

Fifth Session - Thirty-Ninth Legislature
of the
Legislative Assembly of Manitoba
Standing Committee
on
Public Accounts

Chairperson
Mr. Leonard Derkach
Constituency of Russell

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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Ninth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Wednesday, May 25, 2011

TIME – 7 p.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Leonard Derkach (Russell)

VICE-CHAIRPERSON – Mr. Gregory Dewar (Selkirk)

ATTENDANCE – 10 QUORUM – 6

Members of the Committee present:

Hon. Ms. Wowchuk

Mr. Borotsik, Ms. Braun, Messrs. Derkach, Dewar, Dyck, Jha, Martindale, Mrs. Stefanson, Mr. Whitehead

Substitutions:

Ms. Brick for Mr. Whitehead

APPEARING:

Ms. Carol Bellringer, Auditor General

WITNESSES:

Hon. Dave Chomiak, Minister of Innovation, Energy and Mines

Hon. Rosann Wowchuk, Minister of Finance

Hon. Peter Bjornson, Minister of Entrepreneurship, Training and Trade

Mr. John Clarkson, Deputy Minister of Innovation, Energy and Mines

Mr. Hugh Eliasson, Deputy Minister of Entrepreneurship, Training and Trade, and Deputy Minister of Finance

MATTERS UNDER CONSIDERATION:

Auditor General's Report – Report to the Legislative Assembly: Performance Audits – December 2010: Chapter 2: Economic Development: Loans and Investments under The Development Corporation Act

The Public Accounts for the year ending March 31, 2010 – Volume 1

The Public Accounts for the year ending March 31, 2010 – Volume 2

The Public Accounts for the year ending March 31, 2010 – Volume 3

The Public Accounts for the year ending March 31, 2010 – Volume 4

Auditor General's Report – Audit of the Public Accounts for the year ended March 31, 2010

* * *

Mr. Chairperson: Okay, good evening, ladies and gentlemen of the Standing Committee on Public Accounts, please come to order. This meeting has been called to consider some reports, and I will get into them momentarily.

But, before I do, I would just like to make some comments that are not necessarily on the agenda, but I think are important for all of us. And, as many of you know, our Clerk of committees here, who has served us for a long time, has been successful in competing for a promotion. And we want to congratulate him to begin with and to wish him well in his new line of work and to thank him for the service that he's provided to this committee and to the people of Manitoba, as far as it relates to Public Accounts.

So, Mr. Yarish, our sincere thanks, along with our congratulations for a successful future. Let's do that.

I also know that Rick has worked very closely with Carol, and I think Carol wanted to make a comment.

Ms. Carol Bellringer (Auditor General): Thank you, Mr. Chairperson. I would.

For those who've never actually worked with Rick, and I'm glad that this is on the public record, he is—and I'm saying this—he's looking at me with a bit of a smile because I guess after five years of going through the gruelling process of the Public Accounts Committee, he's probably relieved to be moving on to other duties. But he is a role model for public servants, and I know, as an independent officer, we have a bit of a different role because we do serve all members of the Legislature and he does that with style and with humour when it's appropriate and takes his job very seriously.

And I say he's a role model, though, for the whole public service because it's—there's often a criticism of those who work within departmentland and so on, but I can assure you they all look at the world the same way. They're there for all of Manitobans, and I know that a number of them who end up working with Rick in various committee capacities and watching him in the House look to him and admire what he does. So congratulations about that and thank you for all that you've done for this committee, because it certainly has been an interesting ride.

*(19:10)

We're also aware of the fact that Rick—he's probably going to be totally mortified by some of these comments—but he's also a rather talented musician, and so one thing I think we all need to look forward to is now that he's found the way to leave this committee, I think—we're—do a song, and we'll look for the lyrics that will describe his sum-up of the last few years working with a committee that's improved very much due to a lot of the work that he's done behind the scenes and with the national committees as well. So, well done.

Floor Comment: Thank you.

Mr. Chairperson: Could I ask the committee for leave to have our Clerk say a few words, please? *[Agreed]*

Mr. Deputy Clerk (Rick Yarish): Thank you. I really wasn't going to do this, but I'm feeling humbled by Carol and Len's words. So I just would just like to thank members of the committee and Carol and Len and Greg, our Vice-Chair, and our previous vice-chair, Jennifer Howard, for all of the work that we've done together. I found it very rewarding, and I have really appreciated my time on the committee.

And I know that my replacement, Monique Grenier, who will be the next Public Accounts Committee Clerk, will do as fine a job and most likely better than I have done. So I appreciate all of the sentiments. Thank you very much.

Mr. Chairperson: And welcome to Monique Grenier, who is with us this evening, and she'll be taking over Rick's responsibilities in the future.

Okay, on with the official business of the evening. This meeting has been called to consider the following reports: Auditor General's Report—Report to the Legislative Assembly: Performance Audits—

December 2010: Chapter 2: Economic Development: Loans and Investments under The Development Corporation Act; the Public Accounts for the year ending March 31st, 2010, volumes 1, 2, 3 and 4; Auditor General's Report—Audit of the Public Accounts for the year ended March 31st, 2010.

Before we get started, are there any suggestions from the committee as to how long we should sit this evening?

Mrs. Heather Stefanson (Tuxedo): I would suggest that the committee sit until 9 o'clock this evening.

Mr. Chairperson: Thank you so much. Any—is there agreement to that? *[Agreed]*

Also, are there suggestions as to the order in which we should consider these reports?

Mrs. Stefanson: I think if you would canvass the committee, we could perhaps find agreement to deal with the Auditor General's Report—Audit of the Public Accounts for the year ended March 31st, 2010, first, along with the Public Accounts for year ended March 31st, 2010, volume 1, 2, 3 and 4.

And I would also add to that that I know that there are three recommendations in the report to do with information technology, and we would be prepared to deal with those recommendations first in order that we move on to other areas. I know there's staff here and we just want to respect their time. Thank you, Mr. Chair.

Mr. Chairperson: Is there agreement with that recommendation? *[Agreed]* And that is how we will proceed, then.

Committee Substitution

Mr. Chairperson: Also, before we get started, there is one substitution that I would like to announce. It is for tonight's meeting, and it's Ms. Brick for Mr. Whitehead.

An Honourable Member: Agreed.

Mr. Chairperson: Okay, is that agreed? Doesn't need to be agreed. It's just done. But we wanted to agree anyway.

Mr. Chairperson: All right. So we will ask the minister and the staff to come forward for the issues regarding IT and T—or IT, I'm sorry.

Thank you, Mr. Minister. Welcome, and would you like to introduce your staff, please?

Hon. Dave Chomiak (Minister of Innovation, Energy and Mines): I'd like to introduce John Clarkson, deputy minister, and Gisela Rempel, who's the head of Business Transformation, and I want to make a comment. With grace and aplomb, I think Rick has dealt with his duty. So that's my comment. Thank you.

Mr. Chairperson: Thank you, Mr. Chomiak, for those words and that very concise introduction.

So I'm going to turn to the Auditor General immediately and ask whether she has any comments—opening comments with regard to the first issue we're dealing with.

Floor Comment: Just this issue?

Mr. Chairperson: Well, I guess maybe we should go through the whole item. It's depending—we can come back for the other. So why don't you make your opening comments with regard to this and then we can come back? Whatever you like. We will leave it in your hands.

Ms. Bellringer: Mr. Chairman, I have no opening comments specifically on this. We'll go back to the—

Mr. Chairperson: Okay, well, thank you.

Mr. Clarkson, do you have an opening comment?

Mr. John Clarkson (Deputy Minister of Innovation, Energy and Mines): I'd just like to make a couple of opening remarks.

I just want to, first of all, thank the Auditor General for the efforts of her and her staff to help us to continually improve our information technology and management and controls related to that. As her audits have indicated to us, we do have adequate control to ensure the safeguarding of government information and processes, that we do have appropriate processes and that really what the recommendations are here to address for us is the ways in which we can continually improve at the activities and processes related to management of our information and the important data that the government creates, and we really do appreciate the efforts that they undertake in terms of doing that.

In terms of all of the various activities going on within the audit activities, there are 11 different audit reports over the years that we have been working with. We've had a total of 133 recommendations,

44 of those are still outstanding and we have completed and are reviewing with the auditor the verification of 72 activities as well, too, 14 have been totally completed. There are three that we will not be implementing and we've reviewed that with the auditors and will be continuing to review those issues with them.

There are some significant things that I just want to indicate that we have progressed on in the last while related to our information technology activities. First of all, we have consolidated all of the departmental application servers, which were in 19-plus different locations across government, 356 servers. We now have 28 servers managing the same number of applications as we had before in one data centre surrounded by appropriate processes, procedures, environmental controls, securities, et cetera. So a significant accomplishment and a greatly reduced risk in terms of government activities.

We're undertaking an application portfolio management initiative which is reviewing all of the corporate applications across the government and looking at how we can ensure we have—we manage those applications in an appropriate way and examining those from a perspective of risk and cost to government so we can either improve them, retire them or transform them into appropriate and current technologies.

