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HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1968

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

TUESDAY, MARCH 5, 1968
THURSDAY, MARCH 7, 1968

Follow-Up Report of Auditor General

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long,
Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament
1968

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Stafford,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Thomas
Mr. Dionne,	Mr. Morison,	(<i>Maisonneuve-</i>
Mr. Flemming,	Mr. Muir (<i>Lisgar</i>),	<i>Rosemont</i>),
Mr. Forbes,	Mr. Neveu,	Mr. Tucker,
Mr. Gendron,	Mr. Noble,	³ Mr. Walker,
Mr. Harkness,	² Mr. Noël,	Mr. Winch—(24).
¹ Mr. LeBlanc	Mr. Schreyer,	
(<i>Rimouski</i>),	Mr. Southam,	

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

¹ Replaced the late Mr. Tremblay March 7, 1968.

² Replaced Mr. Cameron (*High Park*) March 7, 1968.

³ Replaced Mr. Tardif March 4, 1968.

THURSDAY, March 7, 1968
Ordered.—That the names of Messrs. LeBlanc (Rimouski) and Noël be substituted for those of Messrs. LeBlanc (High Park) on the Standing Committee on Public Accounts.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, May 19, 1967.

Resolved,—That the following Members do compose the standing Committee on Public Accounts:

Messrs.

Ballard,	Harkness,	Schreyer,
Bigg,	Leblanc (<i>Laurier</i>),	Southam,
Cameron (<i>High Park</i>),	Lefebvre,	Stafford,
Dionne,	McLean (<i>Charlotte</i>),	Tardif,
Flemming,	Morison,	Thomas (<i>Maisonneuve-Rosemont</i>),
Forbes,	Muir (<i>Lisgar</i>),	Tremblay,
Gendron,	Noble,	Tucker,
Hales,	Neveu,	Winch—(24).

FRIDAY, May 19, 1967.

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1966, and the Report of the Auditor General thereon, tabled on January 9, 1967 and February 20, 1967, respectively, together with the report and financial statement of the Canada Council for the fiscal year ended March 31, 1966, and the Report of the Auditor General thereon tabled on August 30, 1966, be referred to the Standing Committee on Public Accounts.

Attest:

LÉON-J. RAYMOND,
The Clerk of the House of Commons.

FRIDAY, March 1, 1968.

Ordered,—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1967, laid before the House on January 22, 1968, and the report of the Auditor General thereon, be referred to the Standing Committee on Public Accounts.

MONDAY, March 4, 1968.

Ordered,—That the name of Mr. Walker be substituted for that of Mr. Tardif on the Standing Committee on Public Accounts.

TUESDAY, March 5, 1968.

Ordered,—That the quorum of the Standing Committee on Public Accounts be reduced from 13 to 10 Members.

THURSDAY, March 7, 1968.

Ordered,—That the names of Messrs. LeBlanc (*Rimouski*) and Noël be substituted for those of the late Mr. Tremblay and of Mr. Cameron (*High Park*) on the Standing Committee on Public Accounts.

Attest:
FRASER, MAY 19, 1967.

ALISTAIR FRASER,
The Clerk of the House of Commons.

Committee on Public Accounts
Members:
Ballard
Bibe
Cameron (High Park)
Dionne
Fleming
Forsyth
Gendron
Hahn
Harkness
LeBlanc (Lawyer)
Lefebvre
McLain (Charlottetown)
Morrison
Muir (Lassap)
Noël
Noyan
Schreyer
Southam
Stewart
Tardif
Thomas (Montreal)
Tremblay
Turkay
Winch—(24)

Ordered—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1968 and the Report of the Auditor General thereon, tabled on January 9, 1967 and February 20, 1967, respectively, together with the report and financial statement of the Canada Council for the fiscal year ended March 31, 1968 and the Report of the Auditor General thereon tabled on August 26, 1968, be referred to the Standing Committee on Public Accounts.

Attest:
LÉON J. RAYMOND,
The Clerk of the House of Commons.

FRIDAY, March 1, 1968.

Ordered—That the Public Accounts Volumes I, II and III for the fiscal year ended March 31, 1967, laid before the House on January 23, 1967, and the report of the Auditor General thereon, be referred to the Standing Committee on Public Accounts.

MONDAY, March 4, 1968.

Ordered—That the name of Mr. Walker be substituted for that of Mr. Tardif on the Standing Committee on Public Accounts.

TUESDAY, March 5, 1968.

Ordered—That the quorum of the Standing Committee on Public Accounts be reduced from 18 to 16 Members.

MINISTER OF FINANCE
REPORT TO THE HOUSE

TUESDAY MARCH 5, 1968.

The Standing Committee on Public Accounts has the honour to present its

FIRST REPORT

Your Committee recommends that its quorum be reduced from 13 to 10 members.

Respectfully submitted,

ALFRED D. HALES,
Chairman.

(This Report was concurred in by the House on March 5, 1968).

THURSDAY, March 7, 1968
(2)
The Standing Committee on Public Accounts met this day at 10.55 a.m.
The Chairman, Mr. A. Hales, presiding.

MINUTES OF PROCEEDINGS

TUESDAY, March 5, 1968

(1)

The Standing Committee on Public Accounts met this day at 10.20 a.m. for organization purposes.

Members present: Messrs. Bigg, Dionne, Forbes, Gendron, Hales, Leblanc (*Laurier*), Lefebvre, Muir (*Lisgar*), Neveu, Schreyer, Southam, Stafford, Thomas (*Maisonneuve-Rosemont*), Tucker, Winch, Walker—(16).

Also present: Mr. Deachman, M.P.

The Clerk attending and having called for nominations,

Mr. Tucker moved, seconded by Mr. Forbes,

That Mr. Hales do take the Chair of this Committee as Chairman.

There being no further nominations, Mr. Hales was declared elected as Chairman of the Committee.

The Clerk of the Committee read the Orders of Reference.

On motion of Mr. Stafford, seconded by Mr. Muir (*Lisgar*),

Resolved,—That Mr. Lefebvre be appointed Vice-Chairman of this Committee.

On motion of Mr. Lefebvre, seconded by Mr. Southam,

Resolved,—That this Committee print 750 copies in English and 350 copies in French of its Minutes of Proceedings and Evidence.

It was agreed unanimously, that the Subcommittee on Agenda and Procedure be composed as follows: Messrs. Hales, Lefebvre, Muir (*Lisgar*), Walker and Winch.

On Mr. Winch's proposal that the Committee hear a report from the Auditor General on the action being taken on previous Committee recommendations, it was agreed to meet Thursday, March 7, 1968.

The Chairman brought to the Committee's attention that the lately deceased, the Hon. René Tremblay, had been a faithful member of the Public Accounts Committee.

On motion of Mr. Lefebvre, seconded by Mr. Neveu,

Resolved,—That the Committee seek permission to have its quorum reduced from 13 to 10 members.

At 10.55 a.m., the Committee adjourned to Thursday, March 7, 1968.

THURSDAY, March 7, 1968

(2)

The Standing Committee on Public Accounts met this day at 10.05 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Cameron (*High Park*), Dionne, Forbes, Gendron, Hales, Harkness, Leblanc (*Laurier*), Lefebvre, Muir (*Lisgar*), Neveu, Schreyer, Southam, Stafford, Thomas (*Maisonneuve-Rosemont*), Tucker, Walker, Winch—(18).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; and Messrs. Gilhooly, Hayes, Laroche, Rudy and Smith of the Auditor General's office.

The Chairman introduced the Auditor General and his associates.

The Chairman read a letter from the Hon. J. R. Nicholson, Minister of Labour, concerning Central Mortgage and Housing Corporation, external auditor's report.

On motion of Mr. Cameron (*High Park*), seconded by Mr. Muir (*Lisgar*),

Resolved,—That the above letter be attached to today's Minutes of Proceedings and Evidence. (*See Appendix "A"*)

It was agreed unanimously,—That the Auditor General review briefly his "Follow-Up Report by the Auditor General to the Standing Committee on Public Accounts on the Action Taken by Departments and Other Agencies in Response to Recommendations Made by the Committee" (*See Appendix "35"*, page 1545, Public Accounts, Minutes of Proceedings and Evidence, No. 35, April 25, 1967).

Mr. Henderson and Mr. Long were questioned.

Following discussion, it was agreed that next week, the Committee would review the Auditor General's Reports 1966 and 1967 before inviting officials from the departments to appear before them.

At 12.02 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, March 7, 1968.

• 1005

The Chairman: Gentlemen, we have a quorum. It is 10.05 a.m. We are doing very well. I hope we will keep up the good work.

First of all, I wish to inform the Committee that we have two members this year, Mr. Neveu and Mr. James Walker. Mr. Neveu is not present, but Mr. Walker has just entered. We have a good group on this Committee. I sincerely hope that we will be able to do a good job.

We have had referred to the Committee by the House the 1966 and the 1967 Auditor General's Reports; and we have also had volumes 1, 2 and 3 of the Public Accounts of the same two years and the Canada Council for the year 1966 referred to us. Therefore, gentlemen, there is no scarcity of work. I hope we will be able to proceed on the basis of two good, crisp, to-the-point meetings per week, and of getting right down to business, with no unnecessary verbiage and of proceeding in as businesslike a way as possible.

As always, our good friend, the Auditor General, Mr. Maxwell Henderson, is our star witness. He needs no introduction. I will ask him to introduce his staff, and then we will proceed.

Mr. A. M. Henderson (Auditor General of Canada): Thank you, Mr. Chairman. It is a pleasure indeed for me to meet with you again. My colleagues are Mr. George Long, the Assistant Auditor General, on my right; Mr. Harold Hayes and Mr. Gilhooly who are also directors; Mr. Laroche, Assistant Audit Director; Mr. Ruddy, another of my directors; and Mr. Doug. Smith.

• 1010

As you know, my office is divided into two branches or groups of men handling particular audits. They will be attending the Committee as matters which are their responsibility come up for discussion.

I do not think there is anything further I need to say, Mr. Chairman.

The Chairman: Thank you, Mr. Henderson. We appreciate having these members of your staff with us.

There is one letter to be filed as an appendix to our *Minutes of Proceedings and Evidence*. Perhaps I should read it because it is some time since we received it. You will recall that the Committee asked me to write to the minister responsible for Central Mortgage and Housing because we had held a meeting with that corporation. As you will recall, that corporation is audited not by the Auditor General but by an outside auditing concern. The Committee felt that it would like to have before it one corporation that did not fall under the jurisdiction of the Auditor General, and this was the corporation. The letter will explain the situation.

In your capacity as Chairman of the Standing Committee on Public Accounts you wrote to me on April 26th last, requesting me to furnish copies of all reports I had received from the external auditors of Central Mortgage and Housing Corporation which referred to its operations during 1963 and 1964. My Executive Assistant acknowledged your letter on May 29th.

I should like to mention that the auditors produce two types of reports. One is the formal Annual Report as stipulated in section 87(1) of the Financial Administration Act and which accompanies the financial statements of the Corporation and is included in both the Corporation's Annual Report and the Public Accounts and is published in the *Canada Gazette*. You and the members of the Committee have been provided with copies of these. The other type of report may be made to the responsible Minister either during or following completion of an audit and is submitted in accordance with section 87(2) of the Financial Act. These usually refer to certain details of the Corporation's transactions. I presume it is the

latter type of report which you are requesting.

As a matter of principle is involved, I referred the question to the Minister of Finance. He in turn sought the views of his other colleagues who are charged with responsibility for Crown corporations audited by external auditors.

A consensus with which both the Minister of Finance and I are in complete agreement is that these latter reports should be regarded as purely a report for management purposes. A continuation of the principle of treating them as "confidential" enhances their value since the auditors are less likely to be inhibited in their presentation of information.

It is, therefore, with some regret that I must decline to make these reports available to the Public Accounts Committee.

Yours sincerely,
John R. Nicholson

I ask for a formal motion to append this letter to our record of proceedings.

Mr. Winch: I wish to make a brief comment.

The Chairman: Perhaps we could have a motion that it be so attached, and then we will discuss it.

Mr. Cameron (High Park): I so move.

Mr. Muir (Lisgar): I second the motion.
Motion agreed to.

The Chairman: Mr. Winch?

Mr. Winch: I do not want to delay our regular work for today, but in view of this letter, Mr. Chairman, I would like to make a very brief comment.

The Public Accounts Committee is, and always has been, in my estimation, one of the most important Committees of the House of Commons, investigating as it does expenditures amounting in this case to billions of dollars of taxpayers' money.

• 1015

I wish to recommend that to fulfil our responsibilities as a Public Accounts Committee you, as Chairman, take under advisement the question of whether our power and authority to obtain full and complete information can be blocked, and whether or not we

can get the information the Committee felt it required to follow through its investigations?

The Chairman: Thank you, Mr. Winch. Are there any other comments?
Mr. Muir?

Mr. Muir (Lisgar): I cannot follow the argument in this letter that this necessarily has to be confidential. It is just a matter of the report to the Minister on the financial operations of the Central Mortgage and Housing Corporation. Why should it be confidential?

The Chairman: It would appear that we should not be denied information on this.

Mr. Southam: Mr. Chairman, perhaps Mr. Henderson would like to comment on this?

How does it affect your work, Mr. Henderson?

Mr. Henderson: Mr. Southam, I do not believe I can make any useful comment. I am not the auditor of Central Mortgage and Housing Corporation. I am even unfamiliar with the contents of this particular report.

I am informed, however, that I have the right of access to their files, and could ask to see them, particularly if I had reason to believe that they contained something which would affect my responsibilities under the Financial Administration Act.

However, as I have told this Committee, I have never sought to exercise that right, because of the ethics of my profession, unless the Committee itself directs me to do so. In view of the importance of maintaining good relationships, on which I place a high priority, I have therefore refrained.

My method of operation is known to the members of this Committee. The contents of the reports I make to Crown corporations are summarized in my report to the House of Commons to the extent that there is information which, in my opinion, the members would wish to know.

The Chairman: Mr. Lefebvre?

Mr. Lefebvre: Has there been any attempt in the last 10 years to get this information.

The Chairman: Not to my knowledge.

Mr. Lefebvre: By this Committee?

Mr. Winch: Only this once.

Mr. Lefebvre: What is the precedent for asking for it now?

The Chairman: At the time the Corporation appeared before it, the Committee felt that it was perhaps not given all the facts, and it criticized the Corporation on one or two points. At that time it was felt that we should review some of the suggestions that the external auditors had made to the Corporation. It was on that basis that we asked for those reports from the auditors.

This is a matter of quite some concern to the Committee. The Steering Committee is going to meet, if not at the close of this meeting, some time today. Is it your wish that the Steering Committee come up with some sort of an answer to this and report back to the Committee?

Some hon. Members: Agreed.

The Chairman: Now, gentlemen, at the organization meeting your wish was that today we should consider the recommendations made by the Committee to the House.

The feeling expressed at that time was that this Committee works hard and diligently, makes reports to the House, and nothing is done about them. I refuse to accept that as a full statement. The House does pay attention to many of our recommendations and puts them into force. There are, however, a number that have not been acted upon, and I think the wish of the Committee was that we discuss these recommendations today and mark them as implemented, not implemented, or partially implemented. If you are agreeable, I suggest that we take the list before us and ask Mr. Henderson, or whomever he may delegate, to say "implemented", "not implemented", or "partially implemented", and you can mark it on your sheet. Then we will come back and have a discussion of any one about which you want further information. In this way I think we will first of all get a synopsis of the reaction of the House to our recommendations, and then we will come back for detailed study.

• 1020

Mr. Winch: Mr. Chairman, does that mean that during the first run-through we do not ask why no reason is given for a certain recommendation being turned down?

The Chairman: I would prefer your not asking any questions until we run through them and tick them off. Put a little footnote beside those on which you want further information and we will come back to them. Is

that agreed? I think we will make better headway that way.

Mr. Bennett is our clerk again this year. He has been with the Committee for two or three years now, and I am sure we are happy to have him back with us once again. I apologize for not introducing you earlier, Mr. Bennett.

Now, Mr. Henderson, we will start on page 2, the Fourth Report, 1963: No. 1: Second Class Mail.

Mr. Henderson: Mr. Chairman, I am going to ask Mr. Long to indicate the category in which we place each one, and then we will give you the score at the end, so to speak, so that you will know the category in which we have it, and I will then give you the updated information we have in addition to what is already on this year-old Follow-up Report. I think that will make it quite clear. He can read the title, Mr. Chairman, if you are agreeable, and indicate the category and I will follow right along with the updated information which is in addition to what you have in front of you. So we will start with No. 1: Second Class Mail. Mr. Long, will you indicate the category of that?

Mr. G. R. Long (Assistant Auditor General): The first item is Second Class Mail, and we cannot say that any action has yet been taken.

The Chairman: No action.

Mr. Long: You had indicated that the Committee was interested in whether or not legislation is required. Would you like me to indicate that as we go through these items?

The Chairman: Yes, I think that would be advisable. Say, "no action, legislation required".

Mr. Long: That is right.

On No. 2: Departmental Operating Activities, slow progress is being made.

Mr. Henderson: It might be helpful, Mr. Chairman, if, as I said, I were to give a few words of explanation after Mr. Long's categorization...

The Chairman: No, Mr. Henderson.

Mr. Henderson: ... so that you will at least know...

The Chairman: No; we want them identified and we will come back to them later. We will not get over them if we do that this morning, and it is imperative that we get over this list this morning.

Mr. Long: On No. 3, on page 3, at the top of the page, Internal Financial Control: Slow progress is being made and legislation is required.

No. 4: Unemployment Assistance: This we believe, is soon to be implemented. There is legislation in the form of the Canada Assistance Plan on the books. We do not know yet whether it does accomplish or implement the recommendations that the Committee made. The Committee recommended changes in the Unemployment Assistance Act. So, the category there is, "soon to be implemented".

On No. 5, on page 4, Findings of the Royal Commission on Government Organization: Slow progress is being made; legislation is required.

On No. 6: The Form and Content of the Estimates: No action.

• 1025

On No. 7, on page 5, Living Allowances to Federally-Appointed Judges: This has been implemented.

On No. 8, Governor General's Special Warrants: No action; legislation is required.

On No. 9, Unemployment Insurance Fund and Its Administration: No action; legislation is required.

The Chairman: Just a minute; there is some confusion here.

Mr. Forbes: Mr. Chairman, one of these is in French and the other is in English, and they have different numbers.

Mr. Long: No, Mr. Forbes, that is an old follow-up Report you have of several years back.

Mr. Forbes: Then what is it doing around here?

Mr. Winch: I am sorry, Mr. Chairman; this one is also entirely different from my previous one and the one you have, so I must have a third copy here.

An hon. Member: What have you got for No. 9?

Mr. Winch: No. 9 here is Unemployment Insurance; is that the one?

Mr. Long: Yes, that is the one.

The Chairman: Now, who has not got a sheet with No. 9: Unemployment Insurance? Six people do not have it.

Mr. Harkness: On the one that we have, No. 11 is Unemployment Insurance. Perhaps we could just cross out the ones that no longer apply.

Mr. Henderson: Well, the trouble is, Mr. Harkness, that this is the April, 1967 Report and none of the comments are updated. It would not be fair to proceed with two-year-old data.

Mr. Forbes: Mr. Chairman, the date on the one I have is July 28, 1964.

The Chairman: We will get other copies for you. Are you all right now, Mr. Bennett? On No. 9: Unemployment Insurance. When everyone has it in front of him we will proceed. Can you share copies? The reason for this, gentlemen, is that between our meeting Tuesday and today we did not have time to mimeograph more copies.

Have you a copy, Mr. Leblanc?

Mr. Leblanc (Laurier): I will follow the French version.

The Chairman: We will go slowly until everybody gets his bearings.

Mr. Long: On No. 9, Unemployment Insurance Fund and its Administration: No action has been taken. Legislation is required.

On No. 10, Office of the Auditor General: The Executive disagrees with this recommendation. Legislation is required.

Mr. Winch: Perhaps we will have a battle with the Executive.

• 1030

Mr. Long: On No. 11, Canadian Broadcasting Corporation: Report of the Royal Commission on Government Organization: No action.

On No. 12, on page 7, National Defence Administrative Regulations and Practices: Slow progress.

On No. 13, Unauthorized Use of Crown-owned Vehicles: The Executive disagrees.

On No. 14, on page 8, Financial Assistance to Town of Oromocto: The Executive disagrees.

On No. 15, Assistance to Provinces by the Armed Forces in Civil Emergencies: No action.

On No. 16, Pension Awards Effective at Early Age: No action. Legislation is required.

On No. 17, Discretionary Awards of Service Pensions: No action. Legislation is required.

On No. 18, Errors in Public Service Superannuation Account Pension and Contribution Calculations: Slow progress.

Mr. Cameron (High Park): Is there any difference between "no progress" and "not implemented"?

Mr. Long: I do not think I have used the category "not implemented", have I?

Mr. Cameron (High Park): Well that is what I have been putting down. I gathered that Mr. Henderson suggested "not implemented", "implemented" or "partially implemented", and I was just wondering why you were distinguishing... In respect of some you say "not implemented" and others, "no progress".

• 1035

Mr. Long: I did not realize I had said anywhere "not implemented".

Mr. Cameron (High Park): Mr. Henderson mentioned about implemented.

Mr. Henderson: "Not implemented" would be the same as "no action".

Mr. Cameron (High Park): That is why I want to know. I was wondering about the difference.

Mr. Long: In some cases there is no action and in some cases something is being done and they are slowly implementing what is being done.

Mr. Cameron (High Park): That may be the difference. I think "not implemented" means 100 per cent not implemented.

Mr. Long: On No. 19, Interest Charges on Loans to the National Capital Commission: The Executive disagrees.

On No. 20, on page 10, Accounts Receivable: Slow progress.

On No. 21, Indirect Compensation to Chartered Banks: We have categorized this as "action taken, not satisfactory".

On No. 22, on page 11, The Canada Council: There has been no action. Legislation is required.

On No. 23, Surplus Assets Disposal: No action.

On No. 24, on page 12, Hospital Construction Grants: This recommendation was withdrawn by the Committee at a previous meeting.

On No. 25, Awards under the Pension Act: No action. Legislation is required.

Mr. Winch: When you say "No action. Legislation is required", basically you mean that because the legislation has not been introduced there has been no action?

Mr. Long: Yes.

On No. 26, War Veterans Allowances: Slow progress is being made.

I might say here that No. 26 (b) has been, in effect, implemented but not in the way the Committee recommended. It has been implemented by a change in policy in the Department.

On No. 27, on page 13, Amendments to the Customs Act and the Excise Tax Act: Slow progress is being made. Further legislation is required.

On No. 28, General Election Expenditure: No action. Legislation is required.

Mr. Forbes: What do you mean by "Legislation is required"? Is this going to broaden the Act, give you more power, or what do you mean?

Mr. Long: It means that legislation will have to be introduced in the House in order to implement what the Committee has recommended. The Executive cannot do it on its own.

Mr. Bigg: Does it mean that they intend to do it?

The Chairman: We will come to that later, Mr. Bigg.

Mr. Long: On No. 29, on page 14, Accounts not Examined by the Auditor General: The Executive disagrees.

Mr. Leblanc, in this particular case you will note below the item that the Minister has written back and said that he does not agree with the Committee's recommendations.

Mr. Leblanc (Laurier): Well, it is the Minister, not the Executive then.

The Chairman: Mr. Leblanc, the Cabinet disagrees.

Mr. Leblanc (Laurier): The Cabinet?

The Chairman: Yes.

Mr. Leblanc (Laurier): By "Executive" do you mean the "Cabinet"?

The Chairman: That is right. It is one and the same thing.

Mr. Leblanc (Laurier): That is the right definition.

• 1040

Mr. Long: We do not have any contact with the Cabinet on this. We hear through the Minister, but I think the decisions were made by all the Executive.

On No. 30, on page 15, Audit of the Office of the Auditor General: The Executive disagrees and legislation is required.

Mr. Lefebvre: That is number 30?

An hon. Member: What was the verdict? Was it agreed?

Mr. Long: On No. 31, The St. Lawrence Seaway Authority: Implemented.

Mr. Winch: Hear, hear. We got one through.

Mr. Long: I think there was more than one.

On No. 32, on page 16, Salary of the Auditor General: The Executive disagrees. Legislation would be required.

On No. 33, Separate Act of Parliament: No action has been taken. Legislation is required.

On No. 34, Standing Committee on Public Accounts: The Executive disagrees. Legislation would be required.

On No. 35, on page 17, Charges for Post Office Lock Boxes and Bag Service: Implemented.

On No. 36, Post Office Savings Bank: No action has been taken. Legislation is required.

On No. 37, on page 18, Possible Loss of Revenue when Goods Lose Tax-exempt Status: No action.

On No. 38, Drawback Paid on Goods Destroyed after Release from Customs: No action.

Mr. Winch: I presume, Mr. Chairman, it follows automatically when you say "No action" that it comes within the purview of regulations and no legislation is required?

Mr. Long: That is right.

On No. 39, on page 19, Tax Exemption for Particular Groups: No action.

On No. 40, Customs and Excise Laboratory: Implemented.

On No. 41, on page 20, Loans and Advances Representing Grants to Crown Corporations: The Executive disagrees.

On No. 42, Advances to Canadian Corporation for the 1967 World Exhibition: The Executive disagrees and legislation is required.

On No. 43, Prairie Farm Emergency Fund: Slow progress is being made. Legislation is required.

Mr. Forbes: Mr. Chairman, may I ask one short question?

The Chairman: No, wait until we go through the list we will come back to it.

Mr. Forbes: I might have forgotten by then what I was going to ask.

An hon. Member: Make a note of it.

Mr. Long: On No. 44, on page 21, Repairs and Alterations to Canadian Coast Guard Ships: The Executive disagrees.

• 1045

On No. 45, on page 22, Cost of Salvaging Sunken Vessel: We categorized this as soon to be implemented. Legislation is required.

On No. 46, Cost of Abandoned Design Plans for Ferry Vessel: The Executive disagrees.

On No. 47, on page 23, Cost of Faulty Planning in Ferry Design: Implemented.

On No. 48, Internal Audit Group, Department of Northern Affairs and National Resources: Slow progress is being made.

On No. 49, Inadequate Control of Stores at Northern Locations: Slow progress is being made.

On No. 50, on page 24, Department of External Affairs, Missions Abroad: Slow progress is being made.

Mr. Muir (Lisgar): What was the last comment?

The Chairman: Slow progress, Mr. Muir.

Mr. Long: Slow progress.

On No. 51, Salaries and Wages Paid for Work not performed: No action.

An hon. Member: And they need money, do they?

Mr. Long: On No. 52, Surplus in Defence Production Revolving Fund: Implemented.

On No. 53, Transportation on Leave Allowance: The Executive disagree.

On No. 54, on page 25, Proposed Removal Allowance: The Executive disagree.

On No. 55, Central Mortgage and Housing Corporation—Appointment of Auditors: Executive disagrees.

On No. 56, on page 26, Central Mortgage and Housing Corporation Reports of the Auditors: I have this categorized as "No action" in view of the letter which the Chairman read. Perhaps we should categorize that as "Executive disagrees".

The Chairman: I think "No action" is better, Mr. Long. The letter says that they refuse to do it.

Mr. Long: Very well. There certainly has been no action.

On No. 57, Central Mortgage and Housing Corporation Securities held by Mortgage Insurance Fund: Implemented.

The Chairman: Run up the flag!

Mr. Long: On No. 58, Central Mortgage and Housing Statement of Net Income: No action has been taken.

On No. 59, Reconstitution of Financial Structure of the National Harbours Board: No action has been taken.

On No. 60, on page 27, Federal Losses from Bankruptcies: No action has been taken.

On No. 61, Municipal Winter Works Incentive Program: Soon to be implemented.

On No. 62, Parliamentary Control of Expenditure: No action.

On No. 63, on page 28, Application of Canadian Hospital Accounting Manual to Federal Hospitals: Slow progress is being made.

•1050

On No. 64, Charitable Donations: If you will turn to page 29 you will see a summary that had been prepared one year ago of these various categories. I can update this for you if you would like to mark your copies. In the first category—No action as yet—items Nos. 40, 53, 63, and 64 should be deleted from that category and the number reduced from 27 to 23.

Mr. Leblanc (Laurier): Would you repeat the numbers, please, Mr. Long.

Mr. Long: They are 40, 53, 63, 64. The Number is then 23 instead of 27.

The next category—Executive has indicated disagreement with recommendation—include in that No. 53. And the number changes from 14 to 15.

The next category—Slow progress being made—include in that category No. 18 and

No. 63. The Number then increases from 11 to 13.

Category—Implemented—add in there No. 40 and No. 64. The Number increases then from 6 to 8.

Next—Soon to be implemented—remains unchanged.

Action taken not satisfactory—remains unchanged.

Action taken not producing results—may be deleted. There is nothing in that category now.

The last item—Withdrawn by Public Accounts Committee—unchanged. The total remains at 64.

The Chairman: Thank you very much, Mr. Long. I am sure the Committee appreciates the great amount of work that has gone into this review on the part of the staff on the Department, especially in view of the very short time in which they had to do it. It was Tuesday that we called them and asked for this report, and we do appreciate it very much.

Now we will revert back to No. 1, and if you have any questions to ask, Mr. Henderson will be glad to fill in the details. Mr. Walker.

Mr. Walker: A general question first. Up until what date do your comments apply, Mr. Long?

Mr. Long: This is the latest information we have; as of now.

Mr. Walker: You mean as of yesterday?

Mr. Long: It is latest information we have. There could be things happening. We did not have time to canvass the service. There could be things happening that have not come to our attention. This is the best information we have as of now.

Mr. Walker: I wonder if we could just clarify that. We do not want to waste time. Is there any specific date where these comments that you have made hold, where they are absolute, if you will?

Mr. Winch: According to the information of the Auditor General as of yesterday, Jimmy, I would understand.

Mr. Walker: If those words are right, then, I can accept that but...

The Chairman: Order, please. Mr. Henderson.

Mr. Henderson: I think, Mr. Walker, it can definitely be said it is, according to the best of our information and knowledge, as of yesterday when this information was prepared because the request was only made the previous day.

Mr. Walker: I realize this.

Mr. Henderson: It could be that some of the departments are in process of writing a letter to us. We would like to have had a longer time and to have gone on the telephone more, you understand, but there are limits to what can be done in such a short time. Action has been so slow generally that it did not seem to me too serious to take stock on this basis.

• 1055

Mr. Walker: The point I am getting at is that these are fairly definite comments that have been made. So you are generally saying that as of your most recent up-to-date information, these comments are valid.

Mr. Henderson: Absolutely; yes.

The Chairman: Mr. Forbes.

Mr. Forbes: Just to clarify one point, when you say "legislation required", does this mean the government paid out certain accounts or took certain action when there was no legislative authority?

Mr. Henderson: Not necessarily, Mr. Forbes. These are specific recommendations of this Committee as to things that they believe should be done based on discussion in this Committee. They cannot be done in such cases unless the government introduces some legislative change; not in every case but where this explanation is being given to you this morning.

Mr. Forbes: Well, one instance is in connection with Expo—a great deficit there. Have they proceeded and spent this money without authority or is legislation required now to authorize them to spend the money?

Mr. Henderson: We say in our report that additional grants are required. But the point in connection with Expo, as you may recall, is that Parliament approved loans to this corporation which, as I have pointed out, does not have the means with which to repay those loans. Accordingly, some write-offs are going to be indicated, as Mr. Sharp has already stated in the House.

Mr. Winch: So they should be made as donations...

Mr. Henderson: And will be brought before Parliament. That will be brought before Parliament when the figures are complete.

Mr. Forbes: You see the headline in the *Ottawa Journal* of February 20 referring to the Auditor General's report: "Expo Deficit \$210,665,000 and Going Higher". Was there no legislation to provide for this expenditure?

Mr. Henderson: The money has not been treated as expenditure but strictly as a loan in the form of an advance to a Crown corporation.

Mr. Forbes: Then what legislation does the government have to grant loans?

Mr. Henderson: It puts it in the Estimates under Loans and Advances and Parliament passes it.

The Chairman: I think, gentlemen, if we proceeded along these various headings and if you asked questions under each one, we would make more systematic progress. Are there any questions under Unemployment Insurance Administration?

Mr. Cameron (High Park): What about No. 1?

The Chairman: Oh, excuse me, Mr. Cameron.

Fourth Report 1963—presented to the House on December 19, 1963

1. SECOND CLASS MAIL. The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

In its Fourth Report 1966 the Committee stated that it feels that there is something wrong when no action has been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes have been made, the annual loss has continued to

increase and the Committee is of the opinion that sufficient consideration has not been given to the solution of this problem. It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas.

Comment by the Auditor General: In paragraph 114 of my 1966 Report to the House, tabled in the House on February 20, 1967, I stressed the urgency of this problem and gave figures showing the estimated loss in handling second class mail for the four years in which the loss had been calculated. The latest year, 1965-66, indicated a loss of \$28.1 million.

In a press dispatch on October 17, 1966 (the date the Committee's Fourth Report 1966 was presented to the House) the Postmaster General was quoted as saying that legislation will be introduced early in the 1967 session of Parliament to increase second class mailing rates.

Mr. Lefebvre: That was defeated in the House, was it not?

The Chairman: Mr. Cameron, do you wish to speak now or after Mr. Lefebvre?

Mr. Cameron (High Park): I think Mr. Lefebvre has the same things on his mind as I have so I will let him speak.

The Chairman: Mr. Henderson.

Mr. Henderson: The estimated loss on handling second class mail in 1966-67 was about \$34 million, or up \$5.7 million over the previous year. As Mr. Lefebvre just said, on September 29 last year the Postmaster General introduced a resolution to amend the Act to provide for certain increases in the rates. When the House resumed consideration of this resolution on November 28 last, the resolution was, as you stated, defeated. As we have not seen the bill which was to give effect to the resolution, we do not know what increases in second class mail rates were contemplated. That is the up-to-date information I have on that.

Mr. Bigg: When we got no action it might mean that Parliament itself has quashed it

but not necessarily rejected it, is that right? Just a blanket—no action.

Mr. Henderson: Yes, that would be true in this case.

The Chairman: No. 2.

2. DEPARTMENTAL OPERATING ACTIVITIES. The Committee reiterated its belief that it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts, provided this can be done without undue cost or staff increases. The Committee requested the Auditor General to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course.

Comment by the Auditor General: In paragraph 216 of my 1966 Report to the House I referred to the issuance in April 1966 of the Treasury Board policy statement on the establishment and use of working capital advances (revolving funds) which should lead to the increasing use of working capital advances by departments and agencies in circumstances where it would be to their advantage in carrying out any program or activity. In such circumstances annual financial statements would be prepared for inclusion in the departmental sections of the Public Accounts. Implementation of this program should represent a long step towards reaching the objective which I have been advocating for several years and which has been consistently endorsed by the Committee.

As indicated in paragraphs 217 to 226 of my 1966 Report to the House, a number of the larger departments and agencies involved in trading or servicing activities have reached or are progressing toward the development of financial statements along the lines recommended.

It remains my intention to keep the development of this objective under close surveillance and to continue to report thereon to the Committee.

Are there any questions on Departmental Operating Activities?

No. 3.

3. INTERNAL FINANCIAL CONTROL.

The Committee requested the Auditor General to continue his examinations into the important area of internal financial control and to report further to the House on steps taken or which should be taken to improve financial management in the various departments, Crown corporations and other instrumentalities.

Comment by the Auditor General: This matter was last referred to by me in paragraph 8 of my 1965 Report to the House in which I expressed the opinion that greater progress could be made in recognizing the importance of internal audit. While a number of the larger departments and Crown corporations possess their own staffs, some of them have not yet taken steps along these lines even though the circumstances justify it. On the other hand, in the related field of pre-audit, staffs are larger and methods more elaborate than modern practice requires. I do not believe the solution to these problems lies in engaging more staff but rather in making more effective use of the staffs presently engaged in internal auditing, including pre-audit work, coupled with a freer exchange of ideas among the various departments, Crown corporations and other agencies.

In June 1966 the Treasury Board issued to all departments and agencies a guide to financial management which, to the extent it is implemented, should bring about an overall improvement in internal financial control, including internal audit. In the preface to this guide it is explained that policy had not been decided about pre-audit and certain other accounting responsibilities of the Comptroller of the Treasury.

It is my intention to keep this matter under review and to report further thereon to the House.

Mr. Winch: I seem to remember, Mr. Chairman, that we discussed this on more than one occasion and this goes back now to 1964. Internal Financial Control would strike me, as a member of this Committee, as being of the utmost importance. If I remember correctly, this was made in 1964?

• 1100

Mr. Henderson: That is correct.

Mr. Winch: This is now 1968. Four years later you report on what I personally consider

to be a most important matter: Internal Financial Control. Can you give us any explanation, as given to you, why after four years you still today only report "slow progress"?

Mr. Henderson: When this was initially discussed with the Committee and I advocated the preparation of financial statements to reflect the results of the operating activities, this Committee added the proviso you see here: "provided that this can be done without undue cost or staff increases". We have been promoting and encouraging the preparation of such statements ever since and each year my report records another operating activity or two which have succeeded in producing some useful financial statements.

Recently the Treasury Board got behind this because Glassco echoes what I have said and they authorized a contract with a firm of management consultants to provide consultant services to recommend the format of operating budgets and to go into the whole thing in much more detail than I had contemplated, but nevertheless on a very praise-worthy basis. They are studying four departments and I think as recently as a few days ago Treasury Board approved an extension to their contract.

Now, we are in process at the moment of studying the reports of these consultants to see how effective they are likely to be. That is the type of progress and the type of follow-up that I am applying in accordance with your directive to me and I keep you in touch with it.

The Chairman: I wonder whether the Committee would be interested in a very brief outline of how the internal audit of each department operates, Mr. Henderson? Would you like just a brief picture of how the internal audit works in each department?

Mr. Henderson: Mr. Chairman, this is a very long subject. I would be more than pleased to embark on it with you, but in all fairness to the operating people I think you would wish to have it as a separate item later. This is a very large subject but a very pertinent one now in view of the proposals for program or project budgeting in this particular subject.

The Chairman: Mr. Leblanc?

[Translation]

Mr. Leblanc (Laurier): Mr. Chairman, as far as the public service audit method is concerned, Treasury Board, issued on Thursday August 17, 1967, the release explaining the whole thing. Perhaps, copies of the release could be obtained for the members of the Public Accounts Committee. Thus, we would know exactly how the audit is done within the various departments.

[English]

The Chairman: Mr. Leblanc, as I understand it, you would like us to discuss that letter and carry out a further study of the internal audit of departments at the first opportunity.

Mr. Leblanc (Laurier): If we find it necessary, but first I think we should all get a copy of the press release of August 17, 1967, by the Treasury Board.

The Chairman: I do not see any reason why it should not be made available to members of Parliament. Mr. Walker, you might have some comment on that.

Mr. Walker: No. I have no comment. I think if it is pertinent to what we are discussing it should be filed along with the report that we just received from Mr. Long.

The Chairman: All right. We will ask our Clerk to provide that for members of the Committee.

Thank you Mr. Leblanc.

We will now move on to Item 4.

4. UNEMPLOYMENT ASSISTANCE. The Committee shared the opinion of the Deputy Minister of Welfare and the Auditor General that consideration should be given by Parliament to redrafting the Unemployment Assistance Act so as to state more clearly the objectives and methods of achieving them and to remove ambiguities in the present law which have resulted in varying interpretations. It believed that consideration should also be given to including with Unemployment Assistance other existing programs to assist the needy so as to provide better co-ordination of federal-provincial efforts in this field.

In its Fourteenth Report 1966-67 presented to the House on March 2, 1967, the Committee referred to discussions it had with the Deputy Minister of Welfare

concerning the Canada Assistance Plan enacted by Parliament in 1966 which permits the Federal Government to enter into agreements with the provinces to make contributions to the cost of providing assistance and welfare services, pursuant to provincial law, to all persons in need. The Committee believes that the new plan should provide a better overall co-ordination of assistance programs, although recognizing that, until the regulations under the plan are established and agreements entered into with the provinces, it is not possible to fully assess the adequacy of the new comprehensive approach to social assistance in overcoming administrative weaknesses previously criticized. The Committee asked the Auditor General to follow up this matter and report further to the House thereon in due course.

Comment by the Auditor General: In paragraph 97 of my 1966 Report to the House I mentioned that regulations under the Canada Assistance Plan, which received royal assent on July 15, 1966, were being prepared and agreements with the provinces were under negotiation. These regulations were approved by Order in Council P.C. 1967-143 of January 26, 1967 and agreements have been entered into with five provinces. Agreements with the remaining provinces and two Territories are still under discussion.

It remains my intention to keep the House informed on this matter.

Are there any questions? Mr. Henderson, if you feel there are points here that are pertinent do not hesitate to interject them.

Mr. Henderson: I might just refer very briefly to Mr. Leblanc's point. You were speaking of internal auditing or internal financial control. I think the last word we have on that was Mr. Benson's advice to the House, I think last December, that the government proposes to introduce legislation to provide for transfer of the pre-audit responsibility from the office of the Comptroller of the Treasury to individual departments and agencies and that substantial staff savings are anticipated when this process is completed.

Now, that is pertinent to this particular subject. I just mention that to update you on that point. I have nothing much to say on

unemployment assistance. I have dealt with this matter again in my 1967 Report, paragraph 115.

• 1105

Mr. Winch: It is going to be implemented, though.

Mr. Henderson: Yes; we think so.

The Chairman: It is five minutes past eleven o'clock. If some members wish to be excused for a caucus meeting, we will excuse them at this time. If you have any questions on any particular point, ask them before you leave.

Mr. Southam: Thank you, Mr. Chairman.

The Chairman: All right. We will proceed to No. 5.

5. FINDINGS OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Auditor General referred to the numerous and widespread findings made public in 1962 and 1963 by this Royal Commission as a result of its examination into the organization and methods of operation of departments and agencies of the Government. He reminded the Committee that where administrative action has caused or contributed to waste of public money, it is his duty to report such cases as he considers should be brought to the notice of the House. He pointed out that while some instances come to his attention directly during the course of his audit work, others are indirectly brought to light by action on the part of the administration itself in the course of examining its own operations, as for example, through the medium of internal auditing.

By the same token, he considers it to be his duty to study reports prepared by or for the managements of departments and agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations. To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such sav-

ings, or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

With regard to the findings of the Royal Commission on Government Organization, the Auditor General believes it to be of considerable importance that those relating to outdated procedures, uneconomical operations and wasteful practices be effectively dealt with, not only in the interests of improving efficiency but because of the substantial savings of public funds which could result. It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

Comment by the Auditor General: In paragraph 7 of my 1965 Report I informed the House of the results of my Office's study of the findings of the Royal Commission on Government Organization relating to outdated procedures, uneconomical operations and wasteful practices. The results of this study were not reviewed by the Committee when examining my 1965 Report and the matter was referred to again in paragraph 7 of my 1966 Report to the House.

On April 5, 1967 the Minister of National Revenue and President of the Treasury Board tabled in the House a list of 29 additional recommendations of the Royal Commission on Government Organization which had been adopted by the Government on March 9, 1967. This leaves 122 recommendations not yet disposed of out of the original 276.

Are there any questions?

Mr. Winch: Yes, Mr. Chairman. Concerning No. 5, I hope Mr. Henderson can update us because it is of the utmost importance. Concerning the recommendation, I would like just to recall, although I do not think it is

required, the concluding sentence that we put in that recommendation a long time ago which was a unanimous opinion and I quote it:

It is the opinion of the Committee that not only does this lie within the statutory responsibilities of the Auditor General but that the Auditor General's concept of his responsibilities in this matter is in accord with the intent and wishes of Parliament.

