



Legislative Assembly of Manitoba

HEARINGS OF THE STANDING COMMITTEE

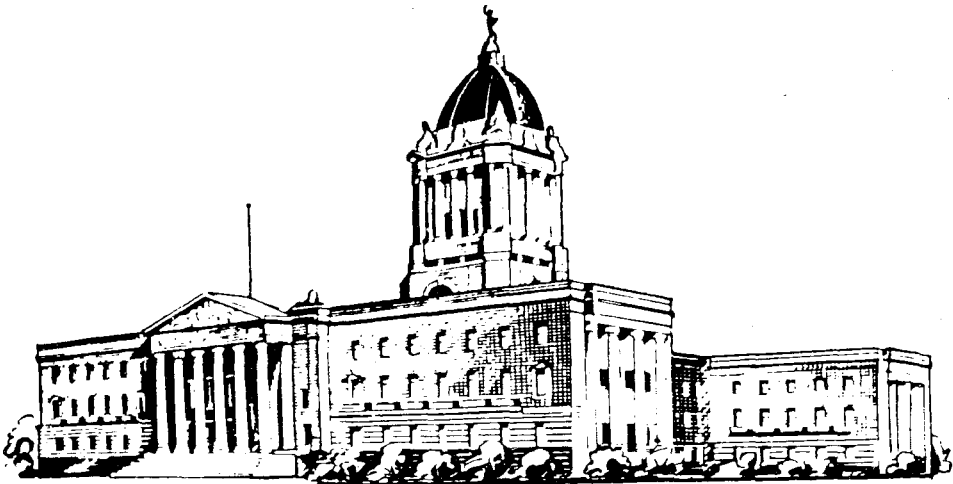
ON

PUBLIC ACCOUNTS

Chairman

David Blake, M.L.A.

Constituency of Minnedosa



10:18 a.m., Thursday, May 15, 1975.

PUBLIC ACCOUNTS COMMITTEE
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CHAIRMAN. Mr. David Blake.

MR. CHAIRMAN: Gentlemen, we have a quorum. We'll call the meeting to order. The Clerk will distribute two communications I have had, one from the Provincial Auditor providing us with some information requested on the March 25th meeting. Another is a reprint of an article on the role of the Committee of Public Accounts in the United Kingdom which has been provided to us by the Provincial Auditor and it's a very interesting article and I'm sure the members will get a great deal from it when they finish reading it.

Our last meeting, we were on Page 5 of the Report of the Provincial Auditor under Manitoba Mineral Resources Ltd. and I had Mr. McGill and Mr. Spivak on my list when we adjourned. Mr. McGill, are you . . . ?

MR. MCGILL: Mr. Chairman, if I had a question on March 25th in this respect, the matter seems to have escaped me for the moment so I will pass.

MR. CHAIRMAN: All right. Mr. Spivak.

MR. SPIVAK: I don't think, Mr. Chairman, it was restricted to Manitoba Mineral Resources, I think it was on Page 5 and my questions were related to CEDF as a matter of fact.

MR. CHERNIACK: Mr. Chairman, we did pass this you know.

MR. CHAIRMAN: We haven't passed Page 5.

MR. CHERNIACK: We passed everything down to Manitoba Mineral Resources. Now frankly, you know, on a point of order, I don't know that we should be so rigid about it but if you look at this I think you will see that we were down to . . . "Have we agreed to Page 5 down to but excluding Manitoba Mineral Resources Ltd ?

"MR. CHAIRMAN: Yes - passed Page 5. Mr. McGill and Mr. Spivak are on the list."

Now I think that we ought to keep going but if Mr. Spivak wants to ask a question then I think we ought to accommodate him but not to the extent of reopening the entire question which has been passed and we're only on Page 5.

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: On the point of order. I thought we were on Page 5 when we left. We were not Page 6, we were on Page 5.

MR. CHERNIACK: That's Page 5, Manitoba Mineral Resources. If you read the minutes, it's very clear. It was made clear then.

MR. CHAIRMAN: We were operating page by page were we not?

MR. MCGILL: Yes.

MR. CHAIRMAN: Not item by item.

MR. CHERNIACK: You read the end of it.

MR. SPIVAK: Mr. Chairman, just on the point of order. I think that the statement that Mr. Cherniack has made which is really a reference to what he said and what you agreed to but you also agreed that two speakers were still on the list and while there may have been an understanding with Mr. Cherniack as to that it included everything but excluded Manitoba Mineral Resources, I would suggest that the fact that we're both on the list related to Page 5, not to Manitoba Mineral Resources.

MR. CHERNIACK: Mr. Chairman, let me make this clear. I am not referring to minutes which may be completely false. I have learned that you can't rely on minutes as they appear in this building. However this is not minutes, this is Hansard. Having said that, I personally would, you know, not object to letting Mr. Spivak express himself on CEDF but I would hope that we are going to hear from him and deal with it briefly and then go on because I'm as clear as can be in my mind and my recollection and from the Hansard that we had completed CEDF. That's my belief. I am also under the impression that CEDF comes up again somewhere around 18 or 19 or 20 something.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Chairman, I know that CEDF comes in on a number of specific items and those particular items I would like to deal with not now but later. But I do have some general questions on CEDF that I'd like to be able to pose to Mr. Ziprick if I may.

MR. CHAIRMAN: My booklet was not marked in any particular way. I had the last paragraph under CEDF outlined which is the next item was Manitoba Mineral Resources, so as we're proceeding page by page I would think that a question on Page 5 would be in order and therefore, Mr. Spivak, you may proceed.

MR. SPIVAK: Mr. Ziprick, I wonder if you can indicate with respect to the audits that have been figured on CEDF, by yourself or by your staff or yourself, whether there is anything new to report to the committee in addition to the information that was supplied in the Auditor's Report.

MR. ZIPRICK: I'm not clear in what way.

MR. SPIVAK: Well may I ask: has there been any additional work undertaken by the Provincial Auditor's office with respect to CEDF and its operations since the completion of this report?

MR. ZIPRICK: Well, yes. I indicated in the report that we made a report to the Minister about getting involved in more accounting and auditing. We have taken a look at that area now and have communicated back to the Minister again and it's being further looked at to see just how much more accounting assistance will be provided and then the kinds of auditing that will be carried out.

MR. SPIVAK: Again, are you referring to the recipients of loans or are you talking about CEDF itself?

MR. ZIPRICK: No, I'm talking about recipients of loans. As far as the CEDF we're continuing with the usual audit procedure. We audit at the year end and then we do some income work. So that's been going on in the usual sort of a way. What I'm referring to here is in conjunction with what I said in the report, that the matter was being considered by the Minister and he's asked us to do a further review, he's done that and we're looking into expanding or improving the accounting and the clientele and the auditing of the clientele.

MR. SPIVAK: Are the records of CEDF in order, that is the records of the Communities Economic Development Fund?

MR. ZIPRICK: The records of the Communities Economic Development Fund as such are in order, yes.

MR. SPIVAK: Have you discovered any problems of wrongdoing or issues of wrongdoing with respect to CEDF?

MR. ZIPRICK: Not that I am aware of at the moment.

MR. SPIVAK: Have any matters been brought to your attention at all in the recent period?

MR. ZIPRICK: I'd have to review the file. You know, it may have been brought to my attention. I haven't been looking at CEDF now for the last month or so so I just couldn't say that there haven't been but I'd have to take a look at the file.

MR. SPIVAK: Have there been any communications between the Attorney-General's office and yourself with respect to the records of CEDF in the recent period, in the last period of time?

MR. ZIPRICK: Oh yes. Within the last two months, there's been discussions, yes.

MR. SPIVAK: With any question of wrongdoing?

MR. ZIPRICK: Well the further checking into what we were looking at in conjunction with the special audits that we carried out.

MR. SPIVAK: Have there been any references by the RCMP to yourself with respect to the records of CEDF in the last couple of months?

MR. ZIPRICK: We have had discussions with the RCMP, yes.

MR. SPIVAK: And there has been nothing brought to your attention that would indicate that there are questions to be asked with respect to the records of the CEDF?

MR. ZIPRICK: No, not in connection with the records of the CEDF, no.

MR. SPIVAK: Well, Mr. Chairman, I have a number of specific questions relating to the other matters of the loan issues in CEDF that have been referred to on Page 18 and I would probably want to wait until that time when it would be more appropriate to deal with it but with the opportunity possibly then of expanding, if I may at that point, into some other related matters with respect to the records of the CEDF.

I should just ask a couple of general questions. In relation to your audit do you normally or have you checked the minutes of the board meetings of the CEDF dealing with the loan application and the commitments of loan moneys? Have you checked that as against the actual disbursements that have taken place?

MR. ZIPRICK: Well all the various loans that are made are required to be approved by the board and the auditors would ascertain that the approval is there, yes.

MR. SPIVAK: Has there been a situation in which more money has been advanced than was authorized by the board of directors of CEDF?

MR. ZIPRICK: I don't recollect anything being brought to my attention at this point.

MR. CHAIRMAN: Manitoba Mineral Resources Ltd. - pass. Page 5-pass; Page 6 - pass; Page 7 - Mr. Craik.

MR. CRAIK: Mr. Chairman, on Page 7 on Public Debt, a question. First in the listing of the public debt here, is Swiss francs 20.5 million. What impact did it have on Manitoba when the value of the franc went up here a few months ago. Was there a loss? I'm kind of sort of looking at Mr. Anderson here thinking he might be able to answer.

MR. CHERNIACK: I'm sort of looking at Mr. Anderson too.

MR. CHAIRMAN: Mr. Anderson.

MR. ANDERSON: First of all let me tell you that the interest rate on that particular loan is six and a half percent.

MR. CHERNIACK: Say it louder please!

MR. ANDERSON: The interest rate on that loan is six and a half percent which goes a long way to protect us against fluctuations in the up and down value of the Swiss franc versus the Canadian dollar. The only actual cost there is by reason of the Swiss franc rising in a given year or at a given time, if that rise happens to coincide with one of our interest dates - and these things are paid annually - then for that particular moment in time we have to pay the Swiss franc holder in Swiss francs which we have to buy at a rate which is probably enhanced over the rate we originally borrowed at. But it's only with respect to the interest payments of the year itself which are important enough but they're not large losses, and really when you look at your so-called currency value loss or foreign exchange loss in terms of the saving that is evident in the interest rate you have secured in the first place, you still probably have come off reasonably well. On pay day, which is possibly what Mr. Craik was talking about, if the issues had fallen due, the choice then is available to the government whether to renew the issue and keep it in Swiss francs against the more likely day when the Canadian dollar will show its inevitable strength against the Swiss franc or whether to pay it off at that time. And at that moment you have to consider as to whether it's better in the judgment of whoever is here at the time to pay the thing off or to renew it.

MR. CHERNIACK: Mr. Chairman, I'd like to add on to that. It's too seldom I think that we have an opportunity to discuss the financing that has to be done and it's a big part of the program of government, long term financing, and I confess that when I was in opposition I knew very little and probably I didn't even know the questions to ask to learn about this. So possibly in response to Mr. Craik's question I'd like to elaborate a little bit to say that when we came into government one of the early decisions we had to make was the coming due of a German Deutsche mark loan which was short term. Stuart, it was three and a half?

MR. ANDERSON: Three and a half years.

MR. CHERNIACK: A three and a half year loan which had been made by Gurney Evans in Deutsche mark and it came due within a year or so after we came into government and we were then faced with a much enhanced Deutsche mark in relation to the cost at the time of the loan. We were able, and as I recall it without any real difficulty, to roll it over. I think it was with different lenders wasn't it?

MR. ANDERSON: Yes.

MR. CHERNIACK: New lenders but in Deutsche mark at - you were saying a rate?

MR. ANDERSON: Six and three-quarters.

