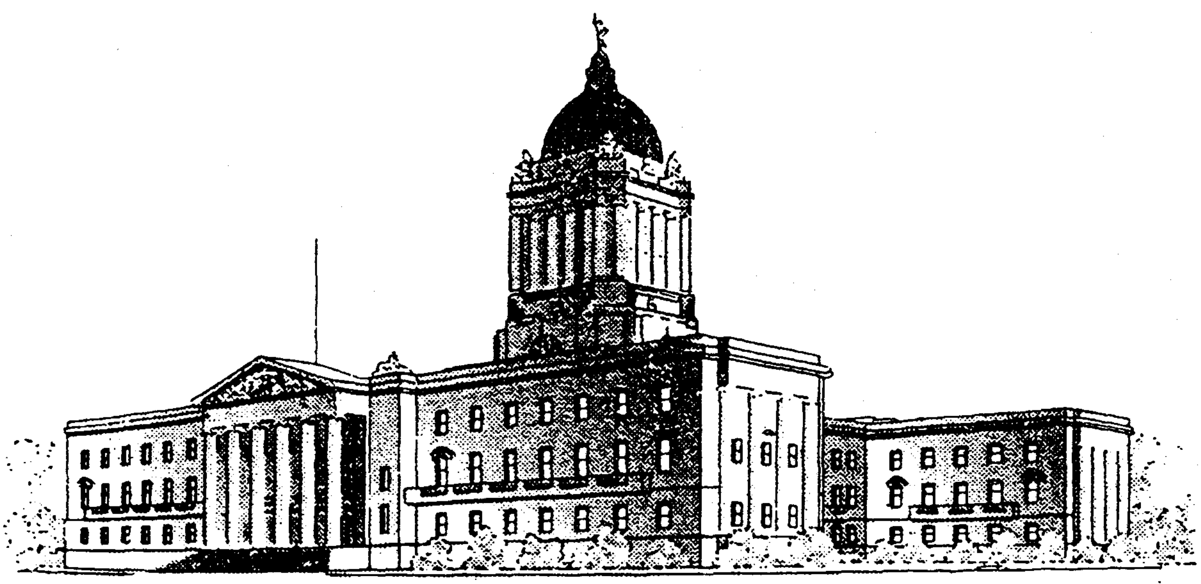
Third Session - Thirty-Seventh Legislature

of the

Legislative Assembly of Manitoba

Standing Committee on Public Accounts

Chairperson
Mr. Edward Helwer
Constituency of Gimli



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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Seventh Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

Monday, May 27, 2002

TIME – 10 a.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Edward Helwer (Gimli)

VICE-CHAIRPERSON – Mr. Gregory Dewar (Selkirk)

ATTENDANCE - 11 – QUORUM - 6

Members of the Committee present:

Hon. Mr. Selinger

Ms. Allan, Messrs. Derkach, Dewar, Gerrard, Helwer, Loewen, Penner (Steinbach), Reid, Rondeau, Struthers

APPEARING:

Mr. Jon Singleton, Auditor General

MATTERS UNDER DISCUSSION:

Provincial Auditor's Report on Value-for-Money Audits for the period ending June 2000

Provincial Auditor's Report on the Operations of the Office of the Provincial Auditor for the year ended March 31, 2000

Public Accounts Volume 4 for the year ended March 31, 1999

Public Accounts Volumes 1, 2, 3 and 4 for the year ended March 31, 2000

Mr. Chairperson: Good morning. Will the Standing Committee on Public Accounts please come to order. Our first order of business today is the election of a vice-chairperson. Are there any nominations?

Mr. Jim Rondeau (Assiniboia): I nominate Mr. Dewar, Selkirk, for Vice-Chair.

Mr. Chairperson: Mr. Dewar, Selkirk, has been nominated as Vice-Chair. Is that agreed? *[Agreed]* Mr. Dewar is the Vice-Chair then today.

The meeting has been called to consider the following reports: the Value-for-Money Audits for the period ending June 2000; the Report on the Operations of the Office of the Provincial Auditor for the year ended March 31, 2000. It is actually the Auditor General now, not Provincial Auditor–*[interjection]* Okay. Public Accounts Volume 4 for the year ended March 31, 1999, and the Public Accounts volumes 1, 2, 3 and 4 for the year ended March 31, 2000.

On May 24, I, as Chairperson for the committee, circulated a letter to committee members requesting submissions for agenda items or questions requiring detailed answers. We did not receive any agenda items for this meeting. Therefore, we will proceed to consider the reports referred to the committee. Before we get started, are there any suggestions from the committee as to how long we should sit this morning? Twelve o'clock? *[Agreed]*

Are there any suggestions from the committee regarding the order in which we should consider these reports?

Mr. Jim Penner (Steinbach): Just looking at the dates and looking at the reports, I am wondering if it would not be the will of the committee to start with the March 31, 1999, materials so that we get the oldest stuff done first.

Mr. Chairperson: Is that the will of the committee? *[Agreed]* Did the honourable Minister of Finance wish to make an opening statement?

Hon. Greg Selinger (Minister of Finance): Yes. I was going to read each and every page in Volume 4 into the record, but, in the interests of time, I think I will just entertain questions.

Mr. Chairperson: Would you want to introduce your officials today?

Mr. Selinger: I will introduce my officials. We have with us the estimable Pat Gannon, the Deputy Minister of Finance. Sitting beside him is the comptroller and ADM for that responsibility, Jerry Gaudreau, and our Terry Patrick, who ably assists Mr. Gaudreau in all those functions related to the comptrollership of the provincial finances.

Mr. Chairperson: Thank you, Mr. Minister. Did the critic for the Official Opposition, Mr. Penner, Steinbach, have any opening statement?

Mr. Jim Penner: Mr. Chairperson, actually, I was going to suggest that maybe we should determine whether or not–I understand there are no further meetings scheduled of the Public Accounts Committee this session, and whether there would not be need to clean up some more stuff.

Mr. Chairperson: At the moment, Mr. Penner, because we have not passed the rules yet, the Government House Leader has to call the committee. With our discussion with him last week, he said we would be having another meeting, at least one or maybe more meetings, but they have not been called yet. So we will have to deal with them with our House Leader and the Government House Leader.

Mr. Jim Penner: I would like to just proceed as we did on previous occasion with reviewing the reports.

Mr. Chairperson: Thank you. Did the Auditor General have any opening comments for the committee?

Mr. Jon Singleton (Auditor General): Not really, but perhaps I will introduce the people who are here with me as well.

Mr. Chairperson: Sure.

Mr. Singleton: To my right is Ms. Bonnie Lysyk, the Deputy Auditor General and chief operating officer of the office. Behind me is Mr. Norm Ricard, the executive director of our value-for-money audit practice. Also, we have Mr. Greg MacBeth, who is taking over responsibility for quality assurance within the office, and beside him is Ms. Susan Hay, who is taking over responsibility for the audit of Public Accounts.

Mr. Chairperson: Thank you. Okay, we can get started. Are there any questions on the March 31, 1999 report, Public Accounts Volume 4, or is it the will of the committee to pass this one and go on to the next ones?

Some Honourable Members: Pass.

Mr. Chairperson: Volume 4 of the Public Accounts for the year ended March 31, 1999–pass.

Which other reports would you like to consider next then? Do you want to start at the top dealing with the Provincial Auditor's Report on Value-for-Money Audits for the period ending June 2000? Is that the will of the committee? *[Agreed]*

The floor is now open for questions on the Provincial Auditor's Report on Value-for-Money Audits for the period ending June 2000.

Hon. Jon Gerrard (River Heights): I would like to start with a couple of questions on the investigation of the University of Winnipeg investment in information technology, which was part of that particular audit.

One of the questions that I would have is this. When you are operating a large organization–the university would be an example–very often in the private sector, depending on the nature of business, one can provide a fixed proportion of expenses that might be smart to be investing in information technology on an annual basis.

Although the Auditor General emphasized in this the importance of being on top of what happens, one of the issues, as I see it, is whether institutions like the University of Winnipeg are putting too much, too little, as well as how it is controlled. Can you provide an overview here?

Mr. Singleton: Sure, I can provide an overview. You will find as we come to future reports of the office, we are actually doing a series of reviews of IT technology in post-secondary institutions. We have already issued a report on Keewatin Community College, and within the next few months we will be issuing a report on Assiniboine Community College and Red River College with respect to their management of IT infrastructure.