We continue, as we talked about at our last one, to work at our risk-management activities. Our framework for risk management has been developed and that we are continuing to pilot that in three areas in our Business Transformation and Technology area, which we hope to complete shortly.

We're moving forward with a multi-year capital plan so that we can undertake the IT initiatives in a long-term basis and ensure an appropriate approach.

We've improved our disaster recovery activities by implementing new desktops by improving our file and print-sharing activities and looking at critical services recovery activities as well too.

We are working with departments on the business application so that we can ensure we have appropriate roles to find for people from a business process perspective and are moving forward in these areas appropriately.

So I just conclude with the fact, again, that we believe the recommendations that we have been dealing with are ones that actively help us improve

our controls and we can move forward with that. We will continue to ensure that government has an effective environment for information sharing and that we do undertake all of these initiatives within a long-term approach to ensure that we have an appropriate system–system activities in place.

Mr. Chairperson: Thank you, Mr. Clarkson. We will now move to questions. The floor is now open for questions.

* (19:20)

Mrs. Stefanson: Just before I get into asking questions of Mr. Clarkson, I want to thank him for his opening statement and updating the committee on where the department is at with respect to this.

I did just want to take a moment as well and, on behalf of myself and members on our side, to thank Rick Yarish for everything that he has done, and also to welcome Monique. It's going to be great to have her here as well, and we know that we'll be working with Rick in a different capacity as well around the Legislature. So we will definitely—we will look forward to seeing his friendly face in the House a little bit more often as well these days. So thank you to Rick, and welcome to Monique.

Mr. Clarkson, one of the recommendations to do with information technology, the audit recommendations in the Auditor General's report recommended that the Province implement a comprehensive IT risk-assessment process. And I know the Province indicated that it agrees that this comprehensive risk-assessment process is required to ensure strong ICT governments–governance in Manitoba and that the Province also recognizes that an effective IT risk assessment that is aligned to overall business objectives is a long-term undertaking, and will complete–be completed, it said, over several years.

And I'm wondering if, Mr. Clarkson, you could indicate what the timeline for completing the ICT risk-management policy framework and methodology would be.

Mr. Clarkson: Thank you for the question. We certainly do support the issues and need for a risk-assessment framework and adoption of that framework across all of our systems. We have, through the governance processes within our information technology area, developed a methodology and framework for risk management.

We are starting to pilot that activity in three areas in Business Transformation and Technology, which we hope to have those pilots completed by the end of August of 2011. Once those pilots are completed, we will then look at the time frame and plan for rolling those out in terms of the balance of the departments across government to ensure that those appropriate activities take place related to that. So I don't have a specific time frame on when we will have that completed at this time, but we will be working that through our governance committee related to overall corporate activities and develop that time frame in accordance with the appropriateness of the risk framework and the business requirements of government to ensure it's done in an appropriate fashion.

Mrs. Stefanson: Sorry, did I hear you correctly, that you are saying that the pilot projects will be—the pilots will be set up by the end of August, or what was the end of August date that you referred to?

Mr. Clarkson: Sorry, the pilots will be completed by the end of August, and then at that point we will present, in the fall, the plan for going forward with this and the time frames related to that.

Mrs. Stefanson: You indicate in your response from the department in the report that the Province has begun to take steps to complete this process with the Business Transformation and Technology, has engaged a consultant to assist in the completion of the risk-management policy and framework methodology. Wondering if the—if Mr. Clarkson could indicate who the consultant is on this.

Mr. Clarkson: The department has engaged PricewaterhouseCoopers to undertake the development of the risk-management framework and methodology, and they are basing their activities on industry standard approaches. The COBIT activities, as identified by the auditor, are forming the basis of the activities that they're looking at.

Mrs. Stefanson: How are—how is Pricewaterhouse chosen? Was it chosen by way of a tendering process, if you could indicate how that was done?

Mr. Clarkson: Yes, PricewaterhouseCoopers was chosen through a tendering process.

Mrs. Stefanson: How many bids were brought forward or submitted with respect to the tendering process?

Mr. Clarkson: There were three bids brought forward.

Mrs. Stefanson: And what is the amount that's being paid with respect to this project to PricewaterhouseCoopers?

Mr. Clarkson: Sorry, I don't have that information with me, but we can get that and provide that.

Mrs. Stefanson: Yes, if you could get that to us that would be very helpful. And, again, is this the—when is this draft—is PricewaterhouseCoopers coming up with the drafted framework and methodology that's going to the pilot projects to be tested, that will be completed the end of August? Or how is that all—how does that all come together, fit together?

Mr. Clarkson: As I said, we actually developed the framework and methodology, and we had that approved in February of 2011. We then hired PricewaterhouseCoopers to help with three things: One is to validate the methodology and proposed risk-management framework to ensure that it meets the standards that we are trying to meet and that it's consistent with the recommendations. And then we've asked them to work on the development of the implementation strategy for that framework to ensure that it operates in an appropriate way. And, then, they've been helping us lead in the pilot activities in terms of the three organizational units that we're undertaking activities on.

Mrs. Stefanson: How are these three areas selected by your department?

Mr. Clarkson: The three areas of the department were selected based on their differences in sizes so that we could test the activities in different size organizations, the different types and scope of work that they had as well, too, so that we could verify in areas of process, in area of services and in area of infrastructure.

Mrs. Stefanson: And how do you think that lessons will be learned to help roll out the strategy to the balance of the BTT moving forward?

Mr. Clarkson: The lessons that will come out of it will help us understand better how the framework and methodology can be applied to the different activities that government undertakes related to their information technology management issues and the range of infrastructure and services. And so, based on that, that will shape the way in which it's rolled out and may adapt the methodologies and frameworks slightly to ensure that we have met all of the needs in terms of government activities.

Mrs. Stefanson: And just one last question with this area with respect to the plan that you expect to roll out in the fall after the pilots are completed. You indicate that you may indicate at that time what kind of a time frame we're looking at. Is there anything you can give us now in terms of what kind of a time frame you might be looking at? Would it be three years, five years, 10 years, any kind of a rough estimate?

Mr. Clarkson: We believe it will be something that will be done within 18 months to two years' time frame.

Mr. Chairperson: Mr. Jha. Oh, I'm sorry, Mrs. Stefanson, you're not finished. I'm sorry, go ahead. You—all right.

Mr. Bidhu Jha (Radisson): I understand that there had been some consolidation of streamlining of various departmental functions within the department. Now, could you explain how the bringing or integration of Service Transformation Manitoba and Business Transformation and Technology divisions—that integration will improve government's ability to fulfill the requirements recommended by the Auditor General?

Mr. Clarkson: The amalgamation of the two areas of the department—one area called Service Manitoba that concentrated on how we approach service delivery issues, how we manage service delivery and how governments improve the way that they operate—was a very effective method for ensuring that government operated appropriately, but it was completely separate from the technology activities that were required to support service delivery.

* (19:30)

And so, frequently, there were conflicts in the way in which activities were being undertaken as people promoted technology for the purposes of technology. And so, by combining the organizations, what we've accomplished is a process that we put in place that allows for us to assess departments' needs, examine the processes required to fulfill and improve the way government operates, and then examine the tools that are required to support that service delivery. And those tools could be in the form of change-management tools; those tools could be in the form of training tools; those tools could be in form of the technology that require to support the activities.

And it gets us to the point where we can start to examine the way in which government operates from

a perspective of service to the citizen and, therefore, ask the right questions as to what needs to be accomplished as opposed to the question that we frequently get is: I would really like to have an iPad; can you just buy me one? And by removing the technology to the back end, we can ensure that proper process, procedure, documentation and standards are in place before we move forward with a technology solution and, therefore, that helps us then address the recommendations that come forward from the auditor on reducing our risk and improving our controls related to our information technology area.

Ms. Marilyn Brick (St. Norbert): I'm particularly interested in No. 3 recommendation here about the security policies and directives. And I'm wondering if you can give us an update in terms of what the top three risks were that were identified and, also, how you're moving forward with the IT security policy.

Mr. Clarkson: So, first of all, in terms of the risk-management activities, the top three areas that were identified were related to access controls. And so that is the ability for people to get into the system, the management of passwords related to people's activities in the system, and the issue of wireless networks, which have frequently been deemed to be insecure in terms of their operations.

So what we will do is we will continue to work through our Business Transformation Executive Committee to determine the best way of approaching these kinds of activities, and ensuring that the approach we take is consistent with operational needs and balances the appropriate access required with the—a general approach around governance of our systems and the need to ensure that we secure the information processes and data related to them.

Mrs. Stefanson: And, Mr. Clarkson, my question has to do with the second recommendation where the Auditor General recommends that the Province implement a long-range investment technology strategic plan. And I know that the Province agrees that IT is a major component, an efficient, effective operation of government, and it stated that in its comments in the report. And it talked about the steps that are included—include the formation of a governance body, the Business Transformation Executive Committee.

