



First Session - Thirty-Fifth Legislature
of the
Legislative Assembly of Manitoba

STANDING COMMITTEE

on

PUBLIC ACCOUNTS

39 Elizabeth II

*Chairman
Mr. Leonard Evans
Constituency of Brandon East*



VOL. XXXIX No. 1 - 10 a.m., TUESDAY, JANUARY 29, 1991



MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Fifth Legislature

Members, Constituencies and Political Affiliation

NAME	CONSTITUENCY	PARTY
ALCOCK, Reg	Osborne	Liberal
ASHTON, Steve	Thompson	NDP
BARRETT, Becky	Wellington	NDP
CARR, James	Crescentwood	Liberal
CARSTAIRS, Sharon	River Heights	Liberal
CERILLI, Marianne	Radisson	NDP
CHEEMA, Gulzar	The Maples	Liberal
CHOMIAK, Dave	Kildonan	NDP
CONNERY, Edward, Hon.	Portage la Prairie	PC
CUMMINGS, Glen, Hon.	Ste. Rose	PC
DACQUAY, Louise	Seine River	PC
DERKACH, Leonard, Hon.	Roblin-Russell	PC
DEWAR, Gregory	Selkirk	NDP
DOER, Gary	Concordia	NDP
DOWNEY, James, Hon.	Arthur-Virden	PC
DRIEDGER, Albert, Hon.	Steinbach	PC
DUCHARME, Gerry, Hon.	Riel	PC
EDWARDS, Paul	St. James	Liberal
ENNS, Harry, Hon.	Lakeside	PC
ERNST, Jim, Hon.	Charleswood	PC
EVANS, Clif	Interlake	NDP
EVANS, Leonard S.	Brandon East	NDP
FILMON, Gary, Hon.	Tuxedo	PC
FINDLAY, Glen, Hon.	Springfield	PC
FRIESEN, Jean	Wolseley	NDP
GAUDRY, Neil	St. Boniface	Liberal
GILLESHAMMER, Harold, Hon.	Minnedosa	PC
HARPER, Elijah	Rupertsland	NDP
HELWER, Edward R.	Gimli	PC
HICKES, George	Point Douglas	NDP
LAMOUREUX, Kevin	Inkster	Liberal
LATHLIN, Oscar	The Pas	NDP
LAURENDEAU, Marcel	St. Norbert	PC
MALOWAY, Jim	Elmwood	NDP
MANNES, Clayton, Hon.	Morris	PC
MARTINDALE, Doug	Burrows	NDP
McALPINE, Gerry	Sturgeon Creek	PC
McCRAE, James, Hon.	Brandon West	PC
McINTOSH, Linda	Assiniboia	PC
MITCHELSON, Bonnie, Hon.	River East	PC
NEUFELD, Harold, Hon.	Rossmere	PC
ORCHARD, Donald, Hon.	Pembina	PC
PENNER, Jack, Hon.	Emerson	PC
PLOHMAN, John	Dauphin	NDP
PRAZNIK, Darren, Hon.	Lac du Bonnet	PC
REID, Daryl	Transcona	NDP
REIMER, Jack	Niakwa	PC
RENDER, Shirley	St. Vital	PC
ROCAN, Denis, Hon.	Gladstone	PC
ROSE, Bob	Turtle Mountain	PC
SANTOS, Conrad	Broadway	NDP
STEFANSON, Eric	Kirkfield Park	PC
STORIE, Jerry	Flin Flon	NDP
SVEINSON, Ben	La Verendrye	PC
VODREY, Rosemary	Fort Garry	PC
WASYLYCIA-LEIS, Judy	St. Johns	NDP
WOWCHUK, Rosann	Swan River	NDP

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Tuesday, January 29, 1991

TIME — 10 a.m.

LOCATION — Winnipeg, Manitoba

CHAIRMAN — Mr. Leonard Evans (Brandon East)

ATTENDANCE - 11 — QUORUM - 6

Members of the committee present:

Hon. Mr. Manness,

Messrs. Alcock, Evans (Brandon East),
Maloway, Santos

* Substitutions:

Mr. Downey for Mr. Neufeld;

Mr. Helwer for Mr. McAlpine;

Mr. Laurendeau for Mrs. Render;

Mrs. McIntosh for Mr. Sveinson;

Mrs. Mitchelson for Mr. Orchard;

Mr. Reimer for Mrs. Vodrey.

APPEARING:

Gary Doer, MLA for Concordia

Fred Jackson, Provincial Auditor

Stan Puchniak, Assistant Deputy Minister,
Taxation Division

Rick Mayer, Director of Special Audits

MATTERS UNDER DISCUSSION:

Public Accounts Annual Report and Supplement for the year ending March 31, 1989; and the Report of the Provincial Auditor for the fiscal year ending March 31, 1989, and March 31, 1990.

* * *

Clerk of Committees (Ms. Bonnie Greschuk): Will the committee please come to order. We must proceed to elect a Chairperson for the Standing Committee on Public Accounts. Are there any nominations?

Mr. Jim Maloway (Elmwood): I now wish to nominate Len Evans.

Madam Clerk: Mr. Len Evans, Brandon East, has been nominated.

Mr. Conrad Santos (Broadway): I second the—

Madam Clerk: You do not need a seconder in committee. Has it been agreed? Agreed. Okay, will Mr. Evans please take the chair?

* (1010)

Mr. Chairman: I would declare that the Committee on Public Accounts is now assembled.

Committee Substitutions

Mr. Chairman: Before we proceed, I understand there are a number of committee resignations. I will read them out. Perhaps we can deal with them firstly.

The first resignation is effective Tuesday, January 29. It is from Mr. Ben Sveinson, MLA for La Verendrye constituency.

Mr. Chairman: Are there any nominations to replace Mr. Sveinson?

Mr. Edward Helwer (Gimli): I have a number of changes. I wonder if I could make them all at once, or do you want them separately?

Mr. Chairman: I am advised it would be preferable to do them one at a time.

Mr. Helwer: Mrs. McIntosh for Sveinson.

Mr. Chairman: Mrs. McIntosh for Mr. Sveinson. Is that agreed to by the committee?

Some Honourable Members: Agreed.

Mr. Chairman: The next resignation is from Mrs. Rosemary Vodrey of Fort Garry constituency.

Mr. Helwer: I would just like to replace Mrs. Vodrey with Mr. Jack Reimer (Niakawa).

Mr. Chairman: It has been suggested that Mr. Jack Reimer replace Mrs. Vodrey. Is that agreed to by the committee?

Some Honourable Members: Agreed.

Mr. Chairman: The next resignation is from Mr. Gerry McAlpine, MLA for Sturgeon Creek constituency.

Mr. Helwer: I will myself, Mr. Ed Helwer (Gimli), replace Mr. McAlpine.

Mr. Chairman: Okay. It has been suggested or recommended that Mr. Helwer will replace Mr. Gerry McAlpine. Is that agreed?

Some Honourable Members: Agreed.

Mr. Chairman: Agreed. The next is from Shirley Render, MLA for St. Vital constituency.

Mr. Helwer: I would like to replace Shirley Render with Marcel Laurendeau (St. Norbert).

Mr. Chairman: It has been proposed that Marcel Laurendeau replace Mrs. Shirley Render as a Member of the Public Accounts Committee. Is that agreed?

Some Honourable Members: Agreed.

Mr. Chairman: Agreed.

Mr. Chairman: The last that I have here is for Mr. Harold Neufeld, Minister of Energy and Mines, who wishes to resign from the committee.

Mr. Helwer: I would like to have Mr. Jim Downey, the Honourable Minister of Northern Affairs, to replace Mr. Neufeld.

Mr. Chairman: It has been proposed that Mr. Jim Downey replace Mr. Neufeld. Is that agreed to by the committee? Agreed?

Some Honourable Members: Agreed.

Mr. Chairman: Okay. I would like to, therefore, for your information read out the Members of the committee. They are Mr. Alcock, Hon Mr. Downey, Messrs. Evans (Brandon East), Helwer, Laurendeau, Maloway, Mrs. McIntosh, Hon Messrs. Manness and Orchard, Messrs. Reimer and Santos.

Hon. James Downey (Minister of Northern Affairs): There is an additional change to the committee, which I would like to make at this particular time. It would be Mitchelson for Orchard.

Mr. Chairman: I am advised we need a form filled out before we can make the official substitution. We have to have a form filled out with Mr. Orchard's signature on it.

Hon. Clayton Manness (Minister of Finance): Mr. Chairman, I would ask when that rule came into being.

Mr. Chairman: I am sorry, I cannot answer that question. I think it will only take half a minute. On the other hand, is Mr. Orchard around?

An Honourable Member: No, he is not.

* (1015)

Mr. Chairman: Another technicality, but quite important, I am advised by the Clerk that Mr. Helwer could not nominate himself to be a Member of the committee at that point because he was not officially on the committee. I would ask someone else who was previously on the committee to nominate him.

Mr. Manness: I would nominate Mr. Helwer.

Mr. Chairman: Mr. Manness nominates Mr. Helwer. Is that agreed?

Some Honourable Members: Agreed.

Mr. Chairman: Agreed.

Again, if you will bear with me, I am advised the rules of the committee require Mr. Orchard's signature indicating that he wishes to be relieved of the responsibilities of this committee.

Mr. Downey: Mr. Chairman, what rule are you applying in this situation? I understood that it has been a practice of this committee when the House is not sitting that each morning at the beginning of a committee that the committee by its own power can add or delete Members to that committee without any signatures by leave, Mr. Chairman.

Mr. Chairman: Again, Mr. Downey, I cannot refer to any particular rule, but I am advised by the Clerk that this has been a practice that has been in effect for some time. The forms are here. I gather Mr. Helwer did go around and get others' signatures but, for some reason, was unable to get Mr. Orchard's.

I am advised that is the laid-down procedure.

Mr. Downey: I do not want to belabour this, but it is my understanding, and I heard the Leader of the New Democratic Party (Mr. Doer) say that by leave we should be able to do this. I thought the committee was directing itself and if we, as the membership of this committee by leave, were to allow this to happen, then fine. If it is the desire of the committee not to, then I will take the decision of the committee and proceed to deal with the matters that are before you.

Mr. Conrad Santos: Mr. Chairman, it is true that the committee by leave can change the rule and accept the membership, but in the first place the committee must be a committee. It must be properly constituted. Without being properly constituted, it cannot give leave.

Mr. Chairman: We have a bit of a conundrum here. There has been a practice apparently of having the forms filled out, but I would rule that if everyone agrees—I think we have a quorum now. So if it is

unanimous, then we would accept this. Then we could look into the technicalities of forms, et cetera, later.

Is that agreed? Okay. Does the committee now accept the substitution of Mitchelson for Orchard? Is that agreed?

Some Honourable Members: Agreed.

Mr. Chairman: Okay, agreed.