MR. CHERNIACK: Six and three quarters percent. I remember at that time the Finance Department prepared a resume to show the cost of the money both for the three and a half year term, taking into account the enhancement of the Deutsche mark, and the effect on the roll over which extended the loan and therefore spread that increased value of the Deutsche mark over a longer period of time, related to a lower interest rate, and it worked out that it wasn't a bad deal at all as long as we could roll it over which of course we were able to do and with the credit Manitoba has there's no reason why it can't roll over from time to time. When you borrow for Hydro especially you're borrowing for an asset which has a life expectancy of 50 and more years and you can never borrow for that length of time so there's really nothing wrong with a roll over say after 20 or even 25 years of a portion of the money.

(MR. CHERNIACK cont'd)

The other point is this Swiss franc deal is a particularly good one and as I recall it Mr. Anderson got us into what they call a queue for the local market. Wasn't that it?

MR. ANDERSON: The so-called public market.

MR. CHERNIACK: The public market within Switzerland. It was not an outside Euro dollar or anything like that, it was the public market within Switzerland for which there was a lengthy waiting period and we hit it right as I'm proud to say we've done on a number of occasions. We came in at a time when we were given the permission, I think there were only two or three a month that were allowed at that time, and we were one of those in that month. We did make what turned out to be a very good loan. Of course there were times - it could have been wrong any other month - but it so happens that this was a particularly good loan. But in any event as Mr. Anderson says our relations with the international market and with the Swiss market are such that there's no reason why it shouldn't continue to be possible to borrow and to roll over.

MR. CHAIRMAN: Mr. Anderson.

MR. ANDERSON: I should have checked, Mr. Cherniack. Mr. Chairman, I ask to be forgiven. The rate was six and one-eighth percent, not six and a half on that other one. In the year in question when we came to pay the Swiss holders at more valuable or more costly Swiss francs, if I can put it that way, the payment we made in interest that year amounted to a 7 percent value in Canadian dollars.

MR. CHERNIACK: Because of the higher rate of . . .

MR. ANDERSON: Yes. So it still ended up by being - in other words the six and one-eighth coupon when supplemented or augmented by the enhanced value of the Swiss franc at the time cost us actually 7 percent to pay the interest off that year.

MR. CHERNIACK: Do you remember what the rate was at the time of the borrowing of the six and one-eighth? I mean the general rate.

MR. ANDERSON: Oh in Canada it would have been about seven and three-quarters or eight percent.

MR. CHAIRMAN: Thank you, Mr. Anderson. Mr. Craik.

MR. CRAIK: Just for clarification here. When you're making payments here is the actual capital debt amortized over the period too? Would you be making normally payments against the capital as well as the interest.

MR. ANDERSON: This particular one that we're looking at here, as I recall it, had no redemption features until the end of its life in which case it would be a roll over. I think there's a bit of confusion arising here. There were actually two Swiss issues but the other one was done on December 31st, 1974, and that one has an amortizing feature in it starting in, I believe, the sixth year of a fifteen-year loan so that there would be a certain amount of principal to be paid off year by year. That was a six and a half percent issue which will show up in next year's balance sheets. This earlier one predates it by about I think two or three years. So we have two Swiss loans at the moment, one reflected here at six and one-eighth, the other one at six and a half last year.

MR. CHAIRMAN: Mr. Craik.

MR. CRAIK: What is normally done on borrowing like this? Do you not amortize the - is it not normal to amortize the capital amount?

MR. ANDERSON: Oh we have our own sinking funds. We run the sinking fund regularly regardless of whether we have to pay anything off to the holder until payday or not. Under the terms of The Financial Administration Act governing loans we are obliged to set aside a sinking fund and do our own accounts in Canadian dollars and then we keep that money invested and earning interest for us in the Canadian - normally in the Canadian market. We occasionally buy U. S. bonds when they show up in the after markets for our own sinking fund purposes. But we're not like the municipal borrowers who tend to borrow on what they call a serial basis where there's a certain amount of principal and interest repayable every year. Most of our issues, I think 90 percent of our issues, are those where the entire amount falls due in 30 years, 25 years, 15 years or whatever. Some of them - and only some of them - have an amortizing period that begins part way along in the history of the issue, the term of the issue.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: Mr. Chairman, I'm just trying to recollect and I would like to ask Mr. Anderson. I'm under the impression that there was a formula established by Mr. Garson I think, Premier Garson, of aiming at I think it was a 24-year . . .

MR. ANDERSON: 23 year.

MR. CHERNIACK: . . . 23-year amortization but a continuing one and I figure it amounted to something like 3 percent per annum.

MR. ANDERSON: Yes, that's right.

MR. CHERNIACK: We haven't changed that have we?

MR. ANDERSON: On all our deadweight debts, so-called deadweight debt or general or direct debt for general purposes of the government, we're setting aside enough to pay every issue off within 23 years.

On our utility debts we tend to - well no we don't tend to, we really are following utility practices in Canada, and we introduced the concept of sinking fund for both Telephones and Hydro. We adopted the Ontario Hydro formula which is approximately a one percent per annum sinking fund. In other words one percent of the principal of every issue is put aside in a sinking fund and over a 40-year period with interest at four percent, and only four percent, that fund will pay off the original debt. So the utility debt is working on a 40-year amortizing period, the deadweight or general purpose debt is 23 years.

MR. CHERNIACK: But at a rate calculated which is lower than what we've been getting on our money before.

MR. ANDERSON: Oh yes.

MR. CHERNIACK: If the rate maintained itself then theoretically we ought to pay off sooner than that.

MR. ANDERSON: Yes. We would have sufficient to do so.

MR. CHAIRMAN: Mr. Craik are you finished? Page 7--pass; Page 8--pass - Mr. Craik.

MR. CRAIK: On Page 8, Mr. Chairman, I guess the direct question is why do we generally carry so much spending authority when it's not needed? Like in this case here, at the bottom of the page, Unexpended Legislative Authority for Capital Purposes, a carry forward of \$262 million.

MR. CHAIRMAN: Mr. Cherniack.

MR. CHERNIACK: I want to try and answer that but of course Mr. Anderson will correct me or elaborate on it. When we ask for authority and get it then that enables a commitment to be made on the basis of the authority. Now it may not be paid but the commitment may be there. And to a large extent the unexpended authority for the ongoing projects is a committed authority, that is an authority which enables the utility or whatever it is that it's authorized for to be committed with programs to go ahead. That's why you will sometimes find Unexpended Authority at a time when we may be asking for more capital authority. But it's because that first portion is already in the works and planned and we have to keep ahead of ourselves, otherwise we could run out of money. It could happen. Especially if there's a commitment say to spend money and there should be authority to back it up. Should that be elaborated on, Mr. Anderson?

MR. ANDERSON: Well only to say that under The Financial Administration Act no officer of government whether civil servant or Minister or chairman of one of our utilities can commit the Government of Manitoba to future payment unless there is an authority from the Legislature. I'm only perhaps adding to what Mr. Cherniack has said. The result is that if you're facing the signing of a major contract, whether it be for a highway or a housing project or a hydro plant with a contractor or some aspect of a hydro plant with a contractor, and it's the first of February and you want to sign up for something that's worth \$25 million, even though the money will not start to move in cash until perhaps October of that same year, you have to look to see whether you have a sufficient Capital Supply authority from the Legislature to do so. Otherwise you have to sit and wait until the Legislature gets through with a new Capital Supply bill.

MR. CRAIK: I think that explains the - it's a question of the size of it, whether it's - it seems a pretty large amount of money, a quarter of a billion dollars carried forward, you know, from one fiscal year to the next. But I understand your explanation.

MR. CHERNIACK: If it's consistent then it's really not a lot. If it carries forward in that approximate amount year by year I suppose it's . . .

MR. CRAIK: I understand your explanation. It's for purposes of entering into contracts that may or may not fit themselves into the fiscal year pattern.

MR. CHERNIACK: Yes.

MR. CRAIK: You have to work ahead.

MR. CHAIRMAN: Page 8--pass; Page 9--pass; Page 10--pass; Page 11--pass; Page 12--pass; Page 13--pass; Page 14--pass; Page 15--pass; Page 16--pass; Page 17--pass; Page 18 - Mr. Spivak.

MR. SPIVAK: Mr. Chairman, now I would like to if I may deal with some of the matters of the Communities Economic Development Fund and particularly the matters in the report. I wonder if Mr. Ziprick can indicate procedurally what happened with respect to the audit that was undertaken by him with respect to the two companies of J.M.K. and R & M, that is both in terms of the amount of time and procedurally what happened and the references that were made as a result of his investigations.

MR. CHAIRMAN: Mr. Ziprick.

MR. ZIPRICK: Well with regard to these two companies, J.M.K. had requested and obtained a loan for a certain amount and there was a certain amount paid out on that loan and then they wanted to - we arranged an expand and as a result they needed a larger loan. They would not be granted a larger loan without complete refinancing and it was at this point that R & M Construction was established. So the portion of the assets that were - the first loan to J.M.K. that was spent on, was transferred over to R & M and as a result we did not go into the J.M.K. records. We concentrated on the R & M records. We carried out an audit on the R & M records which we reported on and we would have reported in more detail to the Legislature but we found out that it was in litigation, civil litigation and we were advised by legal counsel that this could have some effect or be publicly expressing a view that was under litigation and we were told that it would be unadvisable to do so, so we have refrained from giving the details in this report. Now the litigation as I understand it is in progress and evidence is being taken.

MR. SPIVAK: Can I ask you with respect to the litigation and the report, did you give the report to the government? You may not have published it here but have you given the report to the government?

MR. ZIPRICK: Yes, a report was given to the government.

MR. SPIVAK: Can I ask at what point did your office deal with the RCMP on this matter, in terms of timing?

MR. ZIPRICK: The RCMP came to see us - I just can't pinpoint the dates but we had already completed our audit essentially when the RCMP came to see us for the first time.

MR. SPIVAK: Then may I ask something. There was nothing out of your audit that was responsible for the RCMP investigation taking place?

MR. ZIPRICK: No.

MR. SPIVAK: Did the RCMP ask you to complete another audit or to review your working papers?

MR. ZIPRICK: Yes, we had these discussions with the RCMP; our working papers were made available; the auditor that was carrying out the audit had meetings with the RCMP and all the information was made available to them.

MR. SPIVAK: Now may I ask something. Your audit or audit examination really was an examination of R & M, not an examination of J.M.K.

MR. ZIPRICK: That's right.

MR. SPIVAK: And an examination of CEDF with respect to . . .

MR. ZIPRICK: I should say the examination of J.M.K. only to those transactions that pertained to the expenditure of money that they had received from the Fund.

MR. SPIVAK: Yes, but it wasn't an examination of the company.

MR. ZIPRICK: No. No it was not.

MR. SPIVAK: In the case of R & M was it an examination of the company or the same position, just an examination of the moneys they received from the Fund.

MR. ZIPRICK: No, in the case of R & M it was an examination of the company. Our audit was geared towards the protection of public funds and the accountability of public funds. But in essence it was an audit of the whole company.

MR. SPIVAK: In your statement in the Auditor's Report you state, "While there was no evidence of criminality on the part of the officials either of the companies or of the Fund" - do you really believe that you were in a position to make that statement based on the information that you had received as a result of your audit?

MR. ZIPRICK: Well to the extent that we went into in our audit, and during the course of our audit we found nothing of the nature that we would normally ask for criminal action.

MR. SPIVAK: Have the RCMP discussed the contents of their examination or the details of their examination with you since they have completed their examination?

MR. ZIPRICK: No. No.

MR. SPIVAK: Was there any additional audit requested to be given or undertaken by you by the RCMP or by the Attorney-General's office?

