

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**  
**May 8, 1985**

**MR. CHAIRMAN:** — All right. For consideration by the committee is the report tabled this a.m. to the Standing Committee on Public Accounts dealing with the member's motion whereby the committee instructed the committee Clerk to determine if the motion moved by the member from Saskatoon Eastview substantially altered the committee's terms of reference established by the legislature. Is it the wishes of the committee to drop this item? Any debate on this motion?

**MR. MORIN:** — I would move we drop the item, strike it.

**A MEMBER:** — Rule it out of order.

**MR. MORIN:** — Rule it out of order.

**MR. CHAIRMAN:** — If there is no debate on this, then I will rule that this motion be, or is, out of order. Everybody agreed?

**Saskatchewan Computer Utility Corporation**

**MR. CHAIRMAN:** — I want to open this session by welcoming Mr. Nelson, and I believe it's Mr. Fitch. I think you've been here before. You know how the rules operate here. I won't reiterate those in so far as what you're liable for and what you aren't.

And I would like to begin by saying that the Saskatchewan Computer Utility Corporation has become rather a large operation, and perhaps you would like to maybe give us a little bit about what has taken place, just an overview on the past year, on the year under review.

**MR. NELSON:** — I'd be happy to do that, Mr. Chairman. We were wrestling for some time, as you know, with a mandate for the corporation, and that was finally approved by the government about mid-year last year, about June, May or June. And following on that, the government appointed an expanded board of directors, and they're identified in our 1984 annual report which has been tabled in the legislature, which you may or may not have copies of here.

The essential order of the corporation hasn't changed that significantly. Over the years since its inception in 1973 it was essentially a de facto monopoly serving the public sector. Now, with the new administration, it was decided that perhaps we could use a little bit of competition in the game, and so as of about 1982 SaskCOMP started to realize that it was in competition for business.

Now our main area of business is still in the public sector, the Crown corporations and the government departments, but it is by no means a de facto monopoly any more. The business that is given out from the public sector is available to anybody in the private sector. Now we have, obviously, the larger share of it because we were established, and our business is continuing to grow.

Industry is changing very significantly. As you know, it's a very fast moving industry. Technology doesn't seem to stand still. And the advent of the microcomputer some people said would spell the doom of the kind of business that we're in — well, in fact it's changing the business. It's adding volume to our business, to the main frame, the service bureau of Regina business.

It doesn't mean that we can survive if we just stay in the business of providing cycles, if you were processing cycles. We have to look to added value services, if you will, and that, I guess, means making our service rather more attractive, more easily usable by the user. That includes more attention to the software side of it.

The big push any more is in the software side of the business. The hardware battle has been largely fought, though there are advances in the hardware in terms of miniaturization in terms of

achieving greater economy and through . . . (inaudible) . . . and what have you. But the big frontier now is in the software. The application development, data base management systems and that sort of thing.

And by and large that's what's happened in the province. A number of private firms have come in into the application development area — Systemhouse, and a number of local . . . MSL was here before. And they are doing a fair bit of the business in terms of actually working with the user and developing systems.

We're still very much in the processing side of the business, although we are starting to make other thrusts. For example, one of the things that our mandate did do was open the door to consulting — that is consulting in the information management area, not consulting in the sense of developing code and programs, but helping departments. And even in the private sector it was open to us to consult with people to try and help them to more effectively use computer technology in operating their business and what have you because, let's face it, the computer is a very powerful tool, and, properly used, it can help anybody in business to achieve improved productivity. We are still very much feeling our way in that particular area.

As I said, we worked to consolidate the basic business that we're in. We're moving into the consulting area. Stated broadly, our mission is twofold: to help improve productivity in the public sector through provision of computer related services; and secondly to help to spread the use of computer services throughout the province to aid the provincial economy.

We are looking at a number of thrusts. Data base has seemed to be the thing of the future. You've probably all heard of videotex, and the access to data base systems. In other words, banks of information that are of value to people in various lots of life — farmers, even in the home, sort of thing. That's an area we're looking seriously at.

Another area that we are looking at is the whole matter of security — back-up, just after recovery, and that sort of thing. I think we're probably uniquely placed in the province to provide a service, not just to our own customers to make sure that if we fail we fail safely, but that the private sector also has access to ways and means of recovering, within reason, because as you get more and more dependent on computer technology, your hands are tied if the computer is down. It can be down for a day, or it can be down for a week. In fact, if it's down for very long, you're probably out of business. So it becomes a very critical area, and we're giving a fair bit of attention to that. And we hope to be able to come up with something imaginative that will give Saskatchewan a chance to not be that vulnerable.

We have made arrangements with a firm in the United States for disaster recovery so that, if worse comes to worst, we could recover, I suppose, the critical programs within three or four days or five days sort of thing; but there's always a problem when you cross the American border at customs and that sort of thing.

So I think those are the highlights of what we're doing: consulting, security, data bases, office automation. They're a thrust within the public sector on office automation. The Department of Supply and Services have certain initiatives under way, and we're looking at that ourselves to see to what extent that we can provide service in that area.

I think, Mr. Chairman, that's about where it's at. As far as growth, I think our last annual report suggests that we are growing at the rate of 20, 25 per cent. Now this exceeds even my thoughts of what might happen. But it is continuing to grow. And of course, with increased volume we're able to get more economies of scale, and so we've been reducing rates. And though our revenue is still not showing any particular increase, the volume of business has gone up.

**MR. CHAIRMAN:** — Thank you very much, Mr. Nelson. We, in this committee, have developed a system whereby we have lead-off people who handle particular departments. And I would ask

the member from The Battlefords if he's doing it, or are you . . .

**MR. KATZMAN:** — On a point of order, if I can, are we doing the '83 report or the '84?

**MR. CHAIRMAN:** — I said the year under review.

**MR. KATZMAN:** — Is December 31st, '83.

**MR. NELSON:** — Yes, that would be it, I believe. That would cover to December 31st, '83.

**MR. KATZMAN:** — That's what I wanted. Thank you.

**MR. CHAIRMAN:** — Okay. I felt that's what Mr. Nelson was covering because I did say . . .

**MR. KATZMAN:** — He gave us this one too.

**MR. CHAIRMAN:** — Oh, we got the '84 as well, did we?

**MR. MORIN:** — In the report, Mr. Nelson, they make some comments about segregation of duties and one thing and another. I wonder if you could comment on the auditor's report, the comments in the auditor's report on page 27.

**MR. NELSON:** — Page 27?

**MR. KATZMAN:** — Of the auditor's report.

**MR. NELSON:** — Oh, of the auditor's report. Oh, I'm sorry, yes. Okay.

There are a couple of things that have been raised there, and I'm happy to say that they were resolved rather shortly after we did get the auditor's management letter. If I understand correctly, Mr. Mrazek did share with the committee some general statements as to what has happened there. I can be somewhat more specific, I think, for you this morning because the others look rather general.

The two areas of concern was the problem of incompatible functions concerning the control of disbursements. That is, handing out cheques after they've been signed — do they go back to the same individual that has initiated them? Is there opportunity there for misappropriation of funds? With a small staff that causes a problem. But we have arranged now so that there is a division of duties. And to be more specific, this is precisely what has been done in that respect.

All disbursements must be authorized by an independent official prior to entry into the accounts. Data entry into the accounts is performed by an independent clerk who has no other disbursement function. And thirdly, disbursement cheques are distributed by a third clerical person who is independent of the disbursement function.

We believe we have adequately taken care of that, and that was done a year or more ago.

**MR. MORIN:** — Looking at your financial report for 1983, I see that your revenue is up a bit. But I'd like to go back. There seems to be a fairly constant tie between your revenue and expenses up until 1982. Then there's an extension in revenue over expense in '82, and again in '83, with an increase in both revenue and expense. I wonder if you can comment on two things: one, why the apparent tie between both revenue and expense prior to 1982 and the increase in the revenue side particularly? Was that as a result of your earlier comments, or were you just simply being more competitive for business?

**MR. NELSON:** — I think so. The years prior to '82, there were no significant rate reductions, and

so that revenues generally grew in line with volume. Starting '82, in fact, I guess it was April of '83 — '82 still reflected a fairly significant revenue growth. In '83 we said, well, gee, we'll probably make a little more money, and then it makes sense to do it. If we have rates too high, we're going to discourage use of computers in government. Let's get rates down where they belong, sort of thing.