* * *

Mr. Chairman: We have before us today the Public Accounts Annual Report, Volumes 1 and 2, for the fiscal year ending March 31, 1989; we have the Provincial Auditor's Annual Report and supplement for the fiscal year ending March 31, 1989; and the Provincial Auditor's Annual Report for the fiscal year ending March 31, 1990.

I believe the Public Accounts for 1990, however, has not been tabled in the House, or Volume 3 of 1989 accounts, but if there is unanimous consent we can agree by the committee if we wish to adopt those reports today or at some subsequent meeting of the committee, even though the 1990 report has not been tabled in the House.

Mr. Reg Alcock (Osborne): I have just a question for clarification. To begin with, have we dealt with '88? Is that finished?

Mr. Chairman: Yes, and it has been passed. The '88 has been passed.

Mr. Alcock: On the Auditor's Report, but on the Public Accounts also?

Mr. Chairman: Yes.

Mr. Alcock: The Volume 3 of the 1990 report—

Mr. Chairman: It is 1989. Sorry, would you repeat that, Mr. Alcock?

Mr. Alcock: Why are they not available?

* (1020)

Mr. Chairman: Yes, it is available; for whatever reason, it has not been tabled in the House. All of these reports that I refer to are available. I am suggesting we could deal with them if there is agreement by the committee.

Mr. Alcock: I am not prepared to deal with the third one, the most recent one, the '89-90.

Mr. Chairman: You are not prepared to deal with that because it has not—

Mr. Alcock: Public Accounts, not the Auditor—

Mr. Chairman: The Public Accounts, yes, because it has not been tabled in the Legislature. Okay. Well, we will proceed then with the Public Accounts for the year ending March 31, 1989, and the Provincial Auditor's Reports for the year March 31, 1989, and for the year ending March 31, 1990.

Just before proceeding, can we agree on the time for adjournment this morning? Normally, it is 12:30 p.m. Is that the will of the committee, to adjourn at 12:30 if we are not concluded by that time?

Some Honourable Members: Agreed.

Mr. Chairman: Okay. So how does the committee wish to proceed then? Would you like to make an opening statement or not? Okay, I guess we can start. The Minister has indicated he is prepared to make an opening statement, so we could have opening statements, brief opening statements, and then carry on from there.

Mr. Manness: Mr. Chairman, I have a very, very short comment. I just want to thank Members for finding time to come intersessionally to this Standing Committee to consider Public Accounts. I am hoping that we have a productive period of time this morning. Certainly I am prepared to answer most questions with respect to comments that flow from the Provincial Auditor's Report.

Mr. Chairman: We will have brief responses from representatives of the other Parties. I believe Mr. Doer has indicated—

Mr. Gary Doer (Leader of the Opposition): Again we would like to thank the Auditor's staff and the Department of Finance for the session this morning. There are a number of concerns that we would like to raise this morning in committee.

One is the whole issue of the Fiscal Stabilization Fund and the report from the Auditor in the second last report that in fact we had in their opinion a surplus, if standard Auditor's rules had been followed, rather than a deficit, due to the showing of a certain \$150 million in a Fiscal Stabilization Fund.

Secondly, we will be very concerned about the whole status of the Fiscal Stabilization Fund and the alleged \$78 million in assets in that fund for the divestiture of Manfor and the Repap development. We will also be raising some questions on the untendered contracts that the Auditor has identified. We will also be dealing with some public concerns raised about uncollected taxes and the methodology of dealing with those with the questions to the Auditor.

So those are just some of the areas so that we can focus in on those areas this morning. I just want to say as well that we want to deal with the other matter the Auditor has raised in LAMC, that he has identified in the last report. I believe that there is a will by all Parties to deal with that expeditiously in LAMC, and we are committed to that as well.

Mr. Chairman: Okay, thank you, Mr. Doer. Mr. Alcock, did you have any opening comments?

Mr. Alcock: Yes, Mr. Chairman. There are a number of issues that have been standing in abeyance since the last time this committee met. It has been some time since the committee met. I would hope that we would have an opportunity today or tomorrow to, in addition to the review of the Public Accounts that are before us and the Auditor's Reports, also spend a little time on a couple of issues that were raised in that earlier meeting.

One is some of the restructuring of the presentation of the Public Accounts. The second is, there are a series of allegations that are sort of in public view right now about the operations of the department and the relationship between the Auditor's office and the Department of Finance. I would hope that we would have an opportunity to discuss some of those issues to ascertain the state of affairs at the current time.

I know we have one sitting scheduled for today and another one for tomorrow. I would hope the Minister would be available should it be necessary to schedule some more sittings over the next few days.

* (1025)

Mr. Chairman: What is the wish of the committee? How would you like to proceed? Do you want to do a page by page, let us say, of the Auditor's Report for '89 and then '90, or would you just like to ask questions that are pertinent in the Members' minds to be answered by the Minister and the officials and then subsequently pass the report?

Mr. Doer: I would suggest we deal with both Auditor's Reports together because some items identified flow from one report to the other—I think that has been customary—and then deal with the other reports, the Public Accounts reports, separately as well. We would recommend we deal with both Auditor's Reports, keep it as open as possible on the Auditor's Reports prior to moving into the Public Accounts.

Mr. Alcock: I have no objection to that assuming that the Minister will allow some movement between—I mean, if we are not going to move page by page and close things off, that we are going to move around the reports as people wish, go forward and backward as the need dictates. In that case, I would be quite prepared to deal with both of them.

Mr. Chairman: If that is agreed, we will entertain specific questions on both reports, and at some subsequent time in the future pass the documents as required. We now invite questions or points from the Members of the committee.

Mr. Doer: I would like to start with the Fiscal Stabilization Fund. The Auditor has been critical of the way in which the previous budget, the '88-89 budget, was presented and concluded that there was, in fact, in his opinion, a surplus, not a deficit of \$150 million. Can the Auditor comment on that assessment of his office in that regard?

Mr. Fred Jackson (Provincial Auditor): Mr. Chairman, I have been asked to comment on the financial stabilization fund and the reservation on our test audit opinion.

Mr. Chairman: Excuse me. I wonder if you could pull the mike a little closer, Mr. Jackson, so Hansard can record it adequately. Thank you.

Mr. Jackson: Mr. Chairman, I have been asked to comment on the financial stabilization fund. As we have indicated in our report, as an office we favour a fund that would provide the funds for a rainy day fund for the people of Manitoba.

We recognize that the financial stabilization fund is an act of the Legislature, and it was indeed passed by the Legislature and is the law of Manitoba. Having appreciated both of those things, one of the things that we feel quite strongly about is that the people of Manitoba need to have a clear understanding of what the actual operating results of the province are.

With that in mind, while recognizing that there is legislative authority for the province to move money out of the Operating Fund, the Consolidated Fund, we feel that the accounting approaches should be such that there is a clear bottom line so that one can clearly understand what the operating results of the province are for a fiscal year.

When we do that, we have to recognize again that there is legislative authority for the Stabilization Fund. What we took exception to was the segregation, if you will, of the Stabilization Fund

from the Operating Fund of the province, because it is our understanding that the Operating Fund is the fund that is supposed to be available to present the full picture of the funds available for future operations of the province and all of the liabilities of the province. With that in mind, we qualified our audit opinion on the Operating Fund of the Consolidated Fund for 1989.

Mr. Doer: So, if we were to use the bottom-line methodology of accounting for the operating results, as you have indicated, then if we would have used the same methodology as previous years without the Fiscal Stabilization Fund, the public would know that there was a surplus in fact using that same bottom line in that fiscal year rather than the deficit that was publicly reported.

Mr. Jackson: Mr. Chairman, actually two figures were reported. It was reported both that a surplus of \$58 million had been realized as well as an operating deficit of some \$142 million. We thought that provided an opportunity for unclarity and possible confusion in the readers of the financial statements and our taxpayers' minds. That is why we took the position and qualified our opinion.

* (1030)

Mr. Doer: Thank you very much on that point. I agree that clarifying two numbers is very important for the taxpayers' mind, because we have charts always presented by Ministers, and graphs, et cetera, et cetera. I think it is very important that we are comparing apples to apples and not apples to oranges so that the public knows what really their financial situation is.

I have been very concerned about the whole situation of the Repap preferred shares showing up in the Fiscal Stabilization Fund of the Government. Mr. Jackson, as Provincial Auditor, has commented on that issue as well. He has in essence stated that they cannot be considered, as I recall the language, an asset for purposes of this fund.

Can the Auditor comment on whether he believes that \$78 million is money or an asset that we could—for example, allegedly we are in a tough fiscal year this year. If we were going into the '91-92 fiscal budget at this point, could we spend that \$78 million to offset the potential deficit, in the Auditor's opinion based on his examination of that asset?

Mr. Jackson: Mr. Chairman, we took some time on the financial statements for the Fiscal Stabilization Fund and saw that there was an accounting there

that provided, if you will, not quite a reservation but a balancing item to the \$77 million that pointed out in the lower section to the financial statements that there was \$77 million of unrealized recovery from future redemption of preferred shares. So, in effect, the \$77 million that is shown as an asset is offset by this line which indicates unrealized recovery from future redemption.

There was a possibility that would have provided sufficient clarification that the \$77 million shown as an asset was as yet unrealized. However, when we started to read items from some of our senior politicians, the fund was referred to as \$302 million without recognition of the unrealized nature of those shares. With that as a backdrop, we have considered it necessary to provide some clarification.

Mr. Doer: Well, that is exactly my point. When the Minister of Finance (Mr. Manness) goes into his press conference with the media, usually in camera, certain charts are presented to the public of Manitoba. One of those charts was a \$302 million Fiscal Stabilization Fund. I believe that was incorrectly communicated to the public of this province because, as you have identified, there was not an asset there to offset the \$77 million.

Is the Auditor saying that he would feel it was more appropriate to present the Fiscal Stabilization Fund to the public in terms of real funds, not in terms of the \$302 million that was publicly presented in the last budget of this province?

Mr. Jackson: Mr. Chairman, the shares are an asset. However, it is not a cash asset. The Fiscal Stabilization Fund is there to be able to provide stabilization to the province's operations. While the shares are an asset and while there is an expectation that they will be realized sometime in the future, at this point in time they are not a cash asset and they cannot be used to resolve the fiscal problems at this point in time.

Mr. Doer: It would be in your opinion, the Auditor's office opinion, more appropriate to show the Fiscal Stabilization Fund in terms of realized assets and, therefore, at the lower number with a note that said that this may or may not come about in the future so that the public would be fully aware of what is really in there and what is not in there. In other words, you cannot buy a schoolroom with that; you cannot hire a nurse with that fund, because it is just perhaps an asset in the future. It is an unrealized asset subject

to all kinds of covenants and parts of the agreement between the Government, the Minister of Finance and the corporation.

Mr. Jackson: Mr. Chairman, at the time of our report we did not consider it an asset. We considered that a good job had been done in the notes to the financial statements to describe what type of asset it was, but we thought it could be misleading to have it shown as an asset on the statements themselves. To my mind, it is a contingent asset that can be realizeable sometime in the future.