MR. ZIPRICK: We had a discussion as to a further audit and I had indicated that as far as we were concerned if there was any evidence, further evidence that there was a misuse of public funds in any way that we'd appreciate receiving that evidence and we would carry out an audit. But if it was just concern that some shareholders were having difficulty and this was outside of public funds, that we were not or we did not normally carry out any inspections and controls with regards to the protection of shareholders in private companies. And this would be outside of our sphere and we would not want to get involved in that area.

MR. SPIVAK: Well was there a formal request then from the RCMP asking you for an additional audit to be undertaken?

MR. ZIPRICK: There was a request that I approve that further auditing be carried out at public expense.

MR. SPIVAK: You were not prepared to do that, is that right?

MR. ZIPRICK: I was not prepared to carry out the audit but as far as approving is concerned I said, well unless I was told as to the purposes and objectives of the audit I could not express an opinion on that. So they'd have to deal with the Attorney-General's Department and find out from them. So I was not in a position to say whether further auditing would be of assistance to them or really was aware of what their difficulties were. All I was concerned about and it was not indicated that they had any further evidence that would show a lack of accountability of public funds because if there was any further evidence that we did not have, of accountability of public funds, naturally we are interested in it and we would want to pursue it.

MR. SPIVAK: Are you aware that another audit was completed by an accounting firm?

MR. ZIPRICK: Oh I know and that accounting firm has access to our records and has worked with our auditor.

MR. SPIVAK: Are you aware of the findings of the accounting firm with respect to the audit they completed for the RCMP?

MR. ZIPRICK: No.

MR. SPIVAK: None of the details have been given you at all?

MR. ZIPRICK: No.

MR. SPIVAK: You're not aware of the details at all.

MR. ZIPRICK: No.

MR. SPIVAK: Have the RCMP discussed with you any of the conclusions of the other audit completed by the accounting firm on these companies?

MR. ZIPRICK: No.

MR. SPIVAK: Did the audit undertaken for the RCMP include the Communities Economic Development Fund as well as the other companies?

MR. ZIPRICK: No, essentially the audit . . .

MR. SPIVAK: Insofar as the Communities Economic Development Fund was involved in these companies. I don't mean in terms of . . .

MR. ZIPRICK: No, the audits essentially centred around J.M.K. Construction. This is the way it was explained to me and the material pertaining to J.M.K. Construction and R & M Construction was removed from the Communities Economic Development Fund and I don't know whether it's being subjected to further auditing or not. But to my knowledge there was no audit carried out on the Communities Economic Development Fund.

MR. SPIVAK: During the course of your audit of R & M you had reference to the accountants who had not audited but who had been involved in the work. I'm assuming that's Dunwoody, Saul and Smith that you're talking about.

MR. ZIPRICK: Yes, that's right.

MR. SPIVAK: Did you have occasion to examine or question the former accountants whose employment had been terminated, Hawkins and Company, who essentially were the accountants for J.M.K. and the initial accountants for R & M? Did you have any conversation with them at all?

MR. ZIPRICK: No we didn't.

MR. SPIVAK: You did not determine how the opening balance sheets were set up with respect to R & M by them, and their comments at the time and their concerns on the opening balance sheets that were being set up at the time to CEDF?

MR. ZIPRICK: Well the Dunwoody and Company had substantial involvement. They've carried out most of the audit work and information and we just dealt with Dunwoody and Company and picked up the information that the . . .

MR. SPIVAK: You never went back to Hawkins and Company to determine two things: One, the accuracy of the original opening statements, financial statements for R & M, and No. 2, the reasons why their services were terminated.

MR. CHERNIACK: He already said he hadn't talked to them. So it's . . .

MR. SPIVAK: All right. During your audit did you determine that there was a practice in which one of the loan officers or development officers for the CEDF was given blank cheques or cheques signed in blank to either be countersigned or to be okayed by the General Manager of the Communities Economic Development Fund? Did you find that as a matter of practice, of the procedures?

MR. ZIPRICK: Well there was a joint control on the account, yes.

MR. SPIVAK: Did you find that . . . in your examination were you able to determine whether cheques had been given by the signing officers on behalf of the company in blank to one of the loan officers to be then completed by either himself or by the General Manager or Assistant General Manager of the Fund?

MR. ZIPRICK: You know, this is getting into the detailed area that I'd have to take a look at the work papers and refresh myself on a . . .

MR. SPIVAK: Did you ever find an occasion in which the payee and the amount were changed? That in effect had been struck out and an additional name or another name be placed and another amount placed over and above the original amount that had been written. Did you find any cheques like that?

MR. ZIPRICK: There again it's getting into the detailed area. As far as the audit is concerned whatever . . . there were accounting problems. Now . . .

MR. SPIVAK: But really what I am much concerned about - I appreciate Mr. Ziprick that you can't recall every detail but then let me put it another way. If you in your audit would have found that company cheques had payees struck out, with other payees placed above that and amounts struck out with additional amounts placed above it, would you have been alerted at that time to be concerned or would you accept that as a normal practice and a normal course of handling an account of a firm in which there are countersigning officers?

MR. ZIPRICK: Oh, it would be a matter of concern and further inquiry for explanations as to what happened.

MR. SPIVAK: If this had been brought to your attention or if you had seen this, would you have questioned as to who was responsible for changing the names of the payees and the amount on the cheques?

MR. ZIPRICK: Oh, yes.

MR. SPIVAK: All right. Then I ask you, did you have occasion to do this at all?

MR. ZIPRICK: Well, there again, it's getting into the detailed information. I didn't do it personally. Now whether the auditor that was doing it, to what extent he questioned and whatever, he must have been generally satisfied because we didn't take issue. But it's something that I'd have to review with the auditor that carried out the audit.

MR. SPIVAK: But it would be fair to say to you that if this would have been brought to your attention, you would have been sufficiently concerned to at least examine it and to determine it and to be satisfied with it and you would be aware of it in discussing it with me. The fact that you're not aware of it now would lead one to believe that it either has not happened or if it did happen whoever did the audit for you was satisfied with the explanations.

MR. ZIPRICK: That's right. That's right.

MR. SPIVAK: Well, I wonder, in the course of the audit did they determine how general the practice was for cheques to be signed in blank by the principal of the company and to be countersigned and completed by one of the officials of the company?

MR. CHERNIACK: Mr. Chairman, may I interject please.

MR. CHAIRMAN: Mr. Cherniack, do you have a point of order?

MR. CHERNIACK: Well it's as if I were back in a courtroom and listening to a cross-examination. Mr. Spivak said, was it very general a practice which he describes and that the Auditor did not say he knew existed at all and said he'd have to go back to find out. Mr. Spivak is now going on the assumption that Mr. Ziprick has agreed that it was a practice and he's now asking how general was it. So I'm beginning to think that we've got to watch just how the questions are put.

MR. SPIVAK: I'm sorry. Well I thought that Mr. Ziprick was prepared to acknowledge that it was a practice and if he isn't, I then put . . .

MR. ZIPRICK: Well I'm aware that the bank was under joint control but this changing of names and . . .

MR. SPIVAK: No, that was one aspect of it. I am now talking about the general practice of having the principal or the signing officer of the company sign the cheque in blank with the payee and the amount to be completed by . . .

MR. ZIPRICK: Oh I'm sorry, I'm not aware or at this moment I'm not aware of the signing in blank neither. This is something that I would have to discuss with the auditor.

MR. CHERNIACK: On a point of order. I want to make sure that we are not confusing this with a specific instance, I recall, of a letter being produced where certain cheques were . . . but I think that was in another . . .

MR. SPIVAK: That's co-ops. This is not. I'm not talking about co-ops. We'll come back to that.

MR. CHERNIACK: Okay.

MR. SPIVAK: I am now talking about the operation of R & M. I'm asking Mr. Ziprick whether his audit and whether his investigation was able to determine whether there was a practice that was followed in which cheques were signed in blank by one of the signing officers without the payee or the amount being completed, or forwarded to a development officer who in turn had one of the officials of the CEDF complete that.

MR. ZIPRICK: Well, as far as I'm concerned, it happens occasionally but it's not something that we approve of. When we see this kind of thing happening we recommend that it be stopped because that's an unsatisfactory condition. But in this specific instance were there any, how many, at this moment I don't know, I'd have to consult with the auditor and the work papers.

MR. SPIVAK: But again, Mr. Ziprick, appearing before this committee and knowing that this has been one sort of a political issue that's been raised before - well the political issue that's been raised, I would assume that . . .

MR. CHERNIACK: Who raises a political issue?

MR. CHAIRMAN: Order please. I don't think that's relevant.

MR. SPIVAK: Yes. Mr. Ziprick, I'm simply . . .

MR. DILLEN: Let the Leader of the Opposition indicate who makes a political issue of it.

MR. SPIVAK: Well Mr. Ziprick, Mr. Chairman, Mr. Dillen will be able to speak as much as he wants and be able to say whatever he wants. I'd like to be able to finish my examination of Mr. Ziprick. My point being, Mr. Ziprick, that if in fact . . .

MR. CHERNIACK: I'm sorry, I do . . .

MR. CHAIRMAN: Mr. Cherniack, on a point of order.

MR. CHERNIACK: Yes. I object to the line of questions and the fact that Mr. Spivak just said he is now examining the Provincial Auditor, continue the examination of the Provincial Auditor. I thought the Auditor was here as an independent auditor whose responsibility is to the Legislature and who reports to the Legislature and assists this Committee in establishing whatever information it needs. If Mr. Spivak is conducting a cross-examination of the Auditor which I believe he's doing, then you know there comes a limit to at least the good manners . . .

MR. SPIVAK: Mr. Chairman, on the point of order if I may.

MR. CHAIRMAN: Mr. Spivak, on the point of order.

MR. SPIVAK: Mr. Cherniack has just contradicted himself. He started by saying I was examining him then he says I'm cross-examining him. If I'm a member of the legislative committee and I am, I think I have a right to ask certain specific questions. An audit was completed by Mr. Ziprick. My questions relate to the audit. Another audit has been undertaken by a chartered accountant firm for the RCMP, it was not completed by the Provincial Auditor. I believe that - and this is a belief and I say this at this time - that there will be a substantial difference in the findings of the two audits. I ask Mr. Ziprick whether he has - appearing before this Committee the issue that I've just raised in my examination, if it hasn't sufficiently been of sufficient importance . . . if it was of importance he would be aware of it. He has indicated to me that he's not and it hasn't been brought to his attention and he hasn't that as a detail, a matter that he knows. He will try and get the information. And I would then suggest, Mr. Chairman, and I think Mr. Ziprick will acknowledge that that would mean that that matter either was a very minor matter to begin with or it's a matter that has been at least satisfied to the satisfaction of the people within his department. And I think that that is the acknowledgement that I'd like to get from him at this particular time.

MR. ZIPRICK: That's right. There's no doubt if there was something of that nature that was needed - inquiry and that - these inquiries would be gone into and the information

(MR. ZIPRICK cont'd) obtained and the explanations obtained.

MR. SPIVAK: I wonder, Mr. Ziprick, if you can indicate when you examined J.M.K. and R & M that in the course of examining what had taken place and I appreciate that you did not complete the full audit of J.M.K., there was any concern that what had taken place had in fact been a conspiracy to defraud the creditors of J.M.K.

MR. CHERNIACK: Mr. Chairman, now I really object. Because we have here the statement from the - the statement that we are reviewing, Page 18 where he says that there is litigation, civil litigation taking place. He's not in a position to report observations concerning operations of these companies. Now if Mr. Spivak wishes to proceed to ask questions of the nature he's just asked then it may - I don't know anything about this litigation but it may jeopardize a proceeding which is ongoing now. Mr. Ziprick said evidence was being taken now. I'm not aware of it. But I think that we have to be cautious not to prejudice the litigation that is taking place. Aside from the fact that I have a feeling that it's not in order to discuss matters that are in or which may be matters for court review.