I remember our discussions at that time and the passage of this rather lengthy recommendation because of its importance, and because it refers basically to the findings of the Royal Commission on Government Organization which, if my memory is correct, had 464 recommendations. If the press reports and the Auditor General's report are correct, that his department is most dissatisfied with the slowness in implementation, I ask, Mr. Chairman whether we could not have some comment and recommendation of this most important matter from Mr. Henderson.

The Chairman: Mr. Bigg has a question.

Mr. Bigg: I have one on the same point. I do not propose to lecture the Committee but during the time I have been on this Committee it seems to me that we put a little too much pressure on the Auditor General to comment on policy. I think he could do his job better, and perhaps we can help him if we put on the government anything that might be called political pressure, and make sure that we do not put him on a spot in any way to prejudice his efficiency.

Mr. Winch: Mr. Chairman, I hope I was not misunderstood. I do not want anything in the way of political pressure. I have always been proud that this Committee functions on a completely nonpolitical basis although we represent all parties.

But I am disturbed, Mr. Chairman, from all that we have heard this morning on the report of our recommendations of 1965 to find that the watchdog of Parliament, which is this Committee, is having its teeth pulled by no action or slow action on the considered views of this Committee.

I do not want to put Mr. Henderson on the spot in any way, but he is the official watchdog reporting to us and when he brings up certain matters that affect internal adminis-

tration and organization I rather felt that with his knowledge and that of this Committee is was our responsibility to ask whether he could give us, not policy nor political decisions, but his opinions as a result of his investigations that have to do with the matters that come within his jurisdiction.

Mr. Bigg: I hasten to say there is nothing personal in this, Mr. Winch. I was instructing myself in this regard as well as everybody else but I do think—in fact I have heard it—that this Committee relies too heavily for policy decisions on the Auditor General and I think we should put on whatever pressure is necessary to see that recommendations are implemented, and so on, once we have had the professional advice of our very capable Auditor General.

Mr. Winch: That is my very point, sir. We do put on the pressure through our recommendations but apparently the Cabinet in the main does not accept our recommendations after our long study.

The Chairman: Well, we will have to use the forum of Parliament to debate these issues—that is what it is for—and persuade the Executive of the day that our recommendations are...

• 1110

Mr. Winch: Not to be ignored.

The Chairman: ...not to be ignored. Regardless of political angles, whoever may be in power, I think, must pay attention to the Public Accounts Committee and its recommendations. If they do not, the forum of Parliament is available to each and every one to express his views. We do not intend to embarrass Mr. Henderson in any way on policy matters and I am sure he is quite capable of looking after himself in that regard.

Mr. Henderson: May I just say something in connection with this matter, Mr. Chairman, to pinpoint it. If you will note the wording in the second paragraph of the follow-up report under the heading "Findings of the Royal Commission", I make it very clear, as did this Committee when the matter was fully discussed at a very well attended meeting, that I consider it to be the duty of the Auditor General:

... to study reports prepared by or for the managements of departments and

agencies, as are by law available to him, directed toward the saving of public money by the elimination of wasteful practices and unnecessary or uneconomical operations.

That means whenever any department of government or Crown corporation bring in consultants or experts to look their reports over, I like to see those reports as the Auditor, for two reasons. One is to see what their recommendations are and the extent to which, perhaps, those recommendations might in fact be interfering with internal financial control. They might be proposing to cut out or shorten steps which in turn would make my job tougher or perhaps would be inadvisable. Second, they may well be putting their finger on wasteful practices.

Therefore, whether it is a royal commission headed by Mr. Glassco or whether it is just a small inquiry that is done internally, I like my officers to see them all, because it is part of our study of the operations of the individuals whose books we are auditing. Then I go on to say here:

To the extent such reports correctly indicate where and how savings could be made, the Auditor General considers he has a responsibility to Parliament to follow through in all such cases and ascertain what action has been or will be taken toward achieving such savings...

Not to see the recommendations are implemented, but to see what they have done about it. If there were 50 people on a staff where Glassco said 5 could do the work, I think it is worthwhile finding out what has happened. Are the 50 still there 5 years later, or in fact, has something been done about it.

...or if no action is to be taken, to inquire why. On the other hand, he does not conceive it to be his responsibility to assess the practicability of any specific recommendations made because, in his view, the decision with respect to the extent to which, or the ways in which, such recommendations can and will be implemented must always be the sole responsibility of management.

They bought the report, they brought in the men and if they decide to adopt the report or not in their wisdom that is their prerogative. I am only concerned with the precise disclosures of waste or of places where money can be saved.

Therefore, although there were 276 specific recommendations in the Glassco Report, I think my friend George Davidson added them up to 281, but we took the recommendations as indented—which interest me naturally in my study of the problem, I disregarded them. It is not my job to express views on those and I have never expressed any views on any. We went through all the reports where Glassco described the conditions he and his officers found specifically. As I mentioned, there were some 450 of them, and in the course of our regular audit work in 1965 we followed them up to see whether the departments agreed with what Glassco had said about those conditions. What had they done about it? We produced a detailed questionnaire and in the course of our audit work, we discussed it with the people on the job. The result, as indicated, and as you know, was that 73 per cent of the conditions that Glassco had commented on still prevailed.

• 1115

The results of that check have never been examined by this Committee. This is, I think, the first real discussion we have ever had about it. I have never been asked by anybody what a single one of these 450 findings were. I know what they were, and I should have thought it would have interested some people to have at least inquired what I was talking about, because we checked them out in 32 departments. It was a very big task, and I consider that I carried out my responsibilities in accordance with your approval when you passed this particular resolution.

Now, I want to make it very clear that I have looked solely at the statements contained in the reports, as I would look at correspondence files or perhaps come across a bunch of letters leading me to a channel to unearth some waste or fraud or something connected with it some place else. We have to be alert and these are the tools of our job.

The Chairman: Mr. Walker?

Mr. Walker: Mr. Chairman, if I may interject, I am a little confused about figures. You mentioned 450, Mr. Henderson, but I notice it says here:

This leaves 122 recommendations not yet disposed of out of the original 276

Mr. Henderson: That is right, Mr. Walker.

As I mentioned, there were 276 sort of official recommendations by the Glassco Commission. The government has approved a number each time.

Mr. Walker: One hundred and seventy?

Mr. Henderson: Yes, it has approved all of them, except 94 at the present time. This is the sort of score box. As I say on page 5 of my report, Mr. Benson has been fairly active on them lately and I believe he wishes in fact to have some of them discussed at this Committee if my memory serves me right. I think he wishes to bring some before the Committee, which I think would be admirable. Obviously as some of these recommendations the Government is approving come to be implemented, it is reasonable to suppose that some of this waste I am complaining about will, in due course, come to be remedied.

I work purely from the findings the Commission published in six volumes. It was a tremendous task, I assure you, to go through those volumes and take out exactly what they said. They put their finger right on an item when they said: "We went into such and such a place, and this is what we found".

Mr. Walker: Where did the 450 figure come from?

Mr. Henderson: That is my compilation, my addition of the findings. If you look at the bottom of page 4—have you my report in front of you?

Mr. Tucker: I have it now, I was just going to ask from what you were reading?

Mr. Henderson: Would you look at the bottom of page 4?

An hon. Member: Of which year?

Mr. Henderson: Of my 1967 report.

Mr. Walker: Yes.

Mr. Henderson: You see after the quotation of the Committee's statement it says:

Two years later in my 1965 Report to the House I reported on the results of a test examination of the Commission's findings made by the Audit Office during the course of its regular work in the summer of 1965. This embraced some 450 findings of specific situations or conditions...

as described by the Royal Commissioners ... involving outdated procedures, unec-

onomical operations and wasteful practices...

Those words are the terms of reference given to Glassco by the Government.

... the elimination or remedy of which would not only improve efficiency but could result in substantial savings of public funds.

Each of these individual findings was checked through to ascertain what action had been or was likely to be taken to achieve such savings. In order to make the inquiry as broad as possible, 32 departments and agencies were selected whose operations had been studied by the Royal Commission between 1960 and 1963 where the conditions giving rise to the 450 criticisms existed.

That was how we did it. It seemed a pretty grass roots basis, an obvious basis on which to do it and it did not involve my expressing any opinions whatever on the recommendations. I have the highest regard for Glassco and his approach, and I will tell you frankly, of course I agree with some, others I do not. I think the study that Dr. Davidson and his associates have brought to the Glassco work and the recommendations has been simply excellent. We have had many, many good talks about it.

Mr. Winch: Only your approach was as Auditor General, interested in efficiency and savings, to see whether the conditions outlined by the Glassco Commission report still appertained.

Mr. Henderson: That is right.

Mr. Winch: Yes.

• 1120

Mr. Walker: May I just ask one further question. Is it safe to say then that out of the approximate 60 per cent or 154 general recommendations that have been implemented, I take it, if this statement is right, out of the original 206...

Mr. Henderson: 276.

Mr. Walker: 276, which led to some specifics which came up to 450. Out of that 450, have these instances been cleaned up to the extent of 60 per cent?

Mr. Henderson: I cannot say, sir, because I have not repeated my 1965 check. I discov-

ered 73 in 1965, but I do go on to point out in the report you have before you, further down on page 5, that our day-to-day experience in the Audit Office shows that many of these practices still continue because we run into them.

Mr. Muir (Lisgar): Am I to understand then that of the original 276 recommendations there are still 122 not acted on?

Mr. Henderson: No, Mr. Muir, there are 94 the Government has not approved. The Government has brought out a list of Glassco recommendations identified the way Glassco set them up. They quote the wording and they approve them for action or implementation by the responsible departments and they are the subject of bulletins. They have not passed a verdict yet on 94 of them, but they have on all the others. They deal with them in batches—which is a very reasonable way of dealing with them—as they are able to complete their studies of them, you see.

Mr. Muir (Lisgar): But these 94...

Mr. Henderson: These 94 are still, you might say, under consideration by the government. I think Mr. Benson indicated in the House, as I said this morning, that he intends to discuss some of the remaining ones with this Committee.

The Chairman: Gentlemen, it would appear that the Steering Committee should give some thought to asking the President or the Secretary of the Treasury Board to appear before the Public Accounts Committee and give the reasons why 94 Glassco recommendations still are outstanding. This Committee would like to know why they have not been implemented. I will ask the Steering Committee to make a decision on this and if they are agreeable we might devote two or three meetings to this particular point. We have so much work to do, it is hard to know on what priority we should proceed, but that would appear to be a very important priority and we shall report to the Committee on it.

Mr. Cameron (High Park): Mr. Chairman, I would like to say this through you to Mr. Henderson. You do not necessarily consider these recommendations of the Glassco Commission to be like the law of the Medes and the Persians, so beautiful and unchangeable? I think you expressed it very well by saying

that if someone makes a recommendation to you how the Audit Department may operate more efficiently you make your own decision as to whether that is a good recommendation or not. It may be that the Treasury Board has looked at some of these and has decided that they are not good recommendations, that some cannot be implemented. When we have the President of the Treasury Board before us, perhaps we can get their side of the picture as well.

The Chairman: All right, gentleman, we will go to the next item.

6. THE FORM AND CONTENT OF THE ESTIMATES. In its Third Report 1963 tabled in the House on December 19, 1963 the Committee made four recommendations of which the following two have not yet been implemented:

- (a) inclusion of supporting financial information of Crown corporations and other public instrumentalities in the Details of Services for the purpose of providing better information to the Members and to the public with respect to the nature of the nature of the fiscal requirements of the Crown corporations and other agencies requiring financing by parliamentary appropriations; and
- (b) inclusion of brief notes in the Estimates explaining proposed major increases in the size of staff establishments of all government departments and the Crown corporations and other public instrumentalities referred to under clause (a) above.

The Secretary of the Treasury Board explained to the Committee that he had not yet been able to discuss with any of the Crown corporations or public instrumentalities the practicability of including supporting financial information in the Estimates with respect to their operations. He undertook to do so and to advise the Auditor General for the information of the Committee.

The members of the Committee were glad to learn from the Secretary of the Treasury Board that he supported the recommendations made under this heading by the Auditor General in his Reports to the House. The Committee believes that there is room for improvement in

the Estimates presentation designed to provide more informative description and more complete disclosure of pertinent supporting detail—information which, in the opinion of the Committee, is essential if Parliament is to be in a position to give the Estimates the close study and consideration they deserve.

Comment by the Auditor General: The Main Estimates for 1967-68, which were tabled in the House on March 13, 1967, do not give effect to these recommendations.

Mr. Bigg: Mr. Chairman, I understand from the discussions of the Committee that went to England that this question of tabling the estimates before the start of the session may well be implemented in the near future. I also understand that it will come up for discussion immediately. With reference to an item that appears a little further on, this Committee will, in fact, sit throughout the Parliament.

The Chairman: You will recall, Mr. Bigg, that this Committee did a lot of good work in this connection. They did implement two suggestions that we made. There are two remaining. We asked for more information from Crown Corporations. Because Crown Corporations ask Parliament for appropriations we felt that members of Parliament should be given more information than they now receive. We also thought that the staff of government departments should be given more prominence than they are given, but it remains at that point.

• 1125

Mr. Bigg: This is under "no action". I just wanted to show that although perhaps the Executive has not been acting, there are Committees around Parliament that are taking very definite action in this regard.

Mr. Henderson: You will have noted, perhaps, in my 1967 Report on this very subject that I referred not only to how this Committee, as your Chairman said, made this recommendation on Crown Corporations, but that they also called for brief notes to be given in the estimates explaining the proposed major increases in establishment. I go on to say:

In view of the growth already referred to in many of these establishments, the cost of which is one of the largest single items of public expenditure today, I believe

that such brief explanatory notes would materially assist the House in understanding the reasons...

The Committee pressed for that and recommended it. All that is necessary would be just a sentence saying that there is sort of a new division or something and that is why they want more people. It is the lack of information that causes so much misunderstanding.

The Chairman: Number 9.

9. UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION. The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry (which was tabled on December 20, 1962) be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

After having a report from departmental officers, the Committee in its Fourteenth Report 1966-67, presented to the House on March 2, 1967, indicated that it anticipated early implementation of these recommendations.

Comment by the Auditor General: There has been no change in the situation to that reported to the Committee on November 24, 1966. In paragraph 241 of my 1966 Report to the House I mention that, although the Act has not been changed, I am continuing to audit the annual financial statements of the Unemployment Insurance Fund.

Mr. Henderson: There has been no action taken here. As you know, a bill to amend the act was passed by the House on February 29 last, but that bill was limited to increasing the contributions and benefits. The act does not incorporate the recommendations of this Committee, although the Minister in his speech did indicate that a general review would be introduced later. One of your

recommendations was that the Auditor General sign the balance sheet of the unemployment fund. I am doing it, although it is not in the law. You asked that it be put in the law, but they did not do that.

Mr. Bigg: When there is no action, do we not carry them forward? This is not a dead issue now, is it?

Mr. Henderson: Oh, no.

The Chairman: It is carried forward.

Mr. Henderson: Not as long as you have follow-up reports, score cards and what not.

The Chairman: Item Number 10.

10. OFFICE OF THE AUDITOR GENERAL. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

In its Third Report 1966 the Committee reiterated its opinion that as an officer of Parliament the Auditor General should have the right to recruit the professional and senior staff he needs in the same independent manner as do other officers of Parliament and added that the Auditor General's establishment should continue to be set in the same manner as government departments.

Comment by the Auditor General: In his letter of January 26, 1967, addressed to the Chairman of the Public Accounts Committee, the Minister of Finance pointed out that a distinction has always been made between the Auditor General's personal independence and the status of the officers and employees of his Office who are civil servants and subject to the Civil Service Act. He then said:

The view reflected in the Consolidated Revenue and Audit Act, and confirmed in the Financial Administration Act, has been that employees in the Office of the Auditor General should be appointed by the body that has been established by Parliament to ensure the application of the merit principle. However, as you know, new legislation governing employ-

ment in the Public Service is being considered currently by a Special Joint Committee of the Senate and the House of Commons which will permit delegation of staffing functions to departments and agencies, including the Auditor General, if the Public Service Commission is satisfied that the office or agency has the necessary competence. It would seem to me to be entirely appropriate for you to convey the views of the Public Accounts Committee to the Special Joint Committee for its consideration when dealing with the new legislation. While differing views on the matter may be held, the new Act would appear to permit adequate powers of delegation by the Public Service Commission to the Auditor General in the field of selection and appointment.

Section 6 of the Public Service Employment Act, 1966-67, c.71, which came into force on March 13, 1967, provides for this delegation of authority. However, I have not requested that authority to select and appoint staff in my Office be delegated to me because of the Committee's request (see item 33 below) that I co-operate with my legal advisers in drafting a separate Act of Parliament governing my Office. The draft Bill was made available to your Chairman and to the Minister of Finance on February 20, 1967.

Mr. Henderson: I do not think I have anything to say on this.

The Chairman: Number 11 is next.

11. CANADIAN BROADCASTING CORPORATION—REPORT OF THE ROYAL COMMISSION ON GOVERNMENT ORGANIZATION. The Committee recommended that the Secretary of State table an official memorandum in the House presenting the views of the Canadian Broadcasting Corporation and its replies to each of the matters dealt with by this Royal Commission in its Report 19 and that this be done before the estimates of the Corporation are considered by the House.

Comment by the Auditor General: It is now more than two and a half years since the recommendation was made and the Secretary of State has not yet tabled this official memorandum. Reference is made to this

recommendation in paragraph 192 of my 1966 Report to the House.

The Chairman: There was no action on this item, so let us have a word or two here.

Mr. Henderson: I suppose this outlived itself as a result of subsequent changes. There never was any advice given to the Committee on the production of this report or action taken. You brought this to the attention of the House in August, 1964 and in view of what has transpired since, I might make the recommendation that you withdraw it. Efflux of time has gone to work.

The Chairman: Yes. Number 12 is next.

12. NATIONAL DEFENCE ADMINISTRATIVE REGULATIONS AND PRACTICES. The Committee expressed the hope that the changes which have been made or are in the process of being made in the Armed Forces' administrative regulations will bring about the desired results. It requested the Auditor General to inform the House of any case where the changes appear to be inadequate or where abuse and waste of public funds develop.

Comment by the Auditor General: In accordance with this request, two items are dealt with in paragraphs 76 and 77 of my 1966 Report to the House, the latter paragraph being a new item. In paragraph 73(2) of my 1965 Report I mentioned that a comprehensive evaluation of the present travel allowances was being made by the Department. However, as mentioned in paragraph 76 of my 1966 Report, this evaluation and study has been set aside until the Treasury Board has completed the same general type of survey, begun in November 1965, of the regulations covering travel on government business.

Mr. Winch: May I ask just one question on this item, Mr. Chairman?

The Chairman: Yes.

Mr. Winch: In view of the fact that on February 1, all the Queen's Regulations and Orders in Council went into effect, does this have any effect on this recommendation? I admit my memory fails me here, but we were interested not so much in Armed Forces Regulations as we were in the waste and

inefficiency in what I might term the Comptroller General's Department of the armed forces.

Mr. Henderson: Mr. Winch, we follow up all the points that come to our attention. Each year in my report to the House I have a number of paragraphs detailing the specific findings we have which should be brought to the attention of the House and which of course, come to this Committee to be discussed. We have them in the 1967 Report for the year 1966 which this Committee has to study. We enjoy good co-operation from the Department. As a matter of fact they are quite punctilious among the departments in following up specific points that are made. Even though they may not be prepared to move on them, they keep us posted as to the status. I think you might prefer to leave this question open until we get into discussion of the cases in 1966 and 1967. Does this answer your question?

• 1130

Mr. Winch: Yes, I imagine it does, Mr. Chairman, but a number of the members have been on this Committee for years—as a matter of fact a majority have and I am sure they will agree—and I do not think I am being unfair when I say that over the years we have found through your reports that the Department of National Defence perhaps produces more evidence of waste, maladministration and inefficiency in some regards than any other department. That is my impression. I was wondering whether we should wait until we get the last two reports but perhaps I could ask you now if you have noted any improvement. I still maintain that of all the departments that is the one your reports indicate the greatest degree of maladministration and money being spent wastefully.

Mr. Henderson: Well it is also the largest department with the biggest amount of money to spend so that is probably the reason that it looms rather large in the comments that I have made.

Mr. Winch: I will leave any further comments, Mr. Chairman, until we come to that stage of the report.

The Chairman: Yes, when we come to National Defence.

Mr. Winch: There are some extraordinary things there that we just have to look into.

The Chairman: Are we making the progress that we wish to make, or would you rather that I ask for a show of hands on those sections that you want to put questions to make sure that your questions are answered?

Mr. Forbes, I think you had a question.

Mr. Forbes: Mr. Chairman, I asked my question a while ago. I am one ahead of you.

Mr. Winch: Mr. Chairman, I believe that you have evolved a most efficient manner of going through the report, and where there are no questions we just automatically proceed to the next paragraph.

The Chairman: All right. We will now proceed to No. 13.

13. UNAUTHORIZED USE OF CROWN-OWNED VEHICLES. The Committee recommended that the regulations be amended to provide for uniform penalties of sufficient magnitude, applicable to all personnel, to act as a real deterrent to the unauthorized use of Crown-owned vehicles.

Comment by the Auditor General: The Secretary of the Treasury Board wrote to me on December 7, 1966 and informed me as follows:

In conclusion, I am of the opinion that departments are exercising reasonably good judgment in assessing penalties for accidents resulting from unauthorized use of Crown-owned vehicles—both in terms of recovering the cost of damages and imposing further disciplinary action where justified. I consider, further, that the present penalties that can be imposed are of sufficient magnitude to act as an effective deterrent, if good managerial judgment is exercised, to such unauthorized use.

I believe the most satisfactory method of trying to eliminate unauthorized use is to place the responsibility for doing so on the management of the departments themselves, reminding deputy heads that it is their responsibility to take effective action to recover all costs and take disciplinary action where warranted. We are sending a communication to this effect to all deputy heads of agencies and departments. We are also examining the feasibility of issuing a federal government driver's manual, and of includ-

ing in such a manual a section dealing with unauthorized use.

For these reasons, I do not believe further regulations providing uniform penalties applicable in all cases would materially improve the situation. It would not, in my opinion, be practicable, because of the differences in the nature of the codes of discipline involved, to apply precisely the same sanctions to members of the Armed Forces or the R.C.M.P. and to other members of the Public Service. By the same token, I question the soundness of prescribing a rigid and uniform set of regulations and penalties which would make it impossible to vary the penalties to be imposed in accordance with the exercise of management judgment as to the degree of culpability involved in individual instances.

In view of these remarks, I am undertaking a review of all 1966-67 losses of this nature and I would suggest that this recommendation be allowed to stand until my review is completed and I am in a position to make a further recommendation to the Committee.

Mr. Muir (Lisgar): Mr. Chairman, in cases where the Executive disagrees and legislation is needed how are we going to get the legislation through if the Executive disagrees with it in the first place.

Mr. Winch: File another report with the same recommendation and say, for God's sake do not ignore it this time.

The Chairman: Apparently they do not agree with our recommendation in respect of No. 13.

Mr. Henderson: If it will assist you, Mr. Chairman, the review that is mentioned here has been completed and I may say that I find myself somewhat in agreement with the reply from the Secretary of the Treasury Board, that the departments are, in fact, showing signs of being more severe. If the Committee is agreeable, I would recommend that you drop this recommendation in light of what. . .

Mr. Winch: Even in view of what you had to say, if my memory is correct, in this last report.

Mr. Henderson: I do not think it is the same problem, Mr. Winch.

Mr. Winch: I am referring to the use of vehicles in Defence. They are crown-owned vehicles, are they not?

Mr. Henderson: This is unauthorized use. It is not just the use of them. Now I do not think we have a case of taking without permission in the 1967 report. We do deal with crown-owned vehicles but...

Mr. Winch: Well my problem then is just that word "unauthorized".

Mr. Henderson: Oh yes, but that is a different subject.

Mr. Winch: But it is still "unauthorized" use, is it not?

Mr. Bigg: Mr. Chairman, this is a subject which is very close to my heart. I was the unofficial insurance adjuster for the Royal Canadian Mounted Police for three years and the question of whether or not you can authorize use of a crown vehicle often requires considerable scope in judgment and the penalty therefore must fluctuate with each individual case. Suppose one is not allowed to pick up civilians, for instance. If a person picked up a bunch of girls over in Hull for a party it would be quite different than picking up a woman carrying a sick child to a hospital during a blizzard, but according to the regulations one would be just as serious as the other. I think I have made my case clear. For us to levy a \$200 fine for the unauthorized use of a crown vehicle would be ridiculous.

Mr. Winch: I think I would like to rise and expatiate on part of that.

The Chairman: I think we have had sufficient explanation to proceed to No. 14.

14. FINANCIAL ASSISTANCE TO TOWN OF OROMOCTO. The Committee recommended to the Department of Finance that consideration be given to writing off to expense certain loans made to the Town.

Comment by the Auditor General: I informed the Committee on June 9, 1966 that the Deputy Minister of Finance had advised me that he did not believe the loans should be written off but agreed that the transactions should be reflected more realistically in the financial statements of Canada. He stated that in future they

would be included in the schedule to the Statement of Assets and Liabilities under a special subheading, "Recovery Likely to Require Parliamentary Appropriations".

In my opinion this does not solve the problem.

• 1135

This is an old "chestnut" and I do not know what to think about it. We have discussed it for years and there is a matter of disagreement. Let us proceed.

Mr. Muir (Lisgar): Nothing is going to be done about it anyway.

Mr. Henderson: Well they have gone so far as to place it under a special sub-heading in the Statement of Assets and Liabilities, "Recovery Likely to Require Parliamentary Appropriations". The next question is, if it is likely to require it why not get it behind you and write it off.

The Chairman: Yes.

Mr. Henderson: But it does not solve the problem, as I say.

The Chairman: We will now proceed to Item No. 15.

15. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

Comment by the Auditor General: On June 6, 1966 I received a letter from the Deputy Minister of Finance and at your meeting on June 16, 1966 the Deputy Minister of Finance quoted the following from this letter:

There is nothing further to report at this time as regards the outstanding accounts owed by several provinces. Treasury Board has considered the matter on several occasions but has not yet

come to a decision as to whether and how the accounts should be collected or, alternatively, to recommend they be written off.

The general policy of federal assistance to provincial governments in dealing with disasters is again under consideration as a result of the Red River flood, and it is hoped that principles can be established that will lay down in advance the nature and amount of such assistance under various circumstances. Consideration will be given to these outstanding accounts in the light of such principles.

I have heard of no further developments.

Mr. Schreyer: In connection with Item No. policy guidelines have been adopted between the time of writing of this paragraph and 15, Mr. Henderson, can you say whether any now?

Mr. Henderson: No, we have heard of no further developments. You are speaking of the Armed Forces in civil emergencies.

Mr. Schreyer: Right.

Mr. Henderson: No, we have not.

The Chairman: This is where the Armed Forces provide assistance to the various provinces in cases of emergency and then the provinces do not pay the federal government for the services rendered. I should not say they do not pay; they are slow in paying and I guess in some cases have not paid.

Mr. Henderson: They have not paid. They are not being paid by the provinces in question.

Mr. Schreyer: Are they being formally billed?

Mr. Henderson: I do not think they are being billed. In that second paragraph the Deputy Minister of Finance stated that the whole policy is under consideration and, as far as we know, it stands that way today, a year later.

Mr. Forbes: Mr. Chairman, is it not right that if it comes into the category of a national emergency there naturally would not be an account from the federal government?

Mr. Henderson: I do not think these were in that category, Mr. Forbes, in the first place. These were isolated cases in provinces

which asked for the assistance and it was sent.

Mr. Lefebvre: Was one of them a major forest fire in Newfoundland?

Mr. Henderson: I think it was. Was it not in the Maritimes?

Mr. Lefebvre: Newfoundland, I believe.

The Chairman: The Red River flood is involved here too.

Mr. Forbes: That is what I had in mind.

Mr. Winch: Yes, but there is a difference. If I remember our discussion in Committee, there was a difference between what was called a national disaster, in which event it is 100 per cent a charge on the federal service and no bill is sent, and where, under procedure, there was a request by the Attorney General from a province for assistance, in the form of troops, and in that event it was the usual policy for them to be billed, having received such a request. Is it not correct, Mr. Henderson, that that was the discussion and that was the difference?

Mr. Henderson: That is right. That is my understanding.

The Chairman: To sum it up, if you live for example, outside the fire department's range you have advance arrangements with that department that they will come to your fire providing you pay "X" number of dollars, and we want this same principle. If the provinces have an emergency the federal government wants it laid down in advance what the cost will be, or that they will be agreeable to pay a reasonable charge for the service rendered.

Mr. Schreyer: Mr. Chairman, with respect, your analogy is not that good because in the case of municipal fire-fighting, residents outside a municipality are not ratepayers of it, but the citizens of the Red River Valley are citizens of Canada and if there is a large civil emergency they have a right to call on the federal authority which has the technical competence to deal with the problem. I note that this Committee expresses the hope that principles can be established that will lay down in advance the nature and amount of assistance under various circumstances. In practical terms would it not be difficult Mr. Henderson, to arrive at any formula? If the

Department of Defence were to bill the province when the Army is called in on what basis would they do so? The military personnel are there in any case. I presume the only practical way to approach this would be to bill for expenses over and above the ordinary expenses to the department during a given time.

• 1140

Mr. Henderson: Well, these were the problems, Mr. Schreyer, facing the Deputy Minister of Finance when he made this statement and this, of course, is why they have not billed in these particular cases. I have no doubt it is caught up in the whole question of federal-provincial financing and relationship and is part of that. But, as of today, I am afraid I cannot shed any further light on it because I have not the information. However we could easily inquire where the matter stands and bring the information back to the next meeting of the committee.

Mr. Schreyer: Yes, I think consistency is important. If it is found that the federal government bills in certain circumstances, certain provinces but does not bill others, this would be intolerable.

The Chairman: Mr. Leblanc?

[Translation]

Mr. Leblanc (Laurier): Mr. Chairman, on June 16, 1966, the Deputy Minister of Finance wrote to the Auditor General concerning the assistance provided to the provinces by the Armed Forces. Since that time, has any of the provinces which have received assistance payed back yet?

[English]

The Chairman: Are there any new cases?

Mr. Henderson: No; we do not know of any new cases, Mr. Leblanc.

The Chairman: Apparently there is better control than there was. Next is No. 16.

16. PENSION AWARDS EFFECTIVE AT EARLY AGE. The Committee noted that the Department of National Defence has been conducting a general review of the benefits payable under the Canadian Forces Superannuation Act and has been considering the advisability of introducing deferred pensions similar to those provided for under the Public Service Superannuation Act and that this review

is continuing. The Committee requested the Auditor General to keep it informed as to the progress being made in the introduction of deferred pension benefits for servicemen retiring at comparatively early ages.

In its Sixth Report 1966 the Committee noted that the departmental studies were almost complete but that it would take some time for the Department to examine them and arrive at conclusions. The Committee requested the Auditor General to keep Members of the House informed of the progress being made.

Mr. Henderson: This matter occurs again in my 1967 Report, Mr. Chairman, under paragraph 92. The examination of the results of the departmental studies that are referred to here have, I understand, been completed and I believe the Department has submitted its proposals to a committee of the Cabinet.

The Chairman: No. 17 is next.

Mr. Henderson: I do not have anything on No. 17.

The Chairman: Next is No. 18.

18. ERRORS IN PUBLIC SERVICE SUPER-ANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

In its Seventh Report 1966 the Committee noted that immediate steps were being taken to include in the internal auditing procedures of the Superannuation Branch an examination of the employee's contributions in relation to his salary and the documents on file. It requested the Auditor General to continue to keep it fully informed.

This was a very serious matter and we felt that certainly a much stricter system should be put into operation. Does the government Annuities Branch come under this as well?

Mr. Henderson: No. The Annuities Branch is under the Department of Labour; the

Superannuation Branch is part of the Department of Finance.

The Chairman: Is there anything further on that?

Mr. Henderson: In my 1967 Report in paragraph 70, I informed the House that our test audit during the year ended March 31, 1967 disclosed a higher incidence of error, and a greater proportion of the errors had arisen in 1965 and 1966.

I went on to say that as the superannuation files often remain in active use in the Superannuation Branch for several months after commencement of an annuity, it has been our practice to defer examining them until they are returned to the file room. Consequently, few files to which the new procedures had been applied by the Branch were examined by us during the year.

Consequently we have not yet been able to judge the effectiveness of the new procedures but we are confident, Mr. Chairman, that some progress is being made in this area. I hope there will be better results next year.

Mr. Walker: What page is that, please?

The Chairman : Page No. 9, section 18.

Mr. Walker: No; from his Report.

Mr. Henderson: This is paragraph 70 of my 1967 Report, page 33.

Mr. Walker: Thank you.

• 1145

The Chairman: Next is No. 19.

19. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

After hearing further evidence, the Committee stated it continues to hold the

view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

In its Seventh Report 1966 the Committee repeated its views on this matter and stated that it was glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General.

Mr. Henderson: There have been no changes; this practice continues and no discussions have been initiated on the subject at all.

The Chairman: Are there any comments on No. 20?

20. ACCOUNTS RECEIVABLE. The Committee expressed concern that weaknesses exist in the internal control with respect to accounts receivable and suggested that the Treasury Board have the matter studied with a view to ensuring that amounts due to the Crown are adequately recorded, that an accounts receivable control system is instituted and that collection procedures are tightened up and firmly enforced.

Mr. Winch: This item concerns what we were discussing previously on the internal audit and control.

Mr. Henderson: Very much so, Mr. Chairman. This is dealt with again in several places in my 1967 Report. We have found some improvement in a number of cases, but there are also departments that have not yet adopted the procedures called for under a Treasury Board Policy Directive on the subject of "Revenue and Accounts Receivable Control". Their accounts receivable records were not accurately and efficiently kept dur-

ing the year and as a consequence weaknesses of internal control continue to exist. Again in my 1967 Report, on the question of the motor vehicle tariff accounting, I refer particularly to the lack of effective accounts receivable information.

The Chairman: I ask this question: On April 28, 1966, the Treasury Board, Management Improvement Branch issued a policy directive on the subject of "Revenue and Accounts Receivable Control". That was practically two years ago. Are you telling us now, Mr. Henderson, that there are still departments that have not complied with that directive from Treasury Board? Is that right?

Mr. Henderson: Yes, sir.

The Chairman: Can you answer why it takes two years to implement an accounts receivable system in any department of government?

Mr. Winch: After receiving a directive from the Treasury Board.

The Chairman: Mr. Walker?

Mr. Walker: Mr. Chairman, it would appear that the people to ask are the people from the Treasury Board when they are here. I think your question should be directed more properly to them. We have Mr. Henderson's comments, we have the facts as they have been presented and having the Auditor General comment on why certain departmental heads have not acted in a certain way I do not think is fair to him. If we have these facts the people to ask are the people concerned.

Mr. Bigg: I agree.

Mr. Henderson: I endorse that, Mr. Chairman.

The Chairman: That is one more reason why we should have Treasury Board before the Committee.

Mr. Winch: I agree too, but I do think there is one question that we could ask Mr. Henderson. In view of the fact that it is some two years since this directive was issued by the Treasury Board and after two years some departments have not put it into effect, as Auditor General have you made inquiries why this directive of two years ago has not been put into effect?

Mr. Henderson: We would have asked the question and been furnished with an answer

and that would be evident in our working papers. There could be a variety of reasons; not enough stress being laid on the directive; possibly the department has not distributed the bulletins or insufficient interest has been shown. There could be a number of reasons. I think Mr. Walker's suggestion that the Treasury Board be invited to give their views on this as the agency responsible for controlling it is very good.

Mr. Bigg: I agree.

The Chairman: All right, we will proceed to No. 21.

21. **INDIRECT COMPENSATION TO CHARTERED BANKS.** The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93 (1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

In its Seventh Report 1966 the Committee noted that notwithstanding, this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of \$100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet the recommendation of the Committee and it requested the Department of Finance to provide to the Committee an explanation as to why it considers that an amount of \$100 million should be left on deposit with

the chartered banks free of interest, and why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this, and also what other means of compensating the banks for services rendered were considered and the reasons why they are being discarded.

Mr. Muir (Lisgar): Mr. Chairman, I wonder how the Department of Finance divides the \$100 million among the different chartered banks so that it is equitable to each bank?

Mr. Henderson: I think that would naturally change from time to time. Perhaps if you have them before the Committee that question might be directed to them. You are familiar with the history of this. I think your Chairman appeared before the Banking Committee at the time to explain our concern because it was the subject of a recommendation of the Public Accounts Committee, but the Banking Committee went ahead notwithstanding in making the amendment to section 93 of the Bank Act.

However, this wording does not, in my opinion, provide legal authority for officers of the Department of Finance to leave these substantial amounts on deposit with the chartered bank without payment of interest. I make that statement and I would be interested to know what reply the Department of Finance has.

The Chairman: Mr. Muir, do you have another question?

Mr. Muir (Lisgar): Was not the answer given to us that it was cheaper to leave the \$100 million on deposit rather than pay the bank for cashing the cheques?

Mr. Henderson: The law prevents any payments for the cashing of cheques. I think I made the statement before that if you think the banks should be paid for this service directly rather than through this indirect means, why not change the Bank Act to pay them?

The Chairman: Mr. Schreyer?

• 1150

Mr. Schreyer: Mr. Henderson, you say that the Department of Finance does not have the

authority to leave these amounts of money with the banks without interest.

Mr. Henderson: That is my view.

Mr. Schreyer: You say this notwithstanding section 93(3) of the Bank Act?

Mr. Henderson: Notwithstanding the wording of section 93(3).

Mr. Schreyer: It seems to me that Parliament was or should have been aware when the Bank Act was passed that the effect of section 93(3) would be to authorize the Department of Finance to continue the practice of leaving funds with the banks interest free.

The Chairman: As I recall it, the Bank Act was not changed to provide just that.

Mr. Henderson: Mr. Schreyer, I point out that this Committee, in getting into this problem, asked questions that never have been answered by the Department of Finance and is quoted here under Item 21 as follows:

... Committee... requested the Department of Finance to provide to the Committee an explanation as to why it considers that an amount of \$100 million should be left on deposit with the chartered banks free of interest, and why, if it considers that the chartered banks should be compensated for the service provided by them to the Government, it has not recommended that subsection (1) of section 93 of the Bank Act be amended to permit this, and also what other means of compensating the banks for services rendered were considered and the reasons why they are being discarded.

The Department of Finance has never replied to this Committee with respect to those questions.

Mr. Schreyer: Quite so, but as it appears in the Public Accounts Committee Minutes of Proceedings and Evidence, Issue No. 35 of April 25 last, section 93, subsection (3) reads as follows:

93.(3) Nothing in subsection (2) shall be construed to prohibit any arrangement between the Government of Canada and the bank concerning interest to be paid on any or all deposits of the Government of Canada with the bank.

And if the arrangement had been that certain amounts were left with the banks, inter-

est free, it would seem that section 93, subsection (3) gives authorization for the continuation of such a practice and therefore makes it legal.

Mr. Henderson: Mr. Schreyer, that is not our view. We do not consider that provides legal authority for the officers of the Department of Finance to undertake to leave substantial amounts on deposit in this manner. I have said in my follow-up Report that:

Section 93 (3) is evidently designed to permit continuation of the practice of compensating banks indirectly for services provided...

Whereas payment to those services is prohibited under subsection (1).

Mr. Schreyer: I certainly do not wish to argue the point. I would hope that this practice would be discontinued.

Mr. Winch: May I ask one question on that same point? At a previous meeting—I forget which one but I think it was two or three years ago—the Committee gave authority to the Auditor General to consult with, or to employ, a legal firm in order to obtain a legal opinion when there was a difference of opinion between the Auditor General and a department or the government, with respect to legality or procedure. In view of the fact there is now a difference of opinion on legality between the Auditor General and the Department of Finance, have you given any consideration to exercising the power granted to you some two or three years ago?

Mr. Henderson: Mr. Winch, this is a case that I have discussed with my legal advisers, and their opinion confirm the position I have stated.

Mr. Winch: Oh, you have? And they confirm this.

Mr. Walker: From whom?

Mr. Henderson: From my legal advisers.

Mr. Walker: Oh, yes.

Mr. Bigg: Are they officers of the Crown?

Mr. Henderson: No, sir. As Mr. Winch said, the Committee empowered me some years ago to make arrangements with a firm of solicitors to consult with them. It was following a long discussion of the matter here in the

Public Accounts Committee and I accordingly made that arrangement with the approval and blessing of the Committee and it has been very satisfactory ever since. When in doubt I discuss my problems with them.

Mr. Muir (Lisgar): Mr. Chairman, I would like to ask the Auditor General whether the Department of Finance has any satisfactory explanation of why the Government deposits \$100 million rather than trying to find some other means of compensating the banks for cashing cheques and similar services?

• 1155

The Chairman: Mr. Muir, I think it goes back a long way in the history of the granting of charters to chartered banks in Canada. I think a government in those days said: "You will have the charter and we will make this arrangement. You cash all our cheques without charge and we will leave on deposit "X" number of dollars." Now, \$100 million at today's interest is a pretty tidy sum.

Mr. Muir (Lisgar): Mr. Chairman, further to that, am I correct in assuming that when the \$100 million is deposited in the banks, they are able to loan \$800 million or \$900 million against it? If that is the case, at 8 per cent they are being very well looked after.

The Chairman: It is their money and they can do what they like with it. Now, gentlemen, we want to adjourn at 12 o'clock—Oh, I am sorry, Mr. Walker.

Mr. Walker: On this particular point, do you agree with me that it is important and should be cleared up? I would not want to leave this thing dangling. It is the Department of Justice that drafts legislation and I would think, if we are going to make an attempt to get black and white on this thing, we should have their interpretation of section 93 (3). Does it allow them to carry out this present practice or not?

The Chairman: I might say, for the information of the Committee, that when the Bank Act was up for review it was sent to the Standing Committee on Finance, Trade and Economic Affairs, and they spent considerable time on this. It might be worth our while to review the Minutes of Proceedings and Evidence of that Committee with respect to this particular item. We could follow that up with discussion with Treasury Board or Finance before this Committee.

Mr. Schreyer: In order to determine what importance we should attach to this particular recommendation it seems to me we should know approximately how much potential revenue is being lost to the Crown. It would be important to find out how much potential revenue is being lost to the Crown by reason of the continuation of this unauthorized practice. Mr. Henderson have you ever arrived at any rough calculation of revenue lost?

Mr. Henderson: Of the revenue lost?

Mr. Schreyer: Yes.

Mr. Henderson: No, because I do not know what rate of interest they could negotiate with the banks. I approach it from the standpoint that this is \$100 million of federal assets which could be producing some revenue. The Financial Administration Act attaches a heavy responsibility to me to see that all the revenue that is accruing to the Crown is paid in and I asked the question.

Mr. Cameron (High Park): Is there not another side to the question too? As well as that is money coming in, there is the money that is going out. What does the government save by not having to pay exchange on cheques and things of that kind? You cannot expect the banks to operate the government's business. They have to be paid. They have to make it pay them to handle the business. Have you ever considered that side of the coin?

Mr. Henderson: Yes, and as a matter of fact this Committee asked the Department of Finance those very questions.

Mr. Cameron (High Park): Did we ever get an answer?