* (10:10)

One of the reasons we are looking at that is that we see IT as a strategic driver for any organization in today's world, but, on the other hand, we see it as a subject which has not received the attention at a governance level and a senior executive level that it probably should have.

As another role that I play, I am on the board of the international organization called the IT Governance Institute, where we are trying to develop guidelines for boards of directors and executive managers on how to bring IT issues to the board table in a meaningful way, so that there can be a useful and informed discussion of the priority of IT expenditures vis-à-vis other expenditures that are facing an organization.

As everyone around the table is aware, in the Manitoba public sector, we have been faced with restraints on expenditure for over a decade now. One of the consequences of that naturally is to place pressure on all areas of expenditure that different organizations have to look at and also pressure on governments in terms of the quantum of funding that they can provide to organizations which depend on the Government for their funding, which certainly includes in Manitoba post-secondary educational institutions.

I guess the perspective that we had in looking at this was to have a look at whether that pressure was being adequately thought about and addressed when IT strategies were being developed, because we see there are a couple of ways an effective IT strategy can drive an institution into new directions that provide better service to their students and better services to the province of Manitoba.

Secondly, IT can be a way where if you invest money up front you can over the long term operate more cost effectively than otherwise.

So, with those two perspectives in mind, we did this study at the University of Winnipeg to get an understanding of whether or not the systems were in fact meeting the needs of the users or of the students and the faculty and whether the infrastructure was designed in a way that was cost effective and compatible with delivering those services and whether there was adequate security over the system.

Essentially what we found was that there are significant issues in all three of those questions that the university needs to address. I think one of the learnings that I would take from that, in conversation with the university, is that there has to be a way of developing a strategic plan for IT that is integrated with the overall strategies of the university so that at the board level there is a reasonable opportunity to make the necessary trade-offs in the investment of IT versus investment in other key needs of the university to make sure that there is an optimum amount of money being invested in IT. Then, once that amount has been determined, there needs to be an effective way of monitoring and controlling it so that you get the best value for the money that you can afford to allocate to IT. In both those cases, those kinds of processes are not effectively in place at the present time at the University of Winnipeg.

Mr. Gerrard: To go back to the original question, in terms of the proportion of overall expenditures by the University of Winnipeg which is dedicated to IT efforts, what is it now? In comparison with other post-secondary education institutions, what is your sense that this should be?

Mr. Singleton: In this particular audit at the University of Winnipeg, we did not determine those numbers. We have incorporated that kind of questioning in the studies we are doing now in the community colleges. I think it would be safe to say that in the first place the university could use the money that it has invested in IT more effectively and there probably is a need to invest more money in IT in order to keep the systems current and deliver the services that students of today expect.

Mr. Gerrard: Just following this up one more step, you are now looking at other post-secondary education institutions, and, in a sense, with programs like Campus Manitoba, with the ability of post-secondary education to work together to deliver services around the province, there are some interesting needs for universities and other post-secondary education institutions to work together in terms of some of the common information technology interests. I wonder if you could give us a perspective on what the need is here, what the opportunity is, and what the universities and other post-secondary institutions should be doing.

Mr. Singleton: My perspective would be a general one. In principle, the concept of the universities and the colleges co-operating in developing IT strategies and IT systems that all of them can use and that all of their students can access seems like a very logical and sensible thing to pursue.

I think where the universities and the community colleges, and they are not unique in that, are doing themselves a disservice, though, is in not preparing information for government as funder that clearly outlines the need for IT, the benefits of IT and puts together a case that gives Government a fair chance to appreciate the impact of those needs on the funding requirements of the universities and the colleges. Given that governments will continue to face resource constraints for the foreseeable future, the better information Government has about the needs and what can be done with those needs, the better position the Government is in in order to make the best possible allocation of resources amongst the various demands that are placed on the public purse.

I would encourage post-secondary education institutions to do whatever they can to collaborate where it makes sense and is cost effective and results in a better service but also to make sure that, at the board level, they really understand what is going forward to Government in terms of their needs for IT and the related benefits that can arise from what may cost more money today but may save money in the long run and provide a higher level of service to the students.

Mr. Gerrard: I would ask, in view of the review here in public sector, in this case, education, your ongoing attention to this area. Clearly, another very large provincial public sector area is health. Whether there are some similarities and differences in terms of the needs to approach information technology in health care and whether, as a result of your experience here, you can make some comments.

Mr. Singleton: We have not done any specific audit work in that area, so I would not be able to make more than anecdotal comments based on what I have read in the media and various conversations I have had, but the sense I get is that there is clearly a need for an improved investment in IT in the health care sector as well. One of the things that really seems to be missing in the health care system is good information for making effective decisions. It would seem that an investment in IT would at least have a chance to improve the quality of information that is available for resource allocation and patient care.

Mr. Gerrard: I would like to move on to a discussion of the Manitoba Capital Fund and Vision Capital Fund, which are in the next section.

Mr. Jim Penner: Since there are a wide-ranging number of schools involved with information technology, as was mentioned, Red River, Keewatin have already been done, Assiniboine at Brandon, U of M, U of W, is there some co-ordination that could be exercised between the development of IT so that not everybody would have to invent the wheel and that there would be some savings involved?

* (10:20)

Mr. Singleton: There may be opportunities along those lines. Mr. Ricard beside me just reminded me that–what was it? Two years ago, two or three years ago, the three community colleges put together a joint IT submission to the

Council on Post-Secondary Education. As we wrap up the review of Red River College we want to go back and look at what has happened with that particular plan. Typically though, one of the things we are seeing is that the institutions we have looked at so far are pretty short staffed in the IT area, so it might be difficult for them to find time to co-operate with other post-secondary educations in the development of new systems. On the other hand, if they were able to do that, there might well be opportunities to save money overall.

When you think about it, the student registration system needs are probably pretty common amongst the colleges, and it is quite likely, speaking out of the top of my head, that there would be a universal system for student registration that all of them could use and be maintained in one location. So I would say, yes, there are opportunities in that area that likely should be explored.

Mr. Selinger: I am willing to wait for the member from Steinbach. I just want to make a comment on this whole IT area after. I will wait for your question.

Mr. Jim Penner: Mr. Chairman, I noticed in the Keewatin Value-for-Money Audit that computer equipment was bought without RFPs and that there was also inadequate funding. I am just wondering if that was also the case at University of Winnipeg.

Mr. Singleton: We did not find any instances like that in the audit we did at the University of Winnipeg.

Mr. Selinger: I just want to put a couple of comments on the record for contextual purposes. This report was done on IT–it is on page 43 of the report--during the period of February '99 through August '99. That was in the run-up to the Y2K completion. During that time labour markets for IT professionals were extremely tight. There was a lot of demand for that kind of work. The market has evolved considerably since then. We have seen a loosening up of that market. Many people have actually lost jobs in that field with the crashing of the dot-coms in the last year.

So I just wanted the record to be clear that I think the labour market context for IT professionals has evolved considerably since this report was done. That is probably one of the disadvantages or advantages, depending on how you like to look at these things, about timing on the delivery of these reports. So I think there are many qualified IT professionals available to do the kind of work that we need to do in the public sector, but I do anticipate that the demand for these people will grow again in the future as this sector picks up again. I have no doubt that it will pick up again, because it is the ability to deliver services through the Internet and to improve the information technology in all our institutions that is a need and a demand that will grow.

The other thing that I wanted to say was, just on the other side of this, information technology is a bottomless pit of demand. I mean, you could spend an infinite amount of money on these types of services. So it is not that the services are not needed, but I think it requires some very careful decision making by the institutions themselves who have their budgets on what their priorities are, because you could transform virtually everything you do into an Internet service practically, including the delivery of grades and assignments. There are many courses now that are offered by Internet, and you can actually register in university programs globally out of Manitoba now and take courses on the Internet.

So the challenge for Government is how they can make their services more available to citizens and prioritize what services there are. The challenge for universities, as arm's-length institutions, is what their priorities are for e-government or e-university services and to prioritize those, because they could come to us as a report tomorrow asking for tens of millions of dollars of additional resources, and the projects would probably have some merit. But the question is: Who is going to resource them, and where is the money going to come from? What are the trade-offs? What things will not be done?

There is a big debate in the post-secondary education system about what is a quality education, how much direct contact time should there be with professors, for example, versus delivering over-the-Internet courses and what is the quality. So these debates are not just driven by resources, but they are driven by what we mean by quality in terms of delivering education and the related support services.

