

Room 10-A

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Canada. Parl. H. of C. Standing
Comm. on Public Accounts,
1944/45. J103 H7 1944-5 P8 A1
Minutes of proceedings
and evidence.

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Canada. Parl. H. of C. Standing
Comm. on Public Accounts, 1944/45.

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SESSION 1944
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 1

THURSDAY, APRIL 27, 1944
FRIDAY, MAY 5, 1944

WITNESS:

Watson Sellar, Esq., Auditor General

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1944

ORDERS OF REFERENCE

HOUSE OF COMMONS

TUESDAY, 1st February, 1944.

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

Messieurs

Abbott,	Fraser (<i>Northumberland</i>),	Matthews,
Authier,	Fulford,	Mullins,
Black (<i>Yukon</i>),	Gladstone,	Mulock,
Black (<i>Chateauguay- Huntingdon</i>),	Golding,	Noseworthy,
Boucher,	Grant,	Purdy,
Bourget,	Graydon,	Rheaume,
Burton,	Green,	Rickard,
Clark,	Hanson (<i>York-Sunbury</i>),	Roebuck,
Cote,	Henderson,	Ross (<i>Hamilton East</i>),
Cruikshank,	Homuth,	Ross (<i>Souris</i>),
Dechene,	Isnor,	Slaght,
Denis,	Johnston (<i>Bow River</i>),	Tripp,
Desmond,	McCubbin,	Thauvette,
Ferland,	McDonald (<i>Pontiac</i>),	Veniot,
Fontaine,	McGeer,	Ward,
Fournier (<i>Maisonneuve- Rosemont</i>),	McIvor,	Winkler—50.
	McNiven (<i>Regina City</i>),	
	Marshall,	

(Quorum 15)

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

Ordered,—That the Standing Committee on Public Accounts be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

FRIDAY, February 25, 1944.

Ordered,—That the Public Accounts of Canada for the fiscal year ended March 31, 1943, and the Report of the Auditor General for the fiscal year ended March 31, 1943, be referred to the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

TUESDAY, March 28, 1944.

Ordered,—That the name of Mr. Bence be substituted for that of Mr. Graydon on the said Committee.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, April 27, 1944.

Ordered,—That the said Committee be given leave to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence and that Standing Order 64 be suspended in relation thereto.

Ordered,—That the said Committee be authorized to sit while the House is sitting.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, April 27, 1944.

The Standing Committee on Public Accounts begs leave to present the following as a

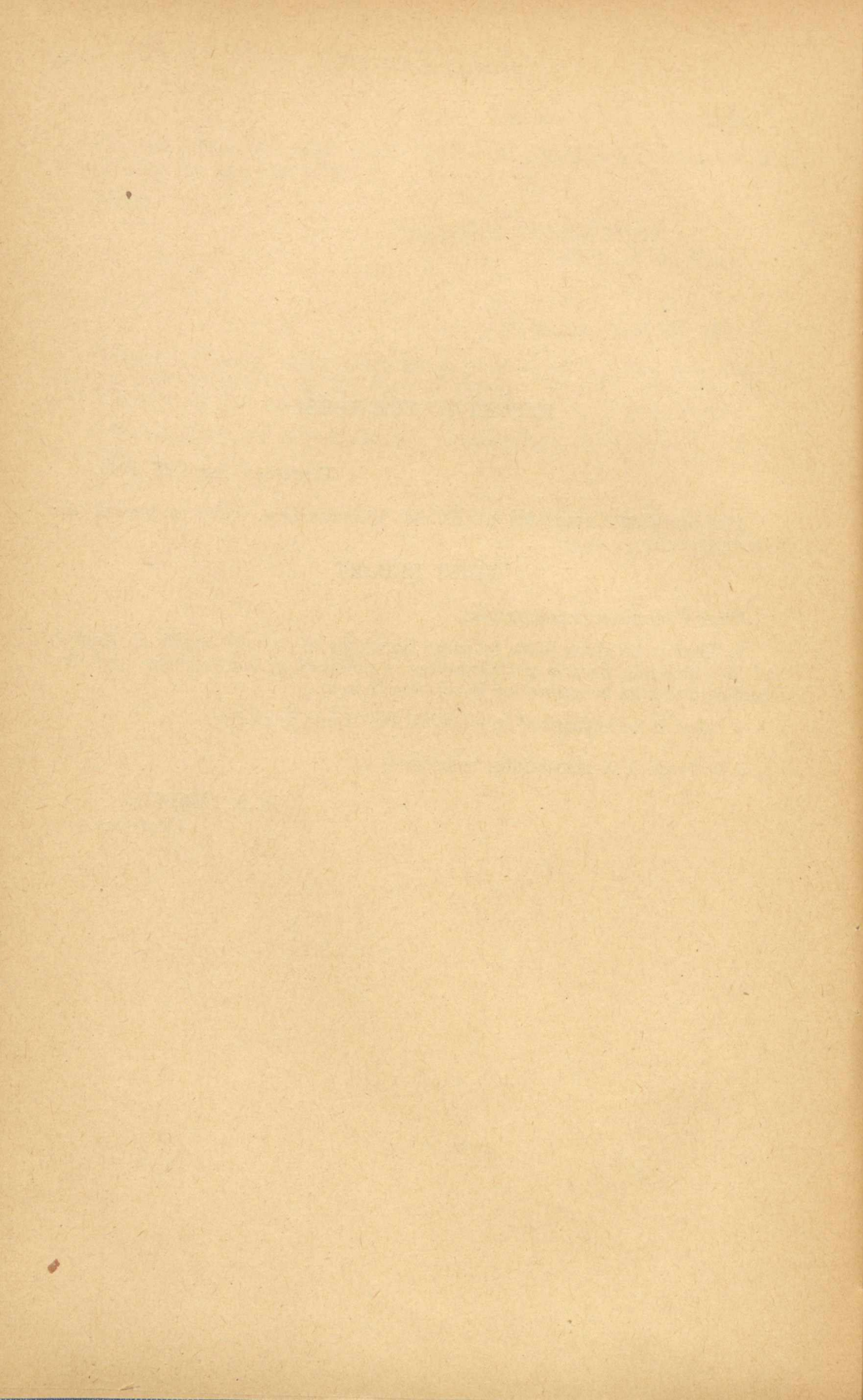
FIRST REPORT

Your Committee recommends:

1. That it be given leave to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence and that Standing Order 64 be suspended in relation thereto.
2. That it be authorized to sit while the House is sitting.

All of which is respectfully submitted.

W. A. FRASER,
Chairman.



MINUTES OF PROCEEDINGS

THURSDAY, April 27, 1944.

The Standing Committee on Public Accounts met at 11 o'clock, the Chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Bence, Boucher, Burton, Clark, Côté, Cruickshank, Dechène, Ferland, Fontaine, Fraser (*Northumberland*), Golding, Grant, Green, Hanson (*York-Sunbury*), Isnor, Johnston (*Bow River*), McNiven (*Regina City*), Marshall, Mullins, Roebuck, Ross (*Souris*), Slaght, Tripp, Thauvette, Veniot and Winkler. (26).

The Chairman read the orders of reference dated February 1, 25 and March 28, 1944 and pointed out that the Public Accounts of the Dominion of Canada together with the Auditor General's report for the year ended March 31, 1943 were before the Committee.

A discussion arose as to the procedure to be followed and particular references to the report of the Auditor General were made.

On motion of Mr. Golding,—

Resolved,—That the Committee be authorized to print from day to day 500 copies in English and 200 copies in French of its minutes of proceedings and evidence.

On motion of Mr. Cruickshank,—

Resolved,—That the Committee be given leave to sit while the House is sitting.

Accordingly, the Chairman was instructed to report to the House.

The Committee agreed to call Mr. Watson Sellar, Auditor General for Canada at its next meeting.

At 12 o'clock, the Committee adjourned at the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

FRIDAY, May 5, 1944.

The Standing Committee on Public Accounts met at 11 o'clock a.m., the chairman, Mr. W. A. Fraser, presiding.

Members present: Messrs. Boucher, Burton, Cruickshank, Dèchene, Ferland, Fraser (*Northumberland*), Gladstone, Golding, Henderson, Isnor, McCubbin, McDonald (*Pontiac*), McIvor, McNiven, Purdy, Roebuck, Ross (*Souris*), Thauvette, Veniot, Ward.

In attendance: Watson Sellar, Esq., Auditor General.

Mr. Sellar was called and questioned on the Report of the Auditor General for the fiscal year ended March 31, 1943.

At 1.05 o'clock p.m. the Committee adjourned to meet at the call of the Chair.

A. L. BURGESS,
Acting Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,
May 5, 1944.

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: As arranged at the last meeting we have Mr. Watson Sellar here for the purpose of answering any questions in connection with the discussion of last week.

Mr. MARSHALL: Are we commencing at the beginning of this report at the back?

The CHAIRMAN: I think that would be the best thing to do.

WATSON SELLAR, Auditor General of Canada, called.

Mr. MARSHALL: Perhaps, Mr. Chairman, Mr. Sellar might explain section 6 on page 3 with reference to the matter of government annuities. It says there at the end of the section, speaking of annuity contracts, in the last four lines of the paragraph:—

These contracts may involve a substantial loss (the loss involved in 538 such contracts maturing in 1942-43 was \$382,544) and since these losses have not been provided for in the above valuation, the liability may ultimately prove to be understated in the balance sheet.

I think a statement by the Auditor General with reference to the whole question of annuities might be in order at this particular time.

The WITNESS: The situation is this, that prior to 1936 the annuity rates were less than was enough to provide for the sums that might come for payment. In that year the rates were increased for all new contracts, but at that time there were 13,000 contracts existing on which a prospective loss was expected to be taken. The practice of the department is that they do not calculate that loss until the contract becomes vested, as they use the expression, that is to say, comes into payment; a person has lived until the required age and the money becomes payable. Then they make an actuarial calculation of what the sum will be and they put that up as a liability in the account. Last year there were 538 became vested, and the estimated shortage on those is that sum of \$382,000. On the remaining 13,000 contracts which have still to be dealt with the expectancy is about 82 per cent of them will ultimately become payable. If that 82 per cent is right there may be a shortage in that fund of between \$5,000,000 and \$9,000,000. There is nothing wrong in what the department has done, but my feeling is it would be an act of prudence to increase that account by the minimum figure, that is, \$5,000,000, as a liability, and that would be a truer statement of our prospective loss.

By Mr. Marshall:

Q. Would it be right to say the amount that is charged for these annuities is not the correct figure, that the actuarial basis on which the rates are worked out is not sufficient to take care of the contracts?—A. It was not up to 1936; those contracts sold since 1936 are all right.

By Mr. Roebuck:

Q. What is the basis of calculation prior to 1936 and afterwards, $3\frac{1}{2}$ per cent, or something like that?—A. It was an actuarial calculation based on certain tables that were used by everyone as set out in the Act since 1900.

Q. They were tables of expectancy, but they figured every amount of money paid in as having a certain value?—A. Yes.

Q. Annual value, and was it $3\frac{1}{2}$ or 4 per cent, or something like that?—A. It was coupled with life expectancy.

Q. Do you remember what rate of interest they calculated the money was worth?—A. The interest rate on annuities is 4 per cent.

Q. Is it still 4 per cent?—A. Yes, it is in the Act.

Q. There has been no change in the rate?—A. The premium rate has increased.

Q. But far worse than that, and something to which I strongly object, are the methods of taxation. If we have a run back of \$5,000,000 to \$9,000,000 in actuarial figuring of expectancy we are treating annuity holders worse and more outrageously than any other class of taxpayers because we are charging them double taxes on the capital which they invest. I mean this; if you earn some money you pay your income taxes on it; if you invest that money in stocks or bonds or something of that nature and lose it it is all right. You do not pay any more. You have paid your one tax, but if you put it into an annuity they charge you another income tax upon the capital as the money is repaid. It is illogical. The matter was debated in the house and Mr. Ilsley gave an explanation which did not explain it. There have been some English cases in which the magicians of the bench are able to change income into capital by a species of logic that is not logic. A man that can do that can make black into white. We have followed along not because of the soundness of the argument but because it is another method of grabbing money for the revenues of the country, which are sorely needed, but we have treated annuity holders worse than any other class that I know of. We are making the very commendable aim of laying up for one's old age and protecting the old age of your relatives a practical impossibility.—A. This suggestion which I make here does not add anything to the levy on the individual. The Act provides that all income received in the form of premiums shall be deposited to the credit of the consolidated revenue fund, and that all expenses of annuities shall be charged to the consolidated revenue fund. The Act provides there shall be an account kept and that account shall be annually presented to parliament. It is just to keep that account in balance that the suggestion is made. There is no money actually leaves the public pocket at the moment, and there is no levy made on the individual. It is to keep that account in true relationship to what the liability is. That is the sole suggestion.

Q. It is a matter of actuarial soundness which you are working for?—A. Yes, and you might say complete disclosure to this committee and to parliament of the possible cost of the annuity scheme.

By Mr. Marshall:

Q. Is it not a fact that the actual cost of administration plus the commissions earned by those who go out and write up these annuities is actually taken from the consolidated revenue fund and is not charged into the cost?—A. No, that is by annual appropriation in the Department of Labour. It is an annual vote as an administrative cost, so it does not enter into this fund at all.

Q. So that a person buying an annuity is really buying it at less than cost because of that fact?—A. The old ones were, not currently. It is now believed the rate since 1936 is a self-supporting rate, but those who had contracts prior to 1936 were getting it at a rate less than the ultimate cost to the government.

By Mr. Roebuck:

Q. What my friend means is that the Department of Labour pays part of the cost of administration?—A. Yes.

By Mr. Marshall:

Q. And that does not enter into the cost of the annuity?—A. You are quite right there. This plan was originally submitted to parliament, I think, by Mr. Cartwright. I think he was the minister then, and he wanted a plan which would provide a means of savings for the workman. Over a period of years the working class were not the ones who took advantage of this but more recently the working groups are because there are industrial groups which come under a sort of blanket policy who are taking advantage of it, and at least 50 per cent of the sales are to these groups.

By Mr. Roebuck:

Q. When Mr. Cartwright introduced it, and for a good many years afterwards, there was no limit on the amount?—A. No, sir.

Q. But in recent years it has been limited to \$1,200?—A. \$1,200.

Q. Or \$100 a month, which is an amount that a working person if he is fortunate might possibly be able to finance?—A. Of course, he can buy it for a lesser amount.

Q. Oh, yes, but there is a limit; he cannot buy more than that?—A. He cannot buy more.

Q. I look on the institution as a splendid thing, a magnificent piece of legislation. We are spending millions of dollars in old age pensions—mothers' allowances are hardly comparable—in relief in various ways to keep the people whose earning power has ceased as a result of age. Here is a scheme whereby people in their youth and middle age, when they have earnings, can lay up money to do the thing themselves instead of calling on the public purse. What outrages all my feelings of decency and public interest is doubling their taxes. I believe that it is utterly unnecessary, to make them pay twice on the capital which they invest.

Mr. MARSHALL: The point I want to make is this. You will find it on page H-9 of the Public Accounts, part II. It costs the people of the country actually \$264,228.67 for the operation of this. I cannot see why these people who are buying annuities should not have to pay the cost of the operation. That should be included in the cost of the annuity in my judgment. If you look at that, you will find down at the bottom in (C), "The following agents were paid commissions of over \$5,000."

Mr. ROEBUCK: What page is that?

Mr. MARSHALL: It is page H-9. It is in the centre of the book. It reads: "The following agents were paid commissions of over \$5,000: F. W. E. Bartholomew, \$6,358.53; A. Berscht, \$6,032.23; F. C. Crosby, \$5,047.74." In my judgment those costs there, when they are calculating the cost of the annuity, should be included in the cost.

Mr. McNIVEN: Mr. Chairman, those amounts are not net to the agents. They have to provide their own automobiles, their own expenses, and do their own advertising. It is not a net amount to them.

Mr. MARSHALL: There is a tremendous amount of advertising done by the government. The government annuity branch does a tremendous amount of advertising.

Mr. McNIVEN: The individual agents do a lot of advertising as well. I have seen a half-page advertisement inserted by individual agents for government annuities at their own expense.

Mr. MARSHALL: That may be.

Mr. ROEBUCK: Not nowadays.

Mr. McNIVEN: Within the last week, by the dominion government agent at Regina. It may not have been a half page but it was at least a quarter of a page advertisement. I saw it in the *Regina Leader*.

Mr. MARSHALL: Looking at the bottom of the page, H-9, we find, "Payment required, to maintain reserve, Government Annuities Act, c. 7, R.S. \$497,790.26."

The WITNESS: That is the transfer item I am referring to.

Mr. McNIVEN: What page is that?

Mr. MARSHALL: That is page H-9, Department of Labour, in the centre of the book. I think you will find, going back over the Auditor General's reports for a number of years, that he has been suggesting that this question of the annuities be taken up and that some definite scheme should be adopted with respect to annuities. Am I correct in that?

The WITNESS: Yes. Our reason is this. We regard this annuity scheme as a very important one to the investor. We should like to be sure that it is self-supporting and that there is never any doubt as to the solvency of the fund or as to the people getting their money. Therefore we should like to see it set up in such a way that it is an honest statement both from the point of view of them and of the government, and that they can buy these annuities with the full assurance that everything is in good order. That is why we should like to see that set up. While it is none of my business, if you will permit me to do so I should like to interject this remark with respect to these expenses you are talking about. I think you will find that it has been public policy for forty years, as a government contribution to furthering this objective, to pay the administrative costs. I think that is a matter of policy that has been adopted as a public contribution to promoting the sale of annuities.

Mr. MARSHALL: Yes?

The WITNESS: That, of course, is none of my business, but I just mention that to you.

Mr. MARSHALL: Is it not true that this was adopted as a scheme to take the place of what now is the old age pension scheme?

The WITNESS: Oh, yes.

Mr. McNIVEN: At least the minimum.

The WITNESS: To provide for old age.

By Mr. Marshall:

Q. Now we have the old age pension scheme, and these annuities are being sold to individuals who can well afford to pay the full costs?—A. Yes. There is no limitation on the class of individuals that can buy.

Q. That is the point.—A. Yes.

By Mr. Roebuck:

Q. But this is a contributory old age pension scheme while the other is non-contributory?—A. Yes.

Q. And if the government pays a little to help along the contributory scheme, it is only a fraction of what they pay into the non-contributory scheme.

Mr. MARSHALL: Oh, yes.

By Mr. Marshall:

Q. How long have you been associated with the department, Mr. Sellar?
—A. I came to Ottawa in the fall of 1924 as private secretary to the Minister of Finance. I was with him until he died in 1929. Then I went into the Department of Finance as the assistant deputy minister.

Q. Is it not true that on at least one occasion the government had to transfer from the Consolidated Revenue Fund to the Annuities Fund in excess of \$5,000,000 in order to stabilize that fund?—A. I do not recall the amount. I would not say whether it was \$5,000,000, \$4,000,000 or \$6,000,000. I think you will find in 1936, after the revaluations were made, it was established that there was such a deficiency that there was that big transfer made. I will not say the number of millions because I do not recall that.

Q. I have not the figures here.—A. It has been made within the last seven or eight years.

Q. I have the figure for commissions.—A. Yes. I am not doubting your statement at all, but I cannot say that I know it is the fact.

Q. The amount is very substantial?—A. Yes; a very large sum.

Mr. ROEBUCK: Of course, that is all water under the bridge. They corrected that by arrangements that were made for the deficiency in 1936.

By Mr. Marshall:

Q. Here is almost half a million dollars right here. Could the Auditor General say the amount that would be necessary to keep the fund stable this year which has just closed? Are you in possession of those figures?—A. Not yet. The fiscal year just ended.

Q. Could we have those?—A. I would have to get those from the Department of Finance and the Department of Labour.

Q. The fiscal year is now closed?—A. Yes. The accounts have just been closed now.

Q. Yes.—A. The last payments that would have been made in the old fiscal year were last Monday.

Q. You could not hazard a guess as to the amount?—A. No; because I have not seen the amount.

Mr. ISNOR: Would you mind, for the benefit of myself and perhaps other members of the committee, just explaining this a little more? Your point is that the government has been selling these annuities at too low a rate. Is that it, Mr. Marshall?

Mr. MARSHALL: Yes.

Mr. ISNOR: Having regard to making them self-supporting?

Mr. MARSHALL: That is my contention.

By Mr. Isnor:

Q. Would it be a fair statement for me to make if I were to say that the government in its effort to promote a state or publicly-owned annuity scheme has subsidized that scheme or policy to the extent of \$264,000, a year, roughly, or over a quarter of a million dollars in annual overhead expenses?—A. This \$264,000?

Q. Yes, last year.—A. I would say yes.

Q. Yes. To start with, the government in its policy of public ownership as against private ownership starts off by subsidizing them or bonusing them to the extent of over a quarter of a million dollars.—A. Yes, this year. I do not recall what the figure was for previous years. But taking this year, that was the amount.

Mr. MARSHALL: The amount involved is not \$264,000. It is \$264,000 plus \$497,000.

Mr. ISNOR: Yes, I quite agree. They start off with annual overhead charges against the annuity scheme of \$264,000 last year. That is right, is it not?

The WITNESS: I would say that that was the expenditure to promote the carrying out of that Act.

By Mr. Isnor:

Q. In other words, it is a handicap under which the private company, in carrying on, would have to cope with?—A. Yes.

By Mr. Gladstone:

Q. What volume of annuity sales did that promote?—A. I would have to get you that figure, Mr. Gladstone. I have not got that with me.

Q. This subsidizing brings the annuity scheme into competition, and perhaps unfair competition, with life insurance?

The CHAIRMAN: Yes.

Mr. MARSHALL: Undoubtedly life insurance cannot compete with that.

Mr. McNIVEN: But they are competing.

Mr. ISNOR: They are competing. They are not only overcoming that, but they are selling a huge amount as compared with the government with its lower rates and subsidizing to the extent of a quarter of a million dollars. That is my point.

By Mr. McNiven:

Q. May I ask Mr. Sellar this? Mr. Isnor mentioned the figure of \$264,000. Would it be fair to say that that was actual loss to the government or has the government been compensated at least in a degree by the fact that many of the annuitants who might have come under the old age pension scheme are not now on the old age pension?—A. Well, so far as this particular expenditure is concerned, that is, of course, new business. Therefore the people have got the money to pay and therefore they would not qualify within the Old Age Pension Act.

Q. No.

Mr. ROEBUCK: Not now.

By Mr. McNiven:

Q. The scheme has been in effect since 1908; and if it had not been in effect, many of these who made provision for an annuity might have been on the old age pension?—A. Oh, I think that is quite right. It might be so. We cannot say that it was, because we do not know the case history of them all. But your argument is quite reasonable.

Q. Is it not also true that the average annuity purchased is well under \$600?—A. I have not got that figure so that I could not tell you; but I think you are right.

Q. I think that is so.

By Mr. Isnor:

Q. I believe it is reasonable to suppose that some of these people would have invested in annuities and other insurance if this had not been in effect?—A. Of course, they would have to invest through an insurance company if they wanted more than \$1,200, as Mr. Roebuck pointed out.

Q. Yes.

By Mr. Roebuck:

Q. It does not necessarily follow that they would have invested with a private company. The dominion has an advantage in permanency, and confidence that no private company can have—A. Yes. But what I mean is this. If they wanted an assured income of say \$5,000 a year, they could only cover that up to \$1,200 with the government.

Q. That is right. But the government has an advantage which a private company does not have, in the confidence which the people have in government?—A. Oh, yes.

By Mr. Golding:

Q. Have you any information as to the amount sold for 1942? You would not have it for 1943 yet.—A. I have not got either figure. I can get them both for you, but I have not got them with me.

By Mr. McNiven:

Q. Is it not also true that this scheme is open to groups as well as to individuals—A. That is the bulk of the business now. I have been told that over 50 per cent of the sales are now to groups.

Q. And include the employees of many large corporations?—A. Yes. Well, I can only give you the cases that I actually know. It happens that the only case I do know of is in your city of Regina where the agent there spoke to me a year ago over the amount that was being allowed to him as commission for securing I think it was the Wheat Board personnel. He had worked on that scheme for several years and finally secured the sale. I am not sure whether it was 60 people or 240 people; anyway, it was quite a substantial number of people. He was being allowed a very small commission and he did not think it was fair.

Q. I quite agree with you that it was not fair.—A. So that is the only case I know of. But I have heard of cases indirectly of other companies, where the same group plan was applied. But that is the only one case that I have personal knowledge of because the agent spoke to me about it.

By Mr. Marshall:

Q. So that in that sense we are actually departing from the original idea which was laid down, that this was individual insurance. Now we have gone out to groups.—A. It is permitted by the Act.

Q. I know it is covered by the Act, but we are going into the group insurance business with large companies, whereas the intention formerly was to sell this cheap insurance to individuals.—A. Now, please do not think I am trying to argue this point, because I do not know anything about it, but I just want to inform you of what I do know. My understanding is that some companies find that they cannot set up a superannuation plan of their own, that they cannot bear the whole burden on such generous terms as some of their competitors. They make an arrangement with their employees whereby they go in on one of these group plans, the company putting up so much and the employee putting up so much, and they are covered under the Annuities Act.

By Mr. Roebuck:

Q. And the beneficiaries are poor people, not rich people?—A. The assumption is yes.

Q. They are employees; it is not the company?—A. No, the company gets nothing from it.

Mr. McNIVEN: They are workers.

The WITNESS: I look on that sort of plan to be the real intent of this Act. I may be wrong but that is my personal opinion.

By Mr. Marshall:

Q. Have you any information which would tell us the income of these individuals who would be insured under it?—A. No, sir.