* (1035)

Mr. Doer: I had read the Auditor's Report on the Fiscal Stabilization Fund. I think it came out a couple of days just before the budget. I felt the same thing as the Auditor, that showing \$302 million was falsely representing the position of that fund at that point in time to the people of Manitoba by \$77 million. I guess we would concur with the Auditor's assessment on that. Obviously that asset is not being used, because it is not an asset yet, for purposes of calculating interest rates, that the Government has argued is equal to or better than the cost of borrowing.

Mr. Jackson: I would understand that it is not, but I think clarification on that point could be received from the Department of Finance.

Mr. Manness: Mr. Chairman, this gives me a time to introduce senior members of my staff: Mr. Charlie Curtis, Deputy Minister; Mr. Eric Rosenhek, Comptroller of the Province of Manitoba. I will certainly ask one of the members of my staff to respond to that question.

However, I would like to take this opportunity, not in a long-winded fashion, to say to the Members of this committee in case they forget that I have said over and over again and, under the strict accounting practices of the province that were in place in 1988-89, that probably we would have been expected to show a \$50 million surplus rather than \$142 million deficit. I have acknowledged that openly in several debates.

I have also acknowledged the fact, and that was driven home again yesterday by Michael Wilson when I met with him and other Ministers of Finance yesterday in Toronto, that there were significant equalization revision numbers that caused massive outflows of federal funds to the provinces during 1988. Under the strict accounting of our province we really did not have ways of handling that.

I mean we could handle it in a surplus fund, but it was never anticipated in my view when The Administration Act was set up that there would be these types of major revisions of transfers of funds coming in more or less well after the budgetary period, almost toward the end of the fiscal year, and how it is you deal with them taking into account that the federal Government may be deliberately, to improve its presentation of its own books, preadvancing significant amounts of money.

The question that we asked ourselves: How fair is it to present the case to Manitobans that it would appear like they had a massive surplus, make it appear as if there was no problem anymore associated with debt and that good times were here again when in reality and in all honesty that was not the case?

* (1040)

The Government made a decision at that point to set up the Fiscal Stabilization Fund and to take certain amounts of the surpluses and put into it. It sought the support of the Legislature to do so and it received that support. The rest, of course, with respect to it, is history, and I do not want to dwell on it, but if anybody wants to search the record, that point has been made several, several times.

With respect to the evaluation of the Repap shares, and the dividends coming in on those shares, we looked around as to how to categorize that type of asset. Again I would say to you that The Financial Administration Act of our province did not anticipate that Crowns might be sold off, that there may be a significant value of sale, and did not anticipate how it is that the benefits of those sales should be recorded.

Some may disagree with me, and Mr. Jackson may be one of them, but when we looked at where it is that we had an opportunity to lodge the value of an asset sale, we did not have many places. I mean, do we take it right to the bottom line of that year? Do we set up some mythical schedule indeed where 10 years hence the Finance Minister of the day is able to report that the evaluation of those shares, in this case Repap, were finally going to materialize, and he was going to be able to add the full value to that line? Those are hard questions and I do not think anybody has the answers to that.

We said no, let us lodge them in the Fiscal Stabilization Fund, let us fully document the fact that they are non-cash, that they cannot be drawn upon

to support services of the day because that would be dishonest and it would not represent the fact. That is why we presented it in the fashion we did. As far as whether or not they are drawing interest—I think that is the question of Mr. Doer—I am told they do not.

Mr. Doer: To the public of the day, when you presented your budget, and yes, it had a note but everybody saw a figure. You know, I watched the television screens. Everybody saw a figure of \$302 million to \$303 million. I would argue with the Minister, and I guess this is where we disagree that indeed that fund is overrepresented by some \$78 million, because it is not a fund asset, it is a preferred share. It may under certain covenants come to fruition, it may not.

Can the Minister tell us, the people of Manitoba, when he expects to realize any dividends on the divestiture of Manfor to Repap and when we may expect some assets pursuant to that note in the Fiscal Stabilization Fund?

Mr. Manness: Mr. Chairman, this is very complicated. I am prepared to share with Mr. Doer the understanding of the agreement. I have it in front of me. We have tried to boil down the agreement so I would be able to respond to a question of that nature. There are four pages of response. I can read it or I can provide it to Mr. Doer. I can tell him firstly that it is all contingent upon a starting date of construction of Phase 1 or Phase 2. That is all contingent upon proper environmental licences being received.

If environmental licences had been in place so that the completion of conversion, in other words Phase 1, had been able to occur in September 1991, which obviously will not be the case, then it is my understanding that dividend commencement dates for Series D would have originally begun on May 1, 1992, and Series E would have begun on January 1, 1997. Again, that was under the conditions that Phase 1 construction would have been completed by September 1991, and Phase 2 construction was to begin before December 31, 1990.

Mr. Doer: So we are a couple of years away from realizing any potential dividend payment, notwithstanding Series E, that is quite a bit later on.

I guess my further question to the Minister is this. I want to come back to some points, because this is an interesting story, when we go right back to square one and start with CFI and then follow it through with

certain—it has to be written off against previous Governments' deficits and then certain assets being put into other Governments' asset pages. I guess something is written off for \$125 million and something else is put into a Fiscal Stabilization Fund for \$78 million. I mean, I could get into all of that, but I think we would take all day going back to CFI on this affair.

There are certain obligations that also the Government entered into in the Department of Highways for purposes of the Repap expansion. As I recall it, it is some \$90 million. Is the Minister telling me that the plan of the provincial Government is to spend \$90 million out of our operating expenditures of the provincial Government and not have these shares offset those costs to the people of Manitoba, but rather show up in sort of a future perhaps asset in our Fiscal Stabilization Fund? Why would the Minister not put our liabilities, i.e., the expansion of roads, as part of this agreement against this potential asset? It seems to me that would be a more—I am just a layperson, but if I was sitting at a shareholders' meeting, I would kind of think that would be a more straight-up way to deal with it.

Can I ask, if we are going to pay \$90 million on the one hand and we are going to get \$78 million on the other hand, why do we not show it together in the Department of Highways?

Mr. Manness: Mr. Chairman, we sought legal advice on that. It was indicated to us that we would have to record the road component and indeed the guarantee as against future commitment borrowing authority. As you know, in The Loan Act, when we bring forward a request to the Legislature, there is always a commitment authority that is stipulated within that Loan Act. We have had to register because of the agreement and lodge against that commitment authority the \$90 million road component. Plus, I understand the guarantee also has to be lodged.

As far as the road, one can see in Public Accounts in 1989-90, Volume 1, Financial Statements, Detailed Revenue and Expenditure Statements, Future Commitment, and I am referring to page 5-34 under Highways and Transportation, a \$90 million future commitment as flowing from the Repap-Government of Manitoba agreement. So I say to you, it is recorded.

Mr. Doer: Here we have a financial obligation of \$90 million recorded, and we have a potential asset of

\$78 million. I mean, I do not get any comfort that we are going to have some extra money down the road in the Fiscal Stabilization Fund when the Minister reveals those two—the one obligation with the other commitment we have made as a province. It further concerns me about why we show this as an asset in the Fiscal Stabilization Fund.

Mr. Manness: Mr. Chairman, firstly the \$90 million, let us get to it and provide this background. We did make a commitment to \$90 million. We sense that upwards of half of that would be in the ongoing Highways budget, that indeed much of it, whether there was a Repap development or not, would be required in support of the upgrade and the maintenance of northern roads and bridges.

What we were talking about in addition, beyond what we thought that normal programming would provide, would be an extra \$45 million, \$50 million. We have put that in the form of a contract, because that was the assurance that Repap wanted and strove to see, so that they could, of course, reduce their wood supply cost. We were happy to enter into that.

With respect to the \$77 million on the asset side, again, we never did present it as a \$300 million fund which could be drawn upon today. How the media chose to present it, I do not know. Certainly in our presentation to the media, we indicated that \$77 million of it was non-cash and cannot be drawn upon for the services that Manitobans want today.

* (1050)

Mr. Doer: Yes, I would ask the Auditor: Has there been an independent analysis of the \$90 million obligation that the province has entered into relative to the \$77 million potentially future asset that we have had indicated from the Minister today will be quite a bit down the road? Have we had any independent analysis of that from the Auditor's office in terms of the financial obligations of the province—because it was announced as \$90 million—versus the potential assets on the \$77 million?

Mr. Jackson: Mr. Chairman, we have not undertaken a specific analysis of the components of the \$90 million other than to recognize that is a requirement of the contract that was agreed to. We understood however that the two went hand in hand, and we sought legal opinion ourselves as to whether that was a contingent liability or an actual liability at the present time.

We concluded that it was more of a contingent liability, that it was some time in the future and that the events would have to move forward on both sides of the contract for that \$90 million to have to be spent as well. If the plant did not proceed, then presumably the \$90 million would not all be required to be fulfilled either.

Mr. Manness: Mr. Chairman, I just want to reflect on that. This year, coming into the budgetary year of 1990-91, the Government early on in its budgeting had set aside \$5 million or \$6 million in preparation for honouring the commitment under the contract because of building Phase 1, Phase 2 did not commence.

That number was consistently downsized through our internal budgeting and commitment to capital construction within Government to the point now where I believe this year it is only at \$1 million, and I do not know what portion of that will be expended, because again under the terms of the contract the construction has not started and therefore we do not feel honour bound to keep the commitment to the \$90 million.

Mr. Doer: I think the public of Manitoba would find the whole thing rather confusing. I think three years ago it was written down to zero, then it is showing now as an asset when it is not an asset. It is in a fund. Then we have the other indication that we have another \$90 million potential liability, contingent liability that the Minister has indicated. Can the Minister table his legal opinion on the \$90 million requirement, and can he table his statement to us, the four-page answer on the question?

Mr. Manness: I will attempt to find the legal opinion we have as far as evaluating and classifying the \$90 million contractual commitment. The briefing notes with respect to Manfor divestiture dividends and redemption of Series D and E preferred, we have no trouble sharing those also.

Mr. Doer: I would like to ask another question on the Fiscal Stabilization Fund. I want to be very honest. I support the idea that when there is extraordinary mining revenue and when there is an extraordinary year with the federal Government, it does make some sense to try to get rid of some of the peaks and valleys that can be part of a budget process.

In fact, I said that I supported the idea of using that money potentially in the future for a potential recession. I will not go into the political reasons why

I believe we are in one, a recession. That is not for this committee; that is for another debate.

Having said that, I have been very confused about how assets have been placed in this fund. From my original understanding, and I want to be very up front on that, I disagree totally with the Minister on showing that fund the way it was shown last year. I have said that in the House. I have said it here. I saw it on every television set last year when the budget was on. I just thought it was very, very inappropriate for a Minister of Finance in this province.

I am also concerned about the sale of Crown corporations and showing up in this fund. I would ask the Auditor, when the federal Government sells a Crown corporation, or the Province of Saskatchewan, that has sold more to date than this Government, they show those—

Mr. Manness: Do you know something that I do not?

