



Province of
British Columbia

1986
report
of the
**AUDITOR
GENERAL**

including
comments
related to the
financial statements
of the Government
for the year
ended 31 March 1985

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31 March 1985*



Province of British Columbia
Office of the Auditor General



Province of
British Columbia

Office of the
Auditor General
Province of British Columbia

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The Honourable Hugh A. Curtis
Minister of Finance
Province of British Columbia

Sir:

I have the honour to transmit herewith my 1986 Report to the Legislative Assembly for submission to the Assembly in accordance with the provisions of Section 10(1) of the Auditor General Act, R.S.B.C. 1979, chapter 24.

A handwritten signature in cursive script that reads "Erma Morrison".

Erma Morrison, F.C.A.
Auditor General

Victoria, British Columbia
10 April 1986

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Foreword

This 1986 Report of the Auditor General is issued as required by section 8 of the *Auditor General Act*. It constitutes a report on the work of my Office and comments on matters which I feel should be brought to the attention of the Legislative Assembly, including comments on the Government's financial statements for the fiscal year ended 31 March 1985. It is the eighth such Annual Report issued since my appointment as Auditor General in September 1977.

My reports on the three separate sets of the financial statements of the Government give my opinions on the fairness of presentation of the information contained therein, according to stated accounting policies. They were given without qualification or reservation, and are reproduced elsewhere in this Report as well as being included in the Public Accounts. The date of these reports, 31 August 1985, is the date of substantial completion of the audit work involved.

Separate auditor's reports were issued on the financial statements of the 31 public bodies of which I am the auditor.

No Special Reports were issued since my last Annual Report.

Three broad-scope or comprehensive audit projects were completed since my last Annual Report and are included in this one. They deal with the Ministry of Lands, Parks and Housing and with cross-government reviews of passenger vehicle travel and professional service contracts.

Management letters are issued on completion of individual audits to formalize, and invite official responses to, points raised and discussed during the course of audit work. This provides the mechanism for early corrective action as problems are identified. The general response and cooperation in the various ministries and public bodies has been excellent, indicating a willingness and desire to improve performance.

The "Financial Statements" section of this Report includes informational comments on the transactions related to the elimination of responsibility of the British Columbia Railway Company for its "historic" debt, and the current and future obligations assumed by the Province in that regard. The action taken effectively reflects the recommendations made in earlier Auditor General's Reports.

I commend the change in accounting policies to include the accounts of the three capital financing authorities in the Government's Consolidated Financial Statements. The effect of this inclusion, recommended in several previous Auditor General's Reports, is to provide fuller and more accurate disclosure of the long-term debt obligations of the Government.

A major portion of this Report deals with financial and legislative controls. The subject is always of importance, and is of special significance when economic stringency dictates the firm application of controls at all levels.

Although the formal approval of an increase of 10 staff positions to my Office complement in response to concerns expressed in my 1985 Report was received too late to have much impact on our 1985/86 audit work, the effect should be felt during the current year. It will

undoubtedly assist our efforts to extend both regular and special work in areas where need exists and potential benefits may be significant.

I consider it essential that increased emphasis be placed on the expansion of our special audit and computer audit resources. We hope to increase our capabilities in those respects under a planned program with due regard to both economy and efficiency.

I wish to express my thanks for the cooperation of the personnel of the organizations audited by my Office, and my deep appreciation to the staff of the Office of the Auditor General for their efforts in meeting the standards and demands placed on them in the course of their work.



Victoria, British Columbia
31 March 1986

Erma Morrison, F.C.A.
Auditor General

Part 1

Audit of the Government's Financial Statements

Reports and Comments on the Financial Statements

- 1.1 The *Auditor General Act* requires the Auditor General to examine the accounts and records of the Government, and to report annually on the financial statements expressing an opinion as to whether the statements provide a fair presentation of the financial position and operating results of the Government in accordance with its stated accounting policies.
- 1.2 This section of my Annual Report deals with the auditor's reports containing my opinions on the Government's financial statements, and with related matters which warrant additional comment.

Reports of the Auditor General on the Financial Statements

- 1.3 The Government presents three separate and distinct sets of annual financial statements. The first, referred to as the financial statements of the Combined General Fund and Special Funds, reflects the transactions and financial position of the Consolidated Revenue Fund. The second, entitled the Consolidated Financial Statements, provides a more comprehensive picture of the Government's financial position by aggregating the Consolidated Revenue Fund with financial information of certain Crown corporations and other public bodies, and including on an equity basis the Government's investment in other Crown corporations. The third, referred to as the Trust Funds Financial Statements, presents financial information about amounts held and administered by the Government in trust for others. These include pension funds, sinking funds, managed trust funds and custodial deposits.
- 1.4 During the 1985 fiscal year my Office examined the accounts and records of the Government pertaining to the general fund, special funds and trust funds. We also reviewed the audited financial statements of the 38 Crown corporations and other entities included in the Government's Consolidated Financial Statements. This audit work was substantially completed on 31 August 1985.
- 1.5 My auditor's reports were issued on the Government's 1985 financial statements on 19 November 1985, and are included with these statements in the 1985 Public Accounts. My audit opinions on the three sets of Government financial statements were expressed without reservation. For the convenience of the reader, the auditor's reports and the financial statements to which they pertain are reproduced in Appendix III to this Report.

Comments on the Financial Statements

- 1.6 During the examination of the accounts and records of the Government which forms the basis for my opinions on the financial statements, many matters come to my attention. These may concern the application of the Government's accounting

policies, compliance with statutes and established procedures, or the observance of good business practices.

- 1.7 Most matters, while important in the context of a single ministry, are not of sufficient magnitude or significance to warrant detailing in this Report. These are dealt with in the normal course of our work by direct communication with the management of ministries concerned.
- 1.8 However, other items for reasons of materiality or nature are considered worthy of the attention of the Legislative Assembly, and accordingly are discussed in my Annual Reports. Particular comments on the 1985 financial statements resulting from my examination follow.

ACCRUED LIABILITIES

- 1.9 The Government's stated accounting policies require that liabilities be recorded in a fiscal year to the extent that they represent claims payable to outside parties as a result of events and transactions occurring prior to the year-end.
- 1.10 My staff noted two significant instances where this policy was not complied with. In both cases the costs, consisting of unamortized tenant improvements, and the corresponding liabilities payable to British Columbia Buildings Corporation (BCBC) were not recorded in the 1985 fiscal year although the underlying events took place in that year. The events related to two ministries.
- 1.11 *Ministry of Health:* The Ministry transferred Pearson Hospital to a private society effective 1 April 1984. At 31 March 1985, the Ministry had a total liability to BCBC for unamortized tenant improvements of \$5.9 million. The Ministry accrued \$3.6 million of these unamortized tenant improvements but did not accrue the remaining \$2.3 million balance payable.
- 1.12 *Ministry of Human Resources:* The Ministry closed the Tranquille Institution in January 1985. Unamortized tenant improvements payable to BCBC on the closure of the Institution, but not accrued at 31 March 1985, amounted to \$5.3 million.
- 1.13 As a result of the foregoing omissions, expenditures and liabilities of the Government were understated in the Government's Combined Financial Statements by a total of \$7.6 million with respect to the 1985 fiscal year.

FISCAL AGENCY LOANS FUND DISCLOSURE

- 1.14 In the year ended 31 March 1984 a program of direct borrowing by the Government for the purpose of lending the proceeds to other government bodies was initiated. The *Financial Administration Act* states that money borrowed for government

bodies ". . . shall be paid into a fund, that is deemed to be a special fund . . .", and that "Money may be paid out of the special fund . . . for the purpose of making loans to government bodies . . ."

- 1.15 The volume of borrowing under this program increased substantially during the year ended 31 March 1985 when over \$3 billion was borrowed by the Government and loaned to government bodies.
- 1.16 However, none of this borrowing and lending activity was reflected in the "Schedule of Special Fund Transactions and Balances" in the 1985 Combined Financial Statements of the Province.
- 1.17 Although a separate line was added to this Schedule for the Fiscal Agency Loans Fund in 1985, no dollar amounts for the Fund's transactions were included. An explanatory footnote stated that the reason for this treatment was that the Fund would never have a balance at the beginning or end of the fiscal year.
- 1.18 I recommend that, regardless of whether funds have balances at the beginning or end of the fiscal year, the Schedule of Special Fund Transactions and Balances disclose the transactions of all special funds included thereon, including the Fiscal Agency Loans Fund.

BRITISH COLUMBIA RAILWAY COMPANY — ELIMINATION OF HISTORIC DEBT

- 1.19 In my 1978 and 1979 Annual Reports I recommended that the debt liability of the British Columbia Railway Company (BCR) should be recognized in the Government's financial statements because BCR had a working capital deficiency and therefore was unable to repay its debt without the assistance of the Government.
- 1.20 During the year ended 31 March 1985, the Province entered into a series of transactions relating to the historic debt of BCR. Historic debt in this context means all outstanding long-term debt issued by BCR up to December 1981. The transactions referred to were:
 - payment by the Province to BCR of \$430 million from the Resource Revenue Stabilization Fund, which amount BCR then transferred to its Sinking Funds;
 - payment to the Province by BCR Sinking Funds of the above \$430 million, plus a further \$100 million from monies already accumulated in the Sinking Funds, to purchase notes payable issued by the Province having a face value of \$724 million;
 - crediting by BCR of \$179 million gain resulting from the above transaction to its contributed surplus account, representing the difference between its accumulated Sinking Fund assets and the face value of its historic debt; and
 - recording by the Province of a \$194 million discount representing the difference between the payment received from BCR and the face value of the notes payable issued.

- 1.21 These transactions had the following consequences:
- The assets held by BCR Sinking Funds will provide sufficient funds to service and retire the historic debt of BCR.
 - The historic debt liability of BCR now is, in effect, recognized in the Government's financial statements.
 - Future interest costs on the debt will be incurred directly by the Province.
 - The \$194 million unamortized discount is also recognized in the Government's financial statements and is to be charged as an expense in the Province's accounts over the life of its notes payable, which mature at various dates to the year 2006.
- 1.22 I have provided the foregoing information in order to acquaint the reader with significant details of these complex transactions. The resultant recognition of the historic debt liability of BCR in the Government's financial statements satisfactorily resolves the concerns expressed in my previous Annual Reports.

SINKING FUNDS

- 1.23 Sinking funds are pools of cash and investments built up over a period of years to provide for the orderly retirement of debt. During the year the Government established sinking funds for a number of its own debt issues, even though the debenture documents did not require the creation of such funds. I recognize that it is a prudent measure to establish sinking funds. However, I am concerned that these sinking funds were not properly authorized. Also, I consider that they were inappropriately included in the 1985 Trust Funds Financial Statements.
- 1.24 *Authorization:* In my opinion, the *Financial Administration Act* was not complied with. Section 47 of the Act states that the "Lieutenant Governor in Council may provide for the creation . . . of sinking funds". These sinking funds were not authorized by Order-in-Council (OIC).
- 1.25 Discussions with Ministry of Finance staff regarding this matter lead me to conclude that clarification of the *Financial Administration Act* in this area is required. I have interpreted section 47 to mean that an OIC is required before a Provincial sinking fund can be established. However, Ministry staff, supported by an opinion from their legal counsel, contend that section 53 of the Act, which states that money required to provide and maintain a sinking fund shall be paid from the Consolidated Revenue Fund, enables them to set up a sinking fund without authorization by OIC. The question I raise is not that of provision and payment of monies, but of authorization for the establishment of sinking funds.
- 1.26 Further, I am of the opinion that, in order for a sinking fund to be established and to be reflected as such in the financial statements of the Province, the sinking fund assets should be segregated from other assets in an irrevocable manner and

therefore be not subject to appropriation for other purposes. Current legislation does not address this issue.

- 1.27 I have been told by Ministry officials that this area of the *Financial Administration Act* is under review for possible amendments. I recommend that there be included in this review clarification of the requirements for the establishment of sinking funds and for the segregation and protection of sinking fund assets.
- 1.28 *Financial Statement Disclosure:* The sinking funds referred to previously, which had a value of \$11 million at 31 March 1985, were appropriately deducted from the public debt figures in the Government's financial statements. However, they were also included in the Trust Funds Financial Statements. I disagree with this treatment because it is not possible to hold assets in trust for oneself. The Government is the beneficial owner of these sinking funds and consequently retains the power of appropriation over them.
- 1.29 The purpose of the Trust Funds Financial Statements should be to account for the fiduciary activities of the Government, whereby it holds and administers moneys in trust for third parties. In previous years, the key criteria for an asset's inclusion in the Trust Funds Financial Statements were that the asset was being held for a third party and that the Government had no power of appropriation over it. In the 1985 Trust Funds Financial Statements the criteria were amended by removing the reference to third parties.
- 1.30 I recommend therefore that the Trust Funds Financial Statements include only those assets being held in trust for third parties and over which the Government does not have any power of appropriation.

TRUST FUNDS CLASSIFICATION

- 1.31 Trust funds administered by the Government are reported annually in the Trust Funds Financial Statements which appear in Section D of the Public Accounts.
- 1.32 Two categories of trust funds have been established for financial accounting purposes.
- Actively managed funds — for which the Minister of Finance represents the Government in performing at least one of the following functions: setting investment policy; controlling the collection of contributions, instalments and other receipts; disbursing payments; and performing other administrative and miscellaneous functions related to the funds.
 - Custodial deposits — for which the Minister of Finance, representing the Government, merely holds assets according to conditions set by agreements or statutes.

- 1.33 In the case of the actively managed funds, the Trust Funds Financial Statements present asset and liability information as at the year-end, as well as a summary accounting of how the trust fund balances changed during the fiscal year. However, for the custodial deposits, the Trust Funds statements disclose only an analysis of the total assets held, less any related liabilities, at the fiscal year-end.
- 1.34 I consider that certain trust funds, which are now treated merely as custodial deposits, are in fact very actively managed by provincial Government employees, and should therefore more appropriately be treated as actively managed trust funds of the Government. At 31 March 1985 these included:
- | | |
|------------------------------|----------------------------|
| Public Trustee and Official | |
| Administrators funds | — \$225.5 million |
| Crop Insurance Fund | — \$ 2.7 million (deficit) |
| Land Registry Assurance Fund | — \$ 1.2 million |
- 1.35 As a result of such funds being treated as custodial deposits, there is no accounting and accountability reporting of the increases or reductions in fund balances from one fiscal year-end to the next, as is provided in the accounts presented in the category of actively managed trust funds. The four categories of information not being provided with regard to these trust funds are "capital receipts", "investment income", "capital disbursements" and "other costs and administration".
- 1.36 As the financial statement information presented was not incorrect in itself, my opinion on the overall Trust Funds Financial Statements was not affected. However, for more complete financial disclosure and public accountability for the overall stewardship of these important funds held in trust by the Government, the trust funds of the Public Trustee and Official Administrators, the Crop Insurance Fund and the Land Registry Assurance Fund should be treated, accounted for and reported — as actively managed trust funds.

STATUS OF THE WORKERS' COMPENSATION BOARD SUPERANNUATION FUND

- 1.37 The net assets and changes in fund balances of the Workers' Compensation Board (WCB) Superannuation Fund are included in the Government's Trust Funds Financial Statements. However, I do not consider that the WCB Superannuation Fund meets the requirements for inclusion in the Trust Funds Financial Statements as described in Note 1A thereto.
- 1.38 Note 1A to the statements states that trust funds comprise, among other things, superannuation funds. The note further states that the Government administers and is responsible for the collection of employee contributions to these funds.
- 1.39 However, it is the WCB and not the Government that maintains accounting records, collects contributions, administers the investment portfolio, has physical custody of the assets, and provides on-going operating direction regarding the WCB Super-

annuation Fund. Although the Government's Superannuation Commission maintains pensioner records and makes pension payments and refunds to contributors, the monies are provided by the Board. It is evident that the administration is substantially provided by the Board and not by the Government. Moreover, the Government has no role in collecting employee contributions. Therefore, the inclusion of the WCB Superannuation Fund in the Trust Funds Financial Statements is inappropriate.

- 1.40 I recommend exclusion of the WCB Superannuation Fund from the Government's Trust Funds Financial Statements, and understand that the Comptroller General is in agreement.

Government Accounting Policies

- 2.1 The Government's financial statements are prepared in accordance with accounting policies established by the Treasury Board. Significant accounting policies are stated in the notes which form part of the annual financial statements published in the Public Accounts.
- 2.2 The Auditor General's reports on the Government's financial statements must state whether they are presented fairly in accordance with the Government's stated accounting policies.
- 2.3 Additionally, the *Auditor General Act* provides that I may comment in my Annual Report on the appropriateness of the Government's basis of accounting for the purpose of fair presentation and disclosure. The following are my remarks in this regard.

CAPITAL FINANCING AUTHORITIES

- 2.4 I am pleased to note that Treasury Board has authorized a change in accounting policy with respect to the Government's three capital financing authorities, and that they have been included in the Government's Consolidated Financial Statements for the fiscal year ended 31 March 1985.
- 2.5 In my last four Annual Reports I recommended that the Government include in its Consolidated Financial Statements the three financing authorities which provide capital financing to the Province's universities and other post-secondary institutions, regional hospital districts, and school districts. These authorities are:
- British Columbia Educational Institutions Capital Financing Authority;
 - British Columbia Regional Hospital Districts Financing Authority; and
 - British Columbia School Districts Capital Financing Authority.
- 2.6 Since these financing authorities are controlled and managed by the Government, and serve as conduits for the capital financing requirements of major Government programs in the health and educational fields, I considered that they should be included in the Consolidated Financial Statements in order to reflect more fairly the long-term debt obligations of the Government.

RECOVERIES

- 2.7 In my 1985 Report I pointed out that, under the Government's current accounting policy, receipts which arise as the result of transactions which are alike in nature and substance do not necessarily receive the same accounting treatment. As a result, accounting treatment is inconsistent, and comparable financial reporting is compromised.

- 2.8 In that Report I recommended that the Government amend its accounting policy to ensure that cash receipts which arise from transactions of a similar nature and substance are recorded consistently in the accounts.
- 2.9 In the Response to the 1985 Report of the Auditor General, issued by the Ministry of Finance in July 1985, it was stated that the Ministry agreed with the comments I made on this subject, and that senior officials in the Office of the Comptroller General and Treasury Board Staff were reviewing the alternative methods of accounting for these monies which total over \$1 billion annually. The Response also stated that development of a clear policy was expected to be completed in the 1986 fiscal year. There have been no new developments in this regard.
- 2.10 I consider this matter to be of considerable urgency and importance, and recommend that appropriate action be taken to establish an appropriate accounting policy.

LEASE PAYMENT ACCOUNTING POLICY

- 2.11 The Government leases most of its accommodation facilities from British Columbia Buildings Corporation (BCBC). Many of these are special purpose buildings such as court houses, correction centres and continuing care institutions which are usually leased for their estimated economic life.
- 2.12 It is generally accepted that a lease covering the economic life of an asset transfers all of the benefits and risks of ownership to the lessee. Accordingly, these long-term leases on special purpose facilities would appear to transfer substantially all the benefits and risks of ownership to the Government.
- 2.13 The Government's accounting policies specify that "Rental payments for leases which transfer the benefits and risks incident to the ownership of certain assets are reported as expenditures at the dates of inception of the leases." It follows, then, that application of the Government's lease accounting policy in the case of special purpose facilities would call for the reporting of total rental obligations as expenditures at the dates of inception of the leases.
- 2.14 For the most part, the Government reports only the current year's rental payments as expenditures. While this reflects the economic reality of the transactions and is the treatment I would prefer to see followed, it is not in strict accordance with the Government's stated accounting policy.
- 2.15 I recommend that the accounting policy with respect to these transactions be reviewed as to its appropriateness. In addition, I suggest that summary information on the future cost of lease commitments be included in the notes to the Government's Combined Financial Statements.

