



Legislative Assembly of Manitoba
HEARING OF THE STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman
Mr. David Blake
Constituency of Minnedosa



TUESDAY, May 3, 1977, 10:00 a.m.

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TIME: 10:05 a.m.

CHAIRMAN: Mr. David Blake

MR. CHAIRMAN: Gentlemen, we have a quorum. We will re-open the meeting of the Report of the Provincial Auditor, Public Accounts Committee. We were on Page 12 discussing corporate tax when we adjourned last Tuesday. I had one speaker on the list who doesn't wish to speak this morning so the floor is open. Page 12 of the Report of the Provincial Auditor.

Page 12—pass; Page 13. Mr. Lyon.

MR. LYON: Mr. Chairman, the decrease in mining and mineral royalties taxes — I see the answer given by the Auditor there; I had a query beside it. Would you say that that is totally attributable to the change in the world price of copper, Mr. Ziprick?

MR. ZIPRICK: Well, it was mainly attributable to that and we checked to see if there was a significant volume reduction in mining but there wasn't in that year. There are substantial inventories on hand that still will have to be assessed.

MR. LYON: Thank you, Mr. Chairman.

MR. CHAIRMAN: Page 12—pass; Page 13—pass; Page 14—pass. Mr. Lyon.

MR. LYON: The question of the excess of expenditure over revenue, this again, I take it, Mr. Ziprick, is a reiteration of your statement that is contained on Page 35 about the combined basis of accounting.

MR. ZIPRICK: That's right. That's right.

MR. LYON: We can come to that on 35. The fact that you mentioned it two or three times is not without note, however.

MR. CHAIRMAN: Page 14—pass; Page 15—pass; Page 16—pass; Page 17—pass; Page 18—pass; Page 19—pass; Page 20—pass; Page 21—pass; Page 22—pass; Page 23—pass; Page 24. Mr. Lyon.

MR. LYON: Mr. Chairman, on Page 24 we note the rather unusual circumstance, Legal Aid Services Society of Manitoba taking an employee on staff at a remuneration higher than that called for under the Civil Service Act. Is it a matter of record within your department or not, Mr. Ziprick, as to whether or not any disciplinary action was taken with respect to that unusual hiring?

MR. ZIPRICK: No, I have no evidence. When we reported it, the action was being taken to correct the situation but I don't know just how it was resolved.

MR. CHAIRMAN: Page 24—pass.

MR. LYON: Have you ever heard of that occurring in any other departments before?

MR. ZIPRICK: No, not . . . just on a matter of maybe an oversight and immediately corrected but not a deliberate change.

MR. LYON: And this was a deliberate negation of the hiring authority with respect to salary was it not?

MR. ZIPRICK: Well, the Board members felt that that's what was needed to be paid so they just augmented it.

MR. CHAIRMAN: Mr. Cherniak.

MR. CHERNIAK: Just before it gets cleared, who was the hiring authority?

MR. ZIPRICK: The hiring authority is the Board but the hiring was to be in accordance with the Civil Service Act.

MR. CHERNIAK: But the decision was made by what Board?

MR. ZIPRICK: The Legal Aid Society.

MR. CHERNIAK: I see. Thank you.

MR. CHAIRMAN: Page 24—pass. Mr. McGill.

MR. MCGILL: Mr. Chairman, I would like to ask Mr. Ziprick about his comments on the Manitoba Development Corporation. I recall that last year — and he notes in here that he did point out the efficiencies in respect to the operations of the Corporation in providing appropriate documentation for loans that were advanced and so forth — Mr. Chairman, I wonder if Mr. Ziprick would indicate to the committee if he has any explanation of why, after this having been brought to the attention of the committee a year ago, that the suggestions were ignored and that the activities continue to be conducted in a way that is not consistent with normal accounting procedures?

MR. ZIPRICK: I have no particular explanation as to the delay, but I can say that action has been taken recently or within the last four or five months to bring about the kind of accountability and review of accounts that will correct the situation. In other words, there have been procedures established as to how the accounts' officers are to review the accounts and check-off lists and file reporting systems; and also there is a laid-on procedure of the kind that will bring about the necessary information before actions are being taken. So we can say now that significant progress has been made. At the time we were finalizing the report, late in December, there was some action undertaken because there was this delay in the preceding year and we didn't want to commit ourselves in any way that there would be something definitive being undertaken. But we have since

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carried out an interim on it and steps have been taken to essentially correct all these various difficulties.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, through you to the Auditor, we note here that you have had some comment on the activities of the Department of Agriculture, in particular the Agricultural Products Marketing Commission, and you expressed some concerns about the administrative controls and the accounting system that existed. Have you had any further opportunity to review that, and have the necessary steps been taken to correct those measures?

MR. ZIPRICK: Yes, the Department of Finance became involved and assisted in setting up the necessary bookkeeping. We have received financial statements on the basis of the records and we are proceeding with the audit, so that area appears to be resolved. Now, since that time, basically the operation is being taken over by the Department of Agriculture as a departmental operation so it is being incorporated into the departmental records.

MR. GRAHAM: Your No. 1 concern in the whole thing is to ensure that the accounting that takes place has the necessary authority, or do you carry out a more extensive audit than that?

MR. ZIPRICK: It's more extensive than that. In addition to the authority, we see that there is an accounting system and a management reporting system of the kind that makes it possible to run the operation in a businesslike and an effective manner, and if there are those deficiencies we certainly take action and request that they be corrected.

MR. GRAHAM: Is your concern that the accounting be on a business basis rather than a government type of operation?

MR. ZIPRICK: Well, as far as the accounting procedures, they will vary. I mean on a businesslike basis, in that there is information flowing of the kind that you can make decisions from, and I don't mean the methods of accounting. The methods of accounting between a corporate enterprise and an enterprise in the government naturally will be different because the structures are different but the flow of information in the general operations should be the same.

MR. CHAIRMAN: Mr. Cherniak.

MR. CHERNIAK: Mr. Ziprick, I'm wondering if you could tell us about the extent of your knowledge of the kind of documentation that is available in the hands of private lending institutions.

MR. ZIPRICK: Well, the normal kind of requirements are financial statements and the assessment of being able to assess the financial position.

MR. CHERNIAK: Are you saying that private lending institutions maintain complete records of the financial statements of companies to whom they lend or is it required by the Auditor that they have proper documentation to show the security they hold? There is a distinction in my mind and there must be in your mind because you're not talking about security; you're talking about documentation to support decisions. Do the private lending institutions have available to their accountants the basis on which they make decisions to lend?

MR. ZIPRICK: Yes, I would say that . . . Of course if it's not an incorporated company and privately owned then I don't know. But as far as incorporated companies, I would say that the information for making a decision as to whether it's a valid decision or not has to be there, otherwise the Auditor would never know whether it's a decision based on business operations or purely a decision for other purposes.

MR. CHERNIAK: Well, I asked you the extent of your knowledge of that. Is that your assumption or do you know that to be so?

MR. ZIPRICK: Well, the audit procedure requirements for a lending transaction is that you look for the back-up of the information making the decision and if it's not there then the question arises on what basis has the decision been made.

MR. CHERNIAK: So you're saying that the appropriateness is a matter for comment by the Auditor in a private lending institution.

MR. ZIPRICK: Not on the basis of financial statements because the financial statements only disclose whether something has been presented fairly or not fairly, but he certainly would comment in his management report to the Board of Directors that there was a deficiency in this kind of documentation.

MR. CHERNIAK: You are aware of that; that's of your knowledge.

MR. ZIPRICK: Yes, that would be a standard requirement for an Auditor to make.

MR. CHERNIAK: That's a textbook consideration of what an Auditor ought to be doing?

MR. ZIPRICK: Well, I don't know whether it's specifically expressed in textbooks. The requirements of what should be behind supporting a transaction is spelled out in textbooks and this would be . . . Now as to what the Auditor reports or not reports, that in many instances is essentially a judgemental decision by the Auditor and would depend on the materiality of the situation. As to whether he'd make a public report or not would be his decision.

MR. CHAIRMAN: Page 24—pass. Mr. Lyon.

MR. LYON: The Manitoba Development Corporation, Mr. Chairman, that's Page 24, 25, and over to 26. Dealing firstly with the Flyer Industries Limited, Mr. Ziprick, you make the report on the bottom

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paragraph 1: "When the new plant became operational, because of a lack of effective cost counting, operational and financial controls and management information systems, the managing this plant was substantially out of control." That's more than a serious statement. Would you care amplify upon that and upon what measures, if any, have been taken to rectify the complaint that u made here?

MR. ZIPRICK: Well, the situation was that when they were expanding the operations the various control systems were not being established to meet the expended requirements resulting in, for instance, control of inventories being non-existent. It took a long time to sort out afterwards, and the same way with the tendering processes and then the previous smaller operations. The cost controls seem to have been very ineffective. At this point in time, the whole reorganization stemmed from just these various difficulties and steps were taken to change the managerial system to bring about control. Now, when the managerial system was changed, in addition to the accounting staff that was on by the firm, they employed firms of chartered accountants to assist in inventoring and establishing controls over inventories and also to establish various costing systems and records.

The difficulties were also being encountered from the evidence that we saw in the operational side that, of course, we don't have expertise in the operational side. But on the basis of production, the operational side from as much as we could assess was effectively resolved in that the production was brought up to the level that was being expected and the buses were produced. There was some difficulty in resolving the accounting, the inventory control, and the costing systems. It seems to have taken quite some time but we are advised now that the situation is resolved, or the auditors felt they did not see any difficulty in it being resolved. And furthermore, I would say they are resolved because we have since done a follow-up and there are current internal financial statements available.

MR. LYON: You make further comment in paragraph 2. b) on Page 25, Mr. Ziprick, and I'm quoting, from the documented information which was made available to us we could only conclude that the Board was carrying out its responsibilities mainly on the basis of verbal briefings. The propriety of relying on a multimillion dollar operation in this manner is questionable. It is appreciated that the Board management had inherited difficult problems. However, even having regard to the various difficulties, it seems that immediate steps should have been taken to establish a management information system which would provide the necessary documented information for management and decision making and so on. Now, you appear there to be speaking in the present tense or was that a historic reference that you were making? Are you satisfied that that condition has been rectified with respect to the verbal briefings or . . . ?

