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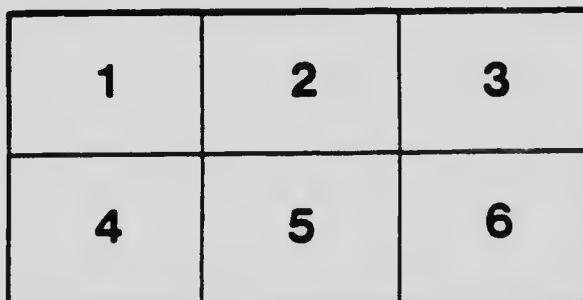
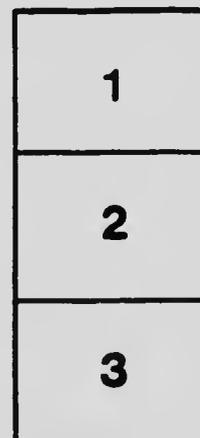
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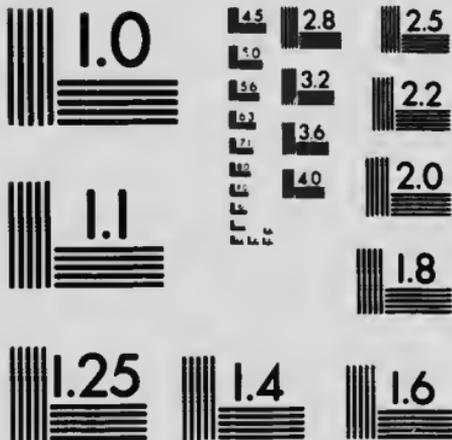
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V. 13

BASEMENT
RESERVE

**WINNIPEG AFFAIRS
ARE YOUR AFFAIR**

**FINDINGS
AND
RECOMMENDATIONS
OF YOUR
OUTSIDE AUDITORS**

BULLETIN No. 13 of
CITIZENS RESEARCH LEAGUE
OF WINNIPEG



EVERY Citizen is Interested in knowing how the Civic Administration is Dealing with the following and other Findings of the City's Outside Auditors :

RECOMMENDATION—1: THAT THE DEPARTMENTS OF THE COMPTROLLER AND THE TREASURER BE MERGED INTO ONE FINANCE DEPARTMENT UNDER ONE RESPONSIBLE HEAD.

The Citizens Research League considers of interest in this connection, as indicating the trend of British opinion, the following extract from Bateson's "Municipal Office Organization and Management"—a recognized authority :

"It is becoming increasingly recognized that the economical and efficient financial administration of the multifarious municipal enterprises and departments can only be effectively secured by the consolidation of the financial operations through a central finance office, controlled by an experienced and responsible head: It is universally recognized that an alteration in the law regarding the position of Chief Financial Officer has already been too long delayed."

RECOMMENDATION—2: THAT AN EFFICIENT AND INDEPENDENT INTERNAL AUDIT DEPARTMENT BE ORGANIZED, RESPONSIBLE DIRECT TO THE CITY COUNCIL.

On this point, the British Authority above quoted says:

"A municipal council with many ramifications of finance has generally a system of internal check or audit in operation. It is essential that the internal audit staff should not be mechanical in their work, but ever alert to the need of keen and intelligent supervision. Internal audit clerks should supply periodically (monthly) reports of their work in an approved form to the Chief Financial Officer."

RECOMMENDATION—3: THAT A PERIODICAL OUTSIDE AUDIT BE INSTITUTED.

Direct British Parliamentary attention has been given to this question as will be seen from the following additional extract :

"Perhaps there is no question relating to the financial operations of a municipal corporation which so much needs attention and statutory revision as does that relating to audit. The wonder is that such revision has been so long delayed, especially having regard to the recommendations of the Joint Select Committee of the House of Lords and the House of Commons in 1903—(relating to Audit of Municipal Corporations)."

RECOMMENDATION—4: THAT DUPLICATION OF DETAIL WORK IN FINANCIAL ADMINISTRATION AND ACCOUNTING BE ELIMINATED AND MODERN LABOR-SAVING OFFICE METHODS BE ADOPTED.

Again quoting from the same British source, the following is of interest:

"In the arrangement for municipal account-keeping, duplication of work ought, as far as practicable, to be avoided (i.e., if the financial transactions are fully and completely recorded in a central finance department, then the repetition of the records ought not to be necessary in the administrative branches). An enquiry into the existing practice would reveal, in many places, much unnecessary clerical work and waste of money in this respect."

The Auditors cite various features of present administrative and accounting procedure which, they claim, go to show the need for the foregoing changes being put into effect. These are referred to in the accompanying summary of their report. Among them are:

1. Omission of \$100,000 unpaid accounts from the year-end statement of the City's Liabilities.
2. Duplication of items in Balance Sheet.
3. Carrying as Assets certain tax arrears accumulated during a period of over 15 years—\$100,000 of which the Auditors estimate as extremely doubtful of collection.
4. Statement that there is Surplus of \$178,910 on General Revenue Account—whereas Auditors claim there is Deficit of \$73,217.