Comments on Financial and Legislative Controls

- 3.1 As part of the work carried out by my Office in the examination of the Government's annual financial statements we review selected systems of internal control applied throughout the Government. These reviews are intended to determine whether the systems examined provide reasonable assurance that expenditures are properly authorized, revenues collected and assets safeguarded, and that transactions are properly recorded.
- 3.2 Our examination also includes tests to determine whether there has been compliance with relevant provisions of the *Financial Administration Act*, the financial provisions of other Acts, and related policies, rules and procedures.
- 3.3 Details of matters observed in the course of our audit are brought to the attention of senior ministry officials by means of discussion and correspondence. Those matters which I consider warrant the attention of the Legislative Assembly are set out in this section of my Report.

STATUTORY APPROPRIATIONS

- 3.4 A traditional right and responsibility of the Legislative Assembly is the control of public funds. An important principle in this regard is the annual granting by the Legislature of spending authority.
- 3.5 The *Financial Administration Act* (the Act) provides for annual Government expenditure authorization through the Estimates and the Supply Acts. The Act also makes provision for the Lieutenant Governor in Council to supplement amounts provided by the Legislature which prove to be insufficient, and to approve amounts required for unforeseen emergencies. Such approvals, called special warrants, require subsequent confirmation by the Legislature through the next Supply Bill.
- 3.6 Five years after bringing into effect this modern financial legislation, a considerable amount of government spending still occurs without annual legislative review and approval.
- 3.7 During the 1985 fiscal year \$53 million was paid out by using 17 different standing statutory approvals other than those in the Act, and a further \$32 million was spent through nine special accounts with no current legislative approval. These special accounts are the residuals of a number of Special Funds which were transferred to the General Fund in April 1982. At 31 March 1985, \$770 million was still available in 13 of these special accounts for future spending with no further legislative approval. Indeed, some of these accounts, such as the Crown Land Account and the Provincial Home Acquisition Account, are continually generating new funds and have actually been increasing in amount.

- 3.8 A 1980 Ministry of Finance Discussion Paper, which introduced the then proposed, new *Financial Administration Act*, stated that standing statutory appropriations were considered to be "blank cheques". The Discussion Paper suggested that the provisions of these should be analyzed to determine if they are still essential. We have seen only limited indications of such standing statutory spending authorities being changed or deleted up to the end of 1985.
- 3.9 I therefore recommend that a comprehensive review be conducted of all statutory expenditure authorizations and all special accounts to determine the extent to which their spending provisions could alternatively be accommodated through the Act, and thus be subject to annual review and approval by the Legislative Assembly. If such authorities or accounts are deemed to be necessary, I recommend that their need and utilization be subject to periodic review.

RECOVERIES — AUTHORITY TO SPEND ESTIMATED AMOUNTS

- 3.10 The issue of the Government's recoveries accounting policy was referred to in my 1985 Annual Report. Further comment is also made in this Report in paragraphs 2.7 to 2.10.
- 3.11 A related matter which I feel should be drawn to the attention of the Legislative Assembly is the authorization provision for the spending of recoveries, as set out in section 20 (3) of the *Financial Administration Act*:
- "20. (3) Where a vote in the estimates of revenue and expenditure that is approved by the Legislature shows an item as a credit or recovery, the vote shall be deemed to authorize the payment of an amount equal to the aggregate of
- (a) the amount appropriated,
 - (b) the estimated credits or recoveries set out in the details related to that appropriation, and
 - (c) on the approval of the Treasury Board, the amount by which the credits or recoveries actually payable to or received by the government exceed the estimated credits or recoveries set out in the details related to that appropriation."
- 3.12 The Act appears to provide for the spending of amounts equivalent to the estimated credits or recoveries provided for in the Estimates, whether or not any or all of those credits or recoveries are ever received.
- 3.13 During the past two fiscal years over \$9 million of estimated recoveries was expended through four different Votes on the authority of section 20 (3) of the Act, even though the estimated recoveries were not received.
- 3.14 An example of spending estimated recoveries which were not received is 1984/85 Vote 16 of the Ministry of Education. In this Vote the actual net expenditures for the year exceeded the net amount provided for in the Estimates by \$711,258. This

overexpenditure was considered to be properly authorized because recoveries originally estimated for the year were \$721,611 greater than total recoveries actually received.

- 3.15 It would seem, regardless of the wording and interpretation of section 20 (3) of the Act, that the spending of estimated credits or recoveries should be contingent upon their actual receipt by the Government.
- 3.16 I therefore recommend that section 20 (3) of the *Financial Administration Act* be carefully studied by senior Government financial and legal officials to fully assess the interpretation and implications involved. It might also be appropriate to consider an amendment to that section of the Act to require the actual receipt, or reasonable assurance thereof, of estimated credits or recoveries before the equivalent spending is allowed.

BORROWING AUTHORIZATION

- 3.17 The main source of Government borrowing is the issue and sale of bonds or debentures. Some of these securities are sold at a discount, which results in the proceeds being less than the face value of the securities sold. The face value is the amount that is ultimately repayable by the Province.
- 3.18 The *Financial Administration Act* requires Order-in-Council (OIC) approval for the Minister of Finance to borrow money by the issue and sale of securities. The Act states that "Each order authorizing such a borrowing . . . shall state the Canadian dollar equivalent of the maximum amount outstanding . . ."
- 3.19 My interpretation of the reference in the Act to the "maximum amount outstanding" is that it means the face value of the securities issued. However, officials of the Provincial Treasury, Ministry of Finance, have interpreted the same reference to mean the proceeds of the issue rather than the face value of the securities for which the Province is obligated.
- 3.20 The Ministry's interpretation has not presented audit concerns in the past because discounts have been relatively small, and both the proceeds of sale and the face value of securities issued have been less than the amount authorized by OIC.
- 3.21 However, in the case of one OIC related to the financing of the historic debt of the British Columbia Railway Company, the face value of the securities issued was \$74 million greater than the amount authorized in the OIC.
- 3.22 The OIC authorized the Minister of Finance to borrow, by the issue and sale of securities, ". . . an amount not to exceed \$650 million in lawful money of Canada." Because the securities were issued at a large discount, the proceeds of the issue were \$530.7 million, although the face value of the securities issued was \$724 million.

- 3.23 I was concerned that the \$74 million excess appeared not to have adequate OIC authorization in reference to the requirements of the *Financial Administration Act*.
- 3.24 I have recently been provided with a copy of a legal opinion from the Ministry of the Attorney General which supports Provincial Treasury's view that the *Financial Administration Act* refers to the proceeds of a borrowing rather than the face value of the securities issued.
- 3.25 Notwithstanding this legal opinion, and looking to the substance of the matter, I consider it important that OICs which authorize borrowing contain, and clearly identify, the maximum face value of the securities to be issued.

CONTINGENCIES VOTE

- 3.26 Each year, the Estimates of Revenue and Expenditure presented to the Legislative Assembly by the Minister of Finance include a separate vote for "Contingencies". According to the Estimates for the year ended 31 March 1985, the Contingencies vote ". . . provides for expenditures of a contingent or unexpected nature that are not provided for in any other vote. This vote also provides funding, in excess of that provided for in any other vote, for costs related to natural disasters, emergency relief, for assistance to those in need and for unanticipated developments."
- 3.27 This description sets out some specific items which are regarded as contingencies, such as costs related to natural disasters. Other kinds of contingency are not specified but are described in general terms. However, the vote description infers that all the expenditures charged to the Contingencies vote arise from events and circumstances which are unpredictable and beyond the Government's ability to control or influence.
- 3.28 Expenditures charged to the Contingencies vote are not always consistent with the purposes of the vote as described in the Annual Estimates. This undermines the credibility of the Government's financial reporting. It also deprives the Legislature of the opportunity to meaningfully debate the appropriation of funds for these purposes.
- 3.29 My staff examined the expenditures charged to the Contingencies vote against the criteria of lack of predictability and controlability. They identified two examples where these criteria do not appear to have been met.
- 3.30 The first relates to two semi-annual payments of \$5 million each, paid to British Columbia Buildings Corporation (BCBC) and described as debt servicing grants. These amounts were paid pursuant to an agreement signed between the Ministry of Finance and BCBC in August 1982. The agreement provides for twenty such semi-annual payments to be made between 1982 and 1992. Reported commitments in the 1985 Combined Financial Statements of the Government included \$70 million attributable to the balance due under this obligation.

- 3.31 I believe that it was inappropriate to charge these amounts to the Contingencies vote. However, I understand that the \$10 million has been provided for in a more appropriate vote in the 1987 Estimates.
- 3.32 The second example relates to the inclusion of expenditures of \$4.5 million transferred from the Ministry of Universities, Science and Communications. The transfer appears to be attributable to that Ministry not budgeting sufficient amounts for obligations under capital leases which were known, or which should have been known, to exist. I do not believe that such administrative oversights are valid contingencies.
- 3.33 I recommend that the Government ensure that the expenditures processed through the Contingencies vote relate only to events contemplated in the vote description. In all other cases, funding in excess of existing appropriations should be provided by special warrant.

SENIOR FINANCIAL OFFICER BANK ACCOUNTS

- 3.34 In each ministry of the Government there is a Senior Financial Officer (SFO) who is responsible for the specific operation and management of the ministry's systems of financial administration. The Government's financial administration procedures manual provides that a ministry bank account may be established for each ministry SFO to pay for a restricted variety of purchases of goods and/or services. According to the procedures manual, ". . . this will permit payment of small amounts by cheque where, due to the distance from a supplier or due to a supplier's requirement that payment accompany the order, it is not possible to make a petty cash payment in cash."
- 3.35 The amount originally authorized for these accounts varied by ministry, but was not more than \$50,000 with a \$100 payment limit. Accountable advances were made to individual SFOs who signed personal assignments of wages for the amounts received. The advances were then deposited to duly established Government bank accounts.
- 3.36 In late 1984, the operating guidelines in the procedures manual for these accounts were relaxed on a pilot basis by the Office of the Comptroller General. This relaxation of guidelines allowed three ministries increased scope to make payments for a greater variety of goods and services than is provided for in the manual, and for two of those ministries their spending limit was increased to \$1,000 per payment.
- 3.37 The relaxation in procedures has given me some concerns about the administration of these SFO bank accounts, as follows:
- At 31 March 1984 there were eight of these accounts, with \$138,000 in advances made to them. By 31 December 1985 the advances outstanding

had grown to \$411,000 in nine accounts. The concern I have with this growth is that the funds in these bank accounts have been treated in the Government's accounting records and financial statements as accounts receivable from the individual SFOs, rather than as part of the Government's cash in bank, even though the accounts are considered adjuncts to the Government's central payments process.

- Further, the practice of having SFOs personally accountable for such large advances, \$250,000 in the case of one ministry, seems inappropriate and fraught with undue risk to the SFO and the Government in the event of a breakdown in the system of internal control.
- In the ministry with the largest advance at the 1985 fiscal year-end, \$150,000, more than 1,200 payments were processed through its account during the month of March 1985 alone, for a total in excess of \$300,000, which means that the ministry's advance was used up and replenished more than twice in the one month.
- In that same ministry, although dual signatures were required for the account cheques from among seven individuals of the ministry, during the first half of 1985 three junior staff of the ministry were included in the group who were authorized to sign cheques. I consider this level of cheque signing authority to be inappropriate in a large ministry operation.

3.38 Because of the growing use of these accounts and the concerns I have noted, I recommend that an evaluation be performed of the 1984 relaxation in operating guidelines for these accounts, and that:

- policies, procedures, practices, funding levels and spending limits be reviewed with the objective of improving the administration of SFO bank accounts;
- the practice of making personal accountable advances to SFOs to establish these accounts be reconsidered;
- adequate internal controls, such as appropriately senior cheque signing authorities, be put in place before the bank accounts are established; and
- the SFO bank account balances be reported as cash in bank in the Government's accounts and annual financial statements.

ACCOUNTING FOR PROVINCIAL DEBT TRANSACTIONS

3.39 Debt issued by the Government during the year ended 31 March 1985 totalled \$7.8 billion, compared with \$4.1 billion in the previous year. The Fiscal Agency Loans Program, whereby the Government borrows for the purpose of lending to other government bodies, accounted for \$2.8 billion of the overall increase of \$3.7 billion in debt issues.

- 3.40 I am concerned that new borrowing programs administered by the Provincial Treasury division of the Ministry of Finance have been started without adequate planning for accounting and administrative support. Certain transactions were not processed correctly through the central accounts system on a timely basis, thereby requiring many accounting adjustments.
- 3.41 An underlying problem appears to be that the responsibility for debt transactions is divided between different branches within Provincial Treasury.
- 3.42 The more significant examples of problems noted during our audit are set out below.
- Loans made to government bodies as recorded in the central accounts system were approximately \$900,000 less than the value of loans actually made.
 - Interest was charged twice to certain School Districts but the error was not discovered for many months.
 - Interest payments and recoveries of \$32 million each on long-term borrowings for government bodies for the year ended 31 March 1985 were not recorded in the central accounts system until September 1985.
 - Interest expense on short-term borrowings which matured between April and August 1984 was not recorded in the central accounts system until September 1984.
- 3.43 In December 1985 I made specific recommendations to the Ministry of Finance aimed at improving the accounting function with regard to debt-related transactions. I have subsequently been informed by the Ministry that my recommendations have been implemented.

INVESTMENT ACCOUNTING ERROR

- 3.44 I have commented in my previous Annual Reports on weaknesses in internal controls and accounting records in the Provincial Treasury division of the Ministry of Finance, with regard to investment transactions. Many improvements to internal controls and the accounting records have been made by the Ministry in recent years. However during 1985 one error gave me particular cause for concern.
- 3.45 The Ministry administers a large number of sinking funds on behalf of school districts. These sinking funds are used to pay off debts owed by the school districts to the British Columbia School Districts Capital Financing Authority.
- 3.46 During the year a number of these sinking funds were certified by the Minister of Finance to have more than sufficient funds to repay the related debt, and the surpluses which arose were distributed to the school districts as required by the

School District Capital Finance Act. However, the surpluses calculated and distributed by the Ministry were \$912,000 in excess of the correct total.

- 3.47 The error came to light as a result of my staff's count of securities at 31 March 1985 when it was discovered that the investment inventory records were overstated. This was immediately brought to the Ministry's attention and the money has subsequently been fully recovered.
- 3.48 In the environment in which the Ministry operates, with its daily flowthrough of millions of dollars, it is critical that the accounting records and internal controls be of a high standard.
- 3.49 I have made some specific recommendations to the Ministry for improvement of internal controls in regard to this matter. I have been informed by Ministry officials that corrective action already taken in some areas, together with a new system introduced early in 1986, should remedy the weaknesses. My staff will continue to monitor the effectiveness of controls.

BANKING PRACTICES FOR TRUST FUNDS

- 3.50 In my 1985 Annual Report I recommended that all trust assets administered by the Government be segregated from the assets of the Government.
- 3.51 Most of the cash and short-term investments held in trust by the Government are properly segregated from its own funds, but there continue to be some exceptions. At 31 March 1985, approximately \$150 million of trust cash and short term deposits were mingled with the Government's own cash and investments. In 1984 the comparable amount was \$137 million. These assets were primarily those administered by the Public Trustee, but also included funds entrusted to various ministries. The above amounts exclude pension plan assets, for which separate bank accounts were opened on 1 April 1985.
- 3.52 The Ministry of Finance, in its response to my 1985 Annual Report, stated that "A study will be done on the trust accounts referred to by the Auditor General to determine whether a change in treatment is warranted." I have subsequently been informed by the Ministry that it disagrees with my recommendations that separate bank accounts be opened and feels that it is sufficient to record these trust funds separately in the Government's accounting records.
- 3.53 To repeat my comments of last year, it is accepted practice that, when assets are held in trust, the trust assets be held separately from the trustee's own assets. I believe that this principle should also apply where the Government acts as a trustee.
- 3.54 Therefore, I continue to recommend that all trust assets administered by the Government be physically segregated from the assets of the Government.

PUBLIC TRUSTEE

- 3.55 The Public Trustee is responsible for protecting the financial interests of minors and mentally disordered persons and settling the estates of deceased persons where no other is competent to Act. His Office is a division of the Ministry of Attorney General.
- 3.56 In the course of our audit work we made a number of recommendations to the Public Trustee with respect to required improvements in financial controls. In order to illustrate our concerns we have detailed some of the weaknesses in the following paragraphs.
- 3.57 *Cash Management:* In the area of cash receipts and disbursements, we found that some control procedures were inappropriate, and that others were not always satisfactorily followed in a timely manner. For example, procedures currently in effect delay the deposit of cash receipts for periods of up to one week. These delays could be reduced by eliminating or re-scheduling some of the procedures.
- 3.58 *Asset Control:* My staff found that there were inconsistencies in the recording of trust assets. We noted that there were assets which were not recorded. For example, an asset valued at \$200,000 should have been recorded, but was not. Conversely, the records reflected asset values which should have been deleted. In the course of our tests we identified a total of \$1.7 million shown on the records as cash when, in fact, the funds had been re-invested and also appeared elsewhere in the accounts in a like amount.
- 3.59 *Valuation of Assets:* Non-cash assets, such as properties and shares, were not valued on a consistent basis. For example, of a total of 577 real properties held in trust, 294 were valued at nominal values of \$1, while the remaining properties were valued at appraised amounts. Also, of 1,826 shareholdings (excluding no-value shares) held in trust, 453 were valued at nominal values of \$1, while the remainder were at either cost or market value.
- 3.60 *Investigative Teams:* I am still concerned about an internal control weakness first described in my 1978 Annual Report. At that time I noted that individual investigators rather than investigative teams were being used to inventory and receipt trust assets. Although the use of investigative teams has increased, this problem still exists. Also, even in cases where teams are used, the records do not always indicate that more than one person was present.
- 3.61 *Financial Records:* Upon reviewing our audit findings we consider that a major contributing factor to the basic financial control deficiencies within the Office of the Public Trustee has been the lack of a double entry accounting system for recording transactions. Without the disciplines inherent in such a system there is no assurance that all transactions have been completely and accurately accounted for. Basic accounting controls, such as the use of control accounts for subsidiary

ledgers and the automatic balancing of transactions, are not in place. It is the absence of such controls which allows errors, such as the \$1.7 million duplicate entry referred to previously, to occur.

- 3.62 *Legislation:* Several Acts set out the duties and responsibilities of the Public Trustee. They include the *Public Trustee Act*, the *Patients Property Act*, the *Infants Act*, the *Estate Administration Act* and the *Trustee Act*.
- 3.63 Our review of these Acts disclosed a number of provisions which are not being complied with. For example, the Public Trustee has not been filing affidavits with the Ministry of Attorney General showing all sums received and all costs recovered. Filing of these documents is required every six months according to section 15 of the *Public Trustee Act*. Further, the Comptroller General has not been auditing the accounts of each estate as required by Section 50 of the *Estate Administration Act*. Legislation applying to the Office of the Public Trustee should either be complied with, or reassessed and appropriately amended.
- 3.64 The above-noted internal control weaknesses indicate that improvements are needed in a number of areas under the responsibility of the Public Trustee. I recommend that appropriate corrective action be taken as soon as possible.