And we followed along that. In fact, in the last year we've introduced rate reductions aggregating at about 30 per cent. And this reflects mainly the economy as a scale that crept in on the hardware side though. I wouldn't want to denigrate the impact of productivity improvements on the part of our staff as well.

So without breaking my arm patting ourselves on the back, I think we've done a little bit in the productivity area, but we've also reaped the benefit of cheaper hardware. So that explains how come our income has gone up. As I say, we're moving to close that gap because we really don't believe that our objective is to earn all kinds of money.

I think our objective really is, as I said earlier, a twofold mission, to help the productivity of the public sector through more use of computers, but that doesn't mean that we don't want to earn an economic return. Certainly we do. We're constrained by earning an economic return on our resources.

**MR. MORIN:** — Would the tie in revenue and expenses for 1982 reflect the fact that you were simply operating on a very, very narrow margin?

**MR. NELSON:** — Prior to . . .

**MR. MORIN:** — Prior to '82.

**MR. NELSON:** — '82.

**MR. MORIN:** — It you go year by year, there's a spread between your revenue and your expenses — very, very minimal.

**MR. NELSON:** — Yes. The objectives under the former administration, I think, were basically to try and break even, maybe come up with — barely covering all costs, including the cost of capital.

Now that did change back in '82, and the minister, the present minister said, well, we really don't apologize if we make a profit, sort of thing. So that's where that's at.

**MR. MORIN:** — Okay. I see your net income from '83 to '82 dropped a bit, about 800 million, I guess, or 8 million — 800,000.

**MR. NELSON:** — 800,000, perhaps.

**MR. MORIN:** — It's pretty early in the morning. The reason for that?

**MR. NELSON:** — That's in part a reflection of a rate reduction. As I mentioned, we started in '83 with some rate reductions.

**MR. MORIN:** — Your debt position has improved incredibly. Was that saved from revenue?

**MR. NELSON:** — Well, what really happened there, the hardware vendors came up with some pretty attractive lease rates. And, in fact, they introduced — IBM was our major supplier. They had a government-lease plan in effect prior to about '82. In '82, they introduced what was called — or early '83, the government-term-lease agreement.

And it became pretty attractive to us to opt for that approach to provisioning hardware. And of course then replacement hardware would not require capital spending. We were able to do it by lease. And these were operating leases. If they were capital leases, they would show as capital employed, if you will.

But in the meantime, our revenue and cash flow permitted us to pay down the debt that was outstanding in '82. At the end of '84 we were debt free, sort of thing, and it's largely the result of adopting the leasing approach to financing as opposed to acquiring and depreciating the capital.

**MR. MORIN:** — Okay. The member for Rosthern wants in, and then I'll have a few more questions.

**MR. KATZMAN:** — When you said you were able to get your inventory and those types of things together, in 1981 year-end review the auditor pointed out \$1 million that was taken into the corporation and was not charged out until the following . . . I can't remember how that worked now. It was \$1 million borrowed and declared as a dividend, and then charged back against long-term debt. How is that now reflected in the 1983 report?

**MR. NELSON:** — The impact of that has long since disappeared, Mr. Katzman. As I recall . . . this was a little before my time. I don't have a specific recollection on it.

**MR. FITCH:** — At the end of 1981 there was a purchase to go through for a large computer, and we borrowed the \$1,000,000 from Crown Management Board, or Crown investments corporation, to finance that, and the purchase did not go through. It was the January 1st date that the cheque had to be made available to I.B.M. So the money was borrowed. It was not taken into revenue and declared as a dividend, but it did become debt.

**MR. KATZMAN:** — One more time . . .

**MR. FITCH:** — Okay, when we borrow money that becomes debt, it does not go into income, and therefore is not available to pay as a dividend. Our dividends have been based solely on our profits.

**MR. KATZMAN:** — Except the auditor did indicate that you'd declared a dividend . . . (inaudible) . . . which reflected that same number. That aside, you had it somewhere that when you bought your new equipment the following year, you put it in long-term debt, obviously . . . (inaudible) . . . Now that you say you're leasing, do you still have that long-term debt or were you able to dispose of the equipment . . . (inaudible) . . .

**MR. FITCH:** — All of the long-term debt has been repaid and, I think, going back to the '81 auditor's observations, it was related to large under-utilized cash surpluses as opposed to debt borrowing for payment of dividends.

**MR. KATZMAN:** — . . . (inaudible) . . .

**MR. FITCH:** — Yes.

**MR. NELSON:** — That issue has long since been resolved, I think.

**MR. KATZMAN:** — That's all I wanted to make sure.

**MR. MORIN:** — If were to follow along on that, then, looking at your 1984 report, I see that your net income is about two and a quarter times what it was for '83. Is that a result of having no debts then?

**MR. CHAIRMAN:** — Mr. Nelson, you may comment on that or you can refrain, whatever your . . .

**MR. NELSON:** — I don't mind. No, really, it's a further reflection of the economies that have become available in the resourcing of hardware. Perhaps we were a little bit slow in reacting to rate reductions, but I predict that '85 won't be quite as healthy. I think it'll be healthy, but it won't be quite as healthy.

**MR. MORIN:** — Okay. Then going back to the 1983 report — I don't want to bounce around on you too much here — but I see that the number of employees increased by seven from '83 to '82, and the revenue per employee was up to a million dollars?

**MR. NELSON:** — That would be hundreds of thousands.

**MR. MORIN:** — Hundreds of thousands, 200,000, that you're talking about there?

**MR. NELSON:** — Yes. From '82 to '83?

**A MEMBER:** — Yes.

**MR. NELSON:** — Yes, \$2,000 per employee, yes. Your question?

**MR. MORIN:** — Well I'm just wondering if that's just again a reflection of the efficiency that you're able to accomplish internally.

**MR. NELSON:** — Well that's certainly true. Really, the revenue per employee is probably not a bad measure, except when you're in the process of reducing rates, and then you sort of get rubbery dollars and they're not stable to compare. We had growth in business, as I say, and we did have to add some people all right. Now I think, having regard to the growth in business, that the number of people we added was, you know, quite minimal.

**MR. MORIN:** — Well if someone else wants to get in for a minute while I . . .

**MR. CHAIRMAN:** — I would like to. I have a question. You touched on it briefly and it was quite a subject at last year's . . . when you were here last year. That was on the security. You say that you're still concerned in that area and I was wondering what progress . . . You talked about working with an American firm to find some answers. I'm just wondering where that's at now.

**MR. NELSON:** — I can tell you just what has happened. We contracted with an American firm called Sungard. They're in several places. Well they have places in Chicago, Philadelphia. What they provide is what's called a hot site. This hot site is a computer that has the equipment which is able to operate and run the sort of systems and program that you have.

You have to test it, of course. We had two or three tests and we have worked with that. We have a subscription to that service and it's there and it's available. It's costing us about \$10,000 a month as a stand-by fee and of course, if we ever get caught, it's going to cost us a fair bit more. But we are hedged against that by an insurance policy for extra expenses and that sort of thing.

But that is now in place, Mr. Chairman, and we're using it. We don't particularly like it because of the need to cross the border and the problem with customs and the delays and one thing or another, and our thrust is to try and get something in the domestic scene, perhaps even in Saskatchewan. My hope is that we can provide something in Saskatchewan so that we can recover in a matter of a day or so. Because I shudder to think what would happen if some catastrophe occurred and our system went down for a day — well, for a week or something. It would just wreak havoc with the public service of the province, sort of thing. We can't afford to take this lightly.

Since that time we have done a number of things that we said that we had planned to do. We have introduced additional security via TOP SECRET. These are jargon, I know, that don't do very much for you. We have further moved to provide fiscal security where our present computer facilities are, which is the basement of the Walter Scott Building, but currently we're very much involved in looking at the possibility of another site for that, a more secure site — something above ground, and reduce the hazards of flood and that sort of thing.

It's always a very important issue, and it's top priority. You can never get enough security, so there's got to be a balance — how much the cost benefits of security, sort of thing. But it's a very critical issue.