And I'm wondering if, Mr. Clarkson, you can indicate what areas fall under the response of—the responsibility of BTEC. For example, does BTEC have any responsibility for any Crown agencies or is

it only the government departments? And I know, within the report, there's a reference to all Information and Communication Technology's activities. Does that include the Crown corporations and other entities, or if you could expand on what this means?

Mr. Clarkson: Yes, the Business Transformation Executive Committee is responsible for the activities related to information technology within government departments only, excluding the Department of Health. It does not include any Crown corporations or associated other public agencies.

Mrs. Stefanson: And just why would—why is Health separate from everything else?

Mr. Clarkson: At the time that we consolidated information technology in government and, therefore, moved all of the IT activities from the individual departments into the Department of Innovation, Energy and Mines, the Department of Health was excluded from that exercise because of the activities and links it has with the eHealth services provided through the Winnipeg Regional Health Authority as one of the provincial programs. And, therefore, the Health activities were separated because of the strong link that they actually have in terms of service delivery requirements within the regional health system.

Mrs. Stefanson: Mr. Clarkson, can you indicate when you expect a long—the long-range strategic plan to align overall government business priorities in IT to mitigate risks and modernize government will be complete?

Mr. Clarkson: Oh, our plan is to have that exercise completed by the end of the fiscal year '11-12.

Mrs. Stefanson: And can you indicate how the amalgamation with Service Transformation Manitoba division improve BTT's ability to produce a long-range IT strategic plan? How this will—can you talk a little bit about that?

Mr. Clarkson: The amalgamation with—of the two areas within the department to create BTT helps in terms of development of the long-range plan because we get a much better idea now of the service delivery improvements that are required in government. And, therefore, the strategic plan that we can bring forward is much more reflective of the activities of government and the need for improved services to citizens and in relationship to the changing ways in which services can be provided, and we can 'prioritize' the activities based on those kinds of needs.

Mrs. Stefanson: The departmental response also states that, and I quote: BTT has also conducted a series of planning sessions with all of BTT management and will be consulting with all departments as part of their development of a five-year strategic plan. The results of these planning sessions, the IT risk assessments, five-year capital plan, application-portfolio management and server-consolidation initiatives will provide the elements necessary for an overall five-year strategic plan, end quote.

Can the deputy minister indicate what is the purpose of those—the consultations?

Mr. Clarkson: The purposes of the consultation are ensure that we align the strategic plan in accordance with the requirements of service delivery in the departments and in accordance with the technologies that we have in government to support those activities.

And so, by doing the consultations, we can ensure that we capture the highest priority areas and the highest risk areas and the areas of high cost so that we can manage to undertake the activities in an appropriate way going forward. This includes activities related to our SAP initiatives and the update and the upgrading of our one-, three-, and five-year plans so that we can undertake appropriate developments in those areas.

And a lot of this activity has come out of initiatives that we've already started. Our server consolidation initiative, which I mentioned, identified a number of areas of—that we need to concentrate on. And so, through consultations with departments, for example, we can 'priorize' those areas so that we can come forward with appropriate strategies to help address the issues that are there.

Mrs. Stefanson: In the report it refers to assessments in the plural form. I'm just wondering how many assessments does BTT intend to conduct and what are the assessments of.

Mr. Clarkson: The two main assessments that we refer to there is the assessments that were done in our server consolidation activities and the effect that they have on identifying the number of applications that are operating in government, and the costs related to those applications, and how we can ensure we can manage those in an appropriate way.

The second assessment we're doing is an assessment of the applications in more detail and taking an approach that was recommended by the

auditor in terms of what we're calling a portfolio-management approach, which looks at treating the applications as an asset in the same way you would treat them as part of your financial management activities, and, on that basis, allows us to understand the assets that are of highest value or of highest risk and highest costs and, therefore, are able to bring forward strategies to address the issues that need to be addressed.

Mrs. Stefanson: And, Mr. Clarkson, do you believe that there is sufficient human resources in place to manage and co-ordinate the risk assessments?

Mr. Clarkson: Yes, I do, given the people in the departments who are part of it, people in our own department and the external help that we have—we do have sufficient resources to deal with this.

Mrs. Stefanson: And just one last question from me in this area, but others may have other questions.

* (19:40)

Are timelines reasonable given all the inputs into the long-term plan?

Mr. Clarkson: Yes, I believe the timelines are 'proppropriate' for us to deal with this.

Mr. Chairperson: Any further questions? If not, then, we'll consider this section completed and we will move on to consideration of the Public Accounts.

Thank you, Mr. Minister, Mr. Chomiak, and Mr. Clarkson, for your attendance here, and staff.

I'd like to make an announcement that I had forgotten to do at the beginning, and that is that we will consider the Public Accounts until 8 o'clock and, at that time, we will move to consideration of the Economic Development audits unless the committee decides to choose another direction. But that's, indeed, what we had discussed previously.

Okay, I'm going to ask the Minister of Finance (Ms. Wowchuk) and the deputy minister to come forward now. Thank you.

I believe the committee knows both of you very well, and welcome to this Public Accounts meeting. And we'll get right into the business and ask the Auditor General if, Madam Auditor, you have an opening statement.

Ms. Bellringer: I'll start by introducing the staff who are joining me tonight, who work on the Public Accounts audit. We have many more who also work

on it, but here tonight: Greg MacBeth is here, who is the executive director of Professional Practice and Quality Assurance, who monitors or will be monitoring all of our financial statement audits through this upcoming cycle. And Tyson Shtykalo, who is the audit principal in charge of the Public Accounts audit. Fraser McLean and Doug Harold are also here who work on the information technology work for our office.

The Auditor General Act requires us to report to the Assembly each year about our examinations and audits under section 9 of our act. And that's the section of our act that relates to the audit of Public Accounts and other financial statements that are included in the Province's public accounts.

We are required to indicate anything resulting from that work that we consider should be brought to the Assembly's attention. And that's the report that we're looking at tonight, and that's something that we issue each and every year.

We're pleased to report that for 2009-10, the Province received an unqualified audit opinion on its summary financial statements. This means that the summary statements present fairly, and all material respects the financial position and results of operations in accordance with Canadian public sector accounting principles. We're also pleased to report that most of the organizations consolidated in the summary financial statements received unqualified audit opinions as well.

We're also required to audit the Statement of Calculation of Balance under The Balanced Budget, Fiscal Management and Taxpayer Accountability Act. We issued an unqualified audit opinion on that calculation for the year ended March 31st, 2010. Our unqualified opinion provides assurance that the government has complied with the legislation, not that we agree or disagree with the policy decisions that are based on that legislation.

We did note in the report, after year-end the government passed legislation removing the requirement for a positive balance for the next four years, so not on that policy decision but rather from a management perspective, I did want to make the observation that we—and this is something having been involved with Public Accounts on and off for the last many, many years—more than 20—that the introduction of the balanced budget legislation was seen to alter spending behaviour. It did contribute to strong financial management within the entire government system. So I don't want to comment on

the policy decision to remove that requirement, but, in the report—and just—I just want to emphasize that we've urged government to continue to ensure the spending is within voted budgets through some other mechanism.

At the end of each of our statement audits, we communicate possible improvements to senior management of the Province or senior management and the board of directors of the organization we audited. If action hasn't been taken after a reasonable time period, or if it's something of significance that we think the Legislature should know about immediately, we include that in this report.

In—for the 2009-10 year, we included information about areas for improvement in IT, which you've just covered; quarterly reporting and comparing year-end results to the third quarter forecasts; the release of Public Accounts in terms of the release dates; the capacity for financial reporting at the Manitoba Housing Renewal Corporation; allocation of income by the Public Trustee; the need for an audit of the Co-operative Loans and Loans Guarantee Board—I should have said, the need not to have an audit. It's something with very insignificant transactions, currently. There was—we report that there was a suspected fraud in the Winnipeg Regional Health Authority and also commented on requirements for supplementary audit reports. And we also have a final section of the report summarizing the status of previous recommendations. Two of the three of those recommendations have been implemented, and the third was in the IT area, which you've also covered.

Mr. Chairperson: Thank you, Madam Auditor General.

For the record, I should indicate that we have at the table the Minister of Finance (Ms. Wowchuk) and the Deputy Minister of Finance as well.

And, Mr. Eliasson, the floor is open to you for opening comments.

Mr. Hugh Eliasson (Deputy Minister of Finance): I have very brief opening comments to preserve as much time as possible for questions.

I'd like to thank the committee for the opportunity to provide an update on the 2009-10 Public Accounts and the accompanying report to the Legislative Assembly. The Province has implemented or completed, to the Office of the

Auditor General's satisfaction, two of the three outstanding recommendations from the 2009 report, and Mr. Clarkson gave you an update on the one that remains as a work in progress.

For the 2009-10 report, the Auditor General has provided seven recommendations and, again, three of them related to Information Technology, and Mr. Clarkson has covered them. And we would be pleased to respond to any questions on the status of implementation of the remaining four.