Mr. Henderson: No, we have never had an answer.

The Chairman: All right. We will have to get some answers.

Gentlemen before we adjourn, I would like to hear your views as well as those of Mr. Henderson on our next meeting which is slated for Tuesday, so the Steering Committee will have some guidance. Before the House prorogued last May we had arranged to have the Crown Assets Corporation appear before the Committee. We were going to question them on disposal of Crown Assets, be it Expo or what have you. Expo is not very much concerned, but Crown Assets

would have some say in the disposal of Canadian buildings and their contents.

• 1200

Crown Assets appear in the Auditor General's report a few times and if you wish, they are prepared to appear before the Committee next Tuesday.

We have talked about Treasury Board appearing before the Committee, perhaps on Thursday of next week. I do not know whether that would be sufficient notice, but I suppose it would be all right.

I think we can forgo the balance of these recommendations in view of the fact that practically all of them will come up in either the 1966 or the 1967 Report. Perhaps you would like to proceed with the 1966 Report of the Auditor General next Tuesday? I am open to your suggestions about this?

Mr. Leblanc (Laurier): I think we should proceed with the Reports. If they contain anything relating to our previous recommendations we should refer back to our recommendations to see what happened.

The Chairman: Well, that is one suggestion.

Mr. Bigg: Mr. Chairman, is there any way that we can get up to date and get rid of the 1965 and 1966 items and so on, and really get into the meat of some of the newer stuff? It seems we are operating three years behind.

The Chairman: We could take the 1966 report and go through it, and knock off those items that are brought forward into 1967 right away.

Mr. Bigg: Yes, and then pass on to 1967 and try to get up to date.

The Chairman: Yes.

Mr. Henderson: I think that is the best tried and trusted method. If you could do as Mr. Leblanc suggested and get going on the report, then I think perhaps some of the Crown agencies could be examined.

Mr. Bigg: We are running short of time, and it seems to me that if we are going to get up to date at all, we had better get on with that part.

The Chairman: All right. Bring the 1966 report with you next week, and Mr. Henderson's Department will...

Mr. Henderson: And the 1967 report. Bring both years?

The Chairman: Are there any other suggestions? I will entertain a motion to adjourn.

The Chairman: Both years, I guess, yes.

Mr. Lefebvre: I so move.

Mr. Bigg: We can check them against each other and discard the 1966 report as soon as possible.

The Chairman: Mr. Lefebvre moves that we adjourn.

OTTAWA, CANADA

Mr. Alfred D. Hales, M.P.
House of Commons
OTTAWA
Dear Mr. Hales,

In your capacity as Chairman of the Standing Committee on Public Accounts you wrote me on April 26th last requesting me to furnish copies of all reports I had received from the external auditors of Central Mortgage and Housing Corporation which related to its operations during 1963 and 1964. My Executive Assistant acknowledged your letter on May 19th.

I should like to mention that the auditors produce two types of reports. One is the Internal Annual Report as stipulated in section 27(1) of the Financial Administration Act and which accompanies the financial statements of the Corporation and is included in both the Corporation's Annual Report and the Public Accounts and is published in the Canada Gazette. You and the members of the Committee have been provided with copies of these. The other type of report may be made to the responsible Minister either during or follow-

ing completion of an audit and is submitted in accordance with section 27(2) of the Financial Act. These usually refer to certain details of the Corporation's transactions. I presume it is the latter type of report which you are requesting.

As a matter of principle I have referred the question to the Minister of Finance. He in turn sought the views of his other colleagues who are charged with responsibility for Crown corporations audited by external auditors.

A consensus with which both the Minister of Finance and I are in complete agreement is that these latter reports should be regarded as purely a report for management purposes. A violation of the principle of treating them as "confidential" enhances their value since the auditors are less likely to be inhibited in their presentation of information.

It is therefore, with some regret that I must decline to make these reports available to the Public Accounts Committee.

Yours sincerely,
John R. Nicholson

APPENDIX "A"

CENTRAL MORTGAGE AND HOUSING
CORPORATION
SOCIÉTÉ CENTRALE D'HYPOTHÈQUES
ET DE LOGEMENT
OTTAWA, CANADA

Sir Wilfrid Laurier Building
November 10, 1967

Mr. Alfred D. Hales, M.P.
House of Commons,
OTTAWA.

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I should like to mention that the auditors produce two types of reports. One is the formal Annual Report as stipulated in section 87(1) of the Financial Administration Act and which accompanies the financial statements of the Corporation and is included in both the Corporation's Annual Report and the Public Accounts and is published in the Canada Gazette. You and the members of the Committee have been provided with copies of these. The other type of report may be made to the responsible Minister either during or follow-

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CORPORATION
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ET DE LOGEMENT
OTTAWA, CANADA

Sir Wilfrid Laurier Building,
November 10, 1967

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in accordance with section 27(2) of the Finan-

**OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE**

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and/or a translation into English of the French.

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Translated by the General Bureau for Trans-
lation, Secretary of State.

ALISTAIR FRASER,
The Clerk of the House.

HOUSE OF COMMONS
Second Session—Twenty-seventh Parliament

1968

MINUTES OF PROCEEDINGS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

TUESDAY, MARCH 12, 1968

Public Accounts, Volumes I, II and III (1966 and 1967)
Report of the Auditor General to the House of Commons (1966)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long,
Assistant Auditor General.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Southam,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Stafford,
Mr. Dionne,	Mr. Morison,	Mr. Thomas (<i>Maison-</i>
Mr. Flemming,	Mr. Muir (<i>Lisgar</i>),	<i>neuve-Rosemont</i>),
Mr. Forbes,	Mr. Neveu,	Mr. Tucker,
Mr. Gendron,	Mr. Noble,	Mr. Walker,
Mr. Harkness,	Mr. Noël,	Mr. Winch—(24).
Mr. LeBlanc (<i>Rimouski</i>),	Mr. Schreyer,	

(Quorum 10)

J. H. Bennett,

Clerk of the Committee.

Translated by the General Bureau of Translation,
Bureau of Translation of the Parliament of Canada,
Ottawa, Ontario.

THURSDAY, MARCH 12, 1968

The Clerk of the House.

Public Accounts, Volumes I, II and III (1966 and 1967)
Report of the Auditor General to the House of Commons (1968)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long,
Assistant Auditor General.

MINUTES OF PROCEEDINGS

TUESDAY, March 12, 1968.

(3)

The Standing Committee on Public Accounts met this day at 10.08 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Ballard, Dionne, Hales, Leblanc (*Laurier*), LeBlanc (*Rimouski*), Lefebvre, McLean (*Charlotte*), Morison, Muir (*Lisgar*), Neveu, Noël, Schreyer, Southam, Stafford, Thomas (*Maisonneuve-Rosemont*), Tucker, Walker, Winch—(18).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; and Messrs. Cooke, Cross, Douglas, Hayes, Laroche, Stokes and Smith of the Auditor General's office.

The Chairman tabled the following exhibit:

Exhibit I—Treasury Board News Release, Aug. 17, 1967—New Approach to Auditing In the Public Service—A Constructive Management Service.

The Committee commenced a preliminary review of paragraphs for discussion in the Auditor General's 1966 Report.

Mr. Henderson and Mr. Long were questioned on the following paragraphs in the 1966 Report:

Paragraphs 14 to 46, 48 and 50.

It was agreed unanimously,—That because of the lengthy list of items to be reviewed, the members be allotted certain groups of paragraphs to study with a view to asking questions.

At 12.02 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, March 12, 1968

The Chairman: Gentlemen, we have a quorum.

While the Clerk is distributing some information material for the use of the Committee I wish to bring to your attention a communique that was released August 17, 1967, and which was mentioned by Mr. Leblanc at our last meeting. It was agreed that the members would be furnished with this, and you now have it.

I would ask that it be attached as an exhibit to today's Minutes of Proceedings and Evidence. Is this agreed?

Some hon. Members: Agreed.

The Chairman: Mr. Leblanc, you may wish to comment on it at this time, but when we come to it later you may wish to.

Mr. Leblanc (Laurier): No; not at this time. However, we come to discuss the external and internal audit we might consider the entire press release which we now have before us.

The Chairman: Thank you, Mr. Leblanc.

The Clerk has distributed to you a list of the paragraphs that we will be dealing with in the 1966 Auditor General's Report.

Mr. Winch?

• 1010

Mr. Winch: Mr. Chairman, perhaps if I ask a question for clarification now it may mean that I do not have to ask any further questions.

At the very beginning of your 1966 Report, I note that there are 26 crown corporations enumerated and that you designate 10 under Departmental Operating Activities. Would you let us know on how many of the 26 crown corporations you are the joint auditor, on how many you can do some checking, and on how many you have no authority whatsoever, although you enumerate them—and I would like the same information in respect of those listed under Departmental Operating

Activities. Perhaps it would save time later if we could have this information now.

Mr. A. M. Henderson (Auditor General of Canada): I have assumed, Mr. Winch, that the Committee will be dealing with this, perhaps to have an up-to-date picture, when they reach the 1967 Report. However, the short answer to your question is that all the corporations listed in the index table of contents, are crown corporations of which I am the auditor.

Mr. Winch: You are the auditor of all of these?

Mr. Henderson: All of these that are listed here. There are however, or were at the date of this Report, seven others, which are listed on page 135 in paragraph 188. There you will see a listing of crown corporations and public instrumentalities whose accounts I did not examine during the year, because I am not the appointed auditor of them.

Mr. Winch: Now you are the auditor of all ten listed under Departmental Operating Activities?

Mr. Henderson: I am the auditor of all those listed in the contents under Departmental Operating Activities, to which you referred, yes.

Mr. Winch: Are there any under Departmental Operating Activities of which you are not the auditor?

Mr. Henderson: No. We are the auditors of all of the institutions listed under Departmental Operating Activities for the year ended March 31, 1966 and for the year ended March 31, 1967—although I should mention, when you come to the 1967 Report, there is a duplication in terms of the Canadian Dairy Commission for which private auditors have been appointed, and I also have to do the audit because I have the responsibility of auditing the Consolidated Revenue Fund.

Mr. Winch: Are you not also the auditor of Expo?

Mr. Henderson: I am the auditor of Expo jointly with the provincial auditor of Quebec.

Mr. Winch: Thank you.

The Chairman: Gentlemen, the introduction, paragraphs 4 to 8, will be dealt with in the 1967 Report. We will ask Mr. Henderson for his comments on the Summary of Expenditure and Revenue, and then we will proceed with paragraph 48.

Mr. Henderson: I think the members understand from this listing, Mr. Chairman, there are the 1966 notes, which are not carried forward to 1967.

I will commence with paragraph 9 on page 6 of the 1966 Report under Summary of Expenditure and Revenue.

9. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1966, prepared by the Department of Finance for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The Statement shows a deficit of \$39 million for the year. By comparison, there were deficits of \$38 million in the preceding year and \$619 million in 1963-64.

In paragraph 9 you see in summary form the figures surrounding the budgetary deficit for the year 1965-66, which you will recall, as is stated here, was \$39 million. There had been a deficit of \$38 million the year previous and, as you will know when you come to 1967, it came out to \$422 million for that year.

• 1015

10. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1966, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of \$7,998 million, expenditures of \$7,735 million and unexpended balances of \$263 million.

11. Of the \$7,998 million of appropriations available for expenditure in the year, \$3,180 million was provided by continuing statutory authorities and \$4,776 million was granted by Appropriation Acts (Nos. 1, 3, 4, 5 and 6 of 1965 and Nos. 1, 2 and 4 of 1966) while \$42 million remained available from continuing 1964-65 appropriations (Department of Labour Votes 5, 6 and 8).

Of the \$7,735 million of expenditure during the year, \$3,180 million (41 per cent) was incurred under the continuing statutory authorities, with \$4,555 million (59 per cent) being spent under the authority of appropriations granted for the year and continuing appropriations of the previous year.

Of the \$263 million of unexpended balances at the year-end, \$174 million lapsed in compliance with section 35 of the Financial Administration Act and \$89 million pertaining to the following departments and votes remained available for expenditure in 1966-67 because of the special wording of the appropriations:

Department	Vote	Particulars	Amount
Citizenship and Immigration (transferred from Department of Labour)	6	Winter works incentive program	\$ 39,170,000
Finance	50	Forgiveness of indebtedness under terms of Municipal Development and Loan Act, 1963, c.13	22,000,000
Finance	15	To supplement estimates of other departments in connection with the winter construction and repair program	4,339,000
Labour	8	Winter house building incentive program	15,388,000
Mines and Technical Surveys	62	Subsidy to San Antonio Gold Mines Limited	7,000
Transport	112	Trunk highway program of the Atlantic Development Board	7,905,000
			<hr/> <hr/>
			\$ 88,809,000

12. The lapsed balances of \$174 million represented 3.6 per cent of the \$4,818 million of appropriations under Appropriation Acts. This compares with lapsed balances of 3.5 per cent of the amounts available in the

preceding year and 4.1 per cent in 1963-64. In the following cases the lapsed balances represented more than 10 per cent of the appropriations under the Appropriation Acts:

	Appropriations	Lapsed	
		Amount	%
Board of Broadcast Governors	\$ 493,000	\$ 110,000	22
Canada Emergency Measures Organization .	9,744,000	2,000,000	21
Industry	36,025,000	6,723,000	19
Secretary of State	27,840,000	3,843,000	14
Labour	45,029,000	5,647,000	13
Trade and Commerce	52,509,000	6,435,000	12
Public Printing and Stationery	3,409,000	356,000	10

We show in the paragraphs under Expenditure the amount of the unexpended balances and the amount of money which lapses. In the case of the year before you \$174 million lapsed. If you look at paragraph 12, at the top of page 7, you will see those items where lapsed balances exceeded 10 per cent. As you know, once the money has lapsed, it cannot be spent.

Mr. Winch: May I ask one question?

The Chairman: Yes, Mr. Winch.

Mr. Winch: Where you have "Lapsed", I note that it goes from 10 per cent to as high as 22 per cent. Does this mean that there was, basically, in the budget an overestimation of requirements?

Mr. Henderson: Yes, it would have to mean that, Mr. Winch. In making their forward estimates, as they are required to do a considerable period in advance, they must have anticipated expenditures which they subsequently decided not to incur. The money has been voted by Parliament to them to spend, but they have been able to contain their year's operations within the figure, and this is in effect the saving of it.

Mr. Winch: The point I am trying to get at in my own indirect way was this. As an auditor, what is your opinion on overestimation of expenditures, let us say, from 14 per cent to 22 per cent?

Mr. Henderson: As an auditor I would say to you that I would not find lapsings or under-expenditures of \$174 million on a budget of the size you have here of \$8 million spending unreasonable. You have to bear in mind that under the system the forward estimating is made a long way in advance, and I do not consider that is abnormal.

Mr. Winch: I am sorry but my question is not directed to underexpenditure on the total but on a departmental basis.

Mr. Henderson: Before I could answer that specifically I would want to know precisely why some of this money lapsed to this extent. I presume, for example, in the Canada Emergency Measures Organization that the policy probably changed and they decided not to proceed with the plans which they had costed in their budget and as a result they were able to avoid spending \$2 million, which is perfectly understandable, is it not?

The Chairman: Mr. Ballard.

Mr. Ballard: I wonder, Mr. Chairman, if Mr. Henderson could say if this lapsing occurs in the same departments year after year. Are certain departments habitually overestimating their expenditures or does this vary from one year to the next among the different departments?

Mr. Henderson: Mr. Ballard, I would suggest that the proper answer to that should come from the Treasury Board. They might be invited to submit an explanation for the figures you have here for 1966 and also for 1967, or the question could be put to them when they come before you as witnesses. I do not examine the estimates put in by departments. That is their responsibility.

The Chairman: I think the Committee might give a little thought to this question: Would it be better if Parliament asked departments to estimate more closely and then appear before the House for extra money, if it was needed, in the form of Supplementary Estimates. Is this the approach that you want to discuss?

• 1020

Mr. Winch: I am very glad that the question was asked just now the way it was. That is one of the things I had in mind. For example, the Board of Broadcast Governors in the 1966 Report had 22 per cent less. In the 1967 Report it had 26 per cent. In the 1966 Report industry had 19 per cent and in the 1967 Report it had 17 per cent. The questions asked now have a very strong bearing, because if you look at the 1966 and the 1967 Report you will find that basically the same departments are over-estimating their requirements; in 1966 as high as 22 per cent and in 1967 as high as 34 per cent. Mr. Chairman, I think you may have an idea how we can run this down in these departments.

Mr. Henderson: I suggest that you ask the staff of the Treasury Board to furnish an explanation for this because these are estimates which they would have examined and would, in fact, have approved each year.

Mr. Winch: Yet it is the same departments which...

Mr. Henderson: There may be good and sufficient reason why this situation has obtained in these particular departments each year, and I think they should be invited to furnish the committee with an explanation. Would that not be the correct approach?

The Chairman: I think that is the approach. Mr. Ballard?

Mr. Ballard: Mr. Chairman, surely it is one of the duties of the Auditor General to advise the Treasury Board through this Committee that certain Departments have been in the habit of over-estimating. Possibly this could serve as a warning to those departments that they should forecast their expenditures more accurately than they have done in the past.

Mr. Henderson: Mr. Ballard, it has never been considered the responsibility of the Auditor General to concern himself with the composition of the estimates that are made by the departments. I am not saying you are wrong in suggesting that perhaps he should, but in the operations here it is essentially a post audit of performance. A good case might be made for the Auditor General interesting himself in the figures submitted to the Treasury Board to see that in fact they are down to the bone, and that sort of thing. However, the Treasury Board's staff is very competent.

They have their investigators and it has generally been conceded this is their particular responsibility.

The Chairman: Mr. Walker?

Mr. Walker: Mr. Chairman, I think the Auditor General has fulfilled his responsibility by presenting this to us. The Committee can now draw its conclusions or make its deductions from the figures before us. If the Committee wishes to make inquiries along the lines Mr. Winch and Mr. Ballard suggested about why particular departments appear to have developed a method of overbudgeting, if you will, then I think the Committee must decide what to do with the bare facts presented by the Auditor General. I disagree with Mr. Ballard that because of these figures the Auditor General must now inquire of these different departments about this particular type of overbudgeting. I think it is up to the Committee to draw conclusions and take action.

The Chairman: Mr. Noël and then Mr. Leblanc.

• 1025

[Translation]

Mr. Noël: Mr. Chairman, I agree with Mr. Walker and with the Auditor General. The Auditor General makes his report afterwards, whereas the treasury usually gives administrative orders,

[English]

as far as administration is concerned. I think you are perfectly right because you have to report after the deed is done, while the Treasury Board has to see how it is done. He gives the policy and looks at the immediate expense. I do not think it is a job for the Auditor General, I think it is a job for the Treasury Board. This is my opinion.

The Chairman: Mr. Leblanc?

[Translation]

Mr. Leblanc: I quite agree with Mr. Noël, who is a former accounting professor, on the fact that the Auditor General, according to what I have read in certain laws and regulations touching the Auditor General, must impart his comments to Parliament and, afterwards to the Public Accounts Committee. Here then, is what the Auditor General does: he shares with us the observations he has made during the exercise of his function. This is exactly what he has done here. It is

now up to the Public Accounts Committee to enact its own prerogatives, to hear the witnesses that it must, and then give to Parliament the recommendations that it shall deem necessary.

[English]

The Chairman: Before we go on with a remark from Mr. Henderson, I think Mr. Leblanc will have to explain this matter of student and professor to the Committee. I do not think Mr. Noël looks old enough to have been your professor. Mr. Henderson?

Mr. Henderson: I find myself in agreement with what Mr. Noël and Mr. Leblanc have said. I would just like to make a remark here, Mr. Ballard, about the estimates in question, namely, those under the appropriations. It was the responsibility of the Treasury Board to have examined them, to have discussed them with the departments and to have approved them. They then found their way into the estimates book and to the House of Commons, and they have been appropriated in this fashion. As Auditor General, neither have I been asked to nor have I ever suggested that I should pre-audit the estimates before they go through this process.

The Chairman: Gentlemen, I think we should now close this discussion because we are going to continue it when Treasury Board is before us. There will be a lot of questions to ask Treasury Board because estimating is important. We will hear one more question by Mr. Walker and then we will proceed.

Mr. Walker: I wonder if Mr. Henderson could help me. Besides the overbudgeting of the lapsed balance of \$174 million, I notice there is approximately another \$88 or \$89 million that indeed were over, but by special wording have been allowed to be used in the following year. If the principle which is applied to the \$89 million were applied to the \$174 million, then there would be no such things as lapsed expenditures. Do you have any comments to make from an auditing point of view on the desirability of this? Should they not all be in the same type of category?

Mr. Henderson: It lapses in the absence of any direction from Parliament to continue it. This is very much up to Parliament. As I see it, Parliament has the responsibility for appropriating the money, and if they should decide they are prepared to see it continued,

then they should provide for that in the wording of the vote. Certain of the vote wordings do provide for that; they spell it out and in that case it carries over, but where it is not spelled out under the Financial Administration Act of Canada it lapses.

Mr. Walker: But is this because of the peculiarity of certain projects, or is it just because the principle has not been applied right across the board.

Mr. Henderson: I am going to ask Mr. Long to just say a word on this, Mr. Chairman.

The Chairman: Mr. Long?

Mr. Long (Assistant Auditor General): Yes, Mr. Walker. There are certain projects that we presume Parliament does not wish to deal with on another occasion. Some of the items you will recognize. The Atlantic Development Board is one which was carried over in that \$88 million you referred to. Under labour there is another item; under finance there is an item; they are for things that cannot be completed. Winter works would be a good example. Winter works is going to overlap two years in any year, so you carry things like that forward. The Municipal Development and Loan Board had this, I recall. They were committed to forgive certain loans when certain things happen, so they are given the money to do that without interruption by the year-end. But in every case there are various special types of appropriation.

• 1030

Mr. Walker: Then that principle could not be applied to take care of the lapsed balance projects.

Mr. Long: Then you would come to the point of parliamentary control of the expenditure. Would Parliament be willing to provide money to the government that would provide a kitty to go ahead all the time?

Mr. Muir (Lisgar): Mr. Chairman, may I make one observation. I think more important to this Committee than the fact that it has been lapsed is that the Board of Broadcast Governors, spent almost twice as much in 1967 as they did in 1966, and that the Department of Industry spent \$5 million more than they did in 1966, and this is probably true of most of the departments. Rather than worrying about in respect of what the money lapses, we should be finding out why they expend more money as the years go by.

The Chairman: This would be a good question to put to the Treasury Board when they come before the Committee. If you agree, we will move on and save those questions for them.

13. The following summary compares expenditures for the fiscal year 1965-66 with the corresponding figures for the two previous years:

	1965-66	1964-65	1963-64
Agriculture	\$ 186,264,000	\$ 165,724,000	\$ 225,681,000
Atomic Energy	54,450,000	46,565,000	45,955,000
Canadian Broadcasting Corporation	97,459,000	87,969,000	87,576,000
Citizenship and Immigration	238,567,000	180,997,000	200,752,000
External Affairs	152,546,000	131,187,000	97,023,000
Finance	1,850,679,000	1,622,642,000	1,446,888,000
Fisheries	34,526,000	25,593,000	23,716,000
Forestry	57,135,000	49,754,000	41,816,000
Industry	29,301,000	23,789,000	19,702,000
Mines and Technical Surveys	107,358,000	94,324,000	87,166,000
National Defence	1,548,447,000	1,537,835,000	1,685,981,000
*National Health and Welfare	1,175,122,000	1,300,598,000	1,206,354,000
National Research Council, including Medical Research Council	74,387,000	56,642,000	47,260,000
National Revenue	94,972,000	86,909,000	82,996,000
Northern Affairs and National Resources	156,434,000	127,306,000	113,163,000
Post Office	240,206,000	210,459,000	206,895,000
Public Works	256,526,000	224,058,000	154,307,000
Royal Canadian Mounted Police	81,959,000	76,199,000	66,899,000
Solicitor General	56,875,000	39,278,000	27,947,000
*Trade and Commerce	46,074,000	54,797,000	32,533,000
Transport	508,744,000	466,519,000	422,867,000
Unemployment Insurance Commission	98,038,000	94,792,000	88,414,000
Veterans Affairs	369,652,000	352,098,000	332,800,000
Other departments	219,074,000	162,241,000	127,710,000
	<u>\$ 7,734,795,000</u>	<u>\$ 7,218,275,000</u>	<u>\$ 6,872,401,000</u>

Comments are made in the following paragraphs regarding the significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations which mainly accounted for the variation between the totals listed above for 1965-66 and 1964-65.

Mr. Henderson: In this paragraph you see the total expenditures, again by departments, of \$7,735,000,000. You will notice that this is up, as Mr. Muir was just saying, \$516 million from 1964-1965. If you were to take the time to go through the spending of the various departments you would see that only two of those listed here spent less during the year, namely the Department of National Health and Welfare and the Department of Trade and Commerce; all the others are up. Of

course, there is a basket there of other departments that are not listed in this particular tabulation.

We come to the comments now, beginning at page 8. These paragraphs describe the significant increases or decreases in expenditure charged to individual appropriation or groups of appropriations during the year. As I just pointed out, all those listed on the previous page showed increases except the Department of National Health and Welfare. The reason for the decrease is given in paragraph 25 at the bottom of page 9. There is a substantial decrease in departmental expenditure in this department, which resulted from Quebec opting out of shared-cost programs from January 1, 1965. That was the reason for it. In the case of the Department

of Trade and Commerce—paragraph 33 on the next page—you will observe there was a decrease which largely resulted from the fact that the previous year had included \$19 million to EXPO. You may remember that EXPO was started off with, I think, some grants of \$20 million from the federal government and another \$20 million from Quebec and Montreal. That particular year they used \$19 million of the federal \$20 million, so that the following year their expenditure decreased. All of the other explanations in these paragraphs deal with increases and to what extent you might want to study those at this time I do not know, Mr. Chairman. We will have the same situation, of course, in 1967 when we also compare 1967 with 1966.

The Chairman: I would suggest we do a more thorough coverage on these comparisons when we come to the 1967 report.

Mr. Ballard: Before you leave this item, I wonder if Mr. Henderson could indicate the

cost to the Department of Health and Welfare as a result of the Province of Quebec having opted out of the established programs (Interim Arrangements) Act. How much did that payment to Quebec amount to in the previous year?

• 1035

Mr. Henderson: We will have to check the public accounts on this. It will take a few moments to obtain the information. I could come back to that if you would like to carry on.

The Chairman: We will come back to that, Mr. Ballard.

33. *Royal Commissions and Commissions under Part I of the Inquiries Act.* Expenditure during 1965-66 and the cumulative expenditure of the existing Commissions from the respective dates of establishment to March 31, 1966 are shown below:

	Date of establishment	Expenditure during year ended March 31, 1966	Cumulative expenditure to March 31, 1966
Royal Commission on:			
Health Services	June 20, 1961	\$ 143,689	\$ 1,370,346
Banking and Finance	Oct. 18, 1961	14,572	748,848
Taxation	Sept. 25, 1962	568,760	2,654,852
Pilotage	Nov. 1, 1962	147,874	602,549
Bilingualism and Biculturalism	July 19, 1963	2,298,765	4,316,400
Commissions under Part I of the Inquiries Act to inquire and report on:			
(1) The problems relating to the future of the aircraft overhaul base maintained by Air Canada at Winnipeg International Airport	June 11, 1964	13,084	28,084
(2) Circumstances surrounding the crash of an Air Canada aircraft at Ste. Thérèse, Quebec, on November 29, 1963	Oct. 8, 1964	14,968	21,037
(3) The export marketing problems of the Salt Fish Industry in the Atlantic Provinces	Oct. 29, 1964	12,786	42,117
(4) Allegations of improper conduct on the part of public officials in connection with extradition proceedings concerning Lucien Rivard	Nov. 25, 1964	51,646	180,054
(5) The charges of irregularities in the Federal Election of 1963	Mar. 2, 1965	14,107	14,107
(6) The marketing problems of the Fresh-water Fish Industry in the Provinces of Ontario, Manitoba, Saskatchewan and Alberta and Northwest Territories	July 9, 1965	27,686	27,686

	Date of establishment	Expenditure during year ended March 31, 1966	Cumulative expenditure to March 31, 1966
(7) The increases in rates of pay for civil servants in Group "D" announced by the Government on July 16, 1965 ..	July 23, 1965	\$ 7,193	\$ 7,193
(8) The Post Office Department concerning grievances relating to work rules, codes of discipline and other conditions of employment applying to non-supervisory operating employees, exclusive of salaries	Sept. 1, 1965	49,661	49,661
(9) The dealings of the Honourable Mr. Justice Léo A. Landreville with Northern Ontario Natural Gas Company Limited	Jan. 19, 1966	21,826	21,826
Preparatory committee on collective bargaining in the Public Service	July 25, 1963	42,549	157,883
		\$ 3,429,166	\$10,242,643

Mr. Henderson: We show the Royal Commissions and Commissions as a part of this information, and here we list the expenditure during the year for the Royal Commissions and Commissions under Part 1 of the Inquiries Act. We thought this reference might be helpful to you. Nine of these royal commissions continued to have expenditures in the year following, that is, 1966-1967, but the other six did not. You will encounter the same listing when you come to the 1967 Report, but it seemed to us a worthwhile exercise to watch these because, of course, we are the auditors of each of these commissions.

Mr. Winch: Do you audit all the financial reports of all royal commissions?

Mr. Henderson: That is right.

I think Mr. Long has an answer to your question, Mr. Ballard. He would like to direct your attention to something in the 1967 Report which may answer your point.

The Chairman: On what page in the 1967 Report?

Mr. Long: On page 97, paragraph 165, there are listed all of the larger programs that are shared with the provinces—the programs in excess of \$10 million. An asterisk in front of six of them indicates those that Quebec has opted out of either in total or in

part. The cost of the program for 1966-1967 as well as 1965-1966 is indicated.

Mr. Leblanc (Laurier): On what page is that, Mr. Long?

Mr. Long: It is on page 97 of the English 1967 Report.

Mr. Henderson: Not the 1966 Report.

Mr. Leblanc (Laurier): In the 1966 Report?

Mr. Henderson: No, in the 1967 Report.

Mr. Leblanc (Laurier): We have too many reports.

Mr. Noël: Paragraph 165.

Mr. Leblanc (Laurier): Paragraph 165, yes. Federal-provincial shared-cost programs.

Mr. Henderson: That is right.

An hon. Member: It is on page 109 of the French edition.

Mr. Winch: May I ask Mr. Henderson one question?

The Chairman: Just a minute, Mr. Winch. Mr. Ballard, this was in answer to your question and I presume that is the answer you wanted.

Mr. Henderson: We attempted to set out the exact cost of some of these programs—bring them together in one place—so your question was very timely.

Mr. Ballard: I am not trying to question the propriety of what has happened. I am just trying to satisfy myself that in fact there has been a reduction in the expenditures of the Department of National Health and Welfare. I wondered if the appropriation or the money paid to those provinces that opted out was reflected in the figures shown in the 1966 Report. They would not be shown, would they?

Mr. Long: I am speaking from memory, Mr. Ballard, but I do not think these were appropriation payments. I think concessions were made in the form of income tax. The greater proportion of the income tax goes to the Province of Quebec, so it is rather hard to tie that in on an accounting basis.

Mr. Ballard: In that case, if the situation had been the same in 1965-1966 as it had been in 1964-1965, the expenditures of the Department of National Health and Welfare would have been considerably increased?

Mr. Long: Then the tax revenues would also be increased.

Mr. Ballard: Yes, that is right, but the fact that a reduction has been indicated in the report does not mean that there has been a lessening of services under this department, because part of the services have been financed by turning over percentage points of revenue?

• 1040

Mr. Winch: Mr. Chairman, that is the very question I was going to ask. On page 97 of the 1967 Report you have shown the six programs from which the Province of Quebec opted out, but is it not possible to show in some way that the federal government is paying Quebec directly or indirectly otherwise it does not give a true picture.

Mr. Henderson: I do not think there could be any argument with that. We have concerned ourselves for the first time with the subject of the federal-provincial shared-cost programs. In order to show you that information we would have to take the revenue and indicate how much went to a particular segment and for what purpose. That is a breakdown that we have not as yet put in the report.

Mr. Winch: I only have one question, but to me it is an important one. Because a province opts out, that does not mean that the federal government, even by a change in

the regulations of income tax as they apply to the province is still not paying that amount of money. It is still paying, one way or the other.

Mr. McLean (Charlotte): Could not the province pay more or less? It would not have to be the exact amount they take from the federal government, would it? Do they take so much out for technical education? They are allowed so much of the income tax and they may not spend that on technical education. Is that not so?

Mr. Long: I did not think Mr. Winch was concerned with what the province spends. Of course we have no information at all about that and what they spend on that program. Mr. Winch's point, I believe, is that you cannot relate a diversion of revenue with a saving in expenditure; at least you cannot do it on an accounting basis.

Mr. McLean (Charlotte): I do not think you can do it on another basis either, because you do not know what they are doing with the money.

Mr. Winch: As long as it is clear that by loss of federal revenue on the opting out program of these six the federal government is still paying the province in a different manner. Am I right, Mr. Long?

Mr. Long: That is right.

The Chairman: I think we will stay with the accounting end of it here, gentlemen. Mr. Walker, and then Mr. Noël.

Mr. Walker: Mr. Chairman, may I suggest that I think Mr. Ballard wanted to know whether the decreased expenditures shown here for the Department of National Health and Welfare did in fact reflect a true position of the actual operating increase or decrease of that department. I think he was asking the Auditor General whether it was possible to find out the amount of a contra account, if you will, to see whether in fact the Department of National Health and Welfare is spending more or less. Is that right, Mr. Ballard?

Mr. Ballard: No, no, Mr. Chairman. That is only in part the question that I was asking. I do not like to see comparisons made of figures that should not be compared. You should not compare apples and oranges. If you are going to compare these figures—let us turn to page 7 and be specific—for the Department of National Health and Welfare for these three

years as they have done here, then the amount of payments to Quebec or any other province that has opted out of these programs should be eliminated from the 1964-1965 figure. It might be \$500 million in 1964-65; if that is the case, then the figure that is comparable to the current one that we are looking at would be \$800 million, so that in effect there is an increase of \$300 million in the year. We cannot compare 1966 to 1965 because in 1965 there were more programs included in the over-all figure than there are in 1965-1966. I was trying to find out if the Auditor General could give us figures from the one year that could be compared to the other year.

• 1045

Mr. Henderson: I would suggest that we go through our working papers and see if it would be possible to bring that to the Committee—a simple statement making the comparison that you are seeking. I cannot say off-hand just how successful we might be, but I agree with the point that you make. You are anxious to see like compared with like.

Mr. Ballard: That is right.

Mr. Henderson: If we might be permitted, Mr. Chairman, to look at our working papers and give a note on that to the Committee at the next meeting.

The Chairman: Agreed?

Some hon. Members: Agreed.

Mr. Henderson: I do not have my director in charge of this particular department here this morning as I did not expect it would come up.

The Chairman: You never know what this Committee will come up with, Mr. Henderson; they are quite unpredictable.

Mr. Noël and Mr. Schreyer, I guess your questions were relative to this matter that is going to be answered later. We will proceed.

Mr. Henderson: Beginning at paragraph 39 on page 13 and running through to paragraph 46 on page 16 is the revenue side showing the principal sources comparatively over the past three years. You will notice here that the largest single improvement came from an increase of approximately \$200 million in sales tax. Actually the revenue, I think, was up by \$515 million over the previous year. We give a summary of the types of

revenue so that you see at a bird's eye glance what the sources have been. Beginning at paragraph 44 on page 14 we show the return on investments.

Mr. Winch: May I ask one question here, Mr. Chairman, on return on investment. As Auditor General you just check on return; you do not, I presume, check whether or not, if investments were made in a different manner, they might bring in a higher return. You only check on the actual investment return. Do you check the bonds and the manner in which they have been invested?

Mr. Henderson: We naturally check the transactions and we satisfy ourselves as to the existence of the securities and the proper accounting for that. But I would point out to you that not all the items that you have listed here are necessarily investments.

Mr. Winch: Like that Polymer...

Mr. Henderson: I had hesitated to say that. I do not know how you would regard \$1 million in the Canadian Broadcasting Corporation. We have already discussed that, but under the system that is being followed where loans are being made, they are treated as investments. Speaking again of the Canadian Broadcasting Corporation, the government advances them this money and then it advances them the money with which to pay the interest. That is a procedure we will be discussing under other headings. Whether that is an investment or not seems to me to be a matter for you to decide, although this Committee really did decide on that subject.

Mr. Winch: It is not here, but I...

Mr. Henderson: But they have to be handled like this on the cash basis that we follow in our accounting.

Mr. Winch: The federal government makes not a grant, but a loan to EXPO. Is there any interest on the loan, or is that an investment?

Mr. Henderson: Oh, indeed there is interest on the loan but of course EXPO pays the interest back to the government, and the loan would appear here as an investment. I do not think the loans had started during this particular fiscal year. I think they come in a later year. In the case of the Canadian Broadcasting Corporation, however, the principle repayments and the interest are given to the CBC in the Annual Estimates for operation.

Mr. Winch: Just one other question, Mr. Chairman. It is headed under paragraph 44, Returns on Investments. That would include either interest on loans or a profit return from a company. That would be included as such.

Mr. Henderson: Dividends.

Mr. Winch: That comes under the same heading, does it?

Mr. Henderson: Yes. Polymer Corporation Limited for instance, is a good example; they pay a dividend every year. In fact, that is the amount of the dividend. Eldorado Mining and Refining Limited, I believe, are in there too. They pay a dividend. In the other cases there would be interest on longterm advances; the National Harbours Board, the Farm Credit Corporation and Canadian National Railways.

• 1050

Mr. Ballard: Mr. Henderson, is this the same type of interest an individual would collect as interest on deposits? Are these actual amounts of money that were credited to government accounts?

Mr. Henderson: It is something less than the Treasury Board rate. The middle of the paragraph at the top of page 15 reads:

Interest at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10% is earned on deposits with chartered banks in excess of an aggregate of \$100 million.

Mr. Ballard: Do we still have a deal with the bank that we leave \$100 million interest-free on deposit?

Mr. Henderson: I beg your pardon?

Mr. Ballard: Do we still have a deal with the bank that we leave \$100 million on deposit that does not collect interest?

Mr. Henderson: That is correct, Mr. Ballard.

Mr. Winch: May I ask one further question, Mr. Chairman? I notice at the bottom of the page it shows \$8,179,000 return on investments, which is simply called "Other loans and investments". If a return is over \$8 million the advances must be very heavy. Could you just give me a general picture of what that covers?

Mr. Henderson: This is just a summary figure of the remainder, and there would be a fair number in here. Mr. Long is looking up

the Public Accounts, because they are listed in detail there. But for purposes of this table and in the interests of putting it in this report, we have followed the practice of grouping the remainder of the individual smaller items. There is not just one investment of \$8 million. This would be a group of investments.

Mr. Winch: This is a return of \$8 million. Therefore the...

Mr. Henderson: Yes, it would be the interest or income on a variety of investments. Full details are in the Public Accounts, and we will give them to you in just a moment.

The Chairman: Mr. Long will give us a rundown of some of those that make up this list. Mr. McLean?

Mr. McLean (Charlotte): Mr. Chairman, are these all net revenues?

Mr. Henderson: Net revenues in what sense?

Mr. McLean (Charlotte): Is this \$143,106,000 the net revenue to Canada from the Bank of Canada?

Mr. Henderson: It is the profit.

Mr. McLean (Charlotte): That is the net profit?

Mr. Henderson: Yes.

Mr. McLean (Charlotte): That is the net profit. Would that have anything to do with interest rates on \$116,386,000 in 1963-64?

The Chairman: You mean the great advance or the increase?

Mr. McLean (Charlotte): Where does this great increase come from?

Mr. Henderson: I cannot answer that. I am not the auditor of the Bank of Canada. If I were I would probably be better informed at this moment on it. However, I would be happy to inquire.

Mr. Walker: I have one more question. If these are net profit figures, will you explain the Canadian Broadcasting Corporation figure of \$1,009,000?

Mr. Henderson: That would be the interest paid by the Canadian Broadcasting Corporation on its loans. I do not know the amount of the outstanding loans at the end of the year, but it would be quite considerable. You will

notice they did not have any in 1963-64; they started up in 1964-65. All the capital money that the Corporation requires is advanced to it in the form of loans.

The Chairman: That is a good question, Mr. Walker.

Mr. Walker: I am not finished because I do not follow the answer.

Mr. Henderson: May I give you the figures?

Mr. Walker: This is in a revenue column of net profits.

Mr. Henderson: May I give you the figure? The amount invested in terms of loans to the Canadian Broadcasting Corporation at March 31, 1966 was \$26,700,000, the interest on which was \$1,009,323. That is the figure you see here.

Mr. Walker: Yes, but does that interest come back...

Mr. Henderson: It comes back to the federal treasury from the crown corporation.

Mr. Walker: And this means that interest of \$1,009,000 has been paid?

Mr. Henderson: Has been paid by the CBC. My criticism has been that the government had to give the CBC the \$1 million so they can pay it back.

Mr. Walker: This really is not a net profit figure?

• 1055

Mr. Henderson: It is not net profit. I explained earlier that this represents either interest on long-term advances or dividends, and the dividends do not always equal the profit for the year. For example, I think Polymer Corporation Limited makes more money than \$4,500,000. I think if I am not mistaken, Mr. Stokes, it would be on the order of \$8 or \$9 million? Mr. Rudy is not here. Eight or nine million dollars would be the level of dividend they pay to their owner, which is Canada. With respect to the Bank of Canada, I believe those are the total profits under the Act, so they pay it all. However, Eldorado Mining and Refining Limited makes more money than the \$1½ million it declared in its dividend.

Mr. Walker: Are there other corporations in this list that are in the same position as the Canadian Broadcasting Corporation, which in fact is not returning the \$1,009,000 to the gov-

ernment because they are giving it back by some other method? Are there any other corporations that are operating in this manner?

Mr. Henderson: I think we have a list of them in my 1967 report. We will give you the reference in just one minute.

An hon. Member: Just one point ...

The Chairman: We will just answer Mr. Walker's questions about the loans and investments first.

Mr. Ballard: How about the National Capital Commission? That would be another one, would it not?

Mr. Henderson: Yes. We have a list of them. We brought them together in the 1967 Report of the Auditor General. We have a short answer to Mr. Walker's question if we can just put our finger on it.

Mr. Winch: While they are doing that, Mr. Chairman, may I make a suggestion that later in the Committee's considerations we go into the question of whether a crown corporation such as the CBC should receive grants instead of loans, in view of the cost to the federal treasury.

The Chairman: Mr. Winch, I think we will have a discussion later on this question. The Auditor General has brought to our attention how these loans and the interest bearing on them should be treated.

Mr. Henderson: May I answer Mr. Walker's question?

The Chairman: Yes, go ahead, Mr. Henderson.

Mr. Henderson: I am going to ask Mr. Long to read from our 1967 Report, which pulls this all together in a sort of a summary form, Mr. Walker.

The Chairman: What page in the 1967 Report is that on?

Mr. Henderson: Page 126, Mr. Chairman.

The Chairman: Thank you.

Mr. Long: There are three main crown corporations; the CBC, the National Capital Commission and EXPO. They are the larger ones where money to pay interest on these advances, which are categorized as loans, has to come from public revenue. In addition to that, there are five smaller ones which you will see on page 126.

