

STANDING COMMITTEE ON PUBLIC ACCOUNTS

May 10, 1983

Public Hearing: Saskatchewan Computer Utility Corporation

Mr. Chairman: — I call the public session of the public accounts committee to order for Tuesday, May 10th, 1983. We had intended to start with the Saskatchewan legal aid commission. They were detained by inclement weather in Saskatoon. The officials from the Saskatchewan Computer Utility Corporation have been courteous enough to come early, so we're starting with you, gentlemen. I would like to introduce two members of the committee and the guests present: Mr. Bob Nell, general manager of computer services — thank you, Mr. Nell — and Mr. Fitch, director of the Saskatchewan Computer Utility Corporation.

Gentlemen, let me begin with the usual warning, and that is that what is said in this committee enjoys an absolute privilege and therefore cannot be the subject of a libel and slander action. On the other hand, what is said is taken down verbatim and to that extent it's readily available for use outside the committee just as you say it. With that, let me invite any members of the committee who have any questions to put them to the computer utility corporation.

I should have added, for the benefit of the witnesses if you're not already aware of it, that we are dealing with the year ended December 31st, 1981. Sorry, go ahead.

Mr. Katzman: — That's what I was going to ask you.

Mr. Chairman: — Yeah.

Mr. Katzman: — The March '82 . . . So it's December 31st, '81?

Mr. Chairman: — It is this annual report, 1981 . . . (inaudible) . . . Anyone have any questions of the . . .

Mr. Young: — Yeah.

Mr. Chairman: — Mr. Young?

Mr. Young: — I go through here, sir, and I look into your 1981 report with respect to operations review. There's a number of items, and it appears they commence with a security reviews for customers. As I take it then, your corporation does security advising for the private users of computers. Is that correct?

Mr. Nell: — Well, most of our users are actually public sector users. We have a group of people (we refer to it as our technical consulting service), and they assist customers of ours on various subjects. One of them was security, and it was mostly the larger customers that those reviews were done for, which would be public agencies.

Mr. Young: — The customers then, where it says here: 'the commencement of security reviews for customers,' that refers to not private sector customers but your own users then.

Mr. Nell: — Our users which we do have some private sector customers, but they're fairly small, and I don't know of any that were done with private customers.

Mr. Young: — As I understand it — and you can confirm this — the University of Saskatchewan in Saskatoon is in some way wired into SaskComp. Is that correct?

Mr. Nell: — Yes, they are a user. Yes.

Mr. Young: — In the year under review, did you have any security problems with people burglarizing or tapping into information of the SaskComp computers unlawfully ... (inaudible) ... not in accordance with the information they were supposed to pull out of the computer.

Mr. Nell: — I'm not aware of any serious breach of security.

Mr. Young: — You're not aware of any students from the University of Saskatchewan punching in certain codes and obtaining information that they shouldn't have obtained from SaskComp computers?

Mr. Nell: — I'm not aware at this moment of anything that was major enough that it came to my attention. I can't say that blanket that there wasn't any such thing. We monitor that and we have a regular system of reporting security violations that we detect.

Mr. Chairman: — If I could interrupt the member from Saskatoon Eastview. When did you commence acting as general manager of SaskComp?

Mr. Nell: — Well, I'm assistant general manager. The acting general manager is unable to be here.

Mr. Chairman: — Okay. I'm sorry. Go ahead.

Mr. Young: — In the Provincial Auditor's report, as I'm sure you're aware, sir, there is considerable comment with respect to your accounting procedures, and I am wondering if there have been improvements made. These comments were under the year in review. What sort of improvements have you made to remedy the concerns of the auditor, if you can generalize for me? What have you done in the corporation?

Mr. Nell: — Perhaps I'll have Mr. Fitch speak to that, as being our comptroller.

Mr. Fitch: — What has taken place within SaskComp in this area is that we have hired a qualified accountant, commencing November 1st, 1982, and this individual is a C.A. finalist and is completing his R.I.A. designation this spring. The additional staff that we have hired are two accounting clerks. One of those is second level C.G.A. Both of them have more than five years of directly related experience.

Mr. Young: — In comparing the year under review with the *Leader-Post* as of a couple of weeks ago, there's been some very great increases in profitability of SaskComp from the year under review. Certainly I wouldn't suspect that those were entirely related to better control of accountability, but must be a wider profit-making mechanism of SaskComp. What do you attribute your greater profits this year to result from, as opposed to the year under review?

Mr. Fitch: — Some of the major areas in net are the freeze on hiring, so we did not recruit staff in accordance with the plans that we had in place. The growth was a little

faster than what we had anticipated, and we kept a tight control on the regular expenses, minimizing those to the best of our abilities.

Mr. Young: — Now, other than the change from Mr. Lundeen to — is it Mr. Nelson now; is that the correct word? — were there other top level management changes that exist now from the year under review — top level, year under review — top level now. Who all got changed?

Mr. Fitch: — There is no other changes in staffing, other than the one you mentioned.

Mr. Young: — Both of you folks were there in years gone by then?

Mr. Fitch: — Correct.

Mr. Nell: — Yes. There may have been changes of exact duties and position organization but no changes . . .

Mr. Young: — I see. I was just wondering how great the top level change was.

In the year under review, was your computer system integrated in any way with in-line departments such as Sask Power, or hospitalization, or anything like that? Do you work with a citizen's hospitalization number. Is my hospitalization number somewhere in SaskComp? Or my driver's licence number? What all is in there of mine, of my numbers that I have in society? How many of my numbers do you have? Do you have my social security number; do you have my driver's licence number? What all do you have in there in your computers?