On a personal note, I just wanted to—when you look at the pile in front of you, you can tell that the preparation of these documents and the report that Public Accounts—and the report to the Legislature is a massive undertaking, and I want to thank the staff in the comptroller's—Provincial Comptroller's office who work very intensely on this from now until through well into July, and then the Office of the Auditor General's staff who are working hard on this and will do it even longer, to the end of August, probably. And we know that those weekends in summer are precious and they sacrifice many of them to make sure that these reports are available to Manitobans and to the members of this committee.

And I also just wanted to acknowledge the relationship that we have with the audit team on this and it's a very professional relationship but it's a very collaborative relationship and we really do cherish the working relationship and the co-operation that we have with the audit team in doing this. So I just wanted to recognize that—the spirit of that relationship.

We—the thorough work is in the preparation of these public accounts, and developing recommendations really go a long way to provide a strong control environment and to ensure that the summary financial statements continue to be recorded in an accurate and timely manner and includes information that is useful to the readers. Thank you.

Mr. Chairperson: Thank you, Mr. Eliasson.

The floor is now open for questions.

Mrs. Stefanson: And I know I appreciate the deputy minister keeping his comments brief tonight. I know we don't have a lot of time to delve into what is, I know, a lot of work that has been put together by the department, and I've had a chance to go through a lot of it. And I do have a lot of questions and that's why, I think, given the time frame tonight, it's going to be difficult, maybe, to pass this report at this time but, certainly, I know we'll have ample opportunity, I

think, at other times to be able to ask questions down the road. But I want to thank you for that.

* (19:50)

My first question, I'd like to just start off and ask the Auditor General: In her opening statement, she referred to the balanced budget legislation, and I know that I'm not going to—she spoke from a management perspective, not a policy perspective when it comes to the balanced budget legislation, but she cautioned, I think, all of us in this committee and government as well to ensure that spending—that government be encouraged to spend within its means and that—and to ensure and to continue to ensure that spending is within voted budgets.

And I'm just wondering if the auditor could comment on that further and whether or not she has suggestions, again, not from a policy perspective, but just from a management perspective, how we could go about ensuring that this happens, given that balanced budget legislation has been changed in the province to take that requirement away.

Ms. Bellringer: And I just want to clarify I'm not getting into any kind of assessment of means as to whether or not it should be an annual balancing or over a period of time or if it should even balance because those are economic policy decisions that we don't make any comments on.

The strengths of legislation is something that really was what I wanted to draw attention to, that when something is entrenched in legislation, I think it's generally accepted within the, you know, the public administration, that that is a stronger mechanism to use than even a policy and, most certainly, than just common practice. And so, by removing something that was in the past entrenched in legislation—and I was here before it was even in legislation—so certainly there were, you know, different ways to make sure that the spending was within voted limits.

But it does remove something that's currently been in place for a long time, and so what one then replaces that with, it could be another form of legislation, it certainly could just be a very carefully monitored policy. There could be an audit element to that. There could be requests for audits around certain areas to ensure that those—the spending is being—is taking place. Certainly, there are ongoing practices within Treasury Board and within—you just

can't cut the cheque. And so there are, you know, ways to prevent it.

It's more of a way of practising that certainly was—and I almost don't want to propose a self-fulfilling prophecy where, you know, you make the suggestion that now that it's not there, you don't have to follow it. That, indeed, is not the case. I don't—haven't seen any indication that suddenly departments are running wild in terms of making, you know, spending monies they don't have. But it does change the framework. And so it should be paid attention to, and it should be something that's fairly concrete so that it's not just an—a general expectation but rather something that's been very clearly articulated to everybody.

Mrs. Stefanson: Thank you very much for that, appreciate your comments on that.

And I just want to jump forward here with another area in terms of the recommendation to do with the Public Accounts release dates. And I think you indicated earlier, maybe not in this session, but in a discussion we had earlier about where Manitoba stands in terms of the release dates, and we're around middle of the pack in terms of not being too early, not being too late. Wondering if you could comment on what could be done, what would a recommendation would be in terms of moving forward for Manitoba.

Ms. Bellringer: What we included in this report was that information so that a policy discussion could take place. We aren't suggesting that it should be earlier or it should be late, but rather—so that you know where Manitoba stands in relation to other jurisdictions in Canada.

The trade-off that you'll always have is a trade-off between reliability and time. So the earlier you get it, the less reliable the information, just because as more time passes, you're going to have more concrete final financial statements produced by the various organizations that get consolidated into the summary accounts.

The other issue around that is if there ever was a discussion around trying to move it up and make it earlier or—I wouldn't suggest it ever be made later, but earlier is always better—but, if you ever wanted to even have the discussion, you have to have a very careful analysis of what the implications of that are. It couldn't happen overnight. And so we wanted to introduce it into this report so that that kind of

analysis would always be available in the event that the discussion took place.

Mrs. Stefanson: Yes, and I guess I'd just like to ask the deputy minister to comment on where the department is at with respect to Public Accounts release dates.

Mr. Eliasson: The department accepts that recommendation and will conduct the kind of review that the Auditor General alluded to. There are trade-offs, and if the release dates are to be changed, it has to be done fully cognizant of the impacts and the trade-offs that are involved in that. And that requires some analysis, and so the department is committed to undertake that analysis. It requires a great deal of collaboration with the office of the Auditor General to have a back-and-forth process—so everyone fully understands what the trade-offs involved are, and then we can come to some conclusions on that.

I think once we get through, sort of, this year's—once we get into the fall and past, sort of, the immediate challenge of putting together the '10-11 Public Accounts—and I know it's a busy time for the Auditor General as well—then, I think, that that kind of discussion can commence.

Mrs. Stefanson: And, just given the fact that there are other members around the table that would like to ask questions, I do have many more questions, but will defer to them, given the time.

Thank you very much.

Ms. Erna Braun (Rossmere): Just in reference to the trade-offs or concerns that you were having, could you perhaps explain what some of those trade-offs might be in having an earlier release date?

Mr. Eliasson: We have the audited financial statements from some organizations in May and June; others, a little bit later. If you want to move the dates ahead, it would mean that for some organizations, perhaps, you're dealing with Estimates rather than completed audited statements. If they are very small and don't have a material impact on some rebudgeting, that might be tolerable. If they're larger entities like regional health authorities or school divisions, the level of tolerance for any potential error in the financial reporting would be—the tolerance would be much less. You'd have to be far—sure that that was accurate information.

So, at the end of the day, there probably is a bit of a trade-off between the timeliness and the

accuracy of the final reporting, and that's the kind of discussion that we would have to have with the Auditor General.

Ms. Brick: I just wanted to ask about the follow-up of prior years' recommendations in regards to disaster, government-wide disaster, recovery plans. Is that you?

Floor Comment: No, I think Mr. Clarkson—

Mr. Chairperson: Mr. Eliasson, I'm sorry.

Mr. Eliasson: I think Mr. Clarkson dealt with that one.

Mr. Rick Borotsik (Brandon West): Mr. Eliasson, just a comment on the Auditor General, when we're talking about balanced budget legislation. She indicated that wasn't—it's a policy decision, but there's a certain management tool that's used with balanced budget. There's a discipline and there's a management control on spending. Are you finding, Mr. Eliasson, that that discipline and control is there without the balanced budget legislation as a tool that you could have used?

Mr. Eliasson: Well, first of all, balanced budget legislation still exists. Some components of the legislation have been suspended for the duration of the five-year plan. And that, obviously, one of those is the necessity to balance on an annual basis, because the government made quite a conscious decision, as part of the five-year plan, to recognize that it would be incurring declining deficits over the period of that plan.

And so, from a discipline point of view, the discipline of budgeting on an annual basis within the rolling average may have been suspended for the interim period. But you now have the discipline associated with a five-year layout of what expected deficits and a definite end date to when the books will be back in balance. And that provides a level of discipline in its own merit.

The Minister of Finance (Ms. Wowchuk) chairs Treasury Board Committee of Cabinet that is responsible for reviewing in some detail almost every significant expenditure that occurs. And that Committee of Cabinet meets almost on a weekly basis throughout the year, and there's very strong analysis of every expenditure proposal and it receives scrutiny within that Cabinet committee. So it's not that there aren't disciplines associated with spending, I can assure you of that.

* (20:00)

Mr. Chairperson: Thank you. Ladies and gentlemen of this committee, it is now 8 o'clock, and I'm wondering what the will of the committee is. Would you like to proceed with this section for another 15 minutes, or would you like to change to the other section?

Continue with this section for 15 minutes? Is that the will? *[Agreed]* Okay, thank you. We will continue.

Mr. Borotsik: I do appreciate that explanation and I do understand the process of Treasury Board with respect to extraordinary expenses, but in a budget of departments, they're given a budget and there are certain operating costs and certain expenditures throughout the year. Sometimes those expenditures go over what the budgeted amount is. Is there still a control? Is there still a discipline? Is there still a mindset from those departments that say that they cannot exceed those limits that have been identified in the original budget?