Q. Under a group plan?—A. I would imagine the plan would be worked out. They vary with each company, of course. The plan would be worked out on the scale of the earnings of these individuals. It would not be for a uniform sum throughout, but it would be well to call a Department of Labour representatives who know the intimate workings of this Act, if you want that.

By Mr. McNiven:

Q. Do you know the maximum commission which is allowed to an agent?
—A. I am sorry I have not got that figure with me.

Q. I think it is \$50?—A. It is covered by regulations of the Governor in Council made many years ago.

Q. I think it is \$50 for a maximum contract of \$1,200. I think you will find that is right, Mr. Sellar.—A. I am sorry I have not got the figure so I cannot tell you.

Mr. ROEBUCK: I think we all agree it ought to be sound in its actuarial basis, and I would have no objection to any increase or decrease that came about to make it conform with sound principles providing we do not penalize those who go into it in unfair taxation.

The WITNESS: It does not in that regard. That is from the regard of the sum I am talking of; it is no penalty on them.

Mr. ROEBUCK: Not on the ones who went in prior to our new tax laws—they are not hit by it, but anybody who goes in now pays double taxes on his capital investment. I should like to see that fixed and then get it actuarially sound by all means.

Mr. GOLDING: That matter may be dealt with when the income tax items are before the house.

Mr. ROEBUCK: I think we ought to go into it. It was touched last year. I was not there but I noticed it was discussed a little bit.

The CHAIRMAN: It is a matter of government policy.

Mr. BURTON: May I ask are we dealing with the Auditor General's Report page by page or may one ask a question from any part of the report?

The CHAIRMAN: What we really started to do was deal with the last seventy odd pages of the appendix.

Mr. BURTON: I have a question I should like to ask on page 7. Would it be in order to ask it?

The CHAIRMAN: Yes.

By Mr. Burton:

Q. On page 7 of the Auditor General's Report, clause (j), it says:—

Under the authority of the Seed Grain Loans Guarantee Act, 1938, a guarantee was given with respect to the principal and interest of seed grain loans made by chartered banks to municipalities in western Canada during the crop year 1938.

Then, further down it says:—

The maximum principal amount authorized to be guaranteed under the Act was \$1,900,000 for Alberta and \$14,500,000 for Saskatchewan. The province of Alberta has paid to the interested banks all outstanding 1938 seed grain loans, and accordingly the dominion's liability with respect thereto was cancelled. The guarantee with respect to Saskatchewan is still outstanding.

I may say, Mr. Chairman, that several years ago the Saskatchewan government passed a very drastic tax collection Act with the result that various municipalities in the province did collect considerable taxes and seed grain advances. Yet in this report here it appears as if the dominion treasury's guarantee of \$14,500,000 is still in full operation. I was just wondering how a person could take from that how much the dominion liability in respect to that had been decreased by the amount of taxes and seed grain advances that had been collected in the province of Saskatchewan. There is a guarantee of \$14,500,000 which is

still outstanding in so far as the dominion treasury is concerned.—A. With regard to that matter there is this angle you have got to bear in mind. I am speaking from memory. I was in Regina in 1937 or 1938, I think it was—

Mr. McNIVEN: 1938.

The WITNESS: The legislation of the dominion government was for the \$14,500,000 figure but the province of Saskatchewan found it necessary to expend in seed grain that year the sum of approximately \$19,000,000. The municipalities are the first guarantors to the bank. It is the municipalities first and then comes the province. I think you will find the municipalities have applied the receipts they have got against what they were obligated to repay the banks, and therefore they have not got back to our \$14,000,000. We are in the residual \$14,000,000.

Q. So it would be correct to say so far that sum of \$14,500,000 has not been reduced?—A. At the end of that fiscal year it was still outstanding. The banks regarded the government as guaranteeing that sum of money.

By Mr. Boucher:

Q. Is it not a fact that seed grain advance is outstanding for almost thirty years?—A. There are various schemes. There is one under the old Department of the Interior that goes back practically to the early eighties.

Q. Is it not a fact there is some \$5,000,000 in advances made in seed grain under the old Department of the Interior that some people are paying on now and others are not, and that they are not even being billed, but it has not been written off and accumulated interest is being charged on the books only, but no attempt is being made to collect it?—A. I would not like to say that is true. I do not deny the statement, but I have not checked it myself. I do know this, that there are a certain number of transactions going through every month in connection with these old advances because they are a cloud on the titles, and when the farm land is sold and the buyer gets it he wants that cloud removed. Under the Act there is a board set up to deal with these things. I think there is one for each province, if my recollection is correct. There is a provincial representative and two federal representatives. They make a recommendation to the Governor in Council when they think the money cannot be collected, and the Governor in Council is empowered under the Act to take such action as it sees fit with respect to that. There are some collections arising by reason of transfers of property or by reason of the placing of mortgages on property.

Q. But the fact is there is no statutory authority, as I take it, to cancel those?—A. Yes, sir.

Q. And that there is a record being kept of accumulated interest which has reached very large dimensions right now, and yet through the Department of the Interior no attempt is being made to collect it, and they are only collecting such amounts as are being paid to them almost voluntarily by way of circumstances requiring this cloud to be lifted?—A. Yes, sir.

Q. Is it not also true that under the Farmers Creditors Arrangement Act the board of review in the province of Saskatchewan has written off or cancelled some of these liens without proper statutory authority to do so?—A. I am trying to recall anything I have got in my files on that subject, but I cannot say. I would have to verify it.

Mr. MARSHALL: I do not think it is right to say no effort is being made to collect any of these old seed grain liens. I was a municipal secretary in the province of Alberta for many years prior to coming to Ottawa and I certainly know we made every effort, and the effort is still being made, to collect these old seed grain loans that are outstanding.

Mr. BOUCHER: I mean on behalf of the dominion government.

Mr. ROSS: It was in unorganized territory.

Mr. MARSHALL: I do not know of very many seed grain loans outside of the municipalities which are set up. I do not know that there is very much outstanding in the unorganized territories. I think the amount is very small.

Mr. BOUCHER: I understand it amounts to something in the neighbourhood of \$5,000,000.

Mr. MARSHALL: That covers everything, the organized territories as well.

Mr. BOUCHER: While you are on that, would it be possible to get us what particulars you can on that?

Mr. CRUICKSHANK: What are you bringing it up for?

Mr. BOUCHER: I want the matter satisfactorily explained as to the policy adopted.

The WITNESS: What you get from me will be second hand. If you want to get it factually it will be well to call Mr. Gibson.

Mr. BOUCHER: To be frank with you I do not think it looks like good business to charge accumulated interest and compound interest on a long outstanding account and not make an attempt to get the cloud on the title cleared off either by way of compromise settlement, writing it off or collection. I say that the matter should be cleaned up.

Mr. GOLDING: Are you making the positive statement they are not trying to make collections?

Mr. BOUCHER: I am just making a statement of what I believe to be the case as a means of getting particulars.

Mr. GOLDING: But you are not sure?

Mr. BOUCHER: Oh, no, definitely not.

Mr. MARSHALL: I have given this subject a certain amount of study, and you will find on page J-66 of the Public Accounts that the dominion government has been doing something with respect to these old seed grain and relief accounts. You will find that they wrote off \$42,058.24.

Mr. HENDERSON: For the information of the committee I might say there has been an attempt made in the district I have the honour to represent. Just last week I got three compromise settlements through.

Mr. ROSS: I think this is a very different matter to that altogether. You will find where these loans were made through the provincial government and the municipalities there has been some satisfactory arrangement made. Either they have been collected or written off in due time. This is a matter which deals directly with unorganized territories and was handled by the Department of the Interior.

The WITNESS: They cover the western country say up to 1905 or 1907 when the provinces were formed. It covers that period, and it covers certain amounts that the parliament of Canada has periodically authorized to be advanced. There are two or three Acts on the subject spread over the last fifty years, and it is these sums which are there. I know that in the write-offs of these things they are reviewed, as I say, by this board in the west which makes a recommendation. It comes down to Ottawa and is reviewed departmentally. Then I know it has to go through the treasury board and then has to be approved by the Governor in Council, but I think it is quite probable, human nature being what it is, that when you have not got anything on an account for thirty years you begin to regard it as dead, and you do not put great effort into trying to write letters and finding somebody to write letters.

Mr. ROSS: It would look like sound business if they were written off, then.

The WITNESS: Bear this in mind, that the department has got no power to write off a debt receivable. This committee has, but a department has got no power to do anything. We have got old accounts in the books going back—I think the earliest one that I know of is 1816.

Mr. BOUCHER: Do you not think it is time the matter was cleaned up?

By Mr. Cruickshank:

Q. Did you say that this committee has power?—A. This committee, or parliament.

Mr. CRUICKSHANK: Why waste time? Let us write them off.

The CHAIRMAN: This committee has power to recommend to parliament.

The WITNESS: What I mean is, and my memory may be faulty, my recollection is that the Public Accounts committee in 1908 set up a special committee to review all of the accounts receivable of the departments, and they made recommendations with respect to the write-off of a large number of them, and directed the department to seek to enforce others. They made their report to parliament; the House of Commons approved it but there was no formal legislation. However, on the strength of that these items were written off and action was taken with respect to others. But there has been all that accumulation of the last thirty years, plus the stuff that was carried over. As I said, they refused to refer back one in connection with the Selkirk territory, and there are various others that are there. We have got to, year by year, carry these forward in the accounts.

By Mr. Marshall:

Q. Can you supply us with a list of those?—A. It would take months to compile it again, but if you would be willing to look at it, I am certain that the treasury service and our officers in the department would put forward all sorts of effort to get it.

Q. Could you get us the information with respect to these old seed grain liens and relief loans?—A. Yes.

Q. Which have been outstanding so long. Perhaps we might start with those.

Mr. ROSS (*Souris*): Should Mr. Sellar do that or should we have an official of the department come before us?

The WITNESS: An official of the department, of course, would have the records.

Mr. BOUCHER: Is it not a case, in a nutshell, of the property having a lien against it which is inactive until somebody attempts to clear up the title, whereupon some settlement or adjustment must be made somehow before the title can be cleared up, and the matter is being carried by the government as an asset when it has very doubtful, if any, value, although I suppose considerable collections are being made from year to year by those who must make the settlement.

By Mr. Isnor:

Q. What would you think of the following procedure, as suggested in the amendment to the Bank Act: after a certain period, say twenty years, write off all outstanding accounts?—A. Would you extend that to taxes?

Q. I particularly had in mind the seed grain accounts.—A. Well, of course the Statute of Limitations does not run against the crown. That is point number 1. If we were a private concern, at the end of seven years as a rule they would be out of the picture.

Q. Yes.—A. I would doubt the prudence of you taking that step. I think it is better to have a procedure provided so that every one is satisfied that a real effort has been made to collect it and that it is uncollectable.

Q. But you cannot make a recommendation to this committee so that we can in turn consider it, and possibly pass it along as a recommendation in our report?—A. I will be quite willing to put that in, because three years ago I made that suggestion in my report.

Q. I beg your pardon?—A. Three years ago I made a suggestion along this line. Take the situation right here in Ottawa. The Department of Trade and Commerce is supposed to collect cullers' fees. Nobody knew what a culler was. It is a term that has dropped out of use entirely. It is connected with logging operations. Yet there are certain sums owing by companies going back into the nineties in connection with this. They are on the record. Some of the companies are still in existence. Some are not.

Q. I agree with Mr. Boucher that it is foolishness for the government or anyone else to carry large sums on their books as bills receivable when their value is very little.—A. If this committee were interested in the general picture or were willing to take a statement prepared in 1930 or 1931, I am satisfied there is in the records of the Department of Finance a tabulation, because I then tried to interest the government in taking action in respect to writing off those and we assembled a list from the department. If you would like to use that, as to what might be involved, that would give you a lead.

Q. I am not interested in the list itself, but rather in the principle of writing off those amounts, or as to any recommendation you may have along those lines. I think, Mr. Chairman, we should have a recommendation from Mr. Sellar along this line, in order to deal with it.—A. I have in this report a reference there to the receivables of the King's Printer. I have got that in to bring that subject before the committee, particularly because the receivables, gentlemen, are with respect mainly to former members of parliament. I thought it was one that you might regard should be considered. In the use of the expression "former members of parliament" there is not any reflection intended. They are in the main disputed accounts.

By the Chairman:

Q. You would not expect to collect anything from a member of parliament? —A. They are not members of parliament now. They have died.

Mr. ROSS: They are ex-members, so that their credit will not be very good.

The WITNESS: It would give you a definite illustration of what goes into this sort of list. My reference is at the foot of page 20, paragraph 63. That paragraph reads as follows:—

63. Accounts Receivable—Arrears due the King's Printer for printing and stationery supplied to various government departments or offices amounted to \$55,673.69.

That money is all collectable.

Mr. MARSHALL: What page is that?

The WITNESS: That is at page 20. Here is the material sentence:

An additional amount of \$10,609.75 was outstanding at the close of the fiscal year for publications. A substantial part of the latter consists of arrears of many years standing.

By the Chairman:

Q. What is that accumulated for?—A. The people buying reports, the reports being sent and they not sending the money in payment for them.

By Mr. Isnor:

Q. You made no recommendation there. Would you recommend that large portion of the balance be written off? You stopped where I should like to see you begin, namely, at the point of making a recommendation.—A. Well, I felt it was a little presumptuous on my part to make recommendations to you. I bring the fact to your attention, and then if you wanted me to make a recommendation I would; but I did not think it was my place to tell you what to do.

Q. Dealing with that particular item, you say it is \$10,000 and some odd?

—A. Yes.

Q. And \$8,000, say, has been outstanding for a considerable period of years?

—A. Yes.

Q. Would you recommend to this committee that that portion should be written off?

Mr. ROSS (*Souris*): I do not think it is a fair question to ask an official of the government.

The WITNESS: Here is my approach to it, sir. I will say that that \$8,000 should be scrutinized not only by the department but also by some one in the Department of Finance who is responsible for collecting the public revenue, to make sure that the department has not been delinquent.

Mr. GOLDING: That is the point.

Mr. ISNOR: We have something definite, then.

The WITNESS: Then if you are satisfied that the thing is entirely uncollectable, I think that there should be a suitable procedure whereby that could be written off. But you want safeguards. You do not want to allow anyone to write off taxes, and you do not want anyone to escape payment just by being careless in paying their bills.

By Mr. Boucher:

Q. Is it not a matter of each individual case having reasons of its own which should be treated on its own merits?—A. Yes. And if you are satisfied that the thing is uncollectable, all right, dispose of it.

Q. What I object to in the situation now more than anything else is that some people are paying and others are not, and we are not sure that the people who are paying generally do not deserve as much credit, leniency or consideration as those who are not. The matter should be cleared up one way or another.

Mr. GOLDING: But you are only assuming that.

The WITNESS: Yes. I would not say that exists generally. I think the department have made a sincere effort to get the money.

Mr. GOLDING: Yes.

The WITNESS: I do think that we give a lot of services free that charges might be imposed for.

Mr. CRUICKSHANK: Mr. Fraser Elliott makes a good job of collecting, though.

By Mr. Isnor:

Q. If we are through with that subject, Mr. Chairman, I should like to ask Mr. Sellar in regard to a discussion we had last year which centred around deductions being made by employers from employees covering payments to be made on applications made by the employees for the purchase of Dominion of Canada bonds. As I recall it, you stated last year that there was no provision in the Audit Act, which would take care of a case such as this. If the employer collected considerable amounts from employees and that firm failed, the person subscribing to the bond might lose his equity in the bond. What recommendation or what action was taken, if any?—A. No action was taken.

Q. You say no action was taken?—A. No. Our feeling, or my feeling on that subject is that such an employer should be regarded as a trustee of the Crown and therefore the individuals concerned would get their credit even if the employer never paid the money over to the Crown; that he should be regarded as an agent of the Crown. That is my feeling.

Mr. McNIVEN: In other words, he would be a preferred creditor.

The WITNESS: If an individual paid \$50 for a bond, and if that money was never turned over to the Crown, the loss would fall on the Crown and the Crown

would be obligated to give that person his \$50 bond upon proving that he had paid the money over to the employer.

By Mr. Isnor:

Q. I think the members of this committee would agree with you, but what I am concerned with is as to whether the situation exists to-day. Is the employee guaranteed in any manner or form by the government along the lines indicated by you?—A. I would say this—again I am a little out of my field, but I talked to Mr. Towers on this subject and I talked to officers of the Department of Finance, and they regard that we are morally bound whether we are legally bound or not; but as I say I have nothing in writing. We discussed it from time to time.

Q. I believe we should have something in our recommendation or report, when we present that report, covering that point and making a recommendation to the government that that situation as explained by Mr. Sellar should be covered by an amendment to the Audit Act.

The CHAIRMAN: Mr. Isnor, your suggestion is that Mr. Sellar make the recommendation to this committee as now sitting; not in his next report?

Mr. ISNOR: I think he has made a good recommendation in the matter he mentioned a moment ago, and I want it embodied in our report if we are going to make a report.

Mr. CRUICKSHANK: He used the expression "morally responsible"; you say that they should be legally responsible?

Mr. ISNOR: That is a matter of words. The main thought is to make sure that the individual investor is protected.

The WITNESS: What Mr. Isnor wants is an equivalent to the language employed in the Income Tax Act where the deductions are made at the source, that the employer definitely would have to be the agent; that is what you want?

Mr. ISNOR: Yes.

By Mr. Marshall:

Q. I would like Mr. Sellar to turn to page 9, paragraph 20, "Fees of the Department of Agriculture".

Test audits were made of accounts in offices collecting fees from inspection, registration and licences and record of performance work. It was noted that, with respect to accounts concerning inspection work, while collections were not invariably made promptly, it was the opinion of administrative officers that there were no uncollectable arrears. In the audit of fruit dealers' licences accounts, it was revealed that between November, 1941, and January, 1943, \$175 in licence fees had not been deposited to the credit of the Receiver General. The sum was recovered by deduction from the salary of an employee. As a result of the examinations, various recommendations were made to the Department with a view to improving accounting procedures.

I wonder if you would list the recommendations which were made with respect to that?—A. You are referring to the \$175 shortage, in this respect, are you?

Q. There must have been some poor cost accounting; the system must not have been the best?—A. No, the weakness is this: the forms of the Department of Agriculture in use at the time were not serially numbered, therefore a receipt could be given without any check being established—at least, there is no accounting which had to be made for that particular form and moneys could be retained. Now, the Department of Agriculture is co-operating excellently with us; we have had numerous meetings; and as a matter of fact one of my

chaps is travelling across Canada now introducing an improved system after the department brought to Ottawa all of its senior men. The receipt forms are now serially numbered and a record is being kept of those forms so that we can ask for the accountings, and we can also follow through to the licences issued. In this particular instance the \$175 was all paid in Ottawa at various times by local people. We do not know what happened to the money. The department does not know what happened to that money. We do know that a clerk in the department was responsible for the accounting and depositing of that money, and he, not being able to produce the \$175, this sum was levied back on him and he paid it.

By Mr. Boucher:

Q. There is no way of ascertaining whether he is the guilty one or not?—
A. No. There was a shortage of \$175. This chap was in a similar position to the teller of a bank and was responsible for the money, and when he could not produce the money it was levied on him.

By Mr. Marshall:

Q. You wanted to stop that?—A. We tightened it up with the strong co-operation of the department.

Q. At the bottom of page 9 and at the top of page 10, you say:—

As the result of this agreement, branch offices at Moncton, Windsor and Vancouver were closed in February, 1943. The audit prompted the making of recommendations to the Department with a view to a simplification of system. The Department, effective August 1, 1943, adopted the proposals.

Would you explain what happened?—A. The United States and Canadian governments entered into an agreement with respect to moving backwards and forwards the residents of both countries. The Department of External Affairs had up to the outbreak of this war run only one passport office, which was in Ottawa. As the result of the war and the requirements for United States passports they opened branch offices at various places. They never had what we consider a simple and efficient system; it took a good many people to work their system. We made a thorough examination of the situation; we made suggestions as to how we thought they could simplify and improve the system. The department adopted most of them, the material ones, and made improvements on the others. We bring it to your notice. Really that item was in there to give you some explanation of the reason for the reduction in the amount of receipts in the year.

Q. In the next paragraph with reference to fines and forfeitures collections you have this to say at about the last seven lines of the paragraph:—

But it would be in the public interest were some administrative agency charged with the general duty of making certain that the government receive all the moneys from this source to which it is entitled. A suggestion to that end has been made to the Department of Justice. In the course of the examinations it was established that the sum of \$7,102.32, collected through the R.C.M.P. and remitted to the Department of National War Services, was not deposited to Revenue in the fiscal year 1942-43. The cheques were deposited in September, 1943.

A long time elapsed from the time the money was received by the Department of National War Services. They received it some time prior at least to April, the closing of the books in April, 1943, and nothing was done with the money until September, 1943?—A. Yes, sir.

Q. And just what were your recommendations in that connection?—A. In the Criminal Code, as you know, whenever a revenue statute is involved the

Code provides that the fine shall be paid over to the Receiver General; also, when a prosecution takes place under a federal statute all the costs of the prosecution are borne by the dominion government so that all fines should be paid to the dominion government. Now, it may happen that a magistrate or a justice of the peace or county court judge may levy a fine but under his practice he makes his accounting to the province and the money goes into the province and the province remits it through to us. The R.C.M.P. and the Wartime Prices and Trade Board diligently follow up each conviction and each fine to see that the money comes back to the dominion, but other departments which may have only a little business and have never read the Criminal Code in their lives do not know about this and they think that it is up to the lawyer who has been retained for the prosecution or it is the job of the Department of Justice, and if the Justice of the Peace does not send in that money nothing ever happens. Now, a further suggestion was, in view of all of these special Acts or regulations made under the War Measures Act, that there should be some central authority charged with the duty of making certain that all of that money comes in. I suggested to the Department of Justice that it should take on the job as it retained lawyers in the first instance. Their reply was that they did not think they were well suited for it and they suggested my office should take on the job. Well, as we only see the thing once after the event we did not think it was right, but that is how it stands.

With respect to this money, I think the R.C.M.P. when they collected that money paid it over by means of Receiver General cheques—there are several cheques involved—to the Department of National War Services. The clerk who got that money did not know what he should do with these particular cheques. He put them in an envelope and put them in the vault and it was only when we were completing our audit of the R.C.M.P. and wanted to establish that they had issued cheques that we went there and inquired and we found those cheques in the vault and they were deposited.

By Mr. Boucher:

Q. Does it not illustrate the fact that when the provincial governments do collect the fines from the magistrate or the justice of the peace who levies them that the fines should invariably go there instead of having the justice of the peace or the police magistrate levy fines and pay them over to the person who prosecutes, the R.C.M.P., and pay theirs over to the provinces. Would not the thing be simplified if an agreement were made between the federal government and the province that the provinces collect from the stipendiary magistrate or the justice of the peace all fines and give an accounting to the government rather than have four, five or six or more officers dealing with each individual fine?—A. Yes.

Q. I say that because I have had some little experience with this matter. A magistrate or a justice of the peace levying fines does not always feel justified in turning the fine over to even the R.C.M.P. who prosecutes without having authority from the body under whose employment he really is, namely, the provincial government, and it does seem to me that there could be much more co-operation between the federal authorities and the provincial authorities provided the provincial authorities would collect all fines and account to the federal government for such fines as properly belong to the federal government rather than have the federal government go to their officer and have him collect them directly himself. Is not that the answer?—A. To achieve that you have to make some department responsible for the arrangement for the dominion. You have thirty-five or more departments of government and you cannot have all of these thirty-five departments going to the Attorney-General's department of each province.

By Mr. Marshall:

Q. Am I correct in saying that no decision has been arrived at with respect to the responsibility as between the Justice Department and the Auditor General?—A. We just made that suggestion to them because they retained the legal agents.

Q. They did not accept that suggestion?—A. They did not accept that suggestion, no.

Q. What happened?—A. Nothing happened; the matter is just as it was.

Q. Is it still up in the air?—A. Yes, sir.

By Mr. Isnor:

Q. Do you audit the accounts of the National Harbour Boards?—A. Yes, sir.

Q. All their operations come under your supervision. You have a man go to the different ports such as Montreal, Quebec, Halifax, and so on, and go into their individual accounts?—A. For the ports of Halifax and St. John we have a chap full time carrying on currently an audit and at the end of the year a senior goes down from Ottawa to assist him. There is one down there now.

Q. Where is he stationed?—A. In Halifax. He goes over for certain months in the year to St. John.

Q. He is employed by your department?—A. Yes, sir. Then, for the river St. Lawrence ports—Montreal, Quebec, Three Rivers and Chicoutimi—we have a more senior man definitely assigned twelve months of the year to the work. He has certain assistants who are located in Montreal and Quebec and they carry out this work. For Vancouver we have an officer stationed permanently at Vancouver, part of his duties being to audit continuously the accounts of the Vancouver harbour and the Second Narrows bridge. The account for the Port Colborne elevators and Hudson Bay are controlled from Ottawa as is also the Prescott elevator.

Q. Have you anything to say with regard to the policy of the National Harbours Board? I know that the different ports have borrowed large sums from time to time. I am familiar with the Halifax situation. They have a loan of \$850,000 on which they pay interest. Are you in a position of being able to say to the National Harbours Board: I see that Halifax is operating a surplus and their net surplus has been sufficiently large to liquidate a large portion of that loan which is outstanding against them, thus reducing their interest rate. Are you in that position?—A. At the present moment, and for the last year and a half, the National Harbours Board have been endeavouring to establish their capital position with respect to the ports. They have got capitalized works in there which are represented as having been constructed on loans and which no longer exist.

Q. What do you mean?—A. They might have put up a shed in 1900 and that shed has burned down and a new shed has been built in its place. Now they are trying to establish what is their capital position there for that purpose. In the public accounts, the balance sheet, you will see loans to the National Harbours Board carried as an asset. Now, I am curious about those loans in the balance sheet.