1. Loans to the Government of the Northwest Territories amounting to \$7,179,000 (out of a total of \$8,876,000). By agreement Canada pays a yearly amortization subsidy equivalent to the loan repayments and interest coming due each year.

2. Loans to the Government of the Yukon Territory amounting to \$7,579,000 (out of a total of \$9,073,000). By agreement Canada pays a yearly amortization subsidy equivalent to the loan repayments and interest coming due each year.

3. A loan of \$350,000 to the Northern Canada Power Commission in 1964 for the purpose of extending the utilidor system at Inuvik, N.W.T. The intention is that on completion the cost is to be covered by a parliamentary appropriation.

4. A loan of \$300,000 to the Northern Canada Power Commission in January 1967 for the purpose of reconstructing the existing water supply system of Dawson, Y.T. The cost is to be covered by funds appropriated by Parliament as a grant to the Government of the Yukon Territory.

5. Loans totalling \$5,500,000 authorized as capital assistance to the Town of Oromocto, N.B., of which \$5,400,000 has been advanced. Repayments of \$1,300,000 have been received together with interest which has been credited as revenue of the year in which received. The source of the funds for repayment of the loans and payment of the annual interest has been the annual operating grants made to the Town by the Department of National Defence.

• 1100

Mr. Winch: I presume, Mr. Chairman, that the question could be asked when we have the Treasury Board before us but there is an interesting point here, I think; that is, the government making loans on the basis that eventually—and it must be eventually because this is 1968 and one is 1964,—it is going to be covered by parliamentary appropriation. It seems to me a rather peculiar situation where, over a period of years, loans are made on the basis that it is not going to be a loan at all; it is going to be a form of appropriation. I think that is a very interesting point we should take up with the Treasury Board.

The Chairman: That is on the list.

27120—2

Mr. Ballard: I wonder if Mr. Henderson could explain to us the advantages from a governmental accounting point of view of treating a \$7 million loan to the Northwest Territories as indicated on page 126 by agreeing that it will be paid by a yearly grant from the government, rather than taking the original grant into the accounts of the year when the grant was originally made.

Mr. Henderson: At the risk of quoting what Mr. Bryce said to this Committee, I think about two years ago, he made the point that one of the advantages of making loans, even if you had to give them the money with which to pay the interest, is that it keeps the total cost of the operation steady. That is to say, it is costing so much to finance the CBC if we lend them the money and then, even if we have to give them the interest on the other hand to pay it back, into the costs of the CBC will go the cost of that financing and therefore we will emerge with a much more complete picture of what it costs us to operate the CBC. I think that is his principal argument.

I look at it from the standpoint of the auditor. First of all, by making a loan to someone who is not in a position to pay it back you know you will have to write it off eventually. I think it was at that time I said it was rather like lending money to your wife; you always have to write it off. As I say in this particular paragraph in 1967, the practice of making loans of this kind instead of grants has had the effect of understating the deficit shown in the public accounts each year. This has been going on for over 10 years, as I mentioned there. As you well know, that is the qualification that every auditor has to take into account when he is certifying accounts, that the profit or deficit, in fact, is after all charges and if not, what charges?

This, of course, has been the case with EXPO. Now, there has been a certain advantage in making loans to EXPO in that the interest exigible on those loans falls as a charge to the three partners. On the other hand the EXPO deficit, or the loans made by Canada to EXPO eventually are going to have to be written off, or else money has to be advanced so that EXPO will be in a position to repay those loans to Canada.

That in effect presumably will all come into the budget deficit of the year in which settlement is made, rather than spreading it over the years as the advances are made. I

think that more or less sums up the two points of view, Mr. Ballard. I do not know whether I have made it very clear to you.

An hon. Member: May I ask...

The Chairman: Just a minute, there are two questions over here. Mr. Leblanc and then Mr. Tucker.

Mr. Leblanc (Laurier): Mr. Chairman, I just want to point out concerning the subject we are discussing now that on page 242 of the 1967 Report, item 36, in our 7th report to the House we discussed that matter and said:

The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown.

I remember well we discussed the entire matter at the last session of this Committee. I think that could be brought up again as a whole, not separately as we are doing now, taking one corporation, and then at the next session having another discussion of the same subject. I think the subject should be discussed as a whole again as it was previously when there is time to do it. If we discuss one company today and another at the next sitting where the same principles apply, we will not get anywhere. I just make this suggestion, Mr. Chairman.

The Chairman: It certainly needs another good discussion, and we will have that.

• 1105

Mr. Tucker: Mr. Chairman, I would like to ask Mr. Henderson to explain why the return on investments on the St. Lawrence Seaway Authority dropped from \$43,065,000 in 1964-65 to \$9,400,000 in 1965-66?

Mr. Henderson: I shall ask Mr. Long to give you a quick answer, Mr. Tucker.

Mr. Long: Mr. Tucker, the St. Lawrence Seaway Authority has had the difficulty of revenues not being up to expectations. The St. Lawrence Seaway Authority does look after the Welland Canal. They have been deferring the interest due each year, but with the elimination of tolls on the Welland Canal they were given certain money which normally would have been expected to come from the toll. That money was used in 1964-65 to pay up some of the arrears of interest. In other words, had the situation which applied

on the Welland Canal in 1964-65 existed previously, this money would have been paid on interest in prior years.

The Welland Canal situation was changed—and it is not the same now; it has been changed again—but in this particular year they did receive this money from an appropriation reimbursing them for moneys which would have been used on interest in past years. That is why it all appears in 1964-65.

Mr. Tucker: Thank you, I have one more question, Mr. Chairman. If I understood correctly, Mr. Henderson said that the amount of \$1,900,000 in 1965-66, the Canadian Broadcasting Corporation, the government really loaned this money to pay back the interest. Does the same thing apply to the Canadian National Railways in 1965-66 for the amount of \$11,991,000?

Mr. Long: The government does not loan money to pay the interest, Mr. Tucker. The government grants money. It comes out of the CBC grant.

To answer your question on the Canadian National Railways, we would have to see if the government paid a deficit in that year. It is here somewhere; I could look it up for you. If the government did pay the deficit, then you could say in a way that they were paying the interest, but on the other hand the Canadian National Railways has some very substantial sources of revenue, so it is not unreasonable to expect them to earn interest to pay it. In the case of the CBC...

Mr. Tucker: Did they not operate at a loss last year?

Mr. Long: They probably did, but there have been years in which they have not had a deficit.

The Chairman: While we are on this subject we might have the answer to Mr. Winch's question, what comprises other loans, investments and revenue?

Mr. Long: In 1965 the Canadian National Railways had a deficit of \$34 million.

Mr. Tucker: Can you tell me when they operated at a profit?

Mr. Long: I would have to check back on the public accounts.

The Chairman: We do not have the right volume here, Mr. Tucker.

Mr. Henderson: Can we give just a few?

The Chairman: There is a great number of them; just a few Mr. Winch?

Mr. Winch: Just a general picture; that is all.

• 1110

Mr. Henderson: Harbour Commission—Fraser River Harbour Debentures, \$53,000; Loans under the Export Credits Insurance Act, 1944, \$795,000; United Kingdom Financial Agreement Act, 1946, \$678,000; France, Interim Credit Consolidated Interest, \$19,000.

Mr. Winch: Those are not the capital investments, are they?

Mr. Henderson: These are samples of the items making up the other loans and investments of \$8 million. There are a great many of them. I am just reading from the Public Accounts . . .

Mr. Winch: Those are the investment returns. The amounts of money invested, or loans made, must be well over a billion.

Mr. Noël: They should be around \$150 million.

Mr. Henderson: I thought you wanted the details of the \$8 million returns on other loans and investments. Did you not want the details of the \$3,179,000?

Mr. Winch: No; I was interested in the fact that if there is a return of \$8 million it must mean that there are billions invested, and in what they are.

Mr. Noël: \$150 million.

Mr. Henderson: Mr. Winch, I would direct you to Appendix 3, Return on Investments, in the Public Accounts, Volume I, page 9.6, where the length of time, the amount invested and the amount realized are all set out.

Mr. Winch: That is in the little blue book.

The Chairman: Let us get back on the rails again.

Mr. Muir: While we are on this matter of loans to Crown corporations, you mentioned that the original agreement relative to Expo was that the federal government would put up \$20 million and that this would be matched by Montreal and the Province of Quebec. The loan has now reached something over \$200 million. Is it still going to be divided in the same proportion? Are Quebec and

Montreal going to accept half of this loan, or is the federal government going to be charged with the whole deficit?

Mr. Henderson: I can only reply to that, Mr. Muir, by saying that I am now in the process of working on the audit of Expo 1967, for the year ended December 31, 1967, which was its big year. Until I have completed that I am not in a position to answer your questions.

Mr. Winch: Was there any agreement before the loans were made that the Province of Quebec and the City of Montreal would assume any part of them?

Mr. Henderson: I have referred to this in my reports to the House, and, in particular, I deal with it in my 1967 report. This is known as the Tripartite Agreement. I might direct your attention to paragraphs 67 and 68 of my 1967 report, in which the status of the Tripartite Agreement . . .

Mr. Winch: Which page was that?

The Chairman: Page 30 of the 1967 report.

Mr. Henderson: I beg your pardon, Mr. Chairman. It is paragraph 61 on page 27, Agreement between Canada, the Province of Quebec and the City of Montreal for the holding of the Canadian Universal and International Exhibition. This describes the nature of that agreement and the position on it.

Mr. Winch: Mr. Chairman, I am beginning to wonder whether we could perhaps make progress by accepting the report of 1966 and proceeding with the 1967 report?

The Chairman: I am inclined to agree.

Mr. Muir: At the end of that paragraph it is stated:

A sixth revision of the over-all plan indicating an anticipated ultimate deficit of \$211 million was approved on September 28, 1967.

I understand that was approved by the three participating governments.

Mr. Henderson: That would be right.

• 1115

Mr. Muir: In that case, they are assuming the same shares as in the original agreement, I would imagine. Would that be correct?

The Chairman: I think that is a policy matter. I do not think it is fair to ask Mr. Henderson to rule on it.

Mr. Muir: I just wish to know his understanding of what the agreement involves.

Mr. Henderson: As you can see from the note here, we have had some difficulties in understanding what this agreement contemplated. As is explained, ever since 1964 I have been asking the corporation to clarify certain of the paragraphs in that agreement, recognizing that they would present problems to me at this time, as I finalize the accounts, which is the process in which I am engaged at the moment.

Mr. Muir: The original agreement was that the federal government would put up \$20 million and that this would be matched equally by the Province of Quebec and the City of Montreal.

Mr. Henderson: That is the agreement that is referred to here. It is known as the Tripartite Agreement, and under that the money was to be put up three ways. That applied to the original \$40 million of grants. Since then the money has been advanced by the federal government on the basis of securities issued by Expo Corporation in favour of the Receiver General. Those advances have been appearing in loans and advances in the estimates to Parliament each year, and they end up in the investments here.

The Chairman: I have two questioners on my list, Mr. Southam and Mr. McLean.

Mr. Southam: Mr. Chairman, the suggestion has just been made by one of the members that to expedite the work of the Committee we should move on to the 1967 report rather than work back and forth between the 1966 and the 1967 reports.

In your opinion, Mr. Henderson if we took this step would we be overlooking consideration of some pertinent details or matters in the 1966 report? We are all interested in making some progress, but I would like to have his advice on this first.

Mr. Henderson: Mr. Southam, I appreciate what actuates the suggestion, but the fact of the matter is that we have two reports here. I am completely in your hands.

In accordance with your last decision we have prepared a list of all the 1966 comments which are not carried forward into 1967. They concern a host of matters which, in the normal course, you would examine. If however, you should decide that you want to pass up examining . . .

Mr. Southam: Let me hasten to say that I am not suggesting that we do that. If in your opinion, there are important matters that should be examined I am all for doing so. It was surely to expedite the work of the Committee that I raised that suggestion again.

Mr. Henderson: There are some quite important matters, Mr. Southam, if I may be so bold as to say so. For example, there is the very first one, Governor General special warrants. That is the kind of thing with which we have been wrestling for ten years, on which you have been making recommendations, in respect of which nothing has been done and which will pop up again in the event of another election.

There is also the item of the recording of commitments. They are all important points.

Mr. Winch: And they are not repeated in 1967?

Mr. Henderson: They are not repeated in 1967. We have a fresh bunch in 1967.

Mr. Southam: Can we, then, follow the procedure of concentrating directly on 1966 and completing that part?

Mr. Henderson: That is what we were hoping to accomplish by giving you a listing.

The Chairman: And that is what I have been trying to do, but we are going off on many tangents. I will rule with an iron hand, if you like, and I will say, "That is out. That is in 1967".

Mr. Henderson: The tangents are very helpful to us, Mr. Chairman. I appreciate very much the attention that is being given, but . . .

The Chairman: I seem to be rather in between.

Mr. Muir: Would anything be gained by taking the 1967 items first and then reverting to those of 1966?

The Chairman: Gentlemen, we will proceed on this basis this morning.

Mr. Tucker: If I may I will ask one more question on Expo's ultimate deficit of \$211 million.

Would Mr. Henderson advise us what proportion of that debt, if it is correct, would be borne by the federal government, the provincial government and the City of Montreal.

Mr. Henderson: Mr. Chairman, I have just briefly explained that the figure of \$211 million was the anticipated ultimate deficit as determined by the three parties last September.

• 1120

Mr. Tucker: Yes.

Mr. Henderson: Since then the fair has closed, a lot of property has been disposed of, et cetera, and therefore the final account at December 31 will presumably be different from that anticipated. I think only yesterday in the House—I am quoting from this morning's paper—Mr. Winters said that the estimated deficit would be \$295 million. I am not prepared to comment on whether it will be that amount or more or less, because the figures are not final and the officials and I are engaged on the audit right now. Mr. Winters is giving you his estimate, which is perfectly proper.

Mr. Tucker: I appreciate that, but I am asking you what ratio...

Mr. Henderson: Under this agreement the ratio is intended to be 50 per cent borne by the federal government, 37½ per cent by the Province of Quebec and 12½ per cent by the City of Montreal.

Mr. Tucker: Thank you.

Mr. Walker: I just have one short question. Returning to the 1966 report under Return on Investments, there is a heading "Loans to national governments". What is a national government in that context?

Mr. Henderson: The United Kingdom, France, India; such countries as those. Loans that we have made...

Mr. Walker: Outside the External Aid program?

Mr. Henderson: Oh, yes. There are some that go back much further than that, you know. I think a table of these is contained in my report under the heading of assets. Mr. Long is just looking for the pertinent paragraph.

Mr. Walker: These are external governments?

Mr. Henderson: Yes, we give a summary of them.

Mr. Winch: In view of the information Mr. Henderson has given us, that this listing con-

tains only those matters in the 1966 Report to which no reference is made in 1967, could I suggest that we start with paragraph 48 and then just go through those in which there is no reference to 1967.

The Chairman: All right. Mr. McLean, did you have a question first?

Mr. McLean: I would just like to know who is holding the bag at the present time? Is the federal government holding the bag for the \$295 million? Somebody has paid the bill.

Mr. Henderson: I can only reply that the federal government lent the major share of the money. As for the bag, I will leave that to you, Mr. McLean, I do not know.

Mr. Leblanc (Laurier): As it now stands, I think we have acted as bankers.

Mr. Southam: Mr. Chairman, may I interject one further remark at this point? There is wide-spread interest on the part of the public of Canada—who up until now, as Mr. Henderson said, have footed the bill—about how we are finally going to come out on this. Will your department be trying to estimate, for instance, on the basis of gross revenues coming in through improvement in the tourist industry—the figures are fabulous for last year—and other sources of revenue through, say, provincial tax coming into the provinces, and so on, with relation to Expo, whether we ended up in the red or in the black?

Mr. Henderson: Mr. Southam, that is not my function. As the auditor for this Corporation I must concern myself with it strictly as a crown corporation in terms of its receipts and revenues. I would have to leave the estimating of the invisible benefits to my economist friends to draw such conclusions from them as they see fit. As you can imagine there has been a great deal to clean up in terms of the Expo year, including the disposal of the fixed assets. We have had to take into the cost of the year's operation the net cost of the exhibition, the difference between what we have been able to sell those assets for and what they cost us. There is a considerable accounting job, and that is what we are all engaged on at the present time. I conclude that Mr. Winter's statement to the House yesterday was his estimate of what the outcome is likely to be, because it is not audited yet and we have not concluded our work.

The Chairman: All right, gentlemen. We will discuss paragraph 48 on page 17 of the

1966 Report. We will stop at about five to twelve and decide the program for the next meeting. In the meantime we will proceed with this list as briefly as possible. Please keep your questions relative to the paragraph under discussion. If you do not, I am going to use the gavel.

• 1125

48. Governor General's special warrants. Section 28 of the Financial Administration Act provides for urgent expenditures, not otherwise provided for, while Parliament is not in session. The text is:

28. (1) Where a payment is urgently required for the public good when Parliament is not in session and there is no other appropriation pursuant to which the payment may be made, the Governor in Council, upon the report of the Minister that there is no appropriation for the payment and the report of the appropriate Minister that the payment is urgently required for the public good, may by order direct the preparation of a special warrant to be signed by the Governor General authorizing the payment to be made out of the Consolidated Revenue Fund.

(2) A special warrant issued pursuant to this section shall for the purposes of this Act be deemed to be an appropriation for the fiscal year in which the warrant is issued.

(3) Every warrant issued under this section shall be published in the *Canada Gazette* within thirty days after it is issued, and a statement showing all warrants issued under this section and the amounts thereof shall be laid by the Minister before the House of Commons within fifteen days after the commencement of the next ensuing session of Parliament.

(4) Where a special warrant has been issued pursuant to this section, the amounts appropriated thereby shall be deemed to be included in and not to be in addition to the amounts appropriated by the Act of Parliament enacted next thereafter for granting to Her Majesty sums of money to defray expenses of the public service for a fiscal year.

(5) For the purposes of this section, Parliament shall be deemed to be not in session when it is under adjournment sine die or to a day more than two weeks

after the day the Governor in Council made the order directing the preparation of the special warrant.

The dissolution of Parliament on September 8, 1965 before full supply for the year 1965-66 had been granted, necessitated recourse to Governor General's special warrants to provide the funds for carrying on government services until the new Parliament was assembled on January 18, 1966. A total of \$920,591,-867 was provided by five special warrants as follows:

(a) one for \$163,176,450 on November 1, 1965 providing for expenditures during November 1965;

(b) one for \$345,696,168 on November 29, 1965 providing for expenditures during 1965-66;

(c) one for \$399,294,249 on December 29, 1965 providing for expenditures during 1965-66;

(d) one for \$12,000,000 on January 7, 1966 which provided funds for the "International Food Aid Program, including commodity contributions to the United Nations Relief and works Agency for Palestine Refugees in the Near East and to the World Food Program"; and

(e) one for \$425,000 on January 17, 1966 which provided the funds for "Family Assistance under such terms and conditions as may be approved by the Treasury Board, in respect of children of immigrants and settlers" and "General Administration and District Offices" of the Department of National Revenue—Taxation Division.

The amounts included in these special warrants were subsequently included in the amounts authorized by Appropriation Act No. 1, 1966, 1966-67, c. 1, assented to on February 8, 1966.

When the 1965-66 special warrants were being prepared the departments were instructed by the Treasury Board that each vote and class of payments required special consideration in the light of section 28 of the Financial Administration Act. The Treasury Board also advised the departments to review and take into account the particular audit comments contained in the Auditor General's Reports for 1962-63 and 1963-64. These general instructions were supplemented by specific guidelines for determining (a) the items which might properly be provided for by spe-

cial warrant and (b) the appropriate amount to be provided in each special warrant for each acceptable item.

In the Audit Office view these guidelines were not always followed in the preparation of the special warrants and a number of the items provided for did not meet the test of being "urgently required for the public good" as required by section 28 of the Act.

Furthermore, payments under the special warrants continued to be made after Parliament assembled on January 18, 1966 until Appropriation Act No. 1, 1966 was assented to on February 8, 1966. Payments made during this period cannot be said to be "urgently required for the public good when Parliament is not in session..."

Examples are as follows:

1. Two of the five special warrants included an item "Subject to the approval of the Treasury Board, ... to supplement the payroll provisions of other votes...". Obviously payment of the amounts was not urgently required when the special warrants were issued, and the Governor in Council in effect delegated to the Treasury Board his authority under section 28 of the Act although there is no provision for such delegation.

2. Three of the special warrants included contributions or grants which require prior specific approval of Parliament:

- (i) the special warrant dated November 29, 1965 included funds for a special voluntary contribution to the United Nations, in the amount of \$3,923,000;
- (ii) the two special warrants dated November 29, 1965 and December 29, 1965 included a total of \$2,750,000 for "contributions to Ontario and Quebec of one-half of the aggregate of amounts paid by each such province in assisting eligible livestock producers who were affected by adverse weather conditions, to obtain feed during the period May 16, 1965 to May 31, 1966". The only payment made was \$190,000 to the Province of Ontario on January 13, 1966;
- (iii) the special warrant dated December 29, 1965 included an amount of \$500,000 for "contributions to British Columbia of one-half of the aggregate of amounts paid by the Province to or in respect of eligible tree fruit and grape producers as a result of vine, fruit tree and crop

losses incurred by such producers during the period December 1, 1964 to November 30, 1965 and a contribution to the Province in respect of the administrative expenses incurred in making such payments to producers;

- (iv) an amount of \$1,000,000 was provided in the special warrant dated November 29, 1965 for "payments to eligible producers in Lake St. John and Abitibi-Temiskaming Regions of Quebec, in respect of the aggregate loss of agricultural income suffered by all producers in each such region during the period July 1, 1964 to June 30, 1965, in accordance with terms and conditions prescribed by the Minister of Agriculture". No payments were made under this portion of the special warrant; and
- (v) the special warrant dated January 7, 1966 provided \$12,000,000 to the Department of External Affairs for the "International Food Aid Program, including commodity contributions to the United Nations Relief and Works Agency for Palestine Refugees in the Near East and to the World Food Program". Payments aggregating \$830,609 were made on January 27 and February 1, 1966, both days on which Parliament was sitting.

3. The special warrants dated November 29, 1965 and December 29, 1965 provided a total of \$4,100,000 for advances to Atomic Energy of Canada Limited "to finance the construction of the Douglas Point generating station; to share in the construction of the Pickering generating station under agreement between the Federal Government, the Province of Ontario and the Hydro Electric Power Commission of Ontario; to finance the construction of an engineering design office at Sheridan Park; to finance the construction of housing and other works near the Whiteshell Nuclear Research Establishment".

No advances were required because interim supply had provided \$7,094,500 of which \$394,500 remained unspent at February 28, 1966.

4. A total of \$48,000 was provided by the three special warrants dated November 1, 1965, November 29, 1965 and December 29, 1965 for administrative expenses of the Municipal Development and Loan Board.

Up to February 28, 1966 none of this money had been required by the Board.

5. The special warrant dated December 29, 1965 included \$1,350,000 for the Government contributions as employer under the Canada Pension Plan and the Quebec Pension Plan, and \$1,350,000 for "special accountable advances to or in respect of persons who are employed in the public service..." relative to their contributions to the Canada Pension Plan and the Quebec Pension Plan.

These sums were not utilized until February 17, 1966 and February 25, 1966, respectively, both days on which Parliament was sitting.

Following the use of Governor General's special warrants in 1962-63, the Public Accounts Committee recommended in its Fourth Report 1964 that a study be made of the procedures surrounding their use (see Appendix 1, item 8). In commenting on this recommendation the Minister of Finance advised the Chairman of the Public Accounts Committee on March 4, 1965 as follows:

...the Secretary of the Treasury Board undertook to consider the desirability of enlarging on the special Governor General's warrant provisions in the Financial Administration Act (in particular section 28) in order to clarify its application to situations arising when Parliament is dissolved without having appropriated the necessary expenses of the Public Service. Suggestions have been discussed for changes in this section of the Financial Administration Act, and these are now being studied. Should the Government decide that an amendment to the Act is desirable, it will present its proposals to Parliament in the usual way.

The Public Accounts Committee has not yet examined paragraph 45 of our 1964 Report in which we commented on Governor General's special warrants used during the months of April and May 1963, citing three items from these two warrants which did not meet the test of being "urgently required for the public good".

The Chairman: Mr. Henderson, do you have any observations?

Mr. Henderson: This Committee last studied this subject four years ago when it heard evidence from the Secretary of the Treasury

Board and the Deputy Minister of Finance. The Committee recommended to the House that a study be made of this whole matter. The only development since that time of which I am aware was contained in a letter which the Minister of Finance sent to the Chairman of this Committee in March of 1965, to the effect, that suggestions were under discussion in his Department concerning changes in Section 28 of the Financial Administration Act. These were being studied, and if the government should decide that an amendment was desirable it would present its proposals to Parliament in the usual way.

This has not advanced us very far, and as a consequence we are again commenting in this paragraph on the Governor General's special warrants which were used in April or May of 1963 at the time of the election. We have cited three items from those two warrants which did not seem to us to meet the test of urgency which is required for the public good.

Since then we have seen the dissolution of Parliament in September of 1965 prior to the general election of November of that year when, of course, Governor General's special warrants again had to be used to provide funds until the new Parliament assembled on January 18, 1966. We list here five special warrants which were used and which total rather more than \$920 million, and we first go on to show how the guidelines were not always followed in the preparation of the special warrants and how in our view a number of the items provided for did not meet the test of being urgently required for the public good, which is the statutory language of Section 28 of the Financial Administration Act. This particular section of the Financial Administration Act was opened up last year to provide for the replacement of the Minister of Finance by the President of the Treasury Board. We had hoped when it was opened up that we might have had the language straightened out a bit, but it remains as it was, and there it is.

I do not suggest that you take too long in going over the examples. As you can see, a number of items were said to be urgently required for the public good and therefore they had to be included, but actually some of the money was not spent until Parliament sat. Again it is my responsibility, particularly under the statutory requirements, to draw this to your attention, and that is why we set down the circumstances.

The Chairman: Gentlemen, the Committee will recall that in our Fourth Report 1964, item No. 8 dealt with this very matter. We reported last March 7, "no action as yet, legislation required". I assume it is now a matter of amending the Financial Administration Act.

Mr. Henderson: My suggestion would be that we either ask the Secretary of the Treasury Board or the Deputy Minister of Finance about the status of this study and ask him if he would come prepared to discuss it when he appears before the Committee. The solution lies with him rather than with us. I am assuming you would want to reiterate your position.

The Chairman: Mr. Winch?

Mr. Winch: May I ask Mr. Henderson a question? First of all, I completely agree that we should re-emphasize our position. Could I ask for clarification of paragraph 3 on page 19, where you state that special warrants were issued under two dates, and then in the next paragraph you say:

No advances were required because interim supply had provided \$7,094,500...

Will you please explain, if as you say no advances were required because over \$7 million had been voted in interim supply, how the two special warrants came in?

Mr. Henderson: Could Mr. Long reply to that, Mr. Chairman?

Mr. Long: Mr. Winch, I think the basic difficulty here is that the legislation provides for making payments that are urgently required. The procedure being followed by the Treasury Board, to which they require all departments to conform, is that warrants be treated the same as estimates.

You will note here the warrants that were issued to cover expenditures. The first one they spell out—one month, the month of November, 1965. This means that the minister responsible for the department or for any spending is required to make an estimate of what is going to be needed in any given month in advance of his making the estimate, and I suppose at this time he thought there might be a call for funds for atomic energy, so he provided for it so he could meet it if that call came. It did not come.

• 1130

Mr. Winch: And that is the \$7 million you are referring to?

Mr. Long: There was still \$394,000 of that left at February 28, but presumably he just anticipated a greater call for funds than actually came, but the legislation says a warrant authorizes an expenditure that is urgently needed. What he was required to do was make an estimate of what might be needed and a warrant was issued for that.

Mr. Muir (Lisgar): Did the Auditor General tell us that when Parliament met some of the Governor General's warrants that had been granted were still unspent? Is that correct?

Mr. Henderson: Yes.

Mr. Muir (Lisgar): Section 28 provides for urgent expenditures not otherwise provided for while Parliament is not in session. Should not the money that has not been spent be returned to the Receiver General when Parliament resumes?

Mr. Long: We think, Mr. Muir, that in the interests of parliamentary control money under warrant should not be spent while Parliament is sitting because Parliament should be able to approve any payments required at that time but you are up against subsection (2) of section 28 of the Financial Administration Act,

A special warrant issued pursuant to this section shall for the purposes of this Act be deemed to be an appropriation for the fiscal year in which the warrant is issued.

The argument is that once a warrant is issued, it is good almost indefinitely.

Mr. Muir (Lisgar): For the year; for the fiscal year.

Mr. Long: That section seems to be in conflict with subsection (4) but here again, is a warrant to cover a payment as it is spelled out in the legislation or is a warrant supposed to be a form of estimate to be used when Parliament has not, in fact, approved of any estimates?

Mr. Muir (Lisgar): I understand that some of this money appropriated by Governor General's warrant was not used for the purposes for which it was appropriated but eventually to pay salaries of other departments that did not have the money to pay them.

Mr. Long: I do not think that would be right, Mr. Muir.

Mr. Henderson: The warrants did contain provision for these special salary settlements but I do not think it was diverted to them. I do not recollect seeing that.

Mr. Muir (Lisgar): I am not trying to say it is illegal but what I am trying to say is...

Mr. Leblanc (Laurier): You do not mention anything like that; you would mention that in your report.

Mr. Henderson: I hope so!

Mr. Leblanc (Laurier): Yes. Well, that is it.

Mr. Chairman: Mr. Winch and then Mr. Walker.

Mr. Winch: There is a point on which Mr. Long might elaborate a bit further I refer to your number (5) on page 19. There you state that a special warrant dated December 29, 1965, was issued for \$1,350,000 for certain purposes, but then you point out that this money was not used until February 17, 1966, when Parliament was sitting. Do I take it to be the contention of the Auditor General's Office because a special warrant was issued in December when Parliament was not sitting and the money was not required nor used until Parliament was actually sitting, that the Governor General's warrant should have been considered null and void because Parliament was sitting at the time the money was required and therefore a supplementary estimate should have been introduced and the Governor General's warrant not used? I hope I have not confused it too much, Mr. Chairman.

• 1135

Mr. Long: I think, Mr. Winch, our criticism goes back earlier than that. Our criticism is that the warrant should not have been issued until the payment was required. This is what the legislation says.

Mr. Winch: And it was not required until 2½ months later?

Mr. Long: That is right.

Mr. Winch: And at that time Parliament was sitting.

Mr. Long: And a warrant could not have been issued.

Mr. Lefebvre: The money that has been paid out by Governor General's warrant has not been used illegally but has not been obtained for an emergency as specified in the Act. There is no question that the money has been misused, or anything like that?

Mr. Henderson: To oversimplify it, the approach has been that they would more or

less take the estimates and see what they need to carry on and prepare warrants for the next 30 days. They would just take that portion of the Estimates they needed rather than, as the Act appears to provide, putting in only those things that are urgently needed for the public good.

Mr. Lefebvre: I am trying to clear up whether there is any question that any money was misused or illegally used. Is it just that the warrants were not used as the Act specified?

Mr. Henderson: That is right.

Mr. Lefebvre: In other words, they could have had the money by other means. This is what you and we want to clear up?

Mr. Henderson: Mr. Long's reply to Mr. Winch a moment or two ago indicates how they should have got the requirements under number (5).

The Chairman: Mr. Walker and then Mr. McLean.

Mr. Walker: Does the money raised under these Governor General's warrants eventually have to be approved by Parliament through a supplementary estimate? Does it ever show up before Parliament, even after the horse is out of the stable? Does the action taken under Governor General's warrants ever have to come back for public discussion and approval of Parliament, or is it something right outside Parliament's eventual approval, even the subsequent Parliament?

Mr. Long: Mr. Walker, a requirement was introduced just a few years ago that causes some of the slight conflict in this legislation. There is a requirement that the amounts of the warrants be included in the next estimates presented to Parliament. They are not in addition to those estimates. They are considered to be a part. So Parliament does have an opportunity to see that expenditure in the next estimates. Of course, the expenditure, in this case, has been made.

Mr. Walker: Yes, I realize that but...

The Chairman: I think Mr. Walker's point is that when this does appear in the estimates there is nothing to show we parliamentarians that part of this was requested by means of a warrant. We do not know this when we pass the estimates, do we Mr. Long?

Mr. Walker: How does it appear? Just as part of some millions of dollars under a cer-

tain departmental estimate or is there a special section in the estimates listing this amount as being provided by Governor General's warrant?

Mr. Long: I am speaking from memory. I do not think the estimates indicate this but it is possible that Parliament has some information about what had been done. I think spending under warrant has to be reported in some other way.

Mr. Walker: Mr. Chairman, so far as I am concerned I think this is a very interesting point because with parliamentary control over the expenditure of funds or the approval of funds we should really be able to know what we are, in fact, approving.

The Chairman: That is right. This is another matter for Treasury Board to discuss with us.

Mr. Walker: I think so.

Mr. McLean: Mr. Chairman, is there not a conflict in the Act that would allow a department to do certain things? It appears to me to be a departmental mistake if they ask for something they already have.

• 1140

Mr. Long: Well, this is the policy that is imposed on the ministers by the Treasury Board.

Mr. McLean: Yes, but why should a department ask for something it already has?

Mr. Long: They thought they were going to need more, I presume.

Mr. McLean: No they asked for this and they already had it, you say, under the estimates. The interim supply had provided for it and yet they asked for it again. It seems to me to be just carelessness on the part of the department.

Mr. Long: You are referring to No. 3?

Mr. McLean: Yes.

Mr. Long: They are asking for funds additional to those provided to them, but it turned out that they did not need those additional funds during the period for which they asked for them.

Mr. McLean: You said no advances were required because interim supply had provided for them.

Mr. Henderson: Well, that is why I said, Mr. MacLean, that they tend to regard this or

had tended to regard this by looking at the estimates and if it is one month then it is one-twelfth or whatever is required without getting down to the finer points that the law seems to call for.

Mr. McLean: The way it looks to me is that it does not matter to the department whether Parliament is sitting or not. They just go ahead just the same.

Mr. Henderson: That is the point. That is what we thought, but it is to the credit of the Treasury Board, as I say on page 18, that they did in fact send out a very careful bulletin of guidelines to the departments as to how to prepare these warrants and they referred to the discussions in this Committee.

They pointed out that they were aware that had happened in previous instances and to watch for it but then we discovered that these guidelines were just not always followed by the departments and this is the result.

Mr. Schreyer: Mr. Henderson, do you regard the fact that in certain cases special warrants were issued and the moneys not used subsequently as conclusive proof that they have been stretching the meaning of the words "moneys urgently required for the public good"?

Mr. Henderson: I do not think we would just make the immediate assumption at that point. You have to bear in mind, Mr. Schreyer, that we are in there auditing and checking the accounts of the departments and their files and we see the whole circumstances surrounding the disbursements. We discuss the views we have with them before we commit them to our report.

Mr. Schreyer: The general pattern then, shows the treatment of special warrants to be almost as casual as estimates.

Mr. Henderson: Well, I do not know that I would just use the word "casual". I think a genuine effort is being made, particularly this time around, to do it but the trouble probably lies right in the rigidity, shall we say, of section 28, but that is something Parliament will want to consider.

The history of section 28, as you know better than I, goes back to the time when I think the executive used Governor General's special warrants only if a building fell down or some other catastrophe occurred. It has been broadened considerably since then but the

words "urgently required for the public good when Parliament is not in session" lend themselves, to say the least, to pretty broad interpretation of the degree of urgency and the responsible minister of each department, as is required under section 28, signs and attests that these are all urgently required for the public good, but then I do not suppose he goes down them with a fine pencil and these things creep through.

The Chairman: Would these not go from the minister to Treasury Board where they would be checked very carefully?

Mr. Henderson: The departments are asked to prepare lists of what they are going to need for the forthcoming month, their ministers sign them, they go to the Treasury Board and the Minister of Finance signs them, then the President of the Treasury Board and the Governor General sign them and the money is made available.

Mr. Schreyer: Mr. Henderson, would you recommend or suggest to the Committee a change in practice so that special warrants with unused moneys would lapse at the commencement of a session, resulting in the need for passing an interim or supplementary supply item? Is that what you are suggesting?

Mr. Henderson: The only suggestion I make at this stage is that the Treasury be invited either to put in a memorandum on this or come and discuss their ideas. They are the ones that work with it and they have had quite a bit of experience. This has posed a lot of problems for them. Let us hear what they have to say about how they would solve it. They are directly concerned with it and it poses a big problem for them when Parliament is dissolved and they have to prepare these warrants because they know that they are exposing themselves to our criticism, and that has been the experience with the last several elections.

• 1145

Mr. Schreyer: Do you regard as impractical the requirement that the moneys authorized by special warrant lapse and revert to consolidated revenue, resulting in a supplementary or interim supply vote?

Mr. Henderson: May I ask Mr. Long to answer your question, Mr. Schreyer?

Mr. Long: Mr. Schreyer, our feeling is that if the existing legislation were followed there would not be any question of lapsing because there would not be a warrant until payment

had to be made. This is what the legislation requires. Now, if the legislation were to be changed I think you would have to see what would be proposed. Parliament would have to see and would have to decide whether or not they were prepared to go along with that.

The Chairman: It seems to me that as soon as Parliament is convened after an election and Governor General's warrants were used these warrants should be presented to the new Parliament for review and to see what money was spent, and...

Mr. Schreyer: So they are.

The Chairman: As a member of the House I do not recall a warrant ever coming before us for discussion.

Mr. Walker: You were not there on the opening day.

The Chairman: Does anybody at this meeting recall Governor General's warrants having been presented to Parliament?

Mr. Schreyer: Not for discussion, but they are tabled.

Mr. Henderson: It is a requirement of section 28. As you will see in Item (3):

Every warrant issued under this section shall be published in the Canada Gazette within thirty days after it is issued, and a statement showing all warrants issued under this section and the amounts thereof shall be laid by the Minister before the House of Commons within fifteen days after the commencement of the next ensuing session of Parliament.

The Chairman: Then, gentlemen, we come right back to the recommendations this Committee made: that the Public Accounts members be appointed for the length of a Parliament; that the Committee be set up within 30 days of a new Parliament, and that the Auditor General's report automatically be referred to the Committee. These warrants would then come before the Public Accounts Committee immediately after a new Parliament and this Committee would have a chance to study warrants that had been used during the recess or the prorogation of Parliament and everything would be in its proper perspective.

Mr. Walker: They would not come to the Committee unless they were referred.

The Chairman: Perhaps we would have to have that as an understanding.

Mr. Leblanc, I am sorry I took your time.

Mr. Leblanc (Laurier): That is all right. I was just going to point out that section 28 is in the Financial Administration Act because we were going around it and we did not know exactly what was happening to the warrants. I happened to read that and I just wanted to point it out, that is all.

The Chairman: Fine. Mr. Winch?

Mr. Winch: Mr. Chairman, in view of the very strong position that both Mr. Henderson and Mr. Long take on their understanding that Governor General's warrants should be used only in the case of emergency or immediate need, during their audit when they noted, as referred to in No. 5, that a special warrant was issued in December but not used until Parliament was meeting in February, did they make inquiries on that specific case? If so, what was the answer, in view of the very strong position they both take on this matter?

Mr. Henderson: We will just have to refer to our notes here. You bear in mind that...

Mr. Winch: It is almost two and a half months after the special warrant.

Mr. Henderson: Well, even so our audit would still come along after that.

Mr. Winch: But did you make inquiries then?

Mr. Henderson: Oh yes, the record would show what happened but we are not in there receiving this right when the special warrant is issued.

• 1150

Mr. Southam: In view of the discussions that have been underway here for the last few minutes regarding the Governor General's special warrants under the Financial Administration Act, would it be in order to incorporate what the Auditor General said a few minutes ago by making a motion that we invite the officials of the Treasury Department to present a special brief on this subject to the Committee so that we could make some determination on it at a later date?

Mr. Henderson: I would like to suggest they be invited to prepare, so to speak a paper and circulate it to the Committee setting out their reasons, and then come and discuss it. That would give all of us a chance...

Mr. Southam: Could I then put that in the form of a motion, Mr. Chairman?

Mr. Walker: Before he does so, Mr. Chairman, was I correct in my understanding that we were going to go through these reports with the Auditor General? Various questions will come up as we go along. Had we not decided by way of format to have the treasury people here at that time and go over all these things that had come up? Are you suggesting we take this as a very special item out of context with all the others?

Mr. Southam: I think your suggestion is very good, Mr. Walker, but I was trying to have some determination to this discussion and give our Chairman and the Committee...

The Chairman: Our clerk is making a list of the matters about which we want to question Treasury Board officials when they are here, and this one will be included in that list. We will try not to miss any of them. I think Mr. Henderson wanted to comment.

Mr. Henderson: I suggested that a sort of work paper or memorandum on the subject could be prepared in advance to permit a readier study, and perhaps even to avoid the setting up of a subcommittee. Three or four similar items will appear, Mr. Walker, in the 1966 Report as well as in the 1967 Report on which a lot has been written and said. To pull that together in the form of a work paper and then come and discuss it, I think would be quite helpful to all of us.

Mr. Muir (Lisgar): Mr. Chairman, I wonder if I may have verification of a question I asked earlier when I got a chorus of "oh, no's" in regard to the special warrant that was used to supplement other votes. I notice in example No. 1 it was used to supplement the pay list provision of other votes.

The Chairman: Mr. Muir, I wonder if you are thinking of contingency vote No. 15 of the Department of Finance?

Mr. Muir (Lisgar): You are right, I am.

Mr. Henderson: I think Mr. Long can speak to that.

Mr. Muir (Lisgar): Even so, it shows that this could have been used for the same thing.

Mr. Long: I am sorry, Mr. Muir, I thought your point was that a warrant issued for one purpose was being used for another. This does not happen, of course. We mentioned

this as an example of something we thought should not be in a warrant. Our point is that if other votes require an expenditure to meet a pay list, those votes should have a warrant; it should not be something given to Treasury Board. This is part of the system of using the estimates that are prepared but have not been acted on by Parliament as a basis for warrants rather than expenditures.

Mr. Muir (Lisgar): Would there be anything to stop the government from putting in vote 15 anything that was left over?

Mr. Long: This actually would be vote 15.

Mr. Muir (Lisgar): This was put into vote 15?

Mr. Long: Yes, this is a part of it, and they estimated they were going to have to supplement other votes. Our point is that the legislation says "payments required", so why would the warrant not be for "payment required" out of the other votes rather than going through this procedure?

Mr. Muir (Lisgar): Would you doubt the legality of putting that into vote 15?

Mr. Long: Our difficulty is in seeing how a payment is required if it does not state what the payment is. How can you say that Treasury Board requires this to do something else with when they do not disclose it? If the payment is required the information should be available.

Mr. Muir (Lisgar): In other words, it is not really legal to put money into something that has not actually been approved?

• 1155

Mr. Long: Let me put it this way. It could have been done in another way but it then would not have been in conformity with the format of the estimates. It could have been done the other way, but I come back to the statement that the legislation talks about payments, not estimates.

The Chairman: All right, gentlemen, No. 50.

50. *Recording of commitments.* Subsection (1) of section 30 of the Financial Administration Act provides that no contract involving the payment of any money shall be entered into or have any force or effect unless the Comptroller of the Treasury certifies that there is a sufficient unencumbered balance available out of an appropriation or out of an

item included in estimates before the House of Commons to discharge any commitments under such contract.

