial and error would disappear and there'd be a substantial saving to the public in putting these new programs into effect. So that really this is what we're trying to say.

Now we know it's not easy because qualified management is hard to come by and difficult to hire away from other organizations because if they have them they usually like to keep them. Generally speaking I would say that the most effective way of upgrading your management is still mostly in-house training. The Management Committee of Cabinet has devoted quite substantial attention towards the training and it'll start seeping through, but we thought that there might be a more concerted direct action placed on tabulating who the better managers are, and there are good managers in governments just as there

(MR. ZIPRICK cont'd) are in other places, and guide them along and then especially new programs, when they're to be undertaken that they be undertaken by people who are familiar with the good disciplines of management. I think that some of the difficulties in these new undertakings would be substantially minimized if that kind of approach was taken.

MR. CHAIRMAN: Page 38--pass; Page 39--pass; Page 40--pass - Mr. Cherniack.

MR. CHERNIACK: I wonder if it would be helpful if Mr. Ziprick were asked to indicate which of the exhibits are not contained in the Public Accounts. Because if they are in the Public Accounts then possibly we would want to review them either with this report or with the other but not duplicate it. I wonder if that meets the pleasure of the committee.

MR. ZIPRICK: Statement 5 is not in the Public Accounts and of course Schedule 7 is not in the Public Accounts. The others are all in the Public Accounts.

Exhibit 1, I can just tell you, that's just a complete reproduction of what's in the Public Accounts. Exhibit 2 is a complete reproduction except it's on a comparative basis. Exhibit 3 is basically reproduction. We have lined the order of the revenue by size of dollars but other than that it's essentially a reproduction. Four is a reproduction except for comparison. Now 5 is a new statement in which we pull together. This gets to this capital revenue break that goes on and as far as we're concerned, from an accounting point of view, there is no particular logic as to what's capital and what's revenue judging on the expenditure basis. The split is generally more where the money comes from than what kind of an expenditure it is so that there be a comprehensive view of the total expenditures and the position as it sits vis-a-vis the working capital side. We have prepared that statement to indicate it in summary form.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: I have a few questions here. I may not be able to pick them up on the Public Accounts but on Page . . .

MR. CHERNIACK: Mr. Chairman, maybe we should go page by page after having had this explanation.

MR. CHAIRMAN: Page 41--pass; Page 42 -

MR. CRAIK: Redemption of \$3,101,069, of death redemption. This is getting transferred back and forth between revenue and capital and I'm concerned here: an additional provision of \$3,101,069 for death redemption pertaining to 1975-76 payments under Section 84(b) of The Financial Administration Act. Now why would that be charged to revenue? Why would you charge that to revenue?

MR. ZIPRICK: It's charged as an expenditure of 1975 and set aside for 1976 debts so it's in effect a reservation into 1976. That's why we point it out as a matter of information, that there is a reservation that all the 1975 expenditures have been taken care of and that 3 million for 1976 redemption has been set aside.

MR. CRAIK: Now also year ended March 31, 1976, will include a revenue item of \$45 million carried forward from 1975. This carry forward from year to year of an operating surplus and showing it the next year as a revenue, showing it as such, does that not allow you to really balance your books fairly arbitrarily, you keep carrying forward this and showing it as a revenue.

MR. ZIPRICK: The way The Financial Administration Act is set up it just makes no accounting sense as far as any surpluses or deficits. You can just determine your surplus or deficit as you want it and the law is there to say that that's okay. But that's not our concern, that's the way that The Financial Administration Act is drawn. This is why we point these different things out that apply to different years so that you can get an idea of just some allocation and that's where that Statement No. 5 comes in handy, because we reverse all these items and show you a net revenue position after doing away with all these transfers. As you see, if you turn to Statement 5, you will see the net revenue in 1974 was \$46 million and a comparative net revenue for 1976 was \$12 million, when you remove all the transfers and provisions for sinking funds and whatever. But the way The Financial Administration Act is drawn, well the surplus and deficit can be . . .

MR. CRAIK: So you can arrange your . . .