MR. ZIPRICK: Yes, that is what I was just saying, that our recent interim review at the Manitoba Development Corporation, there are ongoing current financial statements available that were produced from the records that you can determine the position on a month-to-month basis. Now, or to that, when we were trying to establish on what basis the decisions and the operations were being carried out, there were no monthly statements available on a month-to-month basis to make a kind of observation. Now, as far as the Board is concerned, we know there will be meetings and minutes available and the decisions were being made, we assume, on the basis of briefings by the Chief Executive Officer and the financial officers of the Corporation and this information was carried across to the Board of MDC by way of common directorates.

MR. LYON: Do you have in front of you the names of the Board members of Flyer Industries listed?

MR. ZIPRICK: No, I don't.

MR. LYON: That Board, I take it, Mr. Chairman, is made up partially of members of the Manitoba Development Corporation and other Board members?

MR. ZIPRICK: I don't know. Just going by recollection, I think most of them were MDC Board members. I'm not sure. There may have been one or two members in addition to the ones that were on MDC but, going by recollection, most of them were Board members.

MR. LYON: Do you know if this Board, as is required with other public corporations, has an audit committee that would be responsible for attending to the types of complaints that you, as Provincial Auditor, and that the outside auditors have undoubtedly corroborated . . .

MR. ZIPRICK: I understand there was an Audit Committee that was meeting occasionally with the auditors. We did not see any minutes or reports of what transpired but I understand that an Audit Committee is in existence and was functioning.

MR. LYON: And is functioning?

MR. ZIPRICK: Well, they were meeting.

MR. LYON: Yes.

MR. CHAIRMAN: Mr. Toupin.

MR. TOUPIN: Mr. Ziprick, to the best of your knowledge, in regards to the lack of accounting procedure here, how much funds, if any, were caused to be lost or given away because of the lack of accounting procedure?

MR. ZIPRICK: I see no evidence of any misappropriation of funds or have been advised by

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anybody that there was a possibility of misappropriation of funds. In the area of inventories, the situation was so out of control that, you know, there is no way of telling as to whether any inventory had disappeared or not, so you can't positively say that everything was accounted for but there is no evidence that any inventory was stolen.

MR. TOUPIN: Mr. Chairman, is the Provincial Auditor pursuing that eventuality?

MR. ZIPRICK: Well, we are in contact with the auditors that are doing Flyer Industries. They have been doing extensive checking into this, much more than is normally required for ordinary audit procedures and we were assured that there is no evidence of any misappropriation.

MR. TOUPIN: Thank you.

MR. CHAIRMAN: Mr. Lyon.

MR. LYON: Mr. Chairman, I take it, Mr. Ziprick, what you are referring to here on Page 25 is no misappropriation so much as it is just pure bad management.

MR. ZIPRICK: That's right. That's right. In all our reviews and inquiries, we saw no evidence of any misappropriation because if we had seen evidence of misappropriation, we would have pursued that and would have consulted with the Attorney-General and the auditors and chased it right down to our satisfaction that whatever information led us to believe that there may be misappropriation would either be proved or disproved but, through all our enquiries and investigations, there was no evidence or any kind of allegation that there was any misappropriation.

MR. LYON: And that bad management, I take it, would have to be, by a dispassionate observer would have to be regarded as at least one of the contributing factors to the condition of the company namely that it has had to be subsidized to the extent of over \$30 million and is currently, according to the Minister of Mines, in a position where it is going to lose another \$3 million this year.

MR. ZIPRICK: Well, it could well be a contributing factor, I don't know if you had the best accounting and control procedures as to whether it would have appreciably changed the situation or not but it certainly could be a contributing factor towards it.

MR. LYON: Bad management, Mr. Ziprick, is not usually regarded as something that contributes successfully to good profit and loss statements.

MR. CHAIRMAN: Page 24—pass; Page 25—pass; Page 26. Mr. Graham.

MR. GRAHAM: Mr. Chairman, dealing with the Manitoba Housing and Renewal Corporation, we find that in this report the Auditor deals fairly extensively with the operation of MHRC and makes several comments in specific areas. I was just wondering if he would like to give us a general overview of his auditing procedures here and perhaps maybe shed some more light on some of the particular points that he has raised in his report.

MR. ZIPRICK: Well, generally, the Corporation — to go back into history — was relatively small and then it expanded quite quickly. Now, quite a bit of these difficulties arise as growing pains and we were continuously reviewing the controls and the management information systems and we were running into various difficulties. We were urging for improvements and improvements were being made but it takes time to get that accomplished. Now, whether it is more than normal or not, I couldn't comment on that but these difficulties were being encountered and we were urging and requesting for changes. Changes were being made and are still being made and, given time, from what I can see it will evolve into a reasonably controlled and managed organization. A substantial amount can be attributed to growing pains and we would have liked to have seen the growing pains to be a much shorter period of time and the controls brought about much more quickly but it is one of those things.

MR. GRAHAM: Well, Mr. Chairman, for instance under Rural and Native Housing Program, imagine there that you are talking about the sale of some units. Is this under the Churchill Prefab operation?

MR. ZIPRICK: No, that was . . .

MR. GRAHAM: This is separate from the . . .

MR. ZIPRICK: That's separate from the Churchill Prefab.

MR. GRAHAM: Well, we have noticed over the years — I believe you have brought it to our attention on several occasions before — in the operation of the Churchill plant, that there has been have been problems with establishing a true cost figure for any of the housing units and here we find again that there is considerable difficulty in establishing the cost of housing units, particularly in Northern programs. Do you see any progress being made, whether it be through the Churchill or another operation, where they are eventually going to get to a true establishment of cost figures in the housing program?

MR. ZIPRICK: Well, the Churchill plant of course was not operated by the Manitoba Housing and Renewal Corporation, it is operated by the Department of Northern Affairs. Now, the difficulties at that plant arose mainly through the management that was set up in the first instance and the accounting needs to carry out that management. It has been very difficult both to get the kind of qualified management that is needed, particularly to establish a fair-sized organization and operate and also the accounting support staff that is normally needed. It is not available in the area and people have to move out there and that's not very easy. They have attempted to recruit people and place them; they did get people recruited but they didn't stay very long, the turnover was quit

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substantial, so Stothert Engineering, a management consulting firm was employed and they took on the management of the operation and when they took over the operation, they certainly moved in and brought about a pretty good control system. The idea was that the management that was hired would be withdrawn and replaced by permanent managers but I don't know whether it has been as yet or not. The difficulties were continuing to be the recruiting of qualified people to carry out this operation. As it is managed now by the managers that are employed, Stothert Engineering, we have no complaints; it is pretty well in hand.

MR. GRAHAM: Mr. Chairman, I'm just going from memory, I haven't got your reports of previous years in front of me but I believe over the last few years, I think we were running somewhere in the Churchill operation at prices around \$11,000 to \$12,000 per unit under-priced and here we find ourselves in that same category arising once more. It seems relatively consistent that whatever program we're using, that eventually we come up about \$12,000 per unit short in our estimate of cost. I am just wondering how much longer this is going to continue. We haven't yet seemed to arrive at any suitable method of arriving at true costs in our northern and rural programs of this nature, whether it be under Churchill or under RANCOM or any other organization we set up.

MR. ZIPRICK: Well, I don't know there are difficulties in arriving at the actual costs. Where the difficulties really arise is trying to estimate the cost and a lot of the estimating is based on the experience in the South. In most instances when you actually get into actual operations, the experience over here does not apply in the North in the same way. There are unforeseen elements arise resulting in the actual cost being substantially in excess of the estimated cost. As time goes on and experience is gained by the various difficulties that are being encountered in the operations in the North, there are allowances being made and I guess, in time, there will be sufficient allowances being made that the estimates will be much more reliable but essentially that is the difficulty. Arriving at the actual cost is not the difficulty, the difficulty is in arriving at an estimate that will stand up. There are steps being taken to review and consider and be much more realistic in this estimating. As more and more experience is gained, I think the difficulty will be overcome.

MR. GRAHAM: Well, Mr. Chairman, if — and I don't want to put you on the spot on this — but I would think that if these programs are under-estimated in the actual cost, would that not make the program look more attractive from a decision-making point of view as to whether or not to go into a program of that nature?

MR. ZIPRICK: Well, you know, it could be but as far as we can ascertain, the motivation for under-estimating does not seem to be to deceive the people that are responsible for making the decision but on the basis of what we can gather, it is mainly lack of experience and ability in this estimating. There is no conclusive way we could make an assessment and say there wasn't an element of under-estimating deliberately to get a program in by getting the people that are making the decision to approve it on this smaller amount. Based on whatever evidence that is available to us, we could not make an accusation that this is deliberately designed to deceive the people that are making the decisions and get the decisions on the smaller amounts and then come up with the . . .

MR. GRAHAM: You note in here, also, that there has been some problem with an intermittent or an unreasonably timely basis of financing from CMHC. Have you had any information or any requests from CMHC for a greater accountability in these particular fields?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: No, it's not the accountability, it's the delay in submitting the claims for receiving money from CMHC that was the problem last year. Now this has been essentially overcome. During the past year substantial claims have been submitted and money has been obtained and so I would say that by and large the position now is in pretty good shape.

MR. GRAHAM: As far as you're aware then CMHC does not seem to be unduly concerned about

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: No, CMHC is not really concerned in getting rid of money. They will not urge to speed up the claims. But I think it's in the interests of the Province of Manitoba to get the claims in as quickly as possible and get the money, because otherwise the province is doing the financing whereas CMHC money should be employed. So I can't see that CMHC would become unduly concerned.

Now in some instances maybe there are some delays in CMHC processing of the claims, we also catch that and if there are undue delays we urge that that be corrected but we haven't run across any general undue delays. There's a pretty good flow of money now and it's pretty consistent.

MR. GRAHAM: No, Mr. Chairman, I think you misunderstand me. CMHC has expressed no concern about the accountability factor of the various programs under MHRC.

MR. ZIPRICK: Not to my knowledge.

MR. GRAHAM: That was the question I really wanted to know.

MR. CHAIRMAN: Mr. Johannson.

MR. JOHANNSON: Mr. Chairman, I have a question on Rural and Native Housing Program. The second sentence there reads: "The intent of the agreement is that the housing units were to be sold at

cost to the purchaser." Now does the purchaser in this case mean the individual who ultimately occupies the home?

MR. ZIPRICK: That's right.

MR. JOHANNSON: Now further on in the paragraph it states that price adjustments would not in most cases affect the monthly installment payments which are established on the basis of ability to pay and it then proceeds to mention the fact that there are subsidies. So the whole argument here basically is rather academic, isn't it? Because the purchaser does not pay the cost of construction really, does he?