In the event of an accident or other emergency an exception is provided in subsection (4) of section 30 which reads:

30. (4) Where the Comptroller is satisfied that an agreement was entered into in order to defray an immediate expenditure that, through accident to public property or other emergency, was necessary to protect such property or to provide for such emergency, he may issue his certificate accordingly and thereupon the agreement is exempt from the operation of subsection (1) from the time the agreement was entered into.

Since 1957 the Government has encouraged various departments to carry out "winter works" projects in order to alleviate unemployment during each winter season. In November 1961 the Comptroller of the Treasury was unable to certify that funds were available to meet commitments under contracts proposed for "winter works" projects because there was no appropriation available at the time nor was there an item included in estimates before the House of Commons (see 1962 Report).

In order to avoid having the program held up the Treasury Board directed the Comptroller of the Treasury as follows:

To avoid any delay in the implementation of this emergency program, the Board would like you to record commitments on a provisional basis until such time as the additional provision is appropriated.

A similar situation existed in December 1965 and under date of December 22 the Treasury Board gave the same direction to the Comptroller of the Treasury.

Inasmuch as federal winter works programs have been established in each of the last nine years, such programs can hardly be considered as being required to meet an emergency so far as forward estimating is concerned. Therefore entering into "winter works" contracts under the circumstances described above is contrary to the provisions of section 30 of the Financial Administration Act.

We will finish this item and then we will go on to a discussion of our next meeting.

Mr. Henderson: No. 50?

The Chairman: Yes, Mr. Henderson.

Mr. Henderson: This paragraph will remind members how we seek to watch Parliament's prerogative of authorizing expenditure. In the first paragraph we explain the prohibition contained in section 30 of the Financial Administration Act, namely, that:

No contract providing for the payment of any money by Her Majesty shall be entered into or have any force or effect unless the Comptroller certifies that there is a sufficient unencumbered balance available out of an appropriation... to discharge any commitments under such contract...

In this case when the Comptroller found that no funds were available to meet commitments under contracts proposed for the winter works projects because there was no appropriation available at the time, nor was there an item included in estimates before the House, he was directed by the Treasury Board to record such commitments on a provisional basis. This was a repetition of a similar situation in November of 1961 that I seem to recall having discussed before the Committee. Our criticism is that as federal winter works programs have been established regularly in each of the last nine years, they can hardly be considered as being required to meet an emergency as far as forward estimating is concerned. Therefore in our view, the entering into of such contracts under these circumstances is simply contrary to the provision of section 30 of the Financial Administration Act. I suppose we might add that it is largely a procedural point, but nevertheless it is a very important one in terms of our responsibility for safeguarding Parliament's prerogative. I therefore hope that the decision we took would commend itself to the members of the Committee.

The Chairman: Are there any questions on that item, gentlemen? Mr. Schreyer?

Mr. Schreyer: Mr. Chairman, the way Mr. Henderson puts it, I feel that he could be misunderstood. I take it you are not saying that winter works programs are not urgently needed...

Mr. Henderson: Oh, no.

Mr. Schreyer: ... but urgent as they are, because they have been put into effect year after year, they should be covered by forward estimating of the department?

Mr. Henderson: That is right. That is the principle there. Do you want to say something on this, Mr. Long?

Mr. Long: Mr. Schreyer, I want to avoid confusion with the winter works program, where the federal government shares work with provinces and municipalities. This item deals with the federal government's work on its buildings. This is not the larger over-all shared-cost winter works program.

Mr. Schreyer: Oh, I am sorry.

The Chairman: Gentlemen, I know you want to have a discussion about Thursday's meeting and how we will proceed with the great amount of work that is before us. I throw this out to you as a suggestion on the assumption and with the feeling that we just cannot set the 1966 Report aside and do nothing with it. It has been referred to us by the House and as a conscientious committee we must abide by the House's request. Mr. Henderson and Mr. Long have gone to considerable trouble to outline the paragraphs that we should spend time on.

How would it be if I divided this list, for instance down to number 70 and asked the first three men here, Mr. Neveu, Mr. Winch and Mr. Schreyer to go over those from 48 to 70—we have done the first two—and to be responsible for that section and come prepared Thursday to state to the Committee: "We have looked this over and we think everything is under control" or "We should study this, or do that". Then we could assign the next items, to number 91, to the next three men. Would this system work? In other words, there would be a little homework to be done by three fellows on a certain number of items.

• 1200

Mr. Leblanc (Laurier): It is not restricted to those three, is it?

The Chairman: Oh, no, Mr. Leblanc. Would that kind of system work out? I think it would. Are there any comments?

Mr. McLean (Charlotte): I think we all should look at it.

The Chairman: Mr. McLean, the idea was to designate three to concentrate on it.

Mr. McLean (Charlotte): That is fine with me.

The Chairman: But it is still wide open. All right. Draw a line under number 70 for the

first three gentlemen, Mr. Neveu, Mr. Winch and Mr. Schreyer; then draw a line under number 91 for Mr. Dionne, Mr. McLean and Mr. Southam; draw a line under 109; Mr. Muir and Mr. Stafford will be responsible for that section; and then to the bottom of the page, Mr. Walker, Mr. Tucker and Mr. Leblanc; then on the second page of that section, Mr. Noël, Mr. Lefebvre and Mr. Leblanc.

It would be helpful if you gentlemen would pay particular attention to those sections.

Are there any comments?

Mr. Schreyer: Which ones do you assign to yourself, Mr. Chairman?

The Chairman: I will take what is left over. There are no further comments? The meeting will be adjourned until next Thursday.

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1968

MINUTES OF PROCEEDINGS

Thursday, March 14, 1968

(4)

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

Chairman: Mr. A. D. HALES

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

THURSDAY, MARCH 14, 1968

Public Accounts, Volumes I, II and III (1966 and 1967)
Report of the Auditor General to the House of Commons (1966)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long,
Assistant Auditor General; and Mr. A. B. Stokes, Audit Director.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

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|----------------------------------|----------------------------------|--|
| Mr. Ballard, | Mr. Leblanc (<i>Laurier</i>), | Mr. Southam, |
| Mr. Bigg, | Mr. McLean (<i>Charlotte</i>), | Mr. Stafford, |
| Mr. Dionne, | Mr. Morison, | Mr. Thomas (<i>Maison-neuve-Rosemont</i>), |
| Mr. Flemming, | Mr. Muir (<i>Lisgar</i>), | Mr. Tucker, |
| Mr. Forbes, | Mr. Neveu, | Mr. Walker, |
| Mr. Gendron, | Mr. Noble, | Mr. Winch—(24). |
| Mr. Harkness, | Mr. Noël, | |
| Mr. LeBlanc (<i>Rimouski</i>), | Mr. Schreyer, | |

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

THURSDAY, MARCH 14, 1968

Public Accounts, Volumes I, II and III (1966 and 1967)
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MINUTES OF PROCEEDINGS

THURSDAY, March 14, 1968.

(4)

The Standing Committee on Public Accounts met this day at 10.05 a.m., the Chairman, Mr. A. D. Hales, presiding.

Members present: Messrs. Bigg, Dionne, Flemming, Forbes, Gendron, Hales, Leblanc (*Laurier*) LeBlanc (*Rimouski*), Lefebvre, McLean (*Charlotte*), Muir (*Lisgar*), Neveu, Noël, Schreyer, Southam, Stafford, Thomas (*Maisonneuve-Rosemont*), Tucker, Winch—(19).

Also present: Mr. Whelan, M.P.

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; and Messrs. Cooke, Cross, Douglas, Hayes, Laroche, Stokes and Gilhooly of the Auditor General's office.

The Chairman introduced the new members, Messrs. Neveu, Noël and LeBlanc (*Rimouski*).

The Committee reviewed the following paragraphs in the Auditor General's 1966 Report:

Paragraphs 52; 53; 61; 67; 70; 71; 72; 89 and 103.

Following discussion, the Committee unanimously agreed,—That its previous recommendation respecting Paragraph 72—*Federal losses from bankruptcies be withdrawn.* (See *Votes and Proceedings dated February 9, 1967, 12th Report to the House*)

Discussion continuing at 12.02 p.m., the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

EVIDENCE

(Recorded by Electronic Apparatus)

Thursday, March 14, 1968.

• 1008

The Chairman: Gentlemen, we have our quorum. I regret that at our last meeting I did not introduce three new members to our Committee. Two of them are here at the moment and the other one will be in later. Mr. Neveu, would you take a bow; and Mr. Noël down here. Mr. LeBlanc generally sits here; Mr. LeBlanc is from Rimouski. We welcome these three new members to our Public Accounts Committee.

I was also remiss the other day in not saying how much we appreciate the presence of the press at all our meetings. You are quite welcome at any time.

Gentlemen, at the last meeting we were talking about the items in the 1966 Report of the Auditor General that will not be appearing in the 1967 Report, and we divided this list up into sections, having in mind that we want to get over this 1966 Report just as quickly as we can. I realize that we are dealing with items that go back a few years but nevertheless they must be scrutinized. We do want to get over this 1966 Report as quickly as possible and I would ask you to be brief and crisp in your questions; I know the answers will be so. I hope we will cover at least half of this list today. I would not feel badly if we got over three quarters of it.

We divided it into sections and Mr. Neveu, Mr. Winch and Mr. Schreyer had from 52 to 70. I would ask them to ask any questions pertaining to any one of these, taking them in their proper sequence, if possible. And then if any other member of the Committee wishes to ask a question, he is quite at liberty to do so. Mr. Neveu.

[Translation]

Mr. Neveu: Mr. Chairman, I would first of all like to congratulate you on your suggestion of dividing the work among us. All the members of the Committee will admit that it will facilitate a greater co-operation.

In order to accelerate the work in an objective and constructive fashion, would you allow me to make a few brief comments on what we are now studying in order to give time to my two colleagues to ask questions.

Concerning section 48 which deals with the Governor General's special warrants, I read that:

Section 28 of the Financial Administration Act provides for urgent expenditures...

[English]

The Chairman: Mr. Neveu, excuse me. I think we covered 48 and 50 down to 52. We will start with paragraph 52 today.

• 1010

I will entertain a question on government warrants.

[Translation]

Mr. Neveu: I have been able to study all these sections and it seems to me that it was rather difficult to determine in what way urgent expenditures are analysed, that is to say, in what way the Committee or Parliament may be adequately informed of the expenditures made. I was wondering what controlling bodies existing within these services are given additional credits to face urgent situations. I would like some information concerning this, because I am a new member of the Committee. I am interested in these questions and I would like to have some explanations.

[English]

The Chairman: Mr. Neveu, very briefly—and I am sure Mr. Henderson can add to it—starting at the beginning, estimates are arrived at by department heads, generally starting in the fall of the year. They are then scrutinized by the head of the department. From there they go to Treasury Board who study them further to make sure that they are asking for amounts within their proper categories. From there they go to Cabinet. Cabinet approves the estimates. The book of

estimates is then published and presented to the House, generally in January. As you know, they are then called for discussion under the Supply motions and are debated in the House, or referred to committee for study.

I will ask Mr. Henderson to carry on from there about the audit.

Mr. A. M. Henderson (Auditor General of Canada): Mr. Neveu, it might be helpful if you look at the blue book of Estimates which the government has tabled.

As you know, when the government asks for supply it is usually for a percentage to carry them over a given period. If, when Parliament dissolves, and no supply has been voted the only recourse is to go to the Governor General with these special warrants. The government then prepares them and invites the Governor General to approve.

Our Financial Administration Act is very specific about this in Section 28, the text of which, on Governor General's warrants, is given to you at the beginning of this paragraph.

• 1015

As we discussed last Tuesday, it has been more or less the practice, and it is quite reasonable for the executive of the government, the Treasury Board, when they want money for the next 30 days—it is usually a month—to take approximately one-twelfth of what is in the estimates in the blue book. I am over-simplifying this. However, the expenditures that they take to the Governor General must conform to section 28. In other words, they must be urgent expenditures. The wording is: only expenditures payment of which is "urgently required for the public good".

We discussed this matter at such length in the Committee as recently as a couple of years ago that the Treasury Board this time, as I say at the top of page 18, took particular trouble to instruct all departments to make abundantly sure that their expenditures were in accordance with section 28 and gave them guidelines for determining it. However, notwithstanding the best intention in the world, a lot of payments still got through; the urgency of which, in my opinion, was open to question. I give examples of these.

You are completely right when you say that the criteria of what is urgently required are difficult to define were the Secretary of the Treasury Board present I am sure he would support that completely, because they have

had a great deal of trouble in determining this.

The Chairman: We covered this the other day, Mr. Neveu. We are going to have Treasury Board here to discuss this matter. At that time you will have an opportunity for further review.

Mr. Winch?

Mr. Winch: Mr. Chairman, I wish to ask Mr. Henderson a question about paragraph 61.

I believe a very important matter is raised here. Mr. Henderson tells us of something which I can only conclude amounts to misappropriation of funds. He states that two employees believed to have been concerned with the handling of funds left the service shortly afterwards, and the Department was unable to trace them. He then states that the Department had Treasury Board authority to make certain payments, which I believe concern what I call misappropriation of funds. I think the entire picture presented in paragraph 61 is most unfortunate. I would like to hear from Mr. Henderson what the exact situation was; whether it actually did concern misappropriation of funds; whether, as Auditor, he found that any endeavour had been made to trace those who were responsible; and whether a criminal charge was involved?

The Chairman: Mr. Henderson.

Mr. Henderson: Mr. Winch, this was primarily a question of establishing the facts. In the course of our work, when my officers have occasion to go abroad, they can include visits to some of our foreign posts; we do so and make an on-the-spot investigation. This was the result of just such a visit. It was found that there were...

Mr. Winch: Would you mind telling us where this was? You do not mention that.

Mr. Henderson: We do not usually mention the location of posts or the names of individuals, Mr. Winch. If the Committee wish the information I naturally give it, but I follow the practice of omitting it unless there is some compelling reason.

The Chairman: I do not think it would be advisable to ask for names in this instance, but I can see no harm in knowing the post.

Mr. Winch: I would like to know the name of the post.

Mr. Henderson: The location of the post?

Mr. Winch: Yes.

Mr. Henderson: It was the Canadian embassy in Belgrade, Yugoslavia. In this particular case it came to the attention of my officer on the job that there were large bills owing to a transportation company in Belgrade for the moving of personnel back and forth. The transportation company was pressing for payment, claiming that it had never been paid. The embassy records indicated that it had been paid some years previously but they were still after the money.

• 1020

Mr. Winch: Mr. Henderson, may I interject to ask how it was that the embassy records showed that it had been paid, and yet the Treasury Board issued a further payment.

Mr. Henderson: I am going to ask Mr. Stokes to check my recollection of this. I am speaking from recollection and our report, but could you just describe the precise...

The Chairman: Mr. Stokes, if you will speak into one of the microphones, please.

Mr. A. B. Stokes (Audit Director, Auditor General's Office): The accounts of the transportation company had been submitted for payment. The procedure in Belgrade was such that it required cash payment, because cash was provided. As far as the Treasury office was concerned, indications were that the accounts had been paid but the receipts which generally are obtained from the transportation company were not available. Because the Treasury and the department were unable to provide receipts issued by the transportation company, the transportation company said the accounts had not been paid.

Mr. Winch: Mr. Stokes, may I ask a question. On the audit did you find that the Government of Canada had actually paid twice, although the transportation company did not receive both payments?

Mr. Stokes: No. Payment subsequently took place after Treasury Board approved that payment be made to the transportation company.

Mr. Winch: Did you find in your audit that money in payment of the account had previously been paid to the Belgrade office?

Mr. Stokes: Payments are made through the Belgrade office, and the evidence was that the Belgrade office had expended the money but there is no positive evidence that the money was paid to the transportation company.

Mr. Winch: May I ask, Mr. Stokes in view of what we find in No. 61 on page 30, what investigation was made to find out what happened? Am I correct in believing from this report that somebody stole the money?

Mr. Stokes: I think there was evidence that...

Mr. Winch: Did somebody steal money in the Belgrade office?

Mr. Stokes: I cannot...

The Chairman: Mr. Winch, will you let Mr. Henderson interject?

Mr. Henderson: May I answer that? Mr. Stokes' comments have refreshed my memory. The money could not be accounted for. The embassy records showed that the transportation company had been paid and the transportation company said they had not. The matter was reported back to headquarters because there was every indication that the officials who had been at the embassy at the time, which was two or three years previous, were no longer there. The next move was to check the headquarters files to ascertain what further information might be elicited.

At that time the Department felt that the pressure from the transportation company was very important that Canada should pay its bills, and they were inclined to move ahead. However, I told them that I thought every effort should be made to locate the two officials. In point of fact, one of them was no longer in the service of Canada; he left shortly after this account was allegedly paid. I think it took about two years to find out where the people were, and they were subsequently interviewed.

• 1025

I then made a further suggestion, in response to the proposed action by the Department, that the Mounted police should undertake the questioning. That was a matter of protocol between the Department of Justice and the Mounted police, which I recall

also took more time. In any event, it is stated here:

The two who were questioned have denied that they had anything to do with the financial records of the embassy at the time of the transactions.

So, that was all explored. Their statements were taken and in the opinion of the Department and the Department of Justice—and I presume the Royal Canadian Mounted Police—no recourse could be had. Accordingly, the Department put the proposition to the Treasury Board and authority was given to pay the transportation company the money.

Mr. Winch: Yes. One more...

The Chairman: Just one more question and then we must move on to another questioner. All right, Mr. Winch.

Mr. Winch: Mr. Henderson, as an auditor would you say there was a misappropriation of funds at an embassy? What is your suggestion, in order to have an audit of all embassies?

Mr. Henderson: In my opinion there was a misappropriation of funds, but we were unable to prove who did it and therefore no charges could be laid. Consequently, the account presumably ended up by being paid twice.

Mr. Winch: What is your recommendation?

Mr. Henderson: Since 1964 my recommendation to this Department has been that it appoint its own internal auditor to make surprise audits of posts abroad. In April of 1966 the Department secured Treasury Board approval for this position but it was not until last August, a year and a half later, that the post was filled. The progress in putting this chap to work has been very slow. I am told he visited four posts last October and November, although no written reports of the results are available. He is currently seconded to a team serving management consultants engaged to survey the Department's financial administration.

Our experience at the posts we audited—there are not very many but this is one that we discussed this morning—shows how important it is that they be visited on some planned or regular schedule by at least one auditor, and preferably by an internal auditor. We will continue to do the best we can to assist, but naturally it has to be part of our regular

schedule. In my view it would be economically questionable to send a man to Belgrade just to make one audit. He should do ten or twelve audits and three or four other jobs.

Mr. Winch: Do you think one auditor can visit all embassies abroad and do the internal auditing?

Mr. Henderson: He can carry out a constructive test on a cyclinal basis which would be sufficient to satisfy us. I think the Department is planning to provide him with an assistant or two, which would be useful.

The Chairman: Mr. Noël, Mr. McLean and then Mr. Bigg. Mr. Noël?

[Translation]

Mr. Noël: I am satisfied with the explanations given to us by Mr. Henderson. Now, what would be of greater satisfaction to me, would be to know when an amount is large enough for it to call for our attention. If it is not very large, would it be necessary for us to maintain a system to supervise all the Embassies?

[English]

The Chairman: Mr. Stokes?

Mr. Winch: Yes...

The Chairman: Wait a minute, Mr. Winch. Mr. Noël has asked a question and Mr. Stokes is going to answer it.

Mr. Stokes: It was about \$3,000.

The Chairman: Any further questions, Mr. Noël?

Mr. Henderson: May I answer Mr. Noël's point about the setting up of the system? Of course that is something I have taken into account because potential losses like this are widely spread. I have had several discussions on this matter with the Under-Secretary of State for External Affairs, and he and I are both convinced it is worthwhile because of the importance of test checks for the protection of our people who, for the most part, are glad to have somebody come in, just as a branch bank is glad to have somebody come in. Because the Department sends around inspection teams to look into the personal history of the people in the embassies, their manner of handling the policy side, and so forth, it does not seem unreasonable that there should be somebody to at least check the books.

[Translation]

Mr. Noël: I believe you are absolutely right, Mr. Henderson. The gentlemen whom we usually send to an embassy are people competent in human relations but they are not necessarily accountants or financiers. It is then appropriate to keep a close watch on them and to have, as you say, a specialized personnel which understands these people and knows of possible leaks. In fact, \$3,000 at the embassy in Belgrade is perhaps much more than \$3,000 in other embassies. I agree with Mr. Winch. The principle must be established. Is that not right, Mr. Winch? Should we not establish the principle that they must be watched more closely because they are far away?

The further away they are, the more they must be watched. The less expert they are in financial matters, the more they need to be guided.

• 1030

[English]

The Chairman: Thank you, Mr. Noël.

Mr. McLean (Charlotte): Were the people who were engaged natives or Canadians?

Mr. Stokes: Two of them were; I believe two of them were Canadians.

Mr. Henderson: Two were Canadians to my distinct recollection, Mr. McLean. We could check this precisely.

Mr. McLean (Charlotte): Were they Canadians or were they natives of Bulgaria?

Mr. Henderson: Oh, no. The two that I speak of here who were questioned were Canadians.

Mr. Stokes: That is right.

Mr. McLean (Charlotte): It could not be proven whether the defalcation was by the transportation company or by the embassy?

Mr. Henderson: That was one of our first approaches, naturally, but the transportation company has been handling this type of business for the embassy for a great many years and the Department seemed to feel that it was the former employees that should be questioned.

Mr. McLean (Charlotte): It would have been possible...

Mr. Henderson: Oh, quite. That is the unsatisfactory part of this sort of thing.

Mr. McLean (Charlotte): ... for someone in the transportation company to be responsible as well as in the embassy. Of course, I have always thought that auditing was hindsight; what about foresight? Why not have some system whereby the embassy would submit these so you could go in and check or they could send the reports in to you so that you would know? If you saw anything that you thought was out of the way you would pick it up and you would be there. Instead of sending somebody out on an errand that is going to cost a lot of money, why not have some system where they report in?

Mr. Henderson: The short answer to that Mr. McLean, is that that is the system. The vouchers and the cheques and the records are sent in to headquarters, and in this particular case the record shows that this transportation company had been paid.

Mr. McLean (Charlotte): How could it be when they had no receipts?

Mr. Henderson: Well, that was because of the peculiarity of the country; the dealing in cash and the practice of not taking receipts.

Mr. McLean (Charlotte): It seems to me that should be up to the embassy and up to the auditor.

Mr. Henderson: The money, apparently having reached the embassy to pay the bill, did not reach the transportation company. That was the obvious assumption.

Mr. McLean (Charlotte): Well, on the face of it, this cash business ...

The Chairman: Mr. Bigg?

Mr. Bigg: That was my point. I thought that where they are dealing in cash—I hope it is unusual to turn it into piles of paper money and then hand it to somebody—surely there there should be a very close and immediate check and a receipt of some kind obtained, or perhaps two people should go with the money so that there would be a witness that the money was handed over, or something like that. That seems to be the weakness and not the fact that three years later we cannot find it in an audit, or find a dead man or defectors who are Bulgarians.

Mr. Henderson: This is something our own auditors watch when they go in; that is, the demands for bills that are coming in. They search through the files to find out if people

are demanding payment and then establish that, in fact, they have not been paid.

Mr. Winch: I have just one question. Mr. Henderson, is my analysis correct that the federal treasury actually paid \$6,000 for a \$3,000 bill? Is that correct?

Mr. Henderson: That is correct, Mr. Winch. That is precisely the situation. I do not disagree with that.

• 1035

Mr. Flemming: My question to Mr. Henderson is, who makes the regulation by which we must pay in cash in the country where the embassy is located? Is it the transportation company? I think the people who pay the bill should have something to say about how they get the foreign exchange. I am impressed by Dr. McLean's remarks and I am sure you are anxious, Mr. Henderson, that regulations be established by which this would be impossible in the future.

Mr. Henderson: Mr. Flemming, in our experience the Department is quite punctilious about this, but nevertheless I am sure were they here as witnesses they would tell you that they also must adapt themselves in certain cases to the conditions they find, and it is just not the practice in this country to pay bills by cheque in the way we do here. It may be ...

An hon. Member: Or give receipts?

Mr. Henderson: ... being changed. In this case receipts were not being taken; we found that. They could have been obtained, I suppose, under certain circumstances but this is another reason why, in posts of this type, I think it is desirable that somebody stop by for a few days and go over the entire picture.

Mr. Winch: Do you recommend that all payments be made by cheque so that you have...

Mr. Henderson: Oh, positively. That is one of our standard practices but you have to adapt to the circumstances in some of these other areas.

Mr. Winch: Do you mean that they will not accept our cheques?

Mr. Henderson: Well, they just do not have a system whereby you can pay bills with cheques. It is a cash proposition, not only for us but for all countries. That happens to be the way of doing business, as it was explained to me. Is that not right, Mr. Stokes?

Mr. Stokes: That is right.

Mr. McLean (Charlotte): Mr. Chairman, we have a system that when accounts come into the auditor's office, as I understand they do come in, receipts should be attached, and that is the time to nail them.

An hon. Member: Or affidavits, or something like that.

Mr. Henderson: Well, the system broke down in this case, as has been explained. We are watching and working with the Department to see that these holes are plugged. You learn by experience and this is precisely what has happened.

The Chairman: Mr. Stafford has a question and then Mr. Forbes.

Mr. Stafford: What was being transported for this sum of approximately \$3,000?

Mr. Henderson: I think this was the furniture and effects of officers returning to Canada. It was for the transportation of our own officials.

Mr. Stafford: What would be the total budget of the embassy in Belgrade?

Mr. Henderson: We would have to look in the Public Accounts for that.

Mr. Stafford: What percentage of the total budget would this be?

The Chairman: Are there any further questions while they are looking it up?

Mr. Stafford: I just want to go into that for a minute to see whether any such misappropriation is obvious or would have been obvious. I want to ask you a question. You said a few minutes ago that the money could not be accounted for but the matter was reported back to the Department. I take it was reported back to the Department before you knew about it.

Mr. Henderson: It was reported back to the Department by my officers on completion of the audit visit.

Mr. Stafford: I take it that the Department is well aware of how these moneys are spent.

Mr. Henderson: Oh, completely.

Mr. Stafford: And it would be rather obvious in their limited budget. I take it there is strict control over the budget, is there not?

Mr. Henderson: Yes.

Mr. Stafford: Sooner or later a matter of \$3,000, unless the budget is rather enormous, would have come up anyway.

Mr. Henderson: The Department's records indicated the account was paid and that was the end of it.

During the last year, the expenditures were \$228,000.

Mr. Winch: Have you any report...

The Chairman: Just a minute, Mr. Winch, Mr. Stafford has the floor.

Mr. Stafford: I take it that when the money was asked for a second time, even though you had not found it, this would have come to the attention of the Department anyway, would it not?

Mr. Henderson: Oh, positively; it would undoubtedly have come to the attention of the Department because of the pressure from the transportation company. It happened that we had selected this place to visit because it tied in with a travel itinerary of my office at the time and we did the job. The transportation company is, I believe, well established in that part of the world, and naturally they were calling for their money.

• 1040

This Committee considered a not dissimilar call, Mr. Chairman, back in 1966 or 1965. This was a case at Canberra, where I believe the amount involved was \$12,000, and it happened by virtually the same method. The company finally got desperate and called for the money. In this particular case it had been paid.

Mr. Stafford: But would it not be rather difficult for these different missions, embassies, high commissioner's offices and trade commissioner's offices to have checks and balances to limit any such fraud as this if it did occur, and to stop it?

Mr. Henderson: Extremely so, although in our experience they are very conscientious and a number of heads of missions have said to me on occasion, as has the Under-Secretary in Ottawa, that they welcome a visit from someone to make a quick spot check like this. That is why it is felt if one man does a certain group of them it is better than nothing.

The Chairman: Are you finished, Mr. Stafford?

Mr. Stafford: I have just one more question. If the Department of Justice or the RCMP had found any theft, would you have any reason to believe that charges would not have been laid? They usually lay charges if they can be proved, do they not?

If the Department of Justice or the RCMP had proof beyond reasonable doubt, they probably would have been convicted?

Mr. Henderson: The matter was explored about as far as it could be explored before the recommendation was made to the Treasury Board that the account should be paid.

Mr. Stafford: But is it not a little more difficult for the RCMP to investigate a case in a communist country such as Yugoslavia than it would be here in Canada?

Mr. Henderson: They interviewed these people who, you must remember had been in our employ. I think one of them was working some place in the United States, and that is where he was interviewed. They did not interview people in Yugoslavia; these people were Canadians.

Mr. Stafford: So they had nothing to go on but the statements of the individuals?

Mr. Henderson: Precisely.

Mr. Stafford: It is always a little more difficult in cases like that, is it not? It is obvious.

The Chairman: We now have Mr....

Mr. Winch: Mr. Chairman, may I ask my last question?

The Chairman: Mr. Winch, there are a few people ahead of you and I must take the names in order. There is Mr. Forbes, Mr. Lefebvre and then Mr. Winch.

Mr. Forbes: I have just one short question. Is it customary in these countries for people to deal absolutely on their honour, without issuing cheques or receipts or do they have any detailed system of accounting for the money?

Mr. Henderson: Mr. Long might have something to say on that.

Mr. G. R. Long (Assistant Auditor General): Mr. Forbes, as Mr. Henderson mentioned, you have to do business the way it is done in these countries. There are countries where you cannot get a receipt. If you want something, you pay cash and you do not get a receipt. That was not the case here because a

receipt could have been obtained from this transportation company. There were signatures on the invoice which were thought by our people to be an acknowledgment of payment. The transportation company said they were only a certification of the correctness of the invoice. We had what we thought was a receipt, but we were too easy in accepting that.

Mr. Forbes: I think when we are doing business with these foreign countries they should at least meet us part way with our system, because our employees do not appear to be as honest as theirs.

Mr. Long: You are dealing with individuals and if you want a man in that country to do something, he is just not interested in doing it unless you pay him the way he wants to be paid. That did not apply in this case because a government corporation was involved. This money could have been taken by one of their employees; it could have been taken by one of our employees; it could have been fifty-fifty. Or, they may have been paid and credited it to the wrong place; they may have made an honest mistake.

Mr. Lefebvre: This is just what I wanted to bring up, Mr. Long. In this statement the onus is on our employees. Are we satisfied that the employees of the transportation company are more honest than our own? How do we know, as you stated, that it was not taken by the employees of this transportation company? If this were transacted in cash, one of their own employees might have done it or, as Mr. Bigg said it could have been fifty-fifty. We still do not know, but in the statement the onus is on our employees.

• 1045

Mr. Long: Mr. Lefebvre, the main reason we do not know and could not find out is that it took so long for this to come to light. If our employees had seen to it that they had a proper receipt there would not have been any problem. Our employees in the embassy should have known long before this came to light that these bills, according to the company, in fact were not paid. If this had come to light before our three employees left the embassy and before everybody's memory had become dim it probably could have been settled who got the money, but too much time elapsed before it came to light.

Mr. Lefebvre: Yes, but the question in my mind is that we are not sure if our employees are more dishonest than the transportation company's employees.

Mr. Long: No.

Mr. Lefebvre: But this statement leaves the impression that we do not doubt the transportation company employees, only our own, which I think is the wrong impression.

The Chairman: Thank you, Mr. Lefebvre. Mr. Winch and then Mr. McLean.

Mr. Winch: Mr. Chairman, there is one final question I would like to ask. I understand, Mr. Henderson, because of your staff limitations you can only make a spot check of our embassies abroad. In view of the fact that a few years ago it came to our attention that a major defalcation or theft occurred in one embassy, and now some four or five years later this case has come to light because of your spot check, the evidence can only be that there has been defalcation or theft. The principle is then very important. Do you have any specific recommendations to make—as Auditor General you can now only make a spot check—so that there will be greater internal control in our embassies of the money which is allocated to them?

The Chairman: Mr. Winch, we will ask Mr. Henderson to summarize this when the questions are finished. I am sure he will have some observations and suggestions to make.

Mr. McLean (Charlotte): I was a little confused about the employees. Do you mean the employees of the embassy or the employees of the Auditor General?

Mr. Henderson: The employees of the embassy.

Mr. McLean (Charlotte): You said when these receipts came in you thought they were all right. Do you mean the employees of the Auditor General's office or the employees of the embassy?

Mr. Henderson: Both the embassy and the Comptroller of the Treasury, who has the receipts in Ottawa.

Mr. McLean (Charlotte): I thought these accounts were audited in Canada. I thought they came from the embassy to be audited in Canada?

Mr. Long: The audit is a test audit, Mr. McLean, and these particular accounts...

Mr. McLean (Charlotte): But do these accounts not come from the embassy to the Auditor General in Canada?

Mr. Long: The Auditor General's audit is a test audit. He does not see all payments, and he did not see these at the time they came in.

Mr. McLean (Charlotte): Would it not be simple to recommend that the embassies do a little double entry bookkeeping?

Mr. Long: They do, there is nothing wrong...

Mr. McLean (Charlotte): I cannot see that they do. I cannot see how they can do double entry bookkeeping and have these cash payments and no receipts, and all this sort of thing. I think it is just sloppy.

Mr. Long: An invoice came in as having been paid. It had signatures on it which were accepted as acknowledgment of payment. It turned out these were not an acknowledgment of payment.

Mr. McLean (Charlotte): Who said it was paid? Did the bookkeeper at the embassy say it had been paid? Did the Ambassador say it had been paid?

Mr. Long: The embassy people and the Ambassador, who would have to take the responsibility, sent it in as a paid voucher and they were then reimbursed...

Mr. McLean (Charlotte): Then why did the Ambassador not make good if he said it was all right and the bill had been paid? If I were the head of a company and I verified a bill and said it had been paid when it had not, I would expect to pay it myself. It seems to me there was sloppy bookkeeping done there.

Mr. Henderson: No doubt there is room for improvement, and that is one of the reasons we feel...

Mr. McLean (Charlotte): I think there should be a recommendation that the embassy keep some books and keep them right.

Mr. Henderson: In my opinion the soundest recommendation, and one which I hope would commend itself to the Committee, is that...

Mr. McLean (Charlotte): You may go out and spot check again and get another one.

Mr. Tucker: Apparently, Mr. Chairman, there is not very much we can do about this now, but can we not take steps to prevent the recurrence of a similar situation?

The Chairman: Mr. Henderson is going to speak about that just as soon as Mr. Stafford

has asked a question. We will then ask Mr. Henderson to move on to the next subject.

Mr. Stafford, you may proceed.

• 1050

Mr. Stafford: I have two or three questions.

The Embassy officials did think they had a receipt; is that not correct?

Mr. Henderson: As Mr. Long explained, yes.

Mr. Stafford: And were all the other receipts that came in marked "paid"? Did you check those to see if this receipt was different?

Mr. Henderson: I take it we would do that Mr. Stokes?

Mr. Stafford: But did you do it? Was this receipt marked differently from the others?

Mr. Henderson: From the same company. I think one of the reasons for our picking Yugoslavia is because you had not included it in your headquarters work, as Mr. Long was saying.

Mr. Stokes: Our reason for selecting Belgrade was that the transportation company had submitted a statement claiming payment of these accounts.

Mr. Stafford: That was to be my next question. Therefore, your spot-check was only successful because the transportation company had asked for the second time for payment? I take it that whether you had made the spot-check or not the department would have been just as aware of the fact that this payment had been asked for?

Mr. Henderson: Oh, yes, I am sure they would have.

Mr. Stafford: So that this is really hindsight rather than foresight. Any checks on balances such as you have mentioned would not obviate any such dishonesty in the future?

Mr. Henderson: It would go a long way to curing it, if I may say so, if someone was going around and looking at the operation of the procedures, reconciling the bank accounts on the spot and doing the usual job that a travelling internal auditor customarily does.

Mr. Stafford: Relative to that, if, on the second request for payment, this account would be just as obvious to the department as

to any auditor what more could an auditor have done? You would not have found it anyway had not the transportation company again asked for payment, because you would not have known it was owing. What more can an auditor...

Mr. Henderson: I would hope that we might have discovered that an account such as this was owing, because one of our approaches is to look over the demands being made by their traditional suppliers, and this kind of thing. This is a fairly usual way of...

Mr. Stafford: You missed the point of my question. You would not have known had it not been for the second demand for payment. All I am saying is that when payment is requested a second time it is just as obvious to the department as it is to any auditor. I take it that an auditor could not do much more than could the department in such a case.

Mr. Long has already said that the system works all right and that proper books are kept. If that is so, then, in relation to Dr. McLean's point unless this account had been asked for the second time any spot-check afterward's would be no more successful done by an auditor than by the department.

Mr. Winch: Someone stole \$3,000.

An hon. Member: That is right.

Mr. Stafford: You claim someone stole it. On the other hand, you cannot say that unless you have evidence to prove that whoever did it is guilty beyond a reasonable doubt.

The Chairman: All right.

Mr. Winch: But we paid this \$3,000 account. Someone stole \$3,000.

Mr. Stafford: That is quite true; but how do you know...

The Chairman: All right, gentlemen; not across the table.

Mr. Stafford: The point I wanted to raise was that it could have been that the transportation company received it twice.

Mr. Henderson: That is correct.

Mr. Stafford: I wish to ask that question once again because I do not feel you have answered it. Could you say...

Mr. Henderson: We were sure...

Mr. Stafford: ...with certainty that this receipt, which you say the officials in the Embassy thought was marked "paid", was marked differently from the dozens of other receipts that had been brought into the office in Yugoslavia?

Mr. Henderson: It was disavowed, as I understand it, by the transportation company when they were faced with it. The obvious person to tax on this was the administrative officer who had been responsible at the time that the payment was allegedly made, but he was no longer there. In fact he had had two or three successors since.

Mr. Stafford: Was it so marked, though, that it resembled the markings on other receipts, and in a way that a person could make a reasonable mistake?

Mr. Henderson: I understand that it was marked in a way that could have been interpreted as a receipt.

Mr. Stafford: That is what I am getting at.

Mr. Henderson: The transportation company disavowed it for the reasons that Mr. Long gave.

My point is that a visitation by an internal auditor and a short report on the operations surely give better assurance that things are going along satisfactorily than to have nothing at all.

• 1055

Mr. Stafford: And they have it now? I take it they have set up an internal audit?

Mr. Henderson: I am hoping that we will get to work.

The Chairman: Mr. Henderson, have you completed your recommendations about foreign embassies? Have you any others for the Committee?

Mr. Henderson: There are two final points at the end of the note on page 31. As you see, the posts are required to submit estimates for the ensuing year, but they are not told whether these estimates have been approved, nor do they receive back any figures of their expenditures; so that they are more or less in the dark. This is a complaint that we have received in making the rounds. The department is giving consideration to the feasibility of this first suggestion. I have nothing other than that to report.

On the second, we have been concerned about the poor quality of the records surrounding their carrying of certain stocks of merchandise such as liquor and tobacco, and so on, which comes in bond. I think it was last year the department put out a circular in which they quoted what we had been saying to them in our reports. Proper records have been set up to serve, they hope, to ensure that that privilege is not abused. That is a substantial item in the operations of embassies.

Mr. McLean (Charlotte): Would you define "abuse".

Mr. Henderson: Selling on the black market; getting personal funds mixed up with public funds; and that type of thing. If one does not keep records one can use the funds of a particular operation perhaps to pay bills under another heading that the Treasury would not pay, and so it goes. That would be my short answer to your question.

Mr. McLean (Charlotte): Yes. I was just thinking of liquor and tobacco coming in duty-free and being resold.

Mr. Henderson: That, of course, is what I meant by "black market."

The Chairman: All right. I will allow one more question.

Mr. Schreyer, you may proceed.

Mr. Schreyer: Mr. Chairman, Mr. McLean raised a rather intriguing point. As I understood it, if the senior administrative officer in the embassy had accepted as a receipt, a paper with some signatures which later turned out not to be genuine, Mr. McLean contended that personal liability should be assumed by the senior administrative officer. Is this a principle that is clearly understood? What is the practice in a situation like this?

Mr. Henderson: That question, if I may say so, should be addressed to the under secretary of the department. I am not sufficiently familiar with the practice.

The Chairman: That is fair enough. It is rather a question of policy.

Now, gentlemen, we have had a good discussion on this...

Mr. Bigg: Is this not one reason for government employees being bonded?

The Chairman: ...very, very important matter that you brought up, Mr. Winch.

Mr. Winch: May I raise something...

The Chairman: Yes; but before we leave this I think we should summarize the discussion, which has been a good one. It is time we made a review, as we did this morning.

We might keep in mind when we make our report, first, that the audit systems and the records of our foreign embassies leave much to be desired. I think we have come to that conclusion this morning. Secondly, that the implementation of our former recommendation has taken too long; that is, that there should be an audit of all these foreign offices.

Some hon. Members: Hear, hear.

The Chairman: There was also the suggestion by Mr. Noël that when teams do visit these embassies one member of them should be an auditor qualified to look into their operations. And, thirdly, that we wish our Auditor General to keep this Committee informed on what progress has been made in this matter. The estimate for our embassies was approximately \$25 million. So we are dealing with a large amount of money which, rightfully, should be audited and audited well. We have been dealing with a very, very important subject this morning, and the hour has been well spent. Now we will move on to the next one.

• 1100

Mr. Winch: Mr. Chairman, you asked us at the last meeting to do our homework.

The Chairman: That is correct, and you did.

Mr. Winch: Mr. Chairman, you gave us from paragraph 48 to paragraph 70.

The Chairman: That is correct.

Mr. Winch: I have a question on paragraph 70. I believe that here again a most important principle is involved. I am particularly concerned with the statement of Mr. Henderson in support, in which he states in the second to the last paragraph on page 37 the following:

...Neither the revenue nor the expenditure was recorded by the Department.

I think that the Public Accounts Committee is most concerned when the Auditor General tells us, as he tells us now, that neither revenue nor expenditure was recorded by the department. I would like very much to hear from Mr. Henderson on this matter.

Mr. Henderson: Mr. Chairman, this example here in paragraph 70 clearly shows you how Parliamentary control of expenditure is one of the Committee's basic responsibilities and one of my own.

I am very happy in this case to depart from the usual procedure by telling Mr. Winch that since this note appeared the Department has agreed with our opinion and has put things right. This naturally was the subject of discussion between the Department and ourselves and they have accepted our argument on this.

Mr. Winch: I am very happy to hear that. Are there any other departments where there is no record of expenditure and revenue, or is this the only department?

Mr. Henderson: This point is so important that if there were I would hope that it would be the subject of a paragraph in one of my reports. I think there are one or two cases, and perhaps Mr. Long could recall them.

Mr. Winch: This is most important. I am very happy that this one has been cleared up.

Mr. Long: There are only isolated cases which come up from time to time like this. We had one in several years ago, and any one we see we would report. You cannot say as a general rule that departments intentionally do this, but there are cases that do come up from time to time.

Mr. Winch: Are there any now?

Mr. Long: None that we know of.

The Chairman: All right. Are there any other questions in that group?

Mr. Schreyer: Mr. Chairman, there are just two relatively minor ones. In paragraph 53 we are told that a non-productive payment of \$38,000 was owing, by agreement, to a firm of consulting engineers but that in the end a non-productive payment was made of twice that amount, \$77,000. Is that basically the point you are making in this item Mr. Henderson?

Mr. Henderson: Not quite, Mr. Schreyer, but I can give you some later information on this note which gives the situation a happier ending.

Mr. Schreyer: Well, I was just going to ask about that. Since there has been reconsideration and the decision is to proceed now with the construction of this grain elevator, will

these plans be used after all and will all payments be productive.