Mr. Eliasson: In any year, there are things that arise during the course of the year that necessitate review of expenditure plans within departments. When some departments are facing challenges that require expenditures over budget, those are scrutinized, and Treasury Board is on top of that. And when departments in one area of government have pressures that the government makes the decision are necessary to meet in terms of delivery of services to Manitobans, then oftentimes expenditure management programs are put in place and other departments within government have to reduce their expenditures below budgeted levels.

Mrs. Stefanson: Just moving on to the quarterly reporting recommendation that the Auditor General recommended that the Department of Finance review public quarterly reporting requirements for organizations in the GRE and prepare a plan to resolve any inconsistencies.

In which ways does the Department of Finance plan to align its quarterly reports to make them more consistent with the government reporting entity?

Mr. Eliasson: There definitely are inconsistencies in the reporting, the quarterly reporting practices. There are some Crown corporations of some substance that currently aren't reporting on a quarterly basis. There are other Crown corporations that are—whose operations are of a smaller—of great significance but of a smaller scale that do report on a quarterly basis

and may find it onerous. So the kind of review that we propose to undertake is to look exactly at that, determine the practices and the reasons why existing Crown—or existing practices exist in Crown corporations and try and get some consistency across the system. So it's a recommendation that we accept, and we will work on this year.

Mrs. Stefanson: What is the anticipated time frame that these inconsistencies will be resolved?

Mr. Eliasson: I think that we can resolve them within this fiscal year.

Mrs. Stefanson: So the timeline for reviewing the current reporting requirements, you think, would be within this fiscal year?

Mr. Eliasson: By March 31st, 2012, we should have it done.

Mrs. Stefanson: And with another recommendation that certain organizations in the GRE must prepare fourth quarter reports, unlike the Province, the Auditor General's office recommended that the Department of Finance review the requirement for the release of fourth quarter reports under The Crown Corporations Public Review and Accountability Act to determine if it is still appropriate, and the Province agreed to take this recommendation under advisement and will initiate discussions with the impacted organizations and undertake to review the practices of other Canadian provinces to determine if any changes to the act are required.

Can the deputy minister just indicate whether or not they accept or do not accept this recommendation?

Mr. Eliasson: We accept the recommendation. Once again, there may be changes required to legislation, and that's not something that one does lightly. It requires some analysis and strong rationale to do that. And so we will undertake that analysis within this year and determine if there's legislative changes that need to be made.

We want to assure ourselves that the fourth quarter reports don't serve some purpose that's not evident on the surface for any of the Crown corporations.

Mrs. Stefanson: Does the department see any benefit to having the Crown—the Crowns continuing to produce the unaudited fourth quarter report?

Mr. Eliasson: Without analysis, I would say we don't see the benefit of that. The Province itself doesn't do that. But we wouldn't make the determination to change legislation without consulting with the Crowns and getting their feedback on any useful purpose that they might see the fourth quarter report serving.

Mrs. Stefanson: And to do with the supplementary audit reports, the auditor also recommended that the Department of Finance do a cross-government review to assess the extent to which the Province currently requires supplementary audit reports and work with departments to revise the requirements to be consistent with GAS while meeting departmental needs.

It said in the comments that the Province appreciates the Auditor General's comments and agrees they will review the current requirement for supplemental reports, including the nature and timing of the audit engagements to provide these audited reports.

Is there a timeline for this review?

Mr. Eliasson: Again, we should have that done this fiscal year.

Mrs. Stefanson: Which supplementary audit reports are currently required by legislation?

Mr. Eliasson: We're aware of some that are required by legislation. I'm not sure that we're aware of all that are required by legislation. So that would be the nature of the review is to determine what supplementary reports are being produced. We're obviously aware of them in some areas, but we want to make sure that we are comprehensive in our review.

Mrs. Stefanson: Thank you very much for that. I believe we've been through some of the—most of the recommendations from the auditor, and you've responded to most of those.

Just a few more questions with respect to the Public Accounts release dates. Can the deputy minister just indicate, I believe they were going to do—was it a review on whether or not—how will that process go forward? If you could just indicate what's happening with that again.

Mr. Eliasson: I think once we get past the busy season that both the Auditor General's office and our comptroller's office are engaged in, that we'll be able to assess the impact of what earlier reporting dates means in terms of the quality of information that

would then go into the Province's financial statements. And if there's a way to maintain the quality of the information that's presented and move those dates up, then we would be more than willing to engage in discussion with the Auditor General's office on how to accomplish that.

Mrs. Stefanson: As I understand, right now, I'm just wondering how—what the implications would be with respect to moving a date up. I know the Auditor General sort of talked about it a little bit earlier in terms of the information may not be as accurate. Is that right? I'll just go back to the Auditor General on that—or as complete, I guess, as it could be. Is that right?

Mr. Chairperson: Mr. Eliasson. I'm sorry, Madam Auditor General.

Ms. Bellringer: And I think the deputy also made a reference to it before. I mean, at the moment—I think basically, all, I mean, all may be a little extreme, but almost all of the financial statements that end up consolidated in the summary financial statements have already had their audits completed. So you've got a completed audit flowing into this audit and, therefore, the reliability and the information is very, very high.

You're not required to make estimates; you're not required to make a guess as to what—how the year end will land. You don't have to look at the third quarter and do projections, which would be the case if you were to try to do it earlier, because you'd have to—you wouldn't necessarily have the completed, audited financial statements for every single component. That's the main difference between—in terms of pushing the timeline up.

* (20:10)

Mrs. Stefanson: I guess there are other jurisdictions that do push it up. Do they—do those other jurisdictions just rely on the information, the best information that they have at that time, put it into a similar report and then do they come out with a final report at another time?

Ms. Bellringer: My understanding is that there wouldn't be a different kind of a reporting taking place anywhere else in any other jurisdiction. It would still be the final summary financial statements for that jurisdiction.

One of the differences—and, I mean, it does take the kind of analysis the deputy is describing. We weren't expecting that the answers would be right

there, which was why we'd made the recommendation in the first place. But one of the differences is the nature of the organizations that end up in the consolidation. Manitoba, for example, includes school divisions, other jurisdictions do not, and so some of those differences do trigger a fairly significant impact on the timeline.

Mrs. Stefanson: And I just want to jump forward to something that the Auditor General also alluded to in her opening statement.

It has to do with suspected fraud in the WRHA. And I'm wondering if the—I know and I understand that this has—that this is in the hands of the authorities now, but I'm wondering if the auditor could just indicate how that issue came forward and what kind of a role her office has had with reviewing those allegations.

Ms. Bellringer: My recollection is that we first became aware of it through the Winnipeg Regional Health Authority. Because WRHA is one of the organizations in the government reporting entity, we attend audit committee meetings. We attend—we review the audit plan and the financial statements that are actually audited by an external firm of accountants.

But, through that regular attendance, we became aware of the situation. It certainly is a public issue in the sense that the media has reported on it. We are aware that a review has been conducted but that it—it's in the hands of the police who are certainly dealing with it currently. And we know that the WRHA took appropriate steps to ensure that there was no significant impact on the financial statements. And so we were satisfied with what we heard through their audit committee. But we do want to know more about what the cause was, and our follow up will take place once we're able to get access to find out how much work has already been done so that we're not duplicating that.

Mrs. Stefanson: So what is the process going—sorry. What is the process going forward from here then? What are the next steps? It's in the hands of the authority now and then it will maybe come back to you in the end, then, to—for a review, or—?

Ms. Bellringer: My next step is to get a copy of any documentation that's currently available. And, in the event that we're not able to get that, we would go in and do our own work to find out what the situation is. But I very much expect that the documentation would cover off most of the things we'd look at

ourselves, and we just don't want to do that unnecessarily. At this point in time, I do not have a copy of the report.

Mr. Chairperson: The hour being 8:15, what is the will of the committee? I think we had agreed that we would go for another 15 minutes.

Can we now move on to—and I'll thank the minister and deputy minister for their attention. But we go now to the Auditor General's Report—Report to the Legislative Assembly: Performance Audits—December 2010: Chapter 2: Economic Development: Loans and Investments under The Development Corporation Act.

Welcome, Minister Bjornson and, again, Deputy Minister Eliasson, to the table. And we'll begin by asking the Madam Auditor General if she has an opening statement.

Ms. Bellringer: I'm now joined by Sandra Cohen, who's the director of Value-for-Money Audits.

The audit that we're looking at now was included in our December report to the Assembly on performance audit, December 2010, and it is one chapter within that report. The department administers loans and equity investments made under part 2 of The Development Corporation Act to economic development programs in Manitoba's broader economic development strategy. Most of the part 2 loans are Manitoba Industrial Opportunity Program, or MIOP, business loans, and equity investments are in venture capital funds.

We did an audit to examine the due diligence used in approving, disbursing, and monitoring those loans and investments as well as the related performance measurement and public reporting. The—in the report we have quite a lot of detail on what we found. In summary, what we found was that the two programs have stimulated economic development in Manitoba, and most systems and practices were adequate. There remains room for improvement in planning, analyzing investment requests, monitoring, and ensuring that performance reporting is accurate and focused on actual economic benefits to Manitoba.

Mr. Chairperson: Thank you, Madam Auditor General.