Q. About the value?

Mr. MARSHALL: Where would you find that?

The WITNESS: It is on page 2 at the front after the Roman numerals. Look at J-6: National Harbours Board, schedule E #page 20, \$85,150,000. That covers what you are talking about.

By Mr. Isnor:

Q. Yes.—A. What intrigues me in connection with these things—

Q. Before you go on, included in that \$85,000,000 is an amount chargeable to the Port of Halifax?—A. Yes.

Q. That is shown in the original amount mentioned in the report on page 74 or 75 of \$850,000?—A. Now, let me correct myself there. That \$85,000,000 refers to Montreal and Vancouver only.

Q. Yes, that is what I wanted to get.

Mr. MARSHALL: That is on page 20: "Montreal \$60,000,000; Vancouver, \$25,000,000."

Mr. ISNOR: What does Halifax show there?

Mr. MARSHALL: Halifax does not show there.

The WITNESS: They are non-active. If you will look at page 25, sir, under non-active, you have Halifax \$12,471,412.12.

By Mr. Isnor:

Q. My question is: Halifax is paying its interest on this outstanding loan; they are also one of the few ports that is showing an operating surplus; are you in a position to advise the National Harbours Board that they should reduce that debt from their earnings in that particular port?—A. I am speaking from memory. I think the National Harbours Board Act gives the harbour board power to do so. I do not think I could dictate to them because the Act requires that the accounts of each port shall be kept separately. That is to say, they cannot be thrown into a single basket.

Q. Do you know if they are reducing that?—A. I do not think they are. I think they have with respect to Saint John because there are certain bonds of Saint John which are held by the public, and that were originally guaranteed by the city of Saint John, or issued by the city of Saint John, which we took over, and they are being written off by actual payment off, but I think all of Halifax was a loan from the dominion government.

Q. And if their operations are such at the present time that they are showing a surplus you would say it would be good business for them to refuse?—A. Yes. You and I could not disagree on that, sir.

The CHAIRMAN: Mr. Isnor, what you want to bring out is, can Mr. Sellar's department force them to reduce their debt out of the surplus?

Mr. ISNOR: I will not say "force", but recommend.

The CHAIRMAN: To recommend.

By Mr. Marshall:

Q. On page 12 of your report there are four very interesting paragraphs; paragraphs 34, 35, 36 and 37, but particularly paragraph 36. Paragraph 36 reads:—

R.C.A.F. salvage accounts: The examination of salvage ledgers disclosed an unsatisfactory condition with regard to the collection of amounts of sales that had been made, and also with regard to approval of sales made being obtained from the salvage officer. Attention was drawn to the situation. As a result, all items which had been outstanding for an undue length of time were investigated and instructions issued that units secure approval from the salvage officer at time of sale.

I wonder if you would enlarge on that?—A. The situation is as stated there, that the various districts were operating under a plan whereby they had some stuff—it might be swill or anything else—which had a local commercial value. It might be parts. Where the amounts were small they had a general arrangement whereby they could make the sale locally as agent in effect for the salvage officer who is an officer of the Department of Finance. It was observed in the course of audit they were finalizing these sales without any reference being made to the salvage officer, and therefore it might be the check-up he should maintain was not being made. As soon as that was brought to the notice of

headquarters of the R.C.A.F. they took prompt action, issued orders that all formalities should be observed, and that everything should be reported to the salvage officer and he should be consulted wherever possible. The situation has now changed again by reason of the creation of the War Allocations Committee and the new corporation.

Q. This has been taken care of?—A. There is nothing you need to be disturbed over so far as we know.

Q. What about paragraph 34? It reads:—

R.C.A.F. rentals: At various R.C.A.F. stations, accommodation is leased for non-service purposes. Examination of rental ledgers disclosed that accounts, covering rentals at various stations in Canada, were considerably in arrears. It was explained that this was due to dissatisfaction with the increased rates which were established by the R.C.A.F. on November 30, 1942. As a result of an audit observation, the accounts were referred to R.C.A.F. headquarters for decision, but as of August 1, 1943, no action had been taken with respect to eight of these accounts.

It might be just as well if you would give the committee an explanation of that.—A. They have now with two exceptions. These rental services are for barber shops, cleaners, launderers, tailor shops. These are little things. I will take No. 1, for example.

Q. What would be the amount involved in these accounts?—A. I will take No. 1 to illustrate. It is one at Trenton, Ont., a barber shop. He was paying \$15 a month and they revised the rate and he disputed the rate and they came to an agreement of \$20 a month as a fair rate. That has been put into effect. Again at Trenton there was a little pressing shop where the rent was \$5 and they made a small increase in it. At No. 4 station in Edmonton there is a barber shop there and they were paying \$15 a month. There has been no decision made in it. There are two cases where no decision has been taken yet.

Q. They are small items which are not of any consequence?—A. Not of any consequence; it is just a matter of policy to make certain that the public is getting the information it should, whether it is a big item or a small item.

Q. The only thing is that anyone reading the paragraph might be led to think there was something extraordinary.—A. I am not allowed to discriminate. It is a matter of policy and I have got to report.

By Mr. Ross:

Q. These were all cases where they were servicing units?—A. Servicing the R.C.A.F. personnel there.

By Mr. Isnor:

Q. This is a very fine report you have prepared. To the average person who does not take time to go over all the items it provides a good background. It contains in printed form 78 pages. It was dated November, 1943. That is presented to the deputy minister, is it? Does your report go to the Deputy Minister of Finance?—A. No.

Q. To whom does it go?—A. It goes to the house. There is a little thing there which is not intended to be misleading at all, but in the preliminary write-up of Mr. Clark, the Deputy Minister of Finance, there is a sentence on page 14 in the roman numerals where he says—he speaks of how the report is set up and he says:—

Part 3—the Auditor General's Report to the House of Commons, containing his comments upon the information disclosed in the preceding sections and such other matters as he is required or may wish to report upon.

Reading that, you might think I had the opportunity to peruse everything that Mr. Clark had said and everything the Comptroller of the Treasury had said,

and that we verified all the language they used. We, of course, are concerned with the accounts, not their explanations. We reviewed these things and, as a matter of fact, we never saw Mr. Clark's write-up, which he had signed, at all. The officers of the Comptroller of the Treasury did show the pages of galley proofs of their part to our chaps who were working on these audits to make sure they were not overlooking anything which should go in, but what we do so far as my report is concerned is that it is prepared in our office, sent to the King's Printer, it is printed by the King's Printer, it is bound into this volume and is tabled in the volume by the Minister of Finance. The Act provides if the Minister of Finance does not table my report I am to come up and hand it to the Speaker.

Mr. Ross: Does not this last clause on page 2 of the Auditor General's Report rather answer Mr. Isnor's question?

And also "to any other case which the auditor general considers should be brought to the notice of parliament". In this report attention is drawn to various matters which appear to come within the ambit of that direction.

Mr. ISNOR: Why I asked Mr. Sellar that question was because I had read—perhaps not as carefully as I should have—the report as outlined by Dr. Clark in conjunction with Mr. Sellar's report, and I suggested if we were going to have Mr. Sellar we should have Dr. Clark follow him.

The WITNESS: I think you should.

By Mr. Isnor:

Q. But I am anxious to follow this just a little further. You make your report and send it to the King's Printer to be printed?—A. We certify the balance sheet, of course, and we certify the revenue and expenditure statement. Those go back to the department when we put on our certificates.

Q. If this report is not referred to the Public Accounts Committee it is just possible that no action whatsoever might be taken and no notice would be taken of your recommendations?—A. It could happen.

The CHAIRMAN: In other words, Mr. Isnor, the status of Mr. Sellar's jurisdiction, or his position, is that he is not responsible to any minister. He is responsible directly to the House of Commons. That is correct, is it not?

The WITNESS: Yes. If you will permit me to say so I think there is a wealth of information in Dr. Clark's write-up there that you might be interested in. Take, for example, loans and advances. There is a very striking thing there. It is a matter of policy in connection with the Canadian National Railway. In 1938 the dominion government held 5 per cent of the securities of the Canadian National Railways and 95 per cent was held by the public. As you will see by the public accounts of this year, the balance sheet, the government of Canada now owns over 45 per cent of the outstanding debt of the Canadian National Railways. It is a very material change.

By Mr. Isnor:

Q. Brought about largely in the last three years?—A. Since the outbreak of the war. In other words, the Canadian National Railways is getting money possibly cheaper than it got before. Then you have got to weigh against that the effect it may have on the management of the company gradually becoming a glorified government department, because as our investment in it goes up the outside influence on it to make good interest charges, and so on, is reduced. It is a very interesting situation.

Q. Yes, it is. It is more and more becoming a so-called publicly owned institution.—A. In the true sense. It is becoming in the true sense publicly

owned. I am not saying there is anything wrong with it. It is an interesting point, and Dr. Clark refers to it.

By Mr. Golding:

Q. You said it is about 45 per cent now?—A. Yes, sir.

By Mr. McNiven:

Q. Does that come about by the repatriation of securities?—A. To a great extent, and the fact on account of the victory loan and other things the Canadian National could not go to the market under its own name. The dominion government was required to guarantee all moneys, and therefore it has been financed by an amount of direct borrowing by the dominion.

By Mr. Ferland:

Q. May I go back to page 6, paragraph (h) and ask Mr. Sellar at what rate of interest loans were advanced to the Canadian Wheat Board by the chartered banks under the guarantee of the dominion government?—A. That figure will not be in the public accounts. I will have to get that. I am very sorry I have not got it.

Q. Is there any attempt or suggestion or proposal made by your department or by the government to have the rate of interest reduced by the banks?—A. I am sorry. It may be in the public accounts, but I do not think so. I would have to get it for you. I will give it to you.

By Mr. Marshall:

Q. There is a little paragraph on page 50. I have quite a number of things which I have noted here to bring to the attention of the auditor general but I just want to bring one or two at this time. I think paragraph 163 on page 50 should be cleared up because it might give a wrong impression to the general public. It reads:—

The cost audit on a contract valued at \$16,735 with J. B. Harper and Company disclosed that a profit of 40 per cent on cost had been made. Adjustment or explanation of this apparently excessive profit has not been received.

Would the auditor general give us a statement with respect to that and indicate whether or not that matter has been taken care of?—A. To the best of my knowledge the money has not been recovered. This was a small contract. After it was completed it was cost audited and, as stated there, it was established a large profit was made. For some reason that nobody can satisfactorily establish there is no sign of it being delivered. No action was taken on the file forthwith to recover the money. When it was observed that no action had been taken they followed up with the company. It is a small company. They disputed the cost accounting saying that the cost accounting had disallowed certain expenditures that they had made; that, as a matter of fact, they had spent the money and they did not have the money on hand to make repayment forthwith of what was considered reasonable. The Department of Munitions & Supply, the treasury and this particular contractor have been in discussion, but unless payment has been received within the last six weeks, whatever the sum is, it has not been paid yet.

Q. What kind of a firm is it?—A. It is a small firm over here in Hull. It is a local firm.

By the Chairman:

Q. What were they making?—A. Something in connection with the navy; I am not sure what.

By Mr. Marshall:

Q. Is it still receiving contracts from the government, or do you know?—

A. Of course, a general instruction has been issued by the department and by the treasury that if any paying officer observes any payments about to be made to this particular company that payment is to be withheld until suitable action is taken. Everyone concerned is seeking to co-operate. The firm acted in good faith. I do not think there is any reflection on them but they possibly went a little too far and spent a little too much money and they could not absorb the reduction in their costs.

By Mr. Ross:

Q. Along somewhat the same line on page 60, section 215, headed "Transport", it reads:—

This department is charged with the administration of various construction works associated with the development of air fields. The majority of the contracts are based on "unit prices", but some are on "cost-plus" basis. In the case of a contract with H. J. O'Connell, Ltd., Montreal, the first contract was at a firm price of \$75,000. Shortly after it was varied and made on a cost-plus basis, the estimated cost being stated at \$250,000. During examination of records it was observed that no cost accounting was currently being made. Action to this end was subsequently taken.

Can you explain that?—A. This company was given a contract—it is war work in connection with an airport—on a unit price basis, a firm contract, so to speak. Then the work was enlarged and it was decided it would be more economical from the crown's viewpoint to change that basis, and that meant forthwith the costs all became subject to cost audit. The treasury did not assign a treasury cost auditor to the job. As soon as that was brought to their notice a treasury cost accountant was assigned to it, but in the fiscal year prior to his going on the job these expenditures had been made, and that is why we report it. We do not report it as being anything wrong, but we put in that qualification in our report for this year. If we have found anything wrong in connection with a contract, we will report it. That was why that one was noted. It is just to say we did not give them a clearance. The department cannot argue that we gave them a clearance last year on this thing.

Q. In all cases now, in those cost plus contracts which are being carried on, the treasury department have a man there to audit this?—A. They have either a man continuously there or he goes there periodically. It all depends on the size of the contract, the nature of the contract, and the number of contracts in that area.

Q. A treasury official checks every item in every case now?—A. Yes. They have a large staff.

Q. Going back to page 31, not taking this thing just in sequence, item 96 (d) deals with the administration expenses of the Unemployment Insurance Commission. Item (d) under section 96 says:—

The expense accounts of the manager of a local office in the prairie region were found to be unsatisfactory. They included fictitious hotel bills in support of travel claims for trips never made. Ascertainable overpayments have been recovered and the employee dismissed.

No other action was taken?—A. No, sir. The sum involved was \$75.

Q. I did not hear the latter part of your answer.—A. \$75 was the sum involved.

Mr. GOLDING: What page is that?

Mr. Ross (*Souris*): Page 31, section 96, paragraph (d).

By Mr. Marshall:

Q. What improvements do you contemplate making in the report this year? Are you in a position to say? Is it going to be larger than it is?—A. You mean mine?

Q. Yes.—A. For my part, I hope to get it to the point where it is more self-explanatory, that you do not have to go back, and wander around through it too much, and to get our language out of accounting jargon into ordinary English. We had to start this year with a new experiment and we were working against time, because there is a tremendous amount of stuff that has to be audited before we can write anything.

Q. Unquestionably it is a great improvement over the way it was set up formerly.—A. I am not saying this as any reflection on any other country, but I get the audited reports of all the British dominions and so on, and all of them have had to qualify their audit certificates to the effect that they have not been able to audit the war expenditures in full, and sometimes they give the date which they stop at. I do not have to put on that qualification. The accounts of the Dominion of Canada are in such shape that we can audit them up to the end of the fiscal year.

By Mr. Isnor:

Q. Dealing with three paragraphs on page 6 of your report (d), (e) and (f), which refer to the Home Improvement Loans Guarantee Act of 1937, the Home Extension Plan and the Dominion Housing Act, where would I find the outstanding percentage of loss or guarantee by the government in respect to these three plans, all relating to housing?—A. You mean what schedule they are in?

Q. Yes. I am anxious to ascertain that.—A. Mr. Balls from my office is here. He deals with that, and I will ask him to come forward and advise me, rather than delay you.

Q. What I am anxious to ascertain is as to the losses under the operations of these three acts, because we shall be discussing, Mr. Chairman, a housing scheme, I hope, in the latter part of this session or before we adjourn. I should like to have information on the record as to what costs, if any, have been sustained.

Mr. BOUCHER: You are referring to the National Housing Act, are you?

Mr. ISNOR: Yes.

The WITNESS: Under (d), Home Improvement Loans—

By Mr. Isnor:

Q. Take the one first.—A. You will find on page CC-18, the amount is \$108,644.38.

Q. Could you give us the percentage? Is that worked out on a percentage basis?—A. No. It is worked out having regard to the people to whom it was paid. Do you wish me to read that?

By Mr. Marshall:

Q. What were those figures again?—A. It is on page CC-18.

Q. Yes. A. You will see there the figure is \$108,644.38.

Q. What is that above that—"Losses on Loans, National Housing Act"?—A. That is a different item.

By Mr. Isnor:

Q. Yes. I want that one too.—A. And the next one is the Home Extension Plan. Under the Home Extension Plan there have been no losses whatsoever.

Q. There have been no losses?—A. No. Then under the Dominion Housing Act the loss is \$1,425.17. Remember that I am speaking of the fiscal year.

Q. I see. You have not the full amount.—A. I can give you those figures but I have not got them here.

By Mr. Boucher:

Q. Is that the net loss or the gross loss?—A. The loss borne by the dominion.

Q. The gross loss?—A. No. It is just the loss borne by the dominion; the net on the year.

By Mr. Isnor:

Q. The net one year's operation?—A. Yes.

Q. Could you give us the gross amount at some future meeting?—A. I will get the figure for you.

Q. Yes, I wish you would. I think it would be interesting to have this, Mr. Chairman, in view of the interest being taken in these three plans.—A. If you were going to summon Dr. Clark before you, he would be the ideal man to give you this because the administration of those acts is under him. If you would like me to do so, I would tell him to be ready.

Q. In the meantime, you can probably start with that.—A. Yes. I will get that for you in the meantime.

Q. Thank you. The loss has been very small?—A. It has been small, yes.

By Mr. Boucher:

Q. Have you any details as to the Wartime Housing? You have no details of Wartime Housing at the present time, have you?—A. Well, of course, those projects were still coming into operation up to the end of 1943.

Q. I thought while you were bringing in particulars of those other three, you might also bring in particulars as to Wartime Housing in so far as you can. I appreciate it is a little difficult to do that, though.—A. We have got the figure on Wartime Housing.

Mr. ISNOR: What do you mean, Mr. Boucher? There is no comparison between the schemes.

Mr. BOUCHER: No, there is not much comparison, but there is a comparison so far as the financial advantages or disadvantages go.

The WITNESS: What you are really wanting in connection with the Wartime Housing is as to the tenants who have not paid their money?

Mr. BOUCHER: That is right.

By Mr. McNiven:

Q. On page 6, subsections (g) and (h) of your report, I notice substantial advances were made by the chartered banks to the Canadian Wheat Board. Do you happen to recall the rate of interest at which those advances were made?—A. That is (g) and (h)?

Q. Yes.—A. I am sorry. We do not audit the Wheat Board's accounts. They are audited by Riddlestead, I think. Therefore we only see the final figure. In connection with (g), our entry shows it is \$66,000,000.

Q. Yes.—A. The year before it was \$116,000,000, so it is going down. I can get their statement and look it up for you, if you wish.

Q. I think I have it.—A. We do not get the audited statement.

By Mr. Golding:

Q. I think it is in the Wheat Board Report.—A. Yes, I daresay it is. We do not audit it at all. It is audited by Riddlestead, I believe.

By Mr. McNiven:

Q. I wonder if I might ask Mr. Sellar about the figure given on page 3, assets and liabilities. There is a total of \$9,228,252,012.03. Does that represent the total loans of the Dominion of Canada as of March 31, 1943?—A. Apart from guaranteed loans.

Q. Apart from guaranteed loans?—A. Yes.

Q. That would be guaranteed loans to the Canadian National Railways, for example?—A. No, they are not in there. We have recorded them here as a contingent liability. These are direct obligations of the Dominion of Canada.

Q. I notice too in that same report that there is a reference to monies payable in New York, \$459,000,000, which has been reduced by \$20,000,000. Does that mean that we have paid off \$20,000,000 in 1942-43 of indebtedness that was payable in New York?—A. Which paragraph is that?

Q. That is on page 3 on assets and liabilities, part 1—Liabilities, item 13.—A. You are referring to the balance sheet?

Q. Yes.—A. Oh, yes. I was looking at my page 3. That is what got me confused. My recollection is that was in refinancing, in January I think of 1943, where we sold an issue and in refunding that debt the dominion government paid off \$20,000,000 of the principal. I should like to verify that, but I think that is the explanation of it.

Q. Are we making any new loans in New York? I mean are we making any new loans outside of Canada?—A. No. You see, there was a refinancing operation carried out there.

Q. I mean other than refinancing.—A. All the rest are in Canada. I was looking up Dr. Clark's statement which you will find at page 53 in Roman numerals, (liii) at the foot of the page, under the heading of "Operations in Foreign Markets." Those are the only operations that took place.

Q. You say that is page 53 in Roman numerals?—A. Yes. I was right. The flotation was in January, 1943. I was not sure of my month. It ran in my mind that it was January, but he states there in his writeup that it was in January, 1943. He states here: "Except for the refunding of a maturing issue in New York, the dominion borrowed nothing in foreign markets during the fiscal year, and in fact reduced its indebtedness in both London and New York." That is just below the table there.

Q. On that same page, Mr. Sellar, item number 18 represents the dominion government's liability under the annuities scheme or the total volume of business outstanding, at \$190,000,000.—A. Yes.

Q. And likewise the amount in item 19, is the amount that is to the credit of the dominion government superannuation scheme?—A. That includes the Civil Service Insurance Act, the superannuation schemes and all of those that are together there.

Mr. BOUCHER: It would also include the annuity scheme under the Department of Labour, would it?

Mr. McNIVEN: No. That is in item number 18.

The WITNESS: In that insurance and superannuation fund, there is a big increase there, you will notice. That is the unemployment insurance.

By Mr. McNiven:

Q. By the way, do you happen to know how much is to the credit of the unemployment insurance fund now?—A. To-day?

Q. Yes.—A. I would have to verify it, but my recollection is that it was \$108,000,000 at the end of 1943. As I say, I would have to verify that.

Q. Did you say \$180,000,000?—A. No. \$108,000,000.

Mr. MARSHALL: I thought it was \$180,000,000.

Mr. McNIVEN: I thought it was \$160,000,000 a little while ago.

The WITNESS: I was wrong. It is \$114,000,000. That is on page 29 of the Public Accounts. The unemployment insurance fund consists of cash, \$5,639,004.90; bonds and accrued interest, \$108,372,078.18, making the total of \$114,011,083.08. I had forgotten the cash. I was just taking the invested part when I said \$108,000,000.

By Mr. Ross (Souris):

Q. Mr. Chairman, on page 51, paragraph 167, on spoilage, reads:—

The attention of the Department of Munitions and Supply was drawn to cases observed during the audit where spoilage and waste on war contracts amounted to figures such as appeared to justify explanations. As a result, instructions were issued to the directors general of production reiterating the necessity of watching the contractors closely and of taking such steps as to them might appear necessary, either to assist a contractor in the reduction of the amount of spoilage or alternatively to charge the contractor with the responsibility of absorbing any abnormal amount.

At another point Mr. Sellar stated that they had a man from the treasury department on every cost plus contract. I wonder if he would point out what he meant by this section, and what action is taken to safeguard against spoilage losses?—A. Spoilage can mean many things. It can mean, when things are moving along the production line in the factory, that parts can be spoiled by inefficient work and just thrown into the scrap heap and so on and so forth. It can mean other larger things. We noticed in some of these crown companies—that is, crown projects—the ratio of spoilage as reflected in their cost seemed high, and we took it up with the Deputy Minister of Munitions and Supply. As a result, Mr. Carmichael who is in charge of production immediately took action, issued instructions and has, I think, accomplished a great deal since. But there was what we thought was an excessive loss that way. That is just an accounting opinion. It may be, from an engineering viewpoint, not unreasonable, but it did look large to us. Mr. Carmichael apparently felt so too, because he sent out pretty peremptory orders.

Mr. BOUCHER: Could you give us any particulars in that regard? I think you stated that this was so with crown companies. Would you say that is so with crown companies as compared with private contractors? Would that be the basis?

Mr. GOLDING: Private contractors are usually responsible.

Mr. ROSS (*Souris*): Could we just get this cleared up?

The WITNESS: If a man has a firm price contract, he is going to try to make as much profit as he can, and therefore he watches his overhead and wastage with great care. If a man is on a cost plus contract or if he is on just a management fee basis, he has only got his reputation at stake; that is as to the fact that he is an extravagant producer. But he might not be as careful as the fellow on the firm price who might lose money if he does not carry out the job properly.

Mr. GOLDING: That is right.

By Mr. Boucher:

Q. Yes. But you did mention in your statement to Mr. McNiven a moment or two ago that from your observation of crown companies the spoilage seemed to be excessive. I was wondering upon what basis you came to that suspicion. Was it by comparison with the spoilage in crown companies as against that in private companies, or was it a comparison between the different types of contracts or was it altogether? If you would elucidate that a little, I would appreciate it.—A. In the last three years I have obtained three or four fellows—the number varies; as a rule there are three or four—whom I consider to be high-class general accountants who, by arrangement between myself and the Comptroller of the Treasury, visit these plants to check the efficiency of the treasury cost accountant on the job, and generally observe the operations in that plant; and they make reports on what they see. It is just to protect the public interest. Now, our conclusions with respect to spoilage would be based on a couple of reports that came in from these chaps.

Q. Would you care to go further and tell us just what those reports did say and what your conclusions were to illustrate the importance of the matter?—A. I was looking to see if I had in my file here a copy of one of my letters to the Department of Munitions and Supply on the subject, but I have not; all I have here is a memorandum to Mr. Carmichael, sent out to all of the bodies concerned. I could read that if that is of any interest. My own recollection is that it was mainly in connection with the plants in the province of Ontario along lake Ontario and lake Erie—that big industrial area.

By Mr. Ross (Souris):

Q. Does this only apply to crown companies?—A. Not necessary crown companies and crown projects.

Q. Suppose a private contractor was building an airport on a cost-plus basis, would that same thing apply?—A. The Treasury cost accountant would delete that, of course, from his costs, but when you have a crown project where the company is only working on a fee the government of Canada is stuck with the cost. You can say it is not necessary, but it is Canada's money from start to finish. If we have another fellow who is running his own business, it is his own money and he runs the risk.

By Mr. Boucher:

Q. You told us about having the three reports of officials of your department. I would not like to press you if you do not want to give us those reports?—A. There is no objection whatsoever.