• 1105

Mr. Henderson: That is my point. Last March, just a year ago, they entered into a further contract with the same consultant at an estimated cost of \$150,000 against which the \$73,000 of the previous payment is going to be applied. In May of last year, 10 months ago, a contract was entered into for the construction of the elevator extension at a fixed price of \$2,496,000, and that figure is approximately \$400,000 less than the previous low tender. Not all these stories have a happy ending but that is one I am pleased to report, Mr. Chairman.

Mr. Schreyer: Then I refer you to paragraph 67 in which we are told about the National Harbours Board making an error in its commitment to store feed grain for a certain firm and the end result of the cost to the treasury was over \$100,000 to store 400,000 bushels of feed grain. This seems almost incredible because feed grain is relatively low value. Who owns this particular elevator at Quebec City where this grain had to be diverted and which charged \$100,000, and who made the billing?

Mr. Henderson: I will look up our background material on that because I do not happen to have it at hand. The amount is \$43,978, Mr. Schreyer.

Mr. Leblanc (Laurier): There is quite a difference between \$100,000 and \$44,000.

Mr. Henderson: It is a \$43,978 payment. You see, the vote was \$58,400 and the bill paid was \$43,978.

Mr. Schreyer: Well that lessens the magnitude of the error made here but still...

The Chairman: What was your question?

Mr. Forbes: It is one-thirtieth of a cent per bushel per day for storage so figure it up and you will know whether you are right or wrong.

Mr. Winch: How many days?

Mr. Forbes: Does it not tell you there how long?

Mr. Schreyer: I would like to know to whom this \$43,000 was paid.

Mr. Henderson: On May 20, 1967, \$12,500 was paid to the Maple Leaf Mills Limited, on

the same day \$23,176.12 was paid to the Maritime Co-operative Services Limited and on June 4, \$8,302.51 also was paid to Maritime Co-operative Services Limited.

The Chairman: I take it there are two owners of these grain-storage facilities.

Mr. Henderson: Presumably.

The Chairman: Is there anything further, Mr. Schreyer.

Mr. Schreyer: It is still a little confusing to me. Two private grain companies came into possession of 400,000 bushels of feed grain. They then contacted the National Harbours Board to arrange for storage. The National Harbours Board advised them that storage would be available. Just before the grain was loaded the National Harbours Board advised them there was no space available after all. Presumably, because National Harbours Board was in default on an agreement, the grain was diverted to a private elevator for storage but the Department of Forestry was charged with the cost of storage. Is this essentially what happened?

Mr. Muir (Lisgar): They would charge the cost of demurrage for 10 days at Quebec City.

The Chairman: Mr. Schreyer, I think your question is why did they proceed to load the grain when they knew there was no place to put it in Quebec City?

Mr. Schreyer: Yes, and then charge it to—

Mr. Henderson: The only effective way to answer your question, Mr. Schreyer, would be to get the invoices. Could you give us a few minutes on that and then we will come back to it with whatever information we have?

The Chairman: All right.

• 1110

Mr. Lefebvre: We should try to find out what happened between the time the National Harbours Board said they would have space and two days before it was loaded, when they did not have space. What were the reasons? Was there a strike in Halifax, did they receive more grain than they had contracted for or what was the reason? There may have been reasons of which we are not aware.

Mr. Forbes: May I ask when there is a difference in storage, would the rate be the same whether it is stored in a private elevator or in a National Harbours Board elevator?

Mr. Lefebvre: Apparently the National Harbours Board is the one responsible for this \$43,000 overpayment. But why was there no space in Halifax at this time?

An hon. Member: Probably a contract...

Mr. Lefebvre: We do not know. It does not say why there was no space.

Mr. Henderson: Perhaps the following information might be of some help to the Committee. From my working papers it appears that on July 24, 1964, the Minister of Forestry announced an interim feed grain policy. The rates to the Maritimes were based on movement by water. On August 8, 1964, the two parties involved, Maritime Co-operative Services Limited and Mable Leaf Mills Limited, signed a deed of sale calling for the delivery of 400,000 bushels of feed grain c.i.f. Halifax. Purchases to fulfil the contract were effected on the Exchange over the period of August 10 to 15 approximately.

On August 12, 1964, the National Harbours Board advised Maritime Co-operative Services Limited that their request of July 27, 1964, for a space allocation of 800,000 bushels had been granted.

Mr. Winch: On what date did they say it had been granted?

Mr. Henderson: August 12, 1964. By the middle of August of 1964 representations had been made by farmers, the co-operatives and companies with respect to the likely storage space at Halifax. This was confirmed by an exchange of information with the National Harbours Board.

Mr. Winch: What was the date of that?

Mr. Henderson: Mid-August. On August 28, 1964, there was a change in the freight assistance policy which resurrected the winter freight rates for Nova Scotia. From August 22 onward the problem of storage shortages arose at the National Harbours Board. On October 1, 1964, the Maritime agent of Toronto Elevators Limited was advised by telephone by National Harbours Board that the Halifax elevator was filled to capacity and that no other adequate storage facility existed in Halifax for the 400,000 bushels that was coming.

On October 3, 1964, the cargo of 400,000 bushels of grain was loaded because Maple Leaf Mills Limited—that is, Toronto Elevators Limited—felt bound to its shipping con-

tract and also had to respect the shipowner's schedule of contracts. On following days the *S.S. Wheat King* proceeded down the St. Lawrence towards Halifax to unload her cargo, while there was absolutely no space available at the elevator. The boat could not even be used temporarily for storage because of a tight contractual schedule.

On or about the 7th of October the two companies which were involved appealed to the government to find a way out. Canadian The Wheat Board disclaimed responsibility for making room, and as a consequence the National Harbours Board was unable to act and assist in settling the issue. The *S.S. Wheat King* was approaching Trois Rivières and no storage solution had yet been found. On October 9, 1964, in order to minimize costs and after conversations between the minister responsible for the Canadian Wheat Board and the minister responsible for the Feed Grain Administration, the *S.S. Wheat King* was diverted by Maple Leaf Mills Limited to Quebec City.

On that date the grain was still sitting in a Quebec elevator. Neither of the two companies was ready to make a move until the government had taken a positive or negative stand on its participation in the extra costs incurred. That is a running account of the circumstance.

Mr. Schreyer: And the wheat remained in the elevator at Quebec for four months?

Mr. Henderson: The charges had to be paid and the item appeared in the Supplementary Estimates. I think it was included in the Forestry vote as a separate items.

The Chairman: The National Harbours Board is the agency which is principally involved in this case.

• 1115

Mr. Winch: There is a very important question of principle here which I would like to ask Mr. Henderson about. I did not get the exact dates but I believe from what you read, Mr. Henderson, the National Harbours Board by agreement accepted the storage of 400,000 bushels and then the Canadian Wheat Board later disclaimed any responsibility. How do you tie those two together?

Mr. Muir (Lisgar): The Canadian Wheat Board did not enter into this at all because it was privately owned grain.

Mr. Henderson: Apparently there was an appeal to the government to find a way out. At that point the Canadian Wheat Board were consulted, but they said it was not their responsibility to make room. Consequently, the National Harbours Board was unable to act or to assist in settling this issue.

The Chairman: Why did the National Harbours Board allow this ship to be loaded when they knew there was no storage? This is the question.

Mr. Henderson: That is a question which should be addressed to the representatives of the National Harbours Board, Mr. Chairman. I do not think I am competent to answer it.

Mr. Lefebvre: Mr. Chairman, I do not think they had anything to do with the loading of the ship; as you stated, this was a decision of the company. The National Harbours Board told them they had no room, but the company went ahead and loaded their ship anyway.

The Chairman: No, I do not...

Mr. Winch: The National Harbours Board said they did have room and they would take 400,000 bushels.

Mr. Lefebvre: Two days before they said they had no room but the mill company said, "we are loading the ship anyway" Mr. Henderson just finished reading that.

The Chairman: We will just check this.

Mr. Long: That is right, Mr. Chairman. The National Harbours Board had set aside space and then they cancelled it. However, the companies felt they had proceeded so far on that advice that they could not stop.

Mr. Schreyer: They had contractual obligations to meet.

Mr. Henderson: The ship was there and presumably it had to make this run.

The Chairman: Mr. Muir, you had a question and then Mr. Bigg.

Mr. Muir (Lisgar): I was just going to say that in any case the National Harbours Board would have been responsible for the cost of the ship going down empty because the company had already contracted for that particular date on the advice of the National Harbours Board.

Mr. Bigg: I just think it is one of those errors which is very costly in the end. If it was a mistake, it could have been a typo-

graphical error, perhaps a dropping off of the word "not" in a telegram. They thought they had space which they did not have. I do not want to be the devil's advocate but surely, as Mr. Muir said, once the company was hired to move the wheat the government might well have had to pick up the tab for an empty boat which would have been greater than \$43,000. Also, they did not want the wheat at the Lakehead, and they had space down east because they stored it for four or five months somewhere along the St. Lawrence River, which may or may not have cost us more.

Mr. Lefebvre: Mr. Chairman, I think we should pass this up for now and question the National Harbours Board and other witnesses when they appear before us. There are questions that cannot be answered now.

Mr. Henderson: It would be better if they were present to give you the background on this.

Mr. Lefebvre: Yes. Why were the elevators filled when they were supposed to have room for 400,000 bushels?

The Chairman: All right, we will proceed.

Mr. Stafford: The claims were not received by the companies by March 31, 1965, so the 1964-65 funds could not be used anyway. Is that not correct?

The Chairman: Could you please repeat your question, Mr. Stafford?

Mr. Stafford: I said the claims were not received by these companies by March 31, 1965, so the 1964-65 funds could not be used.

Mr. Henderson: The settlement was not made until 1965-1966, and that is why the vote appears in that year.

Mr. Stafford: The original claims were reduced by lengthy negotiations, were they not?

Mr. Henderson: It would appear so. The vote was for \$58,000 and the claims were settled for \$44,000, so without checking out the figures exactly I think that is a reasonable assumption.

Mr. Stafford: Do you know of any improvements in administrative procedure which would prevent such a thing happening again?

Mr. Henderson: No, not on the basis of these facts, but after hearing the witness

from the National Harbours Board I may be able to determine that, Mr. Stafford. I would want to know more before I could speak to that.

Mr. Stafford: On the basis of the present facts there would not be any?

Mr. Henderson: I would not think so.

[Translation]

Mr. Leblanc (Laurier): Mr. Chairman, in my opinion, we have perhaps adopted an unfortunate habit of asking the Auditor General certain questions about which he knows nothing. He cannot know all the reasons. He presents us with certain facts which he has obtained, and often we try to obtain information from him which he cannot give because he does not have it. Only the people actually concerned could supply the information which, in many cases, we need.

• 1120

Do we know whether items 37 and 11 provoked long discussions upon what had happened when the presentation was made to the House by the Department? Did we obtain information concerning the case which we are presently studying?

[English]

The Chairman: Mr. Leblanc, I think your point is well taken. I doubt very much that there was anything in the estimates to tell the members of the House what this particular amount was for; at least there was no discussion in the House. I do not have the vote in front of me, but I doubt whether there are any particulars beside it to indicate what it was for. I think it brings up the point that this Committee has been talking about; estimates should have notations for our benefit.

Mr. Leblanc (Laurier): Mr. Chairman, I see here that Vote 11 is described as follows:

Payment in respect of extra costs resulting from unloading the *S.S. Wheat King* at Quebec while en route to deliver grain at Halifax.

This is clear enough. Now I am just asking what the members did at the time that came up in the House of Commons?

The Chairman: There was no discussions in the House.

Mr. Leblanc (Laurier): Thank you.

Mr. Henderson: We checked that Mr. Leblanc; there was no discussion.

The Chairman: Mr. Forbes?

Mr. Forbes: Mr. Chairman, most of these agricultural and forestry estimates are taken up by the Agriculture Committee and I recall a little discussion. I do not want to put in on the record because I might be wrong, but it had to do with the storage of corn in the United States; if had a priority over Canadian feed grains. So that is why there was no...

Mr. Leblanc (Laurier): That was a tabled item, I suppose.

Mr. Forbes: Yes. The Committee was satisfied that they had done the best they could under the circumstances.

The Chairman: Thank you, Mr. Forbes. That reminds us that the estimates of the Department of Agriculture did go to the Standing Committee on Agriculture. I had forgotten about that. Mr. Long?

Mr. Long: Mr. Lefebvre, one explanation for the National Harbours Board's having to change its mind was that the feed grain production in Nova Scotia turned out to be more than had been expected and the elevator felt required to accept this as it came in.

Mr. Lefebvre: As local producers. We may find this is an item that sounds very odd, but on further investigation we might find it was nobody's fault. Everything went too well that year.

The Chairman: All right, we will proceed to the next group of questions. We have 35 minutes left. Mr. Dionne, Mr. McLean and Mr. Southam. Any questions in particular down to number 91. Mr. Southam?

Mr. Southam: Mr. Chairman, this is under section 71, living allowances to federally-appointed judges. This seems to be a perennial problem and in looking over this item I note that despite recommendations of this Committee the government continues to pay federally-appointed judges acting as arbitrators and conciliators *per diem* rates of living allowances up to \$100 a day. I can recall our discussing an item back in 1964 when there was just one case, but according to the 1966 Report we have 15 cases and this still, in my estimation, is contrary to subsection 1 of section 39 of the Judges Act.

The Chairman: Mr. Southam, Mr. Henderson has a quick answer for you on this.

Mr. Southam: I was going to ask what is the situation today and what are the amounts involved?

Mr. Stafford: The amendments to the Judges Act will tell you that.

Mr. Henderson: This, of course, is one of the penalties of dealing with a report that is now two years old or three years old in terms of what was going along. The Judges Act was amended as Mr. Stafford just mentioned. Mr. Driedger, the Deputy Minister, appeared before this Committee as a witness in 1966 and that is probably what you are recalling.

• 1125

The Judges Act was amended to make it clear that judges may not receive extra remuneration from nonjudicial services and the practice of paying living allowances, therefore, has been discontinued. Actual travel expenses are now paid. This was the point that the members of the Committee raised with which Mr. Driedger agreed and the necessary change has been made, so this is a recommendation of the Committee that has been implemented.

The Chairman: Mr. Muir?

Mr. Muir (Lisgar): I wonder whether we could include section 103 which is somewhat similar to that and get them both done at the same time?

The Chairman: Section 103, living allowances to members of the National Research Council.

Mr. Muir (Lisgar): It is a similar situation.

Mr. Henderson: Precisely, Mr. Muir. In this particular case, so far as the National Research Council is concerned, the Order in Council mentioned here dated June, 1965, was cancelled on January 4, 1968, when Order in Council 1968 9/2 was passed to provide that members of the National Research Council would in future receive only their actual expenses. So, we have solved that one. However, I understand that the \$75 a day still is being paid to the members of the Medical Research Council. They were not included under this Order in Council.

Mr. Winch: Why not?

Mr. Henderson: Do you know why, Mr. Long?

Mr. Long: The prohibition was against members of the National Research Council receiving additional remuneration. The \$75 a day, the Committee has agreed, would include additional remuneration. The National Research Council has strong arguments that a man of this calibre should receive a proper *per diem* rate when he is contributing his time.

Mr. Winch: They are not actually members of the National Research Council.

Mr. Long: No. The Medical Research Council is something that is very close to it, but they were not mentioned; it was only members of the National Research Council that were mentioned in the statute.

The Chairman: We have a difference here; judges and National Research Council people are treated alike, but the medical people are in a different category.

Mr. Long: The reason it came up, Mr. Chairman, is that in both cases the Act forbade any additional remuneration. There are many people that receive *per diem* allowances in quite considerable amounts, but there is no prohibition.

The Chairman: Mr. Winch?

Mr. Winch: A member of Medical Research Council is not, shall we say, a federal civil employee nor employed at all.

Mr. Long: He is not employed at all.

Mr. Winch: Is he advisory?

Mr. Long: He would not be considered an employee at all.

Mr. Winch: So they are recompensing him for being away from his practice. Is that the reason for it?

Mr. Long: I believe so.

The Chairman: Mr. Bigg?

Mr. Bigg: In line with our other recommendations, if that is what it is for something should be done about paying a doctor \$50 a day or \$100 a day or whatever it is for being away from his practice and then we can keep our bookkeeping straight in principle, just to know what we are paying him for. I do not think it is good to do in the back door what we will not do in the front door.

Mr. Stafford: You said, Mr. Henderson, that is done on many other occasions too.

Mr. Henderson: Yes. We raise these cases only where there is a prohibition in the legislation as there was in these two cases.

Mr. Stafford: But there are dozens of cases is what I meant; directors of the CBC, and all sorts. . .

Mr. Henderson: Then he is not to get any remuneration and where the *per diem* allowance appears to include an element of remuneration we have asked the question.

The Chairman: All right, proceed. Mr. Dionne, do you have any question in that group? Mr. Southam, do you have any more? Mr. Winch?

Mr. Winch: I am not on that section, but I should like to ask Mr. Henderson about no. 100.

The Chairman: You are just one jump ahead of us, Mr. Winch.

Mr. Winch: Am I? I am sorry.

The Chairman: Mr. Southam, we will get back to your question.

Mr. Southam: Federal losses from bankruptcies.

The Chairman: What number is that?

Mr. Southam: That is no. 72, Mr. Chairman. Could the Auditor General give us an idea of what this would amount to in total?

The report reads:

We pointed out that no amount had yet been established to indicate the extent to which federal revenue had been lost as a result of bankruptcy irregularities.

Has this figure been established yet?

• 1130

Mr. Henderson: I would like to invite the members to reconsider this request. In your Twelfth Report to the House in February of 1967 you, of course, asked that these figures be obtained. Just to refresh your memory, it is perfectly true that the Mercier Commission estimated on July 30, 1965, that the Province of Quebec had lost approximately \$5.5 million in provincial revenue. When that fact became known and after looking into this situation, I stated in my report that no attempt had been made by the federal authorities to assess or estimate how much federal revenue had been lost on the federal scene. You may recall that the Superintendent of Bankruptcy appeared

as a witness before the Committee in 1966 and explained why no determination could be made at the federal level. Notwithstanding this, the Committee felt that some effort should be made.

All of this was two or three years ago, and it seems to me that an attempt to fix such a figure at this point in time might well not be justified in terms of the cost involved. Frankly, we have looked into this and we do not know how we could go about it. I am therefore suggesting, Mr. Southam, that it might be advisable for the Committee to withdraw this particular item from its previous reports. It is on the record as one of the requests in the Twelfth Report, but what you are really after—as I recollect it, and several members of the Committee also will—is a companion figure at the federal level to the Mercier figure of \$5.5 million in July of 1965. A tremendous amount of work would be entailed in this and I do not know just how we would get it.

The Chairman: All right.

Mr. Henderson: Does that commend itself to you? That is the story of this case.

Mr. Southam: I agree that if it is beyond your responsibility and duty, we should not impose it on you.

Mr. Henderson: I think the Executive would have to be asked to compile it. We would work with them, but it would entail substantial work on the part of a lot of people and I do not know just what we would have when we were finished. There is no doubt that revenue was lost, but to determine a figure is...

Mr. Bigg: How could it be lost? Could you just summarize where we failed to pick up federal revenue in this regard?

Mr. Henderson: As a result of these bankruptcies income taxes were not collected and sales taxes were not paid. I have the exact wording of the Mercier Commission, which I thought was rather good on this point, if Mr. Long can find it. It led them to pinpoint a figure of \$5.5 million in their report. How they arrived at that figure I do not know, but obviously the Crown loses in a bankruptcy, and I suppose everybody else does as well.

Mr. Bigg: Are we failing to make our claim on the bankrupt assets? Is it something with respect to that? Are we failing to act as an

agent of the Crown in order to get this money?

Mr. Henderson: I am not suggesting there is anything dilatory about the departments' efforts to collect it. As you know from your study of the income tax situation, even after people have gone bankrupt, they keep close tabs to see that they are in there as preferred creditors, and that sort of thing. You are after a figure, but the report of this particular Commission estimated that the province lost approximately \$5.5 million in revenue during the period as a result of bankruptcies, and they stated:

Fraud and dishonesty in one way or another penetrated deeply into a large portion of bankruptcies and liquidations.

That was the report of the Mercier Commission on the situation at that time, and consequently it was logical to wonder, if Quebec lost \$5.5 million, what the federal government lost. It is a matter of computing that figure. This occurred over three years ago.

Mr. Bigg: Is this still going on? Are these bankruptcies still occurring and is the federal government...

Mr. Henderson: No, since that time the Superintendent of Bankruptcy, as you may recall from his testimony here, has become much more active and my general impression is that the situation has improved as far as administration is concerned. I will not offer an opinion on how much it has improved as far as protecting businesses from going bankrupt is concerned.

• 1135

[Translation]

Mr. Leblanc (Laurier): Mr. Chairman, I think I would be inclined to retract the recommendations which we have made and which was, as the Auditor General mentions, based upon the Mercier Report. We can ask ourselves how exact the figure of five million quoted in the Mercier Report is, because obviously there is no proof which can justify this approximate figure of 5 million.

There is no doubt that the federal government should take on specialists in the field of corporation taxes, taxes on personal revenue, excise taxes, duty, etc. This could prove to be very costly and what could we achieve? Could we get this amount of money back? I do not believe that we could get this money

back in any way. In my opinion, the Committee should retract this recommendation.

[English]

The Chairman: Agreed.

Mr. Stafford: I have only a few questions. There has been considerable publicity in the newspapers when the Department of Justice and the Department of National Revenue on many occasions laid charges against corporations for failing to collect sales tax and in default of payment, because there were no funds, they laid charges against the directors. I know of cases, even after bankruptcy was filed where jail sentences have been served by directors for failure to pay this tax. Can you think of anything else the department could do to collect these taxes when there is no money available in the corporation or in the bank accounts of the directors?

The Chairman: Mr. Stafford, I think we are getting into the business of the Committee on Privileges and Elections here.

Mr. Stafford: No, I just said, Mr. Chairman, that this received wide publicity on the front pages of the newspapers. I have only two or three questions, but I must say that I am going to insist as much as I can that a question like this be answered. My whole point is that the division of responsibility in this area includes criminal law enforcement, which is in the hands of the provinces. Could you tell this Committee how the federal government could do any more than they have already done. As I said, the criticism in the newspapers is what irritated me. There were rather unfounded comments on this particular occasion. As a former criminal lawyer I took great exception to certain of these charges and I have defended people, as I said before, even on second occasions when charges were laid against directors who obviously had nothing. It made me feel even worse when I saw them spending, let us say, 30 days in jail even after they had filed bankruptcy papers. Considering this and the fact that criminal law enforcement is in the hands of the provinces, can you think of any reason this comment was made in the first place? What could the federal government or anyone else do other than what has already been done?

Mr. Henderson: Mr. Stafford, there was an inquiry on the part of the members of the Committee—if the Mercier Commission estimated \$5.5 million of lost revenue in the Province of Quebec—with respect to how

much was lost on the federal scene by the federal government in terms of taxes and what not that it was unable to collect. Three years later this figure has still not been ascertained and I simply inquire if it is worth the time, effort and money to go get such a figure? As Mr. Leblanc has so ably explained—he also questions it, as I think several of the members of the Committee do—this is three years late.

Mr. Stafford: Whether it is three years late or not is not the point. Can you think of anything the federal government could have done to collect any of this money other than what they have done? Do you not think the procedure...

Mr. Henderson: I am not questioning the methods they followed in going after their debts. As far as the average citizen is concerned—bankruptcy or not—generally speaking their methods are quite effective, but you cannot get blood out of a stone.

The Chairman: This matter can be discussed when we come to that section which deals with uncollected income tax.

• 1140

Mr. Henderson: Precisely. That is right where it is.

The Chairman: Mr. Winch, have you finished?

Mr. Winch: I want to ask a question on No. 91, if I may.

The Chairman: Before we lead this group down to No. 91, every time I see the cost of terminating leases I pick up my glasses and read it again. We always seem to have these perennials with us. No. 89 is the cost of terminating a lease in Toronto. I think we should ask for an explanation of it. No. 89.

Mr. Henderson:

89. *Cost of terminating lease Toronto, Ont.* Following the Government's decision to reorganize the Reserve Forces, certain units were absorbed or disbanded and leases on a number of buildings were terminated, in some cases considerably in advance of their expiry date. One of these covered premises in Toronto which the Department of National Defence had leased for ten years from May 1, 1957 to April 30, 1967 at an annual rental of \$135,000. This building was vacated on March 31, 1965.

In January 1965 departmental officials met with the landlord to discuss termination of the lease but no agreement was reached. On February 26, 1965 the landlord advised the Department by letter that he was negotiating with a tenant to take over the whole of the premises and requested the right for ninety days from the date of his letter to terminate the lease upon thirty days notice. However, as negotiations were being conducted through the Department of Public Works for occupancy of the building by the RCMP, the Department did not agree to this request until April 9, 1965.

In addition to negotiating with the Department of Public Works in an effort to find a tenant, the Department held discussions with two realtors during which the cost of their services and difficulties that would be encountered in efforts to sublet were considered.

During further negotiations with the landlord in September 1965 several proposals were discussed, one of which was that the Department give the landlord authority to arrange a sublease of all or part of the property and to provide him with a cash incentive that he could pass on to any sublessee. He suggested that 50% of the rent due him for any space sublet would be sufficient for this purpose. However, as he might only be able to lease portions of the building, the Department felt that such an arrangement would be most cumbersome to administer since it would continue to be responsible for the cost of heating, utilities, maintenance and janitorial services and the rent on the unleased portions. The proposal was not accepted.

The Department finally agreed to recommend to the Treasury Board settlement for a lump sum payment of 75% of the amount due for the balance of the lease and the cost that the Department would be faced with in heating, utilities and caring for the property during the remainder of the lease. It was arranged that the lease would be terminated effective October 1, 1965, on payment of \$175,313 in lease termination charges based on 75% of the rental and estimated lighting, heating and other costs for the period October 1, 1965 to April 30, 1967. This payment together with the \$67,500 rent paid for the period April 1, 1965, to September 30, 1965, when the Department was attempting to find other

lessees, brings to \$242,813 the amount for which no benefit was received.

It has come to our attention that shortly after the landlord received this settlement from the Department of National Defence in October 1965, he leased the same premises to the Board of Education of the City of Toronto for five years commencing January 1, 1966 at an annual rental of \$108,000. We understand that the building was taken over by the Board of Education in November 1965.

Since the premises are being used as an adult training centre, which qualifies for federal assistance under the Technical and Vocational Training Agreement between the Federal Government and the Province of Ontario, the Federal Government, through the Department of Manpower and Immigration, will be reimbursing 75% of the centre's operating costs which will include the rent and the cost of extensive renovations.

Here the Department of National Defence paid over \$242,000 in lease termination and related charges for which no benefit was received. The building in question had been vacated March 31, 1965. The lease, which had almost two years to go, was finally terminated on October 1, 1965. These dates are important to recall.

It had proved impossible for the Department of National Defence, even with the assistance of the landlord, to locate anyone who would take it over until May 1967, its expiry. The landlord did offer to accept 50 per cent of the rent due at one stage, but this was not negotiated further as the arrangement was apparently considered administratively impractical. However, the audit office noted that shortly after receiving this settlement on October 1, 1965—that is to say the settlement of \$242,000—the Toronto landlord leased the same premises to the Board of Education of the City of Toronto and they moved in the following month, November 1965, within 30 days of the landlord's being paid off to this extent. The Board of Education of the City of Toronto took a five-year lease not to begin until January 1, 1966, at an annual rental of \$108,000. That interested us, and more so when we found that as the premises were being used as an adult training centre, the Board of Education qualified for assistance under the federal Technical and Vocational Training Assistance Act. Hence the federal government is reimbursing 75 per cent of the centre's operating costs to the Toronto Board of Education, including the

rent and the cost of extensive renovations of the very same premises on which the federal government had already paid termination charges of over \$242,000.

The Chairman: Well, there is a lot of room for questions there, gentlemen.

Mr. Winch: There sure is. What is the answer?

Mr. Bigg: I think the answer is interdepartmental exchange of knowledge when they are looking for rental facilities for the federal government. Surely the Department of Labour, which looks after the vocational training agreements, could do a little checking with the Department of National Defence.

The Chairman: Are you saying there is a lack of communication between departments?

Mr. Bigg: Yes; particularly when items are so obviously closely related there should be some liaison.

Mr. Muir (Lisgar): Does the Department of Public Works not negotiate for these premises for all departments?

Mr. Henderson: National Defence was doing this one itself. The point that interested me in looking into this case was how active the Department of National Defence had been in locating a tenant, a subtenant. They had the right to sublease; and this is quite a large building on College Street—College and Bathurst, I think.

The Chairman: I think Mr. Muir's question is a good one. Does the Department of Public Works look after accommodation for all departments normally?

Mr. Henderson: They were consulted here, as the train of events shows, and they certainly sought to render what assistance they could. But I suppose, in terms of other federal government requirements at the time, there was no demand for this particular building. The record shows that the Department of National Defence had a lot of discussions with the representative of the landlord in Toronto, who was trying to be helpful. The landlord actually made a suggestion of various courses which might be followed, one of which was that he would be agreeable to accepting 50 per cent of the rent for the balance of the term.

• 1145

Mr. Winch: Did you find out why they did not accept the offer of 50 per cent?

Mr. Henderson: I am quoting from a memorandum on it now. This suggestion was put forward, the Department said, as a basis for a discussion. It did not necessarily mean that the suggestion would be acceptable, it says, either to the lessor or to the Department. The 50 per cent offer was purely tentative but was later discarded by the landlord's representative and myself as being impractical. The conditions of the offer—that is the 50 per cent offer—involved giving him authority to lease the building in whole or in part as he chose, but the Department of National Defence would be responsible for the payment of the full rent on that part not leased. This would involve much administrative difficulty and might in the long run create problems for both the lessor and the Department if the Department considered he was not lending every effort to have the building leased.

Mr. Winch: May I ask the Auditor this question. The fifth paragraph on page 52 on this shows they paid \$175,313, which was 75 per cent of the rental. One month after—I think I am right—they gave way, it was rented. Is there any evidence at all that they endeavoured to get any money back?

Mr. Henderson: No, I think nothing was secured back; I think I am right on that. We actually have a number of questions about this, Mr. Chairman, but these are the facts of the situation.

Mr. Winch: A wonderful patronage grant for a certain landlord.

Mr. Stafford: No, you have made a settlement for less than the whole amount; how would you get it back?

The Chairman: Mr. Stafford, you have a question here now.

Mr. Stafford: The lease was terminated, as I understand it, on September 30, 1965; was it not, Mr. Henderson? And that is when final settlement with the landlord was made of approximately 75 per cent. Have I got that right so far?

Mr. Henderson: Yes, it is in the fifth paragraph.

Mr. Stafford: Now I take it from what you say that at that particular time possibilities were rather remote of renting the building because it had been vacant for six months and possibly the landlord, the Department of

National Defence and the Department of Public Works had been unable to find tenants. Is that correct?

Mr. Henderson: They had been unable to locate any tenants. They had worked through the spring and the summer on it and talked it all over with the landlord, who had come to Ottawa, as this file indicates, and...

Mr. Winch: Mr. Chairman, can I...

Mr. Stafford: Just a minute; I do not think you understand what is happening here.

And is it not correct that at that particular time, when possibilities for renting looked so remote, it was up to the departments at that particular time either to keep on renting it for the remainder of the term, or to make a deal or a settlement with the landlord? That is naturally the only...

Mr. Henderson: I do not question that at all.

Mr. Stafford: No, it is natural. And when they made the deal of a final settlement of 75 per cent, that settlement would naturally mean under such terms, since they were not going to keep the lease for the full rent for the rest of the term, that a final release would be given and the deal closed. Is that correct?

Now, as the new leasing arrangements were made directly between the Board of Education of the City of Toronto and the building owner, there is no reason to suspect that any department knew this was going to happen at the time, is there?

The Chairman: Just a minute.

Mr. Stafford: There is no reason to suspect that the Department ever realized that such leasing arrangements would be made.

Mr. Henderson: It was brought to my attention that this building had got a new occupant...

Mr. Stafford: Yes, but at the particular time.

Mr. Henderson: Well, in the month of November.

Mr. Stafford: Yes, but at the particular time of the settlement, my question was. There is no reason to believe that the Department realized...

Mr. Henderson: No, I think that is right.

Mr. Stafford: Is it not correct that the Department of Manpower and Immigration was not involved in these negotiations between the Board of Education of the City of Toronto and the building owner?

Mr. Henderson: Oh, I would not expect them to be involved in it at all; they just administer that particular program.

Mr. Stafford: Yes; then they were made aware of the rental of the building by the provincial authorities after the building had been taken over by the Toronto Board of Education. I want to make it clear, Mr. Henderson, that when this termination date was arrived at Mr. Winch cannot seem to understand that there were two possibilities open to the government, either to keep the lease and pay for the rental until the lease was up or try to make a cheaper deal of 75 per cent. Is it not obviously correct, Mr. Henderson, that if a deal of 75 per cent was made the money would be paid to the landlord, otherwise the government would have been stuck for the whole 100 per cent. They could not find a tenant and naturally the landlord had control of the premises and was entitled to do whatever he wanted to with it. Is there anything difficult about that and is it in any way different from any negotiation carried on every day across Canada?

Mr. Henderson: With the combination of events, I saw at once that this landlord would be collecting what is virtually double rent on the property.

Mr. Stafford: Yes, but not when a sale was made. How can we make comments on a matter of strict law in this Committee or in any other? This is all I want to know.

The Chairman: Just a minute. We will have Mr. Winch and then Mr. Bigg.

Mr. Winch: It is darn funny that they can negotiate for five months, that the landlord does not know anything and cannot get a tenant, but within 30 days after he gets \$173,000 from the federal treasury he can rent. You are not suspicious? Well, I am.

Mr. Stafford: Is it not correct, Mr. Henderson, that it takes more than suspicion to put forward any constructive defences and things like that?

The Chairman: Mr. Bigg is next in a supplementary.

Mr. Bigg: I would like to know whether or not this 10 year rental contract had any release clause in it, so far as the federal government was concerned and, if so, why it was not brought in. According to my figures, in the final deal they got \$242,000 which left a net savings to the federal government, if they completed the rent, of \$28,000. I wonder if that is the standard type of contract the federal government uses when renting buildings. It seems to me that if we knew we were going to be vacating two years short of the expiry date, or within a month or two, that we would not be expected to pay 100 per cent of the rent or anything near that. Now if we went blindly into this contract and said that we would pay them \$135,000 a year for 10 years, then we are stuck with it. I would think that when we do not know how long we are going to need a building, and this often is the case in respect of defence, there should be an escape clause for us as well as for the other person.

The Chairman: Mr. Bigg, what is your question?

Mr. Bigg: What were the terms of release, if any, when the federal government entered this contract?

Mr. Henderson: I intend to ask Mr. Douglas because he is looking up the record on this particular contract.

The Chairman: While they are looking that up, Mr. Leblanc, did you have a question?

Mr. Stafford: I wanted to point out a correction to Mr. Bigg's question. He mentioned a savings of \$28,000. If they saved 25 per cent, that would be \$80,000.

Mr. Bigg: Just correcting you, Mr. Stafford. It says here 75 per cent plus the cost of heating, utilities and so on, which I presume...

Mr. Stafford: It is 18 months, not a year.

The Chairman: One at a time, please.

Mr. Bigg: ...is for 18 months, and as I add it up, the total cost to the federal government was \$242,800 instead of \$270,000 which would be their normal rent. That, of course, does not include heating, which would be on top of that again.

The Chairman: All right, Mr. Leblanc. There seems to be agreement.

Mr. Leblanc: According to my figures, the lease would have been carried out again for 41 months, which would have amounted to \$461,250. We finally came to an agreement of some sort for \$242,813, which I personally, think is very good. But what strikes me is that on May 1, 1957, the same landlord rented to the Department of National Defence a building for \$135,000, then on January 1, 1966, when everything had increased, including rents, he turns around and rents it for \$108,000. That strikes me very strange. I do not know what happened between May 1, 1957 and January 1, 1966, which resulted in the rent being decreased by \$27,000 a year, when everyone knows very well that rents have increased everywhere.

• 1155

Mr. Stafford: Then would you not say that the Department of Manpower got a good deal when they paid their portion?

Mr. Leblanc: I do not want to infer anything, but it seems strange to me.

Mr. Muir (Lisgar): Why was the Department of National Defence renting it in the first place when I understand that Public Works is the agency that is supposed to be doing this for the government?

The Chairman: There is a question which should be answered.

Mr. Henderson: I think this had something to do with the reserve forces. Public Works does not take specialized buildings of this type and the record shows that the Department of National Defence moved in direct on May 1, 1957 and took it for 10 years.

In answer to the question that Mr. Bigg had, the agreement was for a term certain of 10 years from April 2, 1957 with an option to renew for a further 10-year term at the same rental, the Department of National Defence being responsible for the costs of heating and charges of public utilities.

Mr. Bigg: And no escape clause?

Mr. Henderson: And there was no escape clause at all in the event their plans changed.

Mr. Muir (Lisgar): The reason I asked my question is that this is not the first time that this has come to our attention. We have dealt with this sort of thing over the years, where leases on buildings have been terminated because a particular department was through

with them and yet other departments—I think the last one we had was in Halifax—right alongside were looking for a building at the same time. If this thing is going to be cleared up ever, I think one department should be looking after it and they should be knowledgeable enough to know the needs of other departments before terminating leases.

The Chairman: You are suggesting, Mr. Muir, that no federal government buildings be rented until they have been cleared through a co-ordinating office...

Mr. Muir (Lisgar): Exactly.

The Chairman: ... and everything should be funnelled through this office.

Mr. Bigg: The point I am trying to get at is this. The federal government is being asked here by a poor little company to help them out when they get into difficulty. This contract is too one-sided and I would suggest that when we enter into such contracts we tie up some of the loose ends. We are morally bound to pay something in this regard when we have a lease certain for 10 years, but surely we could protect ourselves to the extent that when we do get out we are not going to have to pay the full shot.

Mr. Winch: Why should a landlord collect a double rent?

Mr. Stafford: He did not collect a double rent.

Mr. Henderson, whether or not you have a release clause is it not correct that any lease depends on the original deal between the landlord and the person taking out the lease, and that it is obvious in most cases where those release clauses are not there you take the lease for so long. Is that not right?

Mr. Henderson: That is right, as I understand it.

Mr. Bigg: Suppose we got out after one year and there were still nine years to go.

Mr. Stafford: Well if you made a contract it is either up to you to release the place...

Mr. Bigg: I know that. I am a lawyer as well.

Mr. Stafford: Well then you had better start looking at your law books.

Mr. Bigg: I am a graduate of Toronto, by the way...

The Chairman: Order, order.

Mr. Bigg: ... and I know that if you get into a bad contract you are stuck with it, and the point I am trying to make is that we should protect ourselves before the fact and not afterwards.

Mr. Stafford: How are you going to do it if the landlord will not go along with it? You had better start finding out about this before you say there are lots of things wrong with it.

Mr. Bigg: I am not here to have any kind of a debate with Mr. Stafford, I am here to try to protect the public purse.

An hon. Member: Hear, hear.

The Chairman: That is right. We are all here for that purpose. Mr. Long, you wanted to make an observation, and then we will adjourn.

Mr. Long: Mr. Muir mentioned the Department of Public Works. They do look after government buildings that are not specialized and this would qualify as a specialized building. However they were consulted in this case but they were unable to assist. Of course, this was not another department that leased the building.

• 1200

Mr. Bigg: Might I ask who the landlord was in this particular case?

The Chairman: Mr. Long said that Public Works were informed and I think the question to ask him is: Did Public Works know that the Department of Manpower was looking for a building.

Mr. Long: The Department of Manpower was not looking for a building.

The Chairman: The Toronto Board of Education.

Mr. Long: It was the City of Toronto that was looking.

Mr. Winch: I am sorry. The Department of Manpower paid 75 per cent of the rent?

The Chairman: We buy the education.

Mr. Stafford: It is up to the Board of Education to decide when the lease is taken out. You must know that.

Mr. Bigg: Who was the landlord in this case, Mr. Chairman.

Mr. Winch: I imagine he was in Florida on double rents!

The Chairman: Gentlemen, Mr. Bigg wishes to know who was the landlord of this building. I think it is within the jurisdiction of this Committee to have that information. We will ask the Auditor-General who it was.

Mr. Henderson: It was the Bradshaw Building at 507-517 College Street. I have the name of the landlord here.

Mr. Bigg: May I ask what type of a building it was. Was it a standard office building, or a warehouse type of building?

Mr. Henderson: Bradlease Limited, 12 Shepherd Street, Toronto, Mr. Alex Rubin, President, Bradlease Limited.

The Chairman: And was it a warehouse type of building?

Mr. Henderson: No; it is quite a prominent building that sits on the corner of College Street and Bathurst, I think.

Mr. Forbes: Is it an office type building?

Mr. Henderson: I cannot say that, Mr. Forbes. I have not been there. The lessor was Revenue Properties Company Limited. I gave you Bradlease Limited, but it says Revenue Properties Company Limited here.

The Chairman: Thank you, gentlemen. The meeting is adjourned.

OFFICIAL REPORT OF MINUTES
OF
PROCEEDINGS AND EVIDENCE

This edition contains the English deliberations and/or a translation into English of the French.

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ALISTAIR FRASER,
The Clerk of the House

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967-68

MINUTES OF PROCEEDINGS

Tuesday, March 19, 1968

The Standing Committee on Public Accounts met this day at 10.00 a.m. The Vice-Chairman, Mr. T. Lefebvre presided.

STANDING COMMITTEE

Members present: (Laurier), Lefebvre, McLean (Vice-Chairman), Muir (Deputy), Neveu, Noël, Schreyer, Southam, Stafford, (Minister of Revenue), Walker, Winch (16).

ON

PUBLIC ACCOUNTS

In attendance: Mr. G. R. Long, Assistant Auditor General; Mr. H. E. Hayes, Mr. D. A. Smith, Mr. J. D. Stokoe and Mr. J. G. Walker, Auditor General's office.

Chairman: Mr. A. D. HALES

The Committee considered the 1966 Report: Paragraphs 1.1 to 1.10.

The Auditor General's Report.

Discussion continued on the Report.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

TUESDAY, MARCH 19, 1968

Public Accounts, Volumes I, II and III (1966 and 1967)
Report of the Auditor General to the House of Commons (1966)

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; Mr. H. E. Hayes and Mr. D. A. Smith of the Auditor General's office.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1968

HOUSE OF COMMONS

Second Session—Twenty-seventh Parliament

1967-68

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Chairman: Mr. A. D. Hales

Vice-Chairman: Mr. T. Lefebvre

and

Mr. Ballard,	Mr. Leblanc (<i>Laurier</i>),	Mr. Southam,
Mr. Bigg,	Mr. McLean (<i>Charlotte</i>),	Mr. Stafford,
Mr. Dionne,	Mr. Morison,	Mr. Thomas (<i>Maison-</i>
Mr. Flemming,	Mr. Muir (<i>Lisgar</i>),	<i>neuve-Rosemont</i>),
Mr. Forbes,	Mr. Neveu,	Mr. Tucker,
Mr. Gendron,	Mr. Noble,	Mr. Walker,
Mr. Harkness,	Mr. Noël,	Mr. Winch—(24).
Mr. LeBlanc (<i>Rimouski</i>)	Mr. Schreyer,	

(Quorum 10)

J. H. Bennett,
Clerk of the Committee.

WITNESSES:

Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long,
Assistant Auditor General; Mr. H. E. Hayes and Mr. D. A. Smith
of the Auditor General's office.