But I know, for example, one of the services we have provided in government in the last couple of years is the ability to apply for student aid bursaries and/or loans over the Internet. That is a 24-7 service now that is available to people, and a very helpful service, especially with young people, who have greater facility with using these technologies to get access. It cuts down on waiting time and processing time as well.

So I think we are going to see these things evolve, but just the idea of them coming forward with a big request for more money would probably very quickly outstrip the resources available. I think the institutions themselves have to be very focused in terms of what their priorities are and how they are going to put these services in place.

Mr. Gerrard: I would just like to follow up on this last point. One of the reasons why I had asked the question was what proportion of expenditures is a reasonable proportion for universities to be making. In fact, if you know what is a rational proportion of expenditures in IT, then you can start from that sort of framework and manage those expenditures very well on an ongoing basis. Right away, that indicates that this is part of what the university does on an ongoing basis and that it is not separate allocation necessary from government, but it is part of core activities of post-secondary education institutions.

This is not an easy question to ask and get answers to, but I think it is a very important one. I am pleased that the Auditor General is going to be looking at that in the context of the other post-secondary education institutions that you are looking at. That being said, if we are ready, I would go on to the Manitoba Capital Fund and the Vision Capital Fund.

To the Auditor General, in looking at what has happened here, my initial question or two is just to get a better understanding of the circumstances. It seems to me that we have got Government initiated or sponsored or invested in capital funds designed to support small business and small business growth in the province, an admirable goal.

In this case what happened was that both of these two invested in what was essentially a holding company. The holding company then went out and invested in the small businesses instead of the capital funds themselves directly investing in what is a small business. This provides a somewhat more complex environment, an environment in which there is much harder to get accountability of investment capital and that you have distributed accounting and distribution systems as happened in a sense in enterprises like Enron, where it was harder to get at an understanding at the centre of where the funds were being invested at the periphery, as it were, in the secondary businesses.

It would seem to me that one of the important things here, one of the important questions is to get an understanding of what happened here in terms of investment in a holding company as opposed to investment in the enterprise which was actually doing or performing the productive activity, whether it be manufacturing or tourism or gaming or what have you that were three separate companies involved here.

I would ask as a starting point to give us a framework. Is my sort of view of this, a reasonable understanding of what was happening? Second, what should be the approach of capital funds like this providing investments into holding companies as opposed into companies which are actually providing products or services directly.

Mr. Singleton: I think it would be useful to just clarify how the Manitoba Capital Fund operated, in general. The operations were a little more straightforward than the way they have been characterized in the question. Essentially, the Manitoba Capital Fund was a limited partnership with the Government as an investor through the Manitoba Development Corporation and some private sector investors as well.

* (10:30)

For the most part, the Manitoba Capital Fund made investments directly in small businesses. They did not go through a holding company. It is only in the case of the Shamray investment where they invested in a holding company, and I think that was just a practical way of providing money to the Shamray group of companies that they decided were a valid investment. I think the feeling was they wanted to invest in the Shamray Group rather than in each particular Shamray business.

In that case, too, it was the fund investing directly in another corporation but using the corporation's holding company.

Mr. Gerrard: I think what you have characterized is the normal practice which was to invest directly in businesses, whether it is manufacturing or other productive capabilities, versus what was done here which was an investment in a holding company. That, you know, highlights the fact that this was kind of an anomaly, that this was not the usual way of handling things.

As I look at the review that was conducted with both of these, I am struck by the fact that when it comes right down to it, you provided a review of the operations of the holding company, but my sense is that you found it difficult to get the kind of information that was needed on the separate individual companies that were involved here, the Schmidtke Millwork, the Delano Building Products Limited and the Northstar Gaming Limited and that to bring you back to this issue: (1) it seems to me that, in fact, this is not the common practice but is the exception in terms of the way that these companies generally operated; and (2) in doing it this way, you have a greater risk; you have a harder ability for the Auditor General to look into the situation and provide accountability to the public of public investments.

So I would ask again for a better understanding of this situation with a holding company which really was an exception rather than the rule and maybe in view of what happened was not a very good exception.

Mr. Singleton: I think it is fair to say that the major learning that we took from this particular audit, particular review, about the Manitoba Capital Fund and the Vision Capital Fund had to do with the area of accountability to the public for the use of public monies. In the case of both funds, the issue relates to not only the investment in Shamray Group's holding company but to all their investments.

We started out the review with the idea that we would be able to provide the members of the Legislature with a positive conclusion as to whether or not due diligence practices were appropriate at the two funds. However, as we proceeded through the review, we determined we were not going to be able to provide that positive assurance one way or the other.

The primary reason for that was there was not enough documentation of the due diligence practices for us to do an audit after the fact on what was done. We received many assurances of things that were done verbally and were able to corroborate many of those through different interview processes, but, at the end of the day, we had to give an opinion which is in a sense, well, technically I guess we could call it "cold comfort," that during the review we did not find any evidence that there was not due diligence. It was that kind of double negative that was as far as we could go in expressing a view in the absence of documentation.

Now, I should put that in context as well. One of the things that we thought about when we realized we were going to have to go down that path was to try to understand how well did their documentation practices compare to other people in the venture capital business. Now that is an area of business where privacy is very important, so we found it quite difficult to get evidence of the due diligence practices of other venture capital funds across the country, but we did get to have some conversations with a couple of other funds, the upshot of which was that the documentation practices of both the Manitoba Capital Fund and the Manitoba Vision Capital Fund were as good as, if not better than most people in the venture capital business. So, from that point of view, we thought, well, that means we really cannot be critical in one sense of their documentation practices.

They were clearly following what they understood to be industry standards in that regard, but at the end of the day, when we came in as a provincial auditor at the time, we found that we could not provide the level of assurance to the members of the Legislature that we thought the members of the Legislature should be entitled to around the issues of due diligence. That led to our major recommendation for both of these, that when gvernment wants to get involved with other organizations that will do venture capital investing on their behalf, it is very important up front to think about what is the accountability regime going to be and what standards of documentation in particular should the organization be required to adhere to in order that an effective post audit of due diligence practices can be done should it ever be required or requested.

Since that was not done in this case ahead of time, we are coming in after the fact and finding an issue that really constrained the extent to which we could conduct the audit we wanted to conduct.

Mr. Gerrard: Just picking up on that last point about trying to understand what it was that constrained the audit, I want to just read a sentence or two from your report. This is on page 79: With respect to the Shamray Group, searches of the various federal and provincial government offices regarding potential liabilities were only done on the holding company. However, any outstanding liabilities would have been incurred by the operating companies. As a result, we believe it would have been useful to conduct the noted searches against the operating companies.

Now, was there a problem in being able to conduct the searches against the operating companies? It seems to me, where you have got these venture capital funds investing in the holding companies as opposed to the operating companies, that it is probably a whole lot more difficult to get accountability in terms of the operations of the operating companies as opposed to the holding company.

Mr. Singleton: Mr. Chairman, while it is true that the investment was flowed through the holding company, our position was, and that is why we made that particular comment, that the Manitoba Capital Fund could have insisted on going to the operating companies if it had chosen to do so, despite the fact that it was investing in the holding company.

Once again, though, it is important to keep that in context, but we think that would have been a useful step for them to do. At the end of the day, however, it is really a matter of judgment in terms of how far you carry due diligence in any particular case. Clearly, there was a lot of other due diligence going on besides that particular step. So, while we think that would have been a useful thing to do, it may or may not have changed their investment decision if they had done so.

* (10:40)

Mr. Gerrard: Just following this up a little bit further, you are implying that the venture capital funds, two of them, in fact did not take their due diligence to the level of the operating companies. They just performed it on the holding company. That is why there was very great difficulty in terms of being able to assess.

Mr. Singleton: Mr. Chairman, that would not be a fair characterization of what we found. In this particular comment, we are only talking about the search for potential liabilities, but clearly, as a part of the review and due diligence practice of the Capital Fund done, they did look at the revenues and expenditures and those kinds of things of the operating companies, as well as the holding company. So this, once again, was just one aspect of the total due diligence practice that we thought would have been useful to do, which was not done.

Mr. Gerrard: I would take this just a step further in terms of my understanding of what happened with Enron in the United States is that they did not have at the centre as good an understanding of the liabilities at the distributed companies that were a part of the group, and that, in some ways, is somewhat analogous here in that there was not an understanding of the liabilities at the operating companies as there should have been.