LAND TITLE SEARCH FEES

- 3.65 Land Title Offices are part of the Ministry of the Attorney General. Fees are charged by these Offices for registrations, title searches, and related services. At the time of our audit a system was in place whereby certain firms and individuals were allowed direct access to registry files to conduct their own title searches. Fees were based on the number of searches which, on an honour basis, they had reported.
- 3.66 During our audit of selected Offices we became concerned about the lack of control over these revenues. We learned concurrently that the Ministry had similar concerns, and had contracted with a firm of chartered accountants to examine the system, investigate suspected abuses, and recommend measures to be taken by the Branch that would ensure the collection of all revenues. My staff assisted the accounting firm during its review of some of the Offices.
- 3.67 The accountants found that a significant amount of revenue had not been collected because some users had not reported all of the searches and related photocopying that they had performed. The exact amount of the lost revenues could not be determined.
- 3.68 Several users were identified as potential abusers of the system. Subsequent audits confirmed that a significant amount of revenue had not been paid to the Ministry. The Ministry made arrangements with one title search company for payment of the estimated amount owing. This has since been collected in full. An investigation of the records of another search company indicated that the records were incapable of

audit and that explanations obtained from the company's officials, although plausible, could not be verified. An investigation of the records of a third company indicated deficient payment practices. Following investigations by the Royal Canadian Mounted Police and the Criminal Justice Branch of the Ministry of the Attorney General, the company and its president were charged with four counts of fraud and four counts of theft. This matter is not yet resolved.

- 3.69 The accountants made a number of recommendations to the Ministry for improving its accounting system for collecting revenues. The Ministry has already acted on all significant recommendations. We will continue to monitor this activity to ensure that appropriate action is taken on any items that remain outstanding.

CIVIL LEGAL AID COST-SHARING CLAIMS

- 3.70 Under the Canada Assistance Plan (CAP) the Federal Government contributes toward the Province's cost of providing civil legal aid to persons in need. The cost of operating the civil legal aid program is incurred by the Legal Services Society, the agency established by the Government for the delivery of this service. The Society is required to perform eligibility tests and prepare adequate supporting documentation to show that CAP criteria have been met. The Ministry of Human Resources is responsible, on behalf of the Province, for submitting civil legal aid cost-sharing claims to the Federal Government.
- 3.71 In late 1980 the Federal Government suspended payments under this program until such time as the Society could provide satisfactory documentation that CAP criteria had been met.
- 3.72 Deficiencies in Society documentation precluded the Ministry from submitting cost-sharing claims for the 1981, 1982 and 1983 fiscal years. An audited claim of approximately \$2.9 million has been submitted for the 1984 fiscal year. It is expected that similar claims will be submitted for future periods.
- 3.73 The Ministry is unable, at this time, to estimate the amounts not claimed for the three years in question. However, we were advised that a negotiated settlement of the recoverable costs was under discussion with the Federal Government. I urge the Ministry to expedite the resolution of these outstanding claims.

ACCOUNTS RECEIVABLE AND DEBT COLLECTION — MINISTRY OF FORESTS

- 3.74 The Ministry of Forests estimated that, of the \$43.7 million due from forest companies at 31 March 1985, \$11.7 million was doubtful of collection. This amount represents a \$5 million increase in doubtful accounts from the \$6.7 million estimated a year earlier.

- 3.75 Although unfavourable economic conditions in the forest industry have given rise to many of the collection problems experienced by the Ministry, we consider that two other factors contributed to the problem.
- 3.76 The first was the failure of the Ministry's accounts receivable system to provide timely and relevant information required for effective collection procedures. As a result of deficiencies in the system, regional and district personnel responsible for collection activities did not receive adequate reports and analyses necessary to support prompt and effective collection action.
- 3.77 The second contributing factor concerned established Treasury Board and Ministry debt collection policies. We found that these policies were not always consistently and actively followed.
- 3.78 The Ministry should consider modifying its accounts receivable system to ensure that information necessary for the proper monitoring and collection of accounts receivable is readily available to all those responsible for this activity. Also, it should take steps to ensure the consistent application and enforcement of collection policies in the future.

TREASURY BOARD APPROVALS — MINISTRY OF HEALTH

- 3.79 Section 22 of the *Financial Administration Act* authorizes Treasury Board to approve certain payments to be made out of the Consolidated Revenue Fund if a similar amount has been or will be received as a contribution toward expenditures to be made by the Government.
- 3.80 During the course of our audit we noted that the following Ministry of Health program expenditures did not have the required section 22 approval from Treasury Board:
- Out-of-Province Hospital Insurance Reciprocal Agreements (\$12,570,446)
 - Richmond Health Services (\$352,550)
- 3.81 In addition, Treasury Board approval is required for discretionary grants over \$50,000. We noted that, for the 1985 fiscal year, prior Treasury Board approval was not obtained for hospital programs equipment grants totalling approximately \$20 million.
- 3.82 The Ministry of Health should take steps to ensure that approval requirements of the *Financial Administration Act* and Treasury Board are complied with in the future.

RESTRUCTURE GRANTS

- 3.83 During our review of grant payments to municipalities by the Ministry of Municipal Affairs it came to my attention that certain grants for policing costs being paid by the Ministry from the Revenue Sharing Fund did not appear to have statutory authority.

- 3.84 Grants to the cities of Kamloops and Kelowna for non-urban area policing began in the late 1970s. Since 1982 they have been reported under the restructure grant program which was introduced in that year as Section 4.1 of the *Revenue Sharing Act*. Grants to the two municipalities amounted to \$1.4 million in the 1985 fiscal year.
- 3.85 There is no provision in the letters patent of either Kamloops or Kelowna for the cities to provide policing in non-urban areas within the municipal boundaries. In such cases the Province must provide the policing. Rather than providing the policing directly under existing statutory authorities, the Province has been paying grants to the cities to defray the cost of policing provided by the cities in non-urban areas.
- 3.86 I raised my concern with the Ministry which subsequently obtained a legal opinion. The opinion concluded that ". . . it may be necessary to have validating and enabling legislation, covering past and future grants."
- 3.87 I recommend that steps be taken to ensure that, if such grants are to continue, adequate statutory authority be provided.

ADMINISTRATION OF THE B.C. GAMES

- 3.88 Summer and winter games are staged each year in different cities throughout British Columbia. To facilitate the organization of the Games the Province has, by contract, appointed an individual to be the Games' Managing Director. The contract, amongst other things, provides for the reimbursement of certain of his costs, such as office expenses, wages of support personnel and travelling expenses.
- 3.89 As part of our audit of the Ministry of the Provincial Secretary and Government Services we reviewed the financial statements and supporting documentation for payments made under the contract. We found that expense claims generally did not contain sufficient supporting documentation to enable the Ministry's accounting staff to ascertain the validity of expenditures. For example, many claims for entertainment expenses did not state the names of guests nor the reasons for the expenditure as is normally required in such circumstances.
- 3.90 In July 1985 the Ministry contracted with a firm of chartered accountants to review the financial administration of the B.C. Games. The accountants in their report not only confirmed our findings but raised a number of additional issues. They also made extensive recommendations for improving controls over expenditures incurred by the Province in staging the Games. I recommend the early implementation of procedures necessary to establish a satisfactory level of control over these expenditures.

TELEPHONE EQUIPMENT LEASING OVERCHARGES

- 3.91 The Ministry of Universities, Science and Communications enters into numerous telephone equipment leasing arrangements on behalf of the Government. Many leases are for extended periods of time, and for amounts ranging up to \$850,000. Most are signed on behalf of the Ministry by an operations officer without a formal review by senior officials or the Finance division of the Ministry.
- 3.92 The leases contain a significant interest cost component. During our review we found examples where these interest charges appeared to be excessive. As a result of our enquiries, the Ministry investigated the leases in question and found that, in some instances, the rates charged were excessive. Steps have now been taken to effect the necessary adjustments to the leases involved and to recover overpayments.
- 3.93 We recommend that the lease negotiation process be reviewed and amended accordingly, to formally involve senior management and the Finance division in the decision process, and to ensure that the most competitive financing rates available are obtained.

Part 2

**Status of General Findings and Recommendations
Contained in Previous Annual Reports of the
Auditor General**

Status of General Findings and Recommendations Contained in Previous Annual Reports of the Auditor General

- 4.1 During every audit we identify and assess the actions taken by management with respect to recommendations made during our previous audits. This part of my Report summarizes the current status of general matters which were reported in my previous Annual Reports and which were unresolved at the time of my 1985 Annual Report. This summary does not include matters which arose from previous comprehensive and special audits because these matters are only followed up when the next comprehensive or special audit of the area is undertaken.
- 4.2 In July 1985 the Government issued a *Response to the 1985 Report of the Auditor General* which is available to the Members of the Legislative Assembly and the public. This document outlined the Government's progress in responding to problems identified in my 1985 Annual Report.

Status of General Findings and Recommendations Contained in Previous Annual Reports of the Auditor General

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1986 Annual Report
COMMENTS ON THE FINANCIAL STATEMENTS			
1979	7.41	Recommendation with respect to the conflict between legislation and accounting practices concerning the Hospital Insurance Fund.	This conflict was eliminated by 1985 by passage of the <i>Health Statutes Amendment Act, 1985</i> .
1980	3.14	Limitations placed on the Auditor General of British Columbia under the <i>Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977 (Canada)</i> , prevent normal verification procedures for provincial income taxes assessed, collected and allocated to the Province by the Federal Government.	No change in limitations. However, during 1985 the Auditor General of Canada provided certain assurances to my Office with regard to income taxes assessed and allocated. Representatives of my Office went to Ottawa and reviewed the supporting files relating to the federal audit work carried out. We found that the work had been generally satisfactory for our requirements.
1982	2.9	Recommendation that all court trust bank accounts and offsetting trust fund liabilities be correctly accounted for and recorded.	Court trust bank accounts are now correctly accounted for and recorded.
1982	2.16	Clarification of legislation and possible funding adjustments required with respect to the Members of the Legislative Assembly Superannuation Account.	The <i>Legislative Assembly Allowances and Pensions Act</i> has been amended to clarify the allocation of funding for the Account.
1983	2.13	Recommendation that the net realizable value of the Low Interest Loan Assistance Program funds be included in the General Fund and appropriate legislative authority be obtained for future transactions.	The Low Interest Loan Assistance funds were accounted for appropriately in 1985. Also, in August 1985, the <i>Low Interest Loan Assistance Revolving Fund Act</i> was brought into force.

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1986 Annual Report
1985	2.6	<p>Suggestion that the Government consider presenting its main financial statements in the following order:</p> <ul style="list-style-type: none"> ● Consolidated Financial Statements ● Combined Financial Statements ● Trust Funds Financial Statements 	No change.
1985	2.9	Suggestion that, if highly summarized financial information is to be presented, it should be done in a manner which does not leave the impression that it represents the main, audited financial statements of the Province.	No change.
1985	2.14	In June 1984 the Office of the Comptroller General commenced a thorough review of the criteria used for including entities in the Consolidated Financial Statements. The Comptroller General offered to have my Office review the revised criteria once his staff had completed their review.	Certain aspects of the criteria review were completed. However, since a committee of the Canadian Institute of Chartered Accountants has undertaken a study of the same subject for the consideration of all senior levels of government in Canada, the Comptroller General has suggested that the results of that study be examined before proceeding with changes to the accounts of the Province. I concur with this approach.
1985	2.17	Suggestion that the Government consider disclosing the amount of unapplied claims under section 88 of the <i>Forest Act</i> in a note to the financial statements, together with an explanation that these claims will be settled only when related forest revenues and generated by the companies concerned.	This suggestion was implemented by way of a new note to the Government's 1985 Combined Financial Statements entitled "Accounts Payable".

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1986 Annual Report
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GOVERNMENT ACCOUNTING POLICIES

1981	2.4	<p>Inclusion in the Consolidated Financial Statements of the following financing authorities:</p> <ul style="list-style-type: none"> ● British Columbia Educational Institutions Capital Financing Authority; ● British Columbia Regional Hospital Districts Financing Authority; and ● British Columbia School Districts Capital Financing Authority. 	The three financing authorities were included in the Government's Consolidated Financial Statements for the year ended 31 March 1985.
1983	1.11	Gains and losses on dispositions of long-term bond investments of pension funds are deferred, and then amortized over the lesser of the remaining term of the bonds and 20 years. The Government should reconsider this accounting policy.	No change. We will continue to monitor the use of this policy pending the emergence of an authoritative pronouncement by the accounting profession on the subject.
1985	3.15	The Government should amend its accounting policy to ensure that cash receipts which arise from transactions of a similar nature and substance are recorded consistently in the accounts. The Estimates should then be developed in accordance with this policy.	No change. See also paragraphs 2.7 to 2.10.
1985	3.17	Because revenue from Crown corporations is treated inconsistently in the Combined Financial Statements, the Government should state its policy for the recognition of revenues from Crown corporations in the statements.	Resolved. The notes to the Government's 1985 Combined Financial Statements included a clarification regarding recognition of revenues from Crown corporations.

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1986 Annual Report
1985	3.21	To improve the consistency of its financial reporting, the Government should establish and state its policy with regard to the specific information on commitments that is to be reported in the Consolidated Financial Statements of the Province.	Improved. A new policy dealing with commitments was given effect in the Government's 1985 Consolidated Financial Statements, entitled "Commitments".

COMMENTS ON FINANCIAL CONTROLS

MINISTRY OF FINANCE

1983 1985	3.9 4.13	Continued efforts should be made by all ministries to comply with the relevant requirements of the <i>Financial Administration Act</i> and Treasury Board policy with regard to Government bank accounts.	No similar problems were noted for the year ended 31 March 1985.
1983	3.11	The entire bank reconciliation process related to the Government's main bank accounts requires improvement.	Significant improvement for the final quarter of the year ended 31 March 1985 was noted.
1983	3.18	The Securities Section of the Ministry should count securities held for safekeeping at least once each year. The physical counts should be independently compared and reconciled to written control records.	Although only two partial counts of securities were conducted by the Ministry during the year ended 31 March 1985, we understand that a complete count of all securities held for safekeeping was carried out during the 1986 fiscal year. We will review the results of this count in the course of our 1986 audit.
1985	4.7	Treasury Board approval should have been obtained for spending excess expenditure recoveries.	During the past year the Government provided further guidance as to the approvals necessary for the spending of excess recoveries. Recoveries reviewed during the 1985 fiscal year were accounted for in accordance with these guidelines.

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1986 Annual Report
1985	4.10	While it is the ministries' responsibility to obtain required approvals for reallocation of funds, the extent of unauthorized spending would suggest that improved monitoring of such transactions is called for to ensure that Treasury Board rules are being observed.	<p>The Government's July 1985 Response to my 1985 Annual Report stated that "The importance of complying with policy on this point is recognized." However, our audit work in the ministries for the 1985 fiscal year determined that this was still an unresolved problem. We noted that seven ministries had made transfers between pools of standard objects or between sub-votes without the required approval of Treasury Board, for a total amount in excess of \$7 million.</p> <p>We have recently been advised that a monitoring system is being put into place at the Office of the Comptroller General for the 1986 fiscal year, which we will review for adequacy during our 1986 audit.</p>
1985	4.17	All trust assets administered by the Government that are held through and in the Government's main bank account should be segregated from the assets of the Government.	No change. See also paragraphs 3.50 to 3.54.
1985	4.20	Ministries should ensure that custodial deposits are properly accounted for, remain current and comply with legislative requirements.	No significant problems noted at 31 March 1985, but there is still room for improvement in certain ministries.
1985	4.25	No call loans to be made to investment dealers until the legal status of such loans is clarified. Compliance with the provisions of the <i>Financial Administration Act</i> should be clearly established with respect to future investments. Also, investments should be properly disclosed in the Government's financial statements.	Since the date of my 1985 Report the <i>Financial Administration Act</i> has been amended to permit call loans to be made. At 31 March 1985 investments were properly disclosed in the Government's financial statements.

Report	Section, Paragraph	Subject	Status as at Date of Preparation of the 1986 Annual Report
MINISTRY OF ENERGY, MINES AND PETROLEUM RESOURCES			
1983	3.23	Failure to follow prescribed procedures in the safekeeping of trust assets resulting in the Ministry being unable to demonstrate that trust assets received were properly accounted for.	Prescribed procedures are now being followed.
MINISTRY OF HUMAN RESOURCES			
1983	3.33	Deficiencies observed in the system of internal control for the Income Assistance program.	While some improvement was noted, the systems of internal control for the Income Assistance programs remained substantially unchanged during the 1985 fiscal year. The Ministry implemented part of a new Gain Payment System in October 1985. This, together with systems changes scheduled for implementation in 1986, is intended to provide adequate control.
MINISTRY OF PROVINCIAL SECRETARY AND GOVERNMENT SERVICES			
1982	3.16	Centralized leave management system not accurate or reliable, and duplicated by manual systems maintained in ministries.	No change. Problems continue in most ministries.
1983	3.30	Payments of printing and stationery invoices by the Queen's Printer without proper evidence that the goods were received directly by the various ministries.	The problem has been corrected. Sufficient evidence is now obtained prior to invoices being approved for payment.
PUBLIC BODIES			
SUPERANNUATION COMMISSION			
1985	8.10	The Commission has recognized that further improvement to the accounting and financial operations is required, and has taken steps to identify the corrective measures needed. The effectiveness of these actions will continue to be monitored.	We have noted a significant improvement in the quality, comprehensiveness and timeliness of financial information provided by the Commission.

Part 3

Comprehensive and Special Audits

Passenger Vehicle Travel

The Purpose of this Audit

- 5.1 This comprehensive audit is concerned with passenger vehicle transportation by employees of provincial ministries. It seeks to answer two questions:
- Has passenger vehicle travel been done economically in the recent past?
 - Are current policies and practices appropriate to achieve value for money in the future?

The Scope of this Audit

- 5.2 The audit addresses transportation in passenger vehicles such as cars and light trucks. It includes travel in government vehicles, privately-owned vehicles, rented vehicles, taxis and buses, but excludes use of specialized vehicles like ambulances, surveillance units, motorcycles, snowmobiles and graders. It also excludes travel by air, water or rail.

A Profile of Government Travel

- 5.3 Reasons for employee travel in passenger vehicles include:

Usual job function.....	67%
To attend meetings.....	19%
Driving to and from work.....	6%
To attend training sessions.....	5%
Other.....	3%

- 5.4 This audit does not question the initial decisions to travel. It takes the needs for travel as given and focuses on the value achieved from the way those needs are met.

- 5.5 In 1985, employees of provincial ministries travelled approximately 150 million kilometres in the following types of passenger vehicles:

Government vehicles.....	80%
Private vehicles.....	17%
Rented vehicles.....	2%
Public transportation.....	1%

- 5.6 The Province owns about 6,000 passenger vehicles, or about one vehicle for every 6 employees. This represents a reduction in the number of vehicles of approximately 25% over the last three years, in line with the reduction in the number of employees over the same period. At present, there are four distinct fleets. The Ministry of Transportation and Highways, the Ministry of Forests and the Ministry of Lands, Parks and Housing administer fleets to meet their own needs. The Ministry of Provincial Secretary maintains a fleet to service all other provincial ministries.

	Provincial Secretary	Transportation and Highways	Forests	Lands, Parks and Housing
Cars	1,725	238	109	57
Pickup Trucks	390	996	702	155
Vans	341	341	117	17
Crewcabs	14	401	95	7
Other	185	0	87	4
	<u>2,655</u>	<u>1,976</u>	<u>1,110</u>	<u>240</u>

5.7 Currently, over three-quarters of the fleet is 5 years old or older, as is shown below:

Model Year	Number	Percent
1985	500	8.4%
1984	239	4.0%
1983	37	0.6%
1982	552	9.2%
1981	1,310	21.9%
1980	1,157	19.3%
1979	524	8.8%
1978	818	13.7%
1977	598	10.0%
Prior	246	4.1%
	<u>5,981</u>	<u>100.0%</u>

5.8 Roughly one-half of the travel in government vehicles is done on paved highways, a third represents city driving, and most of the remainder is done on gravel roads. About 2% of the travel is done off roads.