MR. ZIPRICK: Arrange it in any way and you can carry revenue forward from one year to the other, bring it back to charge certain reserves or expenditures. So from

(MR. ZIPRICK cont'd) an accounting sense it just doesn't make sense. But that's the law and as far as we're concerned it's not our responsibility.

MR. CRAIK: So if next year our Budget turns out to be a balanced budget and it also happens to be an election year we should get our computers out and calculate very carefully, interpret The Financial Administration Act to see whether in fact we are better off than we were the year before or not.

MR. ZIPRICK: Well once the reserves are chewed up, when you get into a deficiency position then there's no way you can draw . . .

MR. GRAHAM: When all the eggs get in one hand you've got nothing left to throw with.

MR. ZIPRICK: It's when you've got the extras that you can divvy them up, but when there's no extras you've had it.

MR. CHERNIACK: Mr. Chairman, I'd suggest to Mr. Craik that he just do what we did when he was a Minister of Government, and he just watch what we're doing just as much as we watched what he was doing. We followed the precedent that we learned had been established by a previous government and it's right, apparent that when there is an accumulated surplus it's a question of judgment whether to include that as revenue for a following year or hold it back depending on the resources one can foresee will take place. I don't think we criticized Mr. Roblin when he found it advisable so to do.

MR. CHAIRMAN: Page 42--pass; Page 43--pass; Page 44--pass - Mr. Wilson.

MR. WILSON: I guess this isn't Mr. Ziprick's role but under that Investments where it seems to have gone from 5 million to 166 million, is there any explanation? Do you have any comment on that? It's under the Asset column, Page 44. Investments, I just wondered . . .

MR. ZIPRICK: Oh yes. That's mostly the Manitoba Forestry Resources shares. That brought that up.

MR. WILSON: Yes, I see.

MR. CHAIRMAN: Page 44--pass; Page 45--pass; 46--pass; Page 47--pass; Page 48--pass; Page 49--pass; Page 50--pass; Page 51--pass; Page 52--pass; Page 53--pass; Page 54--pass; Page 55--pass; Page 56 - Mr. Spivak.

MR. SPIVAK: I'm not sure that this is the appropriate time. It may be at the conclusion of the report before you deal with the Public Accounts. But I wonder, if the question hasn't been asked, whether Mr. Ziprick's in a position to give us any information on the special audit, any public information, on the special audit undertaken on Flyer Coach Industries by his office.

MR. CHERNIACK: Which page is that?

MR. SPIVAK: Page 56, Manitoba Development Corporation. Special Warrants.

MR. CHERNIACK: Mr. Chairman, didn't we deal with Flyer this morning?

MR. CHAIRMAN: Mr. Craik had some questions on it but . . .

MR. CHERNIACK: Mr. Ziprick has dealt with Flyer. He updated the report as I . . .

MR. CRAIK: . . . question, it's just a question of the auditing procedures that we dealt with on Flyer.

MR. SPIVAK: No. But in his report he indicated there was an audit to be undertaken on Flyer. I just wonder whether that audit has been completed and has the information furnished to the government? --(Interjection)-- I'm sorry?

MR. CHAIRMAN: That's what Mr. Craik pursued I think.

MR. SPIVAK: On the procedure or on the result?

MR. CHAIRMAN: The current situation as I understand is what Mr. Craik was trying to establish; where the audit sat at the present time. Mr. Craik.

MR. CRAIK: The information provided by Mr. Ziprick was that the Provincial Auditor's Department was involved in examining the procedures and that the 1975 audit would be available about the end of June. I think that was the . . . If that's the audit you're referring to, although it may not be.

MR. ZIPRICK: Yes. We have done a preliminary review in December and January, December of 1975 and January of 1976, and put in a report. As I mentioned before, the reason we got involved is not because we were concerned about the quality of auditing or anything like that but there was no monitoring, the audit report on Flyer was behind

(MR. ZIPRICK cont'd) and there's no way we would certify to the financial statements until such time that we got information. So we did a preliminary review and established the position in late December, early January, put it into an interim report. We are now working with the auditors and when they finalize their 1975 audit we will re-view the situation and we will have a report on our findings in writing next year in here.