Q. I think probably it would give us an over-all picture that would be of interest to the committee.—A. If you like I will bring some representative samples so that we can value the work they were doing.

Q. As I take it, your feeling is that upon an analysis by the three members who reported to you, it did appear that in the types of contracts where the crown was paying the cost and paying a fee on a cost-plus basis that the costs were of such a nature that it made you feel that a greater saving could be made and a greater economy could be realized, and that following that you reported to Mr. Carmichael— —A. To the deputy minister.

Q. —to the deputy minister, and steps were taken to lower those spoilage costs.

Mr. GOLDING: In regard to a private company having these contracts, if they have losses which they would have to take care of themselves they would not come to you at all, would they?

The WITNESS: No.

Mr. GOLDING: That is the point. They have to take the losses themselves.

Mr. ROSS (*Souris*): They have a contract on a cost-plus basis, and all they have to do is negotiate.

Mr. GOLDING: If they destroy material it is their loss.

Mr. ROSS (*Souris*): No, it is not always; I have seen some cases where it was not.

Mr. BOUCHER: Not at all on a cost-plus basis.

Mr. GOLDING: Give us an illustration.

The CHAIRMAN: It is past 1 o'clock. We will adjourn.

The committee adjourned to the call of the chair.

SESSION 1944
HOUSE OF COMMONS

STANDING COMMITTEE
ON
PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE
No. 2

THURSDAY, MAY 11, 1944

WITNESS:
Watson Sellar, Esq., Auditor General

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1944

MINUTES OF PROCEEDINGS

THURSDAY, May 11, 1944.

The Special Committee on Public Accounts met at 11 o'clock. The Chairman, Mr. W. A. Fraser, presided.

Members present: Messrs. Bence, Boucher, Bourget, Burton, Côté, Dechene, Ferland, Fraser (*Northumberland*), Gladstone, Golding, Henderson, Homuth, Isnor, McDonald (*Pontiac*), McGeer, McIvor, Marshall, Matthews, Mullins, Noseworthy, Purdy, Rhéaume, Rickard, Roebuck, Ross (*Hamilton East*), Ross (*Souris*), Thauvette, Ward and Winkler. 29.

Mr. Watson Sellar was recalled and his examination continued.

In reply to questions asked at the previous meeting, the witness tabled the following memoranda for distribution:—

1. Wartime Housing Limited.
2. Instalment purchase of victory bonds and war savings certificates by payroll deduction.
3. Government annuities.
4. National Housing Act Loans.
5. Accounts receivable.
6. Seed grain, fodder and relief advances. (1876-March 31, 1944).
7. Halifax harbour (from 1936).
8. Statement of arrears due to King's Printer. (1891 to May 15, 1943). (12 copies only)

Mr. Sellar filed with the Clerk for the information of the members of the Committee departmental files on:—

1. York Arsenals Limited, Weston, Ontario.
2. Defence Industries Limited, Pickering, Ontario.
3. Electric Steels Limited, Cap de la Madeleine, P.Q.
4. Electric Reduction Company of Canada Limited, Buckingham, P.Q.

On motion of Mr. Bence, seconded by Mr. Roebuck,

Resolved,—That the appropriate official of the Department of Munitions and Supply be requested to appear before the Committee at the next meeting to present the facts concerning item number 169 in the auditor general's report and to bring with him all reports, orders in council and contracts with reference thereto.

The witness agreed to furnish the members with additional statements.

Witness retired.

At 1.05 o'clock, the Committee adjourned at the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.

MINUTES OF EVIDENCE

HOUSE OF COMMONS,

May 11, 1944

The Standing Committee on Public Accounts met this day at 11 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, obviously the first thing that the chairman should do is to thank you personally, individually and collectively, for your attendance here. Watson Sellar is with us this morning once more so that we are open for discussion of questions, and let us try and keep it in continuity if we can.

Mr. McDONALD: The next thing would be a motion of censure on the chairman for being late.

WATSON SELLAR, Auditor General of Canada, recalled.

The CHAIRMAN: Gentlemen, if you will come to order Mr. Sellar had some questions put to him last week on which he asked the privilege of collecting data during the week. Perhaps we had better wind up those questions before we proceed with new questions.

The WITNESS: On paragraph 4 I was asked the amount standing to the credit of the unemployment insurance fund at the end of March 31, 1944. The books are just being closed, but the figure I have is \$190,337,744. In other words, \$190,000,000 stands at the credit of the unemployment insurance fund as at that time.

Mr. Isnor asked me under the same paragraph a question with respect to the Halifax harbour, that is to say, whether I had power to recommend in my report to the National Harbour Board that when the port had a surplus they should pay off more of their indebtedness, principal. I asked if I could delay the answer to that because I wanted to check up in view of the fact that the question had not come before me. As a matter of fact, Halifax harbour is still in arrears for interest, and the amounts that they have been paying are in connection with arrears of interest. They have in addition \$1,421,000 in a special account as a reserve account which is provided for by section 25 of the Act. That fund is invested in bonds. I have made a statement of the powers, and so on and so forth, in connection with that. There are thirty copies, Mr. Chairman.

By Mr. McIvor:

Q. What page is that?—A. Page 3. Just as you were adjourning Mr. McNiven asked me a question as to what was the post office savings bank rate at the present time. It is 2 per cent.

Then, under paragraph 6 I was asked to give a statement with respect to government annuities. I have had a memorandum prepared showing the number of annuities issued during the year, and also for the year just ended. Some question arose as to the payment of commissions to the agents, so I have secured from the annuities branch their memorandum or circular which they sent out to their agents last year. There are copies of that for distribution.

Under paragraph 14 I was asked to file a statement with respect to losses under (d), (e) and (f), that is to say, losses under the Home Improvement Loans Guarantee Act the home extension plan and the National Housing Act. I have got a statement here. The total losses under the National Housing Act have been \$2,600, under the home extension plan, no losses, and under the Home Improvement Loans Guarantee Act, \$39,000 up to the end of this year.

It is not in the report but Mr. Boucher asked if I could also file a statement with respect to arrears of rentals of Wartime Housing. I have not got the figures for the year ending last March. That is to say, the books are still in the process of being closed, but I have the figures for March 31, 1943, which showed then that out of rentals assessed of \$2,900,000 there was \$37,000 in arrears, and of that \$37,000 \$21,000 was collected in the month of April. They consider they have got about \$6,000 uncollectables.

I was asked what was the rate of interest that was paid the chartered banks in connection with advances to the Canadian Wheat Board. The rate is 3 per cent. That is under (g) and (h) of paragraph 14. At the same time I volunteered the remark I thought the auditors of the Canadian Wheat Board were Riddell, Stead. In that I was wrong. It is Millar, Macdonald & Company.

Under (j) of the same paragraph the question was raised as to the collections made in the province of Saskatchewan on seed grain advances. I have got my figures as well up to date as I can. Under the particular Act the province of Saskatchewan and the municipalities regard \$17,860,075 as having been advanced under that scheme. Up to January 31 last they have reported \$3,744,886 as having been collected which would leave at that date \$14,115,000 in round figures as the amount owing on which by the Act the dominion government has given a guarantee of principal and interest of \$14,500,000. Whether that \$3,700,000 should rate against the \$14,500,000 or against the whole I have no idea. That is a matter the Minister of Finance would have to deal with. In connection with the same paragraph Mr. Boucher asked if I could give a memorandum with respect to the seed grain loans by the old Department of the Interior dating from just after confederation up to date. We have built up a statement. We have submitted it to the Department of Mines and Resources to ascertain whether they regard that as a fair statement, and I now give it. It is not referred to in the items in my report but I was asked for it.

Under paragraph 63, I think it was, Mr. Marshall asked me if I could give a list of the accounts receivable by all departments of the government. I said I thought it would take a long time to compile but that my recollection was there was a statement in the Department of Finance prepared about twelve or thirteen years ago. We have made a search in the department but we could not find it. Therefore, the best I can do is to give the figures by departments as of 1939. At that time they recorded \$2,982,000 on the accounts as uncollectable. That does not include income tax. I have prepared a statement, and I am not sure, gentlemen, whether I was asked to make a suggestion as to what should be done, but I have taken a chance and have included in the final paragraph of this statement a possible suggestion.

Simultaneously I volunteered the remark I thought I could produce a statement of the accounts receivable of the King's Printer totalling \$10,000, and which are referred to in my report of this year. The King's Printer, it happens, for his own office use, prints an annual list of his receivables. I have secured twelve copies from them. That is all they had. Bear in mind when you are looking at it that this includes current receivables as well as what they regard as uncollectable. They carry the year opposite when the account was incurred, and you can pretty well judge from that.

Mr. HOMUTH: Just a minute; Mr. Sellar said there were only twelve copies of that. Would you please arrange the distribution so that each group will be sure to get a copy?

The CHAIRMAN: You had better look this over and see what you suggest.

Mr. BENCE: He wants to be sure we get a copy.

Mr. ROSS (*Souris*): Give one to every section around the table.

The CHAIRMAN: It is going to be quite a job to get that mimeographed.

Mr. ROSS (*Souris*): No, we just want to see that each group gets a copy.

The CHAIRMAN: One between every two members.

Mr. MARSHALL: It would be better to give the member of the C.C.F. and myself one copy each.

The WITNESS: Under paragraph 167 a question was asked me with respect to the spoilage item. I remarked then I was not prepared to say offhand which company was involved. I knew it was one of the large companies in Ontario that I had particular reference to when that item was written. I said I would verify it and come in with it. It is in connection with the Otis Fensom contract for Bofors guns. That contract at the end of March, 1943, had involved an expenditure of \$25,000,000. The item that we referred to was shop errors which had a cumulative amount of \$867,000.

Mr. BENCE: What did you call them?

Mr. MULLINS: Shop errors.

The WITNESS: We noted it to the Department of Munitions and Supply, and if you like I could complete my knowledge on the subject by reading you a memorandum that Mr. Carmichael, the Co-ordinator of Production, issued to all concerned. The memorandum reads:—

The Auditor General has called to the attention of our Deputy Minister, Mr. G. K. Sheils, the question of spoilage and waste on war contracts, citing one instance of a very substantial figure in connection with one particular contractor.

This certainly serves notice to those charged with the responsibility for production that it is urgently necessary for them to have regular monthly statements of spoilage from their various contractors. As well, it is imperative that the elimination of scrap and such wastage be emphasized as most vital in the conservation of material and labour.

I am aware of the fact that many directors general have been watching this factor very carefully, but would personally appreciate your advice that you will see that this item of expense is most urgently followed up, and that contractors are warned that if the wastage is excessive, they will be charged with the responsibility of absorbing any abnormal amount themselves. I sincerely trust such drastic steps will not be necessary but if they are considered advisable we should not hesitate to apply them.

(Sgd.) H. J. CARMICHAEL,
Co-ordinator of Production.

By Mr. Marshall:

Q. What is the date of that?—A. August 4, 1943. At the same time Mr. Boucher asked me if I would file specimens of the reports of our chaps who check up the treasury resident cost accountants and the plant management on the administration of various contracts. I am filing four as being illustrative of the general trend of them. They are all dated in the fiscal year 1943 but as near the end of that year as possible. One is on the D.I.L. project at Pickering, Ont. One is on Electric Steels, Limited. The third is on the Electric Reduction Company of Canada, Limited, and the fourth is on York Arsenals, Limited. As three of these are originals, after they have served your purpose I would appreciate if I could have them back for my file, but if you desire to keep them I should like to make a copy of them. They are not imperative. I just need them for office records.

Finally Mr. Isnor during the course of the discussion raised a question that had been discussed a year ago, namely the position of employees buying war savings certificates and victory bonds if the employer failed to pay over, and I was asked to file a suggestion as to that. I now do so. I think, gentlemen, that cleans up all that I had noted to bring in information about.

By Mr. Bence:

Q. In connection with item 167 when you referred to the plural using the word "cases", in what you said you were merely referring to this one case of the Otis Fensom?—A. We were referring to it particularly. There were other cases but this was the big one because it was a big contract and the amount stood out.

Q. The percentage in that case was approximately 1/30th of the total amount of the expenditure. Can you give us any indication of the percentage of spoilage to the total amount of contracts in connection with the other cases even though you might not be able to give us the exact figures?—A. I would have to bring the figures together. I have not got that with me, but we just noticed the thing going through. You see the spoilage is quite easily explained because they had to recruit new people and everything else, and it was due to new hands, change of design, and so on. You have to expect a rather high ratio of spoilage, but when we noticed this plant, which is a very well run plant from all my information, we thought this was a suitable occasion to question the department as to what action it was taking to avoid any excessive spoilage.

Q. Can you give us an indication as to what the normal ratio of spoilage is in connection with these plants?—A. No.

Q. It is considerably less than 1/30th?—A. I would have to get that from Mr. Carmichael or from someone in the Department of Munitions and Supply.

Q. It would be considerably less than 1/30th, I presume, from your comments?—A. I would not like to volunteer because I would be guessing and you do not want a guess answer from me.

Q. I think you referred the other day to three or four high-class accountants you had in your department who looked after this kind of thing?—A. Yes.

Q. I presume you could obtain that from them?—A. Only in the plants they had been in; they have not been in all plants. The easiest way for me to accumulate that for you would be to ask Munitions and Supply to compile it for me covering all of their business.

Q. The reason I ask the question is this; I want to find out whether or not the matter of the alternative referred to by you in paragraph 167, namely, to charge the contractor with the responsibility of absorbing any abnormal amount should be further considered. I want to find out whether or not this is a case in which the matter should be further considered, and whether or not some effort should be made to obtain absorption by the contractor?—A. That, of course, is referred to in the directive Mr. Carmichael issued which I just read.

Q. He just warns them; that is all?—A. That memorandum is to his directors, and I would have to ask him what he has done since, or you might want to have Mr. Carmichael before you.

Mr. BENCE: I do not think there is anything further I want in that connection. I wonder if I could go on with another question?

By Mr. Isnor:

Q. Just before you leave that question, I do not know whether you would be in a position to answer, or whether it would be Mr. Carmichael, but is there not very keen competition among the various plants in regard to showing as small a percentage of waste as possible in the factories or plants?—A. You see, the trouble with my trying to answer that question is this; I look at it purely from an accounting angle. It is an engineering problem, and what I might consider excessive to the engineer is normal, and what I might think is normal the engineer might say on that thing there should not have been that waste. That is why I think Mr. Carmichael or somebody from Munitions and Supply could give you much better information than I can on the subject. I noted it in my report because it seemed to me it was a subject that might merit your consideration.

Mr. ISNOR: It seems to me, Mr. Chairman, at one of the plants I heard a statement along these lines that whereas the wastage or spoilage had reached as high as 13 per cent it had now been lowered to 2 per cent. I hold no brief for that particular plant, but I went through it on one occasion with other members, and it struck me they were exceptionally efficient, and their wastage at that time was considered very low as compared to the average spoilage in plants.

Mr. GOLDING: It would all depend on at what stage of the production this was made. If you were just starting in your wastage would be much higher than after you had got your equipment all established and your machines in operation.

The WITNESS: And particularly if you had a heavy labour turnover.

Mr. GOLDING: I remember Mr. Gillespie said that when they were going to establish the Bren gun plant he estimated at the time the wastage would be not less than 12 or 14 per cent, but they would expect to get that reduced as the equipment was established and they got into practical operations. It would all depend on at what stage this question was brought up in regard to it.

Mr. BOUCHER: I think Mr. Sellar was very fair to bring it to our attention. I think he can hardly be expected to say whether it is justifiable or not nor do I think this committee can go any further in pursuing the matter with Mr. Sellar. I think his statement was very fair and reasonable and we should not pursue it.

By Mr. Bence:

Q. I just want to ask one question before we leave it. Was it a cost plus contract?—A. It is a government plant. I think it is cost plus a fee.

Q. Then there is no particular incentive towards economy, is there?—A. Except the pride of the company in charge to keep it down.

By Mr. Boucher:

Q. Probably we can ask a general question. From your position as Auditor General have there been any facts come to your attention which would show greater spoilage in the cost plus contracts than in others, or less?—

A. The question has not come to us very frequently at all. Our chaps who are investigating this subject, or looking over the accounts, have rarely brought up the question of spoilage to me. That is why I am embarrassed to-day in answering it because I have got a limited knowledge of the subject. I know that the boys mentioned it to me. Spoilage is an audit problem, a frequent problem which they have to face, but they always say, "Our opinion has to be matched against that of the engineer's and we rate ourselves below the engineer's opinion."

Q. It would seem to me that the fact that you brought this to our attention showed that you had certain information that would indicate that a little research might possibly be advantageously made in that regard, and that you may have observed that certain types of contracts and that certain types of contractors would appear to be more susceptible to increased spoilage; would you make any general statement or observation in that regard?—A. I could not, sir; because I would be drawing on my fancy rather than on facts.

By Mr. Golding:

Q. What line of production was this?—A. Bofors.

Q. Guns?—A. Yes.

By Mr. Bence:

Q. In connection with the following section, section 168: that section indicates a very substantial loan of practically \$3,500,000 was made to the Dominion Coal Corporation under contract authorized by order in council P.C. 3482—the company contracted to repay the full amount contributed by

the department, with all interest in consecutive quarterly instalments of determinable amounts, dating from November 30, 1942, extending over a period of ten years. No repayments were made in the fiscal year. I wonder if Mr. Sellar could give us some indication as to the reason why these repayments were not made and what steps have been taken to make sure that they are made as quickly as possible.—A. I cannot tell you why they were not made because I do not know. They have all been made since and the contract is up to date, all the instalments have been paid. They are payable quarterly and it is provided by the agreement that if the company fails to pay on the due date a rate of 5 per cent interest shall be levied. The company has paid 5 per cent interest for all amounts in arrears but, as I said, the amount is in balance to-day and there are no arrears whatsoever. It had not come to my knowledge that they had paid that in the fiscal year 1944 until after my report had been printed. They made the payment I think in the month of November.

Q. November of last year?—A. Yes.

Q. Would that be included in your report?—A. This year's.

Q. Ending the 1st of April, 1944?—A. Yes.

Q. And 5 per cent interest was to be paid on all overdue amounts?—

A. Five per cent interest was to be paid on all overdue amounts.

Q. The next item I wish to take up is in connection with the following section, 169: That section indicates that a loan of \$1,100,000 was made to Marine Industries Limited for the purposes of enabling that company to recondition and equip five barges needed in connection with war operations; the section also sets forth the fact that the original amount authorized was \$600,000, but was subsequently increased to \$1,100,000, and with audited costs amounts to approximately \$1,400,000. In other words, the cost is some \$800,000 more than it was originally anticipated. It also says that instead of fitting out five barges they only fitted out four barges. And, in addition to that, there are certain details set out with respect to the matter of the repayment of this loan and among others it says this: "repayments are to be made within two months of the close of each quarter. Although the barges were put into operation at various times from August to December, 1942, no accounting has been made by the operating company. The term of the contract extends to six months after the termination of the present war, at which time the amount of any indebtedness of the company with respect to the loan is to be cancelled."

In view of the fact first of all that this amount is very much larger than originally anticipated, and also in view of the fact that six months after the end of the war the indebtedness is to be cancelled, and in view of the fact that no accounting has been made to date, I wonder if Mr. Sellar could give us some indication as to what investigations have been made into this matter.

—A. I inquired about that transaction the other day and possibly the easiest way to reply to your question is to give you the information that was supplied by my officer. He says: "A perusal of the departmental file on the above loan indicates that an accounting has not yet been made by the company as provided for in the agreement."

Q. Excuse me, is that right up to date?—A. It is within the last ten days; I do not see any date on this but I know that it is within the last ten days. It goes on to say: "an amendment to the original contract is in process of being negotiated with the company definitely setting the finalized cost of reconditioning the barges at \$1,375,473.42, with the possible additional sum of \$9,500, being the claim for special differential advanced by the Montreal Dockyards, sub-contractor mentioned in the report. When this matter is finalized there should be no further grounds for delay in the accounting. The proposed amendment to the contract does appear to materially affect the terms covering the repayment of

the loan." In other words, we have got no further knowledge in respect to what happened in that transaction.

Q. You do not know why it cost \$800,000 more than originally intended?—
A. No, except that they spent it.

Q. And you do not know why only four barges were equipped instead of five?—A. I would have to get that for you.

Q. And you do not know why some kind of a statement has not been placed in your hands to indicate the amount of gross earnings up to the present time so that you would have something to work on?—A. No.

Q. Mr. Chairman, I wonder if the witness can tell us if this is a private or a government company?—A. This is a private company.

Q. Who are the managing directors?—A. That is Marine Industries Limited, at Sorel, and I think Mr. Joseph Simard is the president of it. I do not state that as a fact, but I think that is the case. I know that Marine Industries has always been regarded as a Simard activity.

Q. Under the jurisdiction of what department did this contract come?—
A. Munitions and Supply.

Q. Who was it who originally authorized the granting of this loan?—A. The Governor in Council.

Q. And the extension will be authorized by the same authority, the Governor in Council?—A. Yes, sir.

Q. When you checked in the matter was there any authority for the added cost of approximately \$1,400,000?—A. I am trying to recall the terms of the order in council. I cannot. I think it is probable that the order in council provided that the estimated cost was fixed at so and so, and that continued until they were able to find the larger cost. I would have to check on that.

Q. It was first set at \$600,000?—A. Yes, sir.

Q. And subsequently \$1,100,000?—A. Yes.

Q. Apparently there must be some authority for it.—A. Yes, there was an order in council.

Q. You do not indicate there was any authority for the \$1,400,000?—A. No, sir. You see, as I told you, they are now finalizing that contract, and I believe that these costs are being placed at \$1,375,000. Now, the problem would be, once the department reaches that conclusion, that those were the costs, they would have to go to the Governor in Council giving him a full statement of what happened and everything else and ask the Governor in Council to ratify a new arrangement being made on that basis.

Q. Is this a fact; supposing the war was ended very shortly and this company failed to make its accounting and allowed the matter to stand, after six months expired would the whole of the indebtedness be wiped out?—A. No, I do not think so.

Q. I am only going by what you say.—A. If the company fails to carry out its side of the contract, it is in default.

Mr. BOUCHER: Indebtedness other than that in which the company was in default.

The WITNESS: Well, I would like to read the agreement before I volunteer to express any opinion as to what is the relationship between the two.

By Mr. Bence:

Q. Mr. Chairman, the thing that I am concerned about is this, here is a very substantial amount of money which was expended in excess of the original estimate and the results obtained were less than originally anticipated and apparently there is a provision in the contract providing that indebtedness will be wiped out six months after the war; also these parties have been in operation since 1942 and no accounting has been made as yet, apparently. I do not suppose that Mr. Sellar could give us or has any information in connection with it, but I certainly think we ought to go a little more closely into it than we have;

then you say the Department of Munitions and Supply would have immediate charge of a deal like that?—A. I would not like to say because, as you know, there are shipbuilding plans carried out by various people. The Deputy Minister of the Department of Munitions and Supply would be the officer who would regard himself as responsible.

Q. Was there an order in council authorizing that, I think you probably informed us as to that.—A. I will verify it. I am not sure there was. I will look it up and bring the orders in council to the next meeting, if you want them.

Mr. BENCE: Also the contracts or contract, if there any in addition to the orders in council.

Mr. ROEBUCK: We ought to go into the whole thing, not just a little piece of it.

Mr. BENCE: I am concerned with that.

Mr. ROEBUCK: Well then, why not go into the whole thing?

Mr. BENCE: I am not suggesting that we ought to limit it by any means.

Mr. ROEBUCK: I suggest that if we are going to go into it at our next sitting we ought to get the whole story, not just the order in council, only a section of the circle.

The WITNESS: I am just bringing it to your notice. We were not satisfied with what was on the face of it as though everything was in order; it seemed to me as though there should be some accounting and so on. Therefore I thought I should report it under Section 50 which requires that I draw your attention to any matters which I thought merited your consideration. I thought that was one of those which should be brought to your attention.

Mr. ROEBUCK: Well then, let us have the whole thing; not just a piece of it.

The WITNESS: I think that you will find that an officer from the Department of Munitions and Supply can give you more detailed information than I can; you see, I have not been in on the negotiations at all.

Mr. BENCE: I will move that we request the proper official in the Department of Munitions and Supply to come before us at the next meeting, and that he prepares himself to answer questions in connection with the observations of the Auditor General.

Mr. ROEBUCK: I will second that motion.

The WITNESS: Does that mean that I will bring the orders in council or do you want him to bring them?

Mr. BENCE: I don't care who brings them; I suggest that he bring all the contracts and all the orders in council.

The CHAIRMAN: Would you put that in the form of a motion please?

Mr. BENCE: All right, I will write it out for you.

Mr. ROEBUCK: Then, Mr. Auditor General, the crown pays 3 per cent to the bank in connection with seed grain loans?

Mr. ROSS (*Souris*): I think you will recall Mr. Roebuck that the statement handed to us this morning dealt with the amounts guaranteed by the government at the bank in connection with the operations of the pool.

Mr. ROEBUCK: If I am wrong I do not want to go any further.

The WITNESS: It was in reply to a question I was asked at a previous meeting; what was the rate of interest paid by the Canadian Wheat Board.

The CHAIRMAN: Order.

The WITNESS: On guaranteed loans from the bank.

Mr. ROEBUCK: Then, that is not a matter I wish to pursue.

By Mr. Marshall:

Q. While this motion is being drafted I wonder if the Auditor General could obtain for us a breakdown of figures which are found in Section 3 of the accounts receivable—\$2,982,657.98. Would it be possible for the officers of the various departments to give us that information? Could you have a breakdown made of the figures relating to the various departments? The report that I am reading from is headed accounts receivable, and I am dealing with section 2.—A. You are dealing with that paragraph there too?