Mr. Doer: Well, I know you are full of surprises, so I will just wait daily for your slavish Tory agenda to appear. Do not lose your sense of humour.

My question is to the Auditor: As I understand it, other Governments, when they sell Crown corporations, for example Saskatchewan or the federal Government, they show that sale, that asset that has been accumulated over a number of years. For example, Data Services was started by Duff Roblin. Duff saw the need for this Crown corporation, unlike the -(interjection)- however, that is an old debate we lost as well. They showed that sale of that corporation—it was accumulated over a number of years, and they showed the sale of that asset against, as I understand it, previous years' accumulated deficit, the indirect deficit of the province.

So my question is: Do you think it is appropriate that this Government shows it not in terms of when it was accumulated as an asset, but now shows this asset as a future fund for their future use in Government? In my understanding of it, if you accumulate a debt over a period of time, you have an asset over a period of time, you take that asset against the previous years' debts. That is, I understand, as most provinces do it. I would ask the Auditor: Is my assumption correct in terms of the methodology of showing the sale of an asset against debt?

Mr. Jackson: Mr. Chairman, provincial Governments have an approach that is different

from private sector business as far as capital assets go. When a capital asset is acquired, it is charged as an expenditure. You will see in our report we have some concern with that. That would suggest that when an asset is realized, it would show up as a revenue, because that would be consistent with the method that the expenditure has been handled.

It is my understanding that only one other province at this point in time has a fiscal stabilization fund. That is the Province of B.C. It is my understanding as well that they are handling their divestitures in a similar fashion to what Manitoba is doing. It is also my understanding, though, that the Fiscal Stabilization Fund, when it was enacted, provided for the disposal of Crown agencies and how those Crown agencies would be handled, and that it provided for funds to be transferred to the Fiscal Stabilization Fund.

Mr. Doer: I am not disputing the legalities of the matter. The past tradition in this province has been that, and I agree with you, I knew B.C. was different. I am surprised we are following British Columbia, but having said that, I know the federal Government and other provincial Governments take that asset and that sale and write it off against the previous year's deficit.

So it is only B.C. and Manitoba that are now showing an asset that has accumulated up over 20 years. I guess Roblin started this thing; the former Premier Roblin started this in the mid-sixties. It accumulated over a period of time, so it is debt accumulated over a period of time. Would it not be more appropriate to take that asset that was accumulated over a period of time and write it off against our existing debt rather than putting it in a future stabilization fund from a pure accounting basis?

Mr. Jackson: Mr. Chairman, as I have already indicated, the province does dispose of certain of its assets on an ongoing basis in that it sells Crown lands from time to time. It sells mineral rights. It sells other things of a capital nature. When it does that, those sales become revenues of the year of disposal.

If a major capital asset was disposed in a particular year, as I have indicated, it would normally be brought into revenue for that year which, in itself, might distort some of the usual trends, because if it was a major asset it would be an unusual event, not part of the ongoing regular operations of the entity.

But the Member has asked sort of a two-part question. From an accounting perspective, you would bring the item back into revenue. From a financing perspective, you might choose to pay down debt. You may choose to borrow less in that particular year. There are two questions, and they are both a little different.

* (1100)

Mr. Doer: That is right. I am really concerned about this issue, because I mean \$17 million from Data Services is a relatively small amount, but I just want to deal with the principle of how we handle assets. You are absolutely right. To have a Crown corporation or a major asset sold for trade in one fiscal year—for example, if you were to sell the telephone system for \$500 million and then showed the deficit this year or next year at maybe \$100 million instead of \$500 million or \$600 million—it would be somewhat misleading.

To show it in a future year, therefore, I would suggest in the operating of a future year through a stabilization fund would be somewhat—for example, you sold the telephone system and then put \$500 million aside for two years from now or three years from now, maybe even four years from now—it would somewhat mislead that operating statement.

So it seems to me the three alternatives: the previous debt or the existing debt, the existing year, or a future year. It makes more sense to me—maybe I am wrong—of those three alternatives, to put that asset that has been developed over time against the debt that has developed over time. That would be the more accurate way of portraying that disposal of that asset against a previous debt, and that way you do not mix up operating years both present and future.

Mr. Jackson: Mr. Chairman, there are accounting conventions for handling this that are being transferred from the private sector to the Government sector. On a private sector basis, what would happen was that you would have an extraordinary item on your income statement for the year in question. If you were talking about the disposal of something that was \$17 million, and it was unusual, you would have your regular operations, then you would have a separate line item that would disclose the extraordinary item, i.e., disposal of MDS.

Our preference under that circumstance would be that it would be disclosed and be part of the revenue for that particular year. Lower down, there would be a transfer from the operations of the Consolidated Fund after the operating results had been determined for the year. That transfer then would go to the Fiscal Stabilization Fund. So the \$17 million would come into the Operating Fund of the Consolidated Fund. The operating results for that year would be reflected with that item included. Then there would be a transfer to the Fiscal Stabilization Fund.

Mr. Manness: We have listened to the Auditor's presentation informally over several months now. That is the course of action that we will be following with respect to Manitoba Data Services. Once we close the '90-91 books, it will be shown as a revenue item coming into the province and then transferred into the Stabilization Fund.

Let me say, Mr. Chairman, in the setting up of the fund, the legislation clearly spelled out, the legislation supported by Mr. Doer, that part of the reason for setting up the fund would be as a repository of funds associated with divestiture. So he cannot sit here now and claim that maybe he did not know that. Our reason for doing that is that we just did not want to attribute extraordinary income to one year's accounting.

We thought in fairness to the people of Manitoba that when you had an asset where there was no debt against it from the provincial point of view, even though in essence the shares are owned by the province, that on a net basis the value of that asset should be at the disposal, not for one year's accounting purposes and expenditure purposes, but indeed over a period of time.

Mr. Doer: Just coming back to that point that I do not dispute, as I have said before, we supported the idea of the legislation. We have disagreed with the Minister in certain applications of this fund and in terms of its representation to the public.

I asked the Minister a question on Repap's shares becoming realized. I just looked back through my notes and noted that the September '91 dates are off and the '97 dates are off. If construction started by September '91, then May 1, '92, would be the date. What would be the Minister's projections now for any revenue flowing from those preferred shares in terms of dates? What fiscal year could we potentially expect any money to come and,

secondly, how much would be in each? You have mentioned two payments, May 1st, '92 and 1997. Can the Minister outline how much of that \$78 million would be available in each one of those years and what the projections are for future fiscal years?

Mr. Manness: Mr. Chairman, I cannot offer a speculative guesstimate in that nature. If the Member opposite can tell me when it is he believes that the environmental processes and licences would be provided and that assessment process allows for the building of Phase I, then I can after that give him a rough estimate. I would have to think that the schedule that is printed out is at least going to be pushed back two years.

Mr. Doer: At least two years, a minimum of two years, so May 1, 1994, will be the first year for partial payment potentially of those preferred shares, subject to the covenants of the agreement. Can the Minister therefore indicate what is the breakdown between the two parts, the \$78 million into the two parts. That means that the second payment perhaps will be there in 1999. Can the Minister give us his projected breakdown of those funds? In other words, the Minister is not going to be using this fund for the next three budgets at least.

Mr. Manness: I again will not speculate out to the end of the decade, but I can say in all honesty we certainly will not be using any portion of the \$77 million for at least three budgets.

Mr. Doer: There are a lot of other questions on the other issues of dealing with the taxes, et cetera. I will leave that with the Member for Elmwood (Mr. Maloway).

I just want to ask one other brief question. In the last Auditor's Report, you identified the fact that the Government inappropriately or inaccurately portrayed revenues for forest fire and flood collections. This is a fact that the Minister did identify when I was questioning him on the enabling vote, I believe in December. I believe there was a revenue figure in there that was never realized. How is the Auditor recommending the Government deal with that inaccurate number in last year's budget?

Mr. Jackson: It was our understanding that the Government was in negotiation with the federal Government well in advance of the end of the last fiscal year and that the Government had been offered an amount, that the Government was not prepared to accept the amount that had been offered, and it was working to enhance the offer and

get a better settlement for the people of Manitoba. From our perspective, however, those negotiations had not been completed. There is no final fiscal arrangement in place, and at the end of March the federal Government did not formally acknowledge its liability for that amount. Consequently, we could not consider it to be a receivable at that point in time, which was March 31, 1990.

Mr. Doer: Our sources have indicated that there was at least \$10 million offered to the provincial Government, which they refused, thinking that the offer should be higher. Can the Minister of Finance advise us on the status of those negotiations, because there are people in the public service who think the Government has botched the negotiations? I do not know. I do not know whether they have or not, because it is really difficult to second-guess that when you are not part of it.

Mr. Manness: This dispute between Manitoba and Canada is taking on a very symbolic proportion. A commitment outside of the emergency funding formulas was made by Canada. That has been part of our problem, and it has been part of the problem of the Provincial Auditor. It has political overtones in the sense that it is two sides sitting across the table trying to determine what is fair.

* (1110)

We are fully mindful that if this had been a flood, the province probably would have stood to have received upwards of \$58 million of the total \$70-some million cost. I forget now what the total cost associated with fighting fires in 1989 was, but by our very strict accounting, it was, it seems to me, \$77 million. Were it a natural disaster in terms of a flood, under the formula of sharing, we would have received \$52 million or \$58 million, I cannot quite recall which.

Under the strict formula that is in place dealing with a disaster of this nature, the province would be receiving somewhere between—it seems to me, it was \$12 million. That is what the Provincial Auditor, Mr. Jackson, had to go by.

We had, in closing the 1988-89 books, indicated that there would be more forthcoming by way of a political decision. That bottom line number is known to us, but we did not think it was acceptable. For a whole year now we have been in discussion around this issue and pushing for a higher figure.

Mr. Doer: The federal Government has not given us, in terms of settlement, any funds at all for this disaster?

Mr. Manness: Mr. Chairman, we have not asked for, nor have they advanced, any funds with respect to the natural disaster of 1989. Again, until we have a decision as to a number that is acceptable to this province, we do not wish to take an advance.

Mr. Doer: Has the Minister raised this with Finance Minister Wilson, and given the fact that it has stalled for well through a fiscal year, has the Premier (Mr. Filmon) raised this with the Prime Minister in terms of the essential necessity of getting this resolved for the people of Manitoba?

Mr. Manness: Mr. Chairman, the answer is yes to both of the questions.

Mr. Doer: The Prime Minister has said to our Government, no, in terms of the proposal we have made, to the Premier of this province?

Mr. Manness: Mr. Chairman, no. I would not want to say that the Prime Minister has said no. The Prime Minister is wanting, like we are, to see this matter closed, a decision reached, and we are still negotiating as between senior officials in Ottawa and indeed senior Manitoba officials.

Mr. Doer: When will the Minister (Mr. Manness) expect an answer from the Prime Minister so that we know whether we have got it? You know, it has gone on a pretty long time now. I mean, it is probably one of the longest outstanding federal-provincial issues for a long time.