MR. ZIPRICK: This is a point - we have issued a fairly detailed report on various items and we'd be pleased to make it available but there is no doubt that there are observations there of the kind that would have some - something that the court has been asked to judge on and if it's this committee's wish or whatever the authorities are that it can be released, that's fine. But I wouldn't want to release it and be brought before the court as being in contempt of court.

MR. SPIVAK: All right. Now let's understand the court case. The court case you're talking about is a litigation between shareholders, creditors and the companies or is the government involved in the court case itself?

MR. ZIPRICK: I understand that it's the government, the shareholders and the creditors and officers of the companies.

MR. SPIVAK: And so the government is involved in the court case itself. So you're suggesting that the information that you may give may prejudice that court case.

MR. ZIPRICK: Well I may be prejudging the situations that the judge has been asked to decide upon.

MR. SPIVAK: Well then let me put it in another way. If there was a concern, if there was a concern with respect to the question that I asked - I don't have to repeat that from the point of view of the record - would your audit or would your investigation have stopped where it had or would it have gone further?

MR. ZIPRICK: Well I would just like to re-emphasize that when we undertook the investigation it was purely to determine the accountability of public funds. The position of the shareholders and the arrangements that the shareholders made as to how and under what conditions they would subrogate their rights and transfers and this. We didn't feel we had an obligation to protect their position. It was up to them to be concerned. So we carried out an audit to determine the accountability of public funds and what happened to public funds. Now as I understand in the discussions with the police and the audit firm and to insure that there was no duplication of effort that's why we made all our information available, it's being co-ordinated, and the whole investigation that is being carried on now is in the area, not of accountability of public funds but in the area of difficulties between individual shareholders and individual people vis-a-vis the one against the other not being properly treated. Now this area, we don't feel that it's within our area of requiring to audit.

MR. SPIVAK: Mr. Ziprick, isn't it fair to say that the investigation that is being undertaken which you are aware of deals not just with the matters that you have talked about but with, in effect, the actions of government officials as well? And not in relation to the specific issues between shareholders and creditors but with respect to their actions and the exercise of their power with respect to these companies.

MR. ZIPRICK: As far as the government officials in carrying out the accountability of public funds we've gone into and we've made the observations. As far as the whole relationship of the shareholders and government officials and I've studied it very carefully at length because I was very concerned and I read the various representations that were made to determine what steps I should take in carrying out the investigation. I came to the conclusion that if I had moved into that area, I would be carrying out an inquiry that was really beyond the scope of just accountability of public funds. It was in an area of relationships in handling of private money and I was concerned that to carry it through I probably wouldn't come to anything conclusive in any event because there will be various statements and so it would wind up in court anyway and

(MR. ZIPRICK cont'd) as a result I made the decision rightly or wrongly that I was not going to go into that area. And this I understand the police are now pursuing.

MR. SPIVAK: But then there has been no communication from the RCMP with respect to any of the matters since that time, since you've come to this conclusion other than . . .

MR. ZIPRICK: I made it fairly clear to the RCMP that anything other than accountability for public funds I was really not interested in because I have no jurisdiction and no concern as to whether a shareholder was fairly treated or not within the context of the Companies Act operation.

MR. SPIVAK: But even if the action of a public official was wrong, was wrong and was criminal in nature - and I'm not suggesting it is - but even if that action was you still would not feel that there was a responsibility on your part to investigate that matter further.

MR. ZIPRICK: If the actions of officials when we were investigating, we saw anything criminal in nature in handling of public funds or anything in that area, we'd certainly take action. We, in no time, pass up any observations that are of a criminal nature without following them up.

MR. SPIVAK: All right. Now can I ask has the RCMP report, that's the first report completed on Schmidt Cartage, have the contents of that report been given to you?

MR. ZIPRICK: No.

MR. CHERNIACK: What's that got to do with it?

MR. SPIVAK: The further investigation that's been requested - it relates to this as well Mr. Chorniack - the further investigation that was requested by the law officers of the RCMP, have those matters been related to you as the reasons why the investigation was to be undertaken?

MR. ZIPRICK: Investigations in what area?

MR. SPIVAK: There is one RCMP report that has now been tabled with the Attorney-General's Office. The Attorney-General's law officers have asked for a further investigation from the RCMP. The contents of that report, the nature of the further investigation of the RCMP which I understand is completed and has now been tabled back with the Attorney-General, has that not been communicated to you?

MR. CHERNIACK: No, we don't know that it has been tabled.

MR. SPIVAK: Well I'm suggesting it has.

MR. CHERNIACK: Well if it has then . . .

MR. SPIVAK: I'm asking whether the contents of the report, the nature of this new investigation by the RCMP has in any way been communicated to you at all.

MR. ZIPRICK: No it hasn't and I wouldn't expect it to unless there was some concern about the accountability of public funds.

MR. SPIVAK: But let's assume for the sake of argument that -- (Interjection) -- Well, Mr. Chairman, I must say that in this issue we have the question of how the Provincial Auditor perceives his responsibility, the question of how the government -- (Interjection) -- No, there's no fishing expedition. Believe me, the fish has already been caught. -- (Interjection) -- No, no. Well you just produce the RCMP report and you'll see.

MR. CHERNIACK: Oh if you've seen it why ask him about it.

MR. SPIVAK: Because I think it's basic to understand the Provincial Auditor's perception of how he sees his responsibility, the perception of the government as to how they see their responsibility in directing and bringing to his attention any information that they may be seized of that would deal with public accountability and with the issue as he sees it. I'm again saying to you that as far as I can see from what you're saying you have completed your work. You are aware that the RCMP have investigated this matter or are still investigating it, you are aware that another group of chartered accountants have been brought in to complete an audit which you consider as matters dealing in the private sphere as opposed to the public sphere and you are not at this point involved because there is no further involvement within the public sphere.

MR. ZIPRICK: That's my understanding.

MR. SPIVAK: Would there be in your opinion an obligation on the part of the government, if they are seized of information, that there is a further involvement in the public sphere to have brought this to your attention.

MR. ZIPRICK: I would say so, yes.

MR. CHAIRMAN: Page 18 . . .

MR. SPIVAK: No, Mr. Chairman. In the investigation of these matters and I think generally the whole problem area of the accounting that is undertaken with respect to the loans given in the north and the whole problem of accountability recognizing the remoteness of the area and the difficulties involved, you have made a number of recommendations part of which spill over to 19. But I wondered, did you as a matter of the audit itself of CEDF, did you have occasion to check the minutes of the meetings, the loan applications that were completed and relate them to the dispersment of the loans - and I'm not now just talking about J. M. K. or R & M, I'm talking about the whole range of CEDF loans - and the procedures that were followed with respect to the dispersal of public money and the way in which the public money was funneled through to achieve the objectives set forth in the original loan application.

MR. ZIPRICK: Yes. Well this is, of course, the part of the regular audit of the CEDF is to determine that loans - examine loan applications and determine the purposes of the loan and then see that the loans are properly authorized by the fund directors and then that the money is being dispersed in accordance with the terms, where the difficulties that we have observed here and then a more in-depth study of the situation is in the monitoring situation after the money goes forward and the money is being expended and particularly in the working capital area. And the area where it's for specific purchase of an asset greater or whatever have you that's fairly easy to substantiate because the money is advanced and then there is an evidence of invoice and a possession of a grader. But in the working capital area particularly that's where the monitoring situation of how and the control over the money is difficult and there's where some reasonable accounting is necessary and accounting expertise; and then in auditing to insure that the moneys have been accounted for and then there's an attest position to say that they have been used for the purposes they were intended. And this is where the whole area of difficulty comes in and this is the area that we've recommended action and that action is being looked into about providing a better accounting by way of a service bureau or whatever other means, and then to carry out an audit. As I see it once there is good accounting and accountability, the audit in itself won't be a difficult thing. It's the expertise in the maintenance of the effective records and this is the area that's being worked on now and being looked into.

MR. SPIVAK: Can you indicate whether it was the practice of the CEDF to basically act as countersigners on the cheques of the companies who received moneys by way of loans from us?

MR. ZIPRICK: Well this is a matter of assessment when the loan is first agreed to and in some instances later on and the question of accountability. If there is concern to insure accountability, it's not unusual to have the account under joint control. As a matter of fact I would say that it happens quite frequently.

MR. SPIVAK: But did it happen in many cases with respect to CEDF on the basis of your audit, do you recall?

MR. ZIPRICK: I wouldn't want to be unduly specific without checking back but my recollection now is that it does happen.

MR. SPIVAK: Is the practice to allow the principal or the signing officer to sign it in blank?

MR. ZIPRICK: The blank is not a part of the system and if it's used it's outside of the system and any time we'd observe that kind of a procedure, we would certainly take exception to it.

MR. SPIVAK: Right. Have you observed it with respect to CEDF in other than the audit of J. M. K. and R & M.

MR. ZIPRICK: Well there again I would have to check with the files and the auditors. Not to the extent that an issue has been made, not that I can recollect.

MR. SPIVAK: Did you do an audit of Schmidt Cartage?

MR. ZIPRICK: No.

MR. SPIVAK: Were you asked to do an audit by the government of Schmidt Cartage?

MR. ZIPRICK: No.

MR. SPIVAK: Nor by the RCMP?

MR. ZIPRICK: No. As a matter of fact Schmidt Cartage other than the ordinary review of accounts, when the difficulties became apparent it was already in receivership and the Receiver was carrying out a full audit and as a result we didn't duplicate, we weren't going to duplicate the work that he was doing.

MR. SPIVAK: Did you receive a copy of the Receiver's report in connection with Schmidt Cartage?

MR. ZIPRICK: No, I didn't.

MR. SPIVAK: There was no communication to you in connection with that. Did the RCMP request any information or any assistance with respect to Schmidt Cartage?

MR. ZIPRICK: No, because we had no involvement other than examination of the files over at the Communities Economic Development Fund.

MR. SPIVAK: Did the RCMP complete another audit on their own in connection with Schmidt Cartage?

MR. ZIPRICK: No, I don't know that. Schmidt Cartage wasn't discussed.

MR. CHAIRMAN: Page 18--pass; Page 19-- Mr. Spivak:

MR. SPIVAK: Mr. Chairman, well I think the Auditor should be given an opportunity to explain exactly what the . . . well I think a combination of two things. How the Co-operative Loan and Loan Guarantee Board operated with respect to the loan guarantees that were undertaken. I know he indicates later on the amount of arrears that appears to be in existence. And I think it would be important for this committee and I would hope for the Legislature to understand exactly how they operated and to indicate as well whether he's had the opportunity of checking their minutes to determine the authority given by them with respect to various loan guarantees that have been undertaken.

MR. ZIPRICK: Yes, well there again it's a regular audit procedure for each guarantee to examine the particulars of the guarantee and then to examine the minutes to see that it's been properly approved and the guarantee given. So that is part of the regular audit procedure anyway. And as indicated in the report that, of course, as far as the approval in minutes, and that by and large it was all approved with I think about one exception. But as far as the monitoring situation afterwards, we found it to be not very satisfactory.

MR. SPIVAK: Do you know what the nature of the arrears are at this particular time with respect to the amounts that have been guaranteed?

MR. ZIPRICK: The March 31, 1974, I know the balances at that time. Now I don't know just exactly how the accounts stand individually at this point.

MR. SPIVAK: You don't know what the total amount of arrears would be at this point.

MR. ZIPRICK: No, no. They are being worked on, in various stages of work, that there has been one or two - I think only one payment made on the guarantee and there's some others being worked on. But I couldn't relate it in any detail.

MR. SPIVAK: One of the problems, Mr. Chairman, that we have is that in relation to 19, it sort of spills over to 20 and partially 21 and I'd like to be in a position to ask directly on the Co-operative Loan and Loan Guarantee Board and sort of spilling over to the others because I think that's the only way we can deal with it.