Mr. Nell: — Yes. Well, I can't give you a complete list. When you say 'we have' — we don't necessarily own the information. We provide a computing service that customers of ours use to do their work. Now, customers of ours include the hospitalization people, so that information is stored on our computer although they would not necessarily make it available to us directly.

Mr. Young: — Say I had had some exotic drugs and I had purchased them under the prescription drug program and the prescription drug people . . . First of all, do they use your computer services?

Mr. Nell: — Yes. I believe so.

Mr. Young: — So all of the drugs that I purchase for my own use in the year under review would be somewhere in the software, in the tapes, within your computer set-up. Is that correct?

Mr. Nell: — I'm not sure what they store on the computer.

Mr. Young: — Do they take their tapes home at night, or do they come to your facility, or just how does it work? How do they make use of SaskComp?

Mr. Nell: — They don't normally take their tape home at night. We normally store the tapes; we have a tape library.

Mr. Glauser: — That's an on-line system, is it not?

Mr. Nell: — Well, I'm not quite sure of the details, so perhaps I should be, you know, probably shouldn't really answer. My impression is that very largely it's a batch, but I really don't know so . . .

Mr. Young: — We had a situation under the year under review where, in an open-line program in Saskatoon, Wes Robbins, who was then the minister of highway traffic, I believe, cited the driving record of a Progressive Conservative member — that he had had so many accidents, and so on and so on. I'm wondering if that information would have been within your control, or is that information also on . . . I guess the question is: does the highway traffic people use you as their computer service or do they have their own ones down on Scarth Street?

Mr. Nell: — No. I believe they use our computing service. They do have some facilities of their own, too, I suppose, but I believe they primarily use ours.

Mr. Young: — Who from the highway traffic board could come in and start running your program? Could the minister come in? Where does the authority stop for someone to come in and say, 'I want to run out the print-out on highway traffic'?

Mr. Nell: — I wouldn't know at this moment exactly where the authority stops. Certainly . . .

Mr. Young: — Do you have a check system where you have to have a card, or how do . . . Could I walk in there and start running numbers, or how does it work?

Mr. Nell: — There's generally passwords that people need to use, and they define those passwords, and so you have to know the appropriate password.

Mr. Young: — So then the students at the University of Saskatchewan, if they could punch in a certain code, they could print out the driving record of all the people in Saskatchewan whose names began with S, or something like that. Is that correct? Or does the machine have to be loaded with the tapes for that first? Or does it already remember all of that stuff and have it in its memory?

Mr. Nell: — Well, there'd be a whole set of procedures and steps someone would have to take. It wouldn't be sufficient just to know a code. There is a whole series of things one would have to know.

Mr. Katzman: — Let me assume somebody knows, and I think it's probably five or six access codes that say you have to have to be able to get through the systems. All computer systems have certain passwords, and each password gets you into another gate, for lack of a better explanation. So if somebody happens to know the gate set-ups and the passwords, he can pretty well crack through your system anywhere as long as he's on the in-line system. Or do you have a system that says, this machine over here, no matter what it says to this machine, it cannot crack into other sections? Do you have the lock safe, or . . . there's a special title for that, that says if I'm over at the University of Saskatchewan I can only get into University of Saskatchewan things; my system will not, even though I know all the passwords, won't get me through? Do you have that protection in your system?

Mr. Nell: — I guess it depends what you mean by the number of gates. Certainly we have the ability for a customer to restrict access to certain terminals so that if someone at the university is connected to our computer in Saskatoon, there is really no way he

can access the information we've been talking about which is in the Regina computer.

Mr. Katzman: — Why not?

Mr. Nell: — Well, there is no connection between them. So there's physically no way, but . . .

Mr. Katzman: — You're saying there's no lock?

Mr. Nell: — . . . you know, it depends how determined a person you have, I guess. In the ultimate case, if someone can replace the person who does have the authority somehow, I can't say that we have any way to detect that.

Mr. Chairman: — Could I try the question in a different tack? I was minister of this crown corporation for a period of time — a brief but brilliant period in the corporation's history — and I was on the board of directors for a longer period of time. I don't think I was ever at a meeting of computer specialists in an official capacity that I wasn't asked about security. It seems to be a subject of interest to people who are involved in computers. I can think of some of this information that might be very useful. I don't know if Sask Development Fund uses your services or not — and that's a question.

Mr. Nell: — I don't know. I guess we'll have to check on that. I'm not sure.

Mr. Chairman: — But let us . . . Supposing they do, the deposits that a person has with Sask Development Fund might be very useful for the wrong type of people to know.

I have two questions for you: are you satisfied with the security, and are there additional steps which . . . And I might be getting into the area of policy; you might want to decline on that basis. But are there additional steps which you would like to see taken to enhance the security of your systems?

Mr. Nell: — I guess, as you just stated, security is a fairly interesting subject to a lot of people, and we believe it's going to continue to be more emphasized, and so we do want to take further steps. Yes, we do. And we've initiated some activities. We're trying this year to strengthen that. We need, you know, to make proposals and get approvals for some of the actions we need to take, so it's probably premature to go into detail, but we do want to expend more resources in the area of security, and to make, to improve . . .

Mr. Chairman: — Could you be more specific?

Mr. Nell: — Well, I can review some of the things that we have done to date. I think it might pre-empt . . .