In thus endeavoring to prepare an uncolored summary of the Outside Auditors' report the Citizens Research League does not necessarily commit itself to their findings or recommendations; but by presenting them in brief it hopes that citizens of Winnipeg will give careful study to matters so directly affecting their own interests.

The Citizens Research League of Winnipeg

S. R. TARR, President

A. K. GODFREY, Vice-President

**From THE CITIZENS RESEARCH LEAGUE to the
CITIZENS OF WINNIPEG, THE CITY GOVERNMENT AND
THE HEADS OF CIVIC DEPARTMENTS**

A BROAD, Winnipeg's financial credit stands high, and deservedly so, thanks largely to a well-administered Sinking Fund which amply safeguards the interests of investors in the City's securities. But, while outside investors are interested most in the capital financing of a city, citizens themselves have an equal if not greater concern in yearly expenditures and the taxation involved by them. It is this "domestic" phase of Civic Financial Administration and Accounting which claims chief attention in the report of the City's outside Auditors. Recognizing, apparently, the citizens' direct interest in the Auditors' findings and recommendations, the City Council, on July 23rd of last year, formally approved of the suggestion that the Report of the Outside Auditors on the Civic Accounts for fiscal year 1916-17 be issued and printed jointly with the City Comptroller's annual report.

The Citizens Research League has lately received a copy of the Eleventh Annual Report of the City Comptroller, covering the fiscal year 1916-17, but as no report of the outside Auditors appears therein the League has undertaken to issue an unbiased summary of it and of the auditors' supplementary Financial Survey—believing that the matters dealt with therein should have the careful study of citizens generally, as well as of the civic administration.

Differences in Auditors' and Comptroller's Reports

It is interesting to note that in the Comptroller's report to hand the duplication of assets criticized by the auditors has disappeared, and various other items appear to have been adjusted. Certain other features taken exception to by the auditors are, however, still in evidence in the Comptroller's report. These include the following:

Omission of over \$100,000 unpaid current accounts from the City's Liabilities at the close of the fiscal year.

Carrying forward as assets certain Expense Accounts and Balances which the auditors claim are no more admissible as assets than salaries paid to staff.

Carrying as assets long overdue tax arrears—\$100,000 of which the auditors estimate as extremely doubtful of collection.

Statement that General Revenue Account has surplus of \$178,940—whereas Auditors claim there is a deficit of \$73,217.

The foregoing are cited only as illustrations (apart altogether from matters of departmental organization) of points in conflict between the civic accounting practice and the recommendations of the outside auditors.

There are other differences, but it is not here intended to discuss these in detail. In passing, however, it may be mentioned that, contrary to the previous City practice of doubly including assets, there appears in the Comptroller's latest annual report a double provision for the City General Liability to the Waterworks re the Cornish Avenue property. This apparent new duplication emphasizes the need for careful consideration being given to the auditors' criticism regarding the City's accounting methods.

Prompt Action on Report is Desirable

It is to be regretted that the auditors' report was not definitely considered and passed upon by the City Council so that the Comptroller's report might have been governed by the decisions thus definitely arrived at. It is true that matters unforeseen and extraordinary have been engaging the attention of the Council and Board of Control, such for example as the Street Transportation question and the recent strike. But if any good is to be obtained from the report, no further time should be lost in its consideration. If the auditors' suggestions are merely academic and incapable of being acted upon with practical advantage or benefit, then such should at once be established. As the matter stands, criticism and recommendations have been offered and, in all fairness to the civic administration itself and to the interests of citizens, these require to be dealt with promptly in a thorough and impartial manner.

An outside audit and survey of accounting methods was the first recommendation made by the Citizens Research League in its initial report of October, 1916, entitled "Keeping Track of the Citizens' Business."

In the civic elections which followed soon afterwards a number of candidates made the instituting of an outside audit a plank in their platform. The new Council, when elected, followed up the recommendations of the previous year's Board of Control and appointed a firm of chartered accountants to make such audit and survey. A report on the audit was made to the City Council in November, 1917, but was filed pending the supplementary survey report which has since been submitted.

City's Growth Since Previous Outside Audit

Preliminary to the submitting of their formal reports the outside auditors last year assisted civic officials in revising the form of presentation of annual budget estimates, along lines suggested in the second report issued by the League. (This report also advocated preliminary citizen hearings on the budget—a procedure cordially adopted by the city administration a year ago). The Council was able, in 1917, for the first time, to pass upon estimates classified according to the main functions of government, and in such form as to make distinguishable at a glance the city's controllable and uncontrollable expenditures. The total Estimated Expenditures for the 1917-18 period (closing April 30th, 1918) were \$5,405,158, of which \$2,642,779 were controllable and \$2,762,679 uncontrollable.