5.9 In addition to travel in government vehicles, over half of the provincial employees used their own cars to travel about 26 million kilometres in 1985, for which they received about \$6 million. About three-quarters of the people who drive their own cars on government business used them for less than 3000 kilometres a year.

Audit Methodology

5.10 The findings in this report are based on:

- analyses of vehicle data bases;
- a survey of provincial employees;
- interviews with fleet managers and others involved in transportation management;
- review of written documentation; and
- use of fleet management consultants.

Overall Assessment

- 5.11 We found that the Government does not have sufficient reliable information to demonstrate whether it has achieved value for the money spent on passenger vehicle transportation in the past. This need for information has been recognized and steps are being taken to obtain the data. In addition, fleet management is coordinated better than in the past so some improvements can reasonably be expected in the future.
- 5.12 However, in our opinion, passenger vehicle travel in the recent past has not been done in an economic manner, and changes to current policies and practices are required to achieve value-for-money in the future. Further, in our opinion, the current circumstances are such that this is an opportune time to make the necessary changes.

Audit Findings and Recommendations

- 5.13 In this section of the report, we take a more detailed look at the economies achieved in the recent past from each of the major types of passenger vehicles: government vehicles, privately-owned vehicles, rented vehicles and public transportation. We then review some important recent activities, and we assess the current situation. Finally, we address the issue of future passenger vehicles travel by provincial employees.

Looking Back . . .

GOVERNMENT VEHICLES

- 5.14 In looking at the Government fleet, our objective was to determine whether the Government maintains the right numbers and types of vehicles, and whether the costs of maintaining the fleet are in line with industry norms. These are discussed in turn below.

Numbers and Types

- 5.15 Using a reasonable fleet management standard for a fleet comparable to the Government's, vehicles would be replaced after 100,000 kilometres or 5 years, whichever comes first. In other words, to achieve an optimum balance of maintenance costs, depreciation expense and availability, vehicles should be driven an average of 20,000 kilometres a year. Vehicles with low utilization in one year would be exchanged with others of the same type which were driven over longer distances that year. In this way, although a well-managed fleet could have many vehicles with utilizations falling outside the "normal" range of say 15,000 to 25,000 kilometres in any given year, most of the vehicles would average around 20,000 kilometres per annum over the period they are retained. If a particular type of vehicle had lower average annual utilization, it would be an indication that too many of that kind of vehicle were held.

- 5.16 Reliable utilization reports are not routinely generated for most of the provincial fleet. The records for the three largest fleets are computerized, but one computer system is only in its first year of operation and the utilization data is not considered to be reliable. Another is presently being converted to a different computer system and as a result, no utilization reports have been generated in the last year.
- 5.17 Although utilization reports are not routinely produced, there are some policies and procedures in place to encourage utilization of vehicles. In particular, one system in use ensures economy and efficiency of the fleet if each person acts in the best interest of his own cost center. Under this system, vehicles are "rented" to each center, which is charged a flat monthly fee by head office administration whether the vehicle is used or not. This internal charge includes gas, oil, maintenance and all other costs, so the cost center manager is encouraged to keep his vehicles well maintained and fully utilized. The only way to avoid the rental fee is to advise the central "rental agency" that the vehicle is no longer required and that it is available to be used elsewhere.
- 5.18 Because reliable utilization reports are not routinely produced by most of the fleet management systems, we analyzed the databases to produce our own. In doing this work, we found that over 16% of the vehicle records have no lifetime distance information. In addition, the information in several of the remaining records is suspect since they indicate negative travel in some years or fuel and oil costs with no recorded travel. Nonetheless, these databases contain the most reliable, readily available information about government vehicles.
- 5.19 We found that more vehicles fall within the "normal" range of 15,000 to 25,000 kilometres per year for lifetime average distances than for current year travel. This indicates that vehicles have been moved between high and low travel regions from year to year — a good fleet management practice.
- 5.20 However, only 42% of the lifetime average distances fall within the "normal" range. While some vehicles have life time average distances in excess of 25,000 kilometres, 45% of them were driven on average less than 15,000 kilometres per year.
- 5.21 A breakdown of our analysis of lifetime average distances, ignoring vehicles with no recorded odometer readings, is as follows:

	Number	Less than 15,000 km	15,000 to 25,000 km	Over 25,000 km
Cars	1,868	61.3%	33.0%	5.7%
Pickup Trucks...	1,841	30.2%	50.3%	19.5%
Vans	597	50.1%	37.5%	12.4%
Crewcabs	451	28.3%	45.7%	26.0%
Other	251	47.8%	44.2%	8.0%
All Vehicles	<u>5,008</u>	<u>44.9%</u>	<u>41.6%</u>	<u>13.5%</u>

- 5.22 In spite of the inaccuracies in many of the detailed records, it is our assessment that the province could have reduced further the number of vehicles in virtually all categories of its fleet, particularly the cars.
- 5.23 In this regard, it should be noted that there are four distinct vehicle fleets in the Province, and that currently these fleets do not share vehicles except to a very limited extent. To achieve good utilization of vehicles on a province-wide basis, either fleet management should be centralized or coordination between the fleets should be improved, and reliable utilization reports should be prepared and monitored on a periodic basis.

Costs

- 5.24 There are two categories of vehicle costs: holding costs and operating costs. Holding — or fixed or ownership — costs include depreciation, cost of money, insurance and administration. Since these costs are primarily a function of time rather than of distance, they typically are referred to in terms of dollars per annum. Operating costs consist primarily of fuel, oil, tires, repairs and maintenance. Operating costs sometimes are called variable costs since the dollars vary with the distance travelled, and hence they usually are referred to in terms of cents per kilometre.
- 5.25 As previously indicated, the government vehicle databases are incomplete. Those records which contain holding cost information may have incomplete operating costs information and/or incomplete distance information. This is a severe handicap for the fleet managers. It also makes it extremely difficult to determine the actual fleet costs for purposes of comparing them to industry norms.
- 5.26 We found that 3,242 vehicles, or 54% of the government fleet, had holding cost information. We calculated holding costs of about \$4.7 million a year for these vehicles, which is significantly less than the \$7.9 million per annum which would have been incurred had the same numbers and types of vehicles been held in a comparable fleet in industry.
- 5.27 The annual savings in holding costs is actually somewhat lower than \$3.2 million since certain actual administrative costs are not readily available from government records. In addition, natural gas conversions or major repairs which extend the useful lives of the assets and which normally are accounted for as holding costs, usually are recorded by the government as operating costs. And since the Province only carries basic insurance on its vehicles, certain repair costs which are recorded as operating costs by the Province are comparable to the insurance premiums included in the holding costs of a typical fleet in industry. Nonetheless, it appears that the holding costs actually incurred by the Province have been lower than the norm.
- 5.28 The main reason for the lower than average annual holding costs is that the Province has been retaining vehicles much longer than the norm of 5 years. The relatively

low purchase prices on older vehicles, together with the longer period of time to spread the costs over, results in lower annual depreciation charges for government vehicles. In addition, the cost of money is lower because of the relatively low market value of the older vehicles in the provincial fleet.

- 5.29 The holding cost savings would have been even greater, however, had administrative costs been more in line with the norm. The Province employs about one head office person to administer every 100 vehicles, but in the private sector, one administrator might look after two or three times as many vehicles. This is due primarily to the overlaps in efforts to develop and maintain four separate fleet management systems, none of which are fully integrated with the Government's main accounting system or with each other.
- 5.30 Although holding costs appear to be lower than the norm, we found operating costs to be significantly greater, largely because of the same decision to retain vehicles over a longer period of time. For the 3,308 vehicles for which sufficient operating cost information is readily available, about \$8.3 million was incurred in fuel, maintenance and other variable costs in 1985. A comparable fleet in industry driving the same distance in British Columbia would have incurred only about \$3.4 million in operating costs, since that distance would have been driven in newer, more fuel efficient vehicles with warranties still in effect. In terms of cents per kilometre, the databases show a weighted average lifetime operating cost of 21.8¢ per kilometre, whereas the comparable weighted average industry figure is 9.1¢ per kilometre.
- 5.31 Once again, the difference between provincial fleet and industry standard operating costs is not as great as is indicated above. Information contained in the databases, while the best information readily available, is suspect for many vehicles. For instance, several of the records summarized show no current year kilometres. Also, as previously mentioned, the province records major repairs and the repairs relating to self-insurance as operating costs although the comparable industry costs are included with holding costs. These types of problems with the data serve to overstate the amount of the difference. Notwithstanding these inaccuracies, we believe the costs of operating the government fleet have been in excess of the norm.
- 5.32 Because those vehicles with holding cost information are not necessarily the same vehicles which have operating cost information, and because of the relatively large volume of missing or suspect data, it is difficult to assess whether the total holding and operating costs of the government fleet have been reasonable. However, it appears that the total costs of the government fleet have exceeded the norm and further, that they have exceeded what would have been paid at the current reimbursement rates for using private vehicles over the same distance.
- 5.33 A large part of the higher costs of the government fleet can be attributed to the relatively long retention period for government vehicles. We believe this long

retention period in turn can be attributed at least in part to the Government's accounting policies. Government vehicles are expensed in the year they are purchased. In any given year, the purchase price of a replacement vehicle will exceed the cost of additional repairs necessary to keep the existing vehicle on the road for another year. Thus, replacements appear to be more expensive in that year, even though they may be cheaper in the long run.

Personal Use of Government Vehicles

- 5.34 The Province has explicitly prohibited personal use of government vehicles, except by isolated field crews where covered by a collective agreement. The ministries can and do deal with individual cases of abuse which are brought to their attention, but there is no cost-effective means of enforcing the personal use policies. We believe that the personal use policies and the means chosen to enforce them are appropriate in the circumstances. But the potential for abuse of the personal-use policies could be reduced by restricting access to government vehicles outside of regular business hours.
- 5.35 Government vehicles are sometimes taken home by employees. This practice must be authorized on a case-by-case basis and is permitted where, for instance, an employee is on call or where there is no safe overnight storage facility at the Government workplace. This portal-to-portal travel in government vehicles is considered to be business travel, although it generally would be considered to be personal use in the private sector. Portal-to-portal distance is not captured or summarized in government records. However, our questionnaire results indicate that over 9 million kilometres are travelled annually by employees driving to and from work in government vehicles, three-quarters of which is in government vehicles which have been assigned to specific individuals for their exclusive use.
- 5.36 No studies have been done to demonstrate conclusively whether or not the portal-to-portal travel is justified by actual call-backs, vandalism at the government workplace or other stated reasons for allowing the practice.

PRIVATELY OWNED VEHICLES

- 5.37 Employees who drive their own vehicles on government business are reimbursed at the rate of 25¢ per kilometre for the first 16,000 kilometres and 12¢ per kilometre on the excess. These uses are reported on travel vouchers together with claims for other business expenses, but they are not separately captured or summarized.
- 5.38 The rates used to reimburse use of privately-owned vehicles are established as part of the collective bargaining process. Those employees who are not covered by a union contract are paid the same amounts.
- 5.39 Reimbursements for use of privately-owned vehicles may include an incentive to encourage that form of transportation, or may include some compensation or

benefit element, or may represent a pure offset to costs. We believe that the reimbursement rate should most appropriately represent a fair, accurate and defensible offset to the employee's costs of using their privately-owned vehicles for government purposes.

- 5.40 The costs of operating a vehicle differ greatly from the employee who uses his vehicle on government business for only a few days and a total distance of 100 kilometres a year, to an employee who drives his vehicle daily over long distances. The first employee would incur only the cost of gasoline, whereas the second would have much greater operating and holding costs associated with the business use of his vehicle. An accurate reimbursement method which was fair to the employee and fair to the taxpayer would have to reflect these differences.
- 5.41 Thus, drivers would first have to be categorized based on criteria such as job title and function, frequency of use and annual distance. We analyzed our questionnaire results using frequency of use and annual distance as reported by our respondents to segment the drivers of personally-owned vehicles into three categories: occasional drivers, routine drivers and full time drivers. We then applied the reimbursement rate standards provided by our consultants for these categories of drivers in British Columbia.
- 5.42 We calculated that the Province paid about \$1.5 million, or 33%, more than the estimated actual costs of operating privately-owned vehicles on government business in 1985.
- 5.43 The Province has considered using the type of reimbursement system used in our analysis and it has acknowledged that such a system would be more accurate. However, the approach was rejected because it was felt that the administrative costs involved would outweigh the benefits.
- 5.44 We believe the Province should re-examine the costs and benefits of reimbursing its employees for the business use of privately-owned vehicles in a fair, accurate and defensible manner. We also recommend the usage of private vehicles be summarized and reported to enable effective management of passenger vehicle needs.

RENTED VEHICLES AND PUBLIC TRANSPORTATION

- 5.45 Government policies state that rentals are the least preferred means of meeting passenger vehicle needs and in fact, we found employees only rent vehicles to cover about 2% of their in town travel needs. About one-half of the time, vehicles are rented for periods of two weeks or less, while a quarter of the time they are rented for two months or more. Rental rates vary widely from company to company and across the province. Over a third of the respondents to our questionnaire who indicated that they did rent a car in 1985 said that they paid in excess of \$30 a day plus mileage.

- 5.46 On the other hand, government policies state that public transportation is the preferred means of travel. Public transportation is to be used wherever possible unless it is not feasible or less economic or efficient to do so. We found the actual use of public transportation to be less than 1% of total uses of passenger vehicle transportation. It seems unlikely that public transportation has been used in all cases where it has been feasible and economic to do so.
- 5.47 Once again, information about rentals and public transportation is not separately captured or reported, even though these represent valid options for meeting the Government's travel needs. However, since the use of rentals and public transportation has been so limited, there has been no pressing need for this information in the past.

Looking Forward . . .

RECENT ACTIVITY

- 5.48 Several major changes have been made in recent years which will affect future value-for-money in the area of passenger vehicle travel.
- In December 1983, government vehicle policy was thoroughly reviewed, resulting in a number of important improvements in transportation management.
 - In March 1984, the Ministry of Provincial Secretary assumed overall responsibility for the entire provincial fleet, and immediately began to implement systems to monitor and control those fleets which were not already being administered by the Ministry of Transportation and Highways, the Ministry of Forests or the Ministry of Lands, Parks and Housing. Virtually all of the types of information relating to government vehicles which were missing at the time of our audit will be produced by these systems.
 - A Vehicle Management Advisory Committee consisting of the fleet managers of the four major government fleets as well as representatives from the central agencies has been formed to coordinate development of policies and resolution of transportation issues on a government-wide basis.
 - Ministries are required to submit annual fleet plans outlining their anticipated needs for government vehicles. These are reviewed on a government-wide basis.
 - Blanket rental agreements with major car rental agencies have been negotiated at very favorable rates.
 - Leasing government vehicles to a much greater extent than in the past is being considered seriously as a cost-effective alternative to ownership.
- 5.49 While these activities are certainly worthwhile, they each tend to deal with single aspects of transportation management. Although the fleet size has been reduced

and fleet management is now consolidated in four ministries instead of many, most attention still is being devoted to capturing information about the current government fleet. Efforts are being made to address the larger picture of total transportation management, but these efforts are not likely to result in dramatic changes to the way the Province satisfies its needs for passenger vehicle transportation in the near future.

THE CURRENT SITUATION

- 5.50 The government fleet is old and will need to be modernized in the near future if it is to continue to meet most passenger vehicle travel needs. But our analysis indicates that using government-owned vehicles may not represent the most economic means of transporting provincial employees. The Province could take advantage of the current window of opportunity to change the mix of government vehicles, private vehicles, rented vehicles and public transportation to achieve greater value from passenger vehicle travel in the future.

THE FUTURE

- 5.51 There is no assurance that value-for-money will be achieved from passenger vehicle transportation in the near future.
- 5.52 The fundamental issue of determining the optimum mix of alternative modes of meeting travel needs is difficult to resolve because responsibilities and authorities for various aspects of transportation management are assigned to numerous people. There is a Vehicle Management Advisory Committee which attempts to coordinate individual efforts, but fleet management is the responsibility of four separate ministries, and a sixth group is responsible for establishing the reimbursement rates for uses of privately owned vehicles. We believe that one individual should be assigned overall responsibility and authority for dealing with all aspects of transportation management.
- 5.53 Until the optimum mix issue is addressed, the government fleet will likely continue to service the majority of the needs, even though it may be more costly to do so and even though the vehicles in the fleet may be underutilized. Both the standards provided by our consultant and our analysis of the Government's experience indicate that using privately-owned vehicles is more economical than travelling in government vehicles. This would indicate that it would be advantageous to make a shift towards greater use of privately-owned vehicles, as is the current trend in the private sector.
- 5.54 To make this shift, it will be necessary for those government employees who travel on government business to have a car available and to be reimbursed in an equitable manner. Thus, having an automobile available for business use may be a condition of employment for many employees. This is increasingly the case in the private sector and it is now a condition of employment for some government positions.

- 5.55 In addition, it will be necessary to establish a reasonable policy framework within which employees will be fairly reimbursed for business uses of their vehicles. As previously stated, we believe the reimbursement should be a fair, accurate and defensible offset to the costs of using privately owned vehicles for government purposes. Such a system would be fair to the employee and fair to the taxpayer.
- 5.56 The rates currently paid to most employees for using their own vehicles on government business are included in a union contract. As such, they have been fixed for the terms of the contracts. Whether or not the rates remain in union contracts, they should allow flexibility to respond to changing fuel and other costs, and they should reflect the different costs which apply to the different categories of drivers.
- 5.57 Although a shift towards greater use of privately-owned vehicles is desirable, there will continue to be a need for some government vehicles. Current efforts to capture information about the government fleet should be continued, but they should be expanded to include information about all types of passenger vehicle transportation. Further, such information should be compared to cost and utilization standards to ensure effective transportation management.

ADDITIONAL WORK REQUIRED

- 5.58 Our audit found that a great deal of information crucial to effective fleet management is not readily available. We obtained some of the missing information through our questionnaire survey, but many of our assessments, conclusions and recommendations have been based on the limited information which is available in the government vehicle databases.
- 5.59 Accurate information about the government fleet will not be available for several years, but the fleet requires serious attention immediately. We believe that using reasonable assumptions to fill in the gaps and arrive at a more complete picture of what has happened in the past, together with an assessment of projected future travel needs, would provide a sufficiently reliable basis for making management decisions on transportation policies for the future.
- 5.60 Because of the significance and relative urgency of this matter, we recommend that the Government not wait for accurate information from the vehicle management systems, but rather proceed immediately to impute the unknown information and to quantify the effects of possible alternative future courses of action.

Acknowledgements

- 5.61 We are indebted for the cooperation extended to us by all of the persons we interviewed during this audit, particularly the members of the Vehicle Management Advisory Committee. Our thanks also are extended to the Executive Financial Officers and Deputy Ministers who sent covering letters with our questionnaires

and to the numerous people who took the time to respond to them. We also thank Dr. McDavid at the University of Victoria for the comments he provided on our questionnaire design and sampling methodology. Finally, special thanks to our consultants, Runzheimer Canada Inc., for the expert advice provided throughout the audit.