MR. CHERNIACK: Mr. Chairman, could we assume that pages 19, 20 and 21 are one thing.

MR. SPIVAK: Well that's fine but it involves different aspects of it and if we can deal with them in different aspects, that part's all right.

MR. CHERNIACK: I don't know about other members of the committee, I don't mind.

MR. CHAIRMAN: Is the committee in agreement with this?

MR. CHERNIACK: But when passed, we will have passed all three pages.

MR. CHAIRMAN: It deals with the one department.

MR. SPIVAK: Well, all right, that's fine, okay. I wonder if you can indicate whether you have completed your audit of the PEP Program referred to on Page 20.

MR. ZIPRICK: No, it's not completed yet. As a matter of fact some of the information is still being . . .

MR. SPIVAK: Well are you in a position to indicate to the committee anything with respect to your audits at this point?

MR. ZIPRICK: I can give you a brief resumé of the position of the PEP Program, the 1973 program of \$500,000. It involved 24 co-operatives, 12 of which received \$203,000 is satisfactorily accounted for already. Twelve others for \$185,000 is still not fully accounted for and still being worked on. There was administration expenses that were spent by the department from this portion of \$37,000. Now that's been of course audited in the normal course and there's 45,000 of that still on hand in cash under the control of the department and \$30,000 is on hand in co-operatives but the collectibility of which may be doubtful because they are in financial difficulties and have used the moneys as part of the working capital. So that pretty well gives a summary of the 1973 program.

(MR. ZIPRICK cont'd)

The 1974 program was handled in a different way and it's reasonably satisfactory. There's 29 co-operatives that received grants for a total of \$ 329,000 and the monitoring has been pretty good but the 1974 program is not finalized. Some of the work is still progressing. Now there's 171,000 of that 500,000 pertaining to the 1974 program that's still on hand and this is being used, I understand, for a 1975 program.

MR. SPIVAK: Can I ask, of the \$ 180,000 that remain unaudited or incomplete, are the records available to you or are you attempting to reconstruct those records?

MR. ZIPRICK: The department is attempting to reconstruct. There are some records but they're incomplete and that's where the difficulty is. The 1973 program just much like the others has presented an awful lot of difficulties in accounting.

MR. SPIVAK: Can I ask Mr. Ziprick, why should those records be in the state that they are if they were trust accounts operated by departmental officials.

MR. ZIPRICK: No, not . . . well the money was turned over to the co-operatives and in some instances the co-operatives, the departmental officials were more directly involved than in other instances. But in every case it was a co-operative operation, and just like the remainder of the co-operative records, in some co-operatives these are also quite unsatisfactory.

MR. SPIVAK: Were the government officials not countersigning officials on the cheques on these trust accounts?

MR. ZIPRICK: I am not sure. In many cases they were but I couldn't say right now without checking through the files as to whether it was completely in every instance.

MR. SPIVAK: But in those cases where the government officials were the countersigning officials on the cheques, can you indicate that those records are intact or are those records also in the . . .

MR. ZIPRICK: No, there were difficulties in both areas. As you know, in South Indian Lake, it was government officials were involved and the records are in a very very poor state of affairs so that it doesn't go that where government officials were involved that the records were satisfactory.

MR. SPIVAK: With respect to this particular problem and in terms of your position, was it of concern to you that records in which the government officials were countersigning officers were in the state that they were? Was it of concern to you in terms of the accountability that you perceive is the responsibility as far as the Provincial Auditor is concerned?

MR. ZIPRICK: Oh yes, that's right.

MR. SPIVAK: In the course of the examination, did you determine that it was a matter of practice, again in the case of the trust accounts, to have cheques signed in blank by the officials of the co-operatives and then to be completed by the departmental people?

MR. CHERNIACK: Mr. Chairman, haven't we been through this?

MR. SPIVAK: No, that was on CEDF. This is another one.

MR. ZIPRICK: We are aware that it was done but there again it's not a procedure that we recommend or really approve of. But we know it was done.

MR. SPIVAK: Was it done extensively in the case of the PEP grants?

MR. ZIPRICK: I'd have to check with the auditors, you know, how extensively . . .

MR. SPIVAK: Has anything as a result of your investigation with respect to the PEP grants been referred to the RCMP or the Attorney-General?

MR. ZIPRICK: No, other than certain accountability matters for instance in South Indian Lake which involves PEP grants. They are now being considered by the Department of the Attorney-General and ourselves for further accountability and I guess there's a few others. But only in conjunction with the entire operation but not specifically as PEP grants.

MR. SPIVAK: Now let me understand correctly with respect to the issue on accountability. As an example, if a PEP grant or a PEP trust account had been set up and money was spent for a specific item, you would have attempted to try and reconstruct and determine that the cheque had been issued for an account payable to so and so, and once you've established that you're satisfied with it because you have seen the disbursement of the money for the purpose consistent with what was supposed to happen with respect to the trust account. But did you follow through to determine and check whether the material that was purchased was ever delivered, was supplied or was ever used?

MR. ZIPRICK: In the one instance that we did a complete audit of the co-operative, we did attempt to determine these kind of procedures. In the others, we'd have to check with the various auditors that are carrying out the audit. But of course the . . .

MR. SPIVAK: Well when you say . . . which auditors are you talking about?

MR. ZIPRICK: Well, you see, the co-operatives are being audited by other auditors.

MR. SPIVAK: During that period of time they were being audited by the officials of the Department of Co-operative Development in the main.

MR. ZIPRICK: Well the 1973 and this whole position, a firm of chartered accountants was brought in in addition to a qualified auditor that's on staff of the department and they've both been carrying out audits. Some have been carrying out audits and some co-operatives have been audited by the departmental auditor and some have been audited by this firm of chartered accountants.

MR. SPIVAK: You're talking now in terms of checking on the PEP grants itself as one aspect.

MR. ZIPRICK: Well, you see, the 1973 PEP grants they were paid over to the co-operatives and the money was with the co-operatives. So to carry out an audit of the grants could only really be done in conjunction with the audit of the co-operative. So that in carrying out, for instance, the South Indian Lake co-operative audit, the special audit they were doing, we were also taking a look at the PEP records. An auditor that's let's say doing another co-operative and let's say that it's the firm of chartered accountants, they in addition to auditing the co-operative money and records, the co-op grant was to be audited at the same time and a report given. There are reports on some, there aren't on others as yet. So that when the money went forward to a co-operative, the PEP money went forward to a co-operative, then it became part of the co-operative and this is where in some instances we know that they have used the money as part of working capital instead of whatever it was designated for. In this instance I don't know, I'll have to determine what the accountability will be.

MR. SPIVAK: Did you recommend any disciplinary action with respect to the matters that you have audited in connection with this?

MR. ZIPRICK: No, we just indicated the difficulties and expected solutions and corrections. Whether that would include disciplinary action or not would be the decision of the Minister and the department.

MR. SPIVAK: You would perceive your responsibility as not being one to recommend disciplinary action. All you do is present the facts to the government and the government is to act.

MR. ZIPRICK: Our position is that we would present the difficulties, we would suggest in broad terms what should be and what's expected to be to accomplish good accountability, and then we'd expect the government and the officials to carry it out.

MR. SPIVAK: Under normal circumstances you would normally have never examined the PEP accounts once the money had been transferred over to the co-operatives.

MR. ZIPRICK: And that applies to other PEP money. The way for instance when PEP money goes forward to the City of Winnipeg, let's say, to be administered. The money goes forward to another entity that is controlled and audited and there's also a notice goes out to the auditor from the department saying - or the auditor is aware, I'm not sure whether it is direct notice - that there is this PEP money. Now the auditor during the course of an audit, let's say the City of Winnipeg will verify that the PEP money was used for the purpose it was intended and then he would supply a report. And if there were any difficulties that he couldn't account for, he'd qualify the report, then we would examine the qualifications and working with the department would determine what other action should be necessary to account. But we would not go to, let's say the City of Winnipeg or the other municipalities, and do that portion of the audit. That would be left to the auditor to do in conjunction with the audit of the accounts as a whole, and then report back that the money has been used for the purposes it was intended and it was fully accounted for and if there was a lack of accounting in some area, he would indicate in his report what difficulties he'd encountered.

MR. SPIVAK: But in the million dollars that's involved in two periods, acknowledging that you know that the money was transferred to separate trust accounts, acknowledging that the money was paid out for either services or goods and you've been able to reconstruct some on invoices but in many cases you haven't or the other auditors haven't, the fact is that you are not in a position to indicate to this committee that the goods were either delivered or were even used for their purpose.

MR. ZIPRICK: Well to the extent that there's been accountability, I was . . .

MR. SPIVAK: But let's understand exactly the degree of accountability that is within your capability and I don't mean it in any reflection with respect to yourself, I'm talking in terms of the kinds of things that you do. With respect to a million dollars of PEP account handled separately but in many cases with the direction and approval of the officials of the Department of Co-operative Development, recognising that you have been able to trace moneys that have been spent and invoices in some cases that have been provided, you are now in a position to confirm that the goods that were purchased or the services that were purchased actually either took place or were delivered or were even used.

MR. ZIPRICK: Like for instance taking these 12 projects for which there is satisfactory accountability now of PEP money, part of that accountability would involve seeing that there is an acknowledgement, if it was a delivery of the material, that there was a receipt of these materials acknowledged as to what was constructed; if it's payroll that there's payroll and that the people have worked and have received pay. So in those situations, although I personally didn't do it, but the auditors that were involved, it would be a requirement as part of their regular audit to insure that they are satisfied, and if not it would be brought to the attention. So that where it is stated there is accountability, it also includes that if it was spent on materials that in fact there's evidence that those materials were received and have been used.

Now as to how effective the program is and how effectively managed it was is another area. But as far as the purchase and the receipt and the payment being made for materials that would be part of the audit I'm sure that that payment was not made or when it was made that there was evidence of receipt of goods. If it was for payroll that there was a payroll and that these people did work. Now when we get on to the effectiveness of that work and its programs and that that gets into another area.

MR. SPIVAK: Are there any cases in which material has in fact been purchased but not utilized and is now being stored?

MR. ZIPRICK: Well we observed in South Indian Lake that there was material on the site and it was there. I don't know whether it's still there. It was not taken care of very effectively, I can say that.

MR. SPIVAK: But you're not aware of any other material that's been purchased under these programs and which at this point the material has not been utilized but is being stored at this stage?

MR. ZIPRICK: I don't know that. We'd have to consult with the people that were involved verifying other accounts.

MR. SPIVAK: Well I wonder then if I could lead from there to the question of the loan - the amount of the guaranteed amount that's in arrears now. I assume that - you may not be in a position to give us this information today, you may have it - I wonder if you would be able to indicate to the committee at the present time what the nature of arrears would be under the guarantee - Co-operative Loan and Loan Guarantee Board.

MR. CHERNIACK: Mr. Chairman, surely that's a matter for an Order for Return. I mean the Auditor does an audit, he doesn't do a report on current accounts. An Order for Return surely would give that information.

MR. SPIVAK: Well the only reason I think this becomes into an issue, Mr. Chairman, is because last year the Minister indicated that there were no arrears in the statements in the House. The Auditor has indicated and I quote, "a substantial portion of the guaranteed amount appears to be in a position requiring payments to be made to the lenders."

MR. CHERNIACK: Mr. Chairman, I'm sorry . . .

MR. SPIVAK: I wonder if I can complete my point of order then Mr. Cherniack can complete his.

MR. CHERNIACK: Sorry.