MINUTES OF PROCEEDINGS

TUESDAY, March 19, 1968.

The Standing Committee on Public Accounts met this day at 10.08 a.m., the Vice-Chairman, Mr. T. Lefebvre presiding.

Members present: Messrs. Flemming, Forbes, LeBlanc (*Rimouski*), Leblanc (*Laurier*), Lefebvre, McLean (*Charlotte*), Morison, Muir (*Lisgar*), Neveu, Noël, Schreyer, Southam, Stafford, Thomas (*Maisonneuve-Rosemont*), Walker, Winch (16).

In attendance: Mr. A. M. Henderson, Auditor General of Canada; Mr. G. R. Long, Assistant Auditor General; and Messrs. Cross, Douglas, Hayes, Laroche, Smith, Stokes and Young of the Auditor General's office.

The Committee reviewed the following paragraphs in the Auditor General's 1966 Report: Paragraphs 92; 95; 96; 99; 100; 101; 102; 104; and 109.

The Auditor General and his associates were questioned.

Discussion continuing at 11.42 a.m. the Committee adjourned to the call of the Chair.

J. H. Bennett,
Clerk of the Committee.

On October 6, 1964 the contractor submitted a claim in the amount of \$11,000 covering the cost less a salvage allowance, of sand delivered at the construction site which had to be rejected because it was not up to specifications. The circumstances surrounding this claim were that supplies of satisfactory material had to be brought from Nova Scotia. With a view to conserving shipping space and avoiding construction delays, the contractor arranged for an independent contractor to provide material testing services at the source of supply. In the latter part of May 1964 tests of the material delivered at Summerside indicated that when subjected to certain loads accepted for design from Nova Scotia, did not meet specifications.

The contract specified that the contractor would be responsible for providing materials conforming to the specifications.

Mr. Bennett stated that he had reviewed the material in the report and was not sure why the contractor was not asked after contracts are entered into. It seems to me that a copy of the design that has led to the rejection of numerous projects that we have had to examine. Why is this procedure being carried out? The building or project design should be completed before a firm contract is entered into so that such problems could be avoided.

The Vice-Chairman (Mr. Lefebvre) stated that he had reviewed the material in the report and was not sure why the contractor was not asked after contracts are entered into. It seems to me that a copy of the design that has led to the rejection of numerous projects that we have had to examine. Why is this procedure being carried out? The building or project design should be completed before a firm contract is entered into so that such problems could be avoided.

Mr. Muir (Lisgar) stated that the Auditor General stated his concerns. I would like to say that after reading this paragraph it is apparent that the Defence Commission employees, to me it rather frankly, were certainly negligent in failing to notify the contractor that the first tests did not meet the specifications. I wonder why this was not allowed to happen.

Mr. Henderson: The short answer is this particular case. Mr. Muir is that in our view

EVIDENCE

(Recorded by Electronic Apparatus)

Tuesday, March 19, 1968

• 1007

The Vice-Chairman: Gentlemen, I see a quorum. Mr. Hales is not able to be with us this morning. He asked me to take over the meeting, which I am pleased to do. I ask for your patience and understanding.

We will continue today with the 1966 Report of the Auditor General, paragraphs 92 to 109, which were to be studied by Mr. Muir and Mr. Stafford. I now ask these gentlemen to begin with their comments on these paragraphs.

92. *Extra costs caused by material not up to specifications.* In October 1963 Defence Construction (1951) Limited entered into a contract for the reconstruction of parking aprons at RCAF Station Summerside, P.E.I., at an estimated cost of \$1,047,602, based mainly on firm unit prices and estimated quantities. Engineering and design changes including adjustments to the schedule of estimated quantities increased the cost by \$70,704 to \$1,118,306.

On October 6, 1964 the contractor submitted a claim in the amount of \$11,654 covering the cost, less a salvage allowance, of sand delivered at the construction site which had to be rejected because it was not up to specifications. The circumstances surrounding this claim were that supplies of satisfactory materials had to be brought from Nova Scotia. With a view to conserving shipping space and avoiding construction delays, the Crown arranged for an independent company to provide material testing services at the source of supply. In the latter part of May 1964 tests of the material stockpiled at Summerside indicated that some was unacceptable and investigation confirmed that certain loads accepted for shipment from Nova Scotia did not meet specifications.

The contract specified that the contractor would be responsible for providing materials conforming to the specifications.

However, in November 1963, at the pre-job meeting, the possibility of unsuitable material was discussed and it was decided that Defence Construction (1951) Limited would set up a testing laboratory at the pit to help ensure that no unsuitable material was shipped. In doing this and then failing to notify the contractor that the first 3,300 tons of concrete sand did not meet specifications, the Crown was considered to have some measure of responsibility for the extra costs involved. Accordingly, the Crown agreed to pay the contractor 50 per cent or \$5,827 of the extra costs. Taking into consideration a subsequent recovery of \$1,942 of this amount from the material testing company, the additional cost was \$3,885.

Mr. Muir (Lisgar): Due to an increased cost in the amount of \$70,704, I would just like to ask why in so many cases of this kind are engineering and design changes made after contracts are entered into? It seems to me this is one of the things that has added to the cost of numerous projects that we have had to examine. Why is this practice being carried on? The building or project design should be completed before a firm contract is entered into so extra costs could be avoided.

The Vice-Chairman: Perhaps Mr. Henderson, or one of his officials has some comments to make on his investigation into paragraph 92, which makes reference to "extra costs caused by material not up to specifications". It mentions "contract for the reconstruction of parking aprons at RCAF Station Summerside, P.E.I."

Mr. Muir (Lisgar): Before the Auditor General makes his comments I would like to say that after reading this paragraph it is apparent the Defence Construction employees, to put it rather mildly, were certainly negligent in failing to notify the contractor that the first 3,300 tons did not meet the specifications. I wonder why this was also allowed to happen.

Mr. Henderson: The short answer in this particular case, Mr. Muir, is that in our view

the situation was attributable to poor planning in the handling of this concrete sand.

• 1010

On the larger point you made—the continual recurrence of this type of thing—there are, as you know from your past discussions here in the Committee, quite a number of reasons for this. One is that many of the contractors seem to take the stand when they run over the contracted price, the estimated price, or however the first price was set, that the government is fair game so they come in with a long claim of extras and things that have to be done. The department then fights a rearguard action to endeavour to reduce that claim as much as they can, and they end up with a saw-off.

You know from the questioning of the president of Defence Construction (1951) Limited and the Deputy Minister of Public Works that took place in this Committee in 1966 why there are a different set of considerations in each case. We had a number of them and this Committee expressed the view—perhaps Mr. Long would check me on this—that they felt the government departments should be tougher. I think Mr. Lucien Lalonde, the Deputy Minister of Public Works, replied to this, and there was quite a useful discussion in the Committee on that point.

Each of these cases had their particular reasons, which of course are set out in the notes that you are considering. Perhaps you recall that particular discussion with Mr. Lalonde, the Deputy Minister of Public Works?

Mr. Southam: May I ask a supplementary to that, Mr. Chairman? I think Mr. Muir brought up a very valid point, but you mentioned that the department finds itself fighting a rearguard action at times. However, it says here that they set up a testing laboratory to test the sand according to the specifications laid down, and the department was negligent in not notifying the contractor that he did not meet these specifications. I think the responsibility here lies squarely on the shoulders of the department.

Mr. Henderson: That is quite true in this particular case but not in every case.

Mr. Southam: I think you are quite right of course in drawing this specific case to our attention because I would say it was just a case of plain negligence.

Mr. Henderson: You will encounter a number of similar cases here where the blame can be shared or it can be wholly attributed to one or other of the parties. In bringing these cases forward for attention we have sought to pin-point the responsibility involved because that is what causes the money to be paid—the claim to be met.

Mr. Forbes: It seems to me we discussed this case last year did we not?

Mr. Henderson: You have had some cases similar to this. You may be thinking of test borings, Mr. Forbes. That was something...

Mr. Forbes: I thought it was in connection with the construction of an airport?

Mr. Henderson: We have had cases similar to this in the past.

Mr. Forbes: But not this one?

Mr. Henderson: Oh no, this is one particularly peculiar to this year.

Mr. Forbes: Thank you.

Mr. McLean (Charlotte): I have been in the contracting business and I have been on the other end of it as well. I think as long as you have contracts and contractors you are going to have this sort of thing. I was in a building not long ago and, while it was a smaller amount, the extra claims ran about \$25,000. I think you have to expect this because you never can have anything perfect. You will always have these claims! The only thing to do, as far as I can see, is try to keep them down as low as possible.

Mr. Stafford: How much sand would this cover? How much sand was mistakenly approved by Defence Construction?

An hon. Member: Three thousand, three hundred tons.

Mr. Henderson: That was the first 3,300. You probably want the total.

Mr. Stafford: How much was mistakenly approved?

Mr. Henderson: Thirty-three hundred tons.

Mr. Stafford: Is it correct that this was not quite .35 per cent of the total contract value?

• 1015

Mr. Henderson: Just one minute, Mr. Stafford, we will have to check that.

Mr. Stafford: Approximately .35 per cent.

The Vice-Chairman: Do you have other questions, Mr. Stafford?

Mr. Stafford: They depend on this one. I just want to say...

Mr. Henderson: We are just checking that. Can you check that, Mr. Hayes?

Mr. Long: Is this your calculation, Mr. Stafford?

Mr. Stafford: Yes, as far as I...

Mr. Long: The facts here are correct.

Mr. Stafford: Am I correct in saying that this particular 3,300 tons of sand was only .35 per cent of the total contract value?

Mr. Henderson: There would be more than 3,300 tons of...

Mr. Stafford: You mean that was mistakenly approved by the project engineer for shipment?

Mr. Henderson: Do you have any more information on this account?

Mr. Stafford: Is it not correct that one third of this amount was absorbed by the testing companies, which left the remaining two thirds as...

Mr. Henderson: Yes, that would be right. The facts are right. The nonproductive or additional costs were \$3,800.

Mr. Stafford: I think the additional costs to the Crown then were about .35 per cent. Would you agree with that?

Mr. Henderson: If you have made the calculation I would agree with it.

Mr. Stafford: The contract was completed on schedule, was it not?

Mr. Henderson: Yes, so far as we know.

Mr. Stafford: So, if one were looking for perfection, while possibly it should not have happened, the mistake was merely part of the proceedings. I understand that had this mistake not been found when it was it could have seriously interfered with the operations of the RCAF in that particular area and caused much higher damages than it really did because it was found out so early. Do you agree with that?

Mr. Henderson: I think Mr. Long might have something to say on this, Mr. Chairman.

The Vice-Chairman: Mr. Long, please.

Mr. Long: Mr. Stafford, it is true this was corrected only after the poor sand was found in Prince Edward Island. The testing lab was set up to do a job and they did not do it. It seems to me that this is a case where you assume a responsibility when you try to be helpful. Defence Construction (1951) Limited were trying to be helpful in doing this, but then somebody failed to carry it through. Had they left it alone the Crown would have had no responsibility at all. The contractor who produced the sand would have been fully responsible for letting it go through.

Mr. Stafford: But then a far more serious situation would have developed. As I understand it, they found this out when only 20 railcars out of a total of about 3,100 were through. In other words, you are trying to say it would have been better to let the whole 3,100 cars go through and make a real mess of it; probably have the company go bankrupt and the Crown stuck for a fortune, rather than catching it after 20 railcars out of a total of 3,100 had gone through? Is that what you are trying to say?

Mr. Long: No. I said this sand was going to Prince Edward Island and was being tested over there. That is how it was found not to meet the specifications. They tested it before they used it, but it was supposed to have been tested before it was shipped.

Mr. McLean (Charlotte): May I ask a supplementary? Should it not have been tested before it went to the Island?

Mr. Long: This is what went wrong here. It was tested and found wrong, but nobody said anything about it.

Mr. Winch: Who was responsible for that?

The Vice-Chairman: Just a minute, Mr. Winch; there are two or three other people on the list. Mr. Stafford, you still have the floor.

Mr. Stafford: I would like you to answer Mr. McLean's question first which deals with the responsibility for the fact that it was not tested. Am I not right, Mr. McLean, that you asked, "Why was it not tested before it went over?"

Mr. McLean (Charlotte): They have to take it over on the ferry. I presume they could carry it over on the ferry to the Island.

Mr. Long: You will notice the wording in the third paragraph.

In November 1963, at the pre-job meeting, the possibility of unsuitable material was discussed and it was decided that Defence Construction (1951) Limited would set up a testing laboratory at the pit to help ensure that no unsuitable material was shipped.

• 1020

It seems to me that Defence Construction were trying to be helpful. They were trying to have double insurance, because normally this would be the responsibility of the contractors supplying the sand.

Mr. McLean (Charlotte): Is that a government lab or a commercial lab?

Mr. Long: The Defence Construction Limited set up a testing lab; this is a temporary lab at the pit, I would say.

Mr. McLean (Charlotte): It was a government lab, a departmental lab.

The Vice-Chairman: Mr. Stafford?

Mr. Stafford: So in other words, in setting up this lab at the pit, the Crown found then that they shared the responsibility?

Mr. Henderson: The contractor was apparently not notified by the Crown.

Mr. Stafford: And yet it was the contractor that had the contractual responsibility for providing material to conform to specifications. That is all.

The Vice-Chairman: A supplementary, Mr. Winch?

Mr. Winch: Well, mine is a supplementary in view of the statement I understood Mr. Long to make a moment ago, that it was tested and found wanting but those responsible were not notified. Was any investigation made of why the test was made, found wanting, and those responsible not notified?

The Vice-Chairman: In other words, the lack of communication between Defence Construction and the contractor?

Mr. Winch: How is it that at the pit it is investigated, it is studied and found wanting, and still allowed to go out? Was any investigation made by the Auditor's Branch of what happened there?

The Vice-Chairman: Do you have anything on that, Mr. Henderson?

Mr. Henderson: We are just checking this because we should be able to give an excerpt, I hope, from one of the regional letters.

The Vice-Chairman: I have Mr. Muir, Mr. Southam and then Mr. Winch.

Mr. Muir (Lisgar): I wanted to ask Mr. McLean a question. Did I understand you to say that it is usual for design and engineering changes to be made after a firm contract is let?

Mr. McLean (Charlotte): Yes. I have never had any experience with contracts unless there were some changes. On the contracting end I know we were asking for extras, this, that and the other thing. On the other hand when you are building the contractor is asking if you will shift something, you see. You see that it is not going to pay you in the long run; maybe it will cost you \$25,000 but it saves you \$75,000.

The Vice-Chairman: Mr. Southam?

Mr. Southam: Mr. Chairman, this effort is an endeavour to minimize the error that was made or the misconception so far as the checking of the sand and test materials are concerned but I feel, as the Auditor General has said, that we have many instances of this. This is not the first time; when we go through the Auditor General's report we find a number of instances.

The department's setting up a government testing laboratory on the site I think was good sense and I think that after taking up time in this Committee in studying these types of problems we should make recommendations to the department. Our function here is to try to eliminate this in future.

I suggest in cases of contracts having to do with construction materials; such as laying runways and so on where is the possibility of running into a recurrence of this situation, that we should insist when the contracts are drawn up that the government will provide a government testing laboratory in every case as they have done here, so that we will eliminate the possibility of these errors in the future.

Going back to the point that Mr. McLean made, there are many times when you have to re-study contracts part way through. I think something should be written into these contracts so that both the contractor and the Crown are protected to some extent. If you

did that, you would not be bringing instances like this to us. It is because nothing has been done to cover these glaring errors, or these mistakes, that they come before a committee, so it is our duty, I think, to try to set up some type of a working formula that will eliminate this.

The Vice-Chairman: Would you care to comment on this, Mr. Henderson?

Mr. Henderson: I think Mr. Southam's suggestion might well commend itself to the Committee. My thought would be that you are going to encounter quite a considerable number of cases like this, particularly in the non-productive category. As you will see on page 2 of your index sheet, when we hit paragraph 147, you have 26 cases there of non-productive payments, some with different causes, some alike.

• 1025

I think after these have been run through and you have dealt also with the 1967 report you will have some views about what contribution you feel the Committee could make toward assisting the departments, and it would be right there that you might take some of these examples and express yourselves on them.

It may be that you will come to the conclusion, as was discussed before, that in too many instances the tendency seems to be to give in to the contractor making the claim. I think in many respects the pressure exerted from the outside on the government is heavy. I think the problem faced by the departments in going over these claims is very formidable. I think it was the Deputy Minister of Public Works or perhaps the Deputy Minister of Transport who said how much he would welcome any views from the Committee which might strengthen his hand, and I think an expression from this Committee based on the experience of having just noted the ones that we are going to encounter through this session of the meeting of the Committee might be helpful. That is the way I feel, Mr. Chairman.

The Vice-Chairman: Thank you, Mr. Henderson. There are three more members who wish to express their opinions on this particular item so I ask them to be brief, so we can go through a few more of these paragraphs today.

I have Mr. Winch, Mr. Schreyer, Mr. Morrison and Mr. Walker. Mr. Winch, you asked a

question previously; perhaps we have an answer now.

Mr. Winch: As to why the breakdown of...

The Vice-Chairman: Yes.

Mr. Long: Mr. Winch, apparently we are not aware of any explanation having been given; communication broke down and the message did not get to the contractor. We have no explanation.

Mr. Winch: May I ask a supplementary? After the government inspection team at the pit declared it unsuitable, how did it get away in the hands of contractor? Have you any information on that?

Mr. Long: No.

The Vice-Chairman: Mr. Schreyer?

Mr. Schreyer: Mr. Chairman, like Mr. Stafford I do not consider this particular case to be all that significant but I do find it a little confusing. We are told on the one hand that under the terms of the contract the contractor was responsible for the materials meeting certain specifications. On the other hand we are told a few sentences later that Defence Construction set up a testing laboratory to help the construction firm.

We do not know whether this put Defence Construction under any legal obligation; I gather it did not. Then in the last line of paragraph 92 reference is made to a material testing company—a private company. Now, who was doing the actual testing at the pit site; Defence Construction or a private company? If it was a private company I take it this company was at fault in not communicating the results of the test to the contractor over on the Island. If there was any liability, it seems to me it should have been assumed entirely by the company and not by Defence Construction (1951) Limited.

Mr. Henderson: Mr. Chairman, I think we can clear up both of Mr. Schreyer's questions. I will ask Mr. Hayes to comment.

Mr. H. E. Hayes (Audit Director): Mr. Schreyer, it was a material testing company that was employed by Defence Construction (1951) Limited to do the work.

Mr. Schreyer: There was also a contract between those two bodies, no doubt.

Mr. Hayes: Yes.

Mr. Schreyer: Then the terms of the contract must have spelled something out with regard to the onus for communicating the results to someone and presumably the testing company did not live up to its terms of the contract.

• 1030

Mr. Henderson: Well, as it says here, the testing company themselves paid up \$1,942 to help reimburse the Crown, so they admitted some responsibility to that extent. The Crown was considered to have the major share of responsibility because one of its agents had in fact set up this testing lab at the pit. But the 3300 tons of sand got through, apparently the contractor was not aware of it and quite naturally he said, "Well, then they presumably are going to take the responsibility for the testing, so let them pay the bill."

Mr. Forbes: Is Defence Construction (1951) Limited a Crown corporation?

Mr. Henderson: It is a Crown corporation that does this type of work for the forces.

Mr. Schreyer: If the material testing company was set up at pit site to test the quality of the material, presumably the company had to put an O.K. on all of the quantities being shipped out and there must have been some ticket or slip arrangement. If not, how did this material get away from the pit?

Mr. Hayes: Mr. Chairman, perhaps I could give some information on that to Mr. Schreyer.

I am just quoting here an extract from one of the letters which says that "the procedure for the contractor" was "to check with Defence Construction, Limited prior to shipment" and Defence Construction" relied upon "the material testing firm "to inform them of any failure to meet the specification".

Mr. Schreyer: All right. Did the material testing company notify Defence Construction (1951) Limited that certain quantities were below standard?

Mr. Hayes: No.

Mr. Schreyer: They did not.

Mr. Hayes: No, not according to this, because this letter goes on to say:

After a prolonged and thorough investigation including the back checking of the test results, it is now apparent material which did not meet the specification was approved for shipment.

Mr. Schreyer: Who approved it?

Mr. Hayes: Well, this must have been the material testing company.

Mr. Winch: After having declared that it was not suitable.

Mr. Schreyer: No, no. They said it was suitable.

Mr. Hayes: They said it was suitable.

The Vice-Chairman: I think we will have to move on.

Mr. McLean (Charlotte): I just want to correct something.

The Vice-Chairman: Mr. Morison has been waiting for 20 minutes.

Mr. McLean (Charlotte): I want to correct something because I was told it was a government department. I asked if it was a commercial laboratory and I was told it was not. Now it was a commercial laboratory.

Mr. G. R. Long (Assistant Auditor General): Dr. McLean, Defence Construction (1951) Limited is a government Crown corporation.

Mr. McLean (Charlotte): I know but this was a commercial laboratory that was responsible for it.

Mr. Long: But they were working for Defence Construction (1951) Limited and, according to the note...

Mr. McLean (Charlotte): I was told it was a government affair. It was not, it was a commercial laboratory.

Mr. Henderson: The government took the premier responsibility for it but they went outside to hire the expertise of the testing company.

Mr. McLean (Charlotte): Yes, but the testing company made good the \$1,942 so they must have been responsible.

Mr. Henderson: They admitted responsibility...

Mr. McLean (Charlotte): It was not the government department that was responsible, it was the testing lab.

The Vice-Chairman: Mr. Morison?

Mr. Morrison: Your criticism is that the government was stuck with \$3,885 and you feel the testing company should have paid the

whole thing or there should have been a good reason why Defence Construction (1951) Limited ponied up the money.

Mr. Henderson: No, I do not say that they should have paid the whole thing. The settlement under the circumstances was probably fair but we are tracing back, Mr. Morison, the set of events which caused this. You will observe the contract specified that the contractor would be responsible to see that the stuff conformed to the specifications. The crown corporation then turned around and set up a testing lab right at the site, presumably to take that responsibility itself.

Mr. McLean (Charlotte): I disagree with that.

The Vice-Chairman: One moment please. Have you other questions, Mr. Morison?

Mr. Morison: I am just following what Mr. Henderson is saying.

Mr. Henderson: Then they get a material testing company to come in and set up the lab although it was not the Crown's responsibility for the sand being up to specifications they did not apparently tell the contractor, or something went wrong, and 3,300 tons got through which were not up to specifications.

• 1035

Mr. Morison: I just fail to see what you are criticizing. Certainly, it says the contractor is responsible for the sand being up to specifications and yet, because of a prior discussion, Defence Construction (1951) Limited say they will set up a testing laboratory. All right, now when they do that then surely they have taken the responsibility away from the contractor to test it a second time when it gets on site.

Mr. Henderson: That was the contractor's case and, as you will see here, he put in a claim and this is how the claim was settled. The reason I put it in is because it is a non-productive payment, no value was received.

Mr. Morison: But if there is any criticism to be levelled surely it is that the testing company who made the mistake should have paid the whole thing. I do not know why the government is being charged for this.

Mr. Henderson: Well possibly it should. We would have to have a departmental witness before us to establish that precisely but at least the Crown did go after it and was able

to secure one-third. Maybe they should have got 100 per cent. I would not disagree with that.

The Vice-Chairman: It seems to me we are getting bogged down in the sand here. I will ask Mr. Walker and Mr. Noël to be very brief. I think we should wait until we have the Department of Public Works' officials here to get our final answers on this particular item.

Mr. Walker: I would just like to take it one step further, Mr. Chairman, than Mr. Schreyer did. Is there not some place down the line where the Department assumed the cost of inspection when surely it was implied that the contractor would be responsible for the cost, the implication being that he is responsible for providing materials conforming to specifications. Now I think it is quite right that the Department should inspect the materials but surely this should be part of the contract cost. If there are any criticisms to be levelled should it not be the question of really subsidizing the contractor for having to inspect? Should this not all be part of the contract? And if government inspectors are needed to make sure that the test is all right, should this not be paid by the contractor, and should it not be part of the contractor's price?

Mr. Henderson: I would agree with that completely, Mr. Walker, but you will see in the explanation that there was a pre-job meeting in November, 1963 when the possibility of unsuitable material was discussed, and it was decided. So even though they had made the contractor responsible nevertheless they moved in, and that was the root cause of the misunderstanding.

Mr. Walker: I agree but this is just one case. In principle, what should be included in a contract price when letting contracts? If necessary, I think the government's cost of inspection, to ensure in the public interest that everything is all right, should certainly be part of the contract price. Is this a valid observation?

Mr. Henderson: I think it is perfectly valid, but I suppose if the officials of Defence Construction (1951) Limited were here they would point out that in certain cases, perhaps particularly reconstructing parking aprons on airports and dealing with the type of sand they are going to get, they have to vary that. We have encountered that type of thing so

often. They may say experience has proven that although they do hold him responsible they nevertheless have to make a special set of arrangements. Mr. Long is just pointing out that in the second paragraph there is a description of the Crown's arrangements.

Mr. Walker: I realize the arrangements because I have read this, but I am questioning right across the whole operation in respect of this particular type of thing whether it would not be much simpler as part of a contract to acknowledge that when and if the government has to inspect anything that the cost of inspection goes into the contract price, and the only reason they are inspecting is in the public interest.

Mr. Henderson: That is perfectly true but then it would perhaps mean further expense and that type of thing. Professionals from the Department of Public Works or from the Defence Construction (1951) Limited come in here and they probably would have good and sufficient reasons to advance why this type of approach has its merits and so forth.

• 1040

Mr. Forbes: Is it not a fact that the government always has inspectors on every contract to check and see if the material is up to standard, up to contract and so on, and this cost is not charged to the contractor?

The Vice-Chairman: Mr. Long, please?

Mr. Long: Mr. Forbes—and this will also answer some of Mr. Walker's questions—the situation here is unusual. One does not often have to find sand in one province and haul it to another for construction. They were concerned about the shipping space. There was limited accommodation on the ferries taking it across.

There was double inspection here. They wished to make sure that they did not use shipping space for material that was no good. It was caught over on the job before it was used. There was a double inspection. Would you expect to charge the contractor for that? I think Defence Construction (1951) Limited was trying to be helpful here.

Mr. Forbes: I think the problem here was that when the contractor went into New Brunswick to build a runway he would probably be advised that sand was available within a distance of five miles. After getting the sand out and finding that it did not meet the

requirements of the government he then discovered that he had to go to Nova Scotia, or some place, to have it shipped in. This is a case where the contractor was negligent in the first place in not determining the quality of the material. This is as I see it.

Mr. Long: That would be right.

Mr. Forbes: I would say it was the contractor's responsibility.

[Translation]

The Vice-Chairman: Mr. Noël, you have the floor.

Mr. Noël: According to what I have seen and heard, there has been what we call here a "pre-job-meeting" in November of 1963. We were aware of the circumstances, we knew problems with which we would have to cope, we knew that we had to provide room on the ships for the transportation of sand; we knew all that. The services of a firm to make the tests were bespoke, and I see here, with regard to this fact, that in May, 1964, after a certain quantity of sand had been taken to Prince Edward Island, we were told that:

[English]

In the latter part of May 1964 tests of the material stockpiled at Summerside indicated that some was unacceptable...

[Translation]

I believe that this was where the mistake took place. After having made all the preparations in November, 1963, we discovered in May, 1964, that in the piles of sand which had been transported there, there was a lot of sand which could not be used in the construction planned. Therefore, that is where the mistake was made. I believe that we are discussing the error which was made; we should rather be discussing the fact that we came to an agreement with the firm which carried out the tests. Was the firm paid too much, or should it have been paid the entire cost, as Mr. McLean said? That is all.

As Mr. Stafford was saying, the error was .35. I do not believe that we should tie up twenty-five persons to examine an error of this kind. In my opinion, the Auditor General mentioned this fact to draw our attention to it. But we should not concentrate all our attention on a thing like this. I feel that we would be wasting our time, a great deal of our time on small details concerning construction; however we know that in the field of construction, unforeseeable events can occur and here we have 25 people wasting their

time. In my opinion, we should close the debate on the subject and not mention it again.

The Vice-Chairman: Very well, Mr. Noël, I agree with you.

[English]

Mr. Muir and Mr. Stafford, what are the next items that you wish to bring to the attention of the Committee?

Mr. Muir (Lisgar): I just have one small point on that one, Mr. Chairman.

The Vice-Chairman: On paragraph 92?

Mr. Muir (Lisgar): On paragraph 95.

Mr. Winch: Are we going to close paragraph 92?

• 1045

The Vice-Chairman: We have had enough of paragraph 92.

Mr. Southam: Mr. Chairman, may I be excused?

The Vice-Chairman: Certainly, Mr. Southam.

Mr. Muir, on Paragraph 95.

95. *Breach of contract for snow removal, Fort Churchill, Man.* On November 8, 1963, on behalf of the Department of National Defence, the Department of Defence Production entered into a contract for the removal of snow at Fort Churchill on an "as and when required" basis. Although the Department of National Defence intended the contractor to provide snow removal services to supplement its own capability, its specifications were not clear on this point and the contract negotiated by the Department of Defence Production provided, inter alia, that the contractor would have exclusive right to provide the supplies and services specified during the term of the contract which was for the 1963-64 winter season and covered work performed to June 30, 1964. While it had been anticipated that the services of the contractor would be needed, the Department was able to perform its own snow removal work because it was not required to assist other government departments and agencies in the area with runway and road clearance work as had been the practice in previous winters.

The Department of National Defence did not realize an exclusive contract had

been awarded and the Department of Defence Production did not seem to realize the significance of the particular clause which made the contract exclusive.

In May 1964 the contractor contended that pursuant to the terms of the contract, he had the exclusive right to perform the services specified and he subsequently submitted a claim for \$8,503. Following receipt of an opinion from the Department of Justice that the Crown was in breach of contract, the claim was settled for \$3,682 to cover the contractor's non-productive labour costs and the estimated profit he would have realized had he performed the work, as determined by treasury auditors.

Although the auditors did not qualify their report on the investigation of the claim it appears that in estimating the profit they did not include the cost of fuel, materials, repairs and maintenance, etc., because these costs were not included by the contractor in his claim and because of the difficulty of determining the amounts involved. Therefore the profit was overestimated to this extent.

Mr. Muir (Lisgar): I have just one short statement. In many of the contracts let by one department and involving another it would seem that a little closer liaison between the two would be desirable. We have run into this situation several times.

Although the Department of Defence Production was responsible for the contract I think the Department of National Defence should have talked it over with them before they let it. Perhaps it would be desirable for the Committee to recommend better liaison between contracting departments and the departments for whom they are contracting.

The Vice-Chairman: It is a good point, Mr. Muir. Do you have any comments before...

Mr. Winch: May I make mine?

The Vice-Chairman: In relation to what paragraph?

Mr. Winch: Paragraph 95.

The Vice-Chairman: All right, Mr. Winch; and then I will ask Mr. Henderson to give us a little of the history of this.

Mr. Winch: Mr. Chairman, I think a very important and intriguing principle is involved in Paragraph 95, on Page 56. Members will note that it is set forth in the Report of the Auditor General that

...on behalf of the Department of National Defence, the Department of Defence Production entered into a contract for the removal of snow at Fort Churchill on an "as and when required" basis.

Further down in the same paragraph:

... the Department was able to perform its own snow removal work...

Then, to follow up what the previous speaker said, it says.

The Department of National Defence did not realize...

I draw to the attention of the members of the Committee that the Auditor General reports that the contract, on an "as and when required" basis, was at the request, and on behalf, of the Department of National Defence. That is a very important point, in view of the previous question. The Department of Defence Production did this on behalf of the Department of National Defence" and it was on an "as and when required" basis. Then we find that the Department of National Defence "did not realize" that the Department of Defence Production had moved on their behalf. Therefore, we have the situation that the Department of Justice maintains there was a breach of contract and that they settled the claim, in the amount of \$8,503 for \$3,682. Viewed in its entirety, this appears to me to be an extraordinary situation. In view of my analysis and the previous question I hope that we can have an explanation of it from the Auditor General's knowledge.

The Vice-Chairman: Mr. Henderson?

Mr. Henderson: Mr. Chairman, both Mr. Muir and Mr. Winch have put their finger on the fault here. It is a case of the left hand apparently not realizing what the right hand was doing although it was acting on the instructions of the left hand. As a consequence, the department just went ahead and cleared the snow in the normal course. Because there was a contract outstanding the contractor proceeded to make this claim.

I draw your attention to the last part of this note where it is stated that the claim was settled to cover his non-productive labour costs and his estimated profit. It appeared to

us, however, that it could have been even further reduced by certain costs which the contractor included in his claim. However, he asked for \$8,503. He was given \$3,682.

• 1050

The record indicates that a lack of communication between the two departments caused this. We may have some of the correspondence, but it is the same type of thing that we are going to run into in other headings.

Mr. Winch: May I ask a supplementary, Mr. Chairman? Were you able to find out how the Department of National Defence could ask the Department of Defence Production to undertake the letting of a certain contract which was let and then go ahead with a contract of their own. I am most interested in knowing how the Department of Justice can say that it is a breach of contract when the original agreement or contractual basis was set by Defence Production at the request of the Department of National Defence.

The Vice-Chairman: Mr. Henderson?

Mr. Henderson: We may have some background material here. Mr. Hayes, is there anything in the file that would answer Mr. Winch's question?

Mr. Hayes: I will look through the file, Mr. Henderson.

The Vice-Chairman: While you are looking I will ask Mr. Forbes...

Mr. Henderson: Just one moment.

The Vice-Chairman: All right.

Mr. Muir (Lisgar): Mr. Chairman, while Mr. Hayes is looking, I wonder if you could ask him to see if in fact the contract covered any snow removal. It looks to me as if they did not do any snow removal at all.

The Vice-Chairman: Apparently not.

Mr. Hayes: In reply to Mr. Winch's question this is the ruling of the Department of Justice:

I have carefully considered the material submitted and the terms of the contract with Lacey Construction Limited, and in my opinion the court would decide that on the proper construction of that contract, the Crown was obligated to authorize Lacey Construction Limited to remove the snow when in fact snow removal was required.

Mr. Winch: It was not required?

Mr. Hayes: "When in fact snow removal was required."

Mr. Winch: But it was not required according to the "as and when required" basis of the original contract.

Mr. Hayes: As I understand it from your material, snow removal such as is contemplated by the contract was in fact required and was performed by government employees. It follows, therefore, that the Crown is in breach of contract for failing to authorize Lacey Construction to perform the work.

The Vice-Chairman: If I may interject here, the Department of National Defence thought they had a contract through which they could call on the contractor when they needed him, but the Department of Defence Production had signed a firm contract allowing him so much for the winter's work whether they used him or not. This is where the trouble began, is that correct?

Mr. Hayes: That is right.

Mr. Winch: Was it written in the contract that if he was not required he would be paid certain remuneration?

The Vice-Chairman: It was a flat contract for the winter season.

Mr. Winch: I am sorry, Mr. Chairman, I do not want to hold you up but this interests me.

Mr. Henderson: Mr. Winch...

Mr. Winch: The contract says "as and when required", but they were not required. Was there something which said that if they were not required they would be paid something?

Mr. Long: No, if they had had no snow there would not have been anything to pay, but there was snow and National Defence understood they would call the men only if they could not cope with it themselves.

Mr. Winch: Yes, but they did not call them in.

Mr. Long: National Defence was able to handle it all and they did not call the men, but as it turned out the contractor had an exclusive contract and should have been able to remove all the snow.

Mr. Winch: Not according to the "as and when required" basis of the contract that was

let by the Department of Defence Production, if the report that we have from the Auditor General is correct.

The Vice-Chairman: But if you will read further it was not clear on this point. Mr. Forbes?

• 1055

Mr. Forbes: My question has been partly answered but I was going to put it more succinctly. If the Department of National Defence had their own equipment for snow removal why did they let a contract at all?

The Vice-Chairman: I think it was to supplement, if I understand correctly.

Mr. Henderson: Supplement its own capabilities are the words used in the explanation.

Mr. Winch: "As and when required."

Mr. Henderson: Yes, "as and when required" was in the contract, but you will see that in May of 1964 the contractor said that although he had not been called upon he had the exclusive right to perform the services, and then the Department of Justice felt that the Crown was in fact in breach of the contract.

Mr. Forbes: Did the contractor have equipment available if it were needed?

Mr. Hayes: That is right.

Mr. Forbes: Then he was entitled to some compensation for having it available.

Mr. Henderson: Presumably he must have had it available because he had labour costs to be reimbursed as well as the estimated profit he would have made on the job, as is indicated at the end of the note.

The Vice-Chairman: Mr. Stafford?

Mr. Stafford: Is it not correct that the contractor was required to have available equipment and operators for routine snow removal on a two-hour standby basis and if he did not do so penalties would be applied?

Mr. Henderson: Yes, that is correct, Mr. Stafford.

Mr. Stafford: So then a way are we not just talking about some unknown portion of a settlement of an approximately \$8,500 claim which was settled for \$3,600, at a net saving to the taxpayer of \$4,900? Under those circumstances the taxpayers did rather well.

Mr. Muir (Lisgar): Yes, they did.

Mr. Stafford: I bring this up in order to make one point. These complaints by the Auditor General are getting headlines in the newspapers. I know, Mr. Henderson, that the *Times-Journal* in St. Thomas had a little headline on my questioning of the last day we met to the effect that I support the payment of double rents for that building in Toronto which we discussed. I thought what I said was exactly the opposite, but the newspapers quite often get things mixed up. Because these complaints are made and there are insinuations in the newspapers that the government could have saved so much money, I think, Mr. Henderson, that we have to go through your report, hear evidence from you and find out on what you based your opinions in order I know whether the newspapers do in fact have the right to honestly say that these complaints actually cost the taxpayers of Canada \$200 million.

Mr. Henderson: Mr. Stafford, may I point out that we have complete working paper files from the audit, and given time we most certainly would be more than pleased to produce the full and complete details. Moreover, the text of what you have here has been examined by the departmental officials and attested to as being correct. You should know that.

Mr. Stafford: Mr. Henderson, did you feel from my questioning of you the last day we met that I supported the payment of double rents?

Mr. Henderson: No.

Mr. Stafford: That is what the newspapers reported.

Mr. Winch: I certainly got that impression.

Mr. Stafford: You are different, Mr. Winch. You are not a newspaper.

The Vice-Chairman: I think we are getting off the subject.

Mr. Forbes: You are lucky they did not suggest you got a little political financial help out of the deal.

The Vice-Chairman: I think we are getting away from the subject. Mr. Noël?

[Translation]

Mr. Noël: Mr. Chairman, after having heard all the testimony and all the discussion,

I see in Paragraph 95 that "its specifications were not clear on this point".

Does the Auditor General, in his report of 1967, find that these points are now much clearer or that on the contrary, that we are still in the dark?

[English]

The Vice-Chairman: Mr. Henderson?

Mr. Noël: That is the point which interests me.

Mr. Henderson: Mr. Chairman, I think the point is clear enough in this case.

Mr. Leblanc (Laurier): Mr. Chairman, I think this point should be cleared up by officials of the Department of National Defence instead of the Auditor General. Of course it is a matter of policy.

Mr. Henderson: You will have the officials of some of these departments before you in due course, at which time you can invite them to comment on these cases. That has been your practice. I think this would be wholly desirable but, of course, there is a limit to the number that can be handled. I think as we go along you should indicate those...

Mr. Forbes: I think we should have them here now when we are discussing it, instead of our fooling around.

The Vice-Chairman: I think it is up to us to pick the ones that leave the most unanswered questions and then wait until the department officials appear. That is why I would like to have Mr. Muir close off this item.

Mr. Muir (Lisgar): If I may be permitted to close it. I think we missed the point by discussing the amount of money involved. The problem, which we find so often in going through these items, is the lack of liaison between the departments in order to prevent these sorts of contracts being made in the first place. The amount of money is not that large, and I think we should not take up too much time with this.

Mr. Winch: It is the principle.

The Vice-Chairman: All right, fine.

Mr. McLean (Charlotte): Mr. Chairman, I do not understand the principle here. They asked this contractor to stand by and he charged them so much—\$8,500—and the government said it is too much for standing by,

so they cut him down. Now, I do not see any principle involved here at all.

Mr. Muir (Lisgar): The principle involved is that Defence Production gave him exclusive contracts when National Defence did not expect that they were going to do it. This is the principle.

Mr. McLean (Charlotte): Who says National Defence did not expect this?

Mr. Muir (Lisgar): It says so right here; it is right in the report if you will read it.

The Vice-Chairman: It is right at the beginning. Mr. Muir, what is your next paragraph?

Mr. Stafford: I will look at them afterwards.

Mr. Muir (Lisgar): Well, the next is a little kinder. In view of the expensive experience in the loss...

The Vice-Chairman: Which one, Mr. Muir?

Mr. Muir (Lisgar): Ninety-six.

The Vice-Chairman: Ninety-six.

96. *Fire loss of RCAF hangar, Moncton, N.B.* By an agreement dated May 18, 1961, the Moncton Flying Club was granted the right to use and occupy certain accommodation in a hangar at No. 5 Supply Depot, Moncton.

On numerous occasions infractions of the RCAF fire regulations were brought to the attention of Club officials and in March 1964 the Deputy Minister wrote a letter to the Club advising them that the unsatisfactory conditions with respect to the fire regulations would not be tolerated and that any future reports on hazardous fire conditions due to its operations would result in the termination of the agreement. On July 22, 1964 and again on May 5, 1965 letters were written to the manager of the Club by the Commanding Officer No. 5 Supply Depot drawing attention to serious infractions of the fire regulations and threatening eviction if RCAF orders were not adhered to. These letters were followed up by station inspections which showed that some improvements had been made and corrective measures taken. However, constant 'policing' was required for these measures to be lasting and effective.

In June 1965 the hangar was destroyed by a fire which a Board of Inquiry concluded was caused by a cooking accident

involving a member of the Club quartered on the premises. The loss, including stores and equipment, was estimated at \$3.5 million.

The Department of National Defence no longer permits joint occupancy of this kind with civilian organizations.

• 1100

Mr. Muir (Lisgar): Yes. In view of the expensive experience in the loss of \$3.5 million over which the department apparently hesitated to exert control, the decisions no longer to permit the joint occupancy was probably the only conclusion that could be expected.

The Vice-Chairman: Is this the fire loss at the RCAF hangar at Moncton, New Brunswick?

Mr. Muir (Lisgar): That is right. If I may I will just go on with a little explanation. They allowed a private club to use their facilities and the club was warned several times that they were not adhering to the fire regulations. The final result was the building burnt down with a \$3.5 million loss and the Department put them out.

Mr. Forbes: Mr. Chairman, was this club operating there on a rental basis or were they getting the use of it free?

The Vice-Chairman: Mr. Henderson, could you answer this?

Mr. Henderson: It was on a rental basis, I am informed.

Mr. Forbes: Well, that is unusual.

The Vice-Chairman: Mr. McLean?

Mr. McLean (Charlotte): Does the government make any allowance for insurance? I suppose they carry their own insurance?

Mr. Henderson: The government is a self-insurer and you may remember that this Committee was instrumental some years ago in causing to be prepared a schedule which now appears in the public accounts indicating the amount of losses of this type that occur which, if it had insurance, presumably would have been covered. We make reference to that later on in my Report and give you the page number in the public accounts. But that shows you; it lists losses of this type and it is a very interesting reference because it shows

you what, as a self-insurer, it is costing the Government of Canada each year in losses of this type.