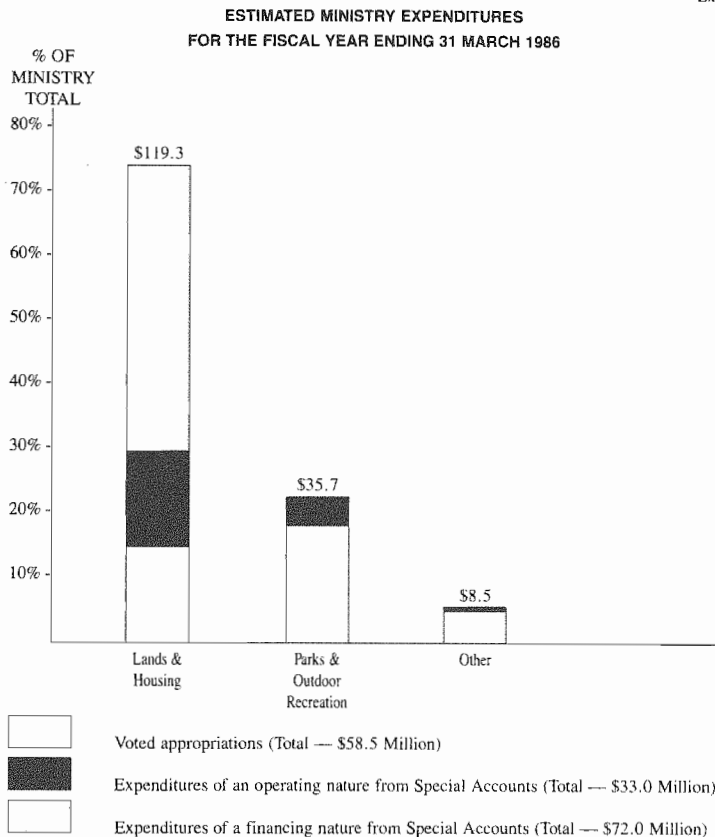
Ministry of Lands, Parks and Housing

6.1 The mandate of the Ministry of Lands, Parks and Housing is stated in its annual report.

To manage and allocate Crown lands in the Province of British Columbia, to maintain and improve a quality system of parks, and to encourage the best use of Crown land for agriculture, housing, industry, commerce and recreation within the Province of British Columbia. To manage and develop housing programs to serve British Columbians.

6.2 Exhibit 1 presents the resource allocation for the Ministry's main programs as budgeted for the 1986 fiscal year. In addition to the annual appropriation voted by the Legislature, ministry programs utilize the resources of two special purpose accounts — the Crown Land Account and the Provincial Home Acquisition Account. A third special purpose account, the University Endowment Lands Administration Account, provides for the operation and management of the University Endowment Lands in Vancouver which are administered by the Ministry. The expenditures from these accounts are included in Exhibit 1.

Exhibit 1



- 6.3 The Ministry has reduced its staff levels from those of the early 1980's. A significant portion of this reduction was achieved in the Parks and Outdoor Recreation Division of the Ministry.

Audit Projects

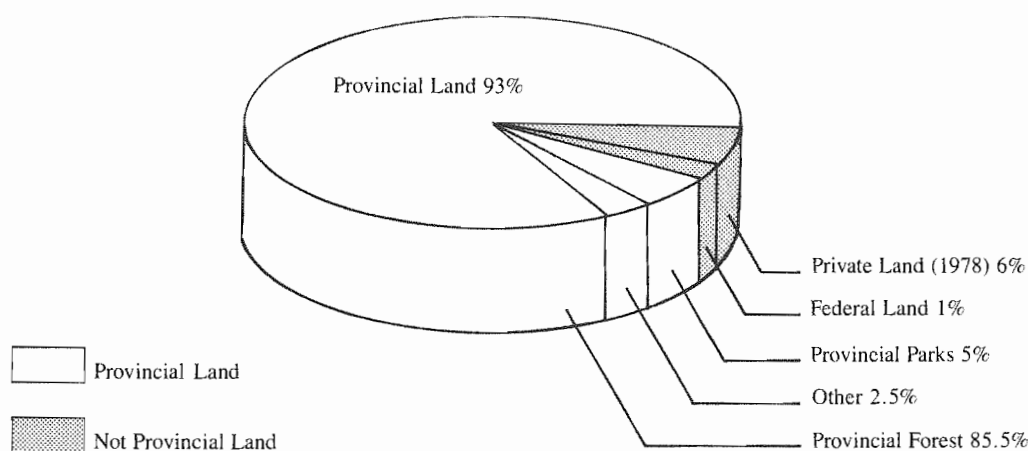
- 6.4 Our audit of the Ministry of Lands, Parks and Housing did not include all activities of the Ministry but rather concentrated on six areas of ministry operations which both we and ministry staff considered of sufficient importance for specific attention. The audit projects undertaken focussed on three program areas.
- Crown Lands
 - Parks
 - Social Housing
- 6.5 We also reviewed three other aspects of ministry operations:
- the Crown Land Special Account;
 - computerization; and
 - financial management and control.
- 6.6 Our field work on the first five projects was completed by June 1985. The sixth project, the review of the ministry's financial management and control, was undertaken later and concluded in October 1985. The Ministry has received detailed reports on the results of our work.
- 6.7 In this Report we have included a section on each of the six projects undertaken. Each section contains some brief background information about the area being audited, our audit objectives, and our audit conclusions. In addition, some of our audit findings are included in each section. These are presented to give the reader an appreciation for the reasons for our conclusions.
- 6.8 Before our audit began, management of the Ministry already had identified areas where they felt improvements were required. In many cases they were working to make improvements before our audit began. In other cases, management started to correct the problems during our audit.

Crown Land Administration

- 6.9 Land is a major public resource in British Columbia. Exhibit 2, which depicts the ownership of land in the Province, shows that 93% of the Province's area is owned by the Crown.

Exhibit 2

LAND STATUS IN BRITISH COLUMBIA — 1984



- 6.10 The Ministry of Lands, Parks and Housing has overall responsibility for administering the Crown land resource of the Province. Management of the natural resources on these lands rests largely with other agencies.
- 6.11 Exhibit 2 indicates that the Ministry of Lands, Parks and Housing directly administers 7.5% of the provincial area. Of this, 5% is provincial parks. The remaining 2.5%, or 2,050,000 hectares, is managed through the Ministry's lands program.
- 6.12 Of the land area managed by the Ministry in its lands program, about one-fifth has been allocated for specific purposes. This has been done through leases and licences wherein the Province retains ownership of the land.
- 6.13 The remaining 80%, or 1,620,000 hectares, of the provincial area administered by the Ministry's lands program is largely allocated to a variety of existing resource uses, but where appropriate, remains available for additional sales, leases and licences. Each year this Crown land base is reduced by approximately 26,000 hectares through land sales and grants. There are frequently competing claims for this land, particularly the more productive lands. This results in a formidable administrative challenge for the Ministry.

Audit Objectives

- 6.14 Our audit was designed to report:
- whether the Ministry's systems of administration provide reasonable control over Crown lands; and
 - whether the Ministry provides the Legislative Assembly with sufficient, reliable information on Crown land and on its stewardship of the land it manages.

Conclusion

- 6.15 We have concluded that the Ministry lacks a comprehensive inventory of the land under ministry management and effective policy guidance. Both of these are required for proper Crown land management. However, although they could be strengthened, the systems used by the Ministry to make individual decisions about Crown land dispositions are adequate to keep these decisions reasonably consistent.
- 6.16 The Ministry has recognized the need for a comprehensive inventory of Crown land and is working satisfactorily towards developing one. But management of the Crown land asset will continue to be more arbitrary than necessary until acceptable guiding policy is in place.
- 6.17 We also found that the Ministry does not report adequately to the Legislative Assembly or to the public about the Crown land under its administration.

Land Inventory

- 6.18 There are various possible uses for much of the land administered by the Ministry. The Government and the Legislature set the policies that define how the land will be used. For them to gain an understanding of the issues they face and to decide on the proper course to follow, they need to know the extent of the land available, the location of that land, and its qualities or characteristics. Ministry staff also require this information to manage and control land dispositions. This land inventory information has not been compiled.
- 6.19 Until 1980, the Ministry managed Crown land using only manual information systems. The information base was vast and fragmented. It existed in various forms, including records, maps and texts, and at various locations throughout the Province. These systems provided no assurance that up-to-date information about a particular piece of property existed in any one location at any given time.
- 6.20 The data in the system, however, permitted ministry staff to determine the legal status of any individual piece of property when a request about it was received. As a

result, the information base was adequate for the Ministry to process individual transactions. However, while the database did allow staff to react to specific requests, it did not provide an overall inventory of the Crown land being managed by the Ministry.

- 6.21 The Ministry has recognized the need for better information about the land it manages. Since 1980 ministry staff have been working to consolidate and upgrade the Crown land information base. This process involves computerizing the data using sophisticated equipment and techniques.
- 6.22 At the current rate, the Ministry will require another five years or so to complete its automation of the Crown land information. Although this may seem a long time, we believe this pace is acceptable given the size of the project and the additional risks involved in attempting to move more quickly.

Control over Crown Land Dispositions

POLICY GUIDANCE

- 6.23 During our audit we also examined whether the Ministry's systems of financial and management control provide reasonable assurance that the land disposition program is delivered reliably.
- 6.24 Under the Crown land disposition program the Ministry sells, rents or grants parcels of Crown land to individuals, companies, municipalities or other public agencies. There is a wide range of policy alternatives which might be adopted with regard to the disposition of Crown land. These extend from the position that all Crown land should be transferred to private ownership as quickly as possible, to the position that all Crown land should be retained in the public domain forever.
- 6.25 Proper control should ensure that decisions on land dispositions conform with stated policy. The policy in turn should conform with the direction provided by the Legislature through statutes.
- 6.26 There are two principal pieces of legislation respecting Crown land dispositions. The *Land Act* permits the Minister of Lands, Parks and Housing to dispose of Crown land subject to compliance with fairly specific statutory guidance provided in the Act and regulations. However, the second piece of legislation dealing with Crown land disposals, the *Ministry of Lands, Parks and Housing Act*, renders moot the provisions of the *Land Act* by stating that, "Notwithstanding the *Land Act* . . . the minister may, on terms and conditions he considers appropriate . . . dispose of Crown land and establish procedures regulating its disposition . . ."
- 6.27 The legislation therefore, while providing specific guidance in one Act, in another permits the Minister to override the specific guidance and to dispose of land in the

manner he sees fit. Likewise, although the Government has enunciated a few guiding principles which are to be followed generally, these principles are not specific and provide the Ministry with a significant amount of discretion. Further, although the Ministry has prepared written policy manuals, the policies they contain are subject to frequent changes and are open to differing interpretations.

- 6.28 Accordingly, we found that although the legislation and the Government's guiding principles provide guidance to the Ministry, and although the Ministry has devoted a substantial amount of effort to developing policies, not all Crown land dispositions are made according to the same standards. We do not believe policies must be firm and rigid: They need to be flexible enough to permit prudent management of the Crown land resource. However, the policies should also be specific enough to guide Ministry actions and to provide the public with sufficient information to gauge the Ministry's management of the Crown land asset.

CONSISTENCY OF CROWN LAND DISPOSITIONS

- 6.29 As part of our audit we planned to assess the controls designed to ensure that individual land disposition decisions conform with policy. In the absence of adequate policies, the Ministry's systems can only provide assurance that these decisions are consistent, one with another.
- 6.30 The legislation applicable to Crown land gives the Minister authority to dispose of Crown land. However, in practice this ministerial authority is delegated to ministry staff. During the course of a year the Ministry makes thousands of decisions concerning Crown land dispositions. This level of activity precludes the involvement of the Minister in each decision and necessitates delegated decision making.
- 6.31 Also, because the land by its nature is located throughout the Province, the staff who deliver the land disposition program are decentralized. Having staff located where dispositions are made enhances the level of service the Ministry is able to provide and improves program efficiency.
- 6.32 In addition, because overall policy guidance is not available to the staff making land disposition decisions, they are left to make these decisions using their own judgement. Because of the number of variables involved in each case, the amount of discretion that staff are required to exercise is significant. Whether a specific piece of Crown land should be retained or disposed of, whether the land should be used for a particular purpose, whether the land should be sold or rented, and what price the user should pay are all subjective decisions.
- 6.33 These factors — delegated authority, a decentralized organization and the requirement to use judgement — all combine to provide the Ministry with a considerable control challenge.

- 6.34 The Ministry has attempted to meet this challenge by establishing a control system designed to ensure that the land disposition program is delivered consistently. This control structure relies heavily on three key features.
- 6.35 First, the Ministry relies on trained professional staff to exercise the judgement inherently required by the program. The land disposition program is delivered by approximately 80 people mainly working as land officers or examiners in the Ministry's eight Lands and Housing regional offices. Each of these individuals has received on-the-job training, and those making land disposition decisions have post-secondary educations in related disciplines.
- 6.36 Second, the Ministry has developed a system and related procedures for processing regular land dispositions. This system relies primarily on detailed, Province-wide, written policy and procedures manuals together with supervisory reviews.
- 6.37 Third, a process has been established to handle nonroutine requests for Crown land. In these cases the request is not handled using the written policy and procedures manuals. Rather, once a request is identified by field staff as unusual in some way, a separate less formalized system which relies on the knowledge and experience of senior staff is used to make decisions.
- 6.38 We found that these measures, which are designed to provide reliable land disposition decisions, do provide a reasonable degree of consistency. However, the control features function with varying degrees of success.
- 6.39 With respect to the first control feature, we agree that regional delivery through professionally trained staff is suited to making the subjective decisions inherent in the program.
- 6.40 However, the second control feature is not as well suited to the program. The Ministry has tried to develop very specific manuals. But because of the wide variety of factors involved and the amount of judgement demanded of staff making land use decisions, it is impractical to develop manuals which are comprehensive enough to cover all possible situations. One piece of land does not have exactly the same characteristics as another and, in British Columbia, there are distinct regional differences in the demands for land and in the circumstances in which it might be proper to make land available. Therefore, even though the Ministry's written policies and procedures are detailed, we found that they do not include all situations encountered by staff and that various sections appear to be contradictory. Also, because of the large number of changes made to policy, a significant portion of the manuals is out of date at any given time. As a result staff encounter cases which require them to make decisions without written guidance. In situations where significant judgement is required and one set of circumstances is never exactly like another, detailed and specific written manuals may not be the best form of guidance. Rather, having staff share a common understanding of the principles to be used to guide decisions may often prove to be a more effective management control.

- 6.41 In addition, supervisory reviews must be detailed to be effective because of the subjective and complex nature of the land disposition decisions. However, the high volume of applications and lean regional staffing prevent such a comprehensive review being conducted on a meaningful number of files.
- 6.42 There are also difficulties with the third control feature, the process established to handle nonroutine requests for Crown land. Field staff do not have a common understanding of what constitutes a nonroutine request which should be channeled into the exception process rather than handled in the normal way. Therefore applications of a similar nature may be considered routine by one staff member but treated as nonroutine by another staff member in the same or another office.
- 6.43 Moreover there is no assurance that those applications that actually get into the system for nonroutine requests will be decided in a consistent way. The criteria to be used in decision making and the standards to be met are not delineated anywhere. Therefore each decision maker may determine for himself what factors are relevant in a given case and the relative importance of these factors.
- 6.44 Our work in this area was designed to determine whether the Crown land disposals administered by the Ministry are reasonably controlled. We concluded that, although they could be strengthened, the controls are adequate to achieve a reasonable degree of consistency in individual land disposition decisions. But we also concluded that the overall policies are inadequate to provide reasonable control over Crown land dispositions.

Accountability Information

- 6.45 The Legislative Assembly is ultimately accountable for the administration of Crown lands. As a practical matter, it has delegated the stewardship of the Crown lands of the Province to the Government. In response, the Government owes the Legislature and the public an explanation of what it has done with this trust.
- 6.46 We found that the Ministry does not report adequately to the Legislative Assembly or to the public about the Crown lands under its administration. The Ministry faces a major problem in developing the required accountability information without information about the inventory of Crown land it manages. As indicated previously the Ministry now is making a major effort to acquire this information.
- 6.47 Another important aspect of accountability relates to the dissemination of program descriptions and results. Those members of the public wishing to acquire Crown land are able to get information about disposition programs. However, it is important that the public at large also have an accurate understanding of Crown land and ministry programs as it is the public's resource which is being used. In addition, an accurate public perception of Crown lands is important in making optimum disposition decisions since a public misinformed about Ministry programs or the state of the Crown land inventory may exert pressure for inappropriate decisions.

- 6.48 The Ministry has recognized the need for improved communication and is endeavouring to be more active in explaining its programs and the state of the Crown land resource. Although it may be several years before the information required for acceptable public accountability is accessible, there are improvements that can be made now.
- 6.49 Several of these were recommended to the Ministry in our report on the ministry's annual report last year. The Ministry is striving to upgrade the information presented in its annual report and improvement is expected starting with the 1985 report.

Crown Land Special Account

- 6.50 Our audit of Crown land included a review of the Crown Land Special Account.
- 6.51 The account originally began as the Housing Fund. Started in 1973, the Housing Fund was established over a period of years by monies provided through voted appropriations from the main fund of the Government, the Consolidated Revenue Fund. During the early years, the balance in the Housing Fund was rather limited and the purposes for which the monies could be used were quite restricted. Generally the Fund was used to finance specific projects related to housing. Most of the expenditures from the Fund were recoverable so that after an initial start-up period monies began flowing back into the Fund.
- 6.52 By 1978 the Housing Fund was self-sustaining with loan repayments, interest and other earnings being sufficient to finance further projects without the need for monies to be provided from the Consolidated Revenue Fund. Late in 1978, the Ministry of Lands, Parks and Housing was formed and the name of the Fund was changed to the Crown Land Fund. At that time the revenues of the Fund were expanded to include proceeds from the sale or lease of Crown land and the programs financed through the Fund were broadened to include financing land projects.
- 6.53 In 1980, the Government approved a further broadening of the use of the Fund to include non-recoverable expenditures.
- 6.54 Major changes were made to the Fund in 1982. The Crown Land Fund became a special account of the Consolidated Revenue Fund rather than a separate fund. At that time, the Account ceased to have assets in its own right because the Crown Land Fund's assets were transferred to the Consolidated Revenue Fund. With this change the Special Account represented a balance which was designated for those purposes formerly approved for the Crown Land Fund and which could be expended by the Government without further legislative approval.
- 6.55 Later in 1982, the Government also approved the use of the Account for administrative and overhead costs of the Ministry relating to land projects. These costs previously had been paid from the Ministry's annual voted appropriations.

- 6.56 Subsequently, the Account has been used to finance the British Columbia Home Program, computer acquisitions and parks capital expenditures.

Audit Objectives

- 6.57 Our audit was designed to report:
- whether the Crown Land Special Account administered by the Ministry is reasonably controlled; and
 - whether the Ministry provides the Legislative Assembly with sufficient, reliable information on the Crown Land Special Account.

Conclusion

- 6.58 The Ministry has complied with the Account's statutory requirements. However, we have concluded that the statutes governing the operation of the Crown Land Special Account do not provide the Legislature with adequate control over spending from the Account. Accordingly, we recommend that, to achieve the necessary control by and accountability to the Legislature, the Crown Land Special Account be eliminated and the uses formerly made of the Account be incorporated into the regular vote structure. Any funding required by the programs in addition to the annual voted amounts should be provided according to the provisions of the *Financial Administration Act*.