MR. ZIPRICK: I think it's more than just academic because the purchaser makes a decision on the basis of the costs that are quoted, and if the costs were higher as to what the decision of the purchaser would be, we wouldn't know. So to have the reliable cost and to get an agreement on the basis of this much more reliable cost would be a desirable factor. The ultimate cost to the province — I don't know whether it would have that much difference in actual fact if this other way was used — except that if in some instances the purchaser felt he was not able to undertake this purchase or did not want to undertake this purchase then there wouldn't be that sale.

MR. JOHANNSON: But supposing that that additional \$11,600 per unit had been added to the price tag of those twenty units that you mention, would that \$11,600 extra be paid by the purchaser?

MR. ZIPRICK: Depending on his income as to whether he would pay it or not.

MR. JOHANNSON: But in most cases, going on the information that you have available on these particular 20 units, would those individuals have paid more? Because my understanding is that there were pretty substantial subsidies on these units.

MR. ZIPRICK: Not likely. Of course we couldn't know until they're fully cleared up because we don't know when their salaries will go up and once their salaries go up beyond a certain point the subsidies keep getting reduced, and if their income was of such a kind that they could sustain the whole cost they'd be obliged to sustain the whole cost. So really I don't know, but just judging by past experience I would say no.

MR. JOHANNSON: Yes, I was going to bring that up. Judging by past experience are there any cases of any of these units where the purchaser is paying the full recovery cost?

MR. ZIPRICK: Not to my knowledge.

MR. JOHANNSON: Not to mine either, Mr. Chairman.

MR. ZIPRICK: But the reason we're pointing it out is that if the system is to be worked some different way other than on cost, then there should be agreements signed that reflect that rather than on this basis. But I agree as to the ultimate cost to the province and as we point out in the report we don't know that it would have any significant effect.

MR. CHAIRMAN: Mr. Walding.

MR. WALDING: Mr. Chairman, I wasn't too clear on some answers that were given about Churchill Prefab. I believe Mr. Ziprick said that that came under the Department of Northern Affairs. Does MHRC sell housing to Churchill Prefab or does it buy from them?

MR. ZIPRICK: The Manitoba Housing and Renewal Corporation buys from Churchill Prefab on an agreed contract basis.

MR. WALDING: So if Mr. Graham was correct then about them underestimating by \$11,000 per unit, then MHRC would be saving that much and not, in fact, losing it. Is that correct?

MR. ZIPRICK: That's right. In that paragraph we say that the Churchill Prefab is trying to renegotiate the amounts with Manitoba Housing and Renewal Corporation and to the extent that there would be an adjustment in the renegotiated price, the loss at Churchill Prefab would be reduced and MHRC would pick it up.

MR. WALDING: So it really is not a consistent thing as Mr. Graham was suggesting, that MHRC was losing \$11,000 every time. It lost \$11,000 on some and gained \$11,000 on some others.

MR. ZIPRICK: In this situation actually MHRC did not lose in any case to my knowledge. In each situation they would be gaining substantially because the contracts that were negotiated between Churchill Prefab and MHRC were much lower and this is the price that MHRC would be working through the subsidy system — and by the way, the Government of Canada is involved in this also because this housing that MHRC undertakes is a subsidized situation involving the Government of Canada — so the contracts are negotiated for a certain price and all these contracts have been overrun substantially by Churchill Prefab. Now they are attempting to renegotiate and get a higher price to reduce the loss by Churchill Prefab and to the extent that they will be successful in renegotiating the amounts, that loss will be reduced. So we point out that there was about a \$3 million loss established. Now, we don't know just to what extent that loss will have to be picked up by the consolidated fund because of this renegotiating process.

MR. MILLER: Mr. Chairman, we're talking about two different things. We're talking about the Rural and Native Housing Program and the Churchill Prefab which are not necessarily the same thing. Is that right, Mr. Ziprick?

MR. ZIPRICK: No, they're not. They're different.

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MR. MILLER: The Rural and Native Housing Program, am I right, is a program of the Federal Government where Manitoba like other provinces is participating, picking up 25 percent of the cost with 75 percent being paid by the Federal Government through CMHC. Is that right? Is it 75-25 — 75 Federal and 25 Provincial?

MR. ZIPRICK: It's only on the subsidy. Yes, it's 75 Federal, 25 Provincial.

MR. MILLER: Well, this is different than the traditional program where it's 90 percent capital financing through the Federal Government and through CMHC and that's a traditional program that's operated in the south. This used to be called Remote Housing and now it's called Rural and Native Housing. The price to the consumer is determined by his income and does not reflect the cost of the unit at all.

MR. ZIPRICK: The cost of the unit is established and this is what the consumer agrees to pay. Then in making his payments, they are adjusted to his income. Now, if when his income rises, as I understand it, as his income rises he has to make larger payments. Now, if his income got so high that he could sustain the whole cost, he would be obliged to do that.

MR. MILLER: But as you indicated to Mr. Johannson, that hasn't occurred and I can tell you from my own knowledge that that hasn't occurred yet and it is highly unlikely it ever will occur. So that the subsidy, the loss is shared 75 percent by CMHC, 25 percent by the province as part of this program.

The other program you're talking about, the one with Churchill where you talked about a \$3 million loss, was that not part of an agreement with the Government of Canada on the redevelopment of Churchill where most of the units, I believe, were built for the Federal Government, Department of Public Works as well as some for MHRC? The underestimate took place at that time — this was a number of years ago — and as you indicated they are negotiating now with the Federal Government to recapture some of that underestimated amount. So that the two programs — all I'm really trying to get at is because some discussion took place and the two were being mixed up and there's really two separate programs — Rural Native Housing Program has nothing to do with Churchill Prefab.

MR. ZIPRICK: They are completely two different programs.

MR. LYON: On Page 26 you made brief reference to the interim financing under MHRC, with payments from CMHC not coming through on a proper cash flow basis. That was last year. You now indicate that that was corrected and that the interim financing has been substantially reduced. Presumably, Mr. Ziprick, you gave the figure last year for the excessive interim financing as you describe it. Could you tell us what that figure was?

MR. ZIPRICK: The last year's figure. I haven't got it handy here, I'll . . .

MR. MILLER: With regard to the interim financing, I meant to make mention of that. We are suggesting that the advances from CMHC weren't as timely as they should have been. Is it not possible that one of the reasons why the MHRC didn't draw down from CMHC is because there was a difference of opinion on the cost of the project and that in order to draw down there would have to be an agreement with CMHC indicating the amount of the contract. Now I'm thinking back to a particular project where there was a considerable difference of opinion by hanging types and continuing to negotiate with Ottawa, not local.

MHRC was able to get CMHC to increase its participation by about \$600,000; whereas if the only concern was to get intermediate financing, there would have had to have been an agreement signed, and the likelihood of getting an adjustment from Ottawa would have been almost remote if not impossible. So that what I'm saying is that MHRC very often holds off on finalizing agreements with CMHC for the cost of a project because they are still negotiating for the higher amount as MHRC feels that should be recognized by CMHC.

MR. ZIPRICK: Well, there was an element of that but we appreciate the final cost in the final claim as being some delay, but each one of these has provision for progress payments and it was the progress payments that presented the main difficulty. Now, the system has been reorganized and it's flowing quite well.

MR. MILLER: What I'm suggesting to you, Mr. Ziprick, that two years ago or the year prior to this when you made note of it, that in fact the reason that there was a lesser draw down and a slower draw down was because of a real difference of opinion on a particular project that I'm aware of, of \$600,000 where CMHC wouldn't go along. I had to take the case to Ottawa where they overrode the local authority and we wouldn't sign that agreement until that final decision was made. Now in the meantime the building was being constructed and provincial funds are being used at incidentally a lower interest rate in MC and CM and at that time.

MR. ZIPRICK: I don't recollect the detail of that but we could check it out. No, we didn't state the figure in last year's report so we'd have to get it otherwise.

MR. LYON: I'd appreciate it if we could get it.

MR. ZIPRICK: Yes. Okay.

MR. LYON: That's all, Mr. Chairman.

MR. GRAHAM: Well, Mr. Chairman, dealing with Land Acquisition, I notice that you have made several references in here to the activities of the Land Acquisition Branch. In fact, you have stated, I believe, at the top of Page 28 that the MHRC continued to use the land evaluation of the Land

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Acquisition Branch even after a management committee of Cabinet directive had been issued, waiving that. Could you elaborate on the problems that have existed in this particular field with the MHRC?

MR. ZIPRICK: Well, there's the two organizations. There is the Land Acquisition Branch that does the evaluating and places evaluation figures. Then there's the Land Appraisal Commission that establishes the value of land to be purchased by the Province of Manitoba. So as I understand the the Land Appraisal Commission, any direct purchases by the Province of Manitoba, it is legally mandatory that the purchase cannot be made except that the value has been approved by the Land Appraisal Commission.

Manitoba Housing and Renewal Corporation, a legal opinion was obtained that the valuation, or this mandatory requirement by the Land Appraisal Commission before a purchase could be made was not necessary. And it was only being carried out because the Management Committee of Cabinet had made that requirement mandatory with regard to Manitoba Housing and Renewal Corporation. Now that part was withdrawn, so the Land Appraisal Commission did not participate from that point on, but the Land Acquisition Branch continued to provide services, and still continues to provide evaluation services and the other various purchase procedures for the Manitoba Housing and Renewal Corporation.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Were the values that were established by the Land Value Appraisal Commission were they realistic figures, in your opinion, or were they unnecessarily low?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: I couldn't express a comment on that. I am not involved in the land evaluation. The Commission, based on whatever criteria they use, that is what they said it was, and if the Manitoba Housing and Renewal Corporation and the way it was previously required or made mandatory through the Management Committee of Cabinet, you could not proceed with a purchase of land except the value that was set by the Land Appraisal Commission.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Has there been the same problem recently as there existed a year or a year and a half ago in that field? In other words, since the membership of that board has changed, has there been a significant difference?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: I don't know. I haven't made any comparisons as to what the evaluation by the Appraisal Commission.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, on Page 26, under Management Information on the control systems Mr. Ziprick comments, "No effective action has been taken regarding our main concern pertaining to the development and operation of an effective management information system, including internal reporting procedures and fiscal controls. We have been advised that steps will be taken to obtain assistance to resolve this matter." Mr. Chairman, what would be the date of this statement that the Auditor has here?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: In preparing our report, we are dealing with transactions that originate prior to March 31st, 1976, but we bring the position up to about more or less the end of November as to the situation as it then stands, so that everything in here is updated sometime late into November. Now with regard to Manitoba Housing and Renewal Corporation and the difficulties that were being encountered, we had a meeting with officials and just prior to the finalization of this report, and at the meeting there was an agreement that certain steps would be taken in order to resolve these difficulties.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, has Mr. Ziprick confidence that this will in fact be done?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: I really don't know at this point to what extent it has been progressed. I don't think that there has been anybody appointed as yet, or brought in as yet, to assist as was discussed. - (Interjection)— My assistant tells me that there has been a consultation about three months ago to engage assistance in this area. We don't know whether that has been finalized or not. We don't work that closely in most of these areas.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, a year ago, and I presume November, 1975, the Provincial Auditor made this statement, "The corporation is now taking steps to bring the advances from the Central Mortgage and Housing Corporation to a current position, and has initiated action to improve its management information system." / Were you told at that time that steps had been taken and that they were actually underway?