Q. Yes which shows that there were outstanding accounts for approximately \$3,000,000.—A. There is a tremendous amount of very small items in those. There are others which could be quite easily given to you; the Department of National Defence, for example, \$885,000 (that is on the memorandum I gave you of the accounts receivable). That item consists of charges to municipalities and provinces for militia used in times of strike which they refuse to pay. There are relatively few items of that kind which could be obtained quite easily, but if you want to go into the whole thing you will run up against what you have there in that item in connection with agriculture amounting to \$47,000—there you would have a tremendous number of very small items.

Q. It might help us a little in formulating a decision in respect to the collection of these items if each department would prepare a brief resume covering each item so that we could bring about some finality with respect to the various amounts.—A. The trouble there is, sir, that the list is five years old. That was the latest that I had available. What you would really want would be something showing their situation as it is to-day.

Mr. RICKARD: That is not much use.

Mr. MARSHALL: No. There is an item on page 11 and I think it was Mr. Cruickshank who asked that we be given a statement showing the accounts receivable by each department. And now we have these accounts, and surely if there are some very old accounts we could perhaps bring in a resolution that they be cancelled. Those of a more recent date, we will say within the last five or six years, we might recommend that they be carried on the books of the department and further efforts be made to collect them. For example, in that \$47,000 item it may prove that all of that \$47,000 has been owing for ten or fifteen years.

The WITNESS: That is, you want a classification by time?

Mr. MARSHALL: Yes.

The WITNESS: I would suggest, sir, that rather than relying on that list which I have given you as being the most recent that I have, that I endeavour to get from all the principal departments a list of their accounts situation with the arrears by years.

Mr. RICKARD: Yes, that is it.

The WITNESS: What would you say, that anything less than seven years be considered as current?

Mr. MARSHALL: That is the limit under the statute of limitations.

The WITNESS: The statute of limitations does not run against the crown.

Mr. MARSHALL: I realize that.

The WITNESS: Do you want to go back as far as ten years, or would you want to deal with more current accounts?

Mr. MARSHALL: No, no; any account which is more than five years old.

The WITNESS: More than five years old?

Mr. MARSHALL: We should investigate.

The WITNESS: Do you want any of the particulars in respect to any of the big items only?

Mr. MARSHALL: Yes, more particularly with the big items; at least, I do not require any particulars of the small items, it is the large items in which I am more interested than in the small items.

The WITNESS: What do you call a large item?

Mr. MARSHALL: Anything over possibly \$500.

The WITNESS: Are you considering purely non-taxable arrears, or are you referring to taxable arrears?

Mr. MARSHALL: I do not quite understand what you mean by non-taxable and taxable arrears.

The WITNESS: Well, if parliament levies a tax on a person and they fail to pay it it is an offence; if they get a service and do not pay their bill it is just an account.

Mr. MARSHALL: I have no definite opinion in regard to that matter.

By Mr. Ross (Souris):

Q. If you are through with that question, page 53 in Section 180 it says:—

From the examination of the pay accounts for the reserve army, it was noted, particularly with regard to local headquarters training, that the accounting for annual training pay advances has not been carried out in accordance with pay instructions issued by National Defence Headquarters. Due to delay in completing and submitting reserve army paylists and supporting vouchers, it was necessary to carry forward advances totalling \$716,463.99, which were unaccounted for in 1942-43, into the 1943-44 fiscal year's accounts. Instructions are specific with regard to obtaining the signatures of personnel for pay issues; despite this, it is apparent that personnel were required to sign for pay before the amounts due were actually issued or computed.

Would you explain that, Mr. Sellar?—A. We established that by the chaps from our own office who belonged to militia units and who went out to the camps, and they were required, as we had suspected for some time, to sign an acquittance roll before they actually got the money. The reason for that is historic and it is that in peace-time the training pay is often never drawn at all, it is just turned into the battalion funds; but the rolls were there and for that reason when my chaps went out to Connaught Ranges and other places last year for the two weeks' training, several of them were asked to sign before they got the money.

Q. And possibly they might not get the money in some cases?—A. That might happen but I think honesty is fairly good; but it is just that sort of thing that the department was anxious to have tightened up.

Q. Honesty is good at the Connaught Ranges particularly.—A. I know what happened in the case of one of the fellows in particular; he refused to sign because he has to audit that account afterwards himself, he just refused.

Mr. BENCE: I think that is a rather important point that the Auditor General has drawn attention to because I know from personal experience in at least one case where the money was stolen on account of this practice by the men in charge. I think in most cases they pay cash, the amount in most cases is comparatively small but in the aggregate it amounts to a considerable sum, but the men have to sign this list, and in the case to which I referred the list had been signed and the men decamped with the money. As I see it, there is an opening there for dishonesty if there are dishonest men in charge of reserve army units.

The WITNESS: Oh yes, there is. It is not limited to any district, although some do get much more than others. Do you wish to have by districts the sums which go to make up that \$716,000?

Mr. Ross (*Souris*): It seems to be a rather loose practice. I have known in past years where they were just paid the actual cash and anything might happen under that procedure.

Mr. BENCE: I think you might as well give that to us.

The WITNESS: Shall I give it to you in just the thousands of dollars?

Mr. BENCE: Yes.

The WITNESS: London \$151,000; Toronto \$71,000; Kingston \$232,000; Montreal \$325; Quebec \$42,000; Halifax \$155,000; Saint John, N.B., \$25; Winnipeg \$392; Vancouver \$350; Regina \$12,000; Calgary \$49,000; I have left off the hundreds in the larger figures, so it does not come to a balance.

By Mr. Isnor:

Q. What would be the situation if they did not follow this procedure, would the men be held up for some considerable time?—A. No, there is no reason why they should be.

By Mr. Bence:

Q. As a matter of fact, they could have the money right there to give to the men when they sign the list.—A. The arrangement we usually followed was that of going to the nearest bank and getting the money—say it is Connaught Ranges, we would go into the bank at Westboro where we would arrange to have the money sent out in a car with guards, sufficient cash to pay all the men there. You simply go to the bank nearest to where the men are and draw the money there and pay them.

Q. Is there any way of making sure that the men actually do get it; is there any way that your department can check up on that kind of a thing or is it impossible?—A. In the cases that came to our personal observation by reason of our various chaps being in the reserve army and going there, they naturally followed through in the same outfits with them to see that they got their money.

Q. Can you give us an indication as to how much money is paid out in this way during a year?—A. I am afraid it would take me a little while to find it for you. Would you mind if I gave it to you later?

Q. I just wanted to get an indication of how much there is?—A. The figures are in the public accounts. They are not in mine, and therefore I am not sure where to find it because there is that mixture between the war forces and the reserve army.

Q. Is this the only thing that has been done about the matter of checking up on this, namely, setting forth in paragraph 180 your observation?—A. We spoke to National Defence and National Defence took action to tighten up things.

By Mr. Marshall:

Q. Is that not on page KK-13, reserve army pay and allowances, \$3,609,563.80? There is a note in the centre of page KK-13.—A. I would imagine that is the figure.

Q. Reserve army pay and allowances?—A. I would like to be absolutely sure I give you the total figure, that some of it is not in another item.

Q. It says:—

This amount includes the pay and allowances for personnel of the reserve forces for local headquarters training and at camps of instructions but does not include any expenditure for authorized cadet corps or authorized rifle associations which supplement the army. Expenditures in connection with such cadet corps and associations are classified as 'ordinary' expenditures and are reported under votes 180 and 181 herein.

Would that be the figure?—A. I would imagine that is the total amount but, as I say, I would like to be sure before I say so.

The CHAIRMAN: Before we get too far removed from this resolution we have before us, may I read it? It is moved by Mr. Bence, seconded by Mr. Roebuck that the appropriate official of the Department of Munitions and Supply be requested to appear before the committee at the next meeting to present the facts concerning item No. 169 in the Auditor General's Report, and to bring with him all reports, orders in council and contracts with reference thereto. What is your pleasure, gentlemen?

Mr. ISNOR: There are just two words there, "next meeting." Suppose you say, "before the committee"?

The CHAIRMAN: Before we finish with Mr. Sellar do you really want us to follow this resolution and call him at the next meeting?

Mr. ROEBUCK: My suggestion is that we follow it right up. I do not like to leave a thing like that in the air.

Mr. BOUCHER: It might not take very long, and if it did we could defer it until later.

The CHAIRMAN: Very well, we will call it for next week.

Mr. ROEBUCK: It may be a simple explanation.

By Mr. Boucher:

Q. I did not quite understand whether you were speaking of the Connaught Ranges when you said that \$200,000 was paid out?—A. No, Kingston military district.

Q. You have no particular record of Connaught Rifle Ranges?—A. No, I have it by military districts; Kingston military district No. 3, \$232,575.75.

By Mr. Bence:

Q. On page 21 of the report, item 65, I was interested in the comment of the Auditor General with respect to the matter of railway subsidies, set-offs in which at the latter end of that paragraph he stated:—

No centralized control has been exercised over expenditures for traffic over subsidized lines, with the result that the losses to the dominion arising out of the failure to apply the provisions of the transportation clause may be a considerable sum.

First of all I should like to ask this: Has that situation been in existence for some time? Secondly, has it been brought to the attention of the appropriate officials before? Thirdly, can the Auditor General give us an estimate of what that considerable sum might be?

Mr. MARSHALL: Did we not deal with that at the last meeting?

The CHAIRMAN: No.

The WITNESS: It has existed for a great many years. When the Grand Trunk and Canadian Northern railways were acquired in 1918 and 1919, for a long time everything was foregone in connection with the Canadian National railways. From time to time the matter has been up with the departments. The Department of Post Office is the only one that has ever made a real effort to collect. The sum involved according to our figures, and they may not be absolute because there may have been some lines abandoned since they were prepared, is roughly \$1,041,000 a year of which \$730,000 would come from the Canadian National railway lines, \$230,000 from the C.P.R. and affiliate lines, and approximately \$80,000 from other lines. This matter came up before the Exchequer Court in 1938 and on appeal before the Supreme Court of Canada in 1940 in connection with an action against the Crown with regard to the subsidy itself by the Quebec Central Railway. The president of the Exchequer Court—and he was sustained by the Supreme Court of Canada—incidentally dealt with this particular paragraph or clause in the Act and said that this 3 per cent amount was not

cumulative, that if it were not taken advantage of in the year that ended it so far as any claim in connection with that existing.

By Mr. Roebuck:

Q. Have you the Supreme Court reference?—A. I have not got the reference with me. I know it is in the Supreme Court of Canada reports, 1940, Quebec Central Railway vs the Crown or the Crown vs the Quebec Central Railway, because we lost in the Exchequer Court. The Exchequer Court decision was in 1938, and 1940 for the Supreme Court of Canada.

By Mr. Bence:

Q. You say that the decision in effect was that it was not cumulative?—A. Was not cumulative, and that it did not extend over the traffic of the railways generally but just over the subsidized line.

Q. For how many years did you say we could have taken advantage of this?—A. These Acts from 1899 up to 1912 all provided for this.

Q. What about this \$1,041,000?—A. That is the annual amount we compute; if we had the traffic for it we could claim it. The great difficulty in connection with this is the fact that it must be traffic over the particular line subsidized. Therefore if there was \$10,000 which could be collected under this thing on a piece of line and the post office collected \$9,000 then another department could get \$1,000, but if the post office had taken the whole \$10,000 the other department would not get any. My objection to the present system is that there is no department charged generally with the responsibility of making certain that the dominion government gets full credit for what it is entitled to.

Q. What is your suggestion?—A. I think the Department of Transport should be made responsible for it.

Q. There should be somebody to continually keep in mind the possibilities of saving money with respect to the various departments?—A. Take to-day; the Department of National Defence must have heavy traffic over practically every line in this country. The Department of Munitions and Supply possibly has, too, as well as the post office. Post office has made a very sincere effort to take full advantage of it so far as they are concerned. Mr. McNabb is in charge of that matter and we think he does a marvellous job. Bear this in mind, that the railways do not try to gyp us on it because on more than one occasion we have received voluntarily from the railways small payments in connection with our entitlement under that section.

Mr. BENCE: I should just like to make this suggestion. I think this committee might consider drawing it to the attention of the administration for the purpose of trying to implement the suggestion made by the Auditor General.

The CHAIRMAN: You can make a note of that and have it embodied in the committee's report.

By Mr. Isnor:

Q. Your thought, Mr. Sellar, is if it were the responsibility of the Transport Department, we will say, the railways would each month advise them as to the amount which has been taken up showing the balance and the Transport Department would thus have before it at all times the outstanding credit balance which is available for use by the various branches of the government?—A. My idea was that the Department of Transport would notify the departments of the lines over which we were entitled to something, and as soon as a department had any movement over that line they would report to the Department of Transport the amount of that movement, and then it would be the Department of Transport's job to see that we get credit for that. It is the same thing, only your idea was working back from the railways. Of course, there is one great trouble. I know in my own little department we give a little shipment to the Canadian Pacific

or Canadian National, and with that we are done. We do not know anything at all about the lines it goes over or anything else. We have not got enough volume to justify it. Therefore it is a specialized job.

Q. That is why I thought of putting the responsibility on the railways who would have the account as a whole, and they would notify the Department of Transport who would have the picture before them from time to time.—A. I always think it is more in the creditor's interest than the debtor's interest to look after himself.

Q. Of course, we have to face the same thing in regard to rationed goods to-day, and firms notifying their customers.—A. I know there has been thought given periodically to the question of whether or not that legislation should not be repealed.

Q. What is that?—A. I know it has been discussed from time to time whether or not this should not be repealed on account of the fact \$730,000 of the sum is government-owned railways, and it is just out of one pocket and into the other, and that the bookkeeping does not make it worthwhile.

The CHAIRMAN: Very cumbersome.

The WITNESS: You might want to have the opinion of somebody in the Department of Transport on the subject.

By Mr. Ross (Souris):

Q. Page 58, section 205, reads:—

Regulations approved by order in council P.C. 76-1656 of March 3, 1942, provide that "a suitably equipped automobile shall be supplied, operated and maintained at public expense for the use of the corps in the United Kingdom." The vehicle was purchased in Canada and payment made on September 14, 1942. Shipment of the vehicle to the United Kingdom had not been made by September 1, 1943.

What had become of that vehicle? Have you any idea?—A. I asked the chaps recently about it. I have no note on the subject. I would have to inquire as to whether the car is still in Canada or not.

By Mr. Bence:

Q. Did you ascertain at the time why it had not been sent over sooner?—A. I will find that out.

By Mr. Ross (Souris):

Q. Have you any information as to whether it is still sitting at the factory at this date?

By Mr. Bence:

Q. You have not got the information?—A. No, I would have to get it for you.

By Mr. Ross (Souris):

Q. You can get it quite easily for us.—A. Yes, I will get it and file it.

Mr. BENCE: Mr. Chairman, in connection with paragraph 196 on page 56—

Mr. MARSHALL: Before we go to that, down in section 207 there is a reference to accountable grants of these various organizations. I want to quote the last eight lines:—

All purchases of motor vehicles, furniture, equipment, etc., were made in the name of the respective organizations. Although latterly purchases of land and buildings have been made in the name of the Crown, ownership of much of the real estate that has been purchased has been vested in the organizations. In certain cases, land and buildings in urban areas

have been acquired entirely from the accountable grants. It was not observed during the audit that any policy had been adopted regarding the disposal of these properties when hostilities cease.

Has anything been done with reference to that matter since you made your report?—A. I would not like to say whether or not anything has been done because I have not asked the Department of National War Services. I do know this, that a representative of one of these bodies personally, and not on behalf of his body, came in one day and chatted with me before this report was printed as to what should be done with these particular properties. His personal view is that the organizations should retain for themselves all land, buildings, supplies, and so on, that they acquired by public campaigns handled by themselves, and that everything since then should be regarded as Crown property. That is his view of the subject, but he was not speaking for his organization. He was just speaking for himself.

Q. Have any plans been worked out since that time with respect to these matters?—A. My belief is that there has been a discussion between the Department of National War Services, the Department of Finance, and External Affairs on the subject, but I cannot go beyond that because I have not got personal knowledge.

By Mr. Bence:

Q. I was going to ask a question in connection with section 196, page 56, relating to the operation of elementary flying training and air observers' schools under agreements with the Crown, and as a result of the examination made by the Auditor General he states as follows:—

As a result of these examinations, reports were made to the department indicating unsatisfactory conditions at various schools, particularly in connection with accounting for loaned equipment, accounting for company owned stores, the compiling of claims for messing and flying hours, control of aviation and motor transport gasoline, and rentals received for the accommodation of civilians at the schools. Appropriate departmental action was initiated.

I wonder if the Auditor General will give us the names and locations of these particular schools, and some indication of the type of thing which he complains about?—A. I do not know whether you want me to read off in full the statement I have with me here by names. That is to say, I will give you the headings. We have first of all the stations, and then we have got inefficiency in accounts and/or equipment section; conditioning of stores and produce; gasoline, flight inventories and A.I.U., ledgers; barrack equipment; write-offs; cash; rentals and revenue, with critical comments we have made with respect to these various items in connection with these various schools.

Q. Will you first of all give us the schools which are covered in your report?—A. I was looking at the wrong statement. The one I have here is a much simpler statement. I will take the first item on it. Would that do to illustrate?

Q. I want to get the schools first of all that were covered in the report?—A. My trouble is I have got No. 1 Command, No. 1 Air Observer School, and that is all I have got here. You want the location?

Q. Yes.—A. I have got it by Commands.

Q. Go ahead.—A. The date of the report was in the late fall of 1942. We raised an audit observation with respect to equipment loaned. We raised another one with respect to company stores. We raised another with respect to messing claims.

Q. Is this at this No. 1 Air Observer School?—A. Yes. In others where we have made an inquiry we have got no comment whatsoever. As a rule it is in connection with the loaned equipment and the company stores. Those are

the two things. We made twenty-three audit observations with respect to loaned equipment, and eighteen with respect to company stores; eight with respect to liability for crashed aircraft; ten with respect to messing claims; four with respect to flying hours claims; and two with respect to civilian accommodation.

Q. Is that in different schools?—A. That is in different schools. That involves twenty-nine schools.

Q. How many did you say there were in connection with accounting for company-owned stores?—A. Eighteen.

Q. Eighteen out of twenty-nine?—A. Yes.

Q. Will you give the committee an indication of the result of your investigation in connection with these eighteen schools?—A. We go back every few months. We have an arrangement with air whereby I have a squad of travelling men who go to these schools, various air stations, etc., and make audits. Unfortunately we are dealing with stuff that is upwards of eighteen months old.

Q. Unfortunately for us, too, Mr. Sellar, but we cannot deal with anything after that.—A. Since then our men have been over them again. If I try to pick out of my memory I can go wrong. I would suggest that I give you this list and you mark down those reports you would like to see with respect to any of these schools and I can bring them in.

Q. Before you go into that I wanted to get some indication of the type of complaint you had with respect to accounting for company-owned stores. For example, were there stores missing, or was it merely a question of not having a proper accounting system set up? Were there any defalcations, any complaints lodged against individuals?—A. I have no recollection of defalcations. I have recollections of very bad inventory accounting and very inefficient storekeeping practices. We also had a complaint of stuff not being taken on charge that had been received and stuff that was delivered out.

Q. Delivered out and no accounting for it coming back?—A. Yes.

Q. That might easily be a question of defalcation?—A. It might be, but offhand I cannot tell you of any case that comes to my recollection.

Q. Can you tell us what steps were taken to rectify the situation?—A. As soon as our report is made—it is made to the Deputy Minister for Air—his people take action; I assume at once. I know they do it promptly. They go into these schools, put in their men, and try to bring things up to date. Sometimes they do not accomplish it. They have got the same problem as the rest of us, the insufficient help that you can get for this sort of work.

Q. These are all in connection with companies which are privately owned and which had contracts with the Crown? Is that not right?—A. These particular ones you are referring to now, yes.

Q. And the matter of whether or not there is proper accounting for stores is a very important one as far as cost to the country is concerned?—Yes, sir.

Q. If you cannot give it to us now I should like you to obtain for us more information in connection with this matter of accounting for company owned stores, what the situation was like when you investigated originally and what steps have been taken to rectify it.—A. In regard to that I could give you a basket reply or I can give you one specific school. Which would you prefer?

Q. I should like you first of all to give us an indication as to whether you found this to be general in these eighteen schools you referred to, whether the same type of thing was in the eighteen schools?—A. You are wanting this brought up to date.

Q. I want to find out what the situation was at the time you made the report and the situation as it is now to ascertain whether or not the controls have been tightened up for the purpose of saving the country money.—A. Correct.

Q. At the same time would you be prepared to give us some sort of picture in connection with the compiling of claims for messing and flying hours which are referred to in your report?—A. Yes, sir.

Q. And also the question of the control of aviation motor transport gasoline. That seems to me to be a very important phase of this thing. I should like to know what the position is with respect to insuring that there is no waste of gasoline in connection with the operation of these schools?—A. That is pretty hard. The reason I say that is this, that I think in every letter that I sign there will be a comment in there to the effect—

Q. What is that?—A. In practically every letter I sign on these reports there will be a comment to the effect that the gasoline is too handy to the parking space where private automobiles are stored, and that the dip-stick always shows either an overage or a shortage. I think you will find in replying to that I will have to give a pretty general answer.

Q. Does that mean in connection with these privately operated schools that the gasoline that is being supplied for aviation is being taken from the pumps and used for private purposes in private cars?—A. No, I do not say that, but I say it is so handy that our chaps repeatedly question any case where they have seen that the tank was not properly locked.

Q. But there is the possibility of that gasoline having been used for private cars?—A. It can happen but I do not say it does happen. All we can go by is the record of the issues for flight purposes, the amount of gasoline received, and what is left.

Q. Has your examination indicated that something is happening to this gasoline other than being used for aviation purposes?—A. If you will allow me to depart from these schools and give you a case that happened in connection with an R.C.A.F. station it may answer your question. It was an Ontario station. We noticed what appeared to be a terrific shortage in gasoline in the records. They could not explain it. As a result my man went over and examined the tank and the pump. The smell of gasoline was so strong that he got the officers to put a gang to work and excavate. They found there was a bad leak in the tank itself, and that the ground was saturated with gasoline. That is what I mean that there may be leaks. There is always a certain amount of evaporation.

Q. That is getting away from the point which you raised originally. That is a question of loss of gasoline through leakage from a pump which might be somebody's fault and might not be. It might be something which happened, but you said in your first comment that in practically every letter you sent out you drew attention to the availability of this gasoline for the use of motors other than aviation motors?—A. No, I may not have been clear. I said in practically every letter I can recall signing a sentence in connection with gasoline pointing out that the tanks were often close by where private cars were parked, and that the pump was not locked.

Q. Is there any way that you can check up and ascertain that the amount of cash that has been used has been a reasonable amount as compared to the number of flying hours that have been occupied?

The CHAIRMAN: I wonder could I interject just this one word: in listening to your question and the replies that have been made it appears that there were two distinct types of gasoline used on each one of these bases; commercial gas for tractors and cars, and high octane gas for the airplanes. It seems to me—I am just taking the liberty of saying this—that there would be much more possibility of the thing happening which is indicated by you in connection with commercial gas than there is with the high octane aviation gasoline.

Mr. BENCE: All I know is this, that he comments on it in his report; with respect to the matter of aviation and motor transport gasoline; and I asked the Auditor General for an explanation of what he means by his observation; and he indicated that in practically every letter that he sent out that he was warning whoever he was writing to about the possibility of the gasoline being used for other purposes than for I presume legitimate purposes.

The WITNESS: Right.

Mr. BENCE: And I wanted to get some kind of an explanation of what he meant by that.

The WITNESS: What I mean by this, sir: we know there is supposed to be a record kept of the amount of gasoline that they put into a truck or into a plane, and that record is supposed to be kept in a book. When we go there for an audit we are supposed to and we try to reconcile these things and invariably or almost invariably, there is either a deficiency or a surplus in the gasoline account. And for that reason we have to refer to it in nearly every letter, the necessity of exercising every precaution, etc., because gasoline is a rationed product—take every precaution possible to make sure the gasoline records are right and there is no pilfering.

By Mr. Roebuck:

Q. Is the man who is in charge of the gasoline also in charge of the record keeping; and is that man responsible for the gasoline that is lost?—A. He is responsible—it is like, sir—he is the keeper of the records, he keeps his records and then there is a fellow over him who is supposed to check him.

Q. Who keeps the key to the pump, the man who checks or the man who sells the gasoline?—A. During operating hours, it is supposed to be the fellow who is actually issuing.

Q. What I am getting at is this, is the responsibility centralized in the person who has the job of operating the pump; and if so is he held responsible if there are shortages?—A. Again, sir, I would like to verify my facts before I answer that. My belief is yes, that if there is a bad shortage they are assessed if they cannot give a good explanation as to why there is a shortage; I think they are assessed. But I would not like to make that as a positive statement, I would like to verify that with my man who did it.

Q. Would you do that, and find out what system of responsibility they have and let us have a statement as to their method of operation.—A. The trouble is when you get into the services as distinct from the schools, you have a commanding officer, and he is properly responsible for everything happening in the unit. How that works down there, I do not know. The schools, of course, are in corporations.

By Mr. Isnor:

Q. You have not discovered any large shortages?—A. Just in that one case which I mentioned where there was a leak and that lasted for a long time.

Q. The same situation exists in connection with the pumps at private stations. They open their tanks and unlock them in the morning, they know the quantity of gas that is in the tank, and what goes into it when it is filled up; and then they know how much they sell during the day and it is supposed to balance out at the end of the day, but it is very seldom that the record at the end of the day balances out with what they are supposed to have.—A. They never know to the exact gallon.