**MR. CHAIRMAN:** — Last year I recall you were looking at that time for a new location. Are you getting any closer?

**MR. NELSON:** — Well yes, in the last week or so. There's a committee of the board been struck. And we're very actively exploring alternate sites and the matter of going ahead and getting some space. We don't want to invest an arm and a leg in a building, as some other similar computer service bureaus have done, to their chagrin. But we do want to get some adequate space so that the security issue is taken care of.

**MR. KATZMAN:** — Well, both on the security issue, which we had an in camera briefing on last year, I believe — last year or the year before . . .

**A MEMBER:** — Last year.

**MR. KATZMAN:** — Last year. So I will touch carefully. I understand you have now got some of your systems in place, and you are attempting to put as much as possible, but remembering the cost structure of a new building and that type of thing. Am I right?

**MR. NELSON:** — Yes, precisely right. I think we've come a fair bit of a way since last year, Mr. Katzman. But until we get it in-province and get a new location for our computer, in other words, get a disaster back-up site in province, get a new location for a main facility, I won't really feel that we're really there yet. We've changed the repository for the off-site premises in Regina. Saskatoon is still where it is. I think we're happy with what we have in that respect. I think you raised some questions about that last time.

**MR. KATZMAN:** — Yes, that's where I was coming with my next question. You are with Brink's service, and the other company in Saskatoon are working . . .

**MR. NELSON:** — We're no longer with Brink's. We're in Crown Store-all in Regina, Crown Store-all. And we're still with Facs in Saskatoon.

**MR. KATZMAN:** — I have to think how to say this.

**MR. NELSON:** — Don't do the wrong thing.

**MR. KATZMAN:** — No, no. I would suggest that you give a hard look . . . I believe, and I stand corrected, is Crown still outside of Regina, for fire protection of some sort, or did they move into the city?

**MR. NELSON:** — I guess I should have brought my security man. I can't give you the details on that. I was assured before we moved that that was the best location for our off-site storage.

**MR. KATZMAN:** — . . . (inaudible) . . . My question is: I thought they were outside . . .

**MR. NELSON:** — Outside the city?

**MR. KATZMAN:** — Which meant the tire protection concern and the police concern. That's really what the question is.

**MR. NELSON:** — I'll be happy to follow up on that.

**MR. KATZMAN:** — Saskatoon is within the city, so you have fire and police very close. In fact, I think you have it just a couple of blocks away in one case. Am I correct on that? I think Crown may be outside city limits, out there near the pipe plant, and that's, I believe, in Sherwood R.M.?

**MR. NELSON:** — I really can't comment. I'll have to check into this. I assume that there was no issue like this, because they told me it was by far the best. And if they don't have fire and police protection, then I'm surprised.

**MR. KATZMAN:** — Well they could have the system built in, but that warehouse . . . (inaudible) . . . That does the same job. They could have that system in place, which then you'd just have to worry about keeping in direct contact with the police department, and what the police be hooked to, and so forth.

**MR. NELSON:** — I'll certainly find out for the next meeting.

**MR. CHAIRMAN:** — Mr. Nelson, if you wouldn't mind providing us with a confirmation of that, and with 15 copies to the clerk.

**MR. NELSON:** — 15 copies.

**MR. CHAIRMAN:** — Yes.

**MR. NELSON:** — Right.

**MR. KATZMAN:** — And if you're security conscious, we would accept it in confidence, if you wish. I mean that's, I think, would be the proper way.

**MR. ENGEL:** — Thanks, Mr. Chairman. Mr. Nelson, when my colleague, in the lead-off questions, just touched on some of the observations that Mr. Lutz made in the 1984 year, I didn't get a reaction from either the comptroller or from our auditor whether this matter has been dealt with.

You suggested that that was dealt with already a year ago. The first item, item 1, as far as . . .

**MR. NELSON:** — Yes. This was brought to our attention early in '84, relative to '83 year. And my information . . . In fact, I insisted it be dealt with rather smartly when it came out in the letter. So if it hasn't been dealt with, I would prefer . . .

**MR. ENGEL:** — I was just wondering though, are you satisfied that from the comptroller's office that that has been taken care of?

**MR. KRAUS:** — Mr. Engel, I have information from Sask Computer Utility Corporation that says they have addressed these issues, and what they have indicated looks satisfactory if, in fact, they've done it. But again, I have to state that it's not a treasury board Crown, so we're not responsible for their financial matters.

**MR. ENGEL:** — And the auditor hasn't reviewed it since that time. Is that true? Or do you wait till next year's audit, or is there interim auditing taking place?

**MR. LUTZ:** — We'll be doing an interim probably when . . . Oh, we have done the interim. Okay.



**MR. HUNT:** — Mr. Chairman, Mr. Engel, we have completed the '84 audit. And I believe the first point, 2.17(2), there were three phases of correction there. I think the last element was completed in August of '84. And I believe with respect to point (2), the entry documents, the changes to . . . (inaudible) . . . master files and programs, the corrective measures were taken in roughly April of '84. So we didn't have any similar weaknesses to report for the 1984 year.

**MR. ENGEL:** — And the additional staff that he's put on has taken care of the problem that's suggested in the first one where the same person that makes out the voucher also receives a cheque. They've taken care of that?

**MR. HUNT:** — Well there's a number of provisions. In March of '84 the payroll clerk was required to match all signed cheques for support before mailing, thereby effectively eliminating one aspect of the weaknesses.

Batch controls were introduced for accounts payable update in May. Passwords were changed to allow accounts payable to read only in August of '84. So those three measures, taken together, by August of '84 had satisfactorily . . .

**MR. ENGEL:** — Thank you. My question was that if you people that are developing software in the computer business have that problem internally, I was wondering what kind of advantage you'd give as consultants. In my own business I'd prefer to know that if I'm hiring . . . I do this myself. But if I'd be hiring somebody that does the billing, and the same person receives the cheques, there could be an opportunity for fraud there that we wouldn't want to have the people that design the programs and prepare that material — particularly in software — to have any kind of a shadow cast on the corporation. I'm pleased that that's cleaned up within the year that it was drawn attention to.

**MR. NELSON:** — It's a very vulnerable area, as you point out, and we take every step we can to make sure that . . . We still have people in this world, you know, and as long as you have people you're going to have opportunity for the sort of thing you suggest. I wouldn't want to pretend that we were pure 100 per cent, but we do everything we can to ensure that there's no fraud or anything creeps into our operation.

**MR. ENGEL:** — I appreciate that. The other question I had, Mr. Chairman, if I may . . . You talked a little bit about a consulting service or providing some technical information. Do you do that on a fee-for-service basis? Or do you have staff people that will come out when somebody buys a new computer or hooks in line, even with the ones through SaskTel?

There's . . . not an explosion wouldn't be the right word, but an awful lot of farmers are coming on-stream with . . .

**MR. NELSON:** — Micros?

**MR. ENGEL:** — Yes. Are you preparing software or making software available or software programs, or are you intending to get into that line or are you just serving farmers that are on-stream with you?

**MR. NELSON:** — Quite frankly, we're not into it in any great degree yet. We spent the last year or so exploring what's needed and we're very seriously considering moving into videotex, which is a data base system which would be resident on our main frame and which would have useful data for farmers to access in their production, marketing, what have you.

We haven't yet launched that project, and what I'm mentioning here is confidential, of course, but there is a high possibility . . .

**A MEMBER:** — Whoa, whoa. This is verbatim; this is public.

**MR. NELSON:** — This is public. Well then, perhaps I should . . .

**MR. ENGEL:** — The material that is printed and the press are sitting behind you . . .

**MR. NELSON:** — Yes.

**MR. MORIN:** — They, of course, wouldn't say anything . . .

**A MEMBER:** — He's writing like mad now.

**MR. NELSON:** — Well really, what I wanted to say is that it's still very much under consideration, and that's the area that we might move into, but no firm decision has been taken yet.

As far as microcomputers, we're not in the business of selling microcomputers. We do have certain expertise in the area of microcomputer use and technology, but nothing that we are in the process of making available as a service.

If and when we move into the consulting area, certainly it will be on the fee-for-service basis. And it'll generally be in the area of information systems management — helping people determine what their needs are to properly run their business in terms of information and the sort of technology that they can best make use of.

We're not into that yet; we're certainly exploring it, and the possibilities of moving into that field. That's about all I can say, Mr. Chairman.

**MR. ENGEL:** — So a broad program that's available there where a person hooks up with his telephone, that is with a private company? That's not with SaskCOMP?