When will the Minister of Finance (Mr. Manness) or our Premier (Mr. Filmon) know that we have been successful or unsuccessful with the Prime Minister in resolving Manitoba's share of this disaster?

Mr. Manness: Mr. Chairman, in all honesty, I cannot put bounds around when it is that ultimately a decision may be reached, but I can assure Members of this committee that efforts are being made to work to that decision as quickly as possible.

Mr. Doer: In conclusion, some 19 months after the disaster we do not have one cent from the federal Government, and we do not have anything settled at all to this \$77 million tragedy that Manitobans went through in the summer of '89.

Mr. Manness: Mr. Chairman, at this point in time we have not received \$1 in funding from Ottawa with respect to that major disaster of 1989.

Mr. Maloway: Last fall during the—

Point of Order

Mr. Alcock: On a point of order, Mr. Chairman. I am sorry, past procedure at these committees has been that the official Opposition critic asks their questions, then a Member of the Third Party gets an opportunity to ask some questions and then it reverts back. Now I have an opportunity to have that ability.

Mr. Chairman: Well, Mr. Alcock, Mr. Maloway had his hand up several times in the last 40 minutes, and you just put your hand up two minutes ago and I put you on the list. I am sure we will have lots of time.

Mr. Alcock: Mr. Chairman, does this mean that this procedure in the past has been broken and now it is necessary that Members put their hands up? I mean, it was the procedure that the critic for the official Opposition got to ask questions and then the critic for the Third Party. Now, that has been the tradition we have followed for as long as I have been here—at least the past two and a half, three years. Are you making a change?

Mr. Chairman: Mr. Alcock, I do not believe I am making a change. My understanding is after the official opening statements, where you were recognized, then it is a matter of whoever puts up his or her hand. I am simply going by that ruling. I do not think you are going to be denied any opportunities because we will be here as long as the committee wishes.

Mr. Alcock: Mr. Chairperson, that is not the case. In every committee that I have attended that has not been the procedure that has been followed to date. Now, if there is a change or if you are making a change, I would like to see the ruling on which that is based or I would like to contest this. I do not think this is proper.

Mr. Chairman: As I understand, there is no rule, and I have been following the procedure, as my understanding after 21 years in the House, that you go by whoever puts his hand up first apart from the initial statements. It is just a matter of following whoever has put his—Mr. Maloway has had his hand up two or three times over the last 40 minutes.

Mr. Alcock: Mr. Chairman, are you saying that the precedent and procedure of the past three years is to be changed now because you are in the chair?

Mr. Chairman: I am reminded that the procedure has been whoever the Chairperson has recognized first. So I think we will recognize Mr. Maloway, but

there will be plenty of time for Mr. Alcock, I am sure, to ask questions.

* * *

Mr. Maloway: Mr. Chairperson, last fall during the Finance Department Estimates procedures, I asked the Minister at the time several questions concerning the condition of arrears, not only in the area of retail sales tax, but other areas of provincial revenues. I never did hear back from him over the past months, but last week there were a series of articles in the Free Press written by Don Campbell outlining what I would consider to be a pretty big mess in the taxation department. We have allegations that tax staff have been hiding files from the Auditor. We have had allegations about the removal of documents, that the Auditor only sees good files.

In fact, there was a quotation that there is always a mad scramble when they know he is coming. Some files even had 10 to 20 pages removed from them. Other files are signed out if they know he is coming and kept out, he never gets to see them. Other methods were described for avoiding the Auditor's scrutiny. I wonder how Mr. Jackson feels about this.

Mr. Jackson: As I indicated to the reporter in question, we do not feel that is a particularly factual observation. We feel that our scope has not been limited in any way by Department of Finance. Our methods are such that we do not just ask for files. We review computer information systems that list files, and it is files of our choosing that we want to see.

We have never completed an audit without seeing any of the files we sought to seek. We feel that we have been able to see any file that we have asked to see.

* (1120)

Mr. Maloway: Well, also in the article there was mention that some files are marked as SUI, which stands for "still under investigation," and those types of files are not files that the Provincial Auditor would request. Supposedly you request only files that are completed, and in an effort to cover up these files, evidently they could hold them under SUI for 20 years and you would never see what was in them. That was the allegation.

Mr. Jackson: Mr. Chairman, it is my understanding that those initials that you just used are not a

common term within the department. They may be used by one or two individuals, but it is not a common term that is used in the department. We do look at files that are incomplete.

As a matter of fact, our office in the last couple of days has been looking at files that are incomplete and not resolved. There has never been a single instance where I have asked for information and either this Government or its predecessor has denied me that access, right up to and including minutes of Cabinet.

I am extremely proud that the MLAs and Members of Government have always given us that kind of co-operation. We expect it. If we do not get it, you will read about it in our next report.

Mr. Maloway: To your knowledge then, you are not aware, I believe, of any removal of documents as alleged in the newspaper article?

Mr. Jackson: It is my understanding, Mr. Chairman, that as a regular ongoing process, of file maintenance, sometimes material that is considered to be superfluous or redundant is removed. We do not consider that to be extraordinary or unusual.

Mr. Maloway: There was also reference to senior finance officials quashing a move to seize money on the basis that it would be embarrassing to the province because it had no power to seize money improperly collected in the first place. It was an example indicated that a certain business had been improperly collecting provincial tax for a number of years.

I suppose this question could be directed to the Minister. Did the Minister have any plans to change the law so that the department could collect taxes that were improperly collected?

Point of Order

Mr. Manness: Mr. Chairman, I was about to jump in on a point of order anyway. I guess I am becoming growingly concerned at the line of questioning of the Member. We are here today to consider the Annual Report of the Provincial Auditor for 1989-90 plus the accompanying Public Accounts of the province for that same period of time.

Mr. Chairman, I have no trouble answering questions with respect to my department, although I think it is highly improper that the Member would take allegations that are in the press, make it appear

like they are factual and attempt almost to pose a question to the Provincial Auditor. That is highly inappropriate.

We are here to consider commentary, qualifications as put into place with respect to the accounts and the representation of the financial statements of the province. If the Member is wanting to pose questions as to procedure in administrative fashion within the Department of Finance to which the Provincial Auditor has access and has some grave concerns and would like to see greater controls in place, that is fair game also, but to take something that has been written in the paper, alleged at best, and try to make it appear as fact, I think, is a disservice to the whole system of Government that exists in this province.

Mr. Maloway: On the contrary, I asked questions in the Estimates of the Finance Department last fall on the question of tax arrears. I have yet to get answers to any of the questions that I asked last fall. I do not know when the Minister was planning, if ever, to get back to me with any kind of answers.

I read the paper like anyone else, and when I read stories like this, I, as a taxpayer, wish to get answers from them. This is the Public Accounts Committee. This is the proper committee to be questioning both the Minister and the Provincial Auditor about stories such as this or points like this.

Mr. Manness: Mr. Chairman, specific to the question, the figure of \$8 million sales tax arrears, as recently quoted by the Winnipeg Free Press, is reasonably accurate. Indeed, it is the same number that I provided more or less to the Member in my Estimates. It certainly was not a revelation by the Free Press that there are outstanding arrears. I made that public in my Estimates review last fall.

The tax arrears are staying at about 1.2 percent of annual revenue. If the Member wants breakout analysis of arrears, the arrears consist of the following: active businesses in arrears as of March 31, 1990, are \$3,960,000; active businesses in arrears at December 31, 1990—in other words, year end—\$3,506,000.00. Indeed, that situation has improved to the tune of around \$450,000 in a space of nine months. Businesses in receivership or bankruptcy, the arrears applicable to that category is \$1,530,000 as of March 31, 1990. As of December 31, 1990, that number has increased slightly to \$1,750,000.00. The third and final category, Other Businesses no longer Active, March 31, 1990, the

amount there was \$2,080,000.00. For December 31, 1990, that number is \$2,231,000.00.

Mr. Chairman, let me say, subsequent to March 31, 1990, \$1 million uncollectable arrears were removed from the books and written off. Approximately \$1 million will also be written off in 1991. The write-offs from the inception of the sales tax in 1967 up to 1990 total \$7 million, whereas the sales tax revenue during that period totals \$5.9 billion. The write-offs are only .1 percent; in other words, one-tenth of 1 percent of the total revenue.

Mr. Chairman: Mr. Alcock, did you have a point of order? You did not indicate you had a point of order.

Mr. Alcock: Well, Mr. Manness started this recitation by saying he had a point of order.

Mr. Manness: I could have had a point of order is what I said.

Mr. Chairman: That is right.

Mr. Maloway: I appreciate the Minister's answer, albeit a little late, but I appreciate it nonetheless.

I asked him also at the time whether he could give me a breakdown on arrears in other areas of taxation. He might recall that I did not preclude any other type of arrears. Sales tax was only one of the questions that I asked about.

Mr. Manness: Mr. Chairman, if the Member wants to read the record again of those estimates, I did provide most of that information at that sitting.

Mr. Maloway: I also asked at the time and am interested now in knowing the status of the collections as to whether or not the department is getting a handle on the collections and whether the collections in fact are improving. The arrears in the sales tax really did not show much of a change from one year to the next in the last two years. They did not seem to have gone up that appreciably, but the Minister did indicate to me in the Estimates that he would get back to me to give me more information as to how the collections were in fact going. Does he have any more information as to whether he has hired more staff, whether he is proceeding through the courts? Just what is the status of his collection machinery at this point?

Mr. Manness: Mr. Chairman, I am not going to try and deny the fact that within the Taxation Division, an area that brings in roughly \$1.4 billion yearly in total, that we do not have some problems within collection. That is one of the reasons why two years ago we started a major reorganization of that

division as a partial response to that problem. I would like to indicate that in our view the hiring of additional staff in itself does not provide the answer. We had to do a number of changes within the reorganization, and this is what we are going to do.

* (1130)

We are going to have a merging of the accounts under the various taxation Acts to improve collection efficiency and to ensure that overpayments under one Act will be offset against underpayments under another Act wherever applicable. We would like to merge all of the taxation collection staff into one group to improve the effectiveness of collections, and we are possibly considering increasing penalty rates for late payment of tax and increased fines for tax evasions. I mean, these are all under active consideration. Of course, we will continue the employment of an adequate number of professional collection staff and well-trained assistants.

Now again I reiterate, of the \$7 million in arrears in the sales tax area, traditionally over the years, we have written off \$1 million a year. In other words, \$6 million of the \$7 million tends to come in through the efforts of the collection staff, and indeed the powers and the penalties of the law cause the other \$6 million to come in, but still we are doing a major reorganization in this division in an attempt to improve collections and to expedite the time associated with the assessments and the collections.

Mr. Maloway: Mr. Chairman, could the Minister outline for us what are the steps that are involved in the collection of accounts that are in arrears situations?

Mr. Manness: I am sorry. Would you repeat the question?