MR. ZIPRICK: Yes, we had a meeting with the officials and they did undertake to improve the situation. They had made some attempts at it, but with the pressures of other work, we were told, and

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the various other things, that the year had passed by and there was not a successful resolution.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: I am just interested in the fact that it was reported over a year ago by you as the steps having been taken, and then a year later you find yourself in the position of having to say they are going to be taken in the future.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Yes, at our discussions a year ago, they there was an undertaking that steps would be taken and steps were being taken, and attempts were being made, but it was being done on an in-house basis and with the various workloads and possibly the lack of experience in some of these areas, they just did not materialize. There were some improvements in certain areas, but they did not materialize that the main issues were resolved.

So we had another meeting this year and this difficulty was appreciated, that because of the ongoing expansion and the heavy workload and the hiring of staff and the hiring of the kind of qualified staff, that there would be probably difficulties again to really analyze and arrive at just what action should be taken to resolve this. So it was agreed that assistance would be sought from management consultants or within the government service, if some was available from outside of the corporation to assist in this work. And we feel that with this kind of action that the chances for resolution are much better because we appreciated it even last year that the in-house difficulties have resolved in this matter.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: Mr. Chairman, in connection with this latter discussion, you are dealing with the Comptroller's Office basically, are you not? You are feeling that the Comptroller's Office should have been strengthened, or more assistance should have been given to the Comptroller itself. Is that the

.. ?

MR. ZIPRICK: That's the main area, but we also feel that there should be more discipline from the top managerial side on the follow-up on some of these things.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: Yes, but it is still in the Comptroller's branch.

MR. ZIPRICK: As far as generating the information and bringing it forward to the board and to the general manager, that's where we feel it should be generated.

MR. MILLER: That's where it should be improved, in other words.

MR. ZIPRICK: That's right.

MR. MILLER: I see. On the other question with regard to the land acquisition, you indicated the Land and Value Appraisal Commission is separate from the Land Acquisition Branch; these are two separate functions. And you indicated in here that when the decision to go through the proposal call system was taken, the Land Value Appraisal Commission, the matters are not referred to them, but the Land Acquisition Branch still had a role to play in MHRCU. But wasn't the proposal call system a part of a total package deal whereby people who owned land and were interested in making a proposal to MHRC, could come forward and make a presentation and make a proposal through an advertised proposal to supply MHRC with the total package, building plus land. And it was the total cost which MHRC really addressed itself to, whether it be a unit cost or a square foot cost, or in any case, the all-up costs, which is what MHRC really addressed itself to, and not to components, whether the land was a certain amount or the building was a certain amount. Isn't that the way it worked?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Yes, the proposal call was a complete package deal. Where the difficulty seemed to have arisen is establishing a land value for according the transfers of land to the Manitoba Housing and Renewal Corporation. Now the value the person putting forward the proposal call had paid was obtained. There was evaluation by the Land Acquisition Branch, and there was also evaluation by the MHMC. So you have had three values that were being presented. Now the valuation that was used to record in the Land Titles Office was that established by the Land Acquisition Branch. Now there is one question there as to whether that should have been the value used, or the one that the purchaser said that he paid for the land. But anyway, there was another compounding factor, that the difference between what the Land Acquisition Branch had come up with and what the purchasers paid was paid was recorded as a development expense. Well, as far as we were concerned, it was not a development expense, it was just purely a figure difference between two statements and the best you could describe it, in view that it was the other was recorded in the Land Titles Office as a discount on land purchase.

MR. MILLER: Yes, but CMHC did in fact accept the figure in accepting the entire project, because there has to be some division between land and buildings. If, let's say, a \$100,000 project, if land was shown as \$95,000 and the building only \$5,000, it still wouldn't affect the total cost of the project. And irrespective of where you want to put value, if I go to buy a house and the house is \$60,000, whether the land is valued at \$12,000 or at \$40,000 and the house only \$20,000, does it really matter if the total

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cost is \$60,000?

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Yes. And CMHC, as we can ascertain, evaluate the whole package and also send their appraisers and evaluated the land, so they were evaluating the total package including the land as to whether it would fit within their requirements to make the necessary funds available for the project.

MR. MILLER: So it had to meet CMHC's total guidelines, the guidelines for the total package

MR. ZIPRICK: Yes, yes. And from the information that we have, CMHC — now there was some discussion as to whether the figures were available or not. Well, as far as I can see all the figures were available as far as stating on the application. Well, some of the figures were — for instance, the Land Acquisition Branch figure was not always available when the application was being made. So the CHMC appraisal may have been available and they have told them so, so that figure was put in. Because of its not being too relevant in the total cost project, that's why it seems that the care was not exercised in that area.

MR. CHAIRMAN: Mr. Miller.

MR. MILLER: You say care not exercised, but since the care had to be exercised in the total cost

MR. ZIPRICK: That's right. That's right.

MR. MILLER: . . . and the care was exercised, and the fact that the total cost was within the CMHC guidelines and accepted by them for the total project, the amount attributed to land or the amount attributed to buildings didn't really alter the total package cost.

MR. ZIPRICK: No, you know there are flaws in this proposal call system, and that's why the corporation and we agree it should be used only for purposes when the needs really arise, but as far as asking for proposal calls and the evaluation of proposal calls, there is very satisfactory documentation that we found by the officials and the board, and the decisions of selecting the person who was going to construct was based on documented information that can be substantiated.

Now, people could disagree in the judgment. There is certainly adequate documentation to show both from experts and the board, to show why certain actions were being taken, and we are satisfied in that area.

MR. CHAIRMAN: I have Mr. Lyon on the list. Is there anyone else? Okay, Mr. Lyon.

MR. LYON: Mr. Chairman, I take it we are sort of moving around 26, 27 and 28.

MR. CHAIRMAN: Yes.

MR. LYON: Item 3 on Page 27 refers to the purchase of land by the Land Acquisition Branch for the corporation with a mortgage outstanding, and apparently there was no action or proper action taken by the solicitor to ensure that the encumbrance was either to be discharged, or as they subsequently agreed, that the encumbrance was to be maintained. And the Auditor makes comment upon this as being a — I don't think he used the word sloppy, but that's . . .

MR. LYON: Unnecessary risk. I think any lawyers around the table would refer to it as a sloppy transaction on behalf of the solicitor. — (Interjection) — Pardon?

A MEMBER: It doesn't say that.

MR. LYON: No, it doesn't say it, but I said any lawyers around the table would have no hesitation in saying it — speaking for Mr. Cherniack and myself.

MR. CHERNIACK: Mr. Chairman, right away he woke me up. I don't trust Mr. Lyon to speak for me

MR. CHAIRMAN: Mr. Lyon.

MR. LYON: Was legal advice on this particular incident obtained from an in-house lawyer? I am not looking for names, but . . .

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: It's been some time since I was involved in the details, but just going by recollection, it was being handled through the Land Acquisition Branch. The cheque was forwarded to the Land Acquisition Branch, and not realizing the situation, or as a matter of fact, there was going to be a clearance of this. Well, then, they decided rather than clearing this mortgage or this amount of indebtedness, that it would be taken over by the Manitoba Housing and Renewal Corporation. So the Land Acquisition Branch had released the cheque and it was placed in trust and held in trust by the other side until all the information was attended to. Now, no difficulties had developed as a result of it and it was held in trust but, as far as we're concerned, we do find this kind of situation to be creating risks that are really unnecessary and there should be a better communication system between the corporation and the Land Acquisition Branch to make sure that these cheques do not flow. And these steps have now been taken to ensure that there is a satisfactory communication between the Land Acquisition Branch and the corporation to make sure that cheques are not released until such time as all the various documentation is in place.

So I don't know how closely a lawyer was actually involved in this situation. It's a transaction that was handled by the Land Acquisition Branch but they have legal advice on an ongoing basis. But the movement of cheques in this area, I'm just not sure. So I wouldn't want to comment that there was sloppy legal . . . It's a situation that probably arose more through a lack of systematic

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communication than a sloppy job by any one individual. Now, this lack of communication has now been resolved and strengthened and we don't anticipate any difficulties in that regard.

MR. LYON: Wouldn't we assume that before payouts on acquisitions of this size — or for that matter any size — that there would be, in the ordinary course of events, the solicitor would vet the agreement and authorize the cheque to be paid out. Would that not be the normal course of action?

MR. ZIPRICK: Well, yes, that's the normal and that's what we would expect. Now, there is an in-house lawyer that the Manitoba Housing and Renewal Corporation was employing and the transactions were also being handled through the Land Acquisition Branch. And the cheques would go forward to the Land Acquisition Branch and through this kind of system . . . And we strongly felt that the lawyer employed by the Manitoba Housing and Renewal Corporation should have been right on top of it, but because of the system he was not on top of it. And this was where the difficulties had arisen and the situation is now corrected.

MR.

MR. CHAIRMAN: Mr. Cherniak. **LYON:** Thank you, Mr. Chairman.

MR. Mr. Ziprick, I now understand that you mean the unnecessary risk was sending the money in trust to somebody and that that somebody might not handle it in a trust manner but might carry it off, run away to . . . He could go and gamble with it.

MR. ZIPRICK: It didn't go in trust.

MR. CHERNIAK: No, no, you said in trust. Now you did say that it was sent in trust.

MR. ZIPRICK: Yes, but it was . . .

MR. CHERNIAK: The risk is that the trustee was not . . . You were afraid the trustee might not handle it in a proper way as a trust.

MR. ZIPRICK: No, but the trustee was acting for the other side and the province had released . . . And they were relying on the other side to ensure that what action was being taken was satisfactory action. And this is what we are concerned; not that the person acting for the other side may be dishonest but he could carry out actions that could be detrimental to the province and MHRC.