Previous to Winnipeg's recent outside audit and accounting survey (covering the year ended April 30th, 1917) there had been no external audit of the accounts of the City since 1908. The following expansions and developments had taken place in the intervening period: (a) The City's Bonded Indebtedness (exclusive of School Board) increased from about \$10,000,000 to \$37,000,000; (b) The Water Works System was considerably extended; (c) The Hydro-Electric System was installed.

The Modernizing of Municipal Business

It is noteworthy that in Great Britain, as in the United States and Canada, there has in recent years been increased attention paid to modernizing Municipal Financial Administration—it being recognized that Civic has generally lagged behind Commercial business in this regard. To quote from an up-to-date British work on the subject: "Municipal work is growing, and old systems—especially office systems—must either be made elastic by improved methods of operation, or will be retarded until a decrepit state of inefficiency or control supervenes, and drastic measures are taken by keen business men on the corporation committees, to the lasting regret of the officers thus condemned. . . . Rates are going up, and economies are being sought. Where can they be made more easily, says the man in the street, than in the cheaper, more efficient, more modern methods of administration?"

S. R. TARR, President.

A. K. GODFREY, Vice-President.

**Summary of Reports on
OUTSIDE AUDIT AND ACCOUNTING SURVEY
of the City of Winnipeg**

THE first part of the League's accompanying summary deals generally with the auditors' Findings and Recommendations; the second part deals with the Financial Statements and relative remarks.

**PART I.—GENERAL FINDINGS
REORGANIZATION OF FINANCIAL DEPARTMENTS**

The report urges the need for a redistribution of the accounting work to properly organized departments.

It recommends:

That the Departments of the Comptroller and the Treasurer be merged into one Finance Department, under one responsible head.

That an efficient independent Internal Audit Department be organized, responsible direct to the City Council.

That a periodical External Audit be instituted.

Merging of Departments of Comptroller and Treasurer

Much duplication of work is reported as having resulted from the overlapping existence of these two departments. The creation of a new office is suggested, that of Chief Financial Officer, under some such title, perhaps, as that of Treasurer and Commissioner of Finance—the name used in Toronto, where the recent appointment of such an official has already resulted in substantial improvement in the financial administration of that city. Such an official would have control over and be responsible for all the Municipal Accounts, though the accountants of each of the main civic departments (General, Hydro-Electric and Water Works) would necessarily be charged with the handling of detail.

Internal Audit

The present Internal Audit conducted by the Comptroller's Department is reported upon as lacking in effectiveness. The report states that this may be partly due to the fact that the Internal Auditors have no independent status and are in constant association with those whose accounts they audit.

It is recommended that an independent Internal Audit Department be created, the head of the department to be directly responsible to Council and not subject to the control of any officials whose records are under audit. At present, it is stated by the outside auditors, the Comptroller's own department is audited by itself.

In connection with the conduct of the Outside Audit, it was understood that the detail work of the Internal Audit staff at the City Hall might be accepted as correct by the Outside Auditors, but in the course of their investigations, Henderson, Reid & Co. state that they came to the conclusion that the Internal Audit could not be said to properly fulfil the functions of an audit, being chiefly concentrated on mechanical checking of figures.

It was in the course of their own supplementary testing, that the Outside Auditors came across certain discrepancies which led to the uncovering of a deficit in the License Department afterwards stated to be \$5,000 or over.

It was reported in this connection that there were still a number of officials in positions of trust who had not yet been bonded. This was urged by the auditors as requiring to be dealt with.

External Audit

A supplementary External Audit is also recommended. This External Audit would commence where the Internal Audit let down being understood that the External Auditor should be empowered to make such further enquiries or tests as he deemed necessary to a comprehensive audit.

ACCOUNTING

Omission of Unpaid Accounts

That the basis of civic accounting is faulty and does not conform to established business principles is claimed by the Outside Auditors. The practice of ignoring current outstanding accounts payable at the time of closing the accounts for the fiscal year is given as a glaring example in this connection. (These unpaid Liabilities at 30th April, 1917, are stated as amounting to over \$300,000). In the words of the auditors: "The actual situation exists whether or not it is so stated. Financial Statements do not create the situation—their purpose is to reflect, and wrongful impressions are not to be commended." The auditors further state that the non-inclusion of Liabilities contracted but not paid "presents undesirable opportunities for the wilful omission of expenditure, perhaps for no other reason than that of appropriations being exhausted; for the purpose of showing a condition of 'living within the estimates.'"

They further state that Expenditures ought to be recorded and thereafter controlled in the accounts—not only as the vouchers are prepared, but as the Expenditures are incurred. That is, the outgoing purchase orders, etc., ought to furnish the means of establishing the true state of the various funds.