Mr. Maloway: Mr. Chairperson, I wanted to inquire of the Minister as to the steps that the department goes through in the attempts to collect arrears in the retail sales tax field.

Mr. Manness: Mr. Chairman, I will ask staff to respond to that question. Let me say though again that Manitoba has an enviable record in a tax collecting sense. I mean, basically over 20-some years, \$7 million has been written off as sales tax escaping mainly because of bankruptcy and closing of business.

Mr. Stan Puchniak (Assistant Deputy Minister, Taxation Division): The general procedures for collection of arrears in sales tax are, firstly, to

determine the amount of the arrears and confirm that with the taxpayer by a billing notice, which goes to the taxpayer the month following, showing what the arrears are. That is a common practice that takes place every month. There is a notice that is generated, a bill that is generated, by the computer.

If there is not a response by the taxpayer in paying the arrears, listings of accounts in arrears are prepared by the computer system. That information is provided to the collection staff which are bolstered by some compliance staff. The compliance staff and the other collection staff comprise nine staffpersons. They contact the taxpayer by telephone to make arrangements to obtain the arrears. It is not unusual that the taxpayer will forward a cheque to cover the arrears. If the cheque is NSF, they have procedures to deal with that, to have another cheque and have it certified at the bank.

If the debtor, the taxpayer, is then still in arrears and not living up to any previous commitment that has been made, the collection staff will look to assets that the debtor has to expedite collection, because the taxpayer is not co-operating to pay that debt. That could result in placing a lien on assets owned by the taxpayer.

When there is not co-operation from the taxpayer after numerous requests, the issuance of third-party demand, also from information of the taxpayer's business, it can be noted that the taxpayer may have monies owing to that firm by the Province of Manitoba. In that case, a setoff could be made to ensure that the province is not paying money to someone who is indebted to the Government for tax arrears.

It is usual that this procedure takes place over a period of time to ensure that a person who has had a momentary or a very short-term financial problem, will make an effort to pay up arrears. Sometimes it is the case that a taxpayer who runs into a difficulty will agree to pay tax arrears over a period of months as well as keeping current the payment of taxes collected within a month. When a taxpayer does fail to meet up to those obligations, then the collection staff look to other procedures of putting liens on assets, sometimes seizing assets and sometimes third-party demands being made on that taxpayer's sources of income or to their bank.

Mr. Maloway: Mr. Chairperson, I appreciate the explanation as to the procedure that is followed. Just for further clarification, could we get a rundown on

the time procedure that is involved here? I understand the procedure, but normally in a business I would think that once an account is more than 90 days old, one would worry about whether or not you are going to collect it from a receivables point of view.

You suggested that there was a fair amount of latitude and it depended on the particular file and the particular tax collector as to how much time the individual would have. I wondered if you could be a little more specific in terms of the time frame at which each one of these various procedures lock in.

Mr. Puchniak: In the collection area, in the general administration of collections, relative to time procedures, orderly scheduling of events as stated earlier, the write-offs have been very low.

In any event, we are not satisfied with the scheduling of the events taking place. In a fashion it is more accountable as to timing of actions. So in that regard what we are doing and trying to do over the last year is to look at preferred systems. We are working on a computer-assisted manual thing where files of taxpayers are taken out of the filing system, reviewed notes in it, and our review of what is done by some other provinces and by banks who have a lot of receivables is that we have to improve our system. So what we are doing is we are looking at actively researching systems that are in place in other Governments.

I just returned from the province of Quebec on Sunday. Looking at where we can vastly improve and co-ordinate our collections, we have observed certain things that we think should be improved upon. There is a very active effort made to improve upon our systems, relative to the timeliness of certain actions.

Mr. Maloway: Mr. Chairperson, well, that basically was my question. When a business is in arrears for six months, is that the point in time when they are being sent court documents, or are they still being coaxed and cajoled into an orderly payment of debts at that point? Is there any sort of definite time period that the department operates on, or is it on a case-by-case, tax collector-by-tax collector situation?

* (1140)

Mr. Puchniak: I do not think that if a person deals in collections that there is a defined rule that every single debtor is treated the same way regardless of the type of business that they are in, regardless of

the cyclical nature of the economy dealing with their business, regardless of the potential that they have for funds that are coming in, relative to certain contracts that they may be in the course of undertaking and they are waiting for funds.

Some of these things are very, very particular sometimes to a business, to an industry, and to have general rules that a person or a company would be put into bankruptcy at a certain period of time even though there are indications that there is a change taking place and there is a promise to provide more funds, there is not a rule that just to a business, bang and close their doors, when there is an opportunity for recovery of funds.

Sometimes those opportunities do not exist, they do not come to fruition, but I would think that it is safe to say that each case is handled on the basis of the facts of that case.

Mr. Maloway: Mr. Chairperson, also to Mr. Puchniak, I was interested in knowing about the penalties on the arrears. It was suggested by the Minister that he might be looking at, in revamping his system, changes in the penalty structure and so on. What are the penalties at the current time, and what does he propose to change them to?

Mr. Manness: Mr. Chairman, I will answer that question because again the Free Press suggested that some businesses are using tax money to finance their operations. I would say this is a costly way to finance as the Government assesses a penalty of five percent on the tax due, and interest of 14.75 percent per year is applied monthly to the unpaid balance of the tax arrears. That is a very costly manner in which to finance your own business.

As far as the question of what changes are we contemplating in this rate, we have made no firm determination to either making a commitment to changing them and certainly therefore to what degree they might be raised.

Mr. Maloway: I would like to also ask the Minister about the arrears by industry segment. He was indicating to me that there were certain industries that were in rougher shape and provided a larger percentage of the arrears than others at the time. Could he shed any light on that particular problem?

Mr. Manness: Mr. Chairman, I will endeavour again to have that in the hands—we do not have that with us today. Maybe we do, maybe we do. Yes, we do.

October 1990, now we are talking about the \$7.4 million roughly of arrears as of October 1990. They break out into these sectors: manufacturing \$735,000; construction \$254,000; transportation \$205,000; wholesale trade \$737,000; retail trade \$706,000; hospitality \$1.9 million; service \$2.63 million; all other industries \$160,000.00. Those numbers may not add up to 7.4, but they are not far away.

Mr. Maloway: On another subject, I would like to inquire of the Minister as to his reaction to the suggestion that perhaps trust accounts would be the way to go for the collection of retail sales tax.

I might remind the Minister that the 400-odd Autopac agents in the province operate that way, whereby the money, the retail sales tax is put directly into a trust accounting situation. Has there been any thought given to the suggestion, certainly in the paper the other day, that perhaps trust accounts might be the way to ensure that provincial sales tax money, in fact, does not get used improperly as has been suggested?

Mr. Manness: The example used is not apropos to general business. Certainly MPIC, they are collected within a narrow time frame and remitted shortly thereafter. With respect to sales tax and other taxes, sometimes they are collected over a much wider period of time, over several months in some cases, and remitted thereafter.

Mr. Maloway: I believe the suggestion though is that, if a business were required to keep the sales tax component in a separate account, call it a trust if you will, that there is less danger that that money would be used to finance the business or borrowed for other purposes within the business. Surely the Minister could, through the financing Act, pass some amendment requiring business to keep their tax funds in a segregated account separate from their operating account and therefore there should not be a big added cost in terms of bookkeeping involved here. We would ensure that the money be kept separate.

I think a large part of the problem is just in the bookkeeping with a lot of these small businesses. I mean, they collect the tax. We have been shown that a lot of them do not really know how to collect it. They are collecting the wrong amounts and what not and it ends up in general revenue, and they end up perhaps unwittingly spending this money and then finding a big tax bill that they have to come good

for three or four months down the pike, and then wondering how they are going to pay this. Perhaps if we made it clear that we were to have segregated funds, a separate tax fund for the purposes of putting the taxes in there for remittance to the tax department, then we might possibly have a lesser problem with the arrears situation.

Mr. Manness: Mr. Chairman, this is coming up for review. In principle I hear the Member's argument and on the surface or on the table it probably has some merit, but again experience tells us that the arrears problem in the Province of Manitoba is not a significant one. So then we have to make the determination, bearing in mind that these are taxes, and there is a cost to the filer of imposing a tax, not only in the sense of the tax, but the administration there around.

One has to balance the safeguard of receiving the revenue plus the additional administrative expense and cost placed upon the retailer. Now certainly the first—when we sell—and again it would vary from sector to sector, retailer to retailer, but certainly the first receiver of the revenue would be the general accounts of the business. I mean, when I pay for a good I do not write two cheques, one covering the good, and one covering the sales tax, and then the business person then can take them and keep them totally separate. I mean, it goes into his one account and what you are saying is that then the split should be made immediately and put into trust. All I am saying is, if this became a greater problem I am sure we would have to begin to look at that.

In terms of what it is costing us today, it is not a big problem. I can point out in the terms of other provinces, because we have surveyed this, Ontario is lower than we are, B.C. is more or less in the same area as our percentage of arrears, Saskatchewan, Quebec, Nova Scotia, P.E.I. and Newfoundland's were higher than ours ranging from 1.27 percent to 3.3 percent. In our case, again we are in the 1 percent area, and we feel that it does not justify major changes in collection.

* (1150)

Mr. Maloway: Mr. Chairperson, in the area of businesses or where you have a business that has been found to be improperly collecting the sales tax, the Finance Department has evidently decided that it has no power to seize any monies improperly collected in the first place. So I asked the Minister whether he had any plans to change the law so that

the Finance Department could collect that, or has the Minister or anyone considered the federal law?

There is a federal law that was passed a couple of years ago that allows the federal Government to seize any kind of monies obtained by improper, illegal means. I know that law was designed for drug dealers and Mafia and so on, but would that law have any application in this particular instance, because I do not think that it is a very good situation for businesses to be out there collecting taxes improperly and then have the tax department say there is nothing we can do about it. You may as well keep the money and just add it to your bottom line. It is a hell of a good deal for the business that is doing it. They suffer no penalty for having improperly collected tax, and they get to keep the money to boot.

Mr. Manness: Mr. Chairman, I said in the paper, and I was accurately reported I am glad to say, that the Department of Finance has no legal authority to go after tax revenue that has come forward to a remitter other than through legal manner. That does not preclude the Government, through the Department of Justice and through the Department of Consumer and Corporate Affairs, trying to seek advice and counsel as to whether or not we should work towards some system to collect tax from those who have improperly collected tax.

Mr. Maloway: Mr. Chairperson, is the Minister suggesting then that the Government will move to collect tax in those situations either through the federal law that I referred him to or The Business Practices Act or whatever law is available?

Mr. Manness: Mr. Chairman, I am making no promises. I am saying the Government deems that it is a serious matter, and that we are exploring avenues right now. Ultimately, whether or not we will bring in legislation, it is too soon to say.

Mr. Chairman: Mr. Maloway, do you have very many questions along this line, because I want to give Mr. Alcock an opportunity this morning to ask some questions?