Mr. McLean (Charlotte): But to go further, no doubt the government would be well advised to carry insurance.

Mr. Henderson: That is out of the question, Mr. McLean; possibly certain types of insurance such as third party liability and the like, but generally speaking the government always has been a self-insurer and we are now trying to prove by the experience of the cost in this annual schedule whether, in fact, that is continuing to be the case.

The Vice-Chairman: Mr. Leblanc:

Mr. Leblanc (Laurier): Mr. Chairman, I do not think we should waste too much time on paragraph 96 because the last paragraph says:

The Department of National Defence no longer permits joint occupancy of this kind with civilian organizations.

We are here to see that the errors are corrected.

The Vice-Chairman: Mr. Morison:

Mr. Morison: I should like to add just one thing to Mr. McLean's statement, and that is that in any experience I have had the department has required legal liability for fire damage, and if ever a situation would appear to fall into that category this was one. Had they had legal liability for fire damage the department would not have reimbursed.

I do not agree with the fact that the department no longer permits joint occupancy; I think they can do so very safely to deserving organizations provided they carry legal liability for fire and property damage.

Mr. Henderson: This may be a point which should be brought to the attention of National Defence officials if or when they come to the Committee, Mr. Chairman. I think it is a very useful observation.

The Vice-Chairman: Mr. Stafford, do you pass? **Mr. Muir?**

Mr. Muir (Lisgar): Paragraph 99.

99. *Overpayment of a Health Grant.*

The Province of Newfoundland over-claimed \$50,939 under a General Public Health Grant project for the maintenance of an ambulance service on the south coast of the Province, as the result of

failure to reflect in its claims over a period of eleven years the amounts recovered from the crews of the ambulance boats for board and lodgings. Although the Province had an obligation, under the General Health Grants and Hospital Construction Grants Rules, to refund the amount, it did not do this but asked the Department of National Health and Welfare to consider the overpayment as a federal grant towards the cost of supplementing the service with emergency air ambulance service, for which the Province had spent approximately \$425,000 in a ten-year period without seeking assistance.

In May 1965 the Department was informed that the Treasury Board had approved the write-off of the amount subject to two conditions:

- (1) the Province will undertake not to claim funds under the General Public Health Grants for the service instituted in 1955, namely the Air Ambulance Service along the south coast of the Island;
- (2) the normal write-off procedure in this case will be followed, namely the amount to be written off will be submitted for consideration at the time of final Supplementary Estimates, 1965-66.

The normal write-off procedure was not followed. Instead a cheque for \$50,939 was drawn payable to the Receiver General, \$21,028 being charged to the General Public Health Grant and the balance spread over five other specific grants. The cheque was then deposited to the credit of the Receiver General as a repayment of the amount overclaimed by the Province.

The action taken appears to have been designed more to eliminate an overpayment than to meet the aim of the General Health Grants, as set out in the Estimates, of assisting the provinces in extending and improving health services. Furthermore, in our opinion, the practice of issuing and handling Receiver General cheques in this manner constitutes a weakness in internal financial control.

Paragraph 99 involves an overpayment of a health grant under, health grant to the Province of Newfoundland. Rather than pay us back the province asked the federal government to consider a federal grant. This was

done. I consider it to be rather a sloppy way of handling an overpayment and I think there should be a recommendation from this Committee that in future normal write-off procedure should be used in such cases in order to inform Parliament through the supplementary estimates how that expenditure was incurred.

The Vice-Chairman: Mr. Long, could you reply to this, please?

• 1105

Mr. Long: I think we agree completely with what Mr. Muir is suggesting.

Mr. Muir (Lisgar): I do not think we need to spend too much time on this. So long as the Committee is agreed that these over-expenditures should come through the normal procedures of Parliament, that is to bring them up into Parliament in the supplementary estimates so that we can tell what the expenditures were; otherwise, we are in the dark.

The Vice-Chairman: All right. Are there any further questions on paragraph 99, gentlemen? What is next, Mr. Muir?

Mr. Muir (Lisgar): Concerning paragraph 100.

100. *Additional cost due to postponement of construction project, Edmonton, Alta.* In September 1964 the Department of Public Works awarded a contract at a price of \$6,788,000 for the construction of a new building at the Charles Camsell Hospital for the Department of National Health and Welfare. The building was still under construction at March 31, 1966, to which date costs of \$5,044,000 had been incurred.

In 1960 architects had been engaged by the Department of Public Works to prepare plans and specifications for, and to supervise construction of, the new building. In December 1962, however, the Department of National Health and Welfare requested that design work on the project be discontinued in order to conserve funds and permit consideration of the recommendation of the Royal Commission on Government Organization concerning the operation of hospitals. Since at that time it was not possible to determine when the project might be proceeded with, the consultants were paid \$195,000 for work performed prior to the stop work order.

After the project was reactivated in January 1964, with the consultants then resuming their engagement, they presented a claim for additional costs beyond their fee entitlement for the project. These were attributed in part to: the necessity of reviewing the design requirements with the hospital staff in order that any changes in hospital techniques or requirements could be provided for; changes in both the hospital staff and the consultants' staff, in the intervening period, requiring time for reorientation; and changes in electrical codes and regulations in 1963 which required revisions in the drawings and specifications.

During the year the consultants' claim for additional costs stemming from the postponement of the project was recognized to the extent of \$34,870.

Mr. Muir (Lisgar): Next is paragraph 100. Concerning paragraph 100 I am in complete agreement that postponement of construction of a building of that size for two years would, in my opinion, entail a great deal of extra cost, particularly in a building of the type where design changes could possibly mean extensive alterations in specifications.

It was the construction of a hospital in Edmonton; the project was delayed for two years and of course by that time medical changes were made for a different design and there was extra cost involved in making these changes when the building was started. Do you know whether this building is completed now?

The Vice-Chairman: Do you have any other facts on this particular building, Mr. Henderson?

Mr. Henderson: Is this completed now?

The Vice-Chairman: Is it in operation and completed?

Mr. Henderson: Mr. Smith, my Director who looks after the Public Works auditing.

Mr. D. A. Smith (Audit Director, Auditor General's Office): The building has been completed; the cost to date, and this is indicated as being possibly an interim final cost, is \$6,845,000.

Mr. Winch: May I ask what is the increase from the time of the original contract?

Mr. Smith: The original contract was \$6,788,000, representing a difference of less than \$100,000.

Mr. Winch: In two years; that is not bad.

The Vice-Chairman: That sounds very good.

Mr. Walker: May I ask the Auditor General why this item appears in this report? Is it an implied criticism? I do not get the significance of it's appearing.

Mr. Henderson: Because it is non-productive, Mr. Walker. As you know, I am under standing instructions from this Committee to report all non-productive payments found in the course of my work.

Mr. Muir (Lisgar): These extra costs...

The Vice-Chairman: It is in the last sentence I believe, Mr. Walker.

An hon. Member: The amount is \$34,000.

Mr. Henderson: I would like to say that in cutting the architect's figure down from \$48,000 to \$34,000 the Department of Public Works gave it very close scrutiny and they did quite an effective job in our view.

The Vice-Chairman: Shall we move on, Mr. Muir?

Mr. Muir (Lisgar): The next one is 101, and this involves the Canada Pension Plan booklet.

101. *The Canada Pension Plan booklet.* On May 12, 1965 the Treasury Board approved a nation-wide educational program, at a cost not to exceed \$2.2 million, for the purpose of acquainting the Canadian public with its obligations under the Canada Pension Plan and the benefits to which persons are entitled thereunder.

On August 31, 1965 the Department of Public Printing and Stationery entered into contracts with two printing firms for the production of 3,825,000 copies of the Canada Pension Plan booklet at a total cost of \$494,139. Although the amounts of the contracts exceeded the limits specified by the Governor in Council under section 39 of the Financial Administration Act and the contracts therefore required the prior approval of the Treasury Board, no such prior approval was obtained.

The lowest tender received by the Department of Public Printing and Stationery was \$461,317 or \$32,822 lower than the combined contract amounts. It was rejected because delivery could not be made before 110 days. The second lowest tender was \$477,000 with delivery in 32 days. This tenderer was given an order for one-half the quantity for \$236,000 to be delivered in 25 working days, and a contract for the remaining half was given to another contractor at a price of \$258,139, later increased by \$7,781 to compensate for extra costs incurred in expediting delivery of 600,000 booklets, with delivery in 20 working days. In actual fact this contractor had produced and delivered 345,000 copies of the booklet prior to August 31, the date of the order.

It will be noted from the foregoing the \$24,920 (and possibly more as the contractor accepted half the order for less than half the tender price) could have been saved had the booklets been ordered from the second lowest bidder with an extension of the delivery date of only seven days.

The Treasury Board ultimately approved the two contracts on November 29, 1965. The submission which was dated November 15, 1965 made no reference to the fact that the contracts had already been entered into and deliveries completed eight weeks previously.

• 1110

Mr. Muir (Lisgar): It appears to me that this Committee should want to know: first, why the Department of Public Printing and Stationery did not seek prior approval of the Treasury Board in contravention of section 39 of the Financial Administration Act and second, the circumstances under which a contractor could produce and deliver 345,000 copies of the booklet prior to receiving a contract to produce any of them. This is one I think we could take a look at. It looks as if it is under the table stuff that I do not think we should let slip by.

The Vice-Chairman: Mr. Henderson, can you give us the background on this one.

Mr. Henderson: The note describes what we regard as two serious irregularities. The first was the failure by the Department of National Health and Welfare to obtain Treasury Board's approval for the contracts entered into with two firms for the delivery

within 25 working days from August 31, 1965 of 3,825,000 copies of the Canada Pension Plan booklet at a cost of \$494,139.00. Actually, rather less than 10 per cent or 345,000 of these books had been run off and delivered before the contracts were even entered into on August 31.

You will note that the lowest tender received by the Department of Public Printing and Stationery was \$461,317.00 and the second lowest was \$477,000.00. It should be noted also that \$24,920.00 and possibly more could have been saved had the books been ordered from the second lowest bidder with delivery only seven days longer. The second irregularity was the failure of the Department when submitting the contracts to Treasury Board for approval on November 15, 1965 to disclose that the contracts had in fact been entered into and delivery was completed eight weeks previously.

Mr. Winch: I completely agree with Mr. Muir that this is a very serious matter. I understand from what you said and what is on page 60 of your report that there were actual deliveries before any contract had been signed or authorized by the government. Is that correct?

Mr. Henderson: That is what the record shows, Mr. Winch.

Mr. Winch: Did you enquire on what basis, even when they received tenders, that they let a contract before it had been authorized.

Mr. Henderson: Yes, we have discussed this with the Department and I think that the reasons for that is something which a representative of the Department should be invited to speak to.

Mr. Winch: Mr. Chairman, I think this is a matter of such major importance that we should make a note that we want a very clear explanation from the Department on it.

The Vice-Chairman: That is a good point. Are there any further observations.

Mr. Stafford: Was it not because of the pressure being applied to have these booklets prepared as soon as possible?

Mr. Muir (Lisgar): I do not think that is a valid excuse.

Mr. Winch: And if so, why did it not go to the lowest tender, or the second lowest?

Mr. Stafford: Well did they not want the Canada Pension Plan booklet to coincide with when the legislation was passed by Parliament, and because of that did they not make it an extra urgency?

Mr. Forbes: I think you are in trouble, Stafford.

Mr. Stafford: Is that right or not?

The Vice-Chairman: Mr. Walker.

Mr. Walker: The beginning of the paragraph states that on May 12, 1965, the Treasury Board approved a program, which included the printing of this booklet, not to exceed \$2.2 million. Did the total cost stay within the \$2.2 million? In other words, it was approved in principle by Treasury Board. They were not faced with a fait accompli and asked to O.K. something that they had no knowledge of. They had in fact knowledge of a large program.

Mr. Henderson: I am sure they had knowledge of it, but of course section 39 of the Financial Administration Act is also very specific with regard to tenders, and contracts.

Mr. Walker: Yes, I agree. But did the total cost stay within the \$2.2 million?

Mr. Henderson: We have every reason to believe so, yes, Mr. Walker.

Mr. Winch: May I ask just one supplementary question?

The Vice-Chairman: Yes, Mr. Winch.

Mr. Winch: In view of the Stafford statement about the issues of the booklets coinciding with the statute, do you have there the date that the Canada Pension Statute was passed?

Mr. Henderson: I do not know whether we have that to hand, Mr. Winch.

Mr. Winch: I am just interested in Mr. Stafford's statement that the booklets should coincide with the passing of the Act. If so, it is most extraordinary to contemplate what Parliament is going to do.

An hon. Member: Oh, come on, Harold.

The Vice-Chairman: Are you asking a question or making a statement, Mr. Winch?

Mr. Winch: I said it was extraordinary if that was the case.

Mr. Muir (Lisgar): I would suggest that when the appropriate people are brought here we can ask those questions.

The Vice-Chairman: Fine. We will proceed to the next paragraph.

102. *Ex gratia payment to an employee.*

An employee of the Department of National Health and Welfare in London, England, was occupying leased living accommodation under conditions which proved to be unsatisfactory. He sought legal advice and, on the strength of this advice, with the concurrence of his superiors, invoked a special clause in the lease which permitted termination in the event that he was transferred out of London, although no actual transfer was contemplated. His landlord became aware of the fact that he had not been transferred and began court proceedings claiming damages for breach of the lease. The case was withdrawn when the employee claimed diplomatic immunity. Subsequently, British law on diplomatic immunity was changed and the landlord again entered suit. The county court dismissed the case on the basis of the employee's diplomatic immunity but the decision was over-ruled by the appeal court. Rather than have the case re-tried on its merits, which might have brought to light the stratagem used to terminate the lease and the retreat behind the shelter of diplomatic immunity, the employee was instructed by his superiors to arrange settlement out of court. He was reimbursed the full amount of the settlement, \$1,314, on an *ex gratia* basis. A further claim may be received in respect of the landlord's costs.

In addition to the *ex gratia* payment, the Department of National Health and Welfare reimbursed the employee for his personal legal expenses in the amount of \$945. This reimbursement was not authorized by the Order in Council which approved of the *ex gratia* payment and the payment of an employee's personal obligation, particularly without Executive approval, is open to question.

Mr. Muir (Lisgar): Paragraph 102 involves payment for the living quarters of an employee who wanted to terminate his lease before the time was up. I think it is rather impersonal to say that the Department authorized the payment when I think proba-

bly we should have said that it was reasonable to suppose that the authorizing officers knew that executive approval was required before the payment was made.

• 1115

The Vice-Chairman: Any comments on this, Mr. Henderson?

Mr. Henderson: I think Mr. Muir's point is well-taken. This was altogether an unfortunate situation. We question whether the Department was authorized to pay the employee's legal expenses. It does seem to us that these should have been to the account of the employee. This brings up the basis on which a number of these type of situations end up being settled, and possibly a sharing—I think this was discussed in Committee before—of this type of expense might discourage it in the future. Here, as you see, full settlement was made with the landlord and in respect of the legal expenses of the employee.

The Vice-Chairman: There may be a further claim still to be received, according to the notation.

Mr. Henderson: I have no information as to whether in fact one has come. I think perhaps we would have heard if it had.

The Vice-Chairman: So far, no other requests for further payment have been received.

Mr. Henderson: Not to my knowledge, Mr. Chairman.

Mr. Walker: I wonder if the auditors could help the Committee by advising us how to break a lease without getting into trouble?

Mr. Henderson: I do not presume to have any solution to that in a situation like this. This was a long and difficult problem. My point is this: is there not some merit in a sort of fifty-fifty sharing of the costs of these things so as to discourage them in future rather than the employer picking up the whole tab.

Mr. Walker: I guess it depends on how difficult it is to get a certain type of employee, in a certain job, in a strange country?

Mr. Henderson: Well, this was not as complicated an instance as you would think, if you could see the file.

Mr. Muir (Lisgar): I think the point that we are probably missing is that the Department authorized the payment without the approval of the Executive which they should have known was not the right thing to do.

Mr. Henderson: That is right.

The Vice-Chairman: We will proceed to the next paragraph.

Mr. Muir (Lisgar): The next one is 103, which we took up the other day with one of the other items.

The Vice-Chairman: This is settled, yes.

Mr. Muir (Lisgar): So I think we can pass over 103.

The Vice-Chairman: Yes.

Mr. Muir (Lisgar): The next is paragraph 104.

104. *Questionable expenditure on public relations project.* In January 1966 the Treasury Board approved of an exhibit in the Skylon Observatory, Niagara Falls, Ont., depicting the scientific activity of the National Research Council. The cost of the exhibit was estimated at \$175,000.

The Board advised the Council that approval was being given only because arrangements for the display were already well under way. It questioned "the advisability of the National Research Council making an expenditure of this size for a public relations project of such general character, and of apparently minimal direct value in the promotion of the National Research Council's relationship to industry and the scientific community."

The Council arranged for the Canadian Government Exhibition Commission to construct and arrange the exhibit and costs amounting to \$119,000 were charged to a National Research Council appropriation. A further \$54,000 has been expended up to October 31, 1966 and the final cost has not yet been established.

In my notes I just say that this would seem to me to be a rather large expenditure of public funds on a project of questionable value as a public relations effort. This involves a rather costly exhibit of the National Research Council which I doubt very many of the public saw. Perhaps some of our research people saw it but I think \$175,000.00 on an exhibit of this nature is rather large.

The Vice-Chairman: Is this the total final cost?

Mr. Henderson: The total final cost was \$194,263.00

Mr. Muir (Lisgar): I think we could put the money to better use.

The Vice-Chairman: I agree. Have you any further comments on this, Mr. Henderson?

Mr. Henderson: I do not have any, Mr. Chairman.

Mr. Muir (Lisgar): In conclusion, is there anything that we can do that would sort of halt expenditures in the future that would seem to be of little value?

• 1120

Mr. Leblanc (Laurier): I think the only thing to do is to make a recommendation of some sort regarding this type of affair. That is the only thing we can do.

Mr. Henderson: Mr. Leblanc, this is another case where the Treasury Board was able to consider it only after the display was already well under way, so they scarcely had a chance to bring about any change in the arrangements—they had already commenced the construction. I think there is a point of principle here that the Committee could express itself on which might serve to strengthen Treasury Board's hand.

Mr. Leblanc (Laurier): I think we should get together with the Treasury Board and study Section 39 of the Financial Administration Act to get clearly in our minds what can be done and whether the section should or should not apply.

Mr. Henderson: You have just discussed the Canada Pension Plan booklet in regard to the same principle. The Treasury Board would not even tackle that until a long time after the event.

Mr. Leblanc (Laurier): If we discuss it with these people we will know exactly how these things happen. Then we can do something about it.

Mr. Muir (Lisgar): The usual procedure would have been for the Research Council to have submitted their costs to Treasury Board for approval?

Mr. Henderson: Before making any commitments.

Mr. Muir (Lisgar): Yes, before making any commitments.

Mr. Walker: That was the question I was going to ask, Mr. Chairman. Is there a requirement for the Research Council to get this approval if they have an amount in their budget which may have been approved to cover such exhibitions?

Mr. Henderson: Oh, yes, in connection with contracts of this type, Mr. Walker. Mr. Long, would you like to speak to that?

Mr. Walker: Was this a contract or just an expenditure?

Mr. Long: I think in this case, Mr. Walker, they certainly would not have gone to Treasury Board had they not been required to do so, but eventually they did. In the case of the Research Council there is sometimes just a little looser control than in the case of government departments. I am not sure in this case of the exact requirement, but I think you can assume that they were required—they admit they were required to go—or they would not have gone to the Treasury Board.

The Vice-Chairman: Mr. Winch, you are next.

Mr. Winch: Mr. Henderson, could I ask, because it has come up more than once, if a payment requiring Treasury Board authorization has been made and then comes to the Treasury Board as a *fait accompli*, I take it the Treasury Board gives the necessary authority? In view of this recurring action, which is contrary to regulation and law, could you advise us whether or not when you draw these matters to the attention of the Treasury Board they send or have sent any notification to the branch or department which has done something without Treasury Board's authority advising them of the requirement of Treasury Board authorization before they make payment?

Mr. Henderson: Yes, Mr. Chairman, I can tell Mr. Winch that Treasury Board is punctilious in drawing these matters to the attention of the departments. I believe in all cases that we have had of this practice the Treasury Board have written to them and spelled out what they should have done and taken a rigid and proper attitude on it. If my memory serves me right, that certainly was their view in connection with the other cases we discussed this morning and I think it was certainly their view on this. I would not be

surprised if in our background working papers we have a copy of their letter to the National Research Council on this particular case.

Mr. Winch: May I ask this one further question? To your knowledge have you ever known Treasury Board to turn down a *fait accompli* because something was being done without the required authority?

Mr. Henderson: Yes, I think we could cite some cases like that.

Mr. Winch: Was the money then returned?

Mr. Henderson: The department would not be in a position to make any commitments. So far as having proceeded and then expected to get the money back, no, I do not think I could cite any such case, but I know a number of cases where they declined to approve because they were not consistent with the government's policy.

Mr. Winch: Could I then ask what happens when they do not approve but the money has been paid?

Mr. Henderson: Then it is not authorized and the department just does not go ahead. They may seek some other way of getting around it, but quite probably most of these paths will lead to the Treasury Board in some other way.

Mr. Leblanc (Laurier): Then you would report it?

The Vice-Chairman: That was a good question by Mr. Winch. I was wondering about the same thing. What would have happened in this particular case if the Treasury Board had said no?

Mr. Henderson: They would have been quite embarrassed with respect to the amount of money that had been expended.

The Vice-Chairman: But where did this money come from that they expended?

An hon. Member: From the budget of the National Research Council.

Mr. Henderson: From the budget. Perhaps Mr. Long could speak on this point. He is versed in this.

Mr. Long: Treasury Board, of course, are in a difficult position here. In a case like this where they found out about it before it was completed, they are faced with either

approving additional expenditure to get something out of it or completely spoiling the thing by not finishing it and therefore getting nothing out of the money that was spent.

● 1125

Mr. Winch: Get nothing out of the money that was spent?

Mr. Long: Yes. We have had cases where they have declined to approve something, but sometimes they have no alternative but to approve it. If they do not approve it, it is just an unapproved expenditure and we report it.

Mr. Walker: But, as you said, it has to be paid.

Mr. Long: Yes. I am referring now to cases where payments are made. I can recall two cases where regulations had not been followed; it was a question of payments to individuals with no hope of getting it back. There was a proposal that it be written off as a bad debt, but we pointed out that these are not bad debts. If you wish you can take legal action and get it back, but it was not policy to do this with individuals who were really innocent.

Mr. Winch: In those two cases how are they then shown on the balance books? If they are not down as bad debts and you could not get the money back that had been paid without authorization, how is that recorded?

Mr. Long: In the one case when we pointed this out to Treasury Board they approved it.

Mr. Winch: How did the other case show?

Mr. Long: I do not recall the settlement in the other case. It was settled in some satisfactory way, but I just do not recall how.

The Vice-Chairman: But this particular sum of money, Mr. Long, would be included in the total budget of the National Research Council?

Mr. Long: That is right.

The Vice-Chairman: That is probably why final approval was given, because they did not spend money that had not been allocated.

Mr. Long: As we said in our report:

The Board advised the Council that approval was being given only because arrangements for the display were already well under way. It questioned "the advisability of the National Research

Council making an expenditure of this size for a public relations project of such general character and of apparently minimal direct value in the promotion of the National Research Council's relationship to industry and the scientific community."

The Treasury Board were very hesitant about it but, taking everything into consideration, they felt they really did not have much alternative but to go ahead.

Mr. Winch: Pay it today and tomorrow come before Parliament.

Mr. Leblanc (Laurier): At some future date we will have the officials of the National Research Council here as witnesses, and at that time we can question them on these items—103, 104 and any others that are brought to our attention.

The Vice-Chairman: Do you have a question, Mr. Forbes? We will try to move on.

Mr. Forbes: Mr. Chairman, if I understood Mr. Walker correctly he was under the impression that if Parliament passes the estimates for a certain department and grants them a certain amount of money, then that department proceeds on its own to spend that money. It was my understanding that every item over \$25,000 must be brought before the Treasury Board, and this is where a case like this would be picked up.

Mr. Long: Yes.

Mr. Walker: No, I was not talking about that. The National Research Council is not a department. I wondered if there was a different operation.

Mr. Henderson: I think Mr. Long answered that point to your satisfaction.

Mr. Walker: Yes.

The Vice-Chairman: Mr. Muir, you are next.

Mr. Muir (Lisgar): Will we move on to the next item?

The Vice-Chairman: That is right.

109. *Possible amalgamation of certain inland customs ports.* In the larger centres of population in Canada a great many people live or do business at distances of ten miles or more from the local customs port. In these centres traffic conditions are usually such that in terms of time required to reach the local customs

port, it is much less accessible than is a customs port in one of the smaller centres which may be reached from surrounding towns by provincial highways. This gives rise to the question of the necessity for

inland ports in centres which are in reasonably close proximity to each other.

The following is a list of fifteen ports which cost a total of \$372,800 to operate in 1965-66:

<u>Port</u>	<u>Annual operating cost</u>	<u>Larger adjacent port</u>
Acton, Ont.	\$ 8,000	Guelph, Ont.
Bowmanville, Ont.	10,700	Oshawa, Ont.
Galt, Ont.	66,100	Kitchener, Ont.
Georgetown, Ont.	11,800	Brampton, Ont.
Hull, Que.	34,200	Ottawa, Ont.
Ingersoll, Ont.	11,100	Woodstock, Ont.
Levis, Que.	22,300	Quebec City, Que.
Newcastle, N.B.	6,200	Chatham, N.B.
Paris, Ont.	14,000	Brantford, Ont.
Port Credit, Ont.	57,000	Oakville, Ont.
St. Mary's, Ont.	5,500	Stratford, Ont.
Sackville, N.B.	5,500	Amherst, N.S.
Thorold, Ont.	29,600	St. Catharines, Ont.
Walkerville, Ont.	85,400	Windsor, Ont.
Wolfville, N.S.	5,400	Kentville, N.S.
	<u>\$372,800</u>	

Most of these ports are within ten and all are within fifteen miles of the larger adjacent port. There may be other ports in Canada in a similar situation.

Responsibility for opening and closing customs ports lies with the Governor in Council who acts on the recommendation of the Minister of National Revenue. The Audit Office is not in a position to state categorically that any particular port should be closed. However, it is aware of the cost of operating such ports and is of the opinion that, in the interest of economy, the necessity for the continuation of ports in this category should be reviewed from time to time. Where a port cannot be closed completely, savings might result if it were made an outport or a branch of a nearby larger port.

Mr. Muir (Lisgar): This is the last one that Mr. Stafford and I were responsible for, paragraph 109, which deals with the small inland customs ports that are close to the larger ones. I note that the operating costs of most of these individual ports are not excessively high and unless one had the figures—not only the revenues, but also the number of entries processed—it would be difficult to make a decision as to whether they should be closed

or not. I think the use by the public would be the main criterion to be used whether they should be closed or not, and that the convenience to visitors and residents is important particularly if it involves a highway which connects with one across the border.

The Vice-Chairman: In other words, you would like to have not only the annual operating cost but the annual revenue collected.

Mr. Muir (Lisgar): The annual revenue collected, the annual operating cost—which we have—and the use that is made by the public.

The Vice-Chairman: Yes. In other words, what the net loss or profit is on each.

Mr. Muir (Lisgar): I think we could approve a small net loss providing good use was made of it by the visitors and local residents.

• 1130

The Vice-Chairman: Mr. Long, could you give us some background material on this?

Mr. Long: Mr. Muir, we did not show the revenues here because when you are collecting taxes it is not the same as when you are in business. You do not have to open up branches to attract business. This revenue is

going to come in anyway. In large centres such as Toronto there is only one customs port that I am aware of and some people have to travel a long way. However, in smaller places, just because there is a corporate difference in two cities or towns which are beside each other, there is a customs port in each. I would say, people in Toronto and Montreal travel much further to the customs port, and this is the point; the convenience of the public. They have to go much further than any of these cases here, I would think.

Mr. Muir (Lisgar): For instance, in Hull and Ottawa, where there is one each, I think it is a convenience to the people of Hull as well as to the people of Ottawa to have a port in each town, providing the costs are not too high.

The Vice-Chairman: Do you have figures on the revenues collected in these ports?

Mr. Long: Of course, this is a matter of policy, Mr. Muir. We just pointed out the possibility. However, I would ask if you think one is needed in Hull. I am not saying you should close the Hull port, but do you not think perhaps one is also needed in one of the outlying districts of Toronto where people may be five times as far away from the customs port?

Mr. Muir (Lisgar): I would agree with that, providing the situation was known. I mean people coming in to Toronto expect to find a port there, but they may not expect to find one out in the suburbs.

Mr. Long: I do not think these ports are servicing visitors. These are not border ports; they are not servicing strangers coming in, they are servicing the business community.

Mr. Muir (Lisgar): Oh, I see.

The Vice-Chairman: You mean they are servicing a manufacturer who may import machinery, et cetera.

Mr. Long: Yes. Residents of the area importing goods.

Mr. Muir (Lisgar): I think there would be occasions in the illustrations that you have given where possibly some of the smaller ports could be closed because they are probably not doing the business; there is no reason for them to be open. However, as I pointed out, the operating cost is not too high if they

serve a purpose; that is, the purpose would give them a reason for being open at any cost.

Mr. Henderson: This note was discussed at some length with the department, and it seemed a reasonable observation to make for the Committee to consider. I believe the President of the Treasury Board, when he was the Minister of National Revenue, examined some very interesting figures arising out of it. It at least has caused a second look to be taken at the organization of the ports, and that sort of thing, which is all for the good. I quite agree with you that the public convenience comes first, but if that can still be met in a system that would save money, presumably that would also be a worthy objective.

Mr. Muir (Lisgar): I agree with that.

Mr. Henderson: I happen to know from personal experience that in one of these cases particularly there could be amalgamation without too much trouble. That was just my experience and that of friends of mine, but it is very difficult to be dogmatic and we certainly are the last people to be in a position to state categorically that any port should be closed. However, we felt, after our discussions with the departmental officials that it was a reasonable proposition to raise and the department is happy to have it discussed at any time because this is one of their continuing responsibilities.

Mr. Muir (Lisgar): I wonder if I may then be permitted to give any conclusions on this.

Mr. Forbes: No, I wanted to ask a question.

Mr. Muir (Lisgar): I am just going to state my conclusions, I am not closing off the discussion. I think perhaps the Committee could recommend that the advisability of keeping these ports open should be reviewed from time to time.

• 1135

Mr. Forbes: On this point I think it might be of some interest to note my endeavour to have a customs port established in the main town in my constituency. The department took into consideration the amount of revenue they would collect based on the amount of customs goods that had come in to that area and the amount it would cost for salaries and staff. They figured it would not pay the government to set up a customs office in that town, so if it is necessary to pay customs duty we travel all the way to Brandon,

which is 100 miles away. You talk about saving money. This is part of an auditor's job, part of your job. What are you going to do, set up a customs office over here to collect \$500 when it will cost you \$15,000 to staff the office? This would not be good business and, as I understand it, this is the principle on which they ought to work.

Mr. Walker: May I please make a comment on this particular point? There are broader ramifications than just the profit and loss to the public treasury.

Mr. Henderson: Mr. Walker, I did say that the primary consideration was the convenience of the public.

Mr. Walker: Quite, but there is another ramification as well. You may have two small cities, both of which have a customs port, possibly only ten miles apart. It is of great service not only to the public but to the business community, and it is part of the commercial life of city "X" if they do in fact have a customs port. If you close one of those down, as long as it is not a total loss and costing \$50,000 a year, which city are you going to choose to close down? Do you realize when I was Parliamentary Secretary to the Minister of National Revenue that the customs port in a particular town was considered by the Chamber of Commerce to be a mainstay and of great benefit to their whole business operation and the economy of that town. If we had closed it down and put it in town "X", which was a rival town, then we would have been doing a great disservice and this first town would have soon become a ghost town commercially. It is therefore not just a question of dollars and cents, or even of service to the public, it is also a question of a customs port being part of the business operation in rival towns.

Mr. Forbes: Do you mean to tell me that town was importing sufficient goods, and on which they were collecting customs, to keep the whole commercial activity of the town going?

Mr. Walker: I am telling you that the Chamber of Commerce said that this was the important thing about it.

Mr. Forbes: This is simply a petty idea; just jealousy between towns.

Mr. Southam: Mr. Chairman, following up Mr. Forbes' and Mr. Walker's discussion under section 109, and referring to the table

on page 68 with respect to these inland ports, you list the cost of the operation as \$372,800. I would be interested to know what the revenue side of the picture was.

Mr. Henderson: Yes. We could give you the revenue figures on these if you are interested but, of course, we did not put the revenue in here on the broad general assumption that the revenue would come in anyway.

Mr. Southam: On the basis of our discussion it is hard to decide what ports you should have and what ports you should not have, but I think you have to consider not only the economic factor but the services provided as well.

The Vice-Chairman: Could we then run down the list?

Mr. Henderson: Yes, we have the revenues here. As a matter of fact, I think Mr. Walker will recall that the Minister put them in *Hansard* at the time. Am I not correct? Could Mr. Hayes read the revenues and they could be jotted down in your book?

Mr. Southam: It will give us a better picture.

Mr. Hayes: This is not a complete listing, so I will just indicate the port and the revenue.

Acton, \$167,900; Bowmanville, \$121,600; Galt, \$4,527,300; Hull, \$106,000; Ingersoll, \$335,900; Lévis, \$573,800; Newcastle, \$272,800; Paris, \$774,300; Port Credit, \$3,546,600; St. Mary's \$14,500...

Mr. Walker: Was that \$14,500?

Mr. Hayes: Yes. Sackville—\$87,800; Thorold—\$785,900; Walkerville—\$3,275,800, and Wolfville—\$12,800.

Mr. Southam: For a total of how much?

• 1140

Mr. Hayes: The total is \$14,603,000.

Mr. Southam: I would suggest, Mr. Chairman, that these were really self-liquidating; there would be no point in using these as a reference.

Mr. Leblanc (Laurier): None of them are deficits.

The Vice-Chairman: There is only one missing from the list, I understand.

An hon. Member: Ingersoll?

Mr. Henderson: Georgetown.

Mr. Hayes: I have not got anything for that.

Mr. Winch: There is one question on the number. Why do you hold customs ports open if one gets a total revenue of \$12,800 and another \$14,500?

Mr. Southam: I think this likely would be a matter of convenience. That is where you have the difference of opinion between service and economics.

Mr. Leblanc (Laurier): But still you are not losing money.

Mr. Southam: No, I think it is a good thing. I do not think we have too much to worry about.

Mr. Morison: Does that take into consideration the profit from an outport?

Mr. Henderson: The profit from an outport?

Mr. Morison: In other words, Galt might have a couple of outports—Preston or Clinton. Would the profits from the outports be totalled? I guess the cost would too, would it not?

Mr. Hayes: This would include outports.

Mr. Henderson: Yes, the organization is located in Galt and if they have any sub-offices that would be in there.

Mr. Long: I think it is important to remember you used the word "profits". These ports, while you say they are liquidated, do not generate any revenue but revenue is coming

in somewhere anyway. Well, sure we will claim officially established...

Mr. Leblanc (Laurier): The question of service—the business population and the population itself?

Mr. Winch: Is it not rather ridiculous to keep a customs port open at a cost of \$5,400 and only receive a total revenue in a year of \$12,500?

Mr. Walker: It might be very important to a small place.

Mr. Leblanc (Laurier): It might be important there; we do not know all the facts.

The Vice-Chairman: There are so many government departments we lose money on that the ones that we make profit on we should hang on to, I think.

Mr. Walker: Chain stores operate that way.

The Vice-Chairman: You are inconveniencing the people quite a bit.

Next I think we are up to the section to be covered by Messrs. Leblanc, Tucker and Walker; paragraphs Nos. 116 to 139.

Mr. Leblanc?

Mr. Leblanc (Laurier): At the next sitting.

The Vice-Chairman: You are not ready yet?

Mr. Leblanc (Laurier): At the next sitting.

The Vice-Chairman: Shall we wait, then, until the next sitting before starting a new section? Fine.

That will be all for today, gentlemen.

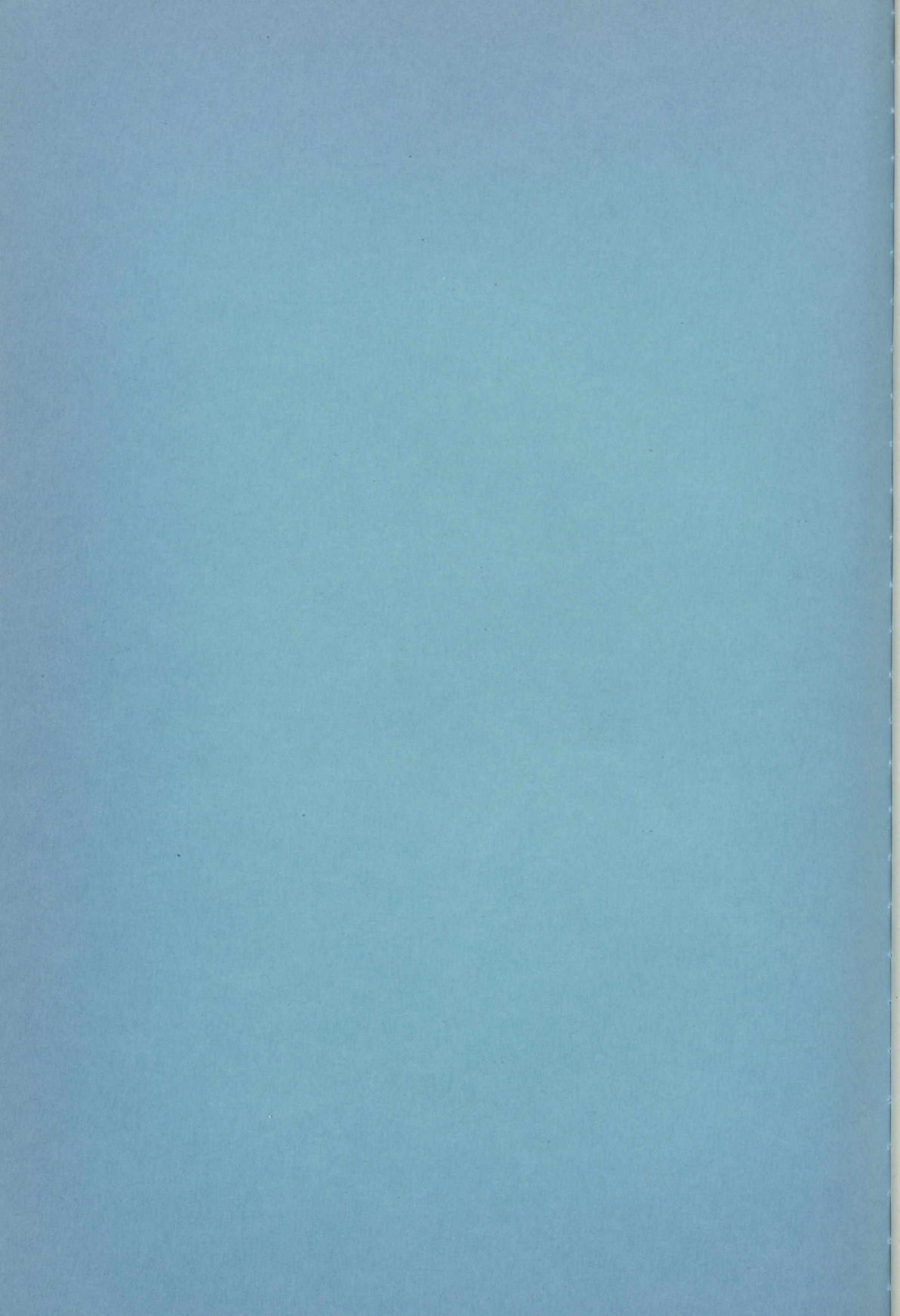
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ALISTAIR FRASER,
The Clerk of the House.



HOUSE OF COMMONS

Standing Committee on Public Accounts
27th Parl. 2d Session 1968

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2	Action taken not satisfactory Indirect Compensation to Chartered Banks (No. 21)
2	Executive directors accounts not examined by the Auditor General (No. 22)
6	Central Mortgage and Housing Corporation—appointment of Auditors (No. 23)
6	Cost of Abandoned Design Plans for Ferry Vessel (No. 24)
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- Advances to Canadian Corporation for the 1957 World Exhibition (No. 42) 6
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- Standing Committee on Public Accounts (No. 34) 6
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- Central Mortgage and Housing Corporation Securities held by Mortgage Insurance Fund (No. 27) 7
- Charges for Post Office Lock Boxes and Bag Service (No. 23) 6
- Charitable Donations (No. 64) 7
- Cost of Family Planning in Perry House (No. 47) 6
- Customs and Excise Laboratory (No. 40) 6
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- St. Lawrence Seaway Authority (No. 31) 6
- Surplus in Defence Production, Favoring Fund (No. 22) 6
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- Unemployment Assistance (No. 4) 4
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- Cost of Salvaging Sunk Vessels (No. 42) 6

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2	the Excise Tax Act (No. 17)
	Assistance to Provinces by Armed
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4	(No. 15)
	CRC: Report of R.C. on Government
4	Organization (No. 11)
	Central Mortgage and Housing
	Corruption Reports to the Auditors
7	(No. 56)
	Central Mortgage and Housing
7	Statement of Net Income (No. 58)
	Drawback Paid on Goods Destroyed
6	after Release from Customs (No. 58)
	Federal losses from Bankruptcies
7	(No. 60)
	Form and Content of the Estimates
4	(No. 6)
	Parliamentary control of
7	Expenditure (No. 62)
	Province's loss of Revenue when
	Goods lose Tax-exempt Status
6	(No. 17)
	Reconstitution of Financial
	Structure of the National Harbours
7	Board (No. 59)
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6	not performed (No. 51)
3	Second class rail (No. 7)
2	Surplus Assets Disposal (No. 13)
	Tax Exemption for Particular
6	Groups (No. 39)
	No action, legislation required
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2	Canada Council (No. 12)
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4	Pensions (No. 17)
2	General Election Expenditure (No. 18)
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Accounts Receivable (No.20)	5
Application of Canadian Hospital Accounting Manual to Federal Hospitals (No.63)	7
Dept. External Affairs, Missions Abroad (No.50)	6
Departmental Operating Activities (No.2)	3
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Inadequate Control of Stores at Northern Locations (No.49)	6
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War Veterans Allowances (No.26)	5
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Amendments to Customs Act and Excise Tax Act (No.27)	5
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Hospital Construction Grants (No.24)	5

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Post Office Savings Bank (No.36) 6

Separate Act of Parliament (No.33) 6

Unemployment Insurance Fund and its

Administration (No.9) 4

Slow progress

Accounts Receivable (No.20) 2

Application of Canadian Hospital

Accounting Manual to Federal

Hospitals (No.63) 7

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Abroad (No.30) 6

Departmental Operating Activities

(No.2) 3

Errors in Public Service Superannuation

Account Pension and Contribution

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Inadequate Control of Stores at

Northern Locations (No.49) 6

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Northern Affairs and National

Resources (No.46) 6

Internal Financial Control (No.3) 4

National Defense Administrative

Regulations and Practices (No.12) 4

War Veterans Allowances (No.26) 2

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