Mr. Singleton: Well, it certainly is true that, when you are dealing with a group of related companies, the complexities are inherently much higher. The risks of someone investing in those not understanding exactly how all those companies interrelate are correspondingly higher, so I think it would be fair to say that conducting due diligence on a group of companies that are related is more complicated and more difficult and more challenging than in cases where you are just investing in one company, where you can have a pretty clear envelope of what it is you are investing in.

Mr. Gerrard: One of the concerns that is raised by the audit has to do with the fact that there was a review done the first time the investment was made, but then there were two further investments made. Before the second and before the third investment was made, there was not apparently adequate review or due diligence, well, from the point of view of the Capital Funds. I wonder if you would comment on this. Why did this not occur, and what should have occurred?

Mr. Singleton: I will give a general answer to the question. I would be happy to take some time to research it in more detail if it is desired to pursue that. I think my understanding was that the amount of time that elapsed between the investments was not so significant as to give the Capital Fund concern that there would be any significant changes in their original due diligence practices or original due diligence that had been done. I guess, as a general rule, one would naturally think it is prudent that, any time you are putting additional funds into an organization, it would be sensible to take some time and step back and assess whether the risk profile has changed since the initial investment. I guess that is the perspective that we were putting forward.

Obviously, the fund felt that, in its judgment, it was aware that not enough had changed to warrant changing the risk profile.

Mr. Gerrard: One of the things that I noted in this analysis was that you had two separate venture capital funds with a level of agreed-upon investment range. They were slightly different in terms of their targeted size of investment.

Maybe one of the questions here is: Where did that investment range targeted size come from? Was that something that was decided internally by the venture capital funds or did it come from somewhere else?

Second, it seems to me in some ways that the funds kind of got around the limits in terms of what should be the maximum investment by having two separate public sector aided funds investing almost to the maximum in each instance so that you are able to get around what one would ordinarily consider to be a reasonable maximum part of public sector funds in this fashion.

Mr. Singleton: In this particular case the two funds were separate organizations with separate boards with quite different investment goals. The Manitoba Capital Fund was a lender of what I think was called mezzanine level funding, whereas the Vision Capital Fund was an equity investor. The only place that overall guidance could have been placed that brought those two funds together in thinking about the level of public monies that should be invested in a particular organization would be at the level of the Government. To my knowledge, there was no such direction given to the two funds that they should co-operate in considering what level of risk they would take together. So the ranges of investment that each fund agreed that it would make in particular companies was determined strictly by their own board considering their own appetite for risk and the size of their own funds without reference to any other capital fund that might or might not be interested in investing in those organizations.

One of the things you have to remember, especially in the Vision Capital Fund, is a lot of that money was private sector money. They probably would have resisted constraints on how their money could be invested just because another government organization had decided, another government-funded organization had decided to invest in the same company they were interested in. So I do not think that characterizing it as an attempt to get around a rule–there really was no rule ever in place for them to get around.

Mr. Gerrard: Just in terms of the joint investment here, although they were structured and with different purposes, you were satisfied that this was an investment which, in fact, matched both of the separate purposes of the two different capital funds. I would ask as well from a government perspective, when you are setting up multiple instruments or supporting multiple instruments in different ways, whether in fact there should be some consideration of public sector risk when you have got two separate venture capital funds at this point. Should there be some guidelines or approaches put in place?

Mr. Singleton: Yes, to answer the first part of your question, I think we were satisfied the investments that were made met the terms of reference or the missions and goals of each organization separately. In terms of whether with hindsight, it would have been prudent for the government to think about the fact that it was a partner in creating two separate capital funds which very well might decide to invest in the same company, that should have been thought about. The problem is it is probably very reasonable to say that, yes, that should have been thought about, but it is not so clear what the answer would be after you did think about it, because you would have to consider the extent of public investment versus private sector investment and a host of other issues around how independent you wanted these organizations to be before you would set out that kind of a profile.

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For both the Manitoba Capital Fund and the Vision Capital Fund, it was very important to them that they be perceived as quite arm's length from government and that they were not directly vehicles of investing in organizations that government wanted them to invest in, that they invested in companies that they thought made sense to them for their own purposes and that the government was simply a partner in providing some of the funds for them to invest. So you would have a whole host of philosophical and social and practical issues to think about in terms of concluding how much direction government should give, but in terms of should it be thought about, yes, it would certainly be useful to think about at the time when you are creating these funds.

Mr. Gerrard: In terms of where one should go in looking at the relationship between government and funds such as this, you have talked about the necessity for them to be arm's length, and at the same time there needs to be a process that where you have public funds involved, there is due diligence being observed.

What is the balance? How do you strike that balance? How do you make sure that where government invests in venture capital funds like this, that there is the appropriate level of due diligence?

Mr. Singleton: Well, I would strike that balance by harking back to a theme that we have talked about in several of our reports, and that is the special duty of care that is owed to the citizens of Manitoba for public monies, for the expenditure of public monies. There is a duty of care that anyone in the private sector owes any customer or investor in their organization, and if a citizen decides to invest in a particular share of a certain company or to a buy a car from a certain organization, that there is always a duty of care that is in place to make sure that your own money is properly managed by the people you give it to to take care of on your behalf.

When it comes to public monies, though, I think there is a special duty of care that is owed the citizens because citizens are required to pay taxes, and we do not have a choice in that matter, and since we are essentially coerced to give funds to the Government to spend and invest on our behalf, I argue that there is a special duty of care on those charged with the administration of public monies to be extra careful in assessing how effectively and wisely those monies are spent or invested.

So to get back to your question, I think anytime a public-private partnership is being set up or any special arrangement where the private sector is going to deliver or the not-for-profit sector is going to deliver certain services on behalf of government, that there be effective conversations and discussions about accountability, what accountability will be required, how practical it is to carry it to a certain degree, what kind of resources might be required in order to provide that accountability and that it needs to be thought about and written down as an agreement up front, so that there is a clear understanding of all the parties of what the level of accountability will be and what the level of independence and freedom of action will be. A big mistake, from my point of view, is not thinking about it and talking about it and getting it clear between the all parties right at the front–the process.

Mr. Gerrard: My sense is that somewhere the duty of care was not adequately set up at the beginning. Is that a reasonable statement?

Mr. Singleton: Yes, that is a reasonable assumption from our perspective, the two funds. There should have been a conversation when the funds were set up as to the quality of documentation they would retain or the due diligence practices so that, if someone wanted to at a later date assess the quality of due diligence, they would be able to do so.

Mr. Gerrard: That, in your view, would be the sort of fundamental shortfall here, the lack of being able to document the decision-making process and the due diligence being carried out by the funds in an appropriate fashion.

Mr. Singleton: Yes, that is correct.

Mr. Gerrard: In looking at this, are there other areas that there is a potential for? I mean, due diligence. Was there influence, for example, in the way these funds were set up on appointments to boards or other things, or was the Government totally at arm's length? In this case, it was just a matter of making sure that the due diligence and the record-keeping process were done properly.

Mr. Singleton: The Government was not totally at arm's length in that they had members of the board who were government appointees in both cases, which made sense because it was, of course, government money included in the limited partnership. So those individuals, of course, had a responsibility to themselves, to assure themselves that due diligence was taking place, and from assurances that they provided to us, they were satisfied themselves that appropriate due diligence was in place.

The real difficulty was when a third party came in to try to assess how they knew that due diligence was in place. The documentation was not there to enable someone to do that, but they would have been party to many of the conversations and had opportunity to ask questions and get their own personal understanding of the risk profile before they authorized a particular investment.

Mr. Gerrard: The individuals who were on the boards, representing the governments, were they from within the civil service or were they appointments from outside, and what sort of links back to the Government were set up?

Mr. Singleton: They were all from within the civil service.

Mr. Gerrard: One of the things which is important in setting up any organization, let it be a venture capital fund, a Crown corporation, that works on behalf of, with, for government, for the people of the province, and in this case it was clearly a public-private sector partnership with some arm's-length level, but being able to do due diligence, it seems to me, and to record keep, as you pointed out, is very fundamental.

But one of the ingredients which is also fundamental is having the people with the skills involved in the organization and, whether it be at the board level or at the staff level, who have the skill and the experience to be able to run and operate a venture capital fund. Could you comment on the skill level here, whether this was adequate, whether there were deficiencies?

Mr. Singleton: I would rather not comment specifically on the expertise of the civil servants that were involved, but I will make a general comment along those lines because your point is very appropriate and is something that needs to be thought about very carefully.