MR. CHERNIAK: But I understood from you that the trust condition was discharging of the encumbrance.

MR. ZIPRICK: No.

MR. CHERNIAK: What would be the trust condition?

MR. ZIPRICK: Well, I'd have to check into the details but . . .

MR. CHAIRMAN: Mr. Walding, on a point of order.

MR. WALDING: Mr. Chairman, if this is to go into the record, then perhaps . . .

MR. CHAIRMAN: Yes, I was going to ask Mr. Ziprick if he would just repeat it for the record. When he has the information he can do it firsthand.

MR. ZIPRICK: Yes, well Mr. Jackson, the Assistant Provincial Auditor.

MR. CHAIRMAN: Mr. Jackson.

MR. JACKSON: It was our understanding when this situation arose that the corporation was not aware that there was any existing mortgage on the property and they were acting to make the payment to Land Acquisition Branch although there was no existing mortgage. When it was determined that there was this mortgage, it was considered to be a mortgage that the corporation might well hold because it was at an advantageous rate. In fact, they did decide to hold it . . .

MR. CHAIRMAN: Order please.

MR. JACKSON: . . . and took it over. And in response to the other question that was discussed earlier, this matter was not referred to the corporation solicitor.

MR. CHERNIAK: I'm now assuming, from what Mr. Jackson has said, that the money would have been sent on condition that there would be a transfer of clear title.

MR. JACKSON: Right.

MR. CHERNIAK: Yes. So that there was a trust condition imposed and whoever sent it expected to get clear title.

MR. JACKSON: That's right; that's my understanding.

MR. CHERNIAK: : And there was a trust imposed in that connection. Now you are saying that when the corporation learned that there was a mortgage, it decided to improve on the deal by assuming the mortgage rather than paying it off.

MR. JACKSON: That's my understanding.

MR. CHERNIAK: So the result of what happened was that the corporation's position was better than it would have been had it proceeded to get clear title to the property.

MR. JACKSON: We're not critical that the corporation's eventual situation was detracted from at all. We just felt that there wasn't adequate information flow here. So that the initial payment that was made shouldn't really have been made. It should have been the net payment to start with, if everybody had done their homework, as we understand it.

MR. CHERNIAK: Mr. Jackson, I want your . . . The right to assume the mortgage was dependent on the vendor agreeing to let the mortgage be assumed.

MR. JACKSON: That's right, Sir.

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MR. CHERNIACK: And therefore the corporation knew that it bought for a certain sum of money, which you say was \$225,000, and would have gotten clear title. Now when you speak of unnecessary risks, you must be saying that the money was sent to someone who might not have honoured the trust.

MR. JACKSON: Yes.

MR. CHERNIACK: Which means that that person would have committed a criminal offence and that person would have been accountable if that person was bonded in some way or not. That is the risk.

MR. JACKSON: That's right.

MR. CHERNIACK: Now when it is sent from lawyer to lawyer there is also a risk. But there you, I assume, feel that the Law Society would stand behind the risk. Is that the difference?

MR. JACKSON: Yes.

MR. CHERNIACK: What about the bonding of real estate agents; are they bonded?

MR. JACKSON: I would think that they are, Sir, yes. I'm not sure about the size of their bond but it is my understanding that they are bonded.

MR. CHERNIACK: So the risk might be the extent to which the moneys involved might exceed the amount of bonding.

MR. JACKSON: Right.

MR. CHERNIACK: And the extent to which the people they are dealing with might be honourable or not.

MR. JACKSON: That's right.

MR. CHERNIACK: But that once assuming they're honourable — and we have no reason to assume that or otherwise — had they produced clear title as would have been the trust condition, then there would not have been any problem insofar as risk is considered.

MR. JACKSON: That's my understanding.

MR. CHERNIACK: Yes.

MR. CHAIRMAN: Mr. Lyon.

MR. LYON: I'm interested to hear Mr. Cherniack's assumptions about the province getting a better deal out of what was more good luck than good management.

MR. CHERNIACK: It's still a better deal.

MR. LYON: Not a better deal; what it boils down to — which he knows, and I know, and obviously Mr. Jackson and the Auditor knows — is that somebody slipped up and didn't make a search of the property. Now let's paint the thing in the proper light and not try to make a silk purse out of a sow's ear — we can't. The hard fact of life is that, as Mr. Jackson said, a solicitor was not involved. There was no search taken of the property. There was an existing presumably registered mortgage against the property which would show up on the search. It was only after the money had changed hands that this piece of information came to the attention of the corporation and then subsequently they applied to retain the mortgage as an encumbrance against the property and were able to get their refund.

The point that the Auditor was making, quite simply, and the point that I was deducing from what he had said here, was that there was a sloppy arrangement in the non-search of the property. The fact that the province ended up okay is, again, good luck and thank heaven we did. But I think the Auditor is quite right in pointing it out and I would suggest that the Auditor might take advice from the Attorney-General and make sure that this corporation be advised, in all future acquisitions of property, that they have a solicitor vet the option or the purchase agreement before it's signed; that something as remarkably common as a search of the property be made so that the corporation in question will know what kind of encumbrances it's dealing with and what other charges there are against the land. That's all I draw from it.

MR. ZIPRICK: Yes, that's the point we are raising and the corporation has appreciated the difficulties that could have ensued from this transaction and have now established that procedure. So we understand that any payments out of the control of the province now for any of these agreements will be vetted by a solicitor to ensure that all the necessary steps have been taken before the money is released.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: I just want to mention that Mr. Ziprick is prepared to accept the words of Mr. Lyon. Was this a sloppy arrangement? Those are his words, not yours.

MR. ZIPRICK: It was the system, the way it was laid on. You know, there was an in-house lawyer but I can't say that the responsibility was assigned to the in-house lawyer to look after it. The Land Acquisition Branch was handling these things and normally it wouldn't have presented any difficulties. But in this case, there was a mortgage and the money was turned over before realizing that there was a mortgage and before arranging to dispose of it. I would say that the system was inadequate and the assignment of responsibilities was inadequate and under those circumstances this is what led to the difficulties.

Now, I understand that the system has been so established that the assignment of responsibilities

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is clear and if there's a failure then it could be associated with a solicitor that has failed to do his job. But, as it was here, we could not say that this or this area had failed to do the job because the system just wasn't adequate.

MR. CHERNIACK: Mr. Ziprick, I'm sorry, it's such a minor thing and yet I want to get it clear in my mind. The way I understood our discussion up to now was that had there been integrity throughout, the corporation would have got what it bargained for, that is clear title, two properties for \$225,000.00. And the only risk was that the people it was dealing with would have stolen the money. Now that's my impression of what you were telling us. Am I wrong?

MR. ZIPRICK: I am not that completely conversant with the legal procedures of dealing with these kind of things but my understanding is normally that before the person that's buying the property would part with his money, he would ensure that any encumbrances on that property were removed. Now, in this case the money has been parted to the seller and the encumbrances have not been removed.

MR. CHERNIACK: It is very important for me to understand. Now you're saying the money was given to the seller.

MR. ZIPRICK: Well, the person acting for the seller.

MR. CHERNIACK: Yes, then it was given to a person who was in business on a trust condition which, if carried out, would have been satisfactory.

MR. ZIPRICK: That's right. That's right.

MR. CHERNIACK: And it was a real estate agent who accepted it in trust actually.

MR. ZIPRICK: That's right.

MR. CHERNIACK: Not the seller who could have walked out with the money . . .

MR. ZIPRICK: No, no, it was the real estate agent, but. . .

MR. CHERNIACK: Had it been given to a lawyer, would you have used all these words?

MR. ZIPRICK: To a lawyer acting on the other side? I would say we would still use substantially the same kind of approach because we would . . .

MR. CHERNIACK: Then you are saying . . .

MR. ZIPRICK: . . . feel that there should have been a lawyer acting for the corporation that should have cleared that payment and that was our main concern not . . .

MR. CHERNIACK: I want to get this clear. Suppose I had sent this money to a law firm acting for the vendors saying to the law firm, "I send you this money in trust and on condition that you will not disburse the money until you have handed to me a registerable transfer to the property which will vest clear title." Now would you say that that is taking a risk?

MR. ZIPRICK: Well . . .

MR. CHERNIACK: Just a moment. I want to know why you are taking a risk by sending it to a lawyer on those conditions.

MR. ZIPRICK: I don't know just what the element of risk would be but everywhere else that we audit we expect that land transactions, that payments made and removed from the control of the organization that we audit, are cleared by a solicitor and that all the various documents that are needed to protect that money have been attended to. This was missing in this case which led to this situation and so I would take it that the reason that the requirements are such that before any payments are released in regard to land transactions, that they are attended to by a lawyer acting for the purchaser, is to protect the purchaser. And in this case that situation didn't exist. So obviously there must be a risk or otherwise there would be no need at any time for the purchaser to have a lawyer.

MR. CHERNIACK: Are you now saying you need a lawyer on every transaction that you vet?

MR. ZIPRICK: In every transaction that any of the government corporations dealing with land transactions or any other agreements that are drawn up before the first payment particularly, for instance, on contracts — purchased contracts — before the first payment is made that this contract is reviewed by a lawyer and the government is satisfied that it's all right to pay under the terms of the contract.

MR. CHERNIACK: Then you're saying that applies to all governmental transactions?

MR. ZIPRICK: That's right.

MR. CHERNIACK: All right. Now, would you mind answering the question that I did ask you and that is if I send money to a law firm in trust on condition that in exchange for the money I will receive a registerable transfer that will vest clear title — what was your answer as to whether or not that is taking an unnecessary risk or is sloppy?

MR. ZIPRICK: Well, I don't know about the sloppy side. I don't know just what we would say about the risk involved but we would still be critical of the procedure because the system that we understand and is laid on is that in these kind of transactions that the lawyer acting for the purchaser before the funds are released has to give clearance. And we are not lawyers so we don't know the exact reason for it but we understand it's for protection of the purchaser. And if that's not done then there is some risk.

MR. CHERNIACK: Mr. Ziprick, are you aware that lawyers can search a title, find that there is or is

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not an encumbrance and still send the letter exactly the way I described it to you.

MR. ZIPRICK: If the Attorney-General's lawyers or a lawyer acting for the corporation had said that that's fine to send the money under those conditions, we would have made no observation at all. We would have accepted that he knows what he is doing and he is protecting the interest of the province. If he failed, if he was negligent or failed to do his duty, he would be answerable in other ways and we would not, in any way, get involved in this area.