**MR. NELSON:** — That's . . .

**MR. ENGEL:** — You know, I understood from some of the ranchers, particularly, that put some of their cattle on-stream . . . He was feeding in through a telephone into a computer, when I was down at his ranch, certain data about his cattle that was going to a sale, and I thought that that was run through SaskCOMP.

**MR. NELSON:** — That's not SaskCOMP. No, it's what the — the service that Sask Tel calls Agritex. And Agritex is essentially a communication network or gateway which permits the subscriber to access various data bases, including grassroots provided by Infomart out of Toronto, or Agrinet, one or two data bases from the States. That's the service that is now being provided to farmers.

**MR. ENGEL:** — And that's through Agritex? That's a private company, that's not through . . .

**MR. NELSON:** — No, Agritex is an offering of Sask Tel. It's a telecommunications network whereby you can pick up your phone or you have a subscription. Mr. Katzman probably has better information than I have here.

**MR. KATZMAN:** — If I can help you, Al, there's two things — Sask Tel provides that service. And if you want, for example as an MLA, you can put a demonstration unit in your constituency office for people to look at as a courtesy. I don't know if you were aware of it. But that's provided by Sask Tel.

There is the other service that you could also be confusing, which is the marketing service where

they sell cattle by auction.

**MR. ENGEL:** — I'm aware of that auction thing. But I thought that Agritex was part of SaskCOMP, that was a computer service you were offering in some software.

**MR. NELSON:** — It's a telecommunications network really, the gateway that the various data banks are available.

**MR. ENGEL:** — I see. And you're not on-stream with that program?

**MR. NELSON:** — No. If and when we move into videotex it will be using Agritex as a communication medium. There are two pieces of it. You've got to have communications and you've got to have a data base for access.

**MR. ENGEL:** — Oh, I see. I thought you were already into the data bases.

**MR. CHAIRMAN:** — I might interject here, Mr. Nelson and Mr. Engel, that if there is something that you would like to talk to the committee about and would like to do so off camera, we could always arrange that.

**MR. NELSON:** — I'm not aware of anything that . . .

**MR. CHAIRMAN:** — Okay.

**MR. MORIN:** — I have just a couple more questions. On page 19 of your 1983 financial statement you show accounts receivable. I wonder if you can tell us where they come from. Is that government or private?

**MR. NELSON:** — Primarily government and the public sector. And it's normal trade accounts.

**MR. MORIN:** — What would the breakdown be on your business dealings, the percentage of government Crown corporations, private sector?

**MR. NELSON:** — About 90 some per cent is in the public sector; about 4 or 5 per cent private. That's a rough estimation.

**MR. FITCH:** — I can give you some more precise figures on it if you want. At the end of 1983, government was 1.1 million; Crowns were 1.4; and federal was \$26,000; other was \$225,000; and the universities were 84,000. Which is the major portion of that — there was leasing where we lease computer equipment to publicly-funded agencies — and that represents another \$696,000 of that number.

**MR. MORIN:** — What exactly are you doing with the universities? Is it the operation of the university, or are they using your facilities in the teaching?

**MR. NELSON:** — Maybe an administrative systems that they're processing on our Saskatoon computer.

**MR. MORIN:** — We're used to dealing in millions. I gather that's 2.390 million.

**MR. MORIN:** — We're used to dealing in millions. I gather that's 2,390,000.

**MR. NELSON:** — That's correct.

**MR. MORIN:** — The total provincial equity or advances, 2,780,000, is that the total ever? That's the peak?

**MR. NELSON:** — That's what's outstanding at this point in time. Now I think if you look back, you might have seen that there were higher amounts of equity. If you go to page 16, for example, you'll notice in 1981, there was . . . Well, no. 75, I guess was the peak — four and three-quarter million equity. And that has been reduced over the years. In fact, it's now at 2.78 million.

And at the end of '84, that 2.78 was increased by roughly a like amount, which reflects retention of half of our 1984 earnings.

**MR. MORIN:** — I noticed from the notes to the financial statements that the advances are non-interest bearing and are payable to Crown Investment Corporation at their discretion. I wonder if you've ever done any work to figure out, based on the total dividends that you've paid, what sort of a rate of return the Crown Investment Corporation would have made on their investment.

**MR. NELSON:** — It's well in excess of the cost of money. I know that. And that, of course, would have likely been influenced by the higher earnings in the last two or three years. But just roughly, I'd say 14, 15 per cent, or something like that.

**MR. MORIN:** — On your statement of retained earnings on page 20, under 1982, you declared a dividend to the Crown Investment Corporation in excess of the net earnings.

**MR. NELSON:** — In excess of net earnings?

**MR. MORIN:** — Yes. Your dividend was 3,208,000.

**MR. NELSON:** — Two million. Oh, I'm sorry. What year — we're looking at . . .

**MR. MORIN:** — I'm looking at '82.

**MR. NELSON:** — '82. Earnings of 3,204,000 . . .

**MR. MORIN:** — Yes, I just wonder why . . .

**MR. NELSON:** — 4,000.

**MR. MORIN:** — You increased your deficit and retained earnings by \$4,000. I just wonder why. Why would you declare the dividend larger than either the net amount of retained earnings which is what you did this year, or the earnings for the year? I mean, \$4,000 is not a big deal but.

**MR. NELSON:** — The intricacies of that, sir, I can't tell you. I know it's in the nature of an adjustment. It was not a conscious decision to pay out more out more than net earnings. You'll notice that above there, retroactive adjustments, 126,000, change in accounting policy. I just have to apologize; I don't have, at my fingertips, the detail of that. I don't think it's any nefarious thought there. It's just one of these accounting adjustments they seem to have to go through at the time. Sorry, I can't give you a better answer than that.

**MR. MORIN:** — Well, that was going to be my next question because it looks like the 4,000 overpayment that occurred in '82 has been added to that figure in 1983. But if you can't answer that, that's fine. It's no big deal.

**MR. NELSON:** — I'd certainly have had to got you the answer. There's no problem. It's there. It's just that it's not available.

In '83 we were able to sort that out so that, in fact, we ended up with no retained earnings, and that's where we're at now. As far as the end of '84, as I said earlier, we retained half of our income as retained earnings.

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**MR. MORIN:** — I have no further questions other than I hope you'll take back our congratulations to your staff on that for the obvious good job they have done in terms of increasing their efficiency and their productivity.

**MR. NELSON:** — Thank you very much.

**MR. KATZMAN:** — Just one question. With the advent of more government departments going into small computers within their own offices, are you consulting with them to assist them or are they using somebody else?

**MR. NELSON:** — By and large their help is coming from the Department of Supply and Services systems centre. That's the source of their information. Certainly we're open and available to them, and they're part of our marketing. We haven't really made any great amount of inroads into that area, but as long as they're adequately served. But, as I said earlier, they're certainly part of our market, and if they want help we'll be more than happy to help them.

**MR. KATZMAN:** — The second question is: are you suggesting to them that you would be back-up storage for them as is normal in that industry they should have an outside back-up story, or are they using government services?

**MR. NELSON:** — Storage for . . .

**MR. KATZMAN:** — The back-up tape . . .

**MR. NELSON:** — Oh, no.

**MR. KATZMAN:** — In other words, in the industry you should always have a tape of what you've done every day, in case something malfunctions or something, and it should be placed in another location other than location of operation.

**MR. NELSON:** — That's a standard part of our service. Anybody who deals with us, we provide that. In fact they have to sign a contract indicating precisely what we provide in the way of back-up, but we do provide it. No, they're fully covered there, Mr. Katzman.

**MR. KATZMAN:** — Mr. Chairman, I would like to make one comment in conjunction with what Myles has said. I appreciate the straightforwardness of the corporation's answers and the quickness in which they worked on those complaints that I had last year.

**MR. NELSON:** — Thank you.

**MR. CHAIRMAN:** — Thank you very much, gentlemen. It is obvious that the corporation is going in the right direction and, as has been said, thank you very much for coming.

### **Teachers' Superannuation Commission**

**MR. CHAIRMAN:** — I'd like to call the committee to order and welcome the Teachers' Superannuation Commission and Lois Herback, and would you please introduce your partners?