We understand that, in this particular case, the civil servants that were involved had a reasonable level of experience and were reasonably senior within the bureaucracy, but getting into the venture capital business is something that most civil servants do not have that much experience at in their day-to-day work lives, and it is another risk factor that government should think about when they are establishing a new organization that they now want to have civil servants monitor for them on an ongoing basis.

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Having a clear understanding of the expertise of the individuals who might be involved and their ability to actually be effective in carrying out the role that government sees for them in serving on these boards is key. That is actually one of the messages that we talk about quite a bit in our various governance reports, is that it is important for each group of people that are operating a public sector program to take time to think about, as a group, how do their skills mesh. Do we have any shortcomings as a group that they should then think about either asking the minister responsible to appoint someone with those particular skills or going out and finding some independent way to bring those skills to the board independent of management, or a variety of options that they might consider? That is true, in general, for a board.

Where a civil servant is being appointed to a board specifically to protect an investment, then the skills of that specific individual also need to be carefully assessed to make sure that they will have the time and the skills to be effective in the role.

Mr. Gerrard: I have a question in terms of the appointment of civil service to such a board. It might also, in a number of circumstances, apply to the appointment of people outside the civil service, but, in this case, the government appointments were civil servants. I would ask this question. When you are setting up venture capital funds of this nature, there is always the potential for things like an insider advantage of some form or another and whether your judgment in looking at this issue, whether there were appropriate conflict-of-interest guidelines set up and a framework established in which there would be some level of certainty that you are going to prevent problems in which there would be ability of individuals to take advantage. I should make it clear I am not suggesting that there was, but I am just trying to understand what the situation was and what should be there in terms of board appointments.

Mr. Singleton: We did not specifically review the issue of conflict of interest at those organizations, but it was our understanding from conversations that they had adopted conflict-of-interest policies for their functions. I guess one other point that Mr. Ricard reminded me of that I should point out, that although the Government did have a representative on that board, it was only really one vote in the decisions, so the investments could be made even where the government person disagreed with that, which, were that to happen, it places that individual in an interesting position that really, once again, should have been thought about up front. What is the responsibility of that individual? If an investment is being made that he or she disagrees with, is it their responsibility to let the minister responsible know or to somehow try to prevent that investment, or are they just there to cast their vote against it and the will of the majority prevails and the investment goes ahead, that kind of question, so that the person knows what their roles or responsibilities are. It really should be thought about up front as well.

Mr. Gerrard: I notice on page 89 one of the comments that you make is that the fund should ensure that available security is obtained for the loan. The reason that I raise this is that, as I think most of us are aware, in a world, in a high-tech world, in a knowledge-based world the types of securities that you have for loans may be very different from traditional types of securities. Clearly, certain types of investments where you are getting into knowledge-based lending need a much higher level of diligence or ongoing supervision or observation of what is happening within a company. I just would like to get your comments on how, in this kind of an environment, and what, in this kind of an environment, this is available security, what is security in this kind of world where you have got knowledge-based industries in which you may not have quite the same types of securities as in more traditional sectors?

Mr. Singleton: Mr. Chairman, before responding specifically to the question, I just want to clarify for the record that the statement in the report that was referred to that available security should be obtained, it was set out as one of the criteria we used in examining the practice of due diligence at the funds. Our actual finding on that was that available security was obtained when we did the audit. So I just did not want to leave the implication that that phrase meant available security was not obtained.

In terms of security in the knowledge-based industries, that is an interesting conversation in itself. Given that in many cases it may be an individual or a group of individuals who have the skills and expertise to deliver a promised service and the risks associated with their deciding to go somewhere else and leave everybody kind of high and dry is a real one and almost impossible, I would suggest, to prevent. Once again I guess I would think that there may not, in fact, be security that one can have to protect oneself in that case. You may be able to get insurance, bur it may be prohibitively expensive. There should be a clear understanding of what that risk is and how real it is and what could be done in the event that key individuals leave and what the impact would be. All that should be thought about before making the investment.

Mr. Gerrard: I would like to follow up a couple of the issues which were raised in this discussion--one is the duty-of-care concept with the Minister of Finance–and ask the Minister of Finance in terms of lessons learned from this kind of experience what is currently being done in terms of due diligence and duty of care.

Mr. Selinger: As the Member for River Heights (Mr. Gerrard) might know, these ven cap funds are under the jurisdiction of the Minister of Industry, Trade and Mines (Ms. Mihychuk). As the report indicates, there was a recognition that documentation and a duty of care is part of the responsibility of any government-appointed representative either in the assessment stage or the monitoring stage. What we need to determine, and my officials are going to follow up on this, is whether there has been any changes since this report has come out or whether the duty of care and documentation that they currently get is sufficient to reflect the unique responsibilities of the public sector in this regard to these funds.

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Mr. Gerrard: Because this is sort of a budgetary matter, in this instance we have got government making investments into venture capital funds. The various partners, it is to be presumed, are wanting a return on their investment. From the Government perspective, how is that return on investment when and where it occurs? What happens to it? Does it come back to general revenues? Has it got specifically allocated? Does it go back into the fund? Where is the Government's return on the investment that it is making here, and what is happening?

Mr. Selinger: Every year, when we put investment into a fund like this Manitoba Capital Fund, there is a provision set up for the potential for losses, and those provisions are to cover the risk profile of an investment of this type in a fund. We will have to undertake to see whether or not all those provisions were taken advantage of. It is my impression, and I am just going from recall here, which is risky at best, I think they have operated within the provisions that were provided and may have actually exceeded some of those. I am not sure we had to use all our provisions. As you know, this fund is in a wind-up mode right now, and some of the assets are still being sold off. Depending on how those asset sales go, we will determine what we realize in terms of a return investment.

During the life of the fund, the capital gains and returns on investment stay with the fund. So we will see how it goes as they wind up. They have not concluded their wind-up yet. I know they are in the process of doing that. I know, in the case of at least one company that was part of the wind-up proceedings, they had the ability to pay out the Capital Fund for the investment that was made in them. We will achieve some benefit off that. So I think that has gone through. That allows that company not to be able to sort of operate freely and unencumbered with any requirements now, because they are free from this Capital Fund. So where those transactions occur and there is a benefit to government, we will realize it in the year that it occurs.

Mr. Gerrard: Just to clarify, my understanding of what you were saying is that both Manitoba Capital Fund and the Vision Capital Fund are in the process of winding up. Is that what you said? When will they be wound up by?

Mr. Selinger: I will have to check the specific dates on that. I believe there was an extension in one case. I thought that the briefing note I had actually indicated that. For the Manitoba Capital Fund I believe that the wind-up date is May 5,

2003. Now this has been extended to December 31, 2003. So we have a little time to go on that yet, about a year and a half. In respect to Vision Capital it has been extended to December 31, 2002. So it is in process now.

Mr. Gerrard: Just along that same line, was it the original intention that these be for a pretty constrained period of time or that they be ongoing instruments? When you are looking at long-run investment in Manitoba business it would seem that even a period of five or ten years is a relatively short period of time. So I am just trying to understand what the original intent was and when this changed, if that has changed.

Mr. Selinger: Neither of us were here when these funds were launched, but I believe at the time they were launched they were seen to last for a specific period of time. I think the thinking behind that was that that way you could specifically evaluate how they performed as ven cap funds during that period of time. Now with some of the other funds we have I think the thinking is evolving that they should not necessarily be time-limited, even though these ones were, for the reasons you have mentioned, some of these investments, there is some value in having longer hold periods and there is certainly value in having venture capital available on an ongoing basis to build the Manitoba economy.

The member might know that there has been some discussion in the papers lately about the flight of head offices out of certain Canadian cities to the United States with the acquisition, for example, in Calgary of many of the oil and gas companies out there, that they are pulling head office positions back to the States.

One of the things that I have concluded is that having ven cap funds in Manitoba that invest in Manitoba companies with Manitoba owners and head offices is that we may be a bit ahead of the curve in this regard and sort of growing our own businesses and growing the ability for those businesses to remain located in Manitoba through these types of arrangements, whereas some of these larger companies now are seeing decisions made out of Texas and other places.

There has been a real impact that I have picked up in discussions with the corporate community on the loss of some head offices and talent, not so much in Winnipeg, but in some of the other cities across Canada.

Mr. Gerrard: Just to take the issue of the wind-up a step further, in a sense, I can understand that from the government perspective that there may be some desirability of doing this for a finite period of time, but it may be that the private sector partners are finding such a venture capital successful where the private sector partner is given the opportunity to continue. Was this opportunity available to them?

Mr. Selinger: By that, do you mean did they have the opportunity to continue to receive venture capital?