MR. SPIVAK: The preliminary review or the preliminary report was given to the government. Is that right?

MR. ZIPRICK: That's right.

MR. SPIVAK: With recommendations from your office?

MR. ZIPRICK: Oh there were recommendations and observations, yes.

MR. SPIVAK: And you're suggesting that those recommendations will be contained in the report that you'll be filing for next year.

MR. ZIPRICK: We will document to the Legislature what actions we took, what we found and what other actions we will be taking.

MR. SPIVAK: The question, Mr. Ziprick, is whether it would not be appropriate for those recommendations to be known by the committee now. Particularly when we are asked in the Legislative Assembly to approve Estimates for Expenditure for the Manitoba Development Corporation.

MR. ZIPRICK: Well of course that's not up to me to decide, really.

MR. SPIVAK: So from your point of view, you've given recommendations to the government and it'll be up to the government as to whether we are going to be told what those recommendations are. I mean we can ask the government about those recommendations.

MR. ZIPRICK: Yes. The reporting procedures in my Act are quite clear, that any special audits either directed by the Minister of Finance or the Lieutenant-Governor-in-Council reports to the government. There's no way that I would make a public report unless of course the situation was so unusual that it demanded that kind of report. But otherwise we make those reports and then when time comes to make a report to the Legislature we would then decide what we feel warrants the attention of the Legislature and update the Legislature. But if there's a more current position needed, well that's not my decision.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Chairman, the only reason for the question is that there has been some confusion I think in understanding the preliminary report that Mr. Ziprick has completed already and the more, I guess, recent overview of the financial statements for the fiscal year of 1975. Some of the questions that have been asked in the House have indicated that information hadn't been in fact received by the government. So I want to establish that very clearly. Mr. Ziprick, you have given a report with certain recommendations to the government with respect to Flyer and that was completed about January or February of this year.

MR. ZIPRICK: It was in January I think that the . . .

MR. SPIVAK: And it's your intention to file with the . . .

MR. ZIPRICK: Well this was just a progress report. We are still continuing and we are working with the auditors of Flyer because there were difficulties, of course as everybody knows, and what we are trying to determine is to see how the difficulties are being overcome and we're still working with the auditors. Their December, 1975, statement will not be out until about the end of June because they had some more computer difficulties with regard to inventory. But when that comes out we'll be reviewing that. We are in constant contact with the auditors so we will be issuing additional reports to the government and we will also be making a report to the Legislature.

MR. SPIVAK: Mr. Ziprick, are you suggesting the difficulties were computer difficulties? You say that everyone knows. What difficulties are you talking about? There were difficulties of Flyer but certainly not in terms of the accounting procedures so far as the Legislature is concerned.

MR. ZIPRICK: I guess it's a question of how far you want to go here with me and how much you will be going in on Thursday. The only reason we got involved into this situation of looking at Flyer is because their December, 1974 statements, here we were on deadline, legal deadline to issue the Provincial Auditor's Report, past the legal

(MR. ZIPRICK cont'd) deadline of the Manitoba Development Corporation Report and we don't have any financial statements for 1974 for Flyer. Now we had no right to go and question the auditors or the directors because we had nothing to do with it. So to be able to discuss with the auditors and find out what the problem is, so that we could certify to these other statements without disassociating ourselves with the whole thing and making a very negative situation, we got permission from the Minister of Finance to deal directly with the auditors and with the Flyer management and directors to get a position to have an idea of what's going on. In this way we can carry on making our reports knowing where the situation stands. So I think that that's quite apparent and the statement that will be available to you with the \$15 million loss, or whatever it is approximately, of Flyer, you will notice that the 1974 statement didn't come out until late November of 1975. The whole difficulty there I can tell you now, through looking, arose because of the very horrendous accounting problems that were in it and took so much time to straighten it out so that they could come up with the financial statements.

Now by and large this new management has overcome these accounting problems for the most part but there are still difficulties with some computer programs with regard to inventories and that's delaying this year's statement. Now we were told by the auditors that they feel that by June 30th they will have the financial statements for 1975. Now last year we went through the process that in June we were told, well it'll be in July; in July we were told in August and August and so on, and it got to the stage where we just couldn't wait. We just had to either be very negative in our report or want to take a look and see what the problem is.