**MS. HERBACK:** — Yes, this is Arleen Copeman. She's an administrative officer with the commission.

**MR. CHAIRMAN:** — Thank you very much. I will not take for granted that you've been here

before and know how the committee operates, so will advise you that everything you say is for publication. And while there can't be any legal implications or criminal or civil proceedings outside the committee, on the other hand, everything is taken down verbatim and does become public knowledge. So having said that, we will start with . . . I think Mr. Katzman is the lead-off person for this.

**MR. KATZMAN:** — As I indicated to you, you probably know what my first question is before I even ask it. Do you have the number from the actuary? I believe we got it a short while ago, but we were a little confused that day. I think everybody was confused before we finished tossing numbers around. So I just want to clarify that number. And then I believe we now have three plans on teachers' pension, and if you could very succinctly indicate the dates — in fact, maybe we should do that first — the dates of each plan, and do we have an idea how many people are in each plan?

**MS. HERBACK:** — Mr. Chairman, we were present before the Public Accounts Committee in early December of 1984, and at that time reported to the committee the unfunded liability that had been identified in the most recent actuarial valuation conducted on the June 30, 1983 data, for a total of \$1.346 billion.

**MR. KATZMAN:** — Okay.

**MS. HERBACK:** — The second part of your question — there are two plans for the teachers superannuation' in Saskatchewan. There's the teachers' formula plan for all teachers, the old formula plan; and the teachers' annuity plan which was implemented July 1, 1980. You've made mention of three. I think you may be referring to the three funds. There are two plans, but three funds.

The formula plan has the teachers' superannuation fund, and it's currently the major fund under the control of the Teachers' Superannuation Commission. The teachers' annuity fund, or teachers' annuity plan, has two funds — the annuity fund proper, and what is referred to as the supplementary allowances fund. And it is the intention, when it was established, was to provide for escalation of annuities and for dependants' allowances to individuals who had been in receipt of annuities.

**MR. KATZMAN:** — Let me deal with the whole plan first, the one that's got the billion-dollar-plus shortage. What we identified, I believe, in December is we were \$1.346 billion short at that date. The confusion developed over, if we stuck that much money in that day, are we then soluble or is the lesser amount we have to put in tomorrow to make us what we think?

**MS. HERBACK:** — That is the amount of money that we would need, as of that date.

**MR. KATZMAN:** — That's where the confusion starts, okay, if we put it in in dribs and drabs, saying, in other words, to say that each year as we pay out the amount of money we are short in the fund to pay out that year, until everybody is deceased, therefore the fund is no more existing, it could lie 40 years, 30 years, 60 years. There was an assumption we were over the \$2 billion mark.

A MEMBER — 3.7.

**MR. KATZMAN:** — 3.7.

**MS. HERBACK:** — My understanding, when I have been talking to William M. Mercer, who was the firm that we had contracted to do the actuarial evaluation, the \$1.346 billion which had been identified as the actuarial liability as of June 30, 1983, that amount had been developed making certain funding assumptions that the government would continue to do.

**MR. KATZMAN:** — And they are? Here we go.

**MS. HERBACK:** — Well it's included in the details.

**MR. KATZMAN:** — Well we're assuming that every . . . Okay then, let me put it this way. He is making assumptions on the rate of interest that the government will continue to match what is going in, which they did not do before. He is considering that the shortfall of each year from now on will be put in by the government each year as it goes by, not causing any additional shortfalls. And therefore, we have the billion three, correct?

**MS. HERBACK:** — Mhmm, more or less.

**MR. KATZMAN:** — With all that in mind, what we don't take into account is any changes within the beneficiary plan or the new formula that went in in the last negotiation sector which allowed earlier retirement. I believe it was 25 and something or whatever it was, 30 or 5 or something. Is that reflected in the billion three, or is there an additional amount to be reflected there, or is there an amount needed to be tossed in to cover that additional liability?

**MS. HERBACK:** — I'm not certain.

**MR. CHAIRMAN:** — Excuse me one moment. I'm finding it a little difficult to follow this with the conversation that's going on on my right, and I would ask the members to please . . .

**MR. MORIN:** — You've gone so far left, Al, that he thinks you're on his right.

**MR. WEIMAN:** — Just for the record, would you indicate that that wasn't Mr. Kraus?

**MR. CHAIRMAN:** — I think the people who are responsible know who they are, and I would ask them to conduct themselves accordingly.

**MS. HERBACK:** — My understanding of the concept underlying actuarial valuations is that it is based on conditions that are understood to exist at that time. If there are improvements to the benefits that are negotiated subsequent to the date of the valuation, there would not likely be any reflection of those negotiated benefits in developing the actuarial liability.

**MR. KATZMAN:** — I need some help here. Maybe I'll go to one of the school teachers.

**MS. HERBACK:** — July 1st, 1984.

**MR. KATZMAN:** — 1984, okay. So then that is not reflected. That may cause an additional shortage in this fund.

**MS. HERBACK:** — That could impact on the actuarial liability.

**MR. WEIMAN:** — Could I have clarification on that "30 and out"? Under the old formula, it was 2 per cent times 35 years, basically. You could go up to 70 per cent. On the "30 and out," that's 60 per cent, is it not?

**MS. HERBACK:** — Well, if you walked out at 30, yes.

**MR. WEIMAN:** — That's right, if you opted out at 30. So there could be also a saving there because under the old formula it's based on your five best years which are generally your last five years.

**MS. HERBACK:** — Correct.

**MR. WEIMAN:** — So those who opted out at “30 and out” don’t have that advantage of picking up those extra good, very fat years. Is there a possibility that in the long term that will be cheaper?

**MS. HERBACK:** — I really . . . I haven’t got the knowledge to . . .

**MR. WEIMAN:** — I guess I’m asking your opinion as opposed to your expertise.

**MR. KATZMAN:** — They live longer at five years, too.

**MR. WEIMAN:** — Yes, but’s only at 60 per cent instead of 70.

**MR. KATZMAN:** — That’s right.

**MR. WEIMAN:** — So there’s less time to pay, or less to pay over the longer haul.

**MS. HERBACK:** — The comment that’s been given to me is perhaps not because the individuals are younger and will live longer and therefore draw benefits for a longer period of time.

**MR. WEIMAN:** — That was the member of Rosthern’s comment, but I would indicate that . . .

**MS. HERBACK:** — No. I’m sorry, I wasn’t listening.

**MR. WEIMAN:** — No. Well, I’m sorry . . . (inaudible interjection) . . . The other side of it is that even though they live longer, say they live five years longer, you’re also paying 10 per cent less every one of those five years.

**MS. HERBACK:** — That’s true, but whether it would be enough to offset is something else.

**MR. KATZMAN:** — Your money is not in the account growing interest and other benefits. I’d love to sell you a plan for an insurance company if you believe what you believe because I think they’d make money on you. But I’m not in that industry any more.

**MR. WEIMAN:** — Thank you. Another question with the “30 and out” . . . Well, maybe I’ll rephrase it. I’ll start overall the beginning. Let’s go back in history on this.

In 1980 when the annuity program came in as opposed to the old formula, all those new teachers who came on stream automatically went to the annuity program. Is that correct?

**MS. HERBACK:** — Everyone that had no teaching service prior to 1980.

**MR. WEIMAN:** — That’s right. That’s what I mean by coming on stream.

**MS. HERBACK:** — Yes.

**MR. WEIMAN:** — If my memory serves me right, the option was also there for teachers on the formula system to change over to the annuity system. And if memory serves me correct, they were also offered, basically like a hockey player, a signing bonus to switch programs.

**MS. HERBACK:** — The signing bonus still exists, yes.

**MR. WEIMAN:** — It still exists?

**MS. HERBACK:** — And it will exist . . .

**MR. WEIMAN:** — That’s what brings me to my third question.



**MS. HERBACK:** — . . . until July 1, 1986.

**MR. WEIMAN:** — July 1, 1986. Now in regards to the “30 and out,” I guess I’m asking this selfishly because of my background. You can’t divorce yourself from your background.

With the “30 and out” in place now, where you would gain 60 per cent, 30 times 2, would it be more advantageous for a teacher to switch from the formula program to the annuity program via the “30 and out” clause because you’re buying an annuity for that 60 per cent?