Q. And the same situation will exist in these stations.—A. Yes.

By Mr. Bence:

Q. If there are not any large losses then when you use that word unsatisfactory conditions with respect to aviation and motor transport gasoline what do you mean?—A. As I say, I do not think there are any large losses. I am not talking in tens of thousands of gallons. I do not think there are any large losses. There may have been deficiencies running to 100 or 200 gallons or so. I do not consider that an unsatisfactory condition.

Q. In each training school?—A. Depending on the size of the school.

By Mr. Marshall:

Q. For what period of time?—A. It might be three months, it might be six months, it might be ten days; it all depends on the amount of time between check-ups.

Q. Losses of that kind might easily happen in any private gas station?—A. Oh, yes, it could happen; after all I am recording it, because when we have a rationed product we should be very, very careful to see that there is no abuse of it.

By Mr. Bence:

Q. What would you suggest as a remedy then to meet the situation?—A. We have watched that and we think possibly there should be no private automobiles parked near the gas pumps; when they are it might be very easy for someone to slip in a few gallons; particularly when it is at a small station and it is unobserved. The second thing is that the pumps should be kept locked and third, that there should be a very careful record kept of all that is used and all returns, and if there is any shortage suitable disciplinary action should be taken.

By Mr. Rickard:

Q. What inspection is made in regard to the gas used in the different camps and that sort of thing?—A. That is done; the internment camps are done by the army. I do not do that.

Q. The army do them?—A. Yes, sir.

Q. You have nothing to do with them?—A. I have done it, but I have not gone into any internment camps for over a year.

Q. Have you had any complaints about the wasting of gas in these camps?—A. No, sir. I have not heard of any.

Q. I have had that matter brought to my attention, of so much gas being supplied to a certain camp, and an allotment of so much per month, and if that was not all used up the extra gas was dumped on the ground to waste. I was just wondering have you had any check on that sort of thing?—A. I have not made one, sir.

Q. Could it be made if you were given the authority?—A. I would naturally look into it.

Q. If you were given the name of the camp could you make an inspection?—A. We would check them all.

Mr. RICKARD: I will be glad to give you that privately.

By Mr. Noseworthy:

Q. Could the Auditor General tell us whether there is any evidence of fairly large quantities of gasoline being unaccounted for in any of these stations?—A. When you say fairly large, what do you mean?

Q. I suppose—substantial quantities.—A. Pardon?

Q. I would say substantial quantities—have you any of 100 gallons or even less—if you came across that sort of thing you would be suspicious?—A. I am satisfied—without checking back into my records, that there are not many of those.

Q. But you have cases?—A. Yes.

By Mr. Marshall:

Q. Yes, but the item that would enter into that is time; 100 gallons over in three or four months?—A. Time and the size of the station.

By Mr. McGeer:

Q. Have you any evidence of any case where there has been misuse or theft of gasoline, it does not matter whether it is large or small?—A. Thefts, no.

Q. Well, either you have or you have not?—A. I have none with respect to thefts.

By Mr. Noseworthy:

Q. Could the Auditor General give us a statement of the quantities at the different times that have been unaccounted for?—A. Yes, I can give it to you with respect to all of those without any trouble. We have it in our records.

Q. I think that is what we ought to have. I think we should have the actual amounts not accounted for when you checked up.—A. To make sure that we are all on the same thing, you are still referring to civilian operated schools, are you?

Q. Yes.—A. It will be very easy to give you that statement.

By Mr. McGeer:

Q. I would like to raise one question in connection with the statements that were filed, with the permission of the committee; I would like to get this information, if it could be made available: you filed a statement in connection with Halifax Harbour?—A. Yes, sir.

Q. Would it be too much trouble to give us a statement for all the national harbours in the same form?—A. Not in the least. That would be very easy for us to do.

Q. For all the national harbours?—A. I could not give it to you right up to date because we haven't finished the audit for 1944.

Q. Well, bring it up as far as this one.—A. I will bring it up as far as I can. If you will pardon me, when you say harbours; that is Vancouver, Saint John, Montreal, Quebec and Three Rivers?

Q. How about New Westminster?—A. I have nothing to do with New Westminster. Are you interested in Chicoutimi for example?

Q. I mean whatever harbour boards are under your jurisdiction.—A. Yes.

Q. Indicating what other harbour boards there are which are not under you.—A. What I mean is this; do you want the one at Churchill?

Q. I want them all.—A. Also the government elevators?

Q. Yes.—A. Right, sir.

Q. I would also like to have included with that all the canals. Frankly, Mr. Chairman, we are getting a very rotten deal on this Vancouver. Our situation is that we are financing our harbour, we pay very heavy berthing tolls, we pay maintenance tolls, and all that sort of thing; and then we come down here and see this magnificent canal system; and most of the harbours financed with contributions on which they are not paying their interest. It is of very great interest to us to have the financial picture with respect to all these harbours and canals properly presented.—A. The canals, they are just ordinary public works.

Q. Oh, no; we want to get the government investment in them and the annual expense in connection with them, and the charges on account of the annual debt; that has piled up to a considerable amount, you know.

Mr. ISNOR: You are speaking of central Canada only now, are you not?

Mr. McGEER: Yes, you and I each have our problem.

The WITNESS: Will you explain to me, sir, exactly what you have in mind in connection with the canals. There is the Rideau Canal, are you interested in it?

By Mr. McGeer:

Q. I mean to say you have a capital charge for these things and you certainly have on the Welland Canal an interest and operating charge and so on. Is not that set out separately?—A. No, it is not identified as such, it is just part of the public debt of Canada.

Q. It is not segregated?—A. No. We can give you the capital investment and the operation costs and revenue, which is mainly from the sale of power.

Q. You could give us an approximate estimate of the carrying charge in connection with the debt, even though you might not be able to actually segregate the charge as it relates directly to the Welland Canal?—A. It would not be at all accurate, sir; by that I mean it may have been borrowed in 1900 and it may have been refinanced two or three times since then.

Q. And the rate of interest might have been changed?—A. Yes.

Q. But taking an average rate of interest on the public debt as a whole and relating it to the public debt outstanding against the canals you would be able to indicate what the interest on that would be?—A. You are interested only in the big canals. There are one or two little ones of two or three miles in length.

Q. This one out here as we pass every day from the Chateau to the buildings and back; and then as you go on up the Rideau River and see all these locks and canals all the way along, there are a whole bunch of them strung out along the Rideau River.—A. That is all one system, sir. And what I meant when I referred to some of the shorter canals was this; there is the one connecting Lake Champlain with the Chambly River, that is only about three miles long; and there are others of that kind in different parts of the country. I assumed that possibly you were not interested in those little ones.

Q. I think you appreciate what I want and you can use your own judgment and probably do a better job of it than I could by trying to give you a statement of what I want. I am perfectly willing to leave it to you.—A. All right, sir.

Q. And next, you do not seem to have given us anything with respect to the Bank of Canada, do you not do the Bank of Canada?—A. No, sir.

Q. Who does that?—A. Auditors appointed under the Bank of Canada Act; two firms of chartered accountants are named each year.

Q. Are they the same firm of accountants?—A. They change every second year.

Q. What is the reason for that?—A. In order that no firms gets too familiar with the bank. What I mean by that is, so they will not get too familiar with the staff of the bank, that they are still checking them up.

Q. Is there any reason why that public utility, and it is that, should not be audited by the national audit board?

The CHAIRMAN: That is a matter of possibility, Mr. McGeer.

By Mr. McGeer:

Q. Under your direction?—A. We could do it, but parliament has decided otherwise.

Q. In other words, the auditors who are appointed by the bank are not part of our national audit system?—A. No, sir; they are just the same as the auditors for the Canadian National Railways, there again the auditors are appointed by parliament.

Q. And of course it is the same in connection with foreign exchange?—A. No, I am the auditor of foreign exchange.

Q. And is information available in connection with it; can we get the costs of the operation and the details of the expenditures of that from you?—A. I would like to speak to the chairman of the board who is Mr. Towers; that is under order in council and considered very hush hush kind of a set-up, it is all under order in council.

Q. I quite agree with that, Mr. Sellar, as regards to the work of the Foreign Exchange Board and what it is doing; but as regards the expenses of the Foreign Exchange Board, that could not be hush hush?—A. No.

Q. There is no reason why it should be.—A. I do not think there is. I am pretty sure that it works on a calendar year basis. But I am called upon by the Act, and by the order in council, and under the War Measures Act, to certify that

all of its accounts are properly kept and that every transaction is fairly reflected in the accounts. Beyond that I am not required to certify. But I can give you, I am quite satisfied—you want a statement of the number of staff and—what else?

Q. Operating expense and all the rest of it.—A. I will get that from them.

Q. What I had in mind was this; of course, in connection with this institution, the Board is doing work of enormous value, and I am rather inclined to think that the expenses in proportion to the work done are very small. If we as a people are going to preserve our economic situation on any basis of stability it is my opinion that we will always have to maintain some regulatory control in connection with the whole of our currency, credit and investments. In view of the fact that this is the first time in our history that we have ever been able to establish the machinery to stabilize the fluctuations of our dollar, I think it is one thing that we should know more about. To me it seems to be the one effectual medium through which we may hope to obtain economic security in the post-war period, and it should be able to accomplish that for us in view of what we have done in financing ourselves during the war. It is part of that machinery; and I think it is going to be necessary to set up the machinery with which to finance our own Canadian economy. I think that is plain common sense. I think that if that information can be obtained it will be of value to the members of the committee, figures as to its cost in relation to the importance and magnitude of the work being done by that board; and I am confident that that cost is going to prove to be very very small, although it is a very substantial cost.

Mr. NOSEWORTHY: Would the terms of our reference enable the committee to obtain similar information in regard to the Bank of Canada, or are we limited?

The CHAIRMAN: You are limited to the Auditor General's report. We cannot go beyond the scope of our reference which is the Public Accounts.

By Mr. Noseworthy:

Q. The Auditor General has the auditing of the crown companies, I presume?
—A. Yes, sir.

Q. Could the Auditor General give us a list of those companies, the dates when they were incorporated, a list of those who were employed by the government to incorporate them, the legal fees that were paid, and to whom they were paid; could we have that information?—A. Which crown company are you referring to?

Q. All the crown companies, sir.

The CHAIRMAN: I would suggest that the hon. member (Mr. Noseworthy) give the witness a written reference as to what he requires in that connection.

Mr. NOSEWORTHY: I am just asking him if he has that information.

The WITNESS: Oh, I have it; that is to say when you say, who incorporated them—

The CHAIRMAN: The legal people.

The WITNESS: You do not want the stenographers and so on?

Mr. NOSEWORTHY: No, I want the legal firms who incorporated them and the fees they received.

The CHAIRMAN: In other words, you do not want the provisional directors, you just want the names of the legal firms who took charge of the incorporation of these companies and the amount they received by way of fees?

Mr. MCGREER: The incorporation expenses and who they were paid to; also I think we should have included in that the expenses of these crown companies and the salaries, and who they were.

The CHAIRMAN: The hon. member (Mr. Noseworthy) better prepare his question in writing for the convenience of Mr. Sellar.

The WITNESS: You are referring to the Munitions and Supply and Department of Finance companies?

Mr. NOSEWORTHY: Yes.

The WITNESS: Pardon me now, I want to be sure that I get this right; the Toronto Shipbuilding Company was acquired by the government but it was not incorporated by the crown—are you including that?

Mr. NOSEWORTHY: I was not thinking of that, I was thinking of the companies set up as crown companies.

The WITNESS: All right.

By Mr. Isnor:

Q. You tabled a report this morning in regard to Wartime Housing Limited showing the amount outstanding of arrears of rentals, \$37,106.32: in view of the fact that Wartime Housing Limited has not been in operation for such a long period it strikes me that the amount is rather large as compared to what private concerns would permit; and your last column shows an item of \$37,000 (roughly speaking) and of that there was \$7,963 under the heading of bad or deferred—that is 16 per cent, if my figures are right.—A. Out of \$2,900,000.

Q. I take it that the arrears total \$37,000?—A. Yes, and approximately \$6,000 of those arrears are bad.

Q. Yes; that means that that amount which is shown as arrears would be 16 per cent, would it not?—A. Yes, if you calculate it that way; if you calculate it the other way, on \$3,000,000 of business it is 2 per cent.

Q. Of course we are allowed in making up our income tax to write off a certain amount of bad debts, but I do not think we would be allowed to write off 16 per cent. A good many firms are satisfied if they can get it down to one per cent. I was wondering what action, if any, you took.—A. I know that in the year 1943-44 Wartime Housing improved its collections and it is getting a better statement than anticipated at the end of the fiscal year or of March 31st. That is a year ago. I regard \$6,000 as uncollectable in their accounts as pretty good. I would consider that that is a pretty good record.

Q. But this is a time when everybody is earning.—A. But there are a great many people who would just move out over night and go to another job and they have to follow and try to collect from them.

Q. One month's rent is not paid in advance?—A. No.

By Mr. Roebuck:

Q. Just before we adjourn I would like to call attention to a matter which we might be thinking over in the interval. What I have to say relates to the instalment purchase of victory bonds and war savings stamps and certificates and the matter of payroll deductions. One of your statements issued to us this morning relates to that and raises the possibility of loss by an employee when deductions are made from his wages by the employer for the purpose of purchasing victory bonds and war savings certificates in cases in which the employer defaults and does not pay the money over to the crown, or goes into bankruptcy or something of that kind, and the employee in consequence loses his investment. Have any such cases come to light?—A. We have had a few losses in connection with war savings certificates, mainly by theft.

Q. From the employers?—A. From the employers; that is to say the employer had paid for the stamps and had them available for the employees and they were stolen from him.

Q. And you did not hold the employer responsible?—A. The employer at that time was compensated by payment out of the war appropriation set up under the authority of the Governor in Council.

Q. But the risk is always there?—A. Yes.

Q. And the employees contribute perhaps in the aggregate a considerable sum where there are a considerable number of employees and then something occurs such as bankruptcy which leaves a very, very, unsatisfactory condition and one which might have a very serious effect. I see you say you have three or four recommendations; in the case of payroll deductions for war savings certificates: "that all persons making deductions be declared to hold amounts deducted in trust for His Majesty". Why would you not go further than that; why should not the people making that deduction at that time be agents of His Majesty instead of perhaps agents of the employees?—A. The trouble there is that for the victory bonds let us say the employer has \$10,000 worth of bonds to buy for his employees who are going to pay for them on the payroll plan; the employer borrows that \$10,000 from the bank on the authority of the bonds and pays the Dominion government \$10,000 for them right off the bat, so that we have no part in the contract agreement between the subscriber and the employer. It is a legal problem and you would know the solution to it better than I would. Here is my reasoning on this thing: the government of Canada by advertising in many ways is urging people to buy by means of the payroll deduction plan—buy what you can with cash and then pledge yourself to buy a bond on the payroll deduction plan. Now I think we have more than a moral obligation when we ask people to buy that way and the employer happens to go into bankruptcy or is dishonest and the person is not protected.

Q. I agree with you, that is why I raised this question.—A. I do not know how to achieve that, perhaps you could find a way to do it. That is only offered as a suggestion, it is not a final policy.

Q. I suppose you could insure at very small premiums?—A. Yes.

Q. Because there are very few companies going into bankruptcy between the time they have collected from the employee and before they have paid it off. You could go further than that and you could give priority in rank in respect to moneys of that kind and they could file their claim even ahead of taxes.—A. You have a clause in the Income Tax Act in respect to cases where deductions are made at the source that such deductions constitute funds held in trust for His Majesty; and then in the next section of the Act it is provided that this money shall be kept separate and apart from other moneys and shall be ranked ahead of any other claim in case of bankruptcy, even ahead of taxes.

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

The WITNESS: Whether that can be done under an accountable set-up, I do not know.

By Mr. Roebuck:

Q. There is the suggestion here in your report that the crown be empowered to take civil proceedings against defaulting persons; I suppose the difficulty there is the one you raised, between the time the money is collected and the time it is deposited with the bank?—A. Yes, sir.

Q. The assumption being a three cornered one between the bank, the employer and the employee.—A. Yes.

Q. Should the crown be cut out of the transaction?—A. I was thinking perhaps that you could have the authority vested in the crown rather than in the employee.

Q. Of course, the crown could always lay a charge but that is under provincial jurisdiction.—A. I have always felt that they were not protected; I always have said that we are not fully protecting the people—that better protection might be afforded them. Currently we can compensate under the provisions of the War Appropriation Act; but, of course, the War Appropriation Act will cease to function just as soon as the war ends and then there would be need for a parliamentary appropriation to make good any of these demands.

By Mr. Isnor:

Q. Have you any cases of this kind from your experience in the past?—
A. Remarkably few. I can remember in connection with the 1931 conversion loan that we had a couple of bonds stolen by a salesman. There is the odd case but it is very very rare, and generally they are straightened out without cost to the public.

Mr. BENCE: Before we adjourn I wonder if I might just refer to some numbers here.

The CHAIRMAN: Excuse me; Mr. McIvor has been trying to ask a question.

Mr. McIVOR: I was going to ask a question about arrears. This government has been in business, according to this statement, for over fifty-two years, and yet the old bad debts only amounted to \$10,000. In a grocery store it would be nearly as bad as that, and I find, too, that a lot of these accounts will be collectable. They are good. The members of parliament who are here now are honest men. I think they will pay their debts.

Mr. MARSHALL: These are only in one department.

Mr. McIVOR: A lot of these accounts will be paid. I should think it would go down to at least \$5,000. Here you have an institution that has been in business for fifty-two years and they only have about \$5,000 in bad debts. I think somebody has been a mighty good collector.

The WITNESS: You are now referring to the King's Printer. The main customers of the King's Printer are the departments of the government and the King's Printer is under obligation to stop doing any printing for any department if it gets two months in arrears in paying its accounts. Therefore, we are forced to pay our bills.

Mr. BENCE: All that I want to do is draw the Auditor General's attention to two or three sections that I would like him to familiarize himself with if he would. They are sections 42 (d), 197, 201, 205, 210.

Mr. MARSHALL: 205 has been dealt with.

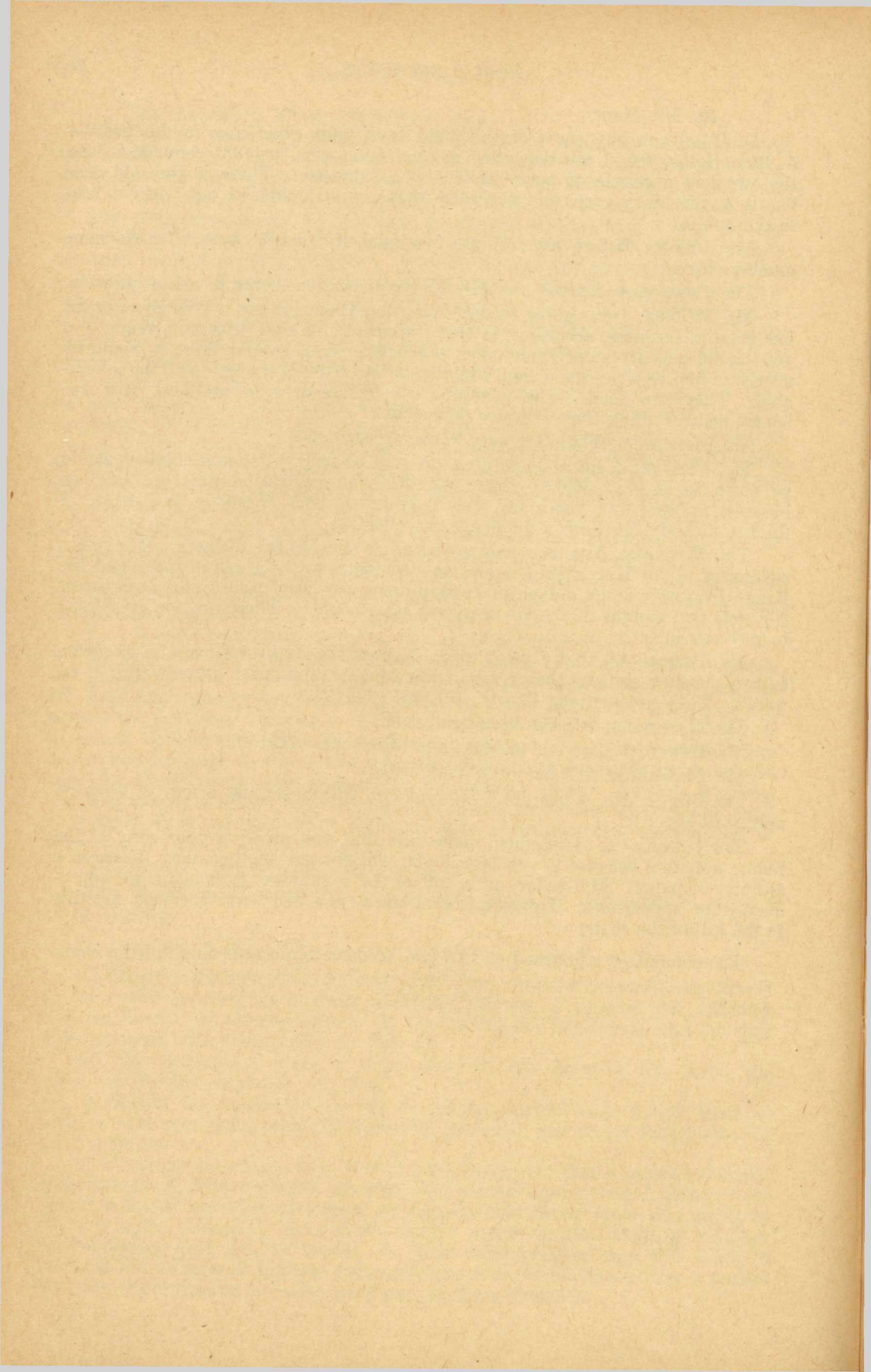
Mr. BENCE: I beg your pardon; cross that out. 210, 215.

Mr. MARSHALL: 215 has been dealt with.

Mr. BENCE: No, it has not. 215 and 216. Those are just a few. It is by no means all of them.

The CHAIRMAN: Gentlemen, make sure that you preserve your copy of the public accounts because if you lose it you will not get another one. There is a scarcity of paper. Mr. Sellar, on behalf of the committee, once again we appreciate your appearance. I presume, gentlemen, you will leave the next meeting to the call of the chair.

The committee adjourned at 1.05 p.m. to meet again at the call of the chair.



SESSION 1944
HOUSE OF COMMONS

STANDING COMMITTEE

ON

PUBLIC ACCOUNTS

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

FRIDAY, JUNE 2, 1944

WITNESS:

Mr. F. H. Brown, Financial Adviser, Department of Munitions and Supply

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1944

MINUTES OF PROCEEDINGS

FRIDAY, June 2, 1944.

The Standing Committee on Public Accounts met at 10.30 o'clock a.m. The Chairman, Mr. Fraser, presided.

Members present: Messrs. Boucher, Clark, Fraser (*Northumberland*), Gladstone, Golding, McDonald (*Pontiac*), McIvor, Marshall, Matthews, Purdy, Rickard, Tripp, Thauvette, Veniot, Ward, Winkler.

In compliance with an order of the Committee made on Thursday, May 11, viz.—

That the appropriate official of the Department of Munitions and Supply be requested to appear before the Committee at the next meeting to present the facts concerning item number 169 in the auditor general's report and to bring with him all reports, orders in council and contracts with reference thereto,

Mr. F. H. Brown, Financial Adviser, Department of Munitions and Supply, was in attendance.

Mr. Brown was called, heard and questioned. In the course of his examination, Mr. Brown filed several documents that appear in the printed record. In addition, he filed,—

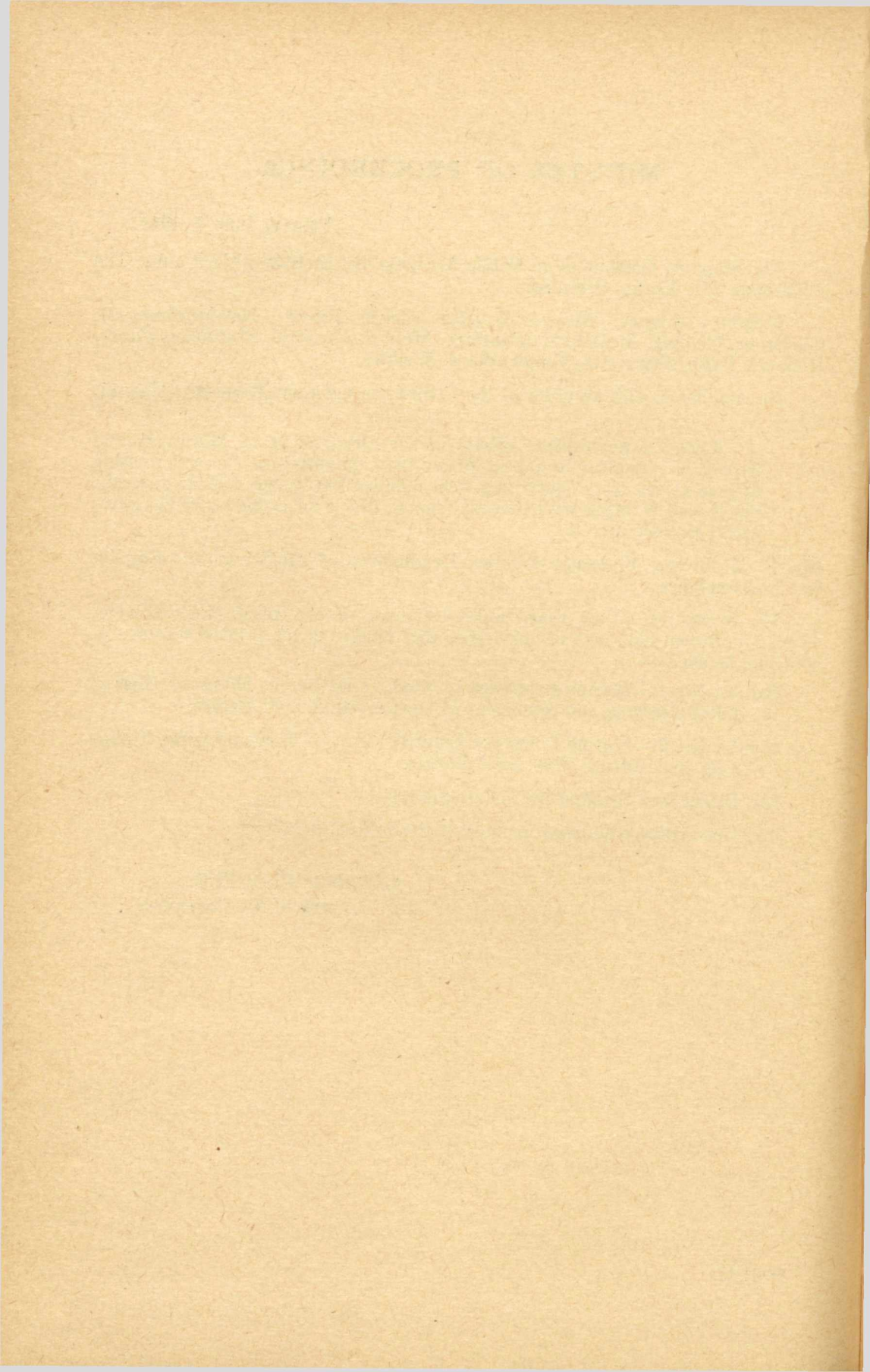
Exhibit No. 1.—Marine Industries Limited. Leaf Barges Division. Cost of Reconditioning and Statement of Operations of Leaf Barges.