Mr. Gerrard: No, what I meant was, could the Vision Capital Fund have continued without the government investment but with the other private sector investors continuing on?

Mr. Selinger: I think these funds, the ones we are discussing here as originally conceived, were time limited. I think that was also to allow for exit strategies to be built, release strategies for these companies. I do not think there was the opportunity for these specific funds to continue on. I am not sure they even wanted to. I think that they felt that it was appropriate to start winding up what they were doing.

Now, these were among the first funds ever launched in Manitoba. Since then there have been new funds come into place which have, through labour-sponsored venture capital, for example, acquired quite a bit more in the way of assets and capital to invest. We are seeing new ones being created in the last couple of years. We have seen some new ones specializing, for example, in the Western Life Sciences Fund, in commercializing medical research. Where these companies want to continue to put some of their ven cap money there are probably opportunities in those other funds if they wish. For the companies themselves there are other opportunities to get venture capital invested in them. So the context has changed. These were greenfield funds in a sense. When they started they were entering into new territory with not a lot of experience in Manitoba, in particular. There is experience in other jurisdictions.

But even 12 years ago ven cap funds were a fairly new phenomenon throughout North America. There has been a lot of experience through the nineties. What we are seeing now is that some of that experience is leading to what most organizations have as their underlying functional objective, strategies for continuity, but continuity based around some real value being added back to the community in terms of the goal they play.

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Mr. Gerrard: My interpretation of what you are saying is that in this case there does not seem to have been a vision for continuity to start with. There does not seem to have been a keen interest from the private sector partners in continuing the fund, presumably because it was not nearly as successful as people perhaps had hoped initially.

I mean, one would think that if you had a very robust fund which was doing great things that there would be a lot of people wanting to continue with them. The fact that people are very happy, it would seem to be, in winding it up would suggest that the fund never really kind of achieved what it might have been hoped to begin with, you know, a successful and ongoing mechanism for investing in Manitoba.

Mr. Selinger: I do not know if I would conclude that they were unhappy with their experience in this fund and therefore wanted to exit for that reason. I think because the context changed these private sector investors had other opportunities, perhaps under different terms of reference, that built on the experience they had in these funds.

I think there have been some strategic choices made about whether it makes sense to extend a fund that was always designed to wind up or to reload in a new fund with different terms of reference. There are more opportunities for private investors now. So I do not think I would conclude that they were uphappy. I think people tried to respect the original terms of reference of using these ven cap funds to see what could be done and to take that experience and then use that experience to build other opportunities within the Manitoba context. There have been several others in the last 10 years that have been launched. Even in the last couple of years there have been some new opportunities as well.

So I do not see anybody saying that these funds were a failure. I think the experience has been that they have provided some very valuable investments to some companies. There have been some very valuable learnings that have come out of this. Those learnings have been shared broadly within the investment and private sector community and have created other opportunities in other venues to further this kind of work. I think there is a general recognition that venture capital is an important component of growing the Manitoba economy and we need to have a certain critical threshold of venture capital to ensure those opportunities can see the light of day.

Mr. Gerrard: One of the issues that we talked about was where you have got public sector instruments and investment from more than one, in this case, venture capital fund, it may be in a sense historical interest because these funds are closing, but there may well be other instances in the future where you want to be looking at public sector involvement and what are the limits to public sector involvement.

Is that an issue that you will look at in terms of what is happening now and making sure that there is an appropriate environment where public interest is going to be protected adequately?

Mr. Selinger: Yes, I think what I have noticed, as I have seen the new funds come into being, is that the Government is becoming more strategic on how it invests in these funds. I think they had more exposure in the early days. There money was up front and not necessarily in the first position for any paybacks as things went forward.

I have seen now when I, T and M comes forward with recommendations to participate in ven cap funds, they are much more careful in how they place their money and much more shrewd in how they protect their investments and rank them in terms of their ability to recapture the investment made vis-à-vis the other partners in the funds. So I think there has been quite a bit of learning there.

You may wish to participate in those estimates directly in I, T and M, but there are some officials in there that have been involved in this accounting, officials with accounting designations, but they have gained a lot of experience over the last 12 years. As I listen to them, they have taken that experience and they have recast the role of public money in these funds to provide greater security, more leverage, and better outcomes. I think there has been quite a bit of learning on the part of the I, T and M officials involved in this area.

I am not going to mention a name right now. I will let you pick up on that in the I, T and M Estimates, but there is one person in particular who I have had contact with who seems to have learned quite dramatically how to improve our position in these funds to get outcomes and reduce exposure.

Mr. Gerrard: Just one further question in terms of the issue of the public interest and the private interest and conflicts of interest of people who are appointed by public bodies. What sort of steps are being taken in this new environment where government gets into situations with arm's-length projects like this?

Mr. Selinger: As I have just indicated, I think the terms under which we enter into these relationships are much clearer, much more focussed now, with better protection for capital and probably clearer guidelines for the due diligence required and the reporting procedures required. Even last year, when we made some legislative improvements to the labour-sponsored venture capital funds, we also tightened and set a higher bar for reporting in those funds as well.

Sometimes the people on the other side do not necessarily want to comply with that, but if we are putting money in, putting tax dollars in, we have a responsibility and a right to give out the information on a timely basis. We did up the threshold there in those changes. So, every time we go through another iteration of these kinds of public-private relationships, I think our officials do act. I think they act very intelligently in the public interest to ensure that we can grow the economy and get the proper accountability and the minimum risk on government money put into these funds.

You also might know that under our new provincial now Auditor General Act we have expanded the ability of the Auditor General to investigate government money invested in anything that the Government of Manitoba is involved in. Our Auditor General now can follow the money to see how it is being used and whether it is being used responsibly. That is an improvement we have made under The Auditor General Act, a provision that was not previously there. I think it reflects some of the evolution of government relationships with private partners in ven cap funds in part. That was part of my thinking in expanding that legislation, to allow for that accountability after the fact. So I think that there is more going on on the front end. I think there is more potential for scrutiny and accountability on the back end now.

Mr. Jim Penner: I would like to make a brief comment on this issue of the Shamray Group, and then I have some questions. The Schmidtke family that operated the cabinet factory lost their lead investor when Mr. Schmidtke died, and the business had at that point been very successful. Mr. Chair, today that business is once again very successful.

I believe it is involved with Grow Bonds at this time, but in between there was Michael Shamray. A number of questions have been asked about whether or not there should have been a holding company that was supported instead of subsidiaries. I would like to ask the Auditor General: Were those wholly owned subsidiaries by the holding company?

Mr. Singleton: I do not have the information as to whether they were wholly owned or not.

Mr. Jim Penner: Mr. Chairman, I was wondering if the Auditor General has information as to the involvement of the Schmidtke family with the Shamray Group and the bank involvement with the Shamray Group.

Mr. Singleton: I do not believe that we do. The focus that we were taking in reviewing the Manitoba Capital Fund's investment in the Shamray group holding company was to assess whether or not the Manitoba Capital Fund had used appropriate due diligence practices in deciding whether or not to invest in the fund or in the holding company.

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So, to that extent, we would not have gone out and reperformed those due diligence practices ourselves in terms of going out and visiting and trying to understand all the intricacies of the operations of the particular companies, so there will be limits on how much information I can provide in terms of that next level of detail because our focus was on the Capital Fund itself.

Mr. Jim Penner: Thank you for that answer. I believe that the former Minister of Finance, Mr. Eric Stefanson, requested this audit on January 27, 1999. Was the Shamray Group at that time completely in bankruptcy like all of the companies under the holding company?

Mr. Singleton: You are correct that the Minister of Finance, the Honourable Eric Stefanson, asked us to conduct a special audit of both the Manitoba Capital Fund and the Vision Capital Fund, which we agreed to do.

The request came about as a result of knowledge that a bankruptcy was underway. In terms of the completeness of that bankruptcy and whether the extent to which all the companies were bankrupt or were not bankrupt, clearly the holding company was not in a position to repay the monies that had been invested. I think it was out of a concern on the part of the minister as to whether or not appropriate due diligence practices were in place that he asked us to conduct that special audit.

Mr. Jim Penner: Mr. Chairman, I know from personal business experience that a holding company increases the level of security over a variety of holdings because now part of the holding could suffer while another part of the holding would survive. This, it seems to me, would be information an auditor would want.

An auditor would also want to know how the risk levels were determined, and certainly the investments by the Schmidtke family and the investments by the bank would determine the risk levels and who had first call on the disposal of assets in the event of a bankruptcy.