MR. SPIVAK: And I think that there is a substantial variation between what the Minister said in the House and what the Auditor said in his report and I recognize that an Order for Return can be requested. But I think it also has to do with the interpretation of what is owing under a loan guarantee in the nature of the guarantee itself. And I wondered whether it would be in a position for the Auditor to give us an up-to-date report if he can. And I say this because I would rather rely at this point on the Auditor's information than on the information that was furnished by the Minister.

MR. CHAIRMAN: Mr. Cherniack, on the point of order.

MR. SPIVAK: Well the statement was wrong last year.

MR. CHERNIACK: Mr. Chairman, on the point of order. I don't know anything about the statement that was made; I don't know anything about the contradiction. All I do know is we're dealing with a report which is dated as of March 31, 1974. There has been ample opportunity to discuss what additional efforts have been made by the Auditor to go beyond this date. I don't think we've been limited to this date. But surely it is still the audit function we're talking about, that is accountability of records presented. And if Mr. Spivak has an allegation that there is any contradiction between what the Minister said and the Auditor said, this is not the forum for it.

MR. SPIVAK: No, I agree.

MR. CHERNIACK: So let me finish, let me finish. Therefore it's up to Mr. Spivak now, if he wants to know information of arrears as of today, to find out from the government. If he wishes, having received that information, to submit that information to the Auditor for his report in due course when he makes the audit, you know, I think that he would do that. He's shown that he's quite prepared to ask questions direct and has a right to ask them. But at this stage to ask the Auditor to report on something which is not yet audited - I presume not yet audited - I think is beyond the scope of the Auditor and certainly of this committee.

MR. CHAIRMAN: I agree we are discussing the 1974 report. We've been brought I think up-to-date by the Auditor in many cases, much more earlier information than the 1974 report. If that information were readily available and if it would expedite the affairs of this committee fine, but it just may not be readily available in view of the audit not being completed for 1975. So an Order for Return would seem to be the route to take to get the up-to-date information from the Legislature.

MR. SPIVAK: All right. If I may, Mr. Chairman, I'll refer to some other matters. In your statement, you stated on Page 20 that the rate of interest charged by the lending institutions may also be questioned when in a number of instances and in view of the loans being fully guaranteed by the Province of Manitoba. I think this is an unusual statement from the point of view of Provincial Auditor and I wonder if you can explain that in a little bit more detail.

MR. ZIPRICK: The kinds of interest that were being charged from, on the basis of our assessment, would be more if the lending agency was taking some risk but in this case being fully guaranteed, there is really no risk. All they were doing is carrying out administrative function that the rates that were being charged - and don't ask me about the specific rates because there again I wouldn't want to just be guessing - but they were substantially higher than the prime rate or thereabouts that would seem to be warranted in this kind of situation. So we brought this matter to the attention and it is being reviewed and there has been some adjustments, I understand.

MR. SPIVAK: May I ask and can you indicate whether the rates of interest were the normal rates of interest being charged or were they higher than normal. I mean are you suggesting that it should have been less than normal?

MR. ZIPRICK: Just in a general way, they would be more in line if there was no guarantee or not the kind of guarantee. In other words they were in line with . . .

MR. SPIVAK: With high risk rates?

MR. ZIPRICK: Not a real high risk but it was running probably three percent I think, around three percent or so over prime.

MR. SPIVAK: I'd like to - we'll deal with I guess Southern Indian Lake and the Co-op Federation when we go on to the other pages.

I wonder if you can indicate whether there is any additional information to be furnished to the committee in connection with Kee-Noe-Zae.

MR. ZIPRICK: The last we were checking, I don't think that there is still a complete decision as to who or how the records were going to be unscrambled and to see what could be accomplished. That's my latest information but it may be not completely up-to-date at this point.

MR. SPIVAK: The Loan Guarantee Board gave a loan of \$83,500 in connection with Kee-Noe-Zae. Is that right?

MR. ZIPRICK: That's right.

MR. SPIVAK: Did you determine at the time that the loan was granted the basis under which the loan guarantee was undertaken?

MR. ZIPRICK: Yes.

MR. SPIVAK: And was it satisfactory? Was there a basis to believe that at the time that the loan guarantee was undertaken that it was based on a rational decision on the part of the board itself?

MR. ZIPRICK: As far as it was reported to me, there was no problems in that area.

MR. SPIVAK: I'd like to now then just deal with the basis on which the Co-operative Loan and Loan Guarantee Board loaned money. It loaned money or guaranteed money to a loaning institution for moneys advanced to one of the co-operatives. Did it undertake to determine before the guarantee was given insofar as you're concerned, in terms of your examination, are you satisfied that the guarantees that had been given had been based on reasonable probability of repayment?

MR. ZIPRICK: We weren't satisfied with the kind of evaluations that were being made at the time of guarantees.

MR. SPIVAK: That would apply to the full range of guarantees, not just the one specifically.

MR. ZIPRICK: That's right.

MR. SPIVAK: So that the Loan Guarantee Board was loaning money and you weren't satisfied. Did you bring this to the attention of the government at all?

MR. ZIPRICK: Well, yes. All these matters were reviewed and discussed and . . .

MR. SPIVAK: But your determination, or the expression of concern that you've just given came about as the result of this recent review. This did not come prior to this time, is that right?

MR. ZIPRICK: Yes. You see it's a situation that was building up. To start with there was very very little activity and the loans were fairly small. Now when you're dealing with small loans of \$10,000, the kind of inquiries that you carry out before you make a loan are different than when you're getting into much larger loans. So it jumped, if I remember correctly, in 1973 went up quite substantially and this is where the difficulties seem to have arisen mostly in that getting involved into these bigger kinds of loans there was a need for a more in-depth inquiry and a more in-depth monitoring and . . .

MR. CHERNIACK: Like they did for CFI.

MR. ZIPRICK: This did not happen as well as it should have and it wasn't geared up. Now the concerns in the Legislature came around and at the same time there was concerns coming from the auditors and, you know, I wouldn't want to start saying well it arose from this or it arose from that. The whole situation became apparent and was being acted on.

MR. SPIVAK: Can I ask, were you aware at the time of the existence of the Co-operative Federation?

MR. ZIPRICK: No, the Co-operative Federation didn't come to our attention until an examination of the board minutes. We noticed that there was a loan guaranteed to the Co-operative Federation and the auditors started wondering well, you know, what organization is this and this is when inquiring he became aware of this operation.

MR. SPIVAK: So that the loan to the Co-operative Federation or the question of the Co-operative Federation really was brought to your attention as a result of the examination of the minutes of the Co-operative Loan Board. Is that right?

MR. ZIPRICK: That's right.

MR. SPIVAK: In determining who it was do you have the date at the time that that loan was first guaranteed?

MR. CHERNIACK: Mr. Chairman, that's really a matter that could be obtained through the Minister either by question -- (Interjection) -- Well, it was answered. I don't know what it has to do with the audit function. Obviously . . .

MR. SPIVAK: Well I think it has a great deal to do with the audit function frankly.

MR. CHERNIACK: But the date is available, it was given.

MR. SPIVAK: Well I accept that, the answer is in Hansard, that's right. Well I wonder now if you could . . .

MR. CHAIRMAN: Mr. McGill.

MR. MCGILL: Mr. Chairman, I just wanted to ask through you to Mr. Ziprick with respect to the shortage of inventory of Gardenhill Indian Crafts, did that shortage take place within the space of one year?

MR. ZIPRICK: I'm not sure whether it took place within one year. It became apparent as a result of the audit that was carried out at this point. But to give you the build-up and that,

(MR. ZIPRICK cont'd) we'd have to go to the work papers and determine the kind of information . . .

MR. MCGILL: But you did conduct an audit the previous year.

MR. ZIPRICK: No, we have never conducted an audit of Gardenhill. The audit that was being conducted in this report here is the report of the auditors that were retained by the department, a firm of chartered accountants.

MR. MCGILL: I understood that there was a departmental auditor involved in that operation.

MR. ZIPRICK: Yes, there was an audit in the preceding - there were audits in the preceding year. Whether there was any indication of a shortage in the preceding year or not I couldn't say right at the moment. I don't have that information.

MR. MCGILL: What action is now being taken, Mr. Ziprick, to pursue this matter of the shortage of inventory?

MR. ZIPRICK: Well this matter has been brought to the Attorney-General's attention, the department's, and the question arises as to, you know, whether the directors involved should be questioned and what explanations and to what extent it should be pursued and to get as much information about this shortage as possible. That's in progress now and I understand the department is working with the Attorney-General and are getting more information and we are monitoring it as it's coming in.

MR. MCGILL: Did you, as a result of this disclosure of shortage make any specific recommendations to either the department or the Attorney-General or the Department of Co-operative Development in the matter of how this matter should be . . .

MR. ZIPRICK: No, we didn't make any specific recommendations. We were satisfied that just to try and carry out more accounting or auditing verification was in a normal sort of a way - would be non-productive, that it required some more pointed investigation and so that was why it was taken up with the Attorney-General's Department and working on the basis of legal advice. The department, and of course with our observation and assistance wherever it's required to determine how far it should be gone into and I guess if it was felt by the Attorney-General's Department that a police inquiry would be needed, I think that this would be the course of action that could be taken. But so far I understand it hasn't been taken.

MR. MCGILL: Will you take any further action in this matter?

MR. ZIPRICK: Well, you know, we're staying with the situation, seeing what is developing and if it gets reasonably accounted for then of course naturally there would be no further action. If we get to the end of the line and it's apparent that any further action is just a waste of public money to pursue, that you can't really find out and this is the decision, well it will be reported as that and that's as far as we'll go. On the other hand, if anything points that further action is needed in the line of inquiry including a police inquiry we would insist on it, yes.

MR. MCGILL: If by the time your report is compiled for next year no action has been taken, will you continue to bring this to the attention of the committee?

MR. ZIPRICK: Oh yes, yes. We'll monitor - items that we report we will monitor to their conclusions and then indicate what conclusions have been arrived at.

MR. MCGILL: Was there also a departmental auditor involved in the Crane River Feedlot Co-operative audit?

MR. ZIPRICK: Well it's either a departmental auditor hired on staff or the auditor is retained by the department but - no, I think that in this case, in the Crane River, it was the auditors that were retained by the department and not the departmental auditor. But I know the deputy is here, I guess he could confirm it. I'm sorry that my auditor that was in charge of this is on a course in Ottawa this week and as a result he is not here today. So I am a little short on detailed information and I'm going quite a bit by recollection but I think the Crane River one was audited by the firm that was retained by the department.

MR. MCGILL: To your knowledge, has any action been taken in law to determine the responsibility for this shortage up to this point by . . . ?

MR. ZIPRICK: Well, the Attorneys-General are looking at it and the department has been pursuing to get more information and the matter is being looked at. Now as to what the views of the Deputy Attorneys-General are on that, I haven't been briefed lately. We've talked to him just in a general way not very long ago and he indicated that he was going to get an up-to-date report from his officials before too long and we would sit down and review the situation and see where we go on from there. But all I'm aware of now is they're working on it.

MR. MCGILL: But no official action has begun to your knowledge.

MR. ZIPRICK: You mean an official inquiry of the board of directors? Not to my knowledge but there could well be because he wouldn't consult with me if he was going to undertake these kinds of inquiries and there's no reason why he should. The responsibility is there.

MR. CHAIRMAN: Mr. Graham.

MR. GRAHAM: Mr. Chairman, I think most of my questions have been asked by the Member for Brandon West. I had one other though. If any of these various operations are placed in receivership and liquidation occurs you still continue to watch it through to its final conclusion, do you?

MR. ZIPRICK: Yes, we would see now in this case whatever the actions. One is we will not agree to release payment of money on a guarantee without ascertaining that there is documentation to have the right to take action against the assets that may be existing and whatever recoveries, and then we follow through to see whatever action that's been done that the public interest is protected as much as possible. And any recoveries that can be made have been made.