Fixed Property Values

With reference to Fixed Properties it is recommended that continuous ledger detail be maintained. It appears that the annual statements of these properties are prepared on practically an inventory basis (the values being supplied by various heads of departments) any differences of one year over another being adjusted through the Surplus Account. Although the auditors do not dispute the principle of annual valuations, they are of the opinion that the costs should in any case be preserved. They indicate that the composition of the Nominal Surplus of Assets over Liabilities should always be available and as the annual and often arbitrary variations in the stated values of Fixed Properties result in corresponding changes in Surplus, they are of the opinion that more satisfactory results would be obtained by maintaining the accounts on the basis of cost and adjustments made from time to time. They further state that waiting for these annual valuations occasions considerable delay in the preparation of the Comptroller's annual accounts.

Another point commented upon by the auditors with regard to accounts relating to Fixed Properties is that, as the Sinking Fund Reserve is represented by amounts periodically set aside to provide for the payment of the bonded indebtedness at maturity, it should be equivalent to the depreciation on the assets covered by the debentures. The Assets being shown as they are at a current valuation—presumably allowing for depreciation—appear at the supposed actual value. It would therefore appear that the Sinking Fund Reserve duplicates to some extent at least the allowance for depreciation already made.

Over-Statement of Assets

In some way or other, the auditors state, certain Assets had been doubly included in the Accounts, as evidenced by the published Balance Sheet of the City as at 30th April, 1916. These duplications are reported as having resulted in an over-statement of Assets of over \$200,000, this being, of course, reflected in the so-called Surplus.*

* It is interesting to note with regard to duplication of assets in the City's published accounts that the Citizens Research League drew attention in their first report to another and more glaring instance, which was, however, done a way with before the recent outside audit was made. The City had, from year to year, showed a large so-called Surplus which was principally accounted for by inclusion among assets of a \$6,500,000 item of deferred assessments for local improvements—which item really appeared a second time among the City's Fixed Properties.

The auditors contend that, aside from the question of method, instances of accounts wrongly stated were by no means lacking. In this connection the "direction of staff" rather than staff itself is criticized. An example cited is of a sum of \$300 that had been misappropriated several years before from a departmental advance. No instructions had apparently been issued for the adjustment of the advance account, and the above amount had been carried forward from year to year as a cash advance.*

* This particular item is stated by the Comptroller to have been adjusted during the year following that covered by the outside audit.

Certain accounts, it is said by the auditors, are being carried as Assets which are in no way representative of tangible equities or of truly recoverable balances—the General Taxpayer constituting the only medium of disposal. These accounts comprise balances on various Expense and Plant Operating Accounts, which, after allowing credit for various surpluses, amount to approximately \$150,000. This amount, together with the unpaid Liabilities of over \$100,000 already mentioned, makes a total of over a quarter of a million dollars which had not been taken care of at 30th April, 1917. In addition to this, the auditors contend that probably in the neighborhood of \$100,000 uncollectible taxes accumulated over a period of from 15 to 20 years will yet require to be provided for.

Financing of Short-Term Improvements

A feature of the report is the suggestion with regard to providing funds for the construction of new short term works. To quote from the auditors' report: "The issues of Consolidated Stock comprise provision for Works and Local Improvements for various terms not coinciding with term of debt and quite frequently of much shorter duration. The present practice is to use the levies matured in Sinking Fund in respect of the shorter term works for the purpose of buying in the stock, thus effecting a reduction in the debt. While this is perfectly good practice and is financially sound it occurs to us that these accumulations might very well be used for the construction of further short term works instead of for the purpose of reducing the debt—provided, however, that the levies for the new works would have accumulated in full at date of maturity of debt. In this way the costs incident to issuing new debentures or stock would be saved without having impaired the security for the original debt."

Forms of Debentures are briefly discussed in the auditors' report. They suggest that special consideration be given to this branch of municipal finance, and point out some generally accepted advantages, in principle, of Instalment Debentures. They state, however, that in the case of Winnipeg, the advantages would not be entirely on the side of the Instalment method as compared with the present Sinking Fund system.*

* In the report of the Sinking Fund Trustees for the 1917-18, recently issued, these points are commented upon. The Trustees do not approve of the suggestion re financing short-term improvements, but consider that the city should make separate provision for financing new works. The Trustees also re-affirm their view that Instalment Debentures would be less advantageous in the case of Winnipeg than the present Sinking Fund system.

BOOK-KEEPING SYSTEM AND OFFICE PROCEDURE

That useless duplications and the continued following of procedure adopted years ago without taking cognizance of modern conveniences and facilities have combined to make the present system wasteful, is in effect what the auditors say.

Duplication of Treasurer's and Comptroller's Records

Numerous instances of duplication of records are given, of which the following is but one example:

It is contended that much unnecessary clerical labor is occasioned in the operations incident to the preparation of accounts for payment and the subsequent records. When vouchers (invoices and the like) are certified, a voucher form is at present prepared by hand—this voucher form containing numerous particulars usually associated with such documents. When these are passed for payment, a warrant is issued on the Treasurer (these warrants being similar to bank cheques and in stub form) thereby occasioning another operation, duplicative on account of the stub having to be filled out. The cheques (also in stub form) are thereafter issued from the Treasurer's Department. The auditors recommend that these three operations be combined by the adoption of suitable forms providing for carbon copies.