Did the provincial auditor or the Auditor General at this time review the way the bankruptcy was managed?

Mr. Singleton: No, we did not do a review of how the bankruptcy was being managed at the time, and I would like to make one additional comment.

One of the concerns that both the Manitoba Capital Fund and the Vision Capital Fund made clear to us when we were meeting with them to start this audit was the need to protect the privacy of various organizations in which they had invested. Of course, their files contained a lot of private commercial information which those organizations would be perhaps a little nervous about having a legislative auditor have access to, but we felt that we needed to have at least a reasonable amount of access to that in order to assess from our point of view whether or not appropriate due diligence was in place.

So, for example, an income statement or a financial forecast which would normally be private information of the organization that prepared it and should not be made public, they would have had to provide that, we assume, to the Manitoba Capital Fund and the Vision Capital Fund as support for their request for an investment. Our position was, well, we needed to see that, too, just at least to know that it existed and that the fund had reviewed and accessed those documents. But, when we were writing the report, we were very careful not to disclose any of that private information of those organizations, and I am not really in a position to provide more information on the individual companies than we have already disclosed in this particular report.

So I do not think it would be appropriate for me to go any further than we do in our report in terms of disclosing information about the individual companies in the Shamray Group.

Mr. Jim Penner: The purpose for my questioning was that I would like to see careful involvement by governments through loan guarantees, et cetera, to spur on the Manitoba economy. I think our current Minister of Finance (Mr. Selinger) has more or less expressed that. He is wishing, too, that we would be home to a lot of growing businesses, and, obviously, when we do a post-mortem, we want to know what we can do better.

I am going to go right back to the early sixties. When I was a beneficiary of loan guarantees, the loan was with a bank, but the Government guaranteed the loan for small business, and I was able to pay a lower rate of interest as a result of loan guarantees. I think it was a healthy program. I think it has helped to spawn businesses in the province. At the time, we had one grocery store, and it turned out to be a group of stores after awhile. I think that the Government's involvement was legitimate and proper and healthy, and I would like to see some kinds of programs.

So to do that, we need to study what happened in the late nineties because there were some difficulties. Maybe I am too close to the situation, having lived in Steinbach most of my life and knowing the participants and knowing the banker, but I think that there is a level of risk that each investor took, and as such, knowing the level of risk, as the Member for River Heights (Mr. Gerrard) indicated, I think, is very important.

I think the Grow Bonds Program was brought in to rural Manitoba because of one thing, and that was that it is very hard to finance outside of the Capital Region. I have seen businesses fold that had a good cash flow, had never missed a payment, but they could not refinance after a five-year term, so they are gone. We need to support businesses that are legitimate and that are healthy but in need of some guarantees or encouragement. I believe at this point that Michael Shamray may, in fact, be facing a court trial in Manitoba. Is that common knowledge?

Mr. Selinger: That is what I read in the papers.

Mr. Jim Penner: So then if it is before the courts, maybe we should leave it till we hear from the courts.

Mr. Chairperson: Any other questions on the June 2000 report? If not, shall the Value-for-Money Audits for the period ending June 2000 pass?

An Honourable Member: Pass.

Mr. Chairperson: The report is accordingly passed.

We will go on to the Provincial Auditor's Report on the Operations of the Office of the Provincial Auditor for the year ended March 31, 2000. That is the small one. Any questions on it?

Mr. Gerrard: I would like to thank the Auditor General for providing an overview of the operations of the office and the summary which puts it in context, quite a useful context, and includes some of the highlights of the year.

One of the issues, and we have talked a little bit about this already, is the reports highlight illustrations where practices can be improved. In some instances there will be repeat audits of those areas to find out if practices have improved. Maybe you could give us a little bit more background of other mechanisms that there are and which you have used to keep an eye on and see if in fact practices are improving.

Mr. Singleton: With respect to our Value-for-Money Audit reports, it is our practice to follow them up approximately three years after each report and to provide an update to members of the Legislature on progress that has been made in adopting our recommendations. Although we have only in the last couple of years been producing reports specifically on compliance with authority issues, I think it would be our intention to do follow-ups on those as well for the benefit of members of the Legislature.

* (11:40)

I guess the other thing that we try to do, and I think you alluded to it in your question, is we try to construct all our reports now to have something like a lessons learned from the report so that it takes what sometimes are very unhappy or unpleasant situations that we have encountered or uncovered during our audit processes, and, while those are interesting in themselves, from my perspective it is much more interesting to think about what general guidelines or rules or thoughts can we draw from that that we can advise members of the Legislature and members of the civil service that might help to prevent similar situations in the future. To that end, I am receiving quite a few requests to speak to different groups about our reports. That is always the focus of my presentations, what can be learned from our audits that could make things work better in the future.

We are a small office and Government is a multibillion-dollar organization, so obviously we cannot look at everything and we cannot be everywhere. If we take an example such as the enrolment issues at the Morris-Macdonald School Division, it is my understanding from talking to a number of school trustees around the province that shortly after our report came out, many school boards had discussions with their auditors about how do we know that our enrolment numbers are correct and what are the controls and procedures that we have in place in our school division to make sure that we are not facing similar kinds of problems. I think there is also that kind of sentinel effect where, when we identify issues, it can have a broader effect than just in the particular organization that has been subject to an audit.

Mr. Gerrard: Just one follow-up which deals in general with the approach that you have been taking and also refers back to one of the issues which we talked about, and that is I know that you have been looking more and more at not just input but outputs.

The evaluation of the venture capital and Vision Capital Fund, for example, focussed on the due diligence practice which is basically an input. Clearly, it would be very useful to have, in essence, an output analysis–what happened in terms of business start-ups and failures; what happened in terms of money invested, recouped; did it, as one would hope from a venture capital fund, enlarge in value or not; how does the performance of these venture capital funds compare with the performance of other venture capital funds, structured private sector-public sector way.

My question is in terms of one of the things that you have commented on in other contexts, the move to more assessment of outcomes and also in the context of these capital funds, as an example, where are things going and how do you see this output assessment occurring?

Mr. Singleton: Well, there are two aspects to that that I would like to comment on. One is, and it harkens back to our last discussion on the importance of performance reporting and the fact that we will be continuing to push for and encourage government to do a better and better job of reporting on the performance of various programs.

You are right, the particular audit we did of the two capital funds was a limited focus only on due diligence, but I am sure members of the Legislature would be very interested in a performance report on those two funds in terms of what did it do in terms of job creation; what did it do in terms of retaining or building new companies in Manitoba; what did it do in terms of what was the return on investment? Did we actually make money as well as doing all these other good things, or did it cost us? Did we lose some money but we are happy with that because of all the other benefits that happened? So in that vein we will continue to promote good public performance reporting to the members of the Legislature.

The members of the committee may also be interested to know–and you may have noticed this in the last couple of value-for-money audit reports that we are trying to shift the focus of those to be more of a results-oriented report to assess whether or not the program is actually achieving the results that it wants to achieve, to put ourselves in a position to comment on that, and in cases where results are not being achieved to do as good a job as we can of trying to identify what the root causes for that might be and what some practical approaches to changing operations or improving controls might be in order to provide a better opportunity to achieve the results that are intended.

Mr. Gerrard: You alluded to a potential interest in performance reports on these two funds. Is it your intent to do performance reporting on these two funds?

Mr. Singleton: No, that it not presently part of our plans, but I would think it would be. Let me just throw out a suggestion that this committee, which spent quite a bit of time this morning talking about those two funds, might wish to ask that it be presented with a performance report on those two funds in due course, around the time when they are wound up.

Mr. Gerrard: Just in terms of following that up, I mean it would seem to me that now would be the right kind of time to be initiating that because if you did it after they wound up, the access to documentation and all sorts of things, and people, may be quite difficult. Is that right?

Mr. Singleton: The issue of auditing the funds after they were wound up would be potentially problematic because there might not be anyone around to ask questions of, but there are two separate things there. In the first place, the onus is on the Government to provide a performance report themselves on the effectiveness of those two programs. The issue of whether or not that performance report needs to be audited or not is a separate question. Because we cannot possibly audit every performance report that the Government might produce, our focus has been on encouraging government to produce more and better public performance reports and that we would audit those where there was a particular interest on the part of members of the Legislature or the public to validate a particular performance report such as is potentially happening with the health care reports that the Government is committed to produce for next fall.

Mr. Gerrard: To the Minister of Finance: Is the Minister of Finance going to ensure that there is a performance report on these two funds?