MR. CHERNIACK: Could you answer me again, my question whether you are aware that if a lawyer has made a search and found out whatever he had to find out, he would still likely send the letter in the same words that I just used.

MR. ZIPRICK: I don't know.

MR. CHERNIACK: You don't know.

MR. ZIPRICK: No.

MR. CHERNIACK: All you are saying is, if there were something there signed by a lawyer, then this whole thing would not have appeared. There's a lawyer's name involved in this transaction.

MR. ZIPRICK: If there was a lawyer acting for the Province of Manitoba said it is okay to make that payment, we would not have taken issue with it.

MR. CHERNIACK: All right, finally, did the lawyer say to you that there was a mistake in the way this payment was made?

MR. ZIPRICK: No, we didn't check on that.

MR. CHERNIACK: This is your own conclusion as to the way it should have been handled.

MR. ZIPRICK: This is what we consider the "lay down system." If you feel that this is not a right system and there is a waste of administrative effort in carrying it out in that way, we can discuss it and see about possibility of doing away with that function. But that function is being employed in all the areas that we audit and as a matter of fact, this is part of the technical side of auditing that generally is considered to be good auditing practice to ensure that this kind of procedure is being followed.

MR. CHAIRMAN: Mr. Lyon.

MR. LYON: Well just for the record, and it's far from being critical of Mr. Ziprick and his staff for pointing this out to us. I applaud them and I thank heaven that they are looking after the public dollars according to their instincts and their guidance rather than those that are being portrayed by Mr. Cherniack in the Committee this morning. So I merely wish to say that I am happy that this kind of thing is being vetted carefully by the Provincial Auditor and his staff, and I for one hope that they will continue to vet it just as carefully as they have in this particular case in the public interest.

MR. CHAIRMAN: Page 26 — pass. Page 27 — pass. Page 28 — pass. Page 29, Mr. Graham.

MR. GRAHAM: Mr. Chairman, this is a subject that has been discussed at other meetings in other years. I noticed the Auditor again is fairly insistent or, not insistent but again recommends that our Public Accounts Committee be more or less an ongoing committee rather than meeting just once or twice as we have in the past. I don't think we have gone through the accounts for three years now completely and I note two-thirds of the way down the page where he says, "In our view, effective data is not as yet being made available to the Legislature and to the Public Accounts Committee." I would like to ask the Auditor if he has had any degree of success in getting the Management Committee of Cabinet and in fact the government to change their system so that we would be getting the information which you consider to be necessary for the Members of the Legislature and the Public Accounts Committee?

MR. ZIPRICK: Well, there has been quite a substantial discussion, and a year ago it seemed that there was progress towards it. Now some difficulties appeared to have ensued. The Finance Department had made certain proposals and there was limited reaction and as a result, there is some slowing down of the process. As far as I can see it, it certainly still is completely alive and being considered, but there is still some slowing down with the process.

I feel so strong about this whole area of accountability and the presentation of that accountability that I felt that I should re-emphasize again what I said three years ago. Because three years ago when I made these observations, I made them purely on my various assessments of what was going on more in the United States than what was going on in Canada and my own instincts of what should be a reasonable presentation of information. Since that time, there has been substantial activity in that area in Canada and the Auditor-General of Canada has had a review of their systems and the way that the information is being presented — he is making some very pointed observations on that. The Review Committee of the Auditor-General of Canada's position, in its report, had come out and said that the Auditor-General cannot do an effective job unless there is a system of accounting and reporting of the kind that presents this information more objectively and maybe subject it to more analytical review and analysis. So three years ago, I made recommendations more on the basis that it is something that should be done. Now it's becoming apparent in other areas that it is a necessity and I feel that steps should be taken in that direction.

I know the Department of Finance has been doing a lot of reviewing in this area. They are considering certain changes and moving in certain directions; just to what extent, this is being developed and how quickly, I wasn't fully briefed on that. But I know that they are progressing to

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develop considerable information in that area. They could probably speak to it. I know that they still haven't finalized all the various areas, but they may be able to speak to it and indicate just what kind of a trend or what area they feel they can move and what area they don't agree with what we are proposing.

MR. GRAHAM: In the field of provincial jurisdictions and in the other jurisdictions throughout Canada, has there been any significant movement in this direction in the last few years?

MR. ZIPRICK: Yes, there is. There has been certain activities in various provinces, in some much more than others. For instance Ontario, about seven or eight years ago, had revamped their system and restated their whole policy of accounting and are following in that regard.

Canada has followed a system that has been for a number of years on this net-debt proposition, but there were shortcomings; particularly they had such a large number of various funds that could be used to supplement or augment various appropriations and there was a substantial amount of uncertainty as to how much parliamentary control there was or there wasn't. So a year ago they set up a committee that reviewed the whole accounting systems and the principles of accounting and the methods of control — parliamentary and internal management control — and the committee has come up with a fairly extensive report that was released just less than a year ago. The report has been considered by the various committees and I've seen a newspaper report that by and large the report of this committee is being adopted.

Quebec has revamped their system quite substantially in the last number of years; Saskatchewan, Alberta is moving — I would say that they are not ahead of us but they're moving. B.C. is making changes; the Maritimes, some of them are making some changes. So everybody is making changes and improvements and they are at different stages. I would say that nobody has arrived at the perfection stage or any where close. So there is still a lot more changing to come.

MR. GRAHAM: Just one more question. I believe in the last few weeks, we've heard an announcement out of Ottawa of a change in their system where they are going to set up another office, I believe they call it a Comptroller or something of that nature, who will have the equivalent of Deputy Minister status. My understanding is that again he will be dealing in after-the-fact procedures rather than being directly involved in the ongoing situation. Is this going to be an improvement in your estimation?

MR. ZIPRICK: No, the Comptroller-General that was recommended by the Auditor-General of Canada and that is being appointed, is not after-the-fact. He is the senior man in the management team who devises the necessary control systems on an ongoing basis and any new undertakings, he ensures that an effective control is being established and being operated. So he will be a senior official, a Deputy Minister part of the management team, to provide information for management and to gear up a system that will provide the necessary information for management. He will have no responsibilities to report to Parliament.

I may say that about three years ago, we had recommended to the Department of Finance and discussed with the Department of Finance about the same kind of concerns that were being expressed in Ottawa. We've had discussions on it, I made mention of it in my last year's report. .

Just about a year ago, as I indicated in the report, the government has agreed to move in that direction. A Comptroller has been appointed in the Province of Manitoba. Now he is not at the Deputy Minister level but he is at the Assistant Deputy Minister level. As I expected, in the year that he has been working he works quite substantially with the Minister, including the Deputies. To me it is not particularly a problem. There is an officer who is responsible for ensuring that we have an ongoing effective system. As I indicated in my report, they have undertaken to tackle this problem. It is a problem, as I have mentioned three years ago when we first discussed it, that it is not something that will happen in a few months. It is something that has to be developed over several years. And so we have that equivalent position, a Comptroller now in place and he is getting staffed up and so we have the capabilities of moving in that direction.

MR. CHAIRMAN: Gentlemen, I have two or three speakers, and Mr. Curtis has indicated he would like to comment. It may clear up some of your observations, if you will only hear him first.

A MEMBER: Go ahead now.

MR. CHAIRMAN: Mr. Curtis.

MR. CURTIS: Mr. Chairman, I think Mr. Ziprick has outlined quite effectively what we are doing. We did revamp the department this last year, adding the comptrollership function. We are actively looking at all of the activities that are taking place in other jurisdictions, particularly in Canada but also in the States. We have a work group that are looking at the kinds of changes that we would like to make by way of recommendation to the Minister of Finance. That's an ongoing process at the moment. And we are looking at different statement formations, different kinds of reporting and so on. As Mr. Ziprick also mentioned, this will take some time because it is a fairly large subject and our staffing isn't all that large. So we are going ahead in that way, nonetheless.

I expect that after we have had our first review through, we will be making a certain number of recommendations initially through the Minister for his approval.

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MR. CHAIRMAN: Thank you, Mr. Curtis. Mr. Cherniack.

MR. CHERNIACK: Mr. Ziprick, how long have you been attending meetings of this Committee?

MR. ZIPRICK: I guess it's about five years now.

MR. CHERNIACK: You've made various recommendations to us in the past. I have yet to find a recommendation on how you achieve the Public Accounts Committee working on a non-partisan environment. Do you have a recommendation on that?

MR. ZIPRICK: Well, it's not something that you can legislate or regulate. But on the basis of reading as to what takes place in other areas, you can never get it purer but . . .

MR. CHERNIACK: Which other areas?

MR. ZIPRICK: For instance, the British system, I understand that their committee works in a non-partisan environment pretty well. The reports that I have seen and that are being made, that they deal with the official level because they feel that the committee is trying to get an accounting from the officials and they are getting an accounting for the whole of the Legislature. So the public has hired a group of officials to carry out the management function and this is an accountability to ascertain how this management function is being carried out. So it's really a non-partisan approach to determine whether they are really getting value for their money, and that is getting good management.

Saskatchewan, I understand, is relatively non-partisan. They are working in camera and I can see some difficulty there. But all their proceedings are transcribed and they are released afterwards and any references to individuals during the question period, and in talking with the Provincial Auditor of Saskatchewan, they go through department by department and they question officials extensively. If they are concerned about the capabilities of the officials, this may be discussed and actually named. Before their recording of the proceedings are released, all this information to the personal references is removed and then the entire proceedings are made available to the Legislature, including a recommendation of the committee as to what they feel the action should be given.

Canada, although it is to some degree partisan, is trying to work towards being less partisan and I think that they are accomplishing significantly that objective when they are concentrating more on reviewing the managerial qualities and bringing the officials to account rather than being concerned in the political side. So there is progress in that direction, but I agree that there will always be some difficulties, you would never be pure, but I can always hope.

MR. CHERNIACK: It's just that in the last five years, I'm wondering if you ever saw any evidence in non-partisan environment in this Committee.

MR. ZIPRICK: I can say that although there has been some partisan involvement, there has been substantial questioning of this system and its effectiveness, both by the government's side and by the opposition's side, as to what should be expected particularly of the Provincial Auditor. I think that we can say in the past five years, we have gone through this area quite extensively and I appreciate it because it certainly has been helpful towards establishing our objectives and what our responsibilities are because my Act is fairly general in many areas and so it is a question of judgement as to what we do. I generally follow the policy that I do whatever — the legislation is vague — I do whatever is reasonable and I defy anybody to stop me. When they stop me, I'll say, "Well, that's fine. I can't go in there and report it and that's the end of it."