Does the deputy minister have an opening statement?

Mr. Hugh Eliasson (Deputy Minister of Entrepreneurship, Training and Trade): Again, in

the interests of time, I would just say that I'd like to thank the Auditor General's office for their report. It contains some 14 recommendations. It's our intent to implement all of the recommendations. Some are more challenging to implement than others. It's interesting to be reviewing this report, that was released in December, this quickly. So we're—usually I like to have sort of the checklist, done, done, done, done, and we're not at that stage with many of them but we are working on them. And so I'll leave time to respond to questions on where we're at in terms of implementing any particular recommendation that the committee is interested in.

Mr. Chairperson: Thank you, Mr. Eliasson.

The floor is now open for questions.

Mr. Borotsik: I would have thought Mr. Eliasson would have rather had a lengthy opening statement rather than have questions asked, but anyway, Mr. Eliasson, thank you for, I guess, that confidence. From your comments, your opening comments, it's obvious that PAC is now doing its job properly, and we're getting reports faster to the table. And I think that's very positive for the department as well as for PAC itself.

This is a very important section, responsibility that you have in your department of E, T and T. You have the stewardship of some, in this report, some \$107 million that's been put out as loans and investments on behalf of the citizens of the province of Manitoba so you do have a fairly heavy responsibility. We will talk about, at length, the two sections, certainly the venture capital and the MIOP.

But one of the areas is the part 2 loans. I'll start with it. It's \$11 million. If you do have the report, Mr. Eliasson, on page 68, MDC held an interest-free part 2 loan made to the City of Winnipeg of \$11 million. It was used to partially fund the city's contribution to the Canadian Human Rights Museum. Couple of questions on that. The terms and conditions of that \$11-million loan—we're bringing staff—terms and conditions of the \$11-million loan, can you share those with me, the term? It says interest free and the amount paid on an annual basis of that term.

Mr. Eliasson: In general, the Manitoba Industrial Opportunities Program accounts for most of the activity under part 2 of the Manitoba Development Corporation. From time to time, we do administer loans on behalf of government that aren't part of the Manitoba Industrial Opportunities Program under

part 2 of the MDC act. This would be an example of one of those loans of that type. The loan is to the City of Winnipeg to support their contribution to the museum and it will be repaid to the Province through grants in lieu of taxes that would otherwise be paid to the City. So the grant in lieu of tax that goes from the museum to the City will be used to repay the \$11-million loan.

* (20:20)

Mr. Borotsik: If memory serves me correctly, there was just a motion of council that waived the first portion of taxes paid by the Canadian Human Rights Museum. If that was to be used as a funding mechanism for the \$11-million loan, has that loan been paid and will it be paid, or is it at risk?

Mr. Eliasson: The loan currently is being paid, and I can't speak to the—exactly to what council approved, but I think that was an additional period beyond the period of time required to repay the loan.

Mr. Borotsik: What is the term of the loan? How many years?

Mr. Eliasson: I think it's 15-year term.

Mr. Borotsik: And the loan is currently up-to-date? I assume that the first payment has been made, or has it not been made as yet?

Mr. Eliasson: It is up-to-date.

Mr. Borotsik: So, as I understand it—now, did you say it's under MDC. Did the City approach MDC for this particular financial arrangement, or was the government approaching the City of Winnipeg for that financial arrangement?

Mr. Eliasson: The discussions occurred between the City, the Province and the museum, and MDC is an efficient vehicle for the Province to use to administer a loan like that.

Mr. Borotsik: Thank you. I understand that. But who made the initial inquiry? Was it the City to the Province, or was it the Province to the City?

Mr. Eliasson: I wasn't involved in the initial discussions, so I don't know who approached who.

Mr. Borotsik: Okay, there's an outstanding loan, and I'm sure there's documentation. I would suspect there's a signature and there's a payback term, a period. That documentation is held by whom at the present time?

Mr. Eliasson: By the Manitoba Development Corporation that is administering the loan on behalf of the Province.

Mr. Borotsik: Then—and where does E, T and T fit into this one right now? What is your responsibility, Mr. Eliasson, because I do believe you sit on MDC, is that not correct?

Mr. Eliasson: Yes, I'm the chairman of the board of MDC.

Mr. Borotsik: Okay, you're the chairman of the board of MDC, and MDC is administering this particular \$11-million loan from the Province to the City to be paid back to the Province. So MDC is the functionary, if you will; it's the flow-through. But, when MDC was asked to be that, did they not have any part in the preparation of documents? Did they not talk to the two parties? Did they not, at that point in time, find out who was responsible for the first overtures of that \$11 million?

Mr. Eliasson: MDC operates—The MDC Act has two components: Part 1 was activities that MDC initiated on its own. And activities under part 1 of the act were suspended in 1977, and MDC has not made any decisions regarding loan on its own since then. So all the activities under MDC are under part 2 of the act where the specific loans are approved by the provincial government, by Treasury Board in Cabinet, and the Manitoba Development Corporation acts as an agent of the Province in the administration of those loans.

So there are—there's no decision-making ability in the Manitoba Development Corporation to approve a loan or not to approve a loan or to negotiate terms and conditions of a loan. It puts the loan agreements together and it administers those loan agreements.

Mr. Borotsik: Is that true of all MIOP loans as well?

Mr. Eliasson: Yes, it is. Every MIOP loan receives specific approval by Treasury Board and subsequently by Cabinet.

Mr. Borotsik: But the branch of E, T and T on a MIOP loan would, in fact, trigger that loan, put together all the documentations, put together the proposal, put together the application, put together the fiduciary responsibilities of the individual, and then they would—they would then make that application to Treasury Board, I assume. If it's approved, then it comes to MDC for administration. Is that the way it works?

Mr. Eliasson: That's pretty darn close.

Mr. Borotsik: Boy oh boy, I'm glad I hit that one, okay. So there is no—MDC had no input at all for the \$11-million loan to the City of Winnipeg. You simply administer it; you make sure that the payments are made when they're supposed to be made, and the terms and conditions were then struck between the Province and the City of Winnipeg. That's the way I understand it at the present time. Is that correct, Mr. Eliasson?

Mr. Eliasson: That's correct.

Mr. Borotsik: Thank you, Mr. Eliasson. I guess we know where the—well, MDC wasn't involved; that's fine.

Okay, if we can, let's get under way here: MIOP loans. MIOP loans, as of March 31st, 2008, amounted to some \$75 million. On page 67, it indicates that there are 19 loans to 17 companies of \$75 million and there are \$12 million that have been identified as doubtful accounts.

Can you explain to me, Mr. Eliasson, the definition that you have for a doubtful account? Is it one that's not current? Is it one that hasn't been current for 90 days or 120 days? Is it one that has never made any payments to the account over a period of time? Can you give me that definition of doubtful?

Mr. Eliasson: A doubtful account would be one where the loan is not current, or we have reason to believe that there could be issues arising in the near future.

Mr. Borotsik: It's identified in this report that, actually, in the paragraph just above that—I'm not so sure that's what it was, but anyway—it's identified that over a period of 10 years, there's only been \$1 million of writeoffs from the MIOP portfolio.

If there's \$12 million in doubtful accounts, how do you define the timeline as to when that doubtful account should be a writeoff?

Mr. Eliasson: Okay, I'm—I'd found where you're at now.

I'll tell you what we do. The allowance for doubtful accounts is established when we enter into a loan agreement. And at the very outset of entering into a loan agreement, we analyze the security that is available to the Province within that loan agreement, and we make a determination of what kind of

valuation allowance to establish for that particular loan.

If—and it's by—we have a policy on how to establish those valuation allowances. And, so, if the loan is rock solid secure, we don't establish a valuation allowance. And then we have a graduated scale of 5, 10 or 15 per cent of the loan amount that is established as a valuation allowance, and so that is expensed in a government—in the department appropriation, at the very outset when the loan is initiated. So that provides a valuation allowance, in the event that the loan, at some point in time, isn't fully realized, then we've established a provision so that the loss is already expensed within that.

And we actually have quite a small "c" conservative approach to establishing valuation allowances, so that in the entire history of MIOP, from 1988 till today, the loss ratio is 11 per cent, and the total of the valuation allowances that we currently have on our books at the time of the audit was 16 per cent, so you can—a valuation allowance of 16 per cent, which is a provision against the chance that a loan or a portion of a loan isn't repaid.

Mr. Borotsik: Yes, and I appreciate that explanation. However, the full amount of the loan is still identified on the books, however. You showed an allowance of \$12 million, but if the amounts of that loan is still shown on the books as the total amount that was lent at that point in time. Is that correct?

Mr. Eliasson: The allowance is there, right from the beginning, when the loan is initiated and, so that allowance provision is made and the loan—those loans are current. And, then, on an annual basis, each loan is reviewed and if there are specific issues with the loan, a determination is made on whether it's necessary to increase the valuation allowance for any particular loan. But we have a very generous valuation allowance, given the quality of the portfolio.