It is further stated that duplicative work in the above connection does not end here, for a record of vouchers is kept by the Treasurer and again in the Comptroller's Department.

The large number of payments made by the City, the auditors state, render possible considerable savings in clerical labor by the adoption of the scheme outlined by them. The auditors give other detail suggestions which they claim would effect material savings and benefits in the routine of the Comptroller's and Treasurer's Departments.

Lessening Detail in Tax Collector's Office

The reduction of the volume of clerical labor in the office of the Tax Collector is also recommended in the report. The auditors claim that unnecessary detail is maintained in the matter of recording Tax payments and outline the procedure to be followed with a view to a saving of time and labor. The preparation of the Tax notices is instanced as also affording opportunity for improved methods—it being maintained that by utilizing mechanical aid and by providing a coating of carbon instead of the separate carbon sheets, substantial savings would be possible.

Suggestions re Assessment Department

While changes are not definitely recommended in the Assessment Department, the auditors suggest consideration of a card system as a possible means of reducing the heavy clerical work in this department. The cards could be ruled to cover from five to ten years' operations. Once written up, a permanent record would be obtained, upon which sundry changes relating to ownership, etc., could easily be given effect to, as contrasted with the laborious method of rewriting the assessment roll each year in cumbersome books. The auditors admit that a frequently voiced objection to card records is that the cards get lost. They cite, however, the instance of the Water Works Collection Department where signal success has resulted from a well planned and well conducted card system.*

* It is of interest to note that the Assessment Commissioner, being desirous of effecting savings of clerical labor, has lately recommended to the Board of Control the adoption of a loose-leaf system, which he had had in contemplation for some time.

Hydro-Electric Accounting

But few changes are recommended in the accounting procedure of the Hydro-Electric System which is commended as having followed closely and intelligently the methods prescribed by the Public Utilities Commissioner. The principal recommendation as to detail is that the accounting department be transferred from the City Hall and centralized at the King Street offices.*

* Certain points discussed with regard to Depreciation Reserve Fund are referred to in a later section of this summary.

It is mentioned that slight changes in the Light and Power Collection Department might be made and that some statistical information might be dispensed with, but inasmuch as there appear to be so many more urgent improvements necessary in the other fields of civic accounting, the auditors are of the opinion that this department can well be left for later consideration.

Among other matters the auditors state that on numerous occasions the Hydro-Electric Department had omitted to observe the provisions of Sec. 115, By-law 9351, stipulating that all work and material exceeding in value \$500 be let by contract after calling for tenders, except in case of emergency, when the Board of Control may make the necessary purchase subject to reporting of expenditure at next Council meeting. This would seem to have a direct bearing upon the question of the effectiveness of the present methods of the internal Audit by the Comptroller's Department.

Water Works Accounting

The supervision of the Public Utilities Commissioner over the Water Works Department has within the past year or two produced very satisfactory improvements, according to the report—certain inconsistencies in accounting which were noted in the initial report of the Citizens Research League having since been rectified. However, the auditors consider it regrettable that the Construction Accounts do not show the costs of physical units of the system so that the cost of the Water Supply and Distribution could be ascertained separately. The need for accurate knowledge of separate costs is emphasized when an attempt is made to determine the fairness or sufficiency of the existing charges (\$30.00 per hydrant per annum) to the Fire Department for Hydrant rentals.

The impending change in the source of Water supply to the City is instanced as a reason for definite cost value of the different branches of the system being ascertained. The auditors believe that even now, with the assistance of the Engineer's Department, reliable figures may be arrived at.

Criticism is made by the auditors of the practice of ignoring the department's liability to water consumers in respect of water consumption billed in advance.

Gradual not Sweeping Changes Recommended

In the matter of improvements in all Civic Departments the auditors suggest gradual rather than sudden and sweeping changes involving the risk of some features being overlooked—not to mention the undesirability of unduly upsetting current routine. They further state that all improvements should be gone thoroughly into by the departmental heads and assistants so that full advantage of their knowledge would be obtained.

It is emphasized that improvements in Book-keeping System and Office Procedure may safely be proceeded with irrespective of the question of Re-organization of Staff.

The auditors state that they have prepared several accounting forms in draft and that they are open to discuss these and other questions raised in their report should opportunity be afforded by the City.