Mr. Maloway: Mr. Chairperson, I have several pages of questions, but I would certainly defer to Mr. Alcock, perhaps, in the next few minutes, and he could get a chance, certainly.

Just to follow up the legislative answer that the Minister might follow, there is a suggestion in some quarters that perhaps whistle-blowing legislation might be looked at by a Government. I believe the

Ontario Government has introduced such legislation. I believe some parts of the United States, some jurisdictions have introduced whistle-blowing legislation. The Provincial Auditor was quoted as saying in an article that he favoured people phoning him and letting him know what was happening. Perhaps the Government should consider such legislation because it might have the long-term beneficial effect of avoiding embarrassing situations for them in all areas of the Government.

With that, Mr. Chairperson, I will defer to the Member from the Liberal Party and perhaps he would continue.

Mr. Alcock: Mr. Chairperson, I would like to start—and I will save my comments for the House on the changes in the rules of the committee. We are given a limited time today. I would like to start just by responding to the remarks that the Minister of Finance made as he talked about raising a point of order, but I also want to direct my questions to the Auditor because I think that the Minister questioned the appropriateness of bringing forward questions on the allegations that have been made relative to the Auditor's office. I think that this is the most appropriate forum for that.

I would like to say in starting that I have quite a bit of contact with Mr. Jackson and Mr. Mayer. I have found them responsive and helpful at all times, but there have been allegations made. Some of them have been printed on the front pages of the paper; others have been passed along in, shall we say, less public forums and from more than one source within the Department of Finance that say a couple of things. They say that the Department of Finance is aware in advance of an audit taking place, that an audit is about to take place.

Now I would like to ask Mr. Jackson: Is it possible that this is occurring within the Department of Finance? It may well be occurring without his awareness. I mean, I would assume it is occurring without his awareness. Is it possible, given the procedures you use for selecting and timing audits, that this could occur?

Mr. Jackson: Mr. Chairman, we do a number of things over the course of the year. Some of the things that we do are of such a kind and matter that it does not matter if the Department of Finance knows that we are coming a week, two weeks, or three weeks from now. In effect, we would be inefficient and cause inefficiencies in the

Department of Finance's perspective if we did not communicate and work together on certain things. However, there are other things where the Department of Finance is the auditee and we are the auditor. In those instances, there is no advance notice given. There is no notice at all that we are coming, and certainly not of any files that we are interested in seeing.

Mr. Alcock: Review for us the procedures that are used within his office to determine the scheduling and timing of such audits.

Mr. Jackson: One of the things that we do is that on an annual basis we have a plan that provides for the audit coverage that we need to provide for all of the clients of the audit office and that includes aspects of the Department of Finance.

On such things as the security count, we do that on two different bases. We do an annual security count that everyone expects us to be at and expects that we will be there. We also do some surprise audit counts, and those audit counts are done at the arrangement of our director of Public Accounts. They can be on a surprise basis if he so chooses, and it is up to him to determine when those audits take place.

Mr. Alcock: You say, Mr. Jackson, that it is up to him to determine when those audits take place. How far in advance of the audit taking place would that determination be made? How widespread would knowledge of that be within your office?

Mr. Jackson: Mr. Chairman, I can tell you from first-hand notice that may be five minutes, that it may be a day, and that it may be something that starts two minutes after I get a telephone call.

Mr. Alcock: The reference to two minutes after you get a telephone call, was that a reference to complaints or concerns that might have been phoned in or is it—I mean, this telephone call that you might get, where would it come from?

Mr. Jackson: Mr. Chairman, it could come from anywhere.

Mr. Alcock: So the point you are making with that one is that if somebody phoned in with a substantive concern you could go and audit immediately.

Mr. Jackson: Not only could I, we do.

* (1200)

Mr. Alcock: But leaving those ones aside—just getting back to the procedure—you said it may be a few hours in advance. Do you mean that the audit

team going into the Department of Finance may make the decision to go in that morning, or is it usually the practice that it is made in advance of that?

Mr. Jackson: Mr. Chairman, I will ask Mr. Mayer to respond to that question.

Mr. Rick Mayer (Director, Special Audits): Mr. Chairman, it varies as to how we do it. We have ongoing audit within the Department of Finance where we have our audit manager and our audit team continuing to do or attest work to be able to certify to the Public Accounts. Beyond that there are offshoots of that which we do, and I will use the example that if we want to go in and look at the retail sales tax or the taxation division that will happen. We schedule it so that our staff know that they have to do it, but we do not communicate when we are going into the taxation department further than, I would say, a day ahead.

Mr. Alcock: Mr. Mayer, when you say that you schedule it so that the staff knows, how frequently is that scheduling done?

Mr. Mayer: Mr. Chairman, we do our annual scheduling where our staff are aware what their audit assignments are for each client, as Mr. Jackson has indicated, and from that we prepare our visits based on that basis.

Mr. Alcock: So once a year some sort of ordering of the audits that you are going to undertake is drawn up so that people know that they are going to be going into certain departments.

Mr. Jackson: Mr. Chairman, that schedule that we have referred to outlines the audit manager's responsibilities over the course of the year. However, the scheduling within that annual overall schedule is extremely flexible, and while we may think that we are going to do something in May, it may be July before we are ready to do that. Because of that flexibility, while our audit managers know what their overall annual commitment is, they do not know, sometimes two weeks ahead or a week ahead, when the availability to start certain work is. So there is a great deal of flexibility in it and there is not a great deal of certainty as to precise dates.

Mr. Alcock: But with that kind of advance planning, and you already made the point that they do not know a week ahead or two weeks ahead, on average how far ahead would they know?

Mr. Jackson: Mr. Chairman, that is an extremely difficult question because we have sixteen different

audit managers and, to generalize, I would say possibly a week.

Mr. Alcock: Well, the statements which have been made to me by various individuals who work within the department is that they will be alerted up to a week in advance of an audit that an audit is about to take place and some of the statements that were reported in the Free Press were similar to statements that have been made to me by more than one individual within the department. Now, are you satisfied, Mr. Jackson, that this could not take place?

Mr. Jackson: Mr. Chairman, I have already indicated that we have several types of audit undertakings under way. It would be quite appropriate that there be communication with the auditee as to certain things. It would be quite inappropriate that there be communication on certain other things that we do. I am completely satisfied, in those areas where the communication would be inappropriate, that it does not take place.

Mr. Alcock: You mentioned in response to earlier questions about the auditing of files and the removal of files that the procedures which you had in place were such that you could have access to any file that was being worked on, whether it was closed or open, and that you would regularly review those kinds of files. The allegation that is made is that certain files are simply signed out overnight or taken away for a period of time until such—well, there are other allegations that may be a little more extreme than that—but that, in a certain sense, the files simply are not easily available. Can you explain to us what procedures you would use to identify that kind of activity?

Mr. Jackson: Maybe I can help by being specific. We became aware of a concern within the last two working days about a certain file. We saw that certain file within 30 minutes of me thinking that I should be concerned about seeing that file.

Mr. Alcock: Would that certain file be one of the files referenced in the recent stories in the Free Press?

Mr. Jackson: I am extremely concerned about information relative to certain taxpayers. I will just say this: A recent concern came to my attention and I fulfilled my responsibilities by looking at the file that was of concern to me within 30 minutes of that being a concern.

Mr. Alcock: Well, let me say that I share the Auditor's concern about identifying information from

these files becoming public. I do not think that would be appropriate. At the same time, the concern has been raised. Can the Auditor tell us how he responded within his department to the concerns raised about his department?

Mr. Jackson: The concern that was raised relative to my department, I believe, was that somehow there was some advance knowledge being given as to when we were attending to do certain work. I have already indicated that we do that on certain occasions where we do not think that will jeopardize in any way what it is that we are going to do. It would be totally inappropriate, and it would be unprofessional to do anything other than that in any situation that would jeopardize the objectivity or the scope of the files that we are going to be reviewing.

There is a matter put forward that because a file is SIU, or some other term that has been used, we would not have a right to access that, nor would we be interested in that. That is just patently wrong on both points. If we have an interest in any file, the audit will not be complete until we have seen it.

Mr. Alcock: Conversely, if a file is not easily accessible, you may not know whether you have a concern or not.

Mr. Jackson: One of the things that is helping us increasingly is computerization. The remittance process is on a computer. We have the ability and we have used the ability to inquire into the computer base of files. Any file where the taxpayer is remitting on any kind of a basis is available for our review. We select what files we think are necessary for our review and we are afforded the opportunity to review those files.

Mr. Alcock: Now you reference a computer data base relating back to the SUI files. Does that computer data base contain images, documents, or is that simply the form-based information and the financial information and calculation?

Mr. Jackson: Mr. Chairman, the file that I am referring to is a file of current taxpayer remitters.

Mr. Alcock: Just to clarify that though, a file may contain information from field audits. It may contain memos that move back and forth between various members of the department in addition to the financial information that is necessary for the assessing and collecting of amounts available. You referenced this computer data base. Does it contain all of that information or is it simply the financial

information and identifying information for that particular client?

Mr. Jackson: Mr. Chairman, it is basically only limited aspects of the file, but what it does is show that there is a file that is there. That enables us to inquire into the total of the population of those files. Whatever is in the file, the file that I think we are both talking about is a physical paper-based file that would include actions from the taxpayer, actions from the compliance officers, actions from senior officials, correspondence in many different forms, et cetera. So there are two aspects of that. We, before we are finished, would see the physical file.

*(1210)

Mr. Alcock: If I understand you correctly though, you would see the physical file only if you had concerns about that particular file. If you are just scanning the computer base then you would not necessarily see the transactions that had taken place between various members in the department or the Minister's office or any other place.

Mr. Jackson: Mr. Chairman, that is quite right. What we use the computer base file for is as a selection medium to select the files that we would want to see whether they are active or inactive. Maybe I can help again. There has been an instance in the recent past when our office was requested by the Civil Service Commission to assist them in part of a classification process. In that situation we not only told the department that we would be coming, when we would be coming, but we asked them to select certain files for our review.

Perhaps this is the source of some of this information, but those files that we wanted to look at or to have the department select for us had nothing to do with the status of the files or collection procedures or anything else. What that work was intended to do was to provide us with an insight into the level of work being undertaken by certain members of the department staff, so perhaps that is the source of these.

Mr. Alcock: No, in fact it is not, but just to go a little further with this then, I presume when you go in to do an audit that, unless you have specific concerns you are following up, you are auditing a random sample of files. Would you specifically go in and ask for as part of that audit, or have you in the past in doing any of these audits, gone in and identified all of those files that were signed out as the files you wanted to look at?

Mr. Jackson: Mr. Chairman, the Member did indicate that we work on a random basis, so the answer to his question is no, we would not specifically go in and ask to see all the files that were signed out because that would not give us a representative answer of what we are looking for. However, it would be usual that there would be some files that would be signed out if we were looking at the files on a random basis. As I indicated previously, our audit would not be finished before we saw those files that were signed out.