Mr. Chairman: — I was interested in the things you were considering.

Mr. Nell: — Well, some of these things have not been reviewed by the Sask Comp board, and are not approved, and I really think it's premature to go into those. We have installed some computer programs or software that are designed to improve and make easier for the customer to use the coding and password structure. We have the structure now with passwords, etc., and customers use that to protect their information. But we're putting in more powerful abilities in that area. There's a set of

programs that we put in. So that's one thing that we've done. We've initiated projects — several projects in the company this year — to review the security and to make specific improvements. There's known suggestions that we've received from the auditors, for example, and we're setting projects in place to address those areas. So, I guess there's that process, and we've initiated a project to co-ordinate all of the security aspects within the company. I guess that's a fairly brief description of what . . .

Mr. Chairman: — I have just one additional question. I wasn't sure I understood the answer to the question put to you by the member from Saskatoon Eastview. Are you satisfied that there were no students who improperly accessed the system, or are you saying you don't know and therefore would like the opportunity to review the matter and report back to us?

Mr. Nell: — Well, I intend to review it. What I was saying was that to my knowledge there was no breach that caused enough concern that it came to my attention. That's all I can really say right now,

Mr. Chairman: — Okay. Perhaps you can respond then in writing, to the Clerk, 15 copies, and she will distribute it among the committee. The member from Rosthern, sorry.

Mr. Katzman: — Along the same topic, let's clear a few . . . Either I have a wrong idea or misconception, or we're just not laying it out correctly. We have a building here which we have our computers in, in Regina, We also have some computer stuff in Saskatoon. They are interrelated? They can go back and forth?

Mr. Nell: — There is one connection. Largely they are not interrelated. There is one connection that a batch job can be transferred from one to the other, so there is that much interrelation.

Mr. Katzman: — So if I . . . Let's make it easier then — let's say I'm in Regina, and you say the bulk of the information is in Regina?

Mr. Nell: — Well, the information for example, if you asked about hospital, yes, that's in Regina.

Mr. Katzman: — So if I was a University of Regina student, they are on the computer as well. The University of Regina, sorry.

Mr. Nell: — Well, actually there's a separate computer at the University of Regina.

Mr. Katzman: — They have their own.

Mr. Nell: — Well, it's a SaskComp computer centre, but it's physically at the university.

Mr. Katzman: — Does it annex into the other systems? Or have a live . . .

Mr. Nell: — It has the same kind of link.

Mr. Katzman: — So, let's use the same idea. SGI or Sask Highway Traffic Board, or whatever you want to call it, it also has a tie line from their office into that computer as well?

Mr. Nell: — Yes.

Mr. Katzman: — How many outside sources have lines into the storage unit? Pretty well every one of your customers, and some will have duplicate. Am I correct?

Mr. Nell: — Yes, I think that's correct — not quite, but almost . . . (inaudible) . . .

Mr. Katzman: — The principle. The argument that's being laid before you and the proposal is, and I think every computer company, as the chairman has indicated, as having problems with off-base units, they are able to come through and seek information. Legally they are allowed to do that. But you are now . . . The accusation is being made within the industry that unless you put in an abundance of safety codes there is no way to stop somebody getting into another file.

I'll give you a good example. The banks have all gone to computers. I can be in the Royal Bank in Regina and get the account balance on a member, on anybody here that has an account in the Royal Bank anywhere else that's on the line system. So that information is pretty well available to every bank teller in the province that is a Royal Bank person, and so forth,

There is a system that allows nobody to get that information. They have a system built in that says 'Information not available,' That's all it will say no matter what they ask on the balance of that person's account: 'Information not available.' Even though they punch . . . Assume it's my bank account; they punch up my numbers. The Royal Bank in Regina will not get an answer of how much money I have there. There is no way, because the account will say 'Not available.' And the only way you can get it is twofold: in that branch itself; on a phone call. Now, that's their protection. If anybody wanted to find out my balance, assuming that I have this system in place, can only get it by direct call to the manager and only that bank can pull it out. No other bank can pull it out.

Have you got that kind of protection system that only allows certain . . . (inaudible) . . . a phone call to say: 'Okay, we're coming through; please open that bank,' or something? Do you have those protection systems in place?

Mr. Nell: — We have tools that I believe would allow a customer of ours to implement that. You know, we are acting as the custodian and we provide tools that a customer uses, so that there's choices being made by the customer. Now if the bank were a customer of ours, using our computers, we have got tools that would enable the bank to restrict access to a piece of information to one particular computer terminal. And let's say that it was in the manager's office, then he could implement that. But I think you'll agree, probably, that the system you've described with the bank, there is still somebody in that branch that can get the information . . .

A Member: — One machine.

Mr. Nell: — So it is still theoretically possible, if somebody subverted that person, to get the information.

A Member: — That's correct.

Mr. Chairman: — I want to interrupt at this juncture, if I might, to point out that it's 11:20. The Health officials are outside. I wonder if we know how much longer we're going to be, if we're going to finish this in a few minutes.

Mr. Young: — All the questions I had were just one page.

Mr. Chairman: — Pardon me?

Mr. Young: — I say I don't have very many more questions.

Mr. Chairman: — Okay. We'll perhaps ask the Health officials then to wait. I see some more hands going up. My question really was: do we ask the Health officials to wait and get started on them, or are we likely to soak up the rest of the day on this? If we don't know we'll perhaps ask the Health officials to wait.

Mr. Katzman: — Let them wait.