* (20:30)

Mr. Borotsik: Yes, I do appreciate, again, that your explanation and the full amount is still outstanding on your books as being a loan outstanding. But I did read in here somewhere that there was actually \$1 million that was effectively written off. It was a writeoff. It wasn't just simply a valuation. It wasn't a contingency set up for any doubtful accounts; it was a writeoff. How does one identify the writeoff? Is when the business no longer is in existence? Is that

when the loan, then, would be considered a writeoff and no security, then, would be available to the Province to recoup any of those costs? Would that, then, classify or constitute a writeoff?

Mr. Eliasson: When we are satisfied that every reasonable and prudent collection effort is not going to result in collecting anything on the loan, then we write it off. When there is a possibility of collecting, we establish the provision for it, but we don't write it off until we're convinced that we can't collect on it.

Mr. Borotsik: And am I correct in saying that there was only \$1 million up until the year end, March 31st, 2008, from 1999 to 2008. Is that correct?

Mr. Eliasson: One point two four million.

Mr. Borotsik: Thank you for that clarification.

If you go to page 71 on the MIOP loans, there's a very well-defined lending criteria, actually. I went through the lending criteria, and if one followed this criteria when setting up a loan, there would be a fairly reduced amount of risk associated to that loan. One of them is is that security was required for all loans. It says right there: Security was required for all loans.

If you go to page 75 and you look under 5.2.4, where ETT analyzed and negotiated loan security with due diligence, you'll notice that in that particular paragraph it says, E, T and T-ETT security had only intangible value and ETT security position was last behind all other creditors. Well, if you followed the criteria that was set out in the loan criteria, which is fairly well defined, why is it that security would have only intangible values for some particular loans?

Mr. Eliasson: Every MIOP loan is the subject of an individual negotiation with a company, and every MIOP loan is different from the other. And it all depends on the financial circumstances of the company, the kind of economic opportunity that they're trying to realize, and the way that support can best be structured to meet their particular needs and contribute to their success.

And so the criteria provide guidelines, but it's not an ironclad, cookie-cutter set of programs—of criteria. The real strength of MIOP—and this has been true from the very beginning of the program—is that it's a very flexible instrument that can be tailor-made to fit any individual circumstance that makes sense. And so you'll see lots of examples where those guidelines are not met in every instance because it doesn't make sense in every instance.

Mr. Borotsik: So there's flexibility built into the MIOP loan application. However, if you look on page 71, it's quite specific where it says on E, T and T's website that these criteria are in place. So, if I'm looking for a MIOP loan and I go to the website, I see that there are some fairly laid-out criteria, for example, a minimum equity requirement of 20 per cent, typical repayment of five to seven years, security required on all loans. This is on the website.

Now, you're telling me that that's not necessarily the truth; that, in fact, anybody can secure a loan under flexible terms. One of the recommendations from the Auditor General is, if that's the case, should that not be communicated with people who are looking for assistance from the Province? And, if that's the case, why would you have these very strict criteria identified on your website and not just simply say, we have some very flexible terms?

Mr. Eliasson: People have to have a basic understanding of a series of expectations. You don't start with an absolute blank page in every instance because there's going to be different combinations and permutations around that that make sense for an individual company, but you have to have some starting point for—to base discussions around.

We're actually very proud of the flexibility that exists in MIOP. It's one of the hallmark strengths of the program. On our website, we're quite clear that it is a flexible program. I think the Auditor General's comments related to all the public information on MIOP doesn't emphasize that flexibility. It's not something that we—we're trying to hide.

We—the—on our website, we made it very clear that it's a flexible program and that we've now revisited every other piece of public communication that we control on MIOP to make sure that that flexibility is clearly communicated to people.

Mr. Borotsik: In fact, it's so flexible that none of the loans actually comply with all of these criteria. Is that not correct?

Mr. Eliasson: You know, I don't know if we've done an analysis on how many loans apply—comply with every criteria. Our expectation isn't that every loan will comply with every criteria.

Mr. Borotsik: Out of the 17 loans outstanding, the Auditor General looked at 15, and of the 15, none of them ever—none of them complied to all of the criteria that was set out. So, really, the criteria isn't even a good guideline. I mean, like, there's so much

flexibility built into the system that you have the judgment call as to what it is that you want to ask of any business that's applying for a loan from MIOP. Is that not correct?

Mr. Eliasson: There—each loan is the product of a negotiation with the company, and many of those criteria are met in many of the instances. I didn't say that all of them are met in every instance.

Mr. Borotsik: On page 73, it does identify that time that on the approvals of the loans, that of—found that E, T and T sometimes analyzed loan requests and made loan recommendations to Treasury Board without current or complete business plan information. This occurred in nine out of 15 loans.

Now, I'm not a banker, but I do know that one is lending money to some business or some individual, that you do like to have a business plan as to how that money is going to be generated and how that money is going to be paid back. Out of nine out of 15 loans selected for examination, four applicants had some components of a business plan, two had prior MIOP loans—which I assume you just took as experience—and two had no business plan information at all.

So is that as flexible that the department gets when giving money out on a MIOP loan, where you don't even require a business plan in order to see how that money is going to be paid back or, in fact, how the money is going to be generated as revenue in the first place?

Mr. Eliasson: Every company does not have a professionally well-prepared business plan. We deal with companies of varying levels of sophistication. In each instance, the staff responsible for the analysis of the MIOP loan received sufficient information to give them confidence to put together a recommendation to Treasury Board.

In all instances, the information that they utilized was not well documented. That's a discipline issue that we're addressing.

Mr. Chairperson: I'm going to give you a break, Mr. Borotsik, and I'm going to go to Mr. Jha.

Mr. Jha: Firstly, I'd like to commend the deputy minister for holding two fantastic portfolios, heavily loaded with this Finance and this ETT. Both are very, very serious departments, heavy load, so I commend you for managing those.

But, on the question of this venture capital funds, I know that the venture capital funds are very

important for start-up companies anywhere in the world. If you look at the economic models throughout developing economies, it's very important, but whether it's privately funded, whether it's government funded, or a combination of both.

* (20:40)

I understand that one of the CEOs of the Prairie Fire Growth Venture Inc. is talking yesterday on the press about supporting the agriculture biotechnology developments in our province by the venture capital funds, which is very essential. Now, could you throw your own personal opinion on how we are doing and how these funds are helping to start these innovative technology firms which are much needed in Manitoba?

Mr. Eliasson: The availability of venture capital is a challenge in almost every jurisdiction in North America and has been for the past number of years, and it still is a challenge in Manitoba. We have a number of initiatives in place to make the availability of venture capital more—venture capital more available to Manitoba business. There are two labour-sponsored venture capital companies who are operating, and they're actually operating three funds in Manitoba. GrowthWorks just launched a commercialization fund last year and they're having a difficult time marketing the asset class in almost every jurisdiction with the exception of Saskatchewan right now, which has funds that are targeted at the resource sector. They're having difficulty—every jurisdiction is having difficulty raising money under that program, but the marketing efforts remain and they're strong and so those companies are active in Manitoba.

The province also has a Small Business Venture Capital Tax Credit program which offers individual, sophisticated investors a 30 per cent tax credit to invest primarily in start-up situations. It's sometimes referred to as the angel investor tax credit, so it's restricted to what you would define and describe as a sophisticated investor. It's not RRSP eligible. It's not designed for the retail investment market and that program is operating in the province.

We have a Community Enterprise Development Tax Credit of the same amount that's available to community-based enterprises in establishing. It was used in the acquisition and the succession of the Pollock Hardware store on Main Street so that a group can take over from an owner that was looking to retire and continue to operate that community-based business.

And then we have what we refer to as third-party funds and those are the ones that are related to this audit and to the Manitoba Development Corporation and they've had an interesting history. The first third-party fund was the Vision Capital Fund that was put together in the very early 1990s and there's been an evolution in sort of the market for—there's been an evolution in how much the government has to do to get a fund going. In the early '90s, in order to get a professionally managed fund established, we had to provide fairly significant underpinning by way of a loan to Vision Capital to encourage private investment to come in. And as the market matured and progressed and people saw some of the successes, then in successive third-party funds, the government played a different role.

In the Manitoba Capital Fund, which was put together after a call for proposals, the government took on the first losses for the fund as an inducement for the private sector to come in. There was a fund called the Renaissance Fund that was put together, and again, the government took that role of absorbing the early losses in order to induce others to invest.

In the last three funds that we've done, the government has invested as a limited partner in exactly the same way as other limited partners invested in the fund and the advantage of the government investment was sort of an early commitment to the fund to give them some marketing momentum to raise the additional funds and, you know, the audit report deals with some of the issues around that and I'd be pleased to discuss those but we're always examining different ways to provide—to stimulate the provision of venture capital in Manitoba. We receive proposals, ideas, suggestions from many sources, and they all figure into the strategy of the tax credits or direct investment in the fund.

Mr. Chairperson: Thank you very much. Ms. Brick?

An Honourable Member: No, I didn't ask a question.

Mr. Chairperson: I'm sorry?

An Honourable Member: No, I didn't ask—

Mr. Chairperson: No? Mr. Martindale.