Control of the Crown Land Special Account

- 6.59 The *Ministry of Lands, Parks and Housing Act* gives the Minister the power to expend money out of the Consolidated Revenue Fund without further authority or specific appropriation from the Legislature and without any specific accounting to the Legislature.
- 6.60 In 1973, when the Crown Land Special Account was set up by the Legislature as a special purpose fund, it had restricted uses and restricted funds. Since then, through numerous changes, it has evolved to permit the Government to pay money for any ministry purpose to the extent of the Account which is currently approximately \$345 million. Recently the expenditures from the Account have been increasing and the purposes for which monies are expended have become more varied. The Crown Land Special Account now provides more money for ministry programs than do voted appropriations and it funds a significant portion of the costs of operating the Ministry.
- 6.61 A basic tenet of the parliamentary system is the principle of legislative control over finances. The Legislature normally fulfills its role through discussion and approval of expenditures at the time they are proposed, and through a review of those

expenditures after they have been made. However, the uses of Crown Land Special Purpose Account are not subject to the control and scrutiny of the Legislature. The Account has no specific purposes, has no annual vote, and has no formal accountability. But it does have resources amounting to about \$345 million.

- 6.62 We believe the uses made of the Crown Land Special Purpose Account should be funded through the regular process of voted appropriations. In that way the expenditures currently made from the Account would be subject to the same scrutiny as other expenditures, and the activities currently financed through the Account would be forced to compete with all other programs for scarce government resources.

Computerization

- 6.63 In the fall of 1983, the Ministry of Lands, Parks and Housing began a major computerization project. The systems being developed were to meet significant business needs in the lands section of the Ministry, to accommodate decentralization of the financial function from the Office of the Comptroller General to the Ministry, and to enhance office automation. Certain aspects of this computerization were innovative with respect to standard government practice at that time.

Audit Objectives

- 6.64 Our audit was designed to report:
- whether the process being used by the Ministry will ensure that the systems being developed will be effective.
 - whether the systems are being developed economically.

Conclusion

- 6.65 We found that the systems development process being used by the Ministry should result in effective systems that will enable the Ministry to operate more efficiently in the future and to provide better service to the public.
- 6.66 However, we also found that the ministry executive did not exercise sufficient financial control over the project. Certain technical decisions were made at the beginning of the project without proper analysis of the costs, risks and alternatives, and specific enhancements were adopted for individual systems throughout the project without recognition of their full impact on the overall costs of the computerization.

Systems Effectiveness

- 6.67 The Ministry prepared a plan in the summer of 1983 at the outset of the computerization project. This plan correctly identified the most significant opportunities to make needed improvements in program delivery and it recommended an appropriate technical solution.
- 6.68 We found the process used to develop and install the individual systems followed sound project management practices. The Ministry handled the difficult chore of meshing the work and responsibilities of both users of the systems and people with technical skills particularly well compared to computer industry norms.
- 6.69 A number of the systems developed under the plan form an integral part of the Ministry's business operation and its major accounting system. As a result, adequate internal controls are important in these systems.
- 6.70 We found that the process used to develop and implement the new systems should provide adequate controls. The Ministry did not systematically assess its control needs or the cost effectiveness of control alternatives prior to designing its systems. Rather, a systematic review of controls was performed after the systems were ready for use. This approach, although inherently less efficient, should ensure that acceptable control standards are met.
- 6.71 The Ministry will benefit from the systems delivered by the computerization project.

Costs of Systems Development

- 6.72 The computerization planned by the Ministry in the fall of 1983 was a complex, multi-year undertaking that would require several million dollars and have a significant effect on the Ministry's method of doing business for years to come. The decision to proceed with the project was clearly one for the ministry executive to make with full knowledge of the benefits, costs, risks and alternatives. And once the decision to proceed had been made, the project, because of its significance, warranted continued executive monitoring of its progress.
- 6.73 The Ministry's original plan called for the expenditure of \$2 million over three years to complete the computerization. However, actual expenditures will be significantly higher than the planned amounts, perhaps reaching \$4 million or more before the project is completed.
- 6.74 Although it is not practicable to determine the actual amount of additional cost which is attributable to a particular factor, we believe that most of the additional cost arose as a result of ministry management not realizing the full impact of the technical decisions they made.

- 6.75 A major part of the cost increase resulted from the Ministry's choice of computer configuration.
- 6.76 The Ministry's original plan proposed installing minicomputers in each of its major operating centers to support the systems which were to be developed and to provide a base for office automation. The ministry executive approved this plan in 1983.
- 6.77 However within three months of receiving executive approval the original plan was changed significantly. The ministry executive chose a centralized computer configuration instead of the decentralized one proposed in the plan.
- 6.78 We believe that a technical analysis of this choice at the time it was made would have shown that the new computer configuration was likely to be substantially more expensive than the original one. However, a revised plan which estimated the effects of the change on costs and scheduling was not drawn up. The Ministry's technical staff confirmed that the new configuration was technically capable of performing the job, but they did not prepare an in-depth re-evaluation of all the cost factors and risk factors. As a result the executive who approved the change do not appear to have been aware of the full extent of the risks they were taking or of the cost consequences of their choice.
- 6.79 Some part of the cost increase also resulted from specific enhancements in the capability of individual systems during their development. Although each specific enhancement was approved by the ministry executive, the cost implications of the changes were only partially identified. Each enhancement had an immediate and direct cost which was identified. But, because these enhancements also required additional computer capacity, there was also a substantial, deferred cost which was not foreseen by the ministry executive when they made decisions on individual changes.
- 6.80 The difficulty the executive have had in dealing with the technical issues of computerization is not uncommon in government or industry. Senior management cannot be expected to have a thorough knowledge of all of the technical issues and therefore they are forced to rely on specialist advice. However, there are problems obtaining such advice. The main source of computer expertise within the ambit of the Government resides in British Columbia Systems Corporation (BCSC). However, ministries frequently perceive that the Corporation has a conflict of interest when it comes to providing unbiased advice since BCSC has its own products and services to sell. Treasury Board, which should have reviewed the Ministry's computerization plans before the project started, did not have a strong technical capability in the computer field at the time the project was undertaken.
- 6.81 In addition to the controls exercised by the Ministry, Treasury Board directives required the Ministry to obtain the Board's approval before the project was undertaken. However, this approval was neither sought by the Ministry nor requested by

Treasury Board even though Treasury Board staff were aware of the computerization project through discussions with ministry staff and through requests from the Ministry to reallocate funds to the project.

- 6.82 The Ministry was able to finance the project until mid-1985 through its regular voted appropriations by reallocating funds from other activities. Only in mid-1985 did the Ministry make its first overt submission to Treasury Board for more money for the project. At that time Treasury Board approved use of the Crown Land Special Purpose Account for this additional funding.

Significance of the Ministry of Lands, Parks and Housing Experience for Other Ministries

- 6.83 As stated previously, many aspects of the Ministry's computerization were innovative with respect to normal practices in the British Columbia government at the time they were undertaken.
- 6.84 We believe several aspects of the experience of the Ministry of Lands, Parks and Housing would be of value to other ministries embarking on their own computerization projects. Therefore we have provided the following comments.

SELECTING COMPUTER PRODUCTS

- 6.85 Since the late 1970's most government computing has been centralized on BCSC computers which were shared by all government ministries.
- 6.86 As part of its new computerization program the Ministry of Lands, Parks and Housing installed its own in-house central computer. In addition it selected a new database product which had not been used previously in the government. Despite the problems encountered by the Ministry of Lands, Parks and Housing in its computerization, we have concluded from our review that, in the proper circumstances, other ministries could benefit by installing their own computers and by employing new software products. However, each ministry should carefully analyze its particular needs and consider the support costs as well as technical features before making its choice.

SYSTEMS DEVELOPMENT

- 6.87 This audit provided our first opportunity to evaluate the development of computer systems by a ministry since BCSC relinquished its monopoly and turned systems development back to ministries. We found the Ministry of Lands, Parks and Housing used some new approaches to systems development.
- 6.88 The Ministry obtained the skills required to complete the project through a mix of its own staff, BCSC personnel and outside consultants. It also employed a user-oriented organizational approach and developed the systems through prototyping.

- 6.89 We concluded that these methods were effective and economical for the Ministry of Lands, Parks and Housing and that they should be considered by other ministries developing computer systems.

ELECTRONIC MAIL

- 6.90 Electronic mail or electronic messaging was included in the Ministry of Lands, Parks and Housing's current computerization program. Most users have responded favorably to this new service. However, no analysis of cost versus benefit has been done yet by the Ministry. We believe other ministries should complete this analysis before making large irreversible investments to provide electronic mail.

MICROCOMPUTERS

- 6.91 Microcomputers are now in use throughout the Government. The Ministry of Lands, Parks and Housing acquired its microcomputers to improve the computer literacy of staff who would need to become familiar with computer concepts to operate the major new systems the Ministry would be installing under its computerization plan. In addition, this equipment was intended to provide individual department managers with a way of meeting their minor computer needs during the period when the Ministry's professional systems staff would be devoted to the development of major systems. The Ministry was successful with both of these objectives. However, with the introduction of the major systems, there is an opportunity to utilize the existing microcomputer equipment for other purposes. This reallocation requires the active participation of management to ensure optimal usage of this significant asset pool.
- 6.92 Other ministries should review the deployment of their microcomputers on a periodic basis to ensure that the equipment is still being used in the most desirable manner.

Social Housing

- 6.93 Over the years the Government has assisted people who were unable to satisfy their need for adequate and affordable housing.
- 6.94 One way the Government assists is by providing more income to individuals unable to afford adequate housing. The most common forms of income support for housing are the GAIN Income Assistance Program and Shelter Aid for Elderly Renters (SAFER), both of which are administered by the Ministry of Human Resources.
- 6.95 Another way the Government has assisted is by building and managing public housing projects. No new units have been constructed in this manner since 1978. Instead, the Government now provides assistance to others to help them to build

and manage social housing. This program is administered by the Ministry of Lands, Parks and Housing.

- 6.96 Under a 1979 Federal-Provincial agreement, the Federal government has responsibility for family housing and the Provincial government has responsibility for the housing needs of the elderly and the disabled. Although social housing for seniors and the disabled is administered by the Provincial government, the program remains a joint Federal-Provincial cost shared program with the Federal government providing substantial financial assistance. Assistance for family social housing, which is provided through cooperative housing associations, is funded and administered solely by the Federal government and thus, of course, was not included in our review.
- 6.97 Social housing for seniors is provided through not-for-profit societies. Since 1982, new units usually have been located in smaller communities where there is a lack of appropriate rental accommodation for seniors.
- 6.98 Social housing for disabled people also is supplied through not-for-profit societies. Recently, these units have been required primarily to meet the needs of individuals moving from institutions into group homes.
- 6.99 The Government controls the social housing program by limiting the number of units which are approved in any year and by setting conditions on the type and cost of the units which may be built. The demand from societies to build these units has exceeded the number of units available for allocation in recent years.
- 6.100 Once the new social housing projects are built, a related agency, the British Columbia Housing Management Commission (BCHMC), provides the not-for-profit societies, which are the owners and landlords, with advice on operating the facilities. In addition, BCHMC administers the Government's operating subsidy program.
- 6.101 Although the Government now provides assistance for social housing almost exclusively through not-for-profit societies, it continues to have an ownership interest in and to manage almost 8000 social housing units for families and seniors built in the Province with government funding over the 25 years up to 1979. Families and seniors continue to be eligible for these existing units as they become available. BCHMC acts as the landlord for this Government-owned housing.

Audit Objectives

- 6.102 Our audit was designed to report:
- whether the quality of the Ministry's systems of management and financial control provide reasonable assurance that the activities being carried out by the Ministry with respect to senior citizens' housing and group homes for the

mentally and physically handicapped are being delivered economically, efficiently and reliably; and

- whether the Ministry's responsibilities with respect to British Columbia Housing Management Commission are met.

Conclusion

- 6.103 We found that the Ministry delivers its portion of the Government's overall social housing within a framework which does not provide for significant coordination with those parts of the program delivered by other ministries. Nor does the framework encourage the attainment of the Government's overall program goals.
- 6.104 We also found the Ministry recently has improved both the economy and efficiency of delivering social housing units and that it has developed an effective relationship with the British Columbia Housing Management Commission.

Coordination of Social Housing Programs

- 6.105 Information brochures produced by the Government, and other documentation relating to social housing programs, outline the Government's overall principles for social housing. These principles describe programs which integrate social housing needs that arise as a result of both housing affordability problems and housing adequacy problems. However, the Ministry of Lands, Parks and Housing attempts to deal with only housing adequacy problems. The Ministry is interested primarily in providing housing in communities where suitable housing for seniors and the handicapped does not exist in adequate quantities.
- 6.106 The Ministry of Human Resources addresses the housing affordability problems of seniors through its SAFER income assistance service. SAFER reduces the demand for new government subsidized housing projects for seniors. Although the Ministry of Lands, Parks and Housing has no influence on SAFER rates, these rates are of concern to the Ministry as it is not the Ministry's intention to accommodate seniors whose only housing problem is affordability.
- 6.107 Similarly, the Ministry of Lands, Parks and Housing is not involved in decisions made by the ministries of Health or Human Resources about whether the disabled should have institutional care or reside in the community.
- 6.108 Because different ministries administer only parts of the Government's overall social housing program, no single ministry feels responsible for accomplishing the goals of the overall program. Nor does one ministry feel responsible for a leadership role in housing seniors or the disabled. As a result, we found that the three ministries concerned with social housing have not developed close links with one another.

- 6.109 This divided responsibility also has created difficulties in program delivery. Government direction is to deinstitutionalize disabled persons wherever practical. When the disabled were moved from institutions and integrated back into the community, under the major deinstitutionalization thrusts in 1984, the staff of the ministries involved were uncertain of their respective roles. This led to inefficiencies in establishing the group homes which were required on short notice to house those being moved. It also made it necessary for the not-for-profit societies involved with establishing these facilities to deal with more than one government ministry.
- 6.110 Better coordination among those government agencies with a role in providing adequate housing for seniors and the disabled would enhance achievement of the Government's overall goals. With the present organization, no one agency is responsible or can be held accountable for achieving the desired results.
- 6.111 There is also a division of duties between the Ministry of Lands, Parks and Housing and British Columbia Housing Management Commission.
- 6.112 As mentioned previously, when our audit was undertaken ministry staff were involved in establishing new social housing units through not-for-profit societies. Once the project was constructed, the not-for-profit society managed the facility but dealt with BCMHC on matters concerning day-to-day operations and the ongoing operating subsidies.
- 6.113 With capital projects of this type, the design and materials used in the construction of the facility affect its operating costs. The goal is to achieve the lowest costs, both capital and operating, over the life of the building. However, the organization of the program focussed ministry staff on capital costs while the staff of BCHMC were concerned primarily with the ongoing operating costs.
- 6.114 The Ministry had recognized the value of coordination with BCHMC and in an effort to overcome this problem established standards to be applied in the construction of social housing units. In addition, procedures were adopted whereby BCHMC staff would review and approve the plans and specifications for all facilities before they were built. However, in practice these procedures did not work as well as intended. As a result, the knowledge that BCHMC staff had about these facilities frequently was not passed on to ministry staff prior to construction.
- 6.115 In June 1985, while our audit was in progress, the Ministry made changes and consolidated responsibility for all aspects of the programs in BCHMC. The Commission became responsible for all social housing functions including research, planning and the delivery of new social housing projects. This change should ensure that the cumulative knowledge of staff concerning both construction and operating costs is considered prior to constructing social housing and should improve program efficiency as well. In addition, the not-for-profit societies will be able to deal with only one government agency concerning the funding, construction and operations of their facilities.

- 6.116 The Ministry also has a need to coordinate its activities with the Federal government since it also contributes financially to housing projects for seniors and disabled persons. Prior to our audit, an agreement had been made with Canada Mortgage and Housing Corporation (CMHC), which handles federal involvement, in an effort to reduce the amount of duplication in the work of the two governments in providing housing for seniors.
- 6.117 The Ministry had recognized the need for a similar agreement in regard to housing for the disabled at the time of our audit. However, such an agreement has not been completed. As a result, the activities of the two governments overlap in some areas.

Delivery Alternatives

- 6.118 The Ministry has been actively seeking ways of improving the economy and efficiency of the social housing program. Over the years different methods of delivering social housing units have been used.
- 6.119 Since 1955, the Province has provided capital grants to not-for-profit societies to construct, own and manage senior citizen housing facilities. Since 1975, provincial rent subsidies also have been provided to most of these facilities. Some 4000 seniors units were designed, built, owned and managed by the Federal and Provincial governments in the 1970's. In an effort to be more cost effective this delivery method was changed so that since 1975 not-for-profit societies have fully assumed the design, construction and ongoing management for all new projects.
- 6.120 Until recently, not-for-profit societies developed senior citizen housing projects through the traditional process of design and public tender. The society would engage an architect to prepare plans and specifications suitable for public tendering. Public tenders then would be called following normal industry practice.
- 6.121 However, in the past three years, the Ministry has been encouraging societies to use alternative procurement techniques where suitable. As a result, a number of projects have been developed by societies through proposal calls. Under this arrangement the society invites proposals for the approved number of housing units from persons interested in supplying the units. The actual design is left up to the bidder. In some proposal call situations the site for the housing also is left up to the bidder, while in others there is a short-list of acceptable sites specified in the proposal call, or the site is predetermined. The society then selects the proposal that best meets its cost and design criteria after ensuring provincial guidelines are met. The proposal call method of procurement is being tried in an effort to achieve economies through the use of innovative designs and through the adoption of new building techniques and materials.
- 6.122 The Ministry has engaged independent consultants to compare the results of using the proposal call method with those of the design and tender method. The con-

sultant concluded that the quality of the units resulting from the methods was comparable, but that the proposal call projects were less expensive than those developed through the traditional method. We reviewed the consultants' work and found that the methods they used should result in valid conclusions.

- 6.123 BCHMC, which now has taken over the Ministry's role in establishing senior citizens housing, is continuing to encourage societies to use the proposal call method of procurement in situations where it is appropriate.

Ministry Relationship with British Columbia Housing Management Commission

- 6.124 During our audit we reviewed the manner in which BCHMC was established and given its purposes, powers and responsibilities. We also considered the way the Commission is financed, the manner in which government priorities are communicated and translated into operational goals by the Commission, and the methods used by the government to ensure the Commission's activities comply with prescribed legislation, policies and directives. In addition, we reviewed the Commission's reporting of information relating to plans, resource requirements, achievement of objectives, discharge of responsibilities and performance.
- 6.125 We concluded that the Ministry has established an effective relationship with BCHMC. The Order in Council which sets out the Commission's purposes, powers and responsibilities is quite clear and specific. In addition, the Ministry has entered into a formal agreement with the Commission which clarifies the roles and responsibilities of each with respect to their main program activities.
- 6.126 BCHMC receives funding for its programs through the Ministry, which subjects the Commission's budgets to the same scrutiny as its own and considers the priority of Commission programs in conjunction with the needs of Ministry programs.
- 6.127 We found the Ministry effectively directs and controls the Commission's activities. The Government appoints the Commissioners, and defines and communicates policy to the Commission which, in turn, understands the powers given to it.
- 6.128 Ministry monitoring of the Commission's activities and BCHMC reporting of its plans, performance and achievement of goals, while adequate, could be strengthened. The Ministry monitors the activities of the Commission on a regular but informal basis. Although there is frequent dialogue between the Ministry and the Commission which includes evaluation of the Commission's performance, there is no systematic, periodic review which ensures that all of the important aspects of the Commission's performance are monitored. The Commission also reports to the Ministry on its performance regularly but informally. In addition, BCHMC produces an annual report which includes some performance information. However this reporting is not comprehensive and could be improved.