Mr. Chairman: — Okay. If that's the . . .

Mr. Katzman: — Do we let them go?

Mr. Chairman: — We were late in getting started.

Mr. Young: — I think we should let them go. We can knock off early — a little bit earlier.

Mr. Chairman: — Tsk, tsk, tsk. Government members were tardy and late in coming and now they want to knock off early. Tsk, tsk, tsk.

A Member: — Well . . . (inaudible) . . . costing people too much money to have them wait out there.

Mr. Chairman: — It's not a big item with me. Just being flexible, providing assertive leadership that this committee has come to expect from me.

Mr. Katzman: — Always 20 minutes late to start . . . (inaudible) . . .

Mr. Chairman: — If we can get serious, what's the view, let them go or keep them?

Some Members: — Let them go.

Mr. Chairman: — All right. I think I hear more let-them-goes than keep-thems.

Mr. Young: — Mr. Nell's just . . . (inaudible) . . . me in asking a question. What, sir, is your background? Are you a computer whiz or are you an administrator, or what is your background? What is your expertise?

Mr. Nell: — I guess you would say it's a computer background, yes.

Mr. Young: — I read a couple weeks ago as well in the newspaper that Ontario has announced a \$15 million program to put computers into schools. And I'm wondering if, in the year under review, that was part and parcel of the direction of SaskComp, or if currently you're thinking of wiring up our schools, through the Department of Education, with computers?

Mr. Nell: — Well, we established, and I believe this got started in the year under

review, what we call a division of our company. It's really just a one-man division, so it's pretty small — called the educational services division. And that person is an experienced teacher and computers-in-education person. And we've been assisting schools in Saskatchewan by helping them with, primarily, microcomputers. And we've arranged to get software from . . . Minnesota has quite a strong program in that area.

Mr. Young: — Do you charge the school board when you go in there and provide them services? Do you render a bill to those people?

Mr. Nell: — Generally, yes.

Mr. Young: — Okay.

Mr. Nell: — This was intended to cover its costs, this division.

Perhaps I could step back a year or two before that. I think SaskComp was one of the leading causes that set up a committee . . . well, it's really a society I guess, the Saskatchewan Association of Computers in Education, and in fact, this person who now is the educational services manager in SaskComp is one of the people that founded that. So I think we've shown a fair amount of leadership in that area, but it's nothing like the scale of operation you're referring to, of funding.

Now, right at this time I think we're in discussions with the Department of Education about what the strategy should be.

Mr. Young: — Do you see that as a role for you, or as a role for the Department of Education? When the schools decide to go computer, are you guys going to be into it, or are you going to leave it to the education people?

Mr. Nell: — Well, I suppose you could argue either way. We're happy to co-operate, and as I say, we think that the Department of Education is probably a key player.

Mr. Young: — I see here under — and I'm going back and forth from the management letter to the annual report to my own questions — but in your annual report there was . . .

Mr. Chairman: — You're getting onto a different subject.

Mr. Young: — I'm just leaving security on the back burner; maybe I'll come back to it.

Mr. Chairman: — Okay. I'm going to recognize the member from Saskatoon University then.

Mr. Young: — Oh. Pardon me.

Mr. Folk: — Thank you, Mr. Chairman. In the year under review, in the auditor's report, page 35, it points out that \$575,000 was borrowed as a short-term loan and another million in December, and apparently without authorization. Could you clarify that for us?

Mr. Fitch: — The comment from the Provincial Auditor is correct, and steps are being taken to rectify that and as well to ensure that all future borrowings are properly authorized.

Mr. Folk: — What is the normal process, say, in these two cases, for the short term and the long term? Like, how would it go from a management to final procedure?

Mr. Fitch: — The normal process that was followed in the situation you're referring to was that we obtained money from crown investments corporation, where we get all of our funding, and we borrowed the \$675,000 on a short-term basis. And at year end, that was converted to long-term debt, along with the other expected capital requirements that we had at that point in time. And it was handled through management and crown investments corporation.

Mr. Folk: — Is it not normal that it goes to the board of directors for approval?

Mr. Fitch: — The board is made aware of these, but prior approval of the board in this particular instance was not obtained.

Mr. Folk: — So you say you're taking steps to alleviate that. What steps will be taken?

Mr. Fitch: — In the context that all long-term debt borrowings will be authorized by an order in council following ratification of the board of directors, and that . . . Well, that's the basic steps that are being taken in those cases.

Mr. Folk: — So it's more or less just going back to . . . (inaudible) . . . follow the . . .

Mr. Fitch: — Yes. Correct.

Mr. Folk: — On this particular bit of borrowings — the 575 that went from short to long term, and then the \$1 million more that came in December — was that for a particular item that was purchased at the end of the year?

Mr. Fitch: — It was expected for capital requirements to that point in time, yes.

Mr. Folk: — So there was a purchase of a new computer . . . (inaudible) . . .

Mr. Fitch: — It didn't materialize.

Mr. Folk: — It didn't materialize?

Mr. Fitch: — No, not to the complete extent that was anticipated at the time.

Mr. Folk: — If indeed that wasn't converted to long-term debt, would have the SaskComp been able to give the dividend of 558,000 that year? Like, what would be processed there? There is a dividend of 558,000 paid back to CIC. If you wouldn't have had that 1.575 million, would have you not paid a dividend, or . . .

Mr. Fitch: — Yes, we would have paid the dividend. The dividend is the net surplus from operations, and that was not payable until the end of the year following.