Mr. Doug Martindale (Burrows): I'll pass.

Mr. Borotsik: Thank you, I won't. You'd indicated before the venture capital fund question that, for the

most part, your loans and MIOP are to somewhat unsophisticated companies that perhaps can't put together a proper business plan. Well, I've been looking at the listing of these particular companies and, first of all, they're fairly substantial. We've got \$10 million loaned to one; we've got \$15 million loaned to another; \$6.8 million loaned to another—which, by the way, are very sophisticated companies. I suspect that they would have the opportunity to put a business plan together, and, if that were the case, that those business plans would be identified in the application, would they not?

Mr. Eliasson: I didn't say for the most part we deal with unsophisticated companies; I said we deal with a range of companies from unsophisticated to larger concerns. When there's no business plan available, there can be a number of reasons for that. Sometimes, we have follow-on loans with companies that we know very, very well and we are extremely familiar with their business. In other cases, we're dealing with large publicly traded corporations with a division of the corporation on a particular project to finance a particular piece of equipment to support a project, and that doesn't lend itself to the same sort of comprehensive business plan. So there's a wide range of reasons why what you would consider to be a comprehensive business plan may not be there all the time.

Mr. Borotsik: And, as I said, the lowest number on this particular page is \$392,000. If you're applying for that kind of a loan, I would suspect that there's professionals available to put the necessary documents and business plan together. So I would assume that the documentation in the files should reflect that business plan. If nothing else, revenues, financials and how the payback was going to—as I said at the very beginning, you're the steward of—the Province of Manitoba, and we hope that it gets paid back.

We do—I do recognize that there's risk reward, and I do recognize that there's other variables involved in these particular loans. There's employment in the province of Manitoba that's tied into these loans. As a matter of fact, in the most part in your criteria, there is an employment criteria. In one of the loans, it was found out that, in that particular loan, that criteria wasn't followed. In fact, it was 62 per cent less than what was identified as a condition of the loan. When you find a company of that nature that has not complied with the loan requirements of employment—at 62 per cent less

employment—what is your department's fallback position on something of that nature?

Mr. Eliasson: I have to be careful in answering this not to stray into commercial confidentiality, but we deal in situations from time to time where significant Manitoba employers are facing a variety of challenges to their business.

And, in this particular instance, a well-known Manitoba company was facing three very specific challenges: one was that competitors from China were having a huge impact on their market in the United States; at the same time, the Canadian dollar was appreciating against the American dollar, which affected their competitiveness from Canada and exacerbated the effect of competition from China; and then the housing market, which was the market for—that most influences their volume of sales in the United States collapsed in the United States. And so we were dealing in this situation not to create jobs, but to maintain a significant number of jobs within Manitoba. And the situation evolved and continues to evolve over a number of years. And so the company was faced with the challenge of restructuring their operations. Part of the company was sold off into a separately owned division, and so the component associated with those jobs moved with that and was no longer fair to hold this company responsible for the jobs that moved, which accounted for some of the 62 per cent.

* (20:50)

And then, in order to survive and continue to employ which is still a significant number of people in this province, they've had to reduce the overall level of employment. And the purpose of job penalties is not to penalize a company that is facing challenges not of their own making; and, when they're doing everything that they can to maintain employment in Manitoba, we don't penalize companies in that circumstance.

If companies have options and choose to locate employment and jurisdiction other than Manitoba, or have targets that they have failed to meet for reasons well within their control, then we would utilize the penalties that we have within those agreements.

Mr. Borotsik: Are you satisfied that this particular company, not giving any confidentialities or any competitive issues, the loan that's outstanding right now with this company that—is there a risk attached to it? Or is there security attached to it, that there's no risk to the Province of Manitoba?

Mr. Eliasson: We tend to operate at the riskier end of the risk continuum. MIOP financing is often the last piece of financing to be put in place to allow a project to succeed, and is often there in instances where conventional lenders aren't able to participate. So we do take a higher level of risk. We endeavour to secure each loan to the best of our ability. In the particular loan you referenced, we have very, very strong security, and the loan has always been performing. Interest payments have always been made.

Mr. Borotsik: A couple more questions in MIOP, then we'll get into the venture capital, which is another very interesting section of your responsibility.

We talked about writeoffs; we talked about contingencies for doubtful accounts. The MIOP, I believe, had—has an outstanding loan in the Hecla development. Is that correct?

Mr. Eliasson: That is correct. The period of this audit was till March 31, 2009, so it's not in the purview of this report.

Mr. Borotsik: Actually, I believe it is. There's some monies that have been identified in this report, as well as in the next report with a particular company, in a fairly substantial amount.

It was, as I understand, lent to the Hecla Island development. That, as I understand also, is either in receivership right now, or going through some bankruptcy protection. Of the monies that are outstanding there, are all of these to be written off in this fiscal year?

Mr. Eliasson: The resort is in receivership. The receiver is endeavouring to sell the resort, and until a sale is made or the receivership wrapped up, we don't know the extent to which we might collect some, all or none of the loan.

Mr. Borotsik: How are you secured in that particular loan?

Mr. Eliasson: We are second to the Business Development Bank of Canada, who has a loan of \$8.5 million, and our loan is \$5.5 million.

Mr. Chairperson: Going to give you a break, Mr. Borotsik.

Mr. Martindale: Mr. Chairperson, I have a question about MIOP loans for the minister or deputy minister, probably for the minister.

I understand that this audit covers off loans made over quite a long period of time. Can the minister clarify, for the committee, when the majority of MIOP loans, the ones that had been written off at the expense of the taxpayers of Manitoba, were entered into?

Mr. Chairperson: Mr. Martindale, questions are to the deputy minister, please. I think we discussed this long ago and established that only policy questions would be directed to the minister. So I'm going to defer your question to the deputy minister, if you don't mind, please.

Mr. Eliasson: There's a paragraph, second from the bottom on page 67 of the report, under Background. It says, from MIOP's beginning in 1988 to March 31st, 2009, MDC made 117 loans, totalling \$249 million to Manitoba-based companies. Loan writeoffs during this time were \$28 million or 11 per cent of loans disbursed. Most of these writeoffs, \$26 million, related to loans made between 1988 and '99.

Mr. Martindale: Could you tell me how much has been written off from 1999 to—until this audit?

Mr. Eliasson: Mr. Chairperson, \$1.24 million.

Mr. Borotsik: Mr. Chairperson, 1.24, but that's where we were getting here. We do have some doubtful accounts of \$12 million. Plus we've got \$5.5 million, that's more than just doubtful.

Plus, if you go to page 101, and I do believe that this account was after 1999. There's a company called Shape Foods Inc. of \$3.9 million that has been sold, as I understand it. And it's not identified on the MDC report, Manitoba Development Corporation annual report of March 2010. It's not identified on the listing there. So what happened to that \$3.9 million?

Mr. Eliasson: That loan was after the March 31st, 2009, cut-off for this report. But that loan has been written off. Writeoff certificates are public information, and that loan was written off on March 31st, 2010.

Mr. Borotsik: And when did that loan—when was that loan put into place?

Mr. Eliasson: In the fiscal year 2006-07.

Mr. Borotsik: Thank you, Mr. Eliasson, I do appreciate that.

Venture capital, very quickly. We don't have a lot of time, and I'm not going to keep you any longer.

Venture capital—you have invested in venture capital funds, some \$21 million. One of the concerns that the Auditor General had is that, of those venture capital funds, there's really no caveats as to that money being invested in Manitoba companies.

Saskatchewan does have some controls and some caveats. BC and Ontario have controls and caveats that their investment into venture capital funds will, in fact, be invested back into their provinces. Is there any way that your department can, in fact, get those funds that you've invested in venture capital put into venture capital projects in the province of Manitoba?

Mr. Eliasson: The venture cap third-party funds predominantly invest in Manitoba operations. When the head office of the fund is in Manitoba, they are most alert to opportunities that exist in Manitoba. The—two of the funds have significant investments yet to make. They're not fully invested. Canterbury Park is maybe about a third invested, something like that. And of the six funds that have existed under this third-party's program, 66 out of the 77 investments that they've made have been in Manitoba.

* (21:00)

Mr. Chairperson: The hour being 9 o'clock, I would like to ask the committee if there is leave to have one more question asked and then—

Some Honourable Members: No.

Mr. Chairperson: No. Okay. Is the committee agreed that we have completed consideration of Chapter 2: Economic Development: Loans and Investments, under The Development Corporation Act, of the Auditor General's Report to the Legislature, December 2010?

An Honourable Member: Agreed.

Mr. Chairperson: Agreed to pass it?

An Honourable Member: No.

Mr. Chairperson: The hour being 9 o'clock, what is the will of the committee?

An Honourable Member: Committee rise.

Mr. Chairperson: The committee rise. Before we rise, it would be appreciated if members would leave behind any unused copies of the reports so that they may be collected and reused at the next meeting.

Thank you very much. Good evening, ladies and gentlemen.

COMMITTEE ROSE AT: 9:01 p.m.

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