MR. SPIVAK: I wonder, Mr. Chairman, whether Mr. Cherniack's going to be prepared on behalf of the government to file the recommendations of the Provincial Auditor with this committee so that at least we're in a position to have it before the Legislature prior to the meeting of the Standing Committee on Economic Development. Because I don't know how we can intelligently deal with the issue of Flyer which was an issue last year. Mr. Ziprick's already mentioned accounting problems which are severe in nature and frankly I don't think that was acknowledged by the people who came forward. The number of other problems were acknowledged, but certainly not accounting problems. It would seem to me that if in fact a special audit was undertaken or a special review with ministerial approval and a preliminary report with recommendations were given, that we should be given the right to have that presented to us so that we can intelligently deal with the issue when it does come up in the Legislature, both in the Legislature and in Committee. Otherwise what Mr. Ziprick is suggesting is that we will have it maybe included in next year when we'll already have passed two years of discussion in the Legislature on the matter in which we should at least be seized of a reasonable amount of information.

MR. CHERNIACK: Mr. Chairman, in the first place I can't help but point out that under Page 20 this matter was not only referred to but dealt with and that in my opinion it's completely out of order to be dealing with it under Page 56. Nevertheless it is the opposition which wants the opportunity to debate the Accounts and if his colleagues, members of his caucus, don't mind his taking up the time in this out of order arrangement then I guess I don't object either. The only recommendation that I'm aware of that was made in the progress report was that consideration should be given to whether or not the operation of Flyer should be reviewed by management experts. Is that correct, Mr. Ziprick?

MR. ZIPRICK: Yes.

MR. SPIVAK: . . . management audit.

MR. CHERNIACK: That's not what he said. He said he recommended that consideration be given to that because that was not within the Auditor's competence.

MR. ZIPRICK: That's right. When we took a look at it the accounting problems were generally being overcome by the new management and we thought, as a matter of fact, and so did the auditors that they were completely overcome but there are still some difficulties with regard to computer problems. There were certainly difficulties in management reporting systems and they were not even up to scratch with the new management. They are working on that area. They are fully aware of the need of effective management reporting systems so that it's being worked on. We are observing and I would say that probably you would get your better updating on Thursday.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: When you talk in terms of accounting problems, are you talking in terms of cost accounting or are you talking just general accounting? Do you make any particular reference to cost accounting?

MR. ZIPRICK: There was general accounting problems but the cost accounting particularly were just really - I can say they were non-existent.

MR. SPIVAK: I see. So you indicated to the government that the cost accounting of Flyer was not . . .

MR. ZIPRICK: Well they were non-existent before but when we went in - see the new management had taken over in 1974.

MR. SPIVAK: You see, Mr. Ziprick, the problem I have is there has never been an acknowledgement that I know of in this Committee, that is in this room, by the Chairman of the Manitoba Development Corporation or by the members of the government that the cost accounting procedures of Flyer were non-existent or were in disarray. There have been allegations and as a matter of fact we produced the consultant's report which made reference to that. But I don't know that anyone's particularly acknowledged it. Now if in effect the cost accounting procedures were non-existent and that was a . . .

MR. ZIPRICK: Maybe I should correct this. I'm maybe using a poor choice of words. They were not effective.

MR. SPIVAK: "Not effective" may lessen the blow but nevertheless if that's the case then it's a question as to when the Legislature and the Committees of the Legislature who are involved in it find that out. It's not just the recommendation of the audit. You see, Mr. Cherniack has indicated that that was your one recommendation and I appreciate that, but obviously your report must have consisted of something more than that. It must have given an analysis of what has happened.