MR. CHAIRMAN: Mr. Spivak.

MR. SPIVAK: Mr. Ziprick, I may have missed an answer to this question and if I have I apologize, I was just out for a moment. Can you tell me when were these matters referred to the Attorney-General's office, the approximate time.

MR. ZIPRICK: I think it was somewhere around, oh, probably September or in thereabouts but I'd have to check the files.

MR. SPIVAK: You've had no communication from them on . . . ?

MR. ZIPRICK: Oh, we've had several meetings, we've had several meetings since that time and as a matter of fact the auditor that's in charge of this, he's working with one of the Attorney-General's officers on an ongoing basis. They're communicating back and forth on an ongoing basis. As points come up, they're in communication.

MR. SPIVAK: I just wanted to confirm one point, and I again get myself into a position where I don't want to put you in a position of answering questions that the Minister or the government should. But with respect to the Co-operative Loan and Loan Guarantee Board, the only amount I can see that has been authorized over \$100,000 has been the Southern Indian Lake amount. I'm sorry, no, there's one earlier than that. There was one in March 31st of 1972, it was \$165,000, and in fact . . . I'm sorry there were three in that period of time. My point being -- (Interjection) -- No, no I want to ask Mr. Ziprick, at the time my understanding was that there was a limit of \$100,000 for the ability of the Co-operative Loan and Loan Guarantee Board to authorize or guarantee a loan. These loans are higher. Did you determine at the time whether the minutes provided authority from the government for these specific amounts?

MR. ZIPRICK: Well, we would check to see whatever . . . you see, these limitations are of course internal and not legislated and whatever limitations that are put on internally, we are generally aware of these limitations. We follow through to see that they're complied with, and if they wouldn't be complied with, we'd report. But to my knowledge whatever was acted upon, there was approval of the government.

MR. SPIVAK: All right. So there was approval of the government on these either specific or by allowing the internal arrangements to be altered.

MR. ZIPRICK: Yes.

MR. SPIVAK: But I mean what I'm saying to you at this point and I put it to you this way, the only check that the public has with respect to how this operates is yourself. We can ask questions and we can get the documentation but the only check as to whether this has happened, according to whatever internal arrangements exist, is yourself. You're the only one who has access to it, we don't have it. So therefore, and again, I want to be sure that you're sure that the internal arrangements were altered, in these cases satisfactorily, and I assume that what you're saying is that you're prepared to acknowledge that at this point.

MR. ZIPRICK: Yes. The procedure is that first of all, the money has to be allocated to the department from a legislative vote and so there's a limit that we consider as a legislative limit. Now the Legislature doesn't vote in this instance specific money, it's one of these general capital votes and then it's allocated. Now to the extent that it's allocated, we consider that as a legislative allocation and as to whether there's legislative approval or not, provided that limit is not exceeded, then the board would be complying with the legislative requirements.

MR. SPIVAK: But not necessarily with the internal arrangements.

MR. ZIPRICK: Then there's internal arrangements just as there are Management Committee of Cabinet requires \$25,000 and over approval, there's limitations placed on this. Now we see that these internal arrangements are being complied with and if they're not being complied with, we'd bring it to the attention of the people concerned indicating that they're not being complied with.

MR. SPIVAK: Would you normally bring that to the committee's attention though? If an internal arrangement is not being complied with you would bring it to the government's attention and they would take whatever corrective action is necessary and that would normally not be reported to this committee then.

MR. ZIPRICK: No, it would only be reported to the Legislature if the whole thing showed an overall weakness and there was concern about the overall operation. But just because there was, you know, in some instances maybe lack of immediate approval and subsequently the government had approved it and laid down whatever requirements they needed and these were being complied with, we would take no further action.

MR. SPIVAK: Then can I ask when the audit was undertaken with respect to the million dollars that was guaranteed to Southern Indian Lake, the additional guarantee and I guess there was \$300,000 that was cancelled, did you determine the authority, the internal and external authority for that?

MR. ZIPRICK: A million, I thought it was \$800,000.

MR. SPIVAK: Well, I'm just referring back to the report of April 22nd, 1974, which would be your statement I guess in which - I'm sorry I guess it is not your statement; it's the statement of the Department. The schedule for the year shows additional guarantees of a million dollars for Southern Indian Lake.

MR. ZIPRICK: Oh, yes, but that's the way - a balancing process. I don't think that there was ever - the total was for a million dollars. There was a number of items so you total - see there's cancellations also of \$300,000, so you'd have to determine the order of the cancellations to see whether there was at any time a whole million. I am not aware of it ever being a million but it could be, we'd have to check because, you see, you'd have to determine that the order that the cancellations came in to determine what the maximum was at any one time.

MR. SPIVAK: I appreciate that but in terms of authority, the minutes I would assume and I think this is probably what was indicated, would indicate a guaranteed potential of a million, not necessarily that a million was committed.

MR. ZIPRICK: Yes.

MR. SPIVAK: So the minutes would indicate a million potential even though \$300,000 may have been cancelled out when it was finally determined the actual amount that was to be undertaken. Otherwise, you know, I see no point in the million being indicated. My point being, at this stage, did the minutes indicate a million which I believe this would probably be the case, was probably the case. Did you determine the authority for the Co-operative Loan Board guaranteeing a million, both the internal authority and then of course . . . ?

MR. ZIPRICK: I would think the auditor would follow that through, yes.

MR. SPIVAK: Would you accept an action by the government by Order-in-Council which would be retroactive to cover this as sufficient from your point of view to take care of the internal matter?

MR. ZIPRICK: I think you could, yes.

MR. SPIVAK: So that it's possible - I'm not suggesting that this happened - but it would be possible for an action to take place which was not within the internal arrangements but which subsequently was clarified to be permissive by the Cabinet and that would be satisfactory to you.

MR. ZIPRICK: That's right.

MR. SPIVAK: And you would feel no obligation to or feel that there is no obligation on your part to report it to the Committee or to the Legislature?

MR. ZIPRICK: No, not . . . It would depend on the circumstances but if there is, you know, discussions were going on or something like that and the formal approvals were sometimes a little later we would consider them, that it's fine. Now if there was no discussions and the thing was really - then we'd take a look at, you know, how much control does the government have over the department and if we were concerned that there wasn't too good a control, we would certainly make an issue not so much about the items but the items as indicating a very weak system of control.

MR. SPIVAK: Well if the general practice, internal practice was to have \$100,000 as a limit and a million dollars came through, then I would assume that you would basically check to know that it was handled properly in the beginning, not necessarily retroactively.

MR. ZIPRICK: That's right.

MR. CHAIRMAN: Page 20--pass.

MR. SPIVAK: Well I think what we have to - on the next page we deal with Southern Indian Lake Co-op Fisheries which really starts on 21 and goes through to . . .

MR. CHAIRMAN: On 21 and go on to 22?

MR. SPIVAK: Well, on the assumption that we're dealing -- (Interjection) -- Yes, that's right.

MR. CHAIRMAN: Agreed? (Agreed)

MR. SPIVAK: Well, Mr. Ziprick, have you been able to find the records of Southern Indian Lake yet?

MR. ZIPRICK: No, they're still incomplete to the last time I checked, and that was I guess prior to this preceding meeting, I don't think I checked.

MR. SPIVAK: Who's fault would that be?

MR. ZIPRICK: What's that?

MR. SPIVAK: The fact that there are no records or the records are incomplete.

MR. ZIPRICK: Well it's a good question. There is a board of directors, there were officials and the allowing of this kind of thing to go on. It's a most unusual situation, I agree but . . .

MR. SPIVAK: Is the responsibility really that of the board of directors of the co-operative or is it really the Department of Co-operative Development?

MR. ZIPRICK: Well, in technical terms, this is an incorporated company under The Companies Act and the board of directors are responsible to insure that these things are maintained.

MR. SPIVAK: But as the Provincial Auditor now having had the opportunity to review it, are you not . . . ?

MR. CHERNIACK: Mr. Chairman, I would like to interrupt on a point of order.

MR. CHAIRMAN: Mr. Cherniack on a point of order.

MR. CHERNIACK: Yes, the last paragraph under this item on Page 23. It's your responsibility to . . . the questions.

MR. SPIVAK: Well, Mr. Chairman, . . .

MR. CHERNIACK: "Matters of cash deficiencies and lack of accountability have been reviewed by the Department of Co-operative Development and the Attorney-General's Department are under further consideration." I leave it at that because I don't know any more about this than I read here and I just feel that it should be made clear that there may be certain matters which should not be discussed at this stage. I don't know whether there are or not and I suppose Mr. Ziprick does, but since Mr. Spivak has been following a practice and a method of cross-examination, I think we should be conscious of the fact that there are other responsibilities beyond those of just answering all sorts of questions.

MR. CHAIRMAN: Mr. Spivak, on the point of order.

MR. SPIVAK: Mr. Chairman, just on the point of order. This brings in the question of a very serious problem. The only check and balance on a number of things that happen with the government is the legislative process or police power. Police power is in the hands of the Attorney-General and I think an argument and a very good argument can be made and will be made as to whether that protection is sufficient, based not just on the information that's been supplied here, but on the whole course of conduct with respect to a whole series of matters in which allegations of wrongdoing concerns have been brought to the attention of the Attorney-General. And if this legislative committee is not going to have the opportunity of asking its official, and Mr. Ziprick as Provincial Auditor is an official of this Legislature, questions relating to his investigation and determinations and we are going to be met with the answer that the matter is being considered by the Attorney-General and then to a large extent this committee, the Legislature, will be stonewalled in a way which -- (Interjection) -- Yes, I say "stonewalled" in a way in which the accuracy and the truth, the accuracy and truth of the statements and of representations will not be known.

We are facing a situation in which serious questions have been asked with respect to the handling of public moneys, not only in the Department of Co-operative Development, in other areas. And we are entitled to receive answers and, you know, the gratuitous use of the fact that the matter is before the Attorney-General as a means of sort of stifling a discussion and

(MR. SPIVAK cont'd) accurate information being presented, I think is indicative of a tone with respect to the whole approach to the question of proper accountability which is the matter which will be discussed not just within this committee but within the Legislature and I would assume for several sessions to come unless there's corrective action. I feel it incumbent upon myself to say to you, sir, and to the Provincial Auditor that I think we are entitled, recognizing that I accept his discretion as to those matters which he may very well believe are matters to be considered within the investigatory power of the Attorney-General because of information that he has that we are not aware of, but I would leave it to his discretion as to whether the answers that we are asking should in fact, or the questions we are asking should in fact be answered. I suggest that there is a course of conduct with respect to these matters that is very very revealing with respect to the attitude of the government, and I am not prepared and I say this to Mr. Cherniack, I am not prepared to simply sit here and find the use of a reference to the courts, the use of the matter of the Attorney-General as being a means to prevent information which is proper information from being brought here.

And so I put the question again to Mr. Ziprick, I ask him in effect whether in reality the control of the Southern Indian Lake Co-op was really in the hands of the Department and not those people who technically were the people involved or who, from all practical purposes, had left control to the departmental officials.

MR. CHAIRMAN: Mr. Cherniack, I feel on the point of order that the line of questioning, if there is some answers that the Provincial Auditor may feel would jeopardize in any way any considerations that are before the Attorney-General's Department, he could so indicate to us and probably not answer the question. But any questions that he feels might provide additional information on the particular point under consideration, we would certainly welcome them from him.

Mr. McGill on the point of order.

MR. MCGILL: On the same point of order, Mr. Chairman. I think this difficulty arose out of Mr. Spivak's question about who was responsible for the lack of records at South Indian Lake and I think Mr. Ziprick's reply was that it was a good question indicating that he felt that that was a question that was worthy of consideration. So I think that we should proceed on this line of questioning and certainly Mr. Ziprick I think is prepared to enlarge upon the answers which he has given in his report.