Parks and Outdoor Recreation

- 6.129 The first provincial park was established in 1911. In the early decades, large parks were established to encourage tourism and small parks were created to serve nearby communities. During the 1950's and 1960's many small roadside parks were developed to meet the public's interest in touring and camping. In the 1970's public concern with environmental quality led to the establishment of large parks providing wilderness recreation and appreciation.
- 6.130 The park system today includes about 370 provincial parks, recreation areas and conservancies spread throughout the Province. These facilities occupy about 4.5 million hectares or 5% of the provincial area. Thirty-nine of the parks are larger than 5000 hectares, while over 300 are relatively small. These parks offer a variety of features and recreational opportunities including wildland, beaches, campgrounds, day-use areas and trails. The provincial parks system attracted about 15.2 million visitors in 1983.
- 6.131 The Parks Division of the Ministry is decentralized with staff located throughout the Province. In recent years the Division has achieved significant staff reductions primarily by transferring ski operations to the private sector, providing campground services through private sector contractors, and implementing a reorganization which reduced the number of regions from six to three.

Audit Objectives

- 6.132 Our audit was designed to report:
- whether the Ministry's system of management and financial control provide reasonable assurance that ministry programs are being delivered economically, efficiently and reliably; and
 - whether the Ministry has provided the Legislative Assembly with sufficient, reliable operational and financial information to allow Members to assess ministry performance.

Conclusion

- 6.133 Overall, we found the Parks and Outdoor Recreation Division to be managed with due regard to economy and efficiency. However, improved performance information would allow the division to manage its programs more effectively and to provide the Legislative Assembly and the public with better operational information to assess ministry performance. The Division recognizes the need for this information and it is working satisfactorily towards obtaining it.

Planning

- 6.134 We found that the Parks and Outdoor Recreation Division has a strong sense of purpose and direction which are clearly related to the division's mandate. The Division recently has devoted considerable effort to developing a long range provincial park plan. This plan identifies proposed changes to the existing park system including additions for new parks, deletions of existing parks and revisions to current park boundaries. In preparing the plan, competing land uses were considered along with the natural landscapes and recreational potential of the land. This planning process has been well managed and thorough.
- 6.135 However, at the present time, the systems plan intentionally does not include a timetable or identify the cost of developing the system. This information, together with the downstream costs of maintaining the system, is important to the Legislative Assembly and to the public. The Division recognizes this, but because it believes there would be significant effort and cost associated with developing the information, proposes to offer the cost data later, when detailed proposals are brought forward. We believe that this approach, while efficient from the division's standpoint, places decision makers in the difficult position of having to endorse a long range plan without sufficient information as to the costs of carrying it out.
- 6.136 We also found the Parks and Outdoor Recreation Division has almost completed a change in its direction from an inward focus on park facilities to a focus on the visitors who use those facilities. With this change, the Division has defined more clearly its role with respect to other agencies in the tourism industry, and it recently has begun to develop a closer working relationship with the Ministry of Tourism. We believe this shift in outlook should improve the recreational and economic opportunities provided by the provincial park system.

Organization

- 6.137 We found the Parks and Outdoor Recreation Division well organized to develop and maintain parks. Despite a recent major reorganization and despite a complex organization structure which incorporates several staff levels, we found that there are no significant gaps or overlaps in duties and that generally staff have a clear understanding of their responsibilities and authorities. Further, although there have been significant reductions in staff recently, we found the Division is adequately staffed with dedicated individuals who are appropriately qualified to deliver the activities the division now undertakes.
- 6.138 However, we also found the Parks and Outdoor Recreation Division operates relatively independently of other groups within the Ministry or within the Government. The Division has not developed close working relationships with the Ministry's central financial or information services groups, and the activities of its historic

parks at the working level are not closely coordinated with those of the Heritage Conservation Branch, the Provincial Museum or other government agencies with similar mandates.

Performance Information

- 6.139 We found the Division's planning and budgeting process to be above average when compared to others we have reviewed. Annual operating plans are used to prepare the budgets. These operating plans in turn are related to the division's long-range plans and goals. Because the current year priorities are explicitly stated, and because of the participatory nature of the process, the plans and budgets are understood and supported by staff.
- 6.140 However, the planning and subsequent control and evaluation efforts of the Parks and Outdoor Recreation Division would be improved if target performance indicators were established in areas such as park use, resource management and park costs.
- 6.141 Some information on park usage is captured. Annual attendance figures are recorded on a park-by-park basis and are compared to prior years' figures for the same park to establish trends. In addition, individual park use statistics are aggregated and analyzed to identify macro trends. However the Division has not established a reliable way of determining reasons for these trends.
- 6.142 The most often used measure of success relating to park use is customer feedback — favourable and unfavourable. The Division recognizes that relying on the customer to provide unsolicited feedback is an unreliable indicator of performance. Therefore, it has recently implemented a project to define "customer satisfaction" and to develop a formal system to capture, summarize and utilize this needed information.
- 6.143 Once this project is complete, the Division will have a much better understanding of the reasons for park visits, the things people like or dislike about parks, the number of trips that are repeat visits, and the length of time people stay in parks. It will also have a more complete picture of who the non-visitors are and why they don't visit parks. The Division will then have a better basis for evaluating actual attendance figures, for undertaking an effective marketing program, for making changes to parks and park services, and for deciding on how best to allocate resources.
- 6.144 Similarly, although the Division has established broad goals and principles for the conservation and preservation of the natural resources it manages, no specific performance goals or short-term measures of success have been developed to guide the day-to-day operations and to ensure these long-term goals are reached. The Division recognizes a need for more detailed performance measures, but to date its

efforts to develop them have been hampered by a lack of adequate information about the current state of the park's natural resources.

- 6.145 In addition, the Division has not established performance standards with respect to park costs. Again, part of the difficulty of developing such standards results from the division's lack of adequate information about current operations. Certain detailed park costs are not routinely captured and reported, resulting in incomplete historical data to use as a baseline. Thus, decisions to provide services, including the choice of delivery method, and the subsequent evaluation of park activities must be based to a large extent on laborious manual analysis or intuition. Staff believe they have a clear idea of what information is needed, but to date specific performance measures have not been developed.

Private Sector Contracting

- 6.146 Since 1982, the Ministry of Lands, Parks and Housing has significantly reduced its number of employees in response to government policy. A large proportion of this staff reduction was achieved in the Park and Outdoor Recreation Division. One of the main ways of accomplishing this decrease was through a change in the program's delivery method. People were hired on contract from the private sector to provide park services which were formerly delivered by government employees.
- 6.147 Although some park services were provided by private sector contractors prior to 1982, this practice has been extended significantly. Contract staff now are engaged both to construct new park facilities and to maintain the parks. In some cases contract staff provide all services in a park while in others only selected services are contracted out.
- 6.148 All of the analyses of contracting opportunities done to date indicate that there are some situations in which contracting park services is clearly more economical, and others in which using ministry staff is clearly more cost effective. The challenge for management is to use contract staff in those situations where it is more economical, but to limit contract service delivery to only those situations.
- 6.149 Before the division began contracting extensively in 1982 it assessed which parks and which park services presented the best opportunities for contracting. However, these assessments were based on the knowledge and experience of ministry staff rather than on a comparison of the estimated contract costs with the actual historic costs of providing these services through ministry staff.
- 6.150 In November 1984 the Parks and Outdoor Recreation Division employed a consultant to analyze whether there had been a cost saving as a result of providing park services through private sector contractors. This evaluation proved inconclusive.
- 6.151 As a part of our audit we reviewed 108 contract completion reports prepared by the Ministry's contract supervisors and financial management reports produced from

the Ministry's central accounting system. We also interviewed numerous ministry staff members. This work also turned out to be inconclusive.

- 6.152 The consultant's study and our work also tried to compare the quality of service provided by contractors with that provided when park services were supplied by government employees. However, again because of the poor quality of the baseline and assessment information, no overall conclusions could be drawn.
- 6.153 The evaluations of the cost effectiveness of contracting park services have been hampered by the lack of accurate historic cost data. Because the Ministry did not have an effective cost accounting system in the past, the Division does not have reliable information about the costs it incurred to provide with its own staff those services now contracted out to the private sector. Therefore there is no historic base against which to compare the costs of contracting. As a result, we concluded that the Division cannot demonstrate that the use of contracting has been cost effective in all cases where it has been used.

Financial Management and Control

- 6.154 Since 1979 we have carried out reviews of financial management and control in nine ministries of government. These audits examine the manner in which ministries manage their financial affairs. A financial management and control review was done in the Ministry of Lands, Parks and Housing in late 1979 and reported in my 1980 Annual Report. This year's review presented us with our first opportunity to follow up on our previous audit.

Audit Objectives

- 6.155 Our audit was designed to report:
- whether the Ministry's financial management and control systems provide reasonable assurance that the financial affairs of the Ministry are controlled and are managed economically and efficiently.
 - whether the state of financial management and control in the Ministry have improved from that which existed when we undertook a similar study in 1979.

Conclusion

- 6.156 Overall, the Ministry has improved its financial management since 1979. A number of concerns raised in the 1980 Report have been addressed and there have been noticeable improvements.

- 6.157 However, while there have been improvements, several concerns raised in the 1980 report have not been resolved satisfactorily and we have concluded from our 1985 study that the financial management and control function requires further development to provide management with the support it needs.

Organization of the Financial Function

- 6.158 Overall there appear to be adequate numbers of financial staff to carry out the necessary financial activities throughout the Ministry. Many financial staff, however, particularly in field offices, require better qualifications and more experience if they are to improve performance and meet management's expectations of their roles. Staff generally recognize that higher skill levels are being demanded of them, but there is little evidence that these additional skills are being acquired.
- 6.159 We found that the ministry-wide role of the central financial group is recognized by ministry staff more clearly now than when we conducted our review in 1979.
- 6.160 However, we concluded that the knowledge and skills of the Executive Financial Officer (EFO) and Senior Financial Officer (SFO) are not fully utilized by the Ministry. These individuals should play both a technical and administrative role. We found that, with a few exceptions, the EFO and SFO are fulfilling their administrative role. However, ministry staff frequently do not ask senior financial staff for advice in areas where their technical expertise would be valuable such as financial analysis or advice on accounting or financial matters. For instance, there is no requirement for either the EFO or SFO to review the financial implications of proposed policy changes.
- 6.161 In addition, perhaps partly because the role of senior financial staff is not fully appreciated, the EFO's non-financial responsibilities have increased to the extent that he may not be able to devote sufficient time to financial affairs. Also, it is not clear that the EFO reports to the Deputy Minister on all financial matters as is appropriate and as is required by the Government's financial administration policy.

Budgeting

- 6.162 Ideally, budgets should be developed directly from approved operating plans. The Parks and Outdoor Recreation Division of the Ministry uses this approach to budget preparation and we have commented elsewhere in our Report on their success with it.
- 6.163 However, throughout the rest of the Ministry it is widely accepted that senior management allocate the available funds to operating units without direct reference to operating plans. This process does not link the resource allocation process to operations or to performance goals.

- 6.164 In a new initiative, the Ministry has developed Key Success Factors to measure management performance. This process is valuable and could be improved further by identifying the level of resources required to attain these objectives.

Accounting Systems and Controls

- 6.165 The Ministry began using a comprehensive new accounting system, the computerized Walker system, on 1 April 1985. At the time of our audit not all aspects of the system were operational and financial reports for all management levels were being prepared manually as the computerized reports were not yet available.
- 6.166 We believe that the Ministry, in an effort to implement the system at the beginning of a government fiscal year, started using the system before it should have. Many aspects of the system were not complete when the implementation took place. However, despite the additional risks involved with the early start, and although a number of control weaknesses were identified during a post implementation audit of the system by a public accounting firm, the new system has worked satisfactorily.
- 6.167 The Ministry has established an internal audit function since our 1979 financial management report. Although some worthwhile work has been done in this area, we believe benefits in the future could be increased by improving the long-term internal audit plans. More specifically, criteria for assessing possible projects should be developed and manpower plans should ensure that the right types and numbers of audit staff are available to do the required work.

Acknowledgements

- 6.168 We appreciate the assistance provided to us by the Ministry's executive and staff throughout our audit. Since a comprehensive audit is a cooperative undertaking, our work required a commitment from the Ministry to be successful. Their involvement in terms of both time and interest greatly enhanced our audit work.

Ministry Report to the Legislative Assembly Concerning the Auditor General's Comprehensive Audit of the Ministry of Lands, Parks and Housing

The comprehensive audit of a Ministry by the Auditor General provides a Ministry with a valuable, independent and objective view of much of its operations and management.

The Ministry's following comments will concentrate on actions the Ministry has or is taking, and instances of disagreement with the Auditor General's conclusions.

1. Crown Land Administration

While a comprehensive inventory including all Crown lands would be useful, it would only partially assist in serving the needs of our clients and the high cost could not be warranted. However, as the Auditor General notes, the Ministry has, and continues to, satisfactorily develop computerized systems which will provide the most important inventory data and this will be expanded over time.

The Ministry has government direction to dispose of lands within its mandate by sale, lease or licence at market value. Where there are variations or clarifications required, the Ministry has sought and received specific guidance from Cabinet.

The complexities surrounding the disposition of Crown land make development of a simple set of policies to cover all programs, and a reporting system, virtually impossible. However, the Ministry will review the possibility of preparing a comprehensive statement endorsed by government respecting Crown land disposition policies, and has embarked upon a program to simplify its policies. The Ministry is satisfied that these policies are being applied, in a reasonably consistent fashion across the Province.

2. Crown Land Special Account

While concluding that legislative compliance and control at the Ministry level is adequate, the Auditor General's report concludes that the Legislative Assembly does not restrict use of the Account to activities and programs which are specific enough to constitute effective control. The Ministry has sought further guidance on this issue and during 1985 proposed a restructuring of the Ministry's vote structure and the Crown Land Account so that the Account would be used primarily to fund acquisitions and servicing or development of Crown lands, and to account for related recoveries and revenues from sale and leases of Crown lands. Treasury Board approved the proposal, effective the 1986/87 fiscal year.

The Ministry disagrees with the Auditor General's recommendation that the Crown Land Account be eliminated entirely. To achieve its mandate, it is

important that the Ministry have the ability to enter into multi-year project and land acquisition commitments, to be able to react quickly to the sudden changes which occur in the housing market and to recognize the basic accounting principle of matching costs and revenues directly relating to a given program or project in order to objectively measure financial performance.

3. Computerization

The Ministry is pleased with the Auditor General's recognition of our effective systems development program. We seek to be progressive in computerization to meet government's direction for increased productivity while consuming fewer FTEs and dollars.

The Ministry disagrees with the Auditor General's conclusion, "that the Ministry Executive did not exercise sufficient financial control over the project". The "project" is the Ministry's entire 3-year systems plan incorporating a considerable number of systems projects, and including the acquisition of certain hardware.

Executive made its hardware and operating software acquisition decision with full knowledge that, while the resulting cost would be more than other alternatives, the best value was obtained which effectively meets the Ministry's needs. Executive, today, is even more confident that the decision was best in terms of effectiveness, compatibility and capacity of the products to meet the Ministry's needs.

4. Social Housing

The Ministry is pleased with its long and successful history of providing social housing alternatives to senior citizens and disabled persons without committing the Province to unnecessarily increasing subsidy costs, and would welcome coordinative mechanisms in government for better identifying and funding housing and related support needs for seniors and disabled persons. The current Ministry Housing Program is being acclaimed by other government jurisdictions as excellent.

5. Parks and Outdoor Recreation

The Ministry is pleased that the Auditor General has recognized the Parks and Outdoor Recreation Division accomplishments in regard to its economy/efficiency, park planning process, visitor service orientation, organization and staffing and its operational planning process. As these accomplishments are viewed by the Ministry as being Key Success Factors for Provincial Park management, we appreciate these independently reported observations.

Given its particular mandate, the Parks and Outdoor Recreation Division is appropriately a separate organizational entity within the Ministry. It is the Ministry's view, however, that good and effective relationships have been de-

veloped by this Division with other organization units, both within the Ministry and within the Provincial Government at large.

The Ministry agrees with the Auditor General's observations that improved performance indicators and supporting performance reports would be helpful to the management of the Parks and Outdoor Recreation Division. Work has already commenced to improve both the forecasting and reporting systems.

The Ministry takes a different view from that of the Auditor General in regard to the success of private sector contracting. The Ministry has commissioned two separate reviews on this issue, one of which was conducted independently from the Ministry, while the second review involved Division Managers and the Ministry's internal auditor. Both reviews have come to the conclusion that private sector contracting has been clearly more efficient with no appreciable loss in service to the public.

6. Financial Management and Control

Lands, Parks and Housing not only seriously endeavors to recognize and assume all appropriate financial management and control responsibilities, but actively seeks further responsibilities and authorities in order to better manage, control and serve our clients. We seek to be progressive, including in automated systems, while recognizing the risks inherent in this. Further, we welcome audit scrutiny and commit ourselves to being held fully accountable.

We are pleased that the Auditor General has recognized these efforts and the improvements since her 1980 review, realizing that we will continue to move toward achieving a truly comprehensive system of financial management.

Professional Service Contract Review

Introduction

- 7.1 Each year I include in my Annual Report comments on weaknesses in financial control which come to my attention during the course of the audit of the Government's financial statements. As resources permit we also undertake more in-depth reviews of systems of financial controls. This year we performed such a review of the administration of professional service contracts.
- 7.2 Professional services are defined by the Ministry of Finance as services relating to one-time-only projects which require specific professional or management consulting expertise. Examples include ministry organizational studies, economic research and engineering work on a specific problem. Expenditures on professional services totalled approximately \$132 million for the year ended 31 March 1985, and approximately \$39 million for the five months ended 31 August 1985.

Purpose of the Review

- 7.3 Our review was designed to determine whether internal controls over professional service contracts were adequate. We also endeavoured to determine whether applicable policies, directives and guidelines issued by Treasury Board, the Ministry of Finance and the individual ministries were complied with for the contracts examined.

Conclusion

- 7.4 We concluded that internal controls established by the ministries for professional service contracts were generally adequate. However, certain policies, directives and guidelines issued by Treasury Board, the Ministry of Finance and the ministries had not always been complied with. In one particular instance deliberate steps appear to have been taken by officials of one ministry to avoid obtaining the necessary Treasury Board approval on a substantial contract. This indicated that improved monitoring by the central agencies responsible for setting and administering policies was necessary. In addition, I considered that there was a need for a clearer statement of policy with regard to employer/employee relationships, conflict of interest, and the tendering of contracts.

Scope

- 7.5 We reviewed a representative number of contracts on which payments were made during the five months ended 31 August 1985. This sample contained contracts entered into by all ministries of government. We interviewed staff who have

responsibility for contract administration within the ministries, as well as staff of the Ministry of Finance and the Ministry of Provincial Secretary and Government Services who set and monitor policies and procedures.

Audit Criteria

- 7.6 We assessed the adequacy of controls established against the following standards:
- authority for executing contracts should be clearly defined;
 - the format and content of contracts should meet the legal requirements of the Government;
 - responsibility for controlling contracts in the ministry should be clearly assigned;
 - payments for contract work should only be made if the contract requirements have been met;
 - payments on contracts should be properly recorded; and
 - all other requirements of Treasury Board, the Ministry of Finance and the Ministry should be complied with.
- 7.7 Further, we considered whether established policies and procedures adequately addressed significant aspects of contract administration and control.

Audit Findings

- 7.8 We have reported the detailed results of our review to each ministry. The findings are summarized by the aforementioned audit criteria.