Mr. Folk: — Right. So that working capital would have no effect on the dividend then?

Mr. Fitch: — Not in the sense that it's being declared and paid.

Mr. Folk: — No. So if the reason for that borrowing you say didn't come through, so

that it would actually be a surplus of \$1.575 million that you had in it as of January 1st, you didn't really need if it didn't go through. Is that correct?

Mr. Fitch: — Yes. If you would reference the balance sheet as well, I think it shows a significant cash balance at that point in time.

Mr. Chairman: — Okay. Saskatoon Mayfair.

Mr. Glauser: — Well, my questions are along the same lines somewhat, and there was considerable print given by the auditor in connection with the financial management. I take it then that the people that have been added since the year under review — they've been brought in to bring the financial end of the organization under control, and has it happened?

Mr. Fitch: — Yes, in both cases. Cash management, for instance, is done on a daily basis now, where we're keeping it completely under control every day, or every working day in any case. And we have also negotiated a better arrangement with the bank for interest on funds that are on deposit there, and our surplus funds beyond the normal day-to-day operating requirements are on deposit with crown investments corporation.

Mr. Glauser: — Okay. So you went into that complete cash management program, then. Is that what you're saying?

Mr. Fitch: — Yes, we have a complete cash management program in place now.

Mr. Glauser: — Okay, then. How are the accounts receivable . . . I'm just wondering what happened in the accounts receivable ledger prior to this. Were they brought up to date?

Mr. Fitch: — Yes, the accounts receivable are brought up to date, and we are doing weekly review of the accounts receivable from an ageing perspective.

Mr. Glauser: — Was there any loss as a result of accounts receivable not receiving any attention?

Mr. Fitch: — There is none that I'm specifically aware of in that sense. We do have a number that are outstanding. We have arrangements with those to clear their accounts, and they are following those arrangements,

Mr. Glauser: — Would these be mostly in the private sector, as opposed to the public sector?

Mr. Fitch: — Yes. Yes, they are.

Mr. Glauser: — How are you paid by . . . You do a considerable amount of work for Sask Tel. Is that not correct? Well, Sask Tel and the power corporation.

Mr. Fitch: — They are both customers of ours, yes.

Mr. Glauser: — There seemed to be a duplication of performance, in that those organizations were doing some things, and you were doing the same things. What has happened most recently now, as to them or yourselves getting out of those duplicated

areas?

Mr. Fitch: — Are you speaking of computer processing?

Mr. Glauser: — Yes.

Mr. Fitch: — At this point in time, SaskTel has a computer of their own, which is doing a lot of their processing internal, and they are also using our services to extend beyond that for the final processing. And in the case of Sask Power, there is a computer that we own. It's dedicated to Sask Power, and it's physically resident in their premises. We own and operate it. In the case of Sask Tel, we do neither. We don't own the one they currently have, nor do we operate it, but they also use our processing services.

Mr. Nell: — I'm wondering whether you're referring to processing, or whether you're actually referring to some of the concerns there may have been expressed publicly about SaskComp and Sask Tel both having the same kind of business to sell to third parties.

Mr. Glauser: — That's the area I'm touching on.

Mr. Nell: — I think the areas of either actual, or it may have been more potential than actual overlap, were in the areas of small computers and word processing equipment, and Sask Tel were in the business of selling Wang word processors, and SaskComp was in the business of selling small computers. And although they were separate, you know, you could use a computer for word processing and vice versa, so there was a potential duplication. Actually, both of those lines of business have pretty well ceased now, so I don't believe there is really much, if any, overlap now. So I believe steps have been taken in both corporations to reduce those areas.

Mr. Chairman: — The member from P.A.-Duck Lake, now that he's finished.

Mr. Dutchak: — That loan of \$575,000 from CIC to SaskComp — was there an interest rate tied to that?

Mr. Fitch: — Yes.

Mr. Dutchak: — What was the interest rate?

Mr. Fitch: — The interest rate is prime-related floating.

Mr. Dutchak: — Pardon?

Mr. Fitch: — Prime related. It's related to the prime bank rate, in effect, and it changes with that.

Mr. Dutchak: — Is it the Canada Bank prime?

Mr. Fitch: — It's the Royal Bank prime.

Mr. Dutchak: — Plus what?

Mr. Fitch: — Less one-quarter.

Mr. Dutchak: — Royal Bank prime less one-quarter.

Mr. Fitch: — Yes.

Mr. Dutchak: — Why was this loan converted into a long-term debt?

Mr. Fitch: — In the context that we, at that point in time . . . Our plans were that we were going to have some additional capital expenditures and needed the funding in order to carry out that program.

Mr. Dutchak: — Well, how can you declare a dividend? Or why would you then declare a dividend?

Mr. Fitch: — Well, what has been the experience with SaskComp since its formation is our surplus, or our profit if you want to call it that, each year, has been declared as a dividend tabled to crown investments corporation — 100 per cent.

Mr. Dutchak: — Well, the problem I can see, and I may be missing something, but why would you convert? You see, when you look on the face of it, if you were a citizen of the province and wanted to look at the financial statements and financial results of your operation, it would appear that you made money, but really what happened there: there was a loan taken out for 575,000; it's converted to long-term debt and then you declare dividends. But you're just increasing your debt at the same time, so your net result, your net position, hasn't improved any.

Mr. Fitch: — Well, all of our debt is repayable over a specific repayment plan, and those payments have been made at all times, in repayment of that debt, to crown investments corporation, in addition to the dividends.