MR. ZIPRICK: It did give an analysis of the situation as it stands but when a new management is putting what seems to be good systems into place we're not going to recommend that systems be put into place. They were being put into place. Now their management reporting systems, even at the point when we were looking at, weren't as up to scratch as we'd like to have them but the new management is fully aware and they are working on this. We're assured by the auditors, the present auditors, that they're working on this. So that then wouldn't constitute a recommendation but we certainly related the situation.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Again, my problem here is that as an officer of the Legislature, the function of which is to inform the Legislature - and I appreciate the fact that there is an obligation to inform the government as well and obviously for them to take action - having assumed at this point that the new management is now effectively trying to deal with the situation and knowing that this has been a debated issue in the Legislature before, do you really feel it's obligatory on your part to wait until the report is tabled for next year to inform us of the details of it or do you not feel that there may be an obligation for us to have that information in front of us, recognizing that the new management is working and working as well as could be expected or very well, depending on what judgment you want to arrive at. Surely we should be informed of some of this because it makes it impossible for us to deal effectively with an issue in which there have been questions raised about the competency of the operation and about the cost accounting that has taken place and about what in fact will be the total loss to the people of Manitoba with respect to the contracts that have to be met. Surely we should be in a position to receive that information in a very direct way.

Again we talk about the evolution of Provincial Auditor's responsibilities or the office and we're probably maybe breaking new ground, not in terms of your right to furnish the information, I don't think that's new, that's there. But I say to you, surely at this point we should be in a position to have that information presented to us so that we are in a position to understand it. Otherwise effectively we're dealing with something that obviously is being handled in a certain way and obviously you have the information that we do not have that I think is germane to the debate of this Crown corporation.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: I think it's very important that when you're dealing with a

(MR. ZIPRICK cont'd) corporation that you get the position of that corporation very clear as to how it stands at the present time. Presumably the management will inform you. Now if you need any corroboration of that information and you want me present at the meeting, it's the meeting that's deciding, I certainly should not have a right and it shouldn't be my obligation to say that I should attend here or I shouldn't attend there.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: But my point being, in effect, the report of the Chairman on Thursday, if we deal with this, will simply say this is our position today and that may very well be an accurate position. The management now is handling the situation; we've had accounting problems; it's been corrected. But I'm now saying to you as Provincial Auditor surely there's a responsibility to inform the members of the Legislature about the severe problems that have occurred notwithstanding the fact that they are being met so that we can understand it and be in a position very clearly to make the recommendations to government and to be able to voice opinions with respect to it. This matter has been questioned for some time. What I am saying to you is that the more up-to-date information about the current situation which may be presented to us really doesn't really answer the question of who is to inform the Legislature of the problem areas so that in effect they are aware of what is taking place and can debate it and possibly discuss measures to be taken in future to correct the problems of the past. It makes it very difficult for us because you've already sort of alluded to things that obviously are going to be of importance to us which may very well not be answered and if you go on past history probably won't be answered but will be dealt with, now this is the current situation and whatever has happened in the past has been corrected. I just simply say to you that in terms of your position - and this is not your position as an individual but in terms of the position as Provincial Auditor - I think that there is an obligation for far more information to be furnished to us for us to be intelligently able to deal with those issues that are in fact the subject of discussion in the Legislature and in which we have asked for accounting in a general way, not just in terms of auditing, but in the whole total question of management.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: I have made a recommendation in the last couple of years and a year ago that the Public Accounts Committee be an ongoing Standing Committee, be meeting periodically and that I be asked for and provide the necessary information to inform the Public Accounts Committee. I also recommended that officials be called by the Public Accounts Committee. In some Public Accounts Committees that's being done. You've got to determine the responsibilities of the Legislature vis-a-vis the management and the ongoing information system and then you devise an orderly mechanism to bring this about. I think that if this is the way that the Legislature should proceed - and my feeling I have no hesitation expressing - that there is a more orderly review required. I said that on a number of occasions, that enquiring into how money is being spent through the Public Accounts Committee requires a more thorough review and should be on an almost monthly or some regularized basis and that officials should appear and give their presentation of the situation so that you can be completely updated. I completely agree but I think that it should be done in a planned, organized way.

MR. CHAIRMAN: Page 57--pass; Page 58--pass; Page 59--pass; Page 60--pass. Gentlemen, this completes the report of the Provincial Auditor.

The time now being 12:30, Committee rise.