MR. CHAIRMAN: Mr. Cherniack on the point of order.

MR. CHERNIACK: Mr. Chairman, firstly I am perfectly satisfied with both your comment and Mr. Spivak's statement that he will accept the discretion of the Provincial Auditor. Until he said that, I didn't think he was prepared to do so. He said that he doesn't think this committee should be prevented from obtaining information and certainly information to me is the kind of information the Auditor has available and can give us. But he was asking the Auditor for an opinion as to blame, he said who's to blame for this? And it was there where it was no longer a question of information but a question of an opinion as to who is to blame which I assume, and I can only assume it because I don't know what it is, but I read here that something is under consideration as to accountability by the Attorney-General's Department. Now if that means that a charge may be laid against someone, who is to blame, then surely the Provincial Auditor should not be asked for an opinion to give now which may affect a possible charge and the trial. That was my point. It had nothing to do with information. Of course, it puts him in a hell of a position but the Provincial Auditor is in a position to answer on it. But I make the point that I objected not on the question as to information but on the question of opinion which may relate to criminal liability. I don't know whether it does, I don't even know whether that's being investigated. Therefore I agree with Mr. Spivak's statement towards the end of his comment that he would rely on the discretion of the Provincial Auditor. I would too.

Let me also say that Mr. McGill's interpretation of a response saying that's a good question, is both novel and literal. Because when I hear somebody say well that's a good question, it's like saying well I'd like to know the answer myself. However if Mr. Ziprick considers it a good, valid and worthwhile question he can respond . . .

MR. CHAIRMAN: Well, gentlemen, possibly we can proceed and accept the Provincial Auditor's judgment on whether he should answer the question or not.

MR. SPIVAK: Well, again just on this, I just do not accept what Mr. Cherniack says, that I cannot ask a question as to who is to blame. I recognize that if we are now talking in a general way or in a specific way of a person and in the matters being under investigation, I

(MR. SPIVAK cont'd) accept Mr. Ziprick's statement that the matter is under investigation and there is nothing I can deal with it. But if, in fact, the answer is a much more general one, that I find that the problem areas are problems that have really come about as a result of the lack of organization and proper handling by the Department of Co-operative Development, then I think that information is rather pertinent and . . .

MR. CHERNIACK: There again that's already stated here.

MR. SPIVAK: Well it's not. No, it's not stated. There is an indication that there has been difficulties, there's an indication that records weren't maintained, there's an indication with respect to the use of the power-of-attorney but I am more inclined to find out from Mr. Ziprick his general observations with respect to the very important question as to whether, leaving aside the technical legal structure which says that the co-operative itself existed as a legal entity by itself, whether he is prepared to acknowledge to this committee that for all intents and purposes its operation was really handled by the Department of Co-operative Development and the officials and that in effect the expenditure of moneys came about as a result of their actions with very little if any input by the people who were the representatives of the co-operative.

MR. CHERNIACK: You see, Mr. Chairman, Mr. Spivak started out saying the kind of thing you said and the kind of thing I agreed to, that in a general way these things can be questioned, but now he's asking Mr. Ziprick to respond specifically that it was departmental officials that did certain things which he alleges were . . . and I'm saying that that is clearly a request to Mr. Ziprick to start pointing fingers at people who may or may not be charged and I remember you trying to get names out of the Minister and the Minister refused to give names. I believe it was the same . . .

MR. SPIVAK: Not it wasn't. No, no.

MR. CHERNIACK: Oh, it was not the same problem. Well it was a similar problem. And, you know, I'm prepared again to leave it to the discretion of Mr. Ziprick but not to make it appear as if he is required, in a reasonable way, to answer questions which are related to investigations of possible criminal action.

MR. CHAIRMAN: Mr. Spivak, proceed.

MR. SPIVAK: No, Mr. Chairman, on the point of order. I again say that there is a deliberate attempt to prevent information from being given to the Legislature and the attempt is in the mistaken belief that because a matter is referred to the Attorney-General, it automatically precludes any information being supplied. The fact is . . . information being supplied or even judgments given.

You know, Mr. Chairman, we have a funny situation. All of the matters that we discuss are all referred to the Attorney-General, and frankly we see very little action by the Attorney-General. There is, as far as we can see, there's been a few meetings and we can trace historically the timing that has taken place, you know, with respect to these matters. And one gets a very distinct impression of what this legislative session is going to be all about. It's going to be discussing matters which cannot be dealt with because the matters have been referred to the Attorney-General who at this point isn't acting on anything, so because he doesn't act on anything nothing is going to happen. So all that is required is for Mr. Cherniack or others to essentially say the matter can't be dealt with because it's being considered by the Attorney-General. And if this is the case then the continual stonewalling will prevent any ability, any ability on this.

And that's why, Mr. Chairman, the question that I have put is an accurate one. If Mr. Ziprick believes that there is an individual to be charged - I don't know that that's the case - then believe me if that would prejudice the situation then I can accept his answer. But that would be the only condition in which he would I think have any right to refuse a comment, a comment that he as Provincial Auditor and as the official representing this legislative committee and this Legislature, reporting to us is the only way in which he could avoid answering directly a judgment that may be before him. Now his judgment may be the direct opposite to what I'm saying, I don't know that. But I don't want in any way -- (Interjection) -- What?

MR. CHERNIACK: You don't accept his discretionary . . .

MR. SPIVAK: I accept his discretion but I want it clearly understood with respect to the caveat. -- (Interjection) -- No, it was a caveat, that Mr. Cherniack . . .

MR. CHERNIACK: Oh, come off it.

MR. SPIVAK: . . . has basically said that as long as a matter is being considered by the

(MR. SPIVAK cont'd) Department of the Attorney-General that the matter can't be answered in any way. And I say to Mr. Ziprick, it can only not be answered if in fact he is aware or believes that there will in fact likely be criminal charges in one or many cases and then that would have to be excluded. Otherwise, there's no point to this whole exercise.

MR. CHAIRMAN: We'll proceed on the original understanding that Mr. Ziprick would use his discretion in answering the question and if he can remember the question. Mr. Ziprick.

MR. ZIPRICK: You know the point of blame, this is the whole situation. There's a corporation, directors, officials, the department was involved and this whole point at issue, we could speculate and think of these different approaches. Now as far as if there's going to be any attempt at recovery or bringing anybody directly into accountability, and this is a highly legal matter, and this is why it's before the Attorney-General's Department. As to whether any of the directors should be brought to certain accountability or any of the officials and the arrangements of the department with the directors, what legal status and obligations there are, this is the kind of thing we don't know. All we know is that the kind of records and the kind of accountability and accounting and business operations that you'd normally expect in this kind of operation wasn't there. We can't establish an accountability at this point, not completely. It's being pursued further.

Now as far as the Attorney-General's Department is concerned, they're acting on it. I'm not in a position to say how fast they should go or shouldn't go but I can say this. That if it comes to next time to report and we haven't, in our judgment, received the kind of attention that should have been received and the kind of information that we should be bringing to the attention of the Legislature, we can't bring, we will so indicate. And we will try to indicate as to why we're not able to bring it. But at this point, I can honestly say that the Attorney-General is working on it. Now whether it's fast enough or not, I wouldn't want to express an opinion at this time. It's something that is being worked on. As to what will come out of all this, well as I say it's a good question. We'll have to wait and see.

MR. SPIVAK: When you talk in terms of directors, Mr. Ziprick, are you talking about directors of the co-operatives or the directors of the department?

MR. ZIPRICK: The directors of the co-operatives. They were legal directors and they were acting as directors of the co-operative. Now how much input they had or didn't have I, you know . . .

MR. SPIVAK: But are you seriously, are you seriously . . . this committee because I think this is very important because this has been introduced by yourself, are you seriously in any way putting into question their position with respect to any legal liability on their part either criminal or civil.

MR. ZIPRICK: I don't know. But this is why the whole thing has been referred to the Attorney-General. That's why we didn't pursue. In a normal case of an audit of this nature, this is where we'd have searched for information from the directors, because it's so complicated and that we felt that we didn't want to act on our own and search that information. So we're waiting for the direction of the Attorney-General's Department to see where do we go from here. But as far as I'm concerned, it's not complete and it cannot be left in that state, that there's got to be better accounting. And as I understand it, the Attorney-General, the Deputy Attorney-General fully agrees with me and we will try and obtain a better accounting. Now as to who is really responsible, you know, I can speculate in many ways but these are real legal matters and will have to be pursued in that way.

MR. SPIVAK: When was the matter referred to the Attorney-General? Do you know the date?

MR. ZIPRICK: No, but it would be some time in the summer or . . .

MR. SPIVAK: Of last year.

MR. ZIPRICK: Of last year.

MR. SPIVAK: Have the RCMP people been brought into this matter?

MR. ZIPRICK: No.

MR. SPIVAK: Based on the kind of investigation that you believe should be undertaken, would it not be normal in the course of events to have the RCMP involved?

MR. ZIPRICK: Well, you see, I know the feeling of the Deputy Attorney-General as far as the RCMP is concerned. He always takes the view that the RCMP should not be used to do bookkeeping or accounting work and so before the RCMP are brought in, he always feels that there should be some evidence that some form of a crime has been committed and until this

(MR. ZIPRICK cont'd) would become apparent, that somebody has committed a crime, he doesn't normally bring in the RCMP and I subscribe to that view myself. I fully agree that we shouldn't use the police in every opportunity to get at other people unless there is some reasonable evidence of a crime, because that would be carrying things too far.

MR. SPIVAK: Well, Mr. Ziprick, you're suggesting though that the matter was too complex for you in your normal auditing procedure to be able to follow through. An investigatory work had to be done and you therefore referred it to the Attorney-General. You say that it should not be dealt with by the RCMP, you agree with him, because it's not criminal in nature. Then what really you're asking . . .

MR. ZIPRICK: I did not say it was not of criminal nature. We haven't seen, I haven't -- maybe the Attorney-General has more information now. If you really want to know how far the Attorney-General has progressed, maybe you should have the Deputy Attorney-General here to explain what the position is because I am not monitoring his ongoing position.

MR. SPIVAK: That would be a very good idea, Mr. Chairman, but the thing that I would like to understand is if the Attorney-General is not going to have the RCMP investigating this matter and the matter is one of investigating of accounting procedures, why wouldn't the Provincial Auditor in the first place have completed it? Was it too much work to be done with respect to your staff?

MR. CHERNIACK: I heard him say it was a legal problem.

MR. ZIPRICK: It's not a matter of accounting. If it was a matter of books and whatever have you that we would carry it out, but it's getting down to really questioning people and getting information from people and taking it, do you take that evidence under oath or don't you. Who is going to take it? And I know I've got powers to take evidence under oath but I would use it only very very carefully. I wouldn't go and just say, well you know I've got some concerns here, I'm going to take evidence under oath. So if the question arises if we're going to start in that direction and take evidence under oath, before I start I would want to know the legal position, the kind of approach that we should take and then carry it out without any hesitation right to its conclusion. But this is the whole point at issue. If it was just a matter of getting more books and vouchers the moment more vouchers or books become available we are there and we are checking it and bringing it up-to-date. But the question here is not more books, it's getting at information from people and to take that information I think the people should be warned properly and be taken in a proper manner. This is where the Attorney-General's Department is looking into and going to give guidance. Where it stands, I wouldn't want to indicate what the Attorney-Generals are doing. I think that they should - if you want a report, you should get it from them.

MR. SPIVAK: Well just one other question.

MR. CHERNIACK: Committee rise.

MR. SPIVAK: Fine, committee rise.

MR. CHAIRMAN: Committee rise. We're on Page 21 - South Indian Lake Co-op Fisheries Ltd. when we resume our next meeting. Agreed? (Agreed) Committee rise.