Mr. Nell: — Could I speak to that for a moment? I think that in fact we did make a profit of the 558,000 or so, and that was declared as a dividend. And the debt capital, as any other capital that we may have needed, was used for acquisitions of capital equipment, or other such purposes, in order to operate for the next year and earn more revenue in the next year. So I don't believe that the dividend and the loan are connected, except that you could have said if you were a private business You might have elected not to pay the dividend and to use that for some of your capital instead of borrowing more now.

A Member: — Yes.

Mr. Nell: — We don't make that decision.

Mr. Dutchak: — That is made by your board of directors. Is that correct?

Mr. Nell: — Yes, and to some extent by our, if you want to call it, our owners, which is the government through CIC.

Mr. Dutchak: — Yeah. My concern is that if it was a private corporation, it wouldn't be that excited about declaring a dividend. It might clean up some of the expenditures and . . . You know, I can't see the real purpose for the declaration of a dividend in this particular case, aside from political reasons. Are there any others?

Mr. Nell: — Well, that was earned profit and, as I say, we don't make the decision, but

you can see where one position might be that all of the profit should be paid as dividend. And if more investment is needed, then you, in effect, either issue more stock or issue more debt to make the investment for growth. If it hadn't been for the fact that our volume was growing, we probably wouldn't have needed to make more investment.

Mr. Dutchak: — To simplify it, in the case of a private corporation, if X number of dollars is being earned per year in profits and they're borrowing X plus 10 per cent on the other side, now they can keep converting the debt into long-term debt and keep declaring dividends.

Mr. Young: — Sask Power, Sask Tel . . . (inaudible) . . .

Mr. Nell: — Well, wait a minute now though. That would imply though that the only reason you're able to pay the dividend is because you borrowed more money, even though you had a loss in operations.

Mr. Dutchak: — Okay, I'm sorry. Assume that it's a break even then; let's not talk about loss.

Mr. Nell: — No, but it's not a break even. We had a profit of \$558,000.

Mr. Dutchak: — And you borrowed \$575,000.

Mr. Nell: — Yes, but the two aren't connected. The borrowing is for future investment.

Mr. Dutchak: — Okay. I think we're just . . .

Mr. Young: — Maybe if I could come in here and background it. As I understand the way the world ran 10 years ago, that we owned Sask Power, Sask Tel. All those orange trucks out there were owned by us — 90 per cent of them were. And what happened is the profits that were made by Sask Power, Sask Tel — this is talking generally in an overview on the whole process — those two big . . . (inaudible) . . . for the last 10 years or so went into general revenues. And when you're making an expansion of a Coronach, or whatever it was, money was borrowed for that. So we sit today that we owe, or some American or someone, we owe . . . 90 per cent of the Sask Tel and Sask Power orange trucks are owned by people across the line. And we have a big debt against it. In fact what has happened is the profits didn't go towards buying capital but, in fact, went into general revenues, and we sit today with the figures exactly reversed. We own 10 per cent of it, and owe 90 per cent against those orange Sask Tel trucks.

That is effectively what happened, as I can see it from what Mr. Dutchak pointed out, under the year under review here. Instead of using the profit for your capital expansion, you turned it over to CIC or to the government, whoever, and went out and borrowed money to buy more computer hardware. And the analogy would be like a farmer who grows wheat and pays the money to a church or charity, and keeps borrowing money to buy new farm machinery all the time, so that his debt keeps increasing, and, yes, he has a profit but he gives it away. And that's the analogy that I see happened in the year under review, the very same thing that's happened to Sask Tel, Sask Power for the last 10 years. You're creating a big debt against the company — against SaskComp or Sask Power. It's a policy decision what you do with the profit, but it's certainly quite telling.

Mr. Embury: — Mr. Chairman, I'd like to pursue that so that I understand. The

575,000 was borrowed from CIC for purchase of equipment. Correct? The purchase of the equipment did not take place. Correct there?

Mr. Fitch: — All of it did not take place when you're talking about the 1.575 million.

Mr. Embury: — Just on the of the 575, so far.

Mr. Fitch: — That was basically for capital acquisitions, yes.

Mr. Embury: — In the year under review, when you borrowed the 575,000, I take it that was to purchase. You had some equipment in mind that you were going to purchase for 575,000, but did not do, so the 575 really became cash in the hands of SaskComp.

Mr. Fitch: — Well, the 575 basically was used for capital acquisitions.

Mr. Embury: — At the time that you borrowed it?

Mr. Fitch: — A major portion of it was, yes, in the year under review.

Mr. Embury: — So the 575 was actually spent on equipment for the year under review.

Mr. Fitch: — Yes.

Mr. Embury: — Okay. The question then: if you were spending \$575,000 on equipment in the year under review, why was it borrowed on a short-term basis? Obviously if you were purchasing equipment it should have been on a long-term basis in the first place.

Mr. Fitch: — It was initially taken on a short-term basis until we had a clearer indication of what our overall requirements were going to be for the year, and that's why it was on short-term until we could establish what the final requirement was in order to set up the total amount of long-term debt.

Mr. Embury: — Well, if you were borrowing \$575,000 strictly for the purpose of acquisition of equipment, and not for using any of the money for operating purposes, no matter what your requirements were, why would it not be set up on a long-term basis?

Mr. Fitch: — It was primarily for the acquisition of capital items, and in discussions with CIC they preferred to have it established as a loan, one loan, that would cover our requirements for the year, and also for scheduling of repayment.