Mr. Selinger Which ones are you referring to?

Mr. Gerrard: Well, the Auditor General said that it is up to the Government to make sure. "The onus is on the Government," was the phrase, I think, to ensure that there is a performance report produced on the two venture capital funds.

The discussion also centred around the fact that, if it were to be initiated, now is the time to do it, because the people in the records are there, and it might be quite difficult to do after the funds are completely closed down, although they may well incorporate some of the things that happened at the time of closure but that the importance would be to initiate such an effort now.

Mr. Selinger: We have reviewed performance of the funds as part of the wind-up proceedings, and we have been satisfied that the funds have played a valuable role in sort of developing the venture capital models that we have in Manitoba now.

If you want some specific report over and above that, I would have to discuss that with my colleague the Minister responsible for Industry, Trade and Mines. Of course, Mr. Chair, the provincial auditor could, if he wished, he could review them again for performance for the Auditor General.

Generally, the experience has been that these funds have filled a venture capital gap in the Manitoba community and have provided some valuable investments, and some of those investments have generated some reasonable returns. As I mentioned earlier, as these funds go through wind-up phase, we will see what the final net cost is to Manitobans, just on the actual money invested directly. Then, of course, depending on how you analyze the performance of these funds, there is the amount of jobs they created, the additional investment they have attracted, the taxes they have paid. I think the general feeling is that the multiplier effect of these investments has been pretty substantial in some of these companies and has provided Manitoba with a broader and deeper economic base.

* (11:50)

Mr. Gerrard: I wonder, since the Minister of Finance indicates that some sort of review or analysis has been done, whether it would be possible for members of the committee to have access to the results.

Mr. Selinger: This is information provided to us through the department, and once again I would encourage the member to ask at those Estimates for the specifics on that. I do not have it, but when we look at the wind-up procedures for these funds, they gave us sort of their views on how the fund had done historically.

I cannot imagine that the minister would not want to at least discuss that with you at Estimates. Mr. Chair, I cannot absolutely say that she should share that information because there may be information that has commercial sensitivity connected to it. These are private companies, so I cannot make an unequivocal commitment to provide it, but I am sure the minister will provide everything that does not harm the interests of these companies or the economy.

Mr. Chairperson: Report on the Operations of the Office of the Provincial Auditor for the year ended March 31, 2000–pass.

Then we will go on the Public Accounts Volume 1 for the year ended March 31, 2000. Are there any questions?

Some Honourable Members: Pass.

Mr. Chairperson: Volume 1 of the Public Accounts for the year ended March 31, 2000–pass; Volume 2 of the Public Accounts for the year ending March 31, 2000–pass; Volume 3 of the Public Accounts for year ending March 31, 2000. Are there any questions?

Mr. Gerrard: One question dealing with–

Mr. Chairperson: I believe you are dealing with No. 4. We are dealing with No. 3 at the present time.

Mr. Gerrard: Oh, I am sorry.

Mr. Chairperson: Perhaps you can ask the question when you get to No. 4. Is that okay?

Mr. Gerrard: Yes. Thank you.

Mr. Chairperson: Volume 3 of the Public Accounts for the year ending March 31 2000–pass. Now we will deal with Volume 4.

Mr. Gerrard: Volume 4, which deals with those areas of Crown organizations and their reporting, I want to begin with a sort of general question to the Minister of Finance (Mr. Selinger) based on the reporting of the Crown organizations. What is his assessment of how things went during this year for which he would have had, I guess, partial responsibility, anyway, whether on the basis of this report he is making or anticipates making any changes to management of Crown organizations?

Mr. Selinger: Right. Having read this every evening in the first year that I was elected in order to get to sleep more rapidly, no, I am just kidding. This report just by its very size is daunting even to those of us who are supposed to be interested in these topics. I think many of the organizations in here or have issues that arise under the specific ministries to whom they report, if you look through here, I think just about every one of these organizations has had a review and scrutiny by the minister directly responsible for them. Where there have been issues there has been action taken.

Just to give a couple of examples, RHAs, it is a fairly new phenomenon. There has been a real challenge there to try to get them to manage within the allocations they are given through the budget process. There has been quite a bit of work done by the Department of Health working with the RHAs to both properly allocate resources and then to work with RHAs to live within those resources. As the member will know, this is one of the, probably the single largest challenge of any provincial government in the country right now. So there is lots of work that has been done with respect to RHA budgeting and reporting.

But those organizations which were created by the previous government really were created, my impression was that the guidelines on how those organizations ran were not all that clear at the time that they were created. I think that they were implemented in a fairly quick fashion. It seemed to be a trend across the country to move to an RHA model to deliver health services on a sort of geographic, population-based model. But there has been quite a bit of growth and learnings that have had to occur within those organizations as to how they can manage.

Another example might be one that the Minister of Family Services (Mr. Sale) has acted on. Child and Family Services of Winnipeg has had a chronic deficit problem over the last several years. The member might note that the Minister of Family Services and Housing has taken some concrete action to change the board governance of that organization and then to have that new board manage the resources of that organization much more effectively in terms of outcomes for the children that are in care but also in terms of not seeing the budget dramatically go over its allocated amount on an annual basis. So those are just two examples.

Manitoba Lotteries Corporation is another one. My deputy just points out to me where there have been some significant improvements made in terms of governance and management and how even, for example, debt has been handled. When we came to Government, this was the subject of a separate provincial auditor's report at the time. There were several issues that were dealt with, one of which I had direct involvement with in the sense that the Lotteries debt was being managed sort of outside The Loan Authority Act. In the view of my officials the money that was being borrowed was being borrowed without legal authority to do it. We have since changed that practice and brought the debt management procedures of the Lotteries into the Treasury Department, where they are being managed by people that do that every day with a great deal of expertise and on a long-term basis. We are going to stabilize that debt.

I do not know if the member wants any other information on specific ones, but there is just a ton of activity in this that is encompassed in these financial statements.

Mr. Gerrard: There is one specific issue with regard to the RHAs that I would like your comment. It seems to me that we have moved to a system with the RHAs and budgets as we were provided here the information on those RHAs, but there is a problem at the moment. That is that when you present your budget statements it is presented in terms of the old categories and not the new RHAs. Even late into the year when I made enquiries about what are the RHA budgets I was not able to get this information. So, if in fact we are going to switch to an RHA system, as we have done, it means that there should be budgetary reporting at the time when you deliver your Budget in terms of what are the allocations for RHAs.

Mr. Selinger: Is there a question there?

Mr. Gerrard: I would ask you whether you are going to recognize in your Budget that, in fact, we have made this switch and you are going to present in the future the budgets for the RHAs so that there can be better Estimates and recording and financial accountability.

Mr. Selinger: We may have to pick this up specifically under the Health Department Estimates, but I can say this. There are competing demands for information in the way the budgets are presented. As you know there are budgets presented, medical, specific agencies, specific allocations. At the time the budgets are presented there are estimates as to what the RHAs will receive, but then there is considerable negotiation that goes on between the Health Department and the RHAs to finalize the final allocations with adjustments made to try and address specific needs which are emerging. Each RHA has a different configuration of needs that they want to address.

This is an ongoing issue: how we articulate more clearly the allocation process and the budget presentation process. If, for example, and I am just thinking hypothetically, it went to the other way and we just did it by RHAs, there would probably be significant demands for information about how much doctors were going to get and how much Pharmacare was going to get, et cetera, et cetera, et cetera. So I do not think there is a complete resolution of how this works yet. It is an ongoing point of discussion, but the budget presentation usually tries to reflect this year's allocations vis-à-vis previous years' allocations with adjustments where there have been changes in the method of delivery and the allocation process.

But a radical transformation of the lines that exist in the health care budget to an RHA presentation would also lose something too. There would not just be a net gain in information. There would be a loss of information specific to programs that we get serious questions about in the Legislature and in the public. So I do not have a final resolution to that but I know that the department works actively within the budget envelope they get to make an allocation to.

How much time do I have?

Mr. Chairperson: Our time is up.

Mr. Selinger: We will pick this up later.

Mr. Chairperson: What is the will of the committee? Do we want to continue to finish this report or carry over till next time?

Mr. Gerrard: Mr. Chairperson, carry over till next time.

Mr. Chairperson: Okay. The hour being twelve o'clock, what is the will of the committee?

An Honourable Member: Committee rise.

Mr. Chairperson: Committee rise.

COMMITTEE ROSE AT: 12 p.m.