PART II.—FINANCIAL STATEMENTS

THREE DIVISIONS OF CIVIC ACCOUNTS

The Auditors deal in detail with the civic accounts under three separate headings:

1. General Accounts (Taxation Division).
2. Hydro-Electric Division.
3. Water Works Division.

A condensed summary of Winnipeg's total Assets and Liabilities is as follows:

| CAPITAL FUNDS SECTION. (All three Divisions) | |
|--|------------------------|
| Total Capital Assets | \$40,072,276.02 |
| LESS Reserves for Depreciation, etc. | 8,507,762.25 |
| Apparent Net Value of Assets | \$31,564,513.77 |
| Total Capital Liabilities | \$37,658,046.56 |
| LESS Reserve Funds Invested and on Hand | 8,538,519.90 |
| | <u>\$29,119,526.66</u> |
| Total Nominal Capital Surplus | <u>\$2,444,987.11</u> |

| REVENUE FUNDS SECTION. (All three Divisions) | |
|--|--------------------|
| Total Revenue Assets | \$4,015,203.51 |
| Total Revenue Liabilities | 3,918,948.41 |
| Net Revenue Surplus | <u>\$96,255.10</u> |

The total bonded indebtedness of the city (including that of all three Divisions, but exclusive of \$3,500,000 of School Board Debentures issued as City Consolidated Stock) is \$37,053,680.

The auditors state that exact comparison with previous periods is not easy of attainment owing to adjustments made by them in the course of the investigation. Clear distinction between Capital and Revenue items was not previous by a feature in the City's published accounts.

A condensed Balance Sheet of the General Account—Capital and Revenue—is submitted hereunder:

I—CITY'S GENERAL ACCOUNTS BALANCE SHEET Summary of Capital Funds Section

| | |
|--|------------------------|
| Assets: | |
| Land, Buildings and Equipment at valuation | \$10,315,485.37 |
| Local Improvements | 15,521,522.05 |
| | <u>\$25,837,007.42</u> |
| LESS Sinking Fund Reserve (Depreciation) | 5,896,746.38 |
| | <u>\$19,940,261.04</u> |
| Liabilities: | |
| Bonded Indebtedness | \$22,660,911.28 |
| LESS: Sinking Fund | 5,896,746.38 |
| | <u>\$16,764,164.90</u> |
| Water Works Payables (including Bank O D) | 357,293.53 |
| | 373,815.50 |
| | <u>17,495,273.93</u> |
| Nominal Surplus of Capital Assets over Capital Liabilities | <u>\$2,444,987.11</u> |

Due to adjustment ordered by Public Utilities Commission in 1916 on account of incorrect charging of certain collection expenditure to Water Works System, and to the transfer of Cornish Avenue property from the Waterworks to the City General.

Summary of Revenue Funds Section

| | |
|-----------------------------------|-----------------------|
| Assets: | |
| Cash | \$ 8,963.72 |
| Receivables Including Taxes | 3,257,956.04 |
| Inventories | 130,199.54 |
| | <u>\$3,397,119.30</u> |
| Liabilities: | |
| Payables (Including Bank O D) | \$3,205,331.92 |
| Reserves (Special) | 265,004.42 |
| | <u>3,470,336.34</u> |
| Actual Deficit on Revenue Account | <u>\$73,217.04</u> |

The Nominal Capital Surplus represents assets, the indebtedness against which has been paid (less indebtedness over values) and also includes the appreciation in value of real estate which has been incorporated in the accounts.

The General Bonded Indebtedness of the City (exclusive of School Board, Hydro-Electric and Water Works) totals \$22,660,911, of which \$10,398,612 is consolidated stock and \$12,262,299 debentures.

The above Sinking Fund of \$5,896,746 represents assets held by Sinking Fund Trustees applicable to General Bonded Indebtedness.

Heavy Tax Arrears

Receivables of \$3,257,956 among revenue assets are made up chiefly of unpaid taxes amounting to \$3,163,673 (net). Included in this amount are property taxes of over \$75,000 levied prior to the year 1914 and as far back as 1897. The auditors state that while some of these old arrears may be collected, others are doubtful, while many are acknowledged to be uncollectible. Business tax arrears totalling over \$60,000 are also treated as assets, although the possibility of collection of more than 25% thereof is considered remote. The auditors indicate that altogether \$100,000 of taxes in arrears are extremely doubtful assets.

Mention is made that the claim against the guarantee company to cover defalcations discovered by the auditors in the license department is not included in the accounts, the amount at date of balance sheet not having been determined.

Year's General Revenue Operating Account

Accompanied by suitable detail and comparisons, the operations for the fiscal year ending April 30, 1917, are stated by the auditors to have been as follows:

| | | |
|--|-------------|-----------------------|
| General Government | Expenditure | \$ 211,737.64 |
| Protection of Persons and Property | | 1,087,418.92 |
| Preservation of Health and Sanitation | | 490,666.79 |
| Highways and Bridges | | 310,000.21 |
| Education | | 1,187,855.03 |
| Recreation | | 198,496.74 |
| Miscellaneous Services | | 398,756.05 |
| Unclassified Expenditures | | 1,327,342.79 |
| Total General Expenditure for Year | | \$5,212,274.17 |
| LESS: Unexpended Balance from Previous Year | | 74,109.62 |
| Total Amount Required for Year's General Expenditure | | \$5,138,164.55 |
| DEDUCT: Income other than from Taxation | | 609,171.97 |
| Net amount required from General Taxation | | \$4,528,992.58 |
| Actual Taxation—General and Business | | 4,707,932.40 |
| Balance, So-called Surplus, taken to credit of 1917-18 Budget | | \$ 178,939.82 |
| Adjusted, General Expenditure (Net) not provided for | | 252,156.86 |
| Revenue Account Deficit (After adjustment) | | \$ 73,217.04 |

This statement deals with the cost of operating the Civic Departments named therein, and is classified in accordance with a system followed by other cities of importance, and adopted by Winnipeg in preparing its estimates for the year ending April 30th, 1918—the intention being to attain a standardized form, by which accurate comparisons may be made. The ability to make such comparisons should prove of great benefit to civic administration.