**MS. HERBACK:** — A lot of things . . . I can’t give you an unqualified answer. And what we have been advising teachers, and we will sit down and work through on a individual basis using certain earnings assumptions on the plan because your annuity that you’re entitled to under the “30 and out” is dependent upon the rate of fund earnings, upon what the interest rate is going to be, and we’ll be able to issue an annuity at that date. So there’s a number of unknowns.

But we have gone through and we have done projections, and assuming inflation remains at a certain level, it would appear that individuals with perhaps less than 12-years service — that seems to be the breaking point — given the assumptions that we’ve been working with, they do better under the annuity plan. If you’ve got 30 years under the formula plan, a lot of those years, the very early years, could be when your salaries are relatively low. But they carry the same weight in the formula as your most recent years, correct? Whereas under the annuity, they wouldn’t, and the signing bonus to transfer isn’t always enough to offset that.

**MR. WEIMAN:** — With the annuity program, what you pray for as a teacher is recession after 30 years because you can just buy a heck of a lot more. Right?

**MS. HERBACK:** — Mhmm.

**MR. KATZMAN:** — No, you pray for escalating rates while you’re paying in, and then it slows down after you’ve bought your plan.

**MR. WEIMAN:** — I just want to get that one thing clarified. You said . . . I will call it, for want of a better term, a signing bonus, to switch from the formula plan to the annuity plan. That is still there?

**MS. HERBACK:** — It’s still there.

**MR. WEIMAN:** — Until?

**MS. HERBACK:** — Until July 1, 1986. We haven’t had very many individuals take advantage of the transfer — the annuity plan.

**MR. WEIMAN:** — Just out of curiosity, what is the signing bonus?

**MS. HERBACK:** It’s twice the difference in the interest rate between what the teacher’s formula fund earned and what had been allocated in interest. So if the teacher’s formula fund earned 12 per cent in a given year and we had allocated 7, it would be a 5 per cent difference. We would give twice that, or a 10 per cent interest in that particular year.

**MR. WEIMAN:** — Is that general knowledge among the teaching profession?

**MS. HERBACK:** — It has been published through information pamphlets via the STF. I believe it has also been in the bulletin, perhaps not recently. Particularly with the July 1st deadline date coming up, there will have to be some further publicity given to it, I would think, in fairness to the teachers. But we haven’t had very many individuals take advantage of the transfer to date.

Since 1980 I believe there's been about 35, 40.

**MR. WEIMAN:** — I'm sure that you must have on record actuarial charts or flow charts indicating average life expectancies of teachers, say, in the '50s, as opposed to the '80s. Because you'd indicated when we were talking earlier about the pension plan, that it may not be cheaper — the 30 and out — in terms of the treasury because these people tend to live a long time. Do you have such charts as that?

**MS. HERBACK:** — Well we've recently had a study completed for us by, again, William M. Mercer, and it was to develop annuity factors to be used in issuing annuities to these teachers that are going out under the new plan. And of course the mortality tables are very, very important in that context. We have to know, or have a fairly good idea, how long these teachers are going to live.

Now the study that they've prepared have recommended using as a basis the 1983 CAM group annuity mortality table with no adjustments, in view of improved mortality projected in the next five to ten years, and they've gone through all sorts of things.

When I asked them about the average life expectancy of a teacher, like, I said, do they live to age 75? Do they live to 78, or whatever? They said that the tables aren't developed on that basis.

**MR. WEIMAN:** — Well the reason I bring that out — in light of all the information you seem to hear in the media or read regarding life expectancy because of job stress, higher incidence of heart attack, etc., etc., heavier workload, whatever, if that's true, it would bear out that . . . (inaudible interjection) . . . Pardon me?

**MR. KATZMAN:** — . . . don't sound like you're giving the teacher's side.

**MR. WEIMAN:** — It would just sound to me as if the teacher that retired in '50 had a better chance of living to 80 than the teacher who retires in 1980 having the chance of living to 2000.

I would bet you that . . . or I would suggest, that that graph comes down.

**MS. HERBACK:** — That could be. Arleen has just advised me that there was a study conducted in 1980 that . . . again it must have been along the lines of a mortality . . . Saskatchewan teacher mortality review, which indicated that Saskatchewan teachers have one of the longest life expectancies in Canada and, I believe, second only to the ministry.

**MR. WEIMAN:** — I suspect a lot of that has to do with just old-fashioned clean living. And that's no disrespect to that group that belongs to the auditors.

**MR. KATZMAN:** — I'd hate to see where the politician would end upon that life expectancy.

**MR. CHAIRMAN:** — I have a question as it relates to the auditor's report. We're getting very close to July 1985, and it appears that you haven't had an accounting system since 1981. There seems to be a problem there, and how is it being addressed?

**MS. HERBACK:** — Okay. With all due respect to the auditors, I don't believe that their reference was to the fact that we did not have an accounting system in place but, perhaps, rather to the condition of our computerized contributions records.

The auditor's report was based on our year ending June 30, 1983. Now we have since had an auditor's report for the year ending June 30, 1984, and the auditor has not raised that as a concern, for very good reason. We've made tremendous strides, and we are currently processing our teacher contributions, January 1985, which would put us four months in arrears.

We're very pleased. We've had considerable help from other central government agencies in terms of advice and support. There's been additional staff brought on in order to address this. The conditions and the backlog, if you like, arose partly because of when it was initially conceived, it was determined that testing would be done. The old system that had been implemented was discontinued. It had originally been believed that the new system would be implemented within four months, and of course that proved totally unrealistic. The concept of the programming the system was much greater than originally anticipated. But in addition, our problems are compounded, in that the teachers' plan is negotiated, and the bargaining table often brings forward things that we have to stop and either incorporate into the existing system . . . Like, there's something that we have no control over. We're bound by the negotiations.

But due to the additional staff, the support through central agencies, the continued focusing on reducing and eliminating this backlog, we feel we have it under control. The auditor feels we have it . . . I'm reading into the fact that it wasn't cited in the June 30th, '84 auditor's report that we also have it under control, and we're projecting to be current in September, October of '85.

**MR. CHAIRMAN:** — Okay. Well then it seems that the auditor has been back since this report, and perhaps the auditor might wish to make some comment on this, Mr. Lutz?

**MR. LUTZ:** — Mr. Chairman, if I may, I will ask Mr. Atkinson to speak to Ms. Herback's comments . . . if you would please, Brian.

**MR. ATKINSON:** — Mr. Chairman, Ms. Herback, I agree that for the year under review that . . . I should say I disagree for the year under review that we said that essential records were not maintained, and I think that that was quite proper. And that is for the year ended June 30th, 1983, the year that we reported in the annual report. I also agree with Ms. Herback that for the year. . . We have completed the audit for June 30th, 1985, and at that time . . .

**A MEMBER:** — 1985 or 1984?

**MR. ATKINSON:** — For '84, I'm sorry. We completed it June 11th, 1984. At that time the records were maintained, and we were able to complete the audit for that year. So I would agree that the problem seems to be under control with respect to that issue.

**MR. CHAIRMAN:** — Well that's encouraging. I thought there might be something . . . I thought you would have something to report differently because it looked like a pretty serious situation when you have an old system and you don't have the new one in before you destroy the old one.

**MS. HERBACK:** — It has created a lot of problems.

**MR. ENGEL:** — . . . (inaudible) . . . the way you worded that with respect to that issue, is there another issue that you had some concern with, or were you just . . .

**MR. ATKINSON:** — For the year 1984?

**MR. ENGEL:** — When you addressed the issue that they were talking about as far as the controls that were in place in this audit for the year end '84 . . . Did you say June 11th? Or whatever date you used, either the date, and I can't remember exactly what it was . . . But you said, on that specific issue. Did you say it just like that, or did you mean that there's some other issues that haven't been addressed?

**MR. CHAIRMAN:** — Pardon me, Mr. Engel. I think you might be out of order in that we're just discussing the year under review, 1983, and he has satisfied that situation, so I don't think we can

go into 1984 or anything else that might be different in '84.

**MR. KATZMAN:** — Well, whatever, '83 of January? July of '83?

**MR. ENGEL:** — Apparently . . . Is your year end the same?

**A MEMBER:** — No.

**MR. ENGEL:** — What is . . .

**MS. HERBACK:** — Our year end is June 30th.

**MR. ENGEL:** — Your year end is June 30, rather than March 31. Now to be specific as to what is under review or not, are you trying to hide something, Mr. Chairman, or can we not discuss it because we're one month out? March, April, May, June.