Exhibit No. 2.—Marine Industries Limited. Cost of Reconditioning, Equipping and Fitting Five Steel Barges.

Mr. Brown was thanked for his attendance.

The Committee adjourned to meet at the call of the Chair.

ANTONIO PLOUFFE,
Clerk of the Committee.



MINUTES OF EVIDENCE

HOUSE OF COMMONS,

June 2, 1944.

The Standing Committee on Public Accounts met this day at 10.30 o'clock a.m. The Chairman, Mr. W. A. Fraser, presided.

The CHAIRMAN: Gentlemen, you will remember that at the adjournment of the last meeting of this committee we had this resolution before us, moved by Mr. Bence and seconded by Mr. Roebuck, that the appropriate official of the Department of Munitions and Supply be requested to appear before us at the next meeting in order to present the items concerning No. 169 in the Auditor General's report and to bring with him all necessary documents relative thereto. That is the subject-matter before the committee this morning, and if it is the wish of the committee—we have with us Mr. F. H. Brown, of the Department of Munitions and Supply—I will ask Mr. Brown to give us a résumé of this transaction. The reference is to page 51 of the Auditor General's report, that is the appendix. Now, is it the wish of the committee that we should proceed that way?

Mr. MARSHALL: What position does Mr. Brown hold?

The CHAIRMAN: Mr. F. H. Brown is financial adviser to the Department of Munitions and Supply. Now, we will ask Mr. Brown to give us the history of this transaction.

Mr. F. H. BROWN, Financial Adviser, Department of Munitions and Supply, called.

The WITNESS: Gentlemen, I might say that the title of financial adviser means that I have to do with a multitude of financial transactions, mostly with reference to contracts and the purchasing policy of the department. This transaction goes back to the time of the coal shortage and the transportation shortage in 1942 and 1943. Early in 1942, as you know, the submarine warfare had created a dangerous shortage of shipping from the 3rd of March, 1942; the Dominion Steel and Coal Corporation called the attention of the minister to the very serious position in which they were placed. They had over 500,000 tons of coal in a stock pile at Sydney, which they had not been able to move down to Montreal or to the market. They had made repeated efforts to get an allocation of ships from the British Ministry, but the ministry said, frankly, we just cannot do anything for you". So, under these circumstances, the Dominion Steel and Coal Corporation appealed to the minister for help on the ground of national interest as well as to aid their own steel program and also with reference to the movement of coal for the use of other industries and also for the domestic market in the Montreal area. The minister then put the matter up to the Canadian Shipping Board. The board recommended that an attempt should be made—among other things this was only one phase of the attempt to get that coal moved. Among the recommendations was one that there should be docks put in Shediac in order to facilitate a shuffle service between Sydney and Shediac, a distance of about 250 miles, nearly all within sheltered water. Shediac water levels can take care of ships drawing fourteen feet, so it was not possible to use any larger ships. Then there was talk of moving the smallest size ships from the Great Lakes, but to do that would have involved cutting them in two and would have been a difficult and costly operation, and of course it would have involved taking ships that really belonged on the Great Lakes down to sea-water.

Therefore, after further consideration, the Canadian Shipping Board recommended to the minister the reconditioning of some very old ships which were in the Marine Industries junk yard at Sorel. Facetiously they called it Scapa Flow because that was the place where they had so many old hulks which they used, mostly, for parts in the repair of other ships. The Canadian Shipping Board selected five of these old hulks for reconditioning, presumably the best of them. The Canadian Shipping Board took five of these old ships which were old Canada Steamship Line boats, lower lakers, grain carriers, which had been built in 1903 and were then, of course, 39 years old.

Now, as a business proposition, as a purely economic proposition, nobody would have ever thought of bringing those ships back. They had been carried by Canada Steamship Lines, I think, in their Canadian bone-yard, for ten years without being used at all, and they were obsolete in every way. However, having regard to the emergency, it was deemed advisable to try to put them back into commission. Examinations were made and consideration was given to the probable cost of refitting these five ships. Two lighthouse inspectors went into the matter and also an official from the Wartime Merchant Shipbuilding Corporation, who thought that the cost would be about \$100,000 per ship. This decision, however, was merely an estimate and was not based on a detailed examination of the ships. However, after that a detailed examination was made of them, about the 26th of March, 1942, at which time the minister asked Mr. Simard of Marine Industries to make an estimate of what would be involved. His opinion was that it would cost about \$120,000 per ship for a patch job, the idea being to make just a minimum of expenditure. Following that an arrangement was made to the effect that the government would make a loan to Marine Industries of \$600,000, being \$120,000 for each of the five ships for a very quick, temporary job, in order to put these ships into such shape that they could operate in these protected waters including salt water.

The whole of the earnings from these ships, with the exception of 5 per cent operating charge out of which the Simards were to pay their salaries and anything of that kind, that 5 per cent charge would be allowed and all the rest of the earnings would be applied in amortization of this loan. There was to be no provision for the rehabilitation of the ships to the Simards. It was to be done in their yard, at cost, and under the audit of the treasury cost accountants as well as under the supervision of the Controller of Salvage and Ship Repairs, Mr. Carswell, whom you will remember as being a man with long experience in that field.

A formal contract was drawn up which I shall be glad to place on the record for you to read over, if you so desire. The effect of this contract was that the title of the ships always should remain with Marine Industries and that, at the end of the war or six months after the end of the war, any amount of the loan not then cleaned off was to be forgiven; that is, written off, from the government standpoint.

The point to remember is that these were obsolete ships with very small carrying capacity, such as 66,000 bushels, for instance, as compared to 95,000 bushels in the case of modern boats, and that operating costs would be considerably higher. I have tried to get exact figures as to that, but the best I can give you is that with that type of ship operating costs are 20 to 40 per cent higher than in the case of modern ships, ships with a carrying capacity of 66,000 bushels. From my own experience, I would say that ships of such small carrying capacity are rather useless and could be considered more of a liability than an asset.

As I have said, the title should always remain with the company and that any part of the loan not paid off by the end of the war would be automatically forgiven. That was the original arrangement. Now, what actually happened was this: when the ships were opened up it was found that they were very much worse than had been expected, for pipes which were thought to have been

good were found to be rusty; machinery which was thought workable had to be replaced. So very considerable extra cost arose from that. In addition, the insurance people told us that you could not run these ships unless you first put them into first-class shape; they have got to be put into good shape, so stop patching up old plates and put in good plates. In conducting that work we often found that in replacing one old plate with a new plate it was also found necessary to put in a whole series of new plates in the same area. And also the whole superstructure, that is, everything above the deck, had to be replaced with new. They also had to put in the special plastic armour which is required on all ships plying the sea, where there is any possibility of submarine attack. In addition the ships' auxiliaries and pumps and all that kind of thing had to be duplicated. It was the final responsibility of the company for deciding whether or not the ship would be fit to be put back into use or not, and the result was that the cost, quite obviously, went up much higher than was at first anticipated.

At that particular stage the company itself took two steps. One, they said there is one of these ships which is so bad, after we had opened it up, it looks so bad that there is no object whatsoever in going on with it. This fact was referred to all those interested, the Canadian Shipping Board, the Dominion Steel and Coal Company, and others, and they all agreed that it was better not to go on, because the ship was very bad and the cost would be very very great, and if we did go on we would only have a very poor ship at that. The next thing was that the company began to be very much concerned as to the very high cost and they thought perhaps something might have slipped in their own shipyard, so they sublet the contract for one of the ships to the Montreal Dry Docks, Limited, which is a subsidiary company of Canadian Vickers Limited, a concern which, in the department, we have come to regard very highly as an efficient and low-cost shipbuilding concern. The Simards turned one of the ships over, as I have said, to the Montreal Dry Docks to complete. Now, when it became clear that the cost was going greatly to exceed the original \$600,000, the company thought that \$1,100,000, altogether, would be enough. So we went to the Privy Council and got authority for the expenditure of \$1,100,000 with which to do this job. However, before the contract could be executed the company came to us, under the confirmation of the Controller of Salvage and Ship Repairs, and said, "This \$1,100,000 is not going to be enough. It looks as if \$1,300,000 or \$1,400,000 would be required." Then we said to the company, "Well, we won't pay anything more than that until we get the complete story. We are not going to be placed in the foolish position of having to go back to the Privy Council a third time and even perhaps a fourth time. We cannot give you permission ourselves to go over \$1,100,000." Then they agreed that they would carry on. At the same time we recognized that it was probably going to mean an additional \$250,000 to \$300,000. It was, of course, provided that they would pay us periodically or at least that they would make a report periodically as to the earnings of the ships. Statements were to be made, but it was only two months after our quarterly reports that we received a statement and it was only within the last few days that we had any formal report on the earnings, the reason being that they were losing money. They lost money on the ships for their operation in 1942. They made a little money in 1943, but the net result of it is that they were losing money and that there was nothing coming to us.

That was something within our knowledge, and we tried on various occasions to speed up the accounting and the obtaining of adequate information, but the fact of the matter is that the final figures as to the cost of refitting these ships did not come into our hands until the 27th of May.

I have a record from the chief cost accountant as to the official items. The final cost is \$1,381,353.32, but as I have said, we did not have that figure until May 27, 1944, and we have had it in our hands only for the last few days.

Since you gentlemen desire to have the information, we have obtained from the company the official record of their cost of operation, that is, the actual operation of the ships. The net result of the operation of the ships up to the end of February 1944 shows an operating loss of \$43,399.17, so that the combined picture of this operation is that we are morally obligated, although not legally obligated, to pay them \$281,353.32, and they have an operating loss of \$324,752.49 as of February 29, of this year.

That, gentlemen, is the picture, and in proof of it I have got stacks of substantiating details which I should be glad to give you, including orders in council and contracts and anything else in connection with it. I should be glad to let you have whatever information you desire pertaining to the matter in question.

The CHAIRMAN: Any questions.

By Mr. McIvor:

Q. You say that the total cost to date was \$1,381,353.32?—A. That is right.

Q. And against which there is an operating loss of \$43,399.17?—A. No. it is not deducted, they have to carry it. They are out \$324,752.49 at the moment.

Q. And the ownership of these boats is vested in the company today?—A. It still remains in the company.

Q. They own the vessels?—A. Yes, they do.

By Mr. Marshall:

Q. This money is only loaned from the government to the company?—A. yes.

Q. You said that you had the contract?—A. Yes, I have and the Orders in Council.

Q. I wonder if you would file them?—A. Yes, I shall be glad to do so.

By Mr. Purdy:

Q. This is four ships only—A. Yes.

Q. And the cost of the fifth ship, I suppose that is included in the amount?—A. May I file these documents first and then go on with you? First of all I am going to give you a copy of Order in Council P.C. 5684, dated 2nd of July, 1942, recording all original transactions for the advancing of \$600,000. Then I am filing an office copy of the original agreement made on the 29th day of June, 1942, but executed some time later, in August, 1942.

By Mr. Marshall:

Q. You mentioned that the boats had a carrying capacity of 66,000 bushels?—A. Yes.

Q. Do I understand that these boats were required for carrying coal?—A. They were grain boats, but, of course, a grain boat will carry coal—carry 2,000 tons of coal.

Q. 2,000 tons?—A. Yes. Here is another Order in Council, No. P.C. 10484, dated 19th day of November, 1942, authorizing increasing the expenditure from \$600,000 to \$1,100,000.

The CHAIRMAN: Is it the wish of the committee that these exhibits be admitted in the evidence?

Mr. MARSHALL: Are they very long, Mr. Chairman?

The WITNESS: Yes, the contract is about five pages.

Mr. MARSHALL: Well, if they are not very long they might just as well be put in.

The CHAIRMAN: I suggest, then, that we include these documents in our record, because then everybody will get a copy; otherwise you will be chasing the secretary all around. There are none of them very long.

P.C. 5684

PRIVY COUNCIL

CANADA

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 2nd July, 1942.

The Committee of the Privy Council have had before them a report, dated 1st July, 1942, from the Acting Minister of Munitions and Supply, representing:—

1. That with a view to facilitating the movement of coal from the Cape Breton fields to Point du Chene, New Brunswick, it is proposed to enter into an agreement with Leaf Line Limited, a body corporate having its head office in the City of Montreal (hereinafter called "the company"), a wholly-owned subsidiary of Marine Industries Limited of Sorel, P.Q., whereby the company will rebuild five (5) old canal barges owned by Marine Industries Limited and being transferred by Marine Industries Limited to the company so that after the rebuilding and reconditioning of the canal barges they may be used as coal carriers;

2. That it is estimated that the cost of this work will be approximately \$600,000;

3. That it is proposed that the company proceed immediately with the rebuilding and reconditioning of the said barges and that the money required therefor be advanced by the Canadian Government to the company against certificates of the Controller of Ship Repairs and Salvage after audit and check by a Government Cost Accountant, such advances to be treated as a loan to the company repayable on certain terms and conditions;

4. That the proposed contract will provide substantially as follows:—

(a) The company will undertake to cause the said barges to be reconditioned and equipped and fitted to the satisfaction of the Minister of Munitions and Supply for salt water operation in such a manner that the same will pass inspection by Canadian Steamship Inspectors and be classed by British Corporation.

(b) The company will be paid the reasonable and proper cost as certified by the Controller of Ship Repairs and Salvage and as verified by a Government Cost Accountant.

(c) Payments will be made against progress certificates.

(d) That the estimated cost of repairs is \$600,000 and the company will not be permitted to incur commitments beyond that amount without the consent of the Minister of Munitions and Supply.

(e) The company will retain title to the barges and be responsible for their operation and is to repay the loan out of earnings to be derived from the operations in the following manner:—

(i) The reasonable and proper costs of operation and maintenance will be a first charge on the earnings of the company;

(ii) Five per cent of the gross earnings of the company will be a second charge on the earnings of the company which will be payable to the company as an operating fee;

The Honourable

The Minister of Munitions and Supply.

(iii) All earnings over and above the first and second charges will be paid to His Majesty and credited as a repayment of the loan, such repayments to continue until such time as the amount of the loan is wholly repaid or until six (6) months after the cessation of hostilities, whichever event shall first occur.

(f) In the event that, and from the date that, His Majesty shall have been reimbursed all the moneys so loaned to the company, the gross operating profits over and above the first and second charges mentioned above will be divided equally between His Majesty and the company, the amount payable to His Majesty being considered as part of the operating cost of the company; this agreement as to division of gross operating profit to continue in effect until six (6) months after the cessation of hostilities;

(g) The company will agree to operate the barges in every service that the Minister or the Canadian Shipping Board will direct and under the commercial arrangements which will apply in such or similar service;

(h) The company is to keep proper accounts both as to the reconditioning, equipping and fitting of the barges and as to its operations, all of which will be subject to audit by a Government auditor, and is also to furnish the Minister with quarterly reports of its operations;

(i) Irrespective of the amount paid under the amortization provisions of the agreement, the agreement terminates six (6) months after the cessation of hostilities and from that date His Majesty will not be entitled to any further payments on account of the amount of the loan;

5. That it is understood that the company proposes to apply to the War Contracts Depreciation Board for special depreciation.

The Minister states that in his opinion the terms of the proposed contract are fair and reasonable and the contract is in the public interest in the prosecution of the war in which His Majesty is now engaged; and

That the Department holds on its file Financial Encumbrance No. 1671 for \$660,000 (to cover any expenditures over the estimated amount) for the cost of the reconditioning and equipping of the said barges.

The Committee, therefore, on the recommendation of the Acting Minister of Munitions and Supply, advise:

(1) That the Minister of Munitions and Supply be authorized to enter into a contract with Leaf Line Limited substantially on the terms and conditions above outlined;

(2) That pending the negotiation and execution of the formal contract the Minister of Munitions and Supply be authorized to make accountable advances;

(3) That the Minister of Munitions and Supply be hereby authorized to do all such acts, matters and things as may be necessary to carry out the foregoing.

(Sgd.) A. D. P. HEENEY,
Clerk of the Privy Council.
 File No. 4-4-508
 P.C. 5684 & 7351
 D.N.S. 1671

THIS AGREEMENT made as of the 29th day of June, 1942.

BETWEEN:

HIS MAJESTY THE KING in right of Canada (hereinafter called "His Majesty") herein acting and represented by the Honourable the Minister of Munitions and Supply (hereinafter called "the Minister")

Of the first part

and

MARINE INDUSTRIES LIMITED, a body politic and corporate, having its head office in the City of Montreal and herein acting and represented by Joseph Simard, its President, and by E. de G. Power, its Secretary, duly authorized in virtue of a resolution of the Board of Directors passed on the day of 1942, (hereinafter called "the Company")

Of the second part

WITNESSETH THAT:

Whereas the company is the owner of five steel self-propelling barges (hereinafter called "the Barges") which have been laid up for a number of years; and

Whereas it is urgent, in the interest of the war effort of Canada that the Barges be reconditioned and placed in operation without delay; and

Whereas the company has not sufficient means to provide the necessary funds for the reconditioning of the Barges; and

Whereas His Majesty is prepared and willing to advance to the company the necessary funds to recondition and put in operation the Barges subject to the terms and conditions hereinafter set forth.

Now therefore the parties hereto agree as follows:

SECTION 1—*Interpretation of terms*

In this agreement, unless the context otherwise requires:

(a) "Minister" means the Minister of Munitions and Supply of Canada and his successor for the time being in office and includes the Deputy Minister or any acting Deputy Minister of Munitions and Supply and any duly authorized representative of the Department of Munitions and Supply;

(b) "The Controller" means Mr. D. B. Carswell, the present Controller of Ship Repairs and Salvage and any other persons who may be appointed in his stead and place, and shall extend to and include any persons acting under the instructions of the Controller or any other person duly authorized by the Minister of Munitions and Supply;

(c) Any and all rights, powers, authorities and discretions herein expressed to be conferred upon or vested in His Majesty may be exercised by the Minister (as defined herein) and/or any other person or persons duly authorized in that behalf;

(d) "Allied Firm" means any firm, company or corporation which directly or indirectly controls or is controlled by or is affiliated with the company and includes any individual or individuals directly or indirectly controlling the company or any such company or corporation as aforesaid.

SECTION 2.—*Reconditioning, Equipping and Fitting of Barges*

The company hereby undertakes to cause to be reconditioned, equipped and fitted to the satisfaction of the Minister the five barges for salt water operation (hereinafter called "the work"), in such a manner that the barges pass inspection by Canadian Steamship Inspectors and be classed by British Corporation, the actual reasonable and proper cost to be certified by the Controller, and the

Minister undertakes to assist the company in obtaining the necessary material and equipment through the Wartime Merchant Shipping Limited and all necessary priorities through the proper authorities.

SECTION 3.—*Reimbursement of Costs of Reconditioning, etc.*

(a) His Majesty binds and obliges himself to reimburse the company all reasonable and proper sums expended for the work monthly as the work progresses, upon being furnished with a certificate or certificates signed by the Controller and verified by a cost accountant of His Majesty showing the amount expended at the date of issue of each such certificate, until the total amount of all necessary expenditures has been advanced by His Majesty to the company, the amount of such expenditures being estimated at about six hundred thousand dollars (\$600,000);

(b) If it appears at any time that such expenditures are likely to exceed \$600,000, the company shall forthwith notify the Minister, and the company shall not incur commitments for such work beyond the aggregate sum of \$600,000 without the consent of the Minister first had and obtained;

(c) If any of the work or material or equipment used in connection with the work shall be done by or purchased or acquired from the company or from any allied firm the cost to His Majesty of such items so done, purchased or acquired shall be cost not including any profit and shall not exceed the trade or market price or the amount therefor usually received by the company or such allied firm from purchasers buying under similar conditions and in similar quantities and of the like quality or the amount which such items (of similar quality and suitability) could have been purchased by the company from other sources, whichever shall be the lesser amount.

(d) The ultimate amount advanced by His Majesty hereunder is hereinafter referred to as "the amount of the loan".

SECTION 4.—*Repayment of Loan*

The company shall retain title to the barges and be responsible for their operation, but the company binds and obliges itself to repay to His Majesty the amount of the loan out of earnings to be derived from the operations of the barges by the company in the following manner:—

(a) The reasonable and proper costs of operation and maintenance of the barges shall be a first charge on such earnings of the company;

(b) Five per cent (5%) of the gross earnings of the company derived from the operation of the barges will be a second charge on such earnings of the company, which will be payable to the company as an operating fee;

(c) All earnings from the operation of the barges over and above the first and second charges hereinabove set out shall be paid to His Majesty by cheque payable to the Receiver-General of Canada and credited as a repayment on the amount of the loan; such repayments to continue until such time as the amount of the loan is wholly repaid or until six months after the end of the present hostilities, whichever even shall first occur.

(d) "Reasonable and proper costs of operation and maintenance" as used in subsection (a) of this section 4 shall mean and include generally, all reasonable and proper operating costs of the company attributable to the operation of the barges, and without limiting the generality of the foregoing, shall include actual and proper costs of maintenance, depreciation and repairs, reasonable and proper administration expenses, costs of insurance premiums on insurance usually carried in operations of this kind, contribution to general average (if any) and claims for loss or damage to property and for bodily injuries or loss of life of third persons or members of the crews which may not be covered by insurance;

(e) All costs which are not reasonable and proper costs established to the satisfaction of the Minister shall not be included as a cost of operation and

maintenance for the purpose of calculating the amounts payable hereunder. Without limiting the generality of the foregoing the items set out in Schedule "A" hereto will not be allowed as a cost of operation for the purposes of this agreement.

SECTION 5.—*Insurance*

All the barges shall be individually insured against marine and war risks for such sum as may be determined by the company but always for a sum sufficient at least to cover the amount advanced by or remaining due to His Majesty in the case of each individual barge and in the event of a partial loss or damage to any of the barges the amount recovered from the underwriters shall be used and applied to the costs of the repairs or the payment of the partial loss, but in the event of a total or constructive total loss of any of the barges the proceeds of insurance shall be divided between His Majesty and the company as their respective interests may appear; that is, His Majesty shall be entitled to receive the balance then due on the amount of the loan advanced for the work on the barge so lost or constructively lost and the company shall receive the difference, if any, in payment of its own loss without any obligation on its part to apply the amount so received in payment of the amount of the loan by His Majesty for the work on the other barges or any of them.

SECTION 6.—*Division of Profits*

In consideration of the amount of the loan made by His Majesty to the company, it is agreed that in the event that and from the date that His Majesty shall have been reimbursed all the moneys so loaned to the company, that the gross operating profit of the company derived from the operation of the barges over and above the first and second charges mentioned above will be divided in the ratio of fifty per cent (50%) to His Majesty and fifty per cent (50%) to the company, the amount to be paid to His Majesty in this connection to be considered as part of the operating cost of the company, this agreement as to division of the gross operating profits to continue in effect until six (6) months after the end of the present hostilities, said division of the gross operating profits to be made and paid to His Majesty within three (3) months after the end of the fiscal year of the company.

SECTION 7.—*Operation of Barges*

In further consideration of the amount of the Loan made by His Majesty, the Company binds and obliges itself to operate the said Barges in whatever service the Minister or the Canadian Shipping Board will direct and under the commercial arrangements that will apply in such or similar service.

SECTION 8.—*Company to Keep Proper Accounts*

The Company shall keep proper accounts and records of the operations of the Company relating to the operation of the Barges (which shall be separate and distinct from the accounts relating to all other operations of the Company), including the accounts and records relating to the Work of reconditioning, equipping and fitting of the Barges and of the operation and maintenance of the Barges, and the invoices, receipts and vouchers relating thereto, and such accounts, records, invoices, receipts and vouchers shall at all times be open to audit and inspection by the authorized representatives of the Minister (who may make copies thereof and take extracts therefrom), and the Company shall afford all facilities for such audits and inspections and shall furnish the Minister and his authorized representatives with all such information as he or they may from time to time require with reference to such accounts, records, invoices, receipts and vouchers as aforesaid to be preserved and kept available for audit and inspection at any time and from time to time until the expiration of five (5) years from the date of termination of this agreement.