It is pointed out by the auditors, that no provision is made for uncollectible taxes—which as already explained, may total \$100,000—and further that Expenditures not provided for (of \$252,156) have not been included in the classification although the latter amount is shown in bulk in the Revenue Account as prepared by them. This adjustment by the auditors results in a revenue account deficit of \$73,217, compared with the claimed Surplus of \$178,940, shown in the City Comptroller's Accounts. It is, of course, to be kept in view that the entire amount of the deficit is not claimed by the auditors to be the result of the one year's operations. As their report points out, in order to arrive at a correct Revenue Statement for the year "it would be necessary to make due provision for unpaid accounts at beginning and end of year and apportion them to the relative appropriations."

The charging of a proper proportion of certain Expenses—now charged to the ratepayers at large—to the Water and Hydro-Electric systems, is recommended.

Bond Conversion Results

The immediate result of the Bond Conversion carried out in 1916, was as follows:

| | 1940 Stock Conversion | 1940-60 Stock Conversion | Total |
|-------------------------------------|-----------------------------|--------------------------------|-----------------------|
| Stock purchased and cancelled | \$4,866,666.67 | 2,924,295.19 | \$7,790,961.85 |
| Debentures issued (new) | 4,153,000.00 | 2,352,000.00 | 6,505,000.00 |
| Debt reduction | \$ 713,686.66 | \$ 572,295.19 | \$1,285,961.85 |

The report states that although the conversion has resulted in a reduction of the Debt of \$1,285,961, the ultimate profit may not be equal to this amount. Possible future losses or gains must be considered before the result of the conversion can be determined. The auditors here outline possible factors in detail.

Assuming that the City will be able to extend its credit for the necessary periods without loss or gain, the ultimate profit on the conversion should, according to the auditors, be approximately \$984,194.

2—HYDRO ELECTRIC ACCOUNTS

The accounts and relative data of this department are stated by the auditors to be well and efficiently maintained; the principles formulated by the Public Utilities Commission—which have been conscientiously observed and apparently followed efficiently—having proved of great benefit to sound accounting.

The provision for Depreciation of Assets, as required by the Public Utilities Commission, is discussed at length, and a practical investigation is recommended as a check on the accuracy of the prescribed depreciation rates.

The investment of the Depreciation Reserve Fund is also referred to, it being pointed out that no stated rate of interest from such investment is prescribed, nor is it stated that the Fund shall be invested. This, in the opinion of the auditors, would seem to indicate that contributions to Depreciation Fund through earnings from investments are in the nature of "an extra measure of safety"—the rates of Depreciation being based on the expected life of the various units of construction. Save for the prescribed regulations, therefore, the auditors suggest that these earnings from investments—on the present basis—might perhaps more properly go to Revenue Account. This leads to another point in the report, viz.: the question of whether Surplus from the operation of Utilities should not be used—as allowed by the Charter—for the reduction of the General Debt of the City, thereby reducing general taxation. The auditors urge that careful consideration be given to these matters.

The Balance Sheet of the Hydro-Electric System is summarized as follows:

HYDRO-ELECTRIC BALANCE SHEET

30th April, 1917

Capital Funds Section

| | | |
|---|----------------|----------------|
| Assets: | | |
| Properties, Plant, etc. | \$7,559,155.89 | |
| LESS Reserve for Depreciation | 1,247,876.90 | |
| | \$6,311,278.99 | |
| Investments and Agreements | 8,349.65 | |
| Depreciation Funds Invested and on Hand (this includes Sinking Fund) | 1,247,876.90 | |
| | | \$7,567,505.54 |
| Liabilities: | | |
| Bonded Indebtedness | \$7,402,000.00 | |
| Payables (including Bank O. D.) | 165,505.54 | |
| | | 7,567,505.54 |

Revenue Funds Section

| | | |
|---|--------------|--------------|
| Assets: | | |
| Cash | \$120,573.91 | |
| Receivables (Less Reserve for loss thereon) | 113,915.14 | |
| Inventories and unearned Insurance Premiums | 110,589.30 | |
| | | \$345,078.35 |
| Liabilities: | | |
| Payables | \$120,653.09 | |
| Interest accrued but not due | 56,247.29 | |
| | | 176,900.38 |
| Surplus | | \$168,177.97 |

From the foregoing it will be noted that the surplus on revenue account is being used as working capital. This means that sufficient profits have now accumulated as to obviate the necessity of operating on borrowed money, thus saving interest charges and consequently increasing the net earnings. The auditor recommends that the guarantee deposit system be reinstated in this department, as considerable saving of losses through uncollectible accounts would thus be effected. Under present conditions, a reserve of \$24,000 per annum is required to provide for bad debts.