**MR. CHAIRMAN:** — Mr. Engel, you would know that I would not try to hide something, but I think we're dealing with 1983 here. We have been satisfied that the answer has been received, not only by the officials, but also by the auditors, so . . .

**MR. ENGEL:** — Well Mr. Chairman, maybe you should let me decide that. I'm a member of this committee as well, and there is a discrepancy there because the auditor's report is year end, March the 31st '84, not '83.

**A MEMBER:** — On a point of order, Mr. Chairman . . .

**MR. ENGEL:** — I'm not speaking to a point of order. I just want to question . . . Are you trying to rule me out of order by asking a question if there's other issues that need to be addressed? Can't we discuss that in front of this committee?

**MR. CHAIRMAN:** — Quite right, but by the same token, we're dealing . . . While this is '84, this book is '84 — I don't disagree with you on that — but what we're dealing with is June of '83. That is their year end. Now if you want to slip into June 30th of '84, which would be their subsequent year end — that's their next year end — then we will deal with that in 1986. That's the way this works.

**MR. KATZMAN:** — On a point of order, Mr. Chairman, if I may, my understanding of what we do here is we will . . . all Crown corporations and annual reports and so forth are required to report 90 days after the end of their fiscal year, and then report to the House on the 15th sitting day after that. So the only report the Legislative Assembly would have when the auditor filed his report that we have before us, the most up to date one by those rules would be the 1982-83 report, because of the 90 days and the 15 days, which is settled in the table of documents. We have no ability for the auditor, in his March 31st '84, because of The Tabling of Documents Act, to be able to refer to the '83-84 report. But that comes in next year. Am I correct on that?

**MR. CHAIRMAN:** — It has not been tabled yet, and of course, rather than the 30 days that you talked about, it's 45.

**MR. KATZMAN:** — It's now 45 sitting days?

**MR. JAMES:** — Yes. There was an amendment to The Tabling of Documents Act prior to Christmas time.

**MR. KATZMAN:** — That's correct. It's 90 plus 45 . . . (inaudible) . . . You're right.

**MR. ENGEL:** — I'm really surprised at the sensitivity of the government members when dealing

with superannuation. When you have people here that are anxious to reveal that they're conducting their affairs in an orderly way . . . And the auditor just made a remark, and all I wanted to know is what they've implemented, and by the answers that we were given indicated to me that Lois was quite pleased with the changes they've made. And I just wanted her to comment on that, that the other issues that the auditor was referring to were being worked at and were being addressed. And if you want to use some technicality to wait two more years, so you're always two years behind time . . . I think that's why it shows up in the auditor's report. I had no derogatory area that I was going to uncover, but I think the committee members are making it look as though the teachers' superannuation committee is trying to hide something.

**MR. CHAIRMAN:** — Order. If the auditors wish to reply to that they may feel free to do so.

**MR. KATZMAN:** — Mr. Chairman, I would suggest that if the department officials are prepared to go into the next year then the auditor, if he is prepared to comment, normally comments. But we ask them first if they are prepared to go into the next year, which would have been the right step for Mr. Engel to do. Then his question to the comptroller would have been proper.

**MR. ENGEL:** — She addressed that issue already and said that these were the steps she was taking, and as far as I was concerned, I wanted to know if the auditor felt that was, you know, just going to underline that those procedures were in place.

**MR. KATZMAN:** — . . . (inaudible) . . . briefing, and he answered in '83 and you were moving to the '84. That's where the question became. That's where the discussion really broke down. Am I missing something, or is that correct?

**MR. MORIN:** — Mr. Chairman, it seems to me that we've hit a fork in the road here. I think, from listening to Mr. Engel's question, that it was reasonable. I think he should be allowed to proceed with it.

**MR. CHAIRMAN:** — I would ask the officials if they wish to comment on . . . there seems to be some . . . I would say that the auditor may have alluded to something that is — brought something up in the mind of Mr. Engel. So if you would like to proceed into the '84, and if there's another concern, feel free, then, to address it with the auditor's assistance in that area.

**MS. HERBACK:** — Mr. Chairman, I would be entirely comfortable discussing as far as we are able to do so, the 1984 year. We have not tabled our annual report for the year ending June 30th of '84, but comments about our operation that we can answer, we are prepared to do so.

**MR. CHAIRMAN:** — Would you like to . . .

**MR. ENGEL:** — Well, all I was concerned with, Mr. Chairman, is that the auditor said that there was no accounting system in place for — I'm really making this in a farmer's language here. I'm sorry about that. In Lois's opinion that they had developed a system that is operational at the time this audit was taking place, and being that the year-ends are different, I just wanted some comment on it as to how that system was working.

I didn't think that was a politically motivated question. I didn't think I was trying to touch some sensitive nerves, but it looks like we're going to get a very interesting committee coming up if you folks are going to be that terrible sensitive about a simple matter of letting the Teachers' Superannuation Commission explain their new auditing system or accounting system that they have in place.

**MR. CHAIRMAN:** — Mr. Engel, there's nothing political about this. You're reading more into it than what is necessary. We're just dealing with the year under review. Now you've asked your question; we'll let the auditor respond.

**MR. LUTZ:** — Mr. Chairman, I would ask Mr. Atkinson to respond in . . .

**MR. ENGEL:** — In very general terms like the question was intended.

**MR. LUTZ:** — Whatever, yes.

**MR. ATKINSON:** — My comments, I think, Mr. Engel and Mr. Chairman, were that for the year that we were talking about, the year for June 30, 1983, that our comments in the annual report were, in fact, accurate that it was our opinion that the commission did not for that year maintain essential records in that they did not have the contributions ledgers up to date, nor did they have general ledgers for the three (if you want to say; plans for the year. And since Ms. Herback talked about the year 1984, June 30, 1984, I agree with her comments that for that year under review, or for the year June 30, 1983, that was not a concern for us.

**MR. LUTZ:** — June 30, '84.

**MR. ATKINSON:** — '84, I'm sorry.

**MR. LUTZ:** — Let's keep these years in place because it can be very confusing.

**MR. ATKINSON:** — And whether that, to you, means that we're talking about something else, I'm just saying that was not a concern for that year.

**MR. ENGEL:** — Thank you.

**MR. KATZMAN:** — If I can go back to where I was . . . The formula plan, we have decided that with the 60, the 65, whatever way you want to go, we have built in 1.346 billion on one side. We are now saying that the "30 and out" may change that slightly. We are not positive at this time. It will take until the actuary review — will give us some idea.

The cost to move to the new formula plan — sorry, to the new plan from the old formula plan and the bonus provision — is it charged to the old plan or the new plan, or does the government put in new money to cover that?

**MS. HERBACK:** — We transfer from the formula plan, the old plan, the teacher contributions and interest thereon. The government contributions and bonus interest comes from the Consolidated Fund.

**MR. KATZMAN:** — So we then give you a funded plan, basically probably under 10 years whoever is moving, from what your comment . . . The reason I said the 10 is you basically said if you're on the old formula, 12 seemed to be a magic number where you wouldn't move. I was accepting that. We would then give you the cash equivalent of what you put in — sorry, put in on your behalf the cash equivalent. The amount on that would come out of . . . charged to the old formula plan. The portion that the government would put in: would that come from the present account?

**MS. HERBACK:** — Current.

**MR. KATZMAN:** — Current. So that is not charged to . . . Therefore that will drop the deficit in the other plan.

**MS. HERBACK:** — You're removing a liability.

**MR. KATZMAN:** — That's right. You're removing part of the 1.3 billion for each person that moves over. So that this number will reflect again if many people do move or don't, and the interest accrued and the bonus to move comes out of general revenue when you make the

move. Or is it charged back to this plan?

**MS. HERBACK:** — It comes out of general consolidated funds.

**MR. KRAUS:** — It's an additional contribution by the government.

**MR. KATZMAN:** — That's right. So what happens is we now, if each person moves, we cause the government to pay the premium out of current funds plus pay the share that was not contributed before out of current funds to get your plan in line?

**MS. HERBACK:** — Yes.

**MR. KATZMAN:** — So the liability under the formula plan can drop.

**MS. HERBACK:** — If there was a substantial movement.

**MR. KATZMAN:** — If there was a substantial movement. It drops a little, but not enough to notice it unless there's a lot of people.