I am not too pessimistic as to the partisanship side of it. I think in the last five years, the discussions that took place, have been very useful in developing the system. There has been a professor that has just carried out a review of the various public accounts committees right across Canada, provincial public accounts committees, and I must say we got a pretty high rating from him. I think it is purely on the questioning of the system and how it can be improved upon to bring about accountability of public funds.

MR. CHAIRMAN: Mr. Johannson.

MR. JOHANNSON: Yes. You know, I am a little interested in that statement too about the working in a non-partisan environment because I have been on this committee for the last eight years, I believe, and I haven't yet seen a non-partisan performance in eight years. Now, perhaps the millennium is coming. Perhaps things will change but I am very doubtful.

Your statement here interests me. You recommend that various managers be required to appear before the Public Accounts Committee to provide explanations and an accounting with regard to day-to-day administrative matters of departments and you say that this is along the lines of audit committees in the private sector. To me, this would totally undermine the whole system of responsible government, or at least it would tend to work in that direction. Under the present system, Ministers, for example, here in the Legislature deal with the Estimates. Now, aren't you essentially simply replacing that whole Estimates procedure and requiring that this be carried on before the Public Accounts Committee?

MR. ZIPRICK: No, not at all. The Estimates, of course, are something that are going to take place. Then you approve the Estimates and you turn it over to the managers to carry it out. Now, the managers are the ones that carry it out and they should provide an accounting as to how they have carried it out, the functions . . .

MR. JOHANNSON: But, under our system the Minister answers in the Legislature for his

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partment. Now, you're suggesting that instead of that happening essentially, the managers appear before this committee and answer for what's happening rather than the Minister being responsible for what his managers do.

MR. ZIPRICK: Yes, well I take it, you know, considering Manitoba here and what happens in the British Parliament, I think that Manitoba by sticking to the old traditions wants to be more democratic than the Mother of Parliament. Now, as I understand it, in Britain, they have forgotten many many years ago about being concerned as to the Minister having to account for day-to-day transactions. It's just absolutely impossible; he gets loaded with all kinds of questions that he has to go and get from the officials anyway and it's practically just impossible when you're managing the size of operations that are being managed now, it is just humanly and physically impossible. Therefore, you have to get an accounting from the people that can do it and this is why I think it is important that it has got to be in a non-partisan way and it's important that the managers be brought and explain.

Now, in Manitoba, the procedure, for instance, for Public Utilities which are really just a department set up in different form, appear and do give an accounting as to what is happening, whereas a department, it's the Minister that has to be accountable for everything and he is asked questions and obviously it is just impossible for him to know all these things and he just has to get it from the manager. So I think if there is some concern about the managerial qualities and whatever the area of difficulties may lie, the only way you'll really get a good reading is by getting the people out there and talking to them and getting explanations from them directly. It is not on the basis of should that program be in existence or should it be operating or shouldn't it be operating; it's a question of how is it being managed and really, they are the people that are managing it and they are being paid for managing it.

MR. JOHANNSON: But your assumption is that this committee will be non-partisan and frankly, I think your assumption is impossible to accept because I have seen no evidence of the committee becoming more non-partisan; if anything, it is becoming more partisan with the passage of years. — (Interjection) — I am not speaking for myself, I have simply observed the operations of the committee and the behaviour of the Opposition in the committee.

You are, in effect, placing the average backbencher like myself and the Member for Brandon East in the position now occupied by a Minister. Every manager, every department, is going to have to answer to me in the Public Accounts Committee which is sitting all the time. I think that what you would have is a total breakdown of responsible government, parliamentary government, if what you are recommending were brought about. What you are in effect asking for is a system of government entirely different than we have right now.

MR. ZIPRICK: Well, to a degree it follows the American system but if the information that I have — and I am reading about the British system — it has been in operation that way now for many many years that their Public Accounts Committee, although it doesn't sit continuously, they have a standing Committee and it meets for about seven months of the year; it meets a certain number of times a month and it selects certain departments and brings the officials in and working with the auditor and the officials, they get an accounting. I read where the Deputies consider this to be a very fruitful exercise because it keeps them on their toes and it keeps the officials working for them on their toes, knowing that there is going to be that kind of a need for public accountability.

MR. JOHANNSON: Well, you were mentioning the British . . . Britain, of course, is much larger than Canada; it is a unitary state. We have a confederation and we are, in Manitoba here, living in a pretty small province. There are a million people; the British have, what, over 50 million people. One government governing the entire country, no provinces, so the complexity of things would be quite a bit greater there than they would be in a little province like Manitoba.

Now, you say that the parliament can't deal with day-to-day routine but what you're suggesting is that what goes on, for example, in the Question Period in the House, the questioning of Ministers on day-to-day matters would be replaced, done away with by a reporting process before Public Accounts Committee.

MR. ZIPRICK: Well, you know, that's not such an outlandish thing. In Sweden, for instance . . .

MR. JOHANNSON: Yes, but that's not a parliamentary system, a British parliamentary system.

A MEMBER: Are you saying . . . not democratic?

MR. JOHANNSON: I'm not saying that; I am saying it is not a parliamentary responsible government like ours.

MR. ZIPRICK: Well, it's a parliamentary responsible government. They have got innovations to cope with the problems of the day. Now, the size of government operations and the carrying out, now, there is a complete imbalance now between the Legislative process and the executive process. I'm not saying that it's being abused by the executive process but because of the imbalance between the legislative and the executive process, this is where a lot of the concern for accountability comes in and this is where a lot of the public cynicism is developing. It's because there is a lack of visible accountability and I think that until we change our institutions to bring that kind of accountability, we will be in difficulty to display publicly that there is this kind of accountability.

Now, as far as I am concerned, as an Auditor and working over the years with a number of

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governments, I can say that the executive branch, that is the Cabinet, they are responsibly trying to cope with all these big complex problems but the visible accountability is not there, as a result creating a lot of difficulties in the democratic systems and if the democratic systems are going to effectively administer resources of the kind they are administering now, substantial changes to the institutional operations will have to be established or else I would be concerned that cynicism is going to develop and because of this imbalance, that the institution may not work.

MR. JOHANNSON: Well, Mr. Ziprick, my impression is that there has been a development of greater and greater accountability even in this committee. Now the press, for example, is sitting here and they are listening to our deliberations — if one may call them such — and members are free to ask questions that they wish. Now, for example, I gather you would agree that your function has really developed over the years, that there is greater accountability now than there has been in the past.

MR. ZIPRICK: Oh yes, the requirements of the auditing procedure have certainly developed quite substantially and the recommendations that are being brought forward for the Independent Review Committee and the legislation that has just been introduced in Ontario — and I guess it has died on the Order Paper — and the legislation passed in British Columbia and the legislation that is being considered federally, even goes quite a bit further than that. But, I still think that the auditor can only do so much and I don't think it is unduly proper for the Auditor to be too in the forefront; that . . .

MR. JOHANNSON: What you're recommending here would in effect make this committee the . . . well, it would virtually replace the Cabinet almost.

MR. ZIPRICK: No, I can't see that. This committee would be just an inquiry committee to gain visible public accountability just like we're doing right now.

MR. JOHANNSON: At the present time, the Minister answers for his department and the Minister answers for the actions of his managers in his department. He is responsible to the Legislature for what they do and if the Legislature disapproves, the people in the province disapprove, they get rid of the Minister and the government. Now, you're suggesting that the Minister be by-passed and that the managers who are under the Minister now answer directly to this committee.

MR. ZIPRICK: No, I don't suggest that the Minister be by-passed. The Minister is still responsible for the policy and the programs that are being carried out and also ultimately for the managers.

MR. JOHANNSON: But you're saying here that the various managers be required to Committee appear before the Public Accounts to provide explanations and an accounting with regard to day-to-day administrative matters of departments.

MR. ZIPRICK: That's right. They are hired and they are being paid to administer and manage the things effectively and if there are problems and things are not being managed effectively, it's only they that can provide the reasons why there are difficulties and what they are going to do about it. Now, you know, the Auditor can fill in and provide explanations to a degree but I think that the Auditor is taking on, like myself for instance, speaking as much as I am about the, for instance, the Manitoba Housing and Renewal Corporation, is taking on more than he should be taking on. I think that it is the managers of the Manitoba Housing and Renewal Corporation that should come and say, you know, explain what the difficulties that were encountered and what they are doing about it and the Auditor just ensures that there is integrity in the system and the whole thing is not being flooded with self-serving observations.

MR. JOHANNSON: But, Mr. Chairman, under the present system, the manager appears in committee in the Estimates process with his Minister and the Minister must answer. The manager is there to provide the detailed questioning. You are suggesting that this process in effect be by-passed and that the manager appear directly before this committee rather than. . . in effect by-passing the Estimates process.

MR. ZIPRICK: No, no. The Estimates process is to me another process altogether and the Estimates process here is establishing what you are going to do.

MR. JOHANNSON: You're also dealing with past programs. on a day-to-day function.

MR. ZIPRICK: Well, you know, I can tell you, when we were trying to determine as to how we could better audit in an analytical process, this system was suggested that maybe if we used the Hansard and what was said in there, that we could establish some information that could assist us in an more objective analysis. Well, last year, I did break up the Hansard Estimate debates by departments; I directed them to the auditors and I asked for a review and observation. The auditors can find really very little in there that can assist them in a systematic evaluation to see whether what the Legislature had voted was actually being met and complied with.

The Estimates are one thing — you are determining — and I can say and I do say in the report that the Estimates need a lot of improvement because they are so general now that as far as we are concerned, we can't be of too much assistance to ensure that whatever the Legislature had felt they were agreeing to was being carried out. Disregarding whatever requirements in improvement there are in the Estimates, this is another process. You have got the Estimates; there are certain undertakings in the Estimates; now, the question arises, have those undertakings been complied

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with or haven't they? This is the process that we're talking about in this committee. It does not detract from that other process at all. As a matter of fact, it would complement the other process and require the other process to be more effective and more objective so that this process could be properly allowed through.

MR. JOHANNSON: When did you start, Mr. Ziprick, auditing the Manitoba Development Corporation?

MR. ZIPRICK: In the spring of 1970.

MR. JOHANNSON: Prior to that, of course, the Development Fund was not audited by your department at all. For example, when Mr. Lyon was the Minister in the previous government, the Provincial Auditor did not audit the Development Fund.

MR. ZIPRICK: No.

MR. JOHANNSON: I'm trying to be as non-partisan as the members opposite. So to that extent there has been a fair improvement in accountability for the Legislature.