Mr. Alcock: Well, then, Mr. Jackson, you also indicated that you could respond as quickly as within a few minutes of receiving some information, and that you did respond very quickly upon receiving some information in the very recent past. Has your department gone in and done an audit of all signed-out files?

Mr. Jackson: No, and I am not sure that it would be appropriate for us to go in and do an audit of all signed-out files. That would encompass all of the staff that the department has in their field audit or compliance undertaking, so no, we have not done that nor would I envision doing that at this point in time.

Mr. Alcock: Is it correct to interpret then by your lack of action on this particular concern that you are treating this as spurious and believe there is no substance at all to these concerns?

Mr. Jackson: Mr. Chairman, I think perhaps the Member misunderstood my answer. In my opinion there has not been a lack of action. What we have done is look at specific files that were indicated to be of concern. We have reviewed those files and come to our conclusions about those files.

Mr. Alcock: Part of the concern though was—and I can tell the Auditor that in addition to the concerns raised in the Free Press, since those articles have appeared I have had a number of calls, as have other Members—that this allegation is widespread. Given that, would the Auditor be prepared to go in and audit those files that were signed out at the last audit and all signed-out files, at the time he went in and did this?

Mr. Jackson: Mr. Chairman, perhaps Mr. Mayer could allude to a project that was selected prior to September 30 of 1990 in relation to the Department of Finance.

Mr. Mayer: Mr. Chairman, one of the projects that we are doing in our office is to review the audit

processes within the Finance-Taxation office. In that case, as well, we took files to try to review them to determine how the audit process—not the total process that is handled within the branch—but just how the audit process was handled and came about. Again we selected on a random basis files that we felt would be of assistance in this review. We conducted our review on the basis of criteria predetermined within our own office that we laid down that we would want to see. We have not completed our work on that audit yet, but we will be coming up with some recommendations as to how to improve the audit.

Mr. Alcock: Perhaps I can just preface this a little differently this time. In conversations I have had with individuals from at least three branches and two specific collection streams, there is a significant amount of frustration on the part of the field staff who are working very hard to act within the directions they are given within the legislation and the policies and the actions of the department. They feel that their work is being thwarted by other levels in the department who are interfering with what they believe are legitimate processes, the enforcement of the legislation that they operate under.

They have raised a concern and that is that some of this information is not turning up in audits, because that is one of the first questions you ask. Why has this not been caught in an audit? They say because the files are (a) cleaned and (b) conveniently not present. So that allegation, I do not know whether it is right or wrong. I am not in the department, but it is coming from more than one source. I am asking you, why would you not go in and pick up all of those files that have been signed out and go through them just to satisfy yourself that this concern has no basis?

Mr. Jackson: Mr. Chairman, as I indicated previously, any concern that comes to our attention we take seriously. One of the things that Mr. Mayer mentioned was part of the project that we are undertaking. As I indicated previously, again I am not certain that we would ever pull all the files that have been signed out. I do not think it is a normal audit procedure to do that, but we would certainly select a representative sample of the files that have been signed out and work to determine, are those files in arrears? Are those files receiving what seems to be appropriate attention from any level within the department? Are there files that are indicated as to having received inappropriate attention from any

level within the department? Are all the procedures that are taken seen to be prudent under the circumstances and reasonable so that there is equity between taxpayers in the system? That is a project that is being scheduled and will be undertaken.

Mr. Alcock: Now, Mr. Jackson, you indicated that you could respond as quickly as on two minutes notice. You are receiving notice right now today from me and from the Member for Elmwood (Mr. Maloway), as well as others, that this concern has been expressed. Will you go in this afternoon and call for all files that are currently signed out?

Mr. Jackson: Mr. Chairman, maybe I am not able to communicate as well as I would like to. We have received some concerns last week. We have already started our action.

Mr. Manness: Mr. Chairman, I am not here to defend the Provincial Auditor. Everybody knows that he can do a better job in that. It is the right of every Member to ask the question, but again I want to reiterate for the record the source of the allegations, known only basically to Mr. Alcock at this point in time, may or may not be those staff in the department who are undergoing some—turmoil is too strong a word, but certainly some uncertainty because of a major reorganization that is going on within the division. I do not apologize for that.

*(1220)

Part of that reorganization is because of the fact that there have been mounting problems developing in the division with respect to morale, with respect to the nature of the work, with respect to the specialization that has come about as the result of years of specialized taxation laws. That is the way it was when we came into Government.

Mr. Chairman, we took a bold step I thought in moving to a new form through reorganization. It is called functionalization. The reorganization has taken much longer than we had hoped, but it is a major task. You had reclassification of virtually every position through a joint process including the Civil Service Commission. You have had tremendous requirement on systems alterations. All of it trying to bring in the maximum amount of tax dollars, given a finite number of human resources, all of it in the terms of efficiency.

Mr. Chairman, there obviously are some members in my staff within the division who feel they have a legitimate grievance and who are wishing to,

I would think, cloud the record in some respects of the department. I do not mind that. I am responsible for that, but to the extent that they are involving the Provincial Auditor, I have to be a little bit defensive.

Mr. Alcock asks the Provincial Auditor to step in, and it is not for me probably to even reply, other than that his request is around 50 people. He is asking basically—of all the files we have, he is asking the Provincial Auditor to come in with an army of 50 people, by rough calculation. If the Provincial Auditor thinks he should do that, then it is not for me to say that he should not, of course not.

In reality, Mr. Chairman, let us be mindful of where allegations can lead. Let us be mindful of what the task is at hand, and let us be mindful that the Department of Finance certainly is hiding nothing. If Mr. Alcock has greater definition to the allegations, then he may wish to place them on this table or certainly make it more public.

Mr. Alcock: I will indeed do that when it comes time to talk to the Minister and Mr. Puchniak about the department. Right now I am talking to the Auditor, but the Minister makes a couple of comments about, it would take 50 people to review all signed-out files. You mean, there are so many files signed out currently that it would take that kind of army to review them? There must be a tremendous number of files that are in that category right now.

The Minister talks about the problems with morale within the department, and I can certainly confirm that. That is certainly evident from what has been coming forward, but the Minister ought to know, and I am sure he does, having been a Member in the Opposition, that one in the Opposition is frequently confronted with individuals who are disgruntled for whatever reasons. Certainly the policy that I operate on is not to react to individual complaints. One asks for one of two things; either some evidence that the allegations are substantive or some confirmation by other people who would be in a position to confirm them.

In the case of the Department of Finance, because of the right and very severe concerns about confidentiality—and I have no concerns about that, I have no questioning of the need for that confidentiality—the situation is compounded because certain kinds of information, people are very concerned about bringing forward.

Nonetheless some information has come forward. Some information is now in the hands of

certain individuals and, in addition to that, more than one individual from more than one division has raised these concerns. One of these concerns is that, when the Auditor goes in to audit, certain files are not readily accessible to him. Yes, if he has a concern about that file he can call for it. Yes, it might be picked up in a random sample, but that certain ones are removed. Now, the question is simple. The last time he did a surprise audit there may have been a number of files signed out. Are you prepared to act to look at that, and what I am hearing from the Auditor is no, he has a project in place that might cover that, and what I am hearing from the Minister is, it is a spurious request.

Mr. Jackson: Mr. Chairman, we do not consider any allegation that impinges upon the equity of treatment of taxpayers in this province to be spurious. We treat that as very serious. If any information can be provided to us to minimize the amount of audit effort, to look at specific files that are identified as concerns, that would be helpful to the process. On that vein, a staff member from our office will be in contact with the Member to see if any additional information can be provided. The project that I alluded to I think will address his concern.

Mr. Alcock: The Minister seemed about to respond. Does he wish to respond to that? -(interjection)- Then perhaps the Auditor can tell us how long it will take for this project to come to a conclusion.

Mr. Jackson: I would think that we are talking three to four weeks.

Mr. Alcock: In what form will the report of that come forward?

Mr. Jackson: Well, the report would come forward in the usual way that my reports come forward. If a concern was identified that I thought was of significance to the Members of the Legislature, it would be included in my report to the Legislature.

If it was so serious that I thought the Members as a whole needed to be concerned about that in advance of my annual report, I have the provision to provide a special report. I would do that. If the matter was such that I felt we had attended to the concerns and the concerns were not so monumental that a special report was warranted, I could undertake to let the Member know that we have addressed this issue. If it was the will of the committee and they wanted to get a special report on this particular matter, if it was the will of the committee I could work to provide that.

Mr. Alcock: Well, it certainly would be my will to see that we receive such a report, but the Auditor has both been involved—or certainly the ultimate responsibility for a series of audits within the branches that are being raised as concerns.

The Minister has stated that the concerns that are being raised may be being raised by staff who are simply disgruntled because of reorganization and changes. Change is very stressful for people, and that is not a completely spurious statement, but an opinion.

Mr. Jackson, what would be your opinion on that particular comment? You have been in and looked at one file that has been raised. You have had these allegations before you for a little while. Is that what is happening? Is it simply that a few employees are disgruntled? Is there a morale problem in the department?

Mr. Jackson: Mr. Chairman, we were party to one of the project teams about a year ago that worked to look at the department to see if changes would be appropriate. We thought that changes would be appropriate and had some recommendations along those lines.

I can tell you from personal knowledge that there is a morale problem in the department.

Mr. Manness: Mr. Chairman, I would ask the Auditor, does he mean the division or the department, because there is a great—I guess if it is in the division, it is the department, but—

Mr. Jackson: That is right.

Mr. Manness: Well, I will take issue another time with—

Mr. Jackson: This is basically within the division that I think we are talking about, so that is what my comments relate to. Part of that is that it has been some considerable time since the Minister expressed his intention for the reorganization to take place, and it is not complete at this point in time. The

individual staff members under these circumstances always tend to imagine the worst. That is just human nature, and until the reorganization is complete—

Point of Order

Mr. Santos: On a point of order, Mr. Chairman. It is time now that I move that the committee rise.

Mr. Chairman: Just for the record this was not a point of order, Mr. Santos; however, I believe that the Minister would like to make a statement just prior to his adjournment of the committee.

* * *

Mr. Manness: Mr. Chairman, I would just like to table to the Members of the committee a formal response to many of the statements made by Mr. Jackson in his report. It is a traditional manner where Government responds to some of the qualified statements that he has made, and I would like to table the response of the Government by way of some of the reports that will be handed out to Members.

Mr. Chairman: Thank you. Mr. Alcock, would you have a point of order?

Mr. Alcock: You are making that information available now, and then we will be coming back to this report tomorrow at 1:30?

Mr. Manness: Yes.

Mr. Chairman: By agreement then, the Committee on Public Accounts will meet again tomorrow, January 30 at two, to continue considering the Annual Reports of the Provincial Auditor for the fiscal years ending March 31, 1989 and March 31, 1990, and Volumes 1 and 2 of the Public Accounts Annual Report for the fiscal year ending March 31, 1989.

The time being 12:30 p.m., the committee will rise. Thank you.

COMMITTEE ROSE AT: 12:32 p.m.