**MS. HERBACK:** — So far we're looking 35 to 40 people, and I suggest that the impact is very negligible.

**MR. KATZMAN:** — Right. Now on the equity plan, the government now for the first time or since 1980, or whatever the date is, now matches each year with what you put in as the teacher, the interest goes to the plan as it's earned, and the government pays the administration cost of the plan so it's not charged to the plan. Have I got that right?

**MS. HERBACK:** — Correct.

**MR. KATZMAN:** — Okay. Now if somebody teaches five years, quits teaching, withdraws their portion because they haven't hit the 45-5, or whatever the new formula is . . .

**MR. WEIMAN:** — 40-10.

**MR. KATZMAN:** — 40-10. They haven't hit . . .

**MS. HERBACK:** — That's under The Pension Benefits Standards Act. We're not subject to that.

**MR. KATZMAN:** — Okay. So he drops out. He takes his share plus a smaller interest share than what his money earned. Or does he get the full portion of his money earned?

**MS. HERBACK:** — He gets the full portion of his money earned.

**MR. KATZMAN:** — Okay. The government portion: does it stay there and does the interest stay there, or what happens?

**MS. HERBACK:** — Well, yes. It's transferred between funds, but it basically remains under the jurisdiction of the teachers' annuity plan.

**MR. KATZMAN:** — It stays within the teachers' annuity plan.

**MS. HERBACK:** — Well, okay. We transfer it into the supplementary allowances fund, but . . .

**MR. KATZMAN:** — Let me make sure I've got this right. The money that the government puts in stays there. But is it charged against the new money they must put in now? In other words, say that for 1985 — yes, for the fiscal year '85-86 — that they're required to put in \$1 million and

there's \$100,000 worth of drop-outs. Like there's money left behind because people leave. Does that \$100,000 reduce the million the government must put in out of their share, which is what some cities have done, or does it stay there to make the fund more viable down the road?

**MS. HERBACK:** — It stays there, and it stays in the supplementary allowances fund to provide for dependent children allowances and also to provide for escalation to annuities that have been granted. It stays there to make the plan better.

**MR. KATZMAN:** — It basically is used . . . If somebody drops out then it is an amount of money that would be contributed to the benefit of those in that third plan without having to dip into the government . . . And what we're saying is: the government says we have enough funds to do this; therefore we will agree to do this, or the teachers or whoever says it.

**MS. HERBACK:** — It stays there. I have some problems when you refer to it as a plan. It's a fund. It's part of the second plan. It stays there for members in the second plan.

**MR. KATZMAN:** — Who decides when it kicks in? Who decides that that money has made . . . we can now give more benefits to children, we can give more benefits to dependent spouses and so forth? Or we can't, because there hasn't been enough fall-in.

**MS. HERBACK:** — That's the only source of moneys that we have to make payments to dependent children of individuals that die in the annuity plan. So it's not a question of deciding when it kicks in.

**MR. KATZMAN:** — But you could develop an unfunded liability here, is what I think could happen, because you could start paying out funds, and then you don't have as many people quit. Therefore there isn't as much fall-in. I'm concerned, once you start the pay-out of the second section . . .

**MS. HERBACK:** — Every teacher pays into the supplementary allowances fund, as well as into the annuity fund. It's a small percentage.

**MR. KATZMAN:** — The portion is . . . With that in mind, the claims against this fund could at one time exceed those moneys that are there from fall-in, and the small portion, it is possible about 20 years down the road . . . You won't see it for at least 20 to 25 years, I don't think, till you start getting some of these people onto retirement. Well, it will be actually 26 years till you can probably see a real kick-in.

**MS. HERBACK:** — I have some difficulties with that in that the whole concept of the annuity fund is such that there would not be an actuarial liability associated with it, and the supplementary allowances fund to which we are referencing here — the moneys there will provide escalation only so far as they are able to. So we won't be able to overcommit. We'll have to assess it on the basis of the available moneys.

**MR. KATZMAN:** — In other words, you were doing an actuary study within that one at all times to make sure you're not paying out more than you will have, and you are basically telling the members: this fund cannot run into unfunded liabilities because of the checks and balances.

**MS. HERBACK:** — Yes. It will have to be monitored carefully.

**MR. KATZMAN:** — You have two choices then. If there is an additional fall-in, as I call it, then you must say to the people paying in, you must put a little bit more into this fund to carry the obligations; or you have a problem . . . (inaudible interjection) . . . I mean, you would say that.

**MS. HERBACK:** — Well, we would have to suggest that if what you're alluding to does in fact happen, then we would have to go back to . . . or make individuals aware. And again it's a



negotiated plan provision, the contribution rate to each of the funds.

**MR. KATZMAN:** — It should not be a problem. Probably I'll be dead by the time it becomes a problem. But . . .

**MR. MORIN:** — Or sooner it she keeps looking at you the way she is.

**MS. HERBACK:** — Your assessment of the situation is basically correct, at least in my view, in that actuarial valuations will have to be conducted on a very regular basis, and the situation monitored to make sure that escalations or annuity dependants' allowances are not overcommitted.

**MR. KATZMAN:** — My concern, and I will finish on this note, is that the formula plan has got us in certain problems. We're going to have to live with it. The new, what I call cash purchase, for lack of a better word — and that's what the public understands better than as an annuity. It indicates what you put in and to match what you get out. So there shouldn't be an unfunded liability.

The second part of the annuity plan, if we don't keep careful strings on it and carefully monitor it, could get us accidentally into an unfunded liability. And my concern is that let's try to divert surprises.

The last comment I have on this whole thing: are we finding on the old formula, because the equity plan is not a concern down the road on the old formula plan — and I guess I have to . . . I can't use '84 on this one, I'll have to use '83 because it's the only numbers you would have. Are we having sufficient extra money put in from general revenue or the Consolidated Fund at this time to stay within the forecast? In other words, 53 million or 40 million or 30 million, whatever the magic number is to make the 1983 fund pay-outs and . . . I'd better do it differently.

The money coming in from the teachers on the old plan and the amount coming in from the government treasury for the old plan: I assume at the present time the government share is much greater than the teachers are putting in.

**MS. HERBACK:** — That is correct.

**MR. KATZMAN:** — Okay. And is it sufficient that it is not dragging down in the year under review? In other words, were sufficient funds placed in, that our position is no worse — in other words, not falling behind it further yet?

**MS. HERBACK:** — The funding that the government provides to the teachers' plan is defined in legislation, and the government has been meeting in excess of the legislative requirement each year.

**MR. KATZMAN:** — I'm done, Mr. Chairman.

**MR. CHAIRMAN:** — Thank you very much for your . . . Oh, do you have another question?

**MR. ENGEL:** — I was just wondering. I've been looking at your annual report and your investments and all. How do you decide to buy investments at the Bank of America or BBC Mortgage Corporation, and so on, Ontario Hydro, and so on? Do you just do that strictly on monetary reasons or, you know, would you have some directive as to making investments in Saskatchewan corporations or Saskatchewan municipalities and so on, versus . . . It bugs me a little bit when I see some Americans on here, like . . . It's only a half a million dollars but, even at that, you wonder . . .

**MS. HERBACK:** — The process that we follow, and it's laid out in our legislation governing us,

the Department of Finance investment officials do the actual investing of funds for us.

**MR. ENGEL:** — Oh.

**MS. HERBACK:** — But they report to the commission, the seven-member commission, to which I report on a six-month basis. The commission defines to them, based on input by these Department of Finance officials, the percentage of moneys that they wish put into various forms of equities, such as government bonds, corporate shares, mortgages, the whole gamut.

So they go through and they say, okay, we'd like 10 per cent here, and on that basis, combined with — what's the word, the length of time — combined with, yes, the terms, like, they want so much in five years; we want so much in 10 years. They give the gamut that way.

So we monitor the percentage that is invested in each category.

**MR. ENGEL:** — But you and your commissioners don't decide where those investments are made. They are . . .

**MS. HERBACK:** — Not on an individual basis.

**MR. ENGEL:** — So when we bring Finance in and look at them, we can criticize them. But your present commissioners are the same as they are on page 5 of your annual report? Have you made some changes there?

**