Mr. Embury: — Well, sure, they were going to lend you sufficient moneys for your capital purchases for the year, but obviously they were not expecting to get paid back the \$575,000 in 12 months.

Mr. Fitch: — Correct.

Mr. Embury: — Therefore they knew when they lent the money that it was a long-term loan. I get back to the question: when you're lending money for capital, for equipment purchase, it seems strange to me that it would be borrowed initially in a short-term

basis, and then converted to a long-term basis. So I just don't understand the rationale for that. It just doesn't seem to me that you would do that. The million dollars that you borrowed in December of '81, was that borrowed for specific pieces of equipment?

Mr. Fitch: — There were a number of items that were anticipated to be purchased as capital items, all of which did not materialize.

Mr. Embury: — All right. Was the million dollars, which is now, I take it, part of your long-term debt . . . Correct?

Mr. Fitch: — Correct.

Mr. Embury: — Is the million dollars then cash in the hands of SaskComp?

Mr. Fitch: — Part of that was in conjunction with the other, if you see the balance sheet.

Mr. Embury: — I don't have a balance sheet.

Mr. Fitch: — There was \$1,464,000 cash on hand and in the bank at December 31.

Mr. Embury: — All right my next question then is: if you borrowed \$1 million on a long-term basis for the acquisition of equipment which you did not purchase and, therefore, that \$1 million was cash in the hands of SaskComp, why did you not just pay the loan back?

Mr. Fitch: — I don't really have any explanation of why the loan wasn't just paid back.

Mr. Embury: — Well, I mean, if I was in business, and borrowed \$1 million for the acquisition of equipment and then didn't buy the equipment, and I still owed the bank \$1 million at interest, I think I'd pay the bank back and not keep the darned stuff in cash in my current account, which in another part of the auditor's letters wasn't earning much interest anyway. That would be a decision then, that they left that \$1 million as cash in the hands of SaskComp — that was a decision of the board at the time?

Mr. Fitch: — No, I think, as the Provincial Auditor has indicated, that it was not a decision of the board as such at that time. And clearly, as he's pointed out in other portions of his report, we did not have adequate staffing in there to manage those affairs to the degree that they should have been managed.

Mr. Embury: — No, but SaskComp borrowed \$1 million for the acquisition of equipment which they didn't acquire, which left SaskComp with \$1 million in cash. Are you telling me that the board or the directors at that time did not make a decision to either pay back the loan to CIC or leave it as cash? You're paying interest on that loan.

Mr. Fitch: — Correct.

Mr. Embury: — I take it we're still paying that loan back.

Mr. Fitch: — Yes.

Mr. Embury: — You mean the board never made a decision at that time whether to just

pay the million bucks back to CIC and reduce the debt — a loan, by the way, which you didn't require? They didn't make the decision to do that or to leave the \$1 million in? I mean, the board never considered what to do with the \$1 million?

Mr. Fitch: — I'm not aware that this was an item taken to the board for consideration in the concept that you're referencing here. No, I'm not aware of that being a board decision item.

Mr. Embury: — You mean that the whole matter of the \$1 million never went to the board?

Mr. Fitch: — I couldn't be certain of that. I don't attend the board meetings and I'm not certain whether that was an item that was for information or a decision of the board by the staff who did attend the board meetings.

Mr. Embury: — Well, I would take . . . because if your year end statement is December 31st . . . I don't know when the financial statement was taken to the board for, being maybe a month. When was the letter of transmittal here? In March. But no one on the board at that time would query why all of a sudden there was \$1,400,000 in cash under assets of SaskComp. It just seems to me that compared to the year before, when you had \$691,000, that someone might ask why you had \$1.4 million cash. It just seems inconceivable to me that the board wouldn't enquire why you actually had a million bucks in there.

Mr. Chairman: — Pretty hard for the witness to answer what these . . . (inaudible) . . . might have asked.

Mr. Embury: — Could I ask another question? Who was the chairman of the board at the time?

A Member: — The Right Hon. Murray Koskie.

Mr. Embury: — I see his picture here. I know who it is.

Mr. Young: — The answer to that question was Murray Koskie, was it? I didn't hear.

A Member: — Yes.

Mr. Dutchak: — I was concerned about one point I think Mr. Embury covered here. The second one is something I touched on before. I just want to know if there was a — I'm trying to think of some other motive, other than political reasons, why a \$575,000 debt (a long-term debt) is created, where you owe money to the same company that you just declare a dividend to. What possible accounting motive or . . . Because I may be missing some point here.

Mr. Fitch: — The dividend policy is established by our board of directors and the board of directors of crown investments corporation. So it's the board decisions that determine what the dividends shall be.

Mr. Dutchak: — So what you're saying is that they're the ones that decide to borrow money so they can declare dividends and show a dividend on the income statements or the financial statement.

Mr. Fitch: — Well, I think, to clarify that, as was pointed out in the Provincial Auditor's report, this loan was not referred to the board of directors. It's not a decision of the board of directors as such. It was not a minute. But the dividend declaration is clearly a board decision, and it is in the minutes of the board, as is in the crown investments corporation.

Mr. Dutchak: — I realize that. Do you have any knowledge as to the reason . . . There seems to be a paper trail here for no real purpose. I just can't see a private company borrowing money from someone so they can declare a dividend, unless they wanted to show dividends just for the sake of showing a dividend. Is there any other reason? I realize that you're telling me the mechanics of who made the decisions. Are you aware of why it was done this way for business purposes?