Details of the operating account are as follows:

HYDRO-ELECTRIC OPERATING ACCOUNT

Year 1916-17

| | Amount | Percentage |
|--|---------------------|---------------|
| Total Operating Revenue | \$1,017,407.53 | 100.00% |
| Total Operating Expense—(This includes provision for Depreciation and Bad Debts) | 621,485.69 | 61.085% |
| Net Operating Revenue | \$ 395,921.84 | 38.915% |
| Fixed Charges less Sundry Income | 311,247.31 | 30.602% |
| Surplus for year | \$ 84,574.53 | 8.313% |

The operating revenue from private sources is shown as follows: Light, \$597,977; Power, \$259,118; Tramways, \$1,843; making \$858,958. The balance of the Revenue is paid by the City and other Municipalities.

3—WATER WORKS ACCOUNTS

The revised accounting methods now pertaining to this utility also receive general commendation from the auditors—especially those of the Collection Department.

The Balance Sheet of this department is summarized hereunder:

WATER WORKS BALANCE SHEET

31st March, 1917

Capital Funds Section

| | | |
|--|----------------|-----------------------|
| Assets: | | |
| Properties, Plant, etc. | \$6,667,763.06 | |
| LESS Sinking Fund Reserve (Depreciation) | 1,363,138.97 | |
| Receivable from City General | \$5,304,624.09 | |
| | 357,293.53 | |
| | | <u>\$5,661,917.62</u> |
| (See City General Balance Sheet—Capital Section) | | |
| Liabilities: | | |
| Bonded Indebtedness | \$6,990,768.54 | |
| LESS Sinking Fund | 1,393,896.62 | |
| Payables | \$5,596,871.92 | |
| | 65,045.70 | |
| | | <u>\$5,661,917.62</u> |

Revenue Funds Section

| | | |
|--|---------------|----------------------|
| Assets: | | |
| Cash | \$ 120,410.55 | |
| Receivable (less Reserve for loss thereon) | 60,769.68 | |
| Inventories and unearned Insurance Premiums | 66,155.18 | |
| | | <u>\$ 247,335.41</u> |
| Liabilities: | | |
| Payables | \$ 76,078.73 | |
| Interest and Sinking Fund, accrued but not due | 169,962.51 | |
| | | <u>246,041.24</u> |
| Apparent Surplus | | <u>\$1,294.17</u> |

Although the Balance Sheet shows a final credit Balance on Revenue Account of \$1,294.17 the auditors claim that this only becomes possible of statement by reason of ignoring the liability to Water Consumers in respect of water consumption billed in advance. That is, by reason of billing quarterly in advance, the accounts Receivable are overstated (as at a given date). The auditors estimate approximately \$39,000—at 31st March, 1917—as being credited to Revenue, covering future consumption. The report states that, without intricate exact calculation in the Collection Department, reliable approximations could easily be arrived at and that the accounts of this Utility should so provide for this liability.

Details of the Operating Account of this department are as follows:

WATER WORKS OPERATING ACCOUNT

| | Amount | Percentage |
|--|---------------------|---------------|
| Total Operating Revenue | \$686,507.78 | 100.00% |
| Total Operating Expense (Including provision for depreciation) | 389,608.83 | 56.75% |
| Net Operating Revenue | \$296,898.95 | 43.25% |
| Fixed Charges (Including Sinking Fund in excess of Depreciation) | 202,306.93 | 29.47% |
| Surplus for year | <u>\$ 94,592.02</u> | <u>13.78%</u> |

In considering the Water Works account, it must be remembered that charges in advance amounting to \$39,000 are included herein, against which may be offset a similar credit taken on the 31st March, 1916, amounting to \$37,500, leaving a balance of \$1,500 to be deducted from the stated surplus for the year's operations, resulting in a net surplus for the year of \$93,092 as contrasted with an operating surplus in the previous twelvemonth of \$17,563—a very satisfactory increase, as the auditors state.

An instance of the lack of co-ordination in the Municipal Accounts, frequently commented on in the Report, is cited in the fact that the fiscal period of this utility ends on 31st March, whereas other civic departments terminate their fiscal periods on 30th April. This, the report states, should be remedied.

The Object of The Citizens Research League of Winnipeg:

THE BETTERMENT OF MUNICIPAL AFFAIRS

- (1) by systematic study of civic problems, by disseminating accurate information concerning them, and generally by promoting in a practical way, better civic, economic and social conditions;
- (2) by co-operating with city officials in securing efficient administration of civic interests and with other organizations which represent movements concerned with citizen welfare.

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