MR. ZIPRICK: Yes, by making . . .

MR. JOHANNSON: There is something now. There was nothing before.

MR. ZIPRICK: By making me Auditor of the Manitoba Development Corporation in addition to the Certification of the Financial Statements that they present fairly, I have an obligation to bring any messages that I feel warrant the attention of the Legislature to the Legislature. So to that extent they are now being audited by an officer that has a direct obligation to the Legislature.

MR. JOHANNSON: Right, and that occurred in 1970. Now I gather that there were also a number of Crown Corporations and Crown Agencies that you began auditing. Was it around the same time?

MR. ZIPRICK: Yes, it all took place at the same time.

MR. JOHANNSON: And that wasn't done prior to 1970.

MR. ZIPRICK: No.

MR. JOHANNSON: So there has been, again, substantial improvement in accountability before this Committee.

MR. ZIPRICK: Yes, to the extent that I have a responsibility beyond what an Auditor appointed to audit for attesting the Financial Statement has. There is that added accountability.

MR. JOHANNSON: But formerly you wouldn't report to this Committee on those Crown agencies or Crown corporations.

MR. ZIPRICK: No, formerly the Legislative Auditor had nothing to do with them.

MR. JOHANNSON: Right, okay.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, I realize that we can carry on this debate for a great length, but the fundamental question arises on whether or not a committee can act in a fairly impartial manner. I suggest there have been committees of this Legislature, and I was proud to be part of them — I believe the Member for St. Johns was on a committee that very recently studied Family Law, which in my estimation did an excellent job in an impartial manner — and for the Member for St. Matthews to suggest that a committee cannot act in an impartial manner, I say that's blatantly untrue. A committee can act in an impartial manner if it so desires.

MR. CHAIRMAN: Mr. Toupin.

MR. UPIN: Mr. Chairman, as far as I'm concerned, Mr. Ziprick is dealing with politicians and will be as long as I am involved. I think that's a process of democracy that is needed. If we're talking about the possibility of reviewing *fait accompli* pertaining to accounting procedures ' by all means as far as I am concerned it would fall on deaf ears if this was contemplated, to call managers, deputy Minister, assistant deputy Minister, at the discretion of the committee, those people answer to Ministers whether it be for budgets, whether it be for purposes of being answerable to the public. Civil servants are answerable to the public by means of Ministers that are elected by the people and that's the way it should be. But I think there could be a possibility of attempting to review what has happened in the past by means of a review of a committee such as this, but to the Minister. And if anyone is to be called to the committee it should be by means of a call to the Minister the same as it is for budgets. I feel that's the only way that we can effectively deal with a problem such as this.

We can use the Public Utility Board, Mr. Chairman, as a prime example. If we called MTS, as an example, before the committee, it's at the discretion of the Minister answerable for the act itself that falls on the Chairman or other members of the Crown Corporation in question. But ultimately the Minister responsible or the government elected as a majority is answerable to the public. That's the way it is and that's the way it should be.

MR. ZIPRICK: I'd just like to indicate to Mr. Toupin that what he's saying is not contrary to what I'm suggesting. The government and the Minister are responsible. This inquiry or accountability is completely with their approval and understanding and that's the system that's brought about. I'm not suggesting that officials be brought and have to account for everything that the government or the Minister feel is not within their purview. So that's absolutely clear. It's in the area that they are expert. It's just like you mentioned, the Telephones or the Hydro. It's in the area that they are expert, that they directly provide the information. There's no doubt that the responsibility for all the operations in a

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democratic system rests with the government and the Minister, but to say that because of that the Minister has to be knowledgeable in all the administrative management affairs, and there can be no one brought to provide that information, and to indicate that if he's not knowledgeable that he's not an effective Minister, to me in the present day and age, is not practical or reasonable.

MR. CHAIAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I'm not interested in debating this with Mr. Ziprick. I agree with — (Interjection) — Thank you. I'm glad to have your permission. I agree with his objectives and his concepts, but I think he is naive. I think also he does not quite recognize our system. He compares it with the private sector where every person involved in judging the company's program or event all have the same objective. He's comparing that to the political system where you have an opposition — and the word opposition has some meaning — he compared it to United States where they have a complete separation between the legislative and the executive function which does not occur here; where there they do not have the Minister responsible for any administrative department accountable almost daily during the session, accountable daily for what's going on there. I must say, I'm glad that Mr. Lyon has come back to join us now, because he is the only person on the Opposition's side here who has experience in the Executive Branch. I'm looking forward, not today of course, but at another meeting, to hear his comments. I'm not sure that he would agree with what seems to be the tenor of Mr. Graham's and maybe Mr. McGill's approach, and Mr. Ziprick's.

It's interesting to me, this concept of a non-partisan committee, and I'm a volunteer, without remuneration, but expenses only, to go to England at this committee's bequest and stay there for two months and study what's going on there because I'd like to know. But I do not conceive of a non-partisan approach of this as I have seen it up to now. — (Interjection) — I'm not sure about your non-partisan attitude. What I'm getting at, Mr. Chairman — and I think this is a matter for discussion for open review, and that's why I say I'm not interested in debating with Mr. Ziprick any more. I know his point of view. I don't know that of Mr. Lyon and I would think it's rather important to hear it. Because, Mr. Chairman, we're heading into an election now, and last year we were heading into an election, and the year before we were heading into an election. And when we see now the way the contest appears to be shaping up, to me what I can interpret as the strongest attack by the opposition on government, is the attack which I will label under the term mismanagement. I think that the opposition is gearing itself to attack as far as I see, two concepts; one is taxation of a type with which they do not approve; and mismanagement — prudent management — which means an attack on this government's management. Now I don't see how they can do that, and I'm not saying that in any critical sense, because I have been in opposition.

The only way they can attack mismanagement is through the function of this kind of a committee, and indeed, up to about three, four years ago, we never had this document before us, we went right into the Public Accounts and we asked questions of almost an objective nature — give us an accounting of what happened to this and the other. And in the estimates or in other committees which our government established, to which there is an accountability of some sort of Crown corporations, of Public Utilities through the Economic Development Committee, where the MDC comes, we did bring in a very great advance of managerial reporting. But how this committee can turn into a non-partisan when indeed it is important to the Opposition, as is now evidenced especially in this last couple of months of debate where they are trying to prove mismanagement, I cannot quite see how it would be conceivable to bring here a director of a department, of any of the departments of government, and say to them: "How are you spending your money? Do you believe that you are doing a good job? Are you getting service for the money you're spending? Do you agree with the program?" Because that is a very important part of it. Before we know it, we may have departmental managers or directors having an input in the program aspect as to whether or not they agree with the government carrying out a certain program. How that can be done and still remain non-partisan is beyond my grasp — I should say, it is beyond my experience — and I don't know whether this wishful thinking on the part of Mr. Ziprick who says, "You can always hope," whether it can be realized. I will pledge myself that next year I will attempt to sit around this table and be as non-partisan as any other member. As a matter of fact, I think I am as non-partisan as other members of the committee, including Mr. McGill, who is looking at me . . . Well, I believe that I am trying to get at the truth and I believe he's trying to get at the truth. Somehow, our questions are a little different. So, I am looking forward to a continuation of this debate, if not this year, then next year.

MR. CHAIRMAN: Mr. Lyon.

MR. LYON: Mr. Chairman, I regret my absence from the committee for half an hour or so but I will have to become re-educated as to what the debate is that Mr. Cherniack was speaking about. But I take it refers to the comments on Page 28 and 29 by Mr. Ziprick with respect to a continuum, the Public Accounts Committee assuming a role of a continuing committee perhaps even between sessions so that it can have a better understanding of how the money of government has been spent. In Estimates, we are talking about how it will be spent; in this committee we are looking at the closed books of the government. I would immediately, without knowing what Mr. McGill or what Mr. Graham has been saying, but having just heard the tail-end of Mr. Cherniack's remarks, I would have to

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mark upon the extreme sensitivity that Mr. Cherniack shows to matters which are relatively routine and yet are within the purview of the legislative responsibility of the Provincial Auditor. I heard him this morning — harrassed is too strong a word — I heard him this morning, though, being upbraided slightly — if not more than slightly — for doing his job. I really don't wish to make myself a party to that kind of upbraiding because I think it is in the public interest whether you are in government or not to know that there has been the sloppy handling of an ordinary routine legal deal or that there is bad management practices within a Crown Corporation that this government has seen to become involved in in an equity position to the extent of 99 percent or whatever it is. That's the job of the Auditor, whether in a government that I am the head of or in a government that Mr. Cherniack or Mr. Miller are part of. In my experience, and certainly in Mr. Cherniack's and Mr. Miller's, we can remember the horses on the payroll at Petawawa back in 1946, and that was in the time of McKenzie's government and all that did was to point out that it didn't result in the demise of the McKenzie government, or indeed of the St. Laurent government.

What it pointed out was that there were sloppy procedures in the administration of public dollars by some bureaucrats in Ottawa and essentially, that's what I think Mr. Ziprick and his staff are doing in doing in a pretty commendable fashion in Manitoba. Sure, as a member of a government, I'll be a little more sensitive when that's happening under an administration that we have responsibility for because no government would want to see that happening. You want to see it stopped; otherwise, I have no business being the government. But to try to defend the indefensible, is what I find so funny about Mr. Cherniack's position this morning. Instead of trying to defend the indefensible, why don't we say to the Provincial Auditor unanimously, "Thank God you are a watch-dog here looking after public affairs." Mr. Cherniack wouldn't be aware; Mr. Miller isn't aware; I'm sure the Attorney-General isn't aware of everything that is going on day-by-day in all of the Crown corporations and the Social Aid people who voted extra money for somebody contrary to an Act; that's the job of the Provincial Auditor to tell us and we should be eternally grateful that we have people who are not partisan and who can say to a Conservative government, can say to a socialist government, can say to a Social Credit government or a Liberal government: "This is going on that's wrong and it should be stopped." Now, if that isn't the essence of the proper administration of public affairs, I don't know what is.

Mr. Ziprick is saying, as I read his report on Page 28 and 29, that we think we could do an even better job of bringing to light this kind of malfeasance within the Civil Service which is not of a partisan nature necessarily at all — it happens — but if he thinks that he and his staff will be aided in bringing this kind of malfeasance or non-feasance or whatever, to light, then I say, "God bless him," and I think we should be looking at it in a practical way.

MR. CHAIRMAN: Gentlemen, the hour is 12:30. Is it the wish of the committee to rise. (Rise)