AUTHORITY FOR EXECUTING CONTRACTS SHOULD BE CLEARLY DEFINED

- 7.9 To ensure that adequate controls exist for entering into a contract it is important that the ministries have clear guidelines on which employees may execute contracts and what levels of authority they have. These guidelines should be clearly documented and distributed throughout the ministry. The employees authorized to execute contracts should be in responsible positions, and their levels of authority should be relative to their positions.
- 7.10 In general, all of the ministries had clearly defined the authority of persons who are allowed to execute contracts. The information was well documented and disseminated throughout each ministry.

THE FORMAT AND CONTENT OF CONTRACTS SHOULD MEET THE LEGAL REQUIREMENTS OF GOVERNMENT

- 7.11 Policies and procedures established by the Ministry of Finance require that contracts entered into must be in written form and that ministries should, wherever possible, use the standard service contract available from the Ministry of Attorney

General. If the standard contract form is not appropriate, ministry officials may alter the standard contract in consultation with ministry legal advisors, to meet special requirements. If a standard format is not used, the contract must be approved by a ministry's legal advisor.

- 7.12 In our review we found instances where there were no written contracts for services being performed and paid for. The basis for payment was an invoice or, in one case, a prior year's expired contract. Amounts paid out without appropriate contracts were as high as \$35,000. We also encountered contracts which did not include all the basic terms called for in the general policies of the Ministry of Finance. Such basic requirements as the starting and completion dates, the details of the work to be done and the allowable amounts to be reimbursed were either omitted or were inadequately described. In one case the expense reimbursement was in excess of the amounts allowed by the Government. There were also contracts that were not prepared in the standard format, and not reviewed by the ministries' legal advisor to ensure that they met all legal requirements. Some contracts were deficient in that signatures were not witnessed as required, and some were not fully signed. Cases were also found where the work had been started prior to the contract being signed.

RESPONSIBILITY FOR CONTROLLING CONTRACTS IN THE MINISTRY SHOULD BE CLEARLY DEFINED

- 7.13 To ensure that proper controls are exercised over professional service contracts it is important that the responsibilities for controlling these contracts are clearly defined and documented.
- 7.14 In general, responsibilities for controlling contracts were clearly assigned and documented. We found only one instance of lack of documentation.

PAYMENTS ON CONTRACTS SHOULD ONLY BE MADE IF THE CONTRACT REQUIREMENTS HAVE BEEN MET

- 7.15 Controls in the ministries should ensure that payment is only made when the work has been performed or services have been rendered, the conditions stipulated in the contract have been met, and the amount charged is in accordance with the contract. Also, the approval for payments should be made by a person who is familiar with the requirements of the contract and in a position to determine that the work or service has been performed.
- 7.16 In our review we found that, in some cases, payments were made without proper supporting documentation. We also found a duplicate payment relating to travel expenses amounting to \$3,341, and another case where a ministry overpaid the contractor by \$1,000. In each of these cases the amount was recovered by the ministry involved. Government policy allows, in certain cases, the payment of advances to contractors. In general, advances were paid in accordance with this

policy. However, we found one case where, although the amount of expenses allowable under the contract was \$15,000, the total of advances made to the contractor with respect to expenses was \$25,300. There was no amendment to the contract to cover the excess payment, nor was the payment approved by the Deputy Minister as required by ministry policy. We also found one case where the authority for payment on a contract was given by a person not authorized to do so.

PAYMENTS ON CONTRACTS SHOULD BE PROPERLY RECORDED

- 7.17 To ensure that financial information generated in the ministries and ultimately in the Public Accounts is reliable, it is important that the payments relating to professional service contracts are recorded correctly. We found that all contract payments reviewed were properly recorded.

ALL OTHER REQUIREMENTS OF TREASURY BOARD, MINISTRY OF FINANCE AND THE MINISTRY SHOULD BE COMPLIED WITH

- 7.18 Policies in regard to professional service contracts are set by Treasury Board and the Ministry of Finance. These policies are supported by procedures developed by the Office of the Comptroller General and by the ministries themselves. Our review included an evaluation of compliance with these policies and procedures.
- 7.19 Treasury Board approval is required before a Ministry enters into any contract with a potential cost in excess of \$50,000 over a 12 month period. In our review we have found that this policy was not always complied with. In one ministry this requirement was avoided by splitting the total contract amount of \$350,497 into twelve different contracts, with the result that each individual contract was under \$50,000. Treasury Board approvals were not requested nor received for any of these contracts. This I view as a deliberate attempt to circumvent an important control on the expenditure of public monies.
- 7.20 Another policy requires that all service contracts with a total potential cost of \$25,000 to \$50,000 over a twelve month period be reported to the Chairman of Treasury Board. Many of the ministries did not comply with this policy.

Policy Issues

- 7.21 In the course of our review we noted a number of issues that were not adequately addressed by either the central agency responsible for setting policy or by the ministries themselves. There were three important areas where we felt that the policies were either vague or nonexistent.

EMPLOYER/EMPLOYEE RELATIONSHIPS

- 7.22 The Government's policy states that "Personal service contracts should not be used to establish an employer/employee relationship." Ministries have interpreted this policy in different ways. Some ministries have included in their manuals a detailed interpretation of this policy and have tried to adhere to it. Other ministries have provided no such interpretations. Also, there appeared to be some confusion as to how this policy was to be interpreted in the light of some recent rulings by Revenue Canada.
- 7.23 I consider that a central agency should clarify this policy so that it can be consistently applied by all ministries.

CONFLICT OF INTEREST

- 7.24 Although no instances of conflict of interest came to our attention in the course of this review, we noted that there were no policies to prohibit the awarding of a contract to a party who is not independent of the Government employee who approves the contract. To avoid such potential conflict of interest situations, a policy to this effect would provide valuable guidance for all those concerned.

TENDERING

- 7.25 The Ministry of Finance, in its "Guidelines for the Engagement of Consultants", states that ". . . it is considered good management practice to solicit more than one proposal from consultants where practicable." There are various methods for awarding contracts, including the calling of tenders, obtaining verbal or written quotes, and contracting out to persons with proven industry expertise.
- 7.26 We found that there was no policy requiring the ministries to invite tenders on their contracts. Some ministries have set their own policies for tendering, but these policies were not always uniformly applied. Other ministries did not have any policies and did not solicit tenders or proposals although, in some cases, it would appear to have been beneficial. To ensure that tendering is carried out uniformly in all ministries, I feel there is a need for a more specific policy in this regard.

Part 4

Public Bodies

Public Bodies

- 8.1 Pursuant to section 17 of the *Auditor General Act* I am eligible to be appointed auditor of any public body. At 31 March 1985 I was the appointed auditor of the 31 public bodies listed below. Their combined assets and expenditures totalled \$12.2 billion and \$3.2 billion respectively. Volume III of the Public Accounts contains copies of their audited financial statements.

British Columbia Assessment Authority
 British Columbia Educational Institutions Capital Financing Authority
 British Columbia Harbours Board
 British Columbia Health Care Research Foundation
 British Columbia Heritage Trust
 British Columbia Housing and Employment Development Financing Authority
 British Columbia Institute of Technology
 British Columbia Place Ltd.
 British Columbia Power Commission Superannuation Fund
 B.C. Rail Ltd. Pension Fund (formerly British Columbia Railway Company Pension Fund)
 British Columbia Regional Hospital Districts Financing Authority
 British Columbia School Districts Capital Financing Authority
 College Pension Fund
 Creston Valley Wildlife Management Authority Trust Fund
 Expo 86 Corporation
 Health Facilities Association of British Columbia
 Knowledge Network of the West Communications Authority
 Legal Services Society
 Medical Services Commission of British Columbia
 Members of the Legislative Assembly Superannuation Account
 Municipal Superannuation Fund
 Pacific Vocational Institute
 Provincial Capital Commission
 Provincial Rental Housing Corporation
 Public Service Superannuation Fund
 Simon Fraser University
 Teachers' Pension Fund
 University of British Columbia
 University of Victoria
 Workers' Compensation Board of British Columbia
 Workers' Compensation Board Superannuation Fund

- 8.2 Also included in Volume III of the Public Accounts are the financial statements of the Liquor Distribution Branch. Although I audit the accounts of the Branch I render no separate audit opinion thereon because the financial information pertaining to the Branch is included in the Government's financial statements on which I already report. The Liquor Distribution Branch has assets of \$69 million and made expenditures of \$586 million in 1985.

Auditor's Reports

- 8.3 When I am appointed auditor of a public body my principal objective is to express an opinion in my auditor's report as to whether the entity's financial statements present fairly both its financial position and the results of its operations. If I believe the financial statements do not fairly present this information, then my auditor's report is qualified and I provide in the report details as to my concerns.
- 8.4 In only one case during the past year did I find it necessary to qualify my auditor's report. That pertained to the financial statements of the Workers' Compensation Board of British Columbia for the year ended 31 December 1985. My auditor's report containing this qualification is reproduced below:

I have examined the balance sheet of the Workers' Compensation Board as at 31 December 1985 and the statements of income and expense and unfunded liability, changes in fund liabilities, changes in special reserve balances and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In 1984, the Board increased the actuarially-determined accident fund liabilities by a contingency margin of \$42.8 million, increasing by that amount the expense shown for that year in the statement of income and expense and unfunded liability. In 1985 this contingency provision was reversed, with a consequent reduction in the amount of expense shown for the year. In my Auditor's Report dated 1 March 1985 on the 1984 financial statements, I stated that in my opinion this amount should not have been charged as an expense, but rather as a contingency appropriation, shown separately on the balance sheet. Similarly, in my opinion the reversal in 1985 should not have been applied to reduce expense. Had these amount sbeen treated as I believe they should, stated net income applied to Unfunded Liability would be reduced to \$302.7 million in 1985 and increased to \$249 million in 1984. Amounts of unfunded liability are not affected.

In my opinion, except for the treatment of the contingency margin described in the preceding paragraph, these financial statements present fairly the financial position of the Board as at 31 December 1985 and the results of its operations and the changes in its fund liabilities, special reserve balances and financial position for the year then ended in accordance with the stated accounting policies disclosed in note 1 to the financial statements applied, after giving retroactive effect to the change in the method of accounting for long-term investment income as explained in note 2, on a basis consistent with that of the preceding year.

- 8.5 In addition to the above comments I am also concerned that the Board used a different method of accounting for long-term investments in each of the last three years. The reasons for the changes were described in Note 2 to the Board's 1985

financial statements. While the three accounting methods referred to are considered acceptable, I feel that frequent changes in significant accounting policies are undesirable in that the resulting necessary restatements of financial statements of previous years impair the comparability of the statements over a longer period.

- 8.6 The following table demonstrates how inconsistent the reporting has been. It shows the comparative value of the Unfunded Liability as it would have been had each of the three accounting policies used by the Board to account for long-term investments been applied consistently for each of the four years ended 31 December 1985.

Fiscal Year Ended	Unfunded Liability Using Different Bases of Valuing Long-Term Investments		
	Cost	Market Value	Market Value with Deferral of Gains & Losses
31 December 1982.....	(504,350)*	(586,271)	(610,537)
31 December 1983.....	(433,559)*	(517,918)	(548,101)
31 December 1984.....	(252,921)	(314,907)*	(358,353)
31 December 1985.....	45,022	65,940	(31,844)*

* Amount originally reported in the financial statements for the year.

Audit Recommendations to Management

- 8.7 Another objective of a public body audit is to alert management to instances where we have concerns that systems of control are weak, required procedures are not followed, or where improvements might be made. Our observations and recommendations are detailed in a management letter issued to the chief executive officer of the public body involved who normally takes prompt remedial action.
- 8.8 In the course of their audits my staff are frequently consulted and make suggestions on the appropriate accounting treatment or financial statement disclosure for many complex issues. Where the issues are resolved to my satisfaction I make no comment either in this report or in management letters to the organization.
- 8.9 In our audits of public bodies we have not expanded our work beyond that required to issue my auditor's reports because staff resources have been insufficient to allow my Office to undertake audits dealing with matters of efficiency and economy.

Reliance on Other Auditors

- 8.10 The financial statements of some of the public bodies which are included in the Consolidated Financial Statements are not audited by me but by other professional accountants in the private sector. When arriving at my opinion on the Consolidated

Financial Statements, I rely upon the work done by these accountants, but only after making enquiries to determine whether such reliance is justified. I also ask for confirmation that:

- they are independent from the public bodies of which they are the appointed auditors;
- no events have occurred subsequent to the year end and the date of their auditor's reports which might have a material effect upon the financial position or results of operations disclosed in the financial statements being consolidated; and
- there is nothing that they are aware of which would prevent me from relying on their auditor's reports when forming my opinion on the consolidated financial statements of the Government of British Columbia.

I appreciate the cooperation I have received from these accountants.

- 8.11 Appendix II lists those public bodies audited by public accountants, and whose statements are included in the Consolidated Financial Statements. Included for the first time are two new public bodies, British Columbia Lottery Corporation and B.C. Pavilion Corporation.

Public Body Financial Information

- 8.12 To provide the public with financial information on the activities of public bodies the Legislative Assembly has enacted legislation requiring disclosure of specified information. The Act presently in force is the *Financial Information Act*, R.S.B.C. 1979, c. 131. It requires that public bodies to which a grant or advance may be made or the borrowings of which may be guaranteed, under the authority of statutes which it lists shall, within six months of the close of each financial year, publish a financial statement for that financial year which shall include:
- (a) a statement of the assets and liabilities;
 - (b) an operational statement;
 - (c) a statement of debt;
 - (d) a statement showing all remuneration, bonuses and gratuities paid to each employee;
 - (e) a statement showing all expenses paid on behalf of each employee; and
 - (f) a statement showing each individual account in an amount of \$500 or more paid during the last financial year, and showing all other accounts paid as a consolidated total.
- 8.13 The list of statutes in the Act is not comprehensive and accordingly omits many public bodies. For example, although the Workers' Compensation Board of British Columbia is included, the Insurance Corporation of British Columbia is not. Certain

public bodies, such as Expo 86 Corporation and British Columbia Transit, are required to comply with the *Financial Information Act* through their own enabling legislation. Other public bodies, such as British Columbia Place Ltd. and the British Columbia Development Corporation, are not required to make such disclosures.

- 8.14 As a result there is no consistency in the financial information available to the Legislative Assembly and the public regarding public bodies. Further, although the Act requires that a public body publish the information specified, the Act does not give guidance as to how the information shall be published. Therefore access to the information may be difficult.
- 8.15 During 1985, Bill 36-1985, a new *Financial Information Act*, received Royal Assent, but has yet to be brought into force. The Bill remedies many of the shortcomings in the old Act and expands the number of public bodies that are required to report financial information. It also specifies how such financial information shall be made public. The new Act provides a more complete disclosure of financial information for public bodies and provides uniformity in the means the public has to obtain such information. I urge the early implementation of its provisions.

Part 5

General Matters

General Matters

Organization and Administration of the Audit Office

STAFF RESOURCES

- 9.1 In my last few Annual Reports I stated that the 82 full-time positions allocated to my Office by the Government were insufficient for the conduct of work beyond my minimum statutory audit responsibilities. Accordingly, I am pleased to report that in August 1985 the Minister of Finance advised me that Treasury Board had authorized an increase of 10 full-time positions for the Office. Recruiting for these new positions began immediately.
- 9.2 At 31 December 1985 the Office employed a staff of 87, consisting of 52 professional accountants or persons with other formal qualifications related to the work of the Office, 27 audit staff pursuing courses of studies leading to recognized accounting designations, and 8 administrative staff. In addition, employment commitments had been made for five more staff.
- 9.3 These additional resources have already enabled the Office to begin new projects in special and value-for-money areas, and to accommodate the increasing demands of the statutory responsibilities of the Office.

ADMINISTRATION

- 9.4 Although we have been allowed to correct some of the more serious salary inequities commented upon in my 1985 Annual Report, the inflexibility inherent in the present salary plan continues to hinder the effective administration of the Office. One result has been the perpetuation of a high staff turnover rate, with concomitant inefficiencies and disruption.
- 9.5 My staff are included in the Government's management compensation plan. A new plan is in the process of being implemented, and it is hoped that it will help alleviate some of our concerns.

ORGANIZATION

- 9.6 The basic plan of organization of the Office remained unchanged during 1985. Two Executive Directors, Gordon W. Dawson and Frank Barr, have the responsibilities for overall planning and coordination of audit work on the Government's financial statements and on the audits of public bodies respectively.
- 9.7 Regular audit work in ministries and public bodies is assigned to three teams, each headed by an Audit Director. Comprehensive audit and computer audit activities are each also headed by Audit Directors. The Directors, Executive Directors, the Deputy Auditor General and I constitute the Executive Committee of the Office.

TRAINING AND RELATED PROFESSIONAL ACTIVITIES

- 9.8 Development and maintenance of a highly skilled staff is vital to the continued progress of the Office. Accordingly, considerable emphasis is placed on the training of student accountants and the access to professional development programs for qualified personnel.
- 9.9 During the year four members of our staff were successful in meeting the academic requirements for their professional accounting designations. Other student-level staff continued the courses of study prescribed by their respective professional organizations.
- 9.10 Our professionally qualified staff have attended a variety of in-house and external courses covering accounting, auditing, computer technology and general management skills.
- 9.11 In addition, several of our staff members have served as associates of and contributors to the Public Sector Accounting and Auditing Committee of the Canadian Institute of Chartered Accountants. Through this activity the Office is able to take part in the ongoing development of public sector accounting and auditing standards.

Canadian Comprehensive Auditing Foundation

- 9.12 The Canadian Comprehensive Auditing Foundation is a cooperative association of legislative auditors, public accountants, management consultants and others who share a common interest in the development of improved methodologies to incorporate value-for-money considerations into the audit process. The Foundation carries out research, conducts training programs, and promotes the exchange of information and views.
- 9.13 This Office participated actively in the Foundation's affairs during the year. I served on its Legislative Auditing Committee. A senior member of my staff presented a summary of one of our comprehensive audits to a symposium sponsored by the Foundation. A previously presented summary, together with those submitted by other legislative auditors, formed the basis for the Foundation's major research publication issued during 1985. Finally, five members of my staff attended courses on various facets of comprehensive auditing presented by the Foundation.

Canadian Conference of Legislative Auditors

- 9.14 The Canadian Conference of Legislative Auditors held its thirteenth annual meeting in Whitehorse, Yukon in July 1985. This informal association, comprising the legislative auditors of all the provinces and Canada, facilitates the sharing of

information important to the legislative auditing community through its regular annual meetings, cooperative research projects, and the informal exchange of information by the various audit offices.

Other Activities

- 9.15 Members of my staff and I remain active in professional and community affairs. Robert J. Hayward, the Deputy Auditor General, continued as a member of Council of the Institute of Chartered Accountants of British Columbia. He also served as Chairman of the Institute's Members in the Public Sector Committee. Other staff members similarly served on various committees of the Institute. Various employees served on committees or otherwise participated in the activities of the Canadian Comprehensive Auditing Foundation, the EDP Auditors Association, the Institute of Internal Auditors and other organizations and associations related to the work of the Office.
- 9.16 In addition, several of our staff support local educational programs through service as instructors at community colleges.

Advisory Council

- 9.17 In addressing the many complex matters encountered in the course of the audit of the accounts of the Province, I am assisted by a small group of senior members of the accounting profession who serve on the Auditor General's Advisory Council:

Michael J. Ashby, FCA
Arthur Beedle, FCA
Dennis F. Culver, FCA
Denham J. Kelsey, FCA
Ronald W. Park, FCA

I appreciate the contribution made by this Council to the work of my Office.