SECTION 9.—*Company to Furnish Reports and Make Payments*

The Company shall furnish the Minister with quarterly reports of its operations relating to the Barges and shall pay to His Majesty an amount which may be due under the terms of this agreement within two (2) months from the expiration of each quarter, such payments will be regarded as interim payments only and subject to check and adjustment at the end of each fiscal year of the Company; the receipt of such sums shall not be considered as an acknowledgment of the correctness of the statements furnished by the Company.

SECTION 10.—*Termination of Agreement*

Irrespective of the amount paid under the amortization provisions of this agreement, this agreement shall terminate six (6) months after the end of the present hostilities, at which time a full accounting shall be had between the parties hereto, and all payments due or accruing to that date shall be made to His Majesty, and from that date His Majesty shall not be entitled to any further payments on account of the amount of the Loan (except for amounts due or accruing due but unpaid), nor to any division of profits as provided for in paragraph 6 hereof (except for profits due or accruing due but unpaid), and the Company shall as from that date be entitled to the cancellation without any further consideration of all amounts which may remain unpaid (except for amount due or accruing due) of the advances made by His Majesty for the Work on the Barges.

SECTION 11.—*Separate Bank Account*

The Company will so carry on its operations that the operation of the Barges will be kept separate and distinct from its other operations, including without limiting the generality of the foregoing, the keeping of a complete and separate set of books and accounts and the opening and operation of a separate Bank Account to be called "The Marine Industries Barge Account" into which will be paid all receipts from the operation of the Barges, and the Company covenants that it will not withdraw from such account any moneys in connection with any operations of the Company not relating to the operation of the Barges.

SECTION 12.—*Economical Execution of Agreement*

The Company covenants and agrees that it will carry out the operations in an efficient and proper manner and as economically as possible.

SECTION 13.—*No Benefit to Member of House of Commons*

No member of the House of Commons of Canada shall be admitted to any share or part of this contract or to any benefit to arise therefrom.

SECTION 14.—*Successors and Assigns*

This contract shall enure to the benefit of and shall be binding upon the respective successors and assigns of the parties hereto.

In witness whereof this agreement has been executed and sealed on behalf of His Majesty the King in right of Canada by the Assistant Deputy Minister of Munitions and Supply and by the Assistant Secretary of the Department of

Munitions and Supply, and has been executed by the Company under its corporate seal duly affixed thereto by its officers authorized in that behalf.

Signed, Sealed and Delivered in manner aforesaid on behalf of His Majesty the King in right of Canada, in the presence of:

"JEAN MITCHELL"

Witness.

Signed, Sealed and Delivered in the presence of:

.....

Witness.

"F.M.C."

"F.M. Covert" 21/8/42

"F. H. BROWN"

Assistant Deputy Minister.

D/S

"R. T. DONALD"

Assistant Secretary.

MARINE INDUSTRIES LIMITED

By "JOS. SIMARD"

President.

C/S

"E. de G. POWER,

Secretary.

"I hereby certify that the within is a true copy of an original Agreement dated the 29th day of June, 1942, made between *His Majesty the King* in right of Canada and *Marine Industries Limited*, Montreal, Que.

M. NOBLE,

Supervisor of Dittoed Contracts."

Main Pool

SCHEDULE "A"

LIST OF ITEMS WHICH WILL NOT BE ALLOWED AS A COST OF OPERATION FOR THE PURPOSES OF THIS AGREEMENT

1. Entertainment Expenses
2. Advertising and Selling Expenses
3. Unreasonable compensation for officers and employees
4. Premiums for life insurance on the lives of officers
5. Bond discount or finance charges
6. Amortization of unrealized appreciation of value of assets
7. Losses from sale or exchange of capital assets
8. Donations, other than normal contributions to local charities
9. Dues and other memberships other than regular trade associations
10. Losses on investments
11. Federal Income, Excess Profits or Surtaxes
12. Allowances for interest on bonds, debentures, bank or other loans
13. Expenses, maintenance and/or depreciation of excess facilities
14. Legal and accounting fees in connection with reorganizations, Security Issues or Capital Stock Issues
15. Overhead expenses other than salaries or wages of employees directly engaged in the operation of the Barges "R.T.D."

P.C. 7351

PRIVY COUNCIL

CANADA

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 18th August 1942.

The Committee of the Privy Council have had before them a report, dated 17th August, 1942, from the Minister of Munitions and Supply, representing:

1. That by Order in Council No. P.C. 5684 of 2nd July, 1942, authority was granted to enter into a contract with Leaf Line Limited, a wholly owned

subsidiary of Marine Industries Limited, providing for the reconditioning of five Barges owned by Marine Industries Limited to be transferred to Leaf Line Limited;

2. That Marine Industries Limited has decided that it will not have this operation carried out by its subsidiary but will carry out the whole contract in its own name; and

3. That this is satisfactory to him.

The Committee, therefore, on the recommendation of the Minister of Munitions and Supply, advise that the said Order in Council No. P.C. 5684 be hereby amended to provide that the contract referred to in said P.C. 5684 be entered into with Marine Industries Limited instead of Leaf Line Limited, subject, however, to the same terms and conditions as outlined in said P.C. 5684.

A. D. P. HEENEY,

Clerk of the Privy Council.

The Honourable

The Minister of Munitions and Supply.

The undersigned has the honour to represent:

1. That by Order-in-Council No. P.C. 5684 of 2nd July, 1942, authority was granted to enter into a contract with Leaf Line Limited, a wholly owned subsidiary of Marine Industries Limited, providing for the reconditioning of five Barges owned by Marine Industries Limited to be transferred to Leaf Line Limited;

2. That Marine Industries Limited has decided that it will not have this operation carried out by its subsidiary but will carry out the whole contract in its own name;

3. That this is satisfactory to the undersigned.

The undersigned, therefore, has the honour to recommend:

That the said Order in Council No. P.C. 5684 be amended to provide that the contract referred to in said P.C. 5684 be entered into with Marine Industries Limited instead of Leaf Line Limited, subject, however, to the same terms and conditions as outlined in said P.C. 5684.

Respectfully Submitted,

Minister of Munitions and Supply.

P.C. 10484

PRIVY COUNCIL

CANADA

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 19th November, 1942.

The Committee of the Privy Council have had before them a report, dated 17th November, 1942, from the Acting Minister of Munitions and Supply, representing that under authority granted by Order in Council P.C. 5684 of July 2nd, 1942, as amended by Order in Council P.C. 7351 of August 18th, 1942, a contract was entered into with Marine Industries Limited, Sorel, P.Q., providing amongst other things that the company will rebuild, recondition, fit and equip five old canal Barges, owned by the company to make them suitable for use as coal carriers for the movement of coal from Cape Breton Fields to Pointe du Chene, N.B., and the company will be paid the reasonable and proper costs incurred in the performance of the work, as certified by the Controller of Ship Repairs and as verified by a Government Cost Accountant;

That it was first estimated that the cost of the work would amount to approximately \$600,000.00;

That as the work has progressed, one Barge has been found to be valueless and it is now estimated that the cost of the work for the remaining four Barges will amount to approximately \$1,100,000.00;

That funds for the additional expenditure of \$500,000.00 are provided by Departmental Financial Encumbrance No. 1671; and

That the additional expenditure is in the public interest.

The Committee, therefore, on the recommendation of the Acting Minister of Munitions and Supply, advise that authority be granted for the expenditure of the said additional sum of \$500,000.00 in accordance with the terms of the aforesaid contract.

A. D. P. HEENEY,
Clerk of the Privy Council.

DEPARTMENT OF MUNITIONS AND SUPPLY

FILE No. 4-4-508

To authorize the expenditure of an additional sum of \$500,000.00 under the contract with Marine Industries Limited, Sorel, P.Q., providing for the rebuilding, reconditioning, fitting and equipping of five old canal Barges, owned by the company to make them suitable for use as coal carriers for the movement of coal from Cape Breton Fields to Pointe au Chene, N.B., authorized by Order in Council P.C. 5684 of July 2nd, 1942, as amended by Order in Council P.C. 7351 of August 18, 1942.

The undersigned has the honour to represent:

That under authority granted by Order in Council P.C. 5684 of July 2, 1942, as amended by Order in Council P.C. 7351 of August 18, 1942, a contract was entered into with Marine Industries Limited, Sorel, P.Q., providing amongst other things that the company will rebuild, recondition, fit and equip five old canal barges, owned by the company to make them suitable for use as coal carriers for the movement of coal from Cape Breton Fields to Pointe au Chene, N.B., and the company will be paid the reasonable and proper costs incurred in the performance of the work, as certified by the Controller of Ship Repairs and as verified by a Government Cost Accountant;

That it was first estimated that the cost of the work would amount to approximately \$600,000.00;

That as the work has progressed, one Barge has been found to be valueless and it is now estimated that the cost of the work for the remaining four barges will amount to approximately \$1,100,000.00;

That funds for the additional expenditure of \$500,000.00 are provided by Departmental Financial Encumbrance No. 1671;

That the additional expenditure is in the public interest.

The undersigned, therefore, upon the advice of the Deputy Minister, has the honour to recommend that authority be granted for the expenditure of the said additional sum of \$500,000.00 in accordance with the terms of the aforesaid contract.

Approved:

Respectfully submitted,

W.D.L.
for Deputy Minister.

.....
Acting Minister of Munitions and Supply.

The WITNESS: Here is another order in council which I should like to put in. It is P.C. 7351, changing the contract from Marine Industries to its subsidiary company, Leaf Line Limited. That is a change of name.

By Mr. Marshall:

Q. Mr. Brown, there is a feeling that probably the company is, shall I use the expression, stalling for time in order that they may avail themselves of the terms of the contract that, after the termination of the present war, the loan shall be subject to cancellation. Now, what is your view?—A. I do not think there is anything to that at all. We owe them money, and they are operating the ships under the control of the Canadian Shipping Board, which has control over the ships and the ships go wherever they are sent. I think there is absolutely no advantage to the company in any way and that there is no way in which they can get anything.

Q. Have you any idea as to what work has been performed, up to the present time?—A. Yes, I have. I can give you, for example, in the case of the Ash Leaf there was, up to the end of 1943, 68,724 tons transported, mostly coal although it included some bauxite coal and bauxite. And in the case of the Palm Leaf, there was transported 89,039 tons. In round figures there were about 300,000 tons of coal and bauxite, mostly coal.

Q. Over what period of time?—A. Well, really, over a period beginning a short time in 1942 but mostly in 1943.

Q. Are these boats in operation to-day?—A. Yes, they are in operation to-day and they are running a steady shuttle service between Sydney and Shediac.

By Mr. Golding:

Q. When did you start to repair these boats?—A. The repair work started some time in April, 1942. The first one was completed on August 12, 1942; and the second on October 15; the third on November 8, and the fourth on December 8.

Q. How did the cost of repairs of the ships at Sorel compare with the cost of repairs of the one in Montreal?—A. It was the highest, the one in Montreal. The figures respectively were as follows: the three at Sorel, \$245,491.69; \$358,251.76; \$339,508.29; while the one at Montreal was \$402,734.53. But the one at Montreal included a figure of \$26,000 paid to the Montreal Dry Docks, so that if you deduct that sum you get a figure of \$376,000 less the cost of doing the job at Montreal. It is only fair to point out that the amount of work which had to be done on our ships was not always the same. It was not always the same. You could not possibly say that these figures really mean anything, but they would indicate, at all events, that they represent a certain amount of satisfaction to the Simards in that they showed them that their plant had not gone hay-wire.

By Mr. Tripp:

Q. So that these ships, then, did perform services which otherwise would not have been performed?—A. Absolutely. They are looked upon as being vital, I confirm that, yes, sir.

By Mr. Golding:

Q. Is it a fact that on the Great Lakes all the boats are equipped to carry grain?—A. I think that would be the case.

Q. I remember we had the case of a company in Goderich and they took away one of the boats from there.—A. It is a very bad situation because many of the lower lakers were taken away for ocean use at the early part of the war.

By Mr. Marshall:

Q. What would be the actual cost of building new boats at that time?—A. Senator Patterson obtained a figure as to the 1939 cost of building a ship, and it was around \$339,000. Of course, that was before the outbreak of the war. Shipbuilding costs, along with other costs, are now about double what they

were before the war. It is thought that a ship of this kind would cost, new, about \$600,000.

Q. The point I am trying to make is that presumably a certain section of the people would think that it would have been easier and cheaper to get new boats built rather than to recondition these old boats. What is your opinion about that? What was the situation in 1942?—A. First of all we could not have had new boats built as quickly as we thought we could have these old boats reconditioned. Furthermore, as you know, the whole shipbuilding situation was extremely tight in 1942. Ten thousand-ton ships were monopolizing the shipyards. We were under tremendous pressure because everyone was trying to build that type of ship and were able only to build one in 1942. In that year the shipyards were in a grand scramble to expand and to deal with these larger ships. They had no place in which to set up ships of this smaller type, even if you had endeavoured to build new ships.

Q. These ships were used by the Dominion Steel and Coal Company?—A. They were. That company paid the freights on them; the Simards provided the crew, but Dominion Steel and Coal paid the freights.

Q. Were they willing to accept or assume any of the cost of the reconditioning of these vessels in order to get their products moved up to them?—A. We did not ask them to do that. I do not think they would have, because they were up against a very serious problem too with the tremendous increase in freight. The freights had gone up very greatly and I do not think they would have done it.

By Mr. Winkler:

Q. In 1942 was not the situation so tight that the government was compelled to take over boats from private companies like the grain corporations?—A. Yes, sir, it was done earlier even, in 1941.

Q. And they even sent some of them out to the ocean?—A. Oh, yes. It was done in the case of the bauxite trade. And one ship that I know of personally was turned into a water vessel and used in the Mediterranean campaign, right off the African coast.

Q. Then these four vessels amounted to practically the scrapings of the dregs off the bottom?—A. I think there is no doubt about that.

Mr. GOLDING: There was a shortage of steel too, at that time.

The WITNESS: Yes.

By Mr. Marshall:

Q. Did I understand you to say that you had recently received a financial statement on the question of the amount of money paid out by the company and the amount of money received?—A. Yes.

Q. Have you filed that?—A. No, but I would be glad to do so. I am quite ready now to read you a summary of the figures.

Q. Perhaps if you would just give us the essential figures.

The CHAIRMAN: It is pretty long to be put in the record.

Mr. MARSHALL: Yes, but he could file the essential figures.

The WITNESS: This is a resume of the receipts and expenditures. It is divided into two parts. From the beginning of operations until the 30th of April, 1943, the earnings were \$51,940.59; that is for the steamship Palm Leaf. For the steamship Ash Leaf, the earnings for that period were \$78,344.50. For the steamship Aspen Leaf, the earnings were \$16,704.68. And for the steamship Bay Leaf, the earnings were \$88,613.01, making a total gross revenue of \$235,602.78. Now, as to operating expenses, probably I had better leave out individual ships and give you just the set-up. Operating expenses show a total of \$241,091.51; overhead expenses are \$33,995.46; operating fees are \$11,780.13,

that is what goes to Marine Industries as their 5 per cent. The total operating expenses are \$290,808.79, and the total loss for the period is \$55,206.01. That is for the period up to the commencement of operations, to April 30, 1943.

By Mr. Marshall:

Q. Up until April 30, 1943?—A. Yes. And then from the 1st of May, 1943, to February 29, 1944, the earnings for the four ships were \$329,669.56. The operating expenses were \$295,400.97. The overhead expenses were \$1,437.36. And the profit for this period was \$11,806.84. Now, the loss from the commencement of operations to April 30, less the profit from the period of May 1, 1943, to February 29, 1944, gives us a total loss of \$43,399.17. The ships will commence operations again probably about the 1st of May, and there will be no further information until probably July.

By Mr. Tripp:

Q. There are just a couple of questions that I would like to ask. The first is, what were the regular rates charged for hauling this coal, and the second is what do you mean by overhead expenses, does that mean interest charged on capital account?—A. In answer to your questions, No. 1 answer would be that the rates charged were the regular rates which are controlled by the Canadian Shipping Board. The whole of the rate structure both on the Great Lakes and in connection with ships operating under Canadian charter is controlled by the Canadian Shipping Board right here in Ottawa. And in answer as to what is meant by overhead expenses, there is no depreciation and there is no interest on capital account, but there are some minor items. There is no interest in this at all. As a matter of fact, the company did earn \$50.95 interest for which they have given us credit, but there are no items for interest or depreciation in these cost figures which I have given you. They are just bare cash costs.

By the Chairman:

Q. I wonder, Mr. Brown, if for the sake of the record you could tell us whether the refinancing of these ships included new boilers, new machinery, or new engines?—A. I do not know that. I do not think so, judging by the figures because I see no items among the figures that look like the sizes of engines and boilers required for such ships as these. I can say this, however, that everything that was done was done under the supervision, the personal supervision, of Mr. D. B. Carswell, who told me that he had visited the shipyards once a week and that his assistant visited the shipyards once a week and so they were able to keep a three-day running check of what was being done and what was being expended.

Q. Do these figures include insurance?—A. I really do not think so. Let me read you some of the items with respect to one boat here, the first boat, the cheapest one, the Palm Leaf, cleaning and painting \$19,166.12; auxiliaries and engine repairs and replacements \$31,808.85; steel plating work \$59,579.47; accommodation and carpenters \$23,347.05; piping systems, including plumbing and steam heating \$47,993.85; outfitting and equipment \$512.09.

By Mr. Marshall:

Q. The amount, actually speaking, for the four ships, averages about \$345,000 a ship?—A. That is right.

Q. And that is more than it would cost to build a new ship?—A. Yes, on the basis of 1939 costs.

Q. But what would it cost in the year 1942?—A. About all I can say in that respect is that I am not an expert. All I can say is with respect to ships being sold. There are a few ships being built now by Canadian shipbuilders to be \$200 a gross ton. No, it is a bit more than that, it is about \$220 gross ton. The sold to South America and they are being sold, I believe, on a basis of about

gross tonnage of those ships is 1,521 tons. That is the gross tonnage. So that, at the rate of \$220 a gross ton, you would have something over \$350,000, as I see it.

Q. Figuring it out at \$220 a gross ton on 1,521, that would bring it to about \$324,000?—A. I am not expert enough to answer that. The shipbuilders have told me that these ships would cost about \$600,000.

By Mr. Purdy:

Q. That is according to Senator Patterson's figures?—A. His figures for a ship of this type built in 1939 were \$335,000. I have a letter from him on that point.

Q. Yes, and the prices have gone up since that time?—A. Yes, they have; from two to two and one-half times, yes.

By Mr. Marshall:

Q. That would be about \$670,000?—A. Yes, his ships are a little bit larger and more modern. I think that \$600,000 is about right.

Q. I am talking about a different kind of ship. Did you not give the impression that these ships could have been built for about \$335,000, whereas the old shops were reconditioned for \$345,000?

The CHAIRMAN: The point is that they could not have been built at all.

The WITNESS: Yes, the point is they could not have been built at all, but I think I had better withdraw that statement because I am a little bit out of my depth, if you will kindly allow me to do so.

By Mr. Rickard:

Q. What is the present-day value of those ships?—A. I would put it this way, gentlemen. You have ships with a carrying capacity of 66,000 bushels. Now, those ships ordinarily would have been on the rocks. They did not go on the ocean at all, their job was to carry grain on the Great Lakes to the transfer points, such as Kingston and Prescott and down to Montreal or Sorel, shuttling backwards and forwards, that was their normal job, carrying grain down, on the basis of 66,000 bushels capacity. Now, these ships are hopelessly out-classed by the modern 95,000- to 112,000-bushel boats, which have lower operating costs, this is, operating costs of from 20 to 40 per cent lower because they burn diesel fuel. Somewhere around 1936 to 1938 a company with which I had to do, and I do not think there is any harm in my telling you this, sold three ships built in 1903 or 1904 for \$60,000 apiece. These ships had a carrying capacity of somewhere around 78,000 bushels and they were making a little money, apart from interest and depreciation charges, but only a little. And as I say, these ships were sold for \$60,000. Now, the ships we are dealing with here are twenty years younger but, I believe, there is no doubt whatsoever with such low carrying capacity that they would have no earning capacity after the war.

Q. After the war, will they be utilized?—A. I do not think so. Shipping is a competitive business, and I think that anyone who has them after the war would be very foolish to try to run them, because he would be sure to lose, he could not possibly compete.

By Mr. Purdy:

Q. What would be their salvage value, in your opinion?

By Mr. Marshall:

Q. Just what would be the loss to the government on the whole transaction?—A. Reckoning the salvage value of those four ships after the war, and bearing in mind that whatever salvage value in them would go back to the Simards, I think that the salvage value of those ships would be virtually negligible. If

they had been new ships it would have been another story, but bear in mind that they are old patched-up ships. I suppose one could burn off a plate here and a plate there and so on, but the junk value of a lake steamship is very low.

By Mr. Rickard:

Q. One would think that there would be a certain amount of steel that could be utilized?—A. Yes, but it has to be burned out with a torch. Of course it would have some value, but I would not say it had no value.

By the Chairman:

Q. What about a figure of \$2 a ton?—A. It is a plain junk situation, there is no doubt about it. Now, of course, with the figures that we have we will go to the Privy Council and ask them whether they will approve of this over-expenditure, and we will try to formalize the thing into a contract; but we will have no money coming back until they have caught up on their \$43,000 loss sustained to date.

Mr. MARSHALL: You are filing a copy of that financial statement?

The WITNESS: I will give you the whole thing.

The CHAIRMAN: This financial statement is to be filed as an exhibit, but it is not to be put into the record.

Mr. GOLDING: This is a case of spending a lot of money due to the emergency of the situation?

The WITNESS: Absolutely, it is purely a war proposition. You may call it a war waste, if you like, although I suppose all war is a waste.

Mr. RICKARD: You could not get them any other way?

The WITNESS: Every dollar spent has been spent under close supervision.

Mr. PURDY: And the coal could not have been moved in any other way?

The WITNESS: No, there was no other way. As a matter of fact, either in late 1942 or in the fall of 1942 the War Industries Control Board was seriously considering recommending to the minister that the passenger services on the railways between Nova Scotia and Montreal should be curtailed in order to try to move coal, because the situation was that serious. However, we managed to get by, but the situation was so serious that the Control Board was practically prepared to recommend that step.

Mr. MARSHALL: Now, as to these expenditures that were made, were they all certified to by a certified cost accountant?

The WITNESS: They were certified by the treasury cost accountant and I think if I were to file the cost statements, the cost certificates of the treasury cost account, it might be desirable. I will do that. The statement filed as Exhibit 2 carries three certificates, one by the Chief Accountant of Marine Industries, one by the Comptroller of Ship Repairs and Salvage, and the third certificate by the Treasury Cost Accountant. And they read as follows:—

CERTIFICATE OF COMPANY

Certified correct, in accordance with Contract Agreement, also according to our Books, Vouchers and other information in our files.

(Sgd.) J. LA (?)

Chief Accountant.

CERTIFICATE OF DEPARTMENTAL OFFICIAL

Certified that all the materials for which a charge is made were necessary to the work of this contract; that the work and services have been performed; that all charges are in accordance with the contract agreement.

(Not signed)

Comptroller of Ship Repairs and Salvage.

CERTIFICATE OF TREASURY COST ACCOUNTANT

Certified that charges for labour, stores, material purchases, insurance as shown in this claim have been audited and found correct. Overhead charges are included for the total accounts audited and supplied by McDonald Currie & Company Limited, Sub-contracts total represents audited cost by Treasury Cost Accounting Division as per letter May 7, 1943, reference 203-M1-11, plus profit allowed and an amount of \$5,733.00 for extra docking charges. All amounts have been paid. All charges are in my opinion in accordance with contract agreement and subject to limitation of total expenditures as per section 3, paragraph "A" and "B" of the contract agreement and amendments thereto. This progress payment does not include final claim for wartime depreciation from Montreal Dry Docks Limited, sub-contractors.

(Sgd.) J. GINGRAS,

Treasury Cost Accountant.

As you know, all out audit is done by a section of the Department of Finance, which has its headquarters in our building. Now, with respect to the control of the treasury, Munitions and Supply do not do their own auditing. It is always done by the Treasury Cost Accountant, so this certificate is signed by the Treasury Cost Accountant.

Mr. MARSHALL: Where does the Auditor General come into the picture?

The WITNESS: There is a close liaison between the Controller of the Treasury and the Auditor General. The Auditor General takes the certificate of the Treasury Cost Accountant but he reserves the right to make a further check-up. You will see a couple of pencilled amendments on that, gentlemen, that I think I made. The amount of the treasury certificate is \$1,394,373.56, but we made a deal with the Simards to reduce the claim on the ship that was started but was abandoned later by which we were able to reduce the amount by \$18,900 and this reduction of \$18,900 was effected in the meantime since this treasury report was written up and we have had an award from the War Contracts Control Board, or rather, the Montreal Dry Docks had a special depreciation of \$5,879.90, which is calculated there so as to bring the net figure which I gave you down to \$1,381,353.32. It is that depreciation item which only came through on the 27th of May which has been holding us up on our final figures.

The CHAIRMAN: Are there any more questions, gentlemen? If there are no more questions we propose to conclude by thanking Mr. Brown on behalf of the committee for coming over here this morning and for the preparation of the answers which he has presented, showing all the details of the matter in point.

If it is agreeable to the committee I presume that we will go on with the Auditor General's report at the next meeting. If you will leave that meeting to the call of the chair I think it would be advisable because we have been conflicting with the Banking and Commerce Committee and the Radio Committee for the last three weeks and we will just have to work our committee in as best we can because the Banking and Commerce Committee is very anxious to finish its revision of the Bank Act, so that it can be brought before the house.

Mr. GOLDING: I would so move, Mr. Chairman, if it is necessary to make a motion.

The CHAIRMAN: Thank you very much, Mr. Brown.

The Committee adjourned at 11.45 o'clock a.m., to meet at the call of the chair.