Mr. Fitch: — No, there's no other . . . There's no business purpose or accounting requirement related to those two items at all in the sense of borrowing \$575,000 so we could declare a dividend of \$558,000.

Mr. Dutchak: — So if I wanted to find out, I would have to ask the chairman or the board members that were in place at that time for their reasons for this policy decision. Is that correct?

Mr. Fitch: — I would think so, yes.

Mr. Chairman: — Saskatoon University.

Mr. Folk: — Yes, going back to some comments made to Mr. Young earlier when he was relating the profit in the year under review as opposed to last year, 1982. You mentioned one of them: that you didn't go ahead with proposed staffing requirements.

Mr. Fitch: — That's correct.

Mr. Folk: — Would that show up under operating costs other than those listed below page 11 of the statement?

Mr. Fitch: — You're referring to 1982?

Mr. Folk: — 1981. I'll also refer to 1982.

Mr. Fitch: — The staffing costs would be in the operating costs other than those listed below, yes.

Mr. Folk: — So when I look at 1981 to 1982 there's an increase of over \$2 million there.

Mr. Fitch: Correct.

Mr. Folk: — Those costs wouldn't have been staffing requirements or staffing increases?

Mr. Fitch: — They weren't solely staffing requirements, no. The approved staff positions, going into 1982, were 192, I believe is the ideal figure that was approved. At year end we had 159 people on staff.

Mr. Folk: — So, in effect that wouldn't be one of the main reasons why it was more profitable in '82 than it was in '81?

Mr. Fitch: — Well, could I speak to that for a second?

Mr. Folk: — In effect, the cost was quite a bit higher.

Mr. Nell: — It was higher, but not nearly by as much as the revenue was higher.

Mr. Folk: — One of the reasons given for the better profit picture was that it didn't go ahead with the staffing as planned.

Mr. Nell: — Right. Not as compared to the year before as compared to the plan for the year ahead. The staff did, in fact, increase slightly from the year before, but it was planned to increase considerably more than that.

Mr. Folk: — So you're saying that that \$10 million that showed up in '82 would have been a lot higher had they gone ahead with the plans that they had in '81?

Mr. Fitch: — Yes, if the staffing plans had materialized as was presented in our budget when it was approved by our board of directors for 1982, there would have been about another \$448,000 of staffing for salary costs.

Mr. Folk: — Which right now looks like an awfully good decision seeing that the financial picture was a lot brighter in '82 than it was in '81.

Mr. Fitch: — You could draw that conclusion.

Mr. Embury: — Just to make the point I think some members are trying to get at, under your revenue figure, your total revenue figure for the year ended December 31st, the \$1 million that you borrowed, didn't spend, would be included under revenue.

Mr. Fitch: — No.

Mr. Embury: — Well, it has to be. It is a revenue of sorts. Normally you would have a revenue source there. It would offset from your expense. This year you didn't do any expense. You had \$1 million over your current assets, 1,464,000 which includes the \$1 million.

Mr. Fitch: — Yes.

Mr. Embury: — You're telling me the way your books work that you wouldn't call the funds received from a loan in your total revenue picture? It wouldn't offset it, if it had been spent on equipment, under expenses?

Mr. Fitch: — That's correct. It is a capital item and would not be brought in as revenue and would not be shown as . . . Had it been spent on capital acquisition it would not have been.

Mr. Embury: — Under your source of funds, you've got it.

Mr. Chairman: — . . . (inaudible) . . . warn the member that we've got about two minutes left and I want to call an adjournment soon.

Mr. Embury: — Okay. My question . . .

Mr. Chairman: — You can pick it up tomorrow.

Mr. Embury: — Are they coming back tomorrow?

Mr. Chairman: — Yes. Okay, maybe we'll just . . . Unless members have something they've got to get out right now, perhaps we'll save this until 8:30 tomorrow morning. I don't want to discontinue this. I think members are in the midst of this line of questioning. It's not fair to members to curtail the line of questioning, but I think it is fair to adjourn sharp at 12.

I would remind all members that tomorrow we are going to do two things, eh? We are going to make a list of those departments, agencies, crown corporations, other assorted odds and sods we want to review, and we're going to get a list of people attending the annual convention of the public accounts committee. I have misled some members who have asked me privately. Some members have asked me privately whether there is a limit on the number of people who may go, and I have said there is. There is not. We initially decided we were going to pay per diems for anybody who wanted to go, and travel expenses for four. That was changed at the last meeting. I think we're now in the position where anyone who wants to go can go, and I'm going to leave it the responsibility of the vice-chairman to canvass his caucus and see who wants to go because we've got to notify them.

Mr. Glauser: — We'll have that determined.

Mr. Chairman: — All right. Are there . . .

Mr. Glauser: — One more point.

Mr. Chairman: — One more point.

Mr. Glauser: — We have a duty tomorrow morning, so 9 o'clock. We can't leave till . . . We won't be here till 9, or shortly after 9.

Mr. Chairman: — Okay. You have some function on?

A Member: — A function, yeah.

Mr. Chairman: — A function. Okay. I'll take your word for it, as I must. You have breakfast somewhere?

A Member: — We're going to have breakfast.

Mr. Chairman: — Okay, 9 o'clock then, gentlemen. I'm sure members of the media will be disappointed that they . . .

A Member: — Nine tomorrow?

Mr. Chairman: — We're starting at 9.

The committee adjourned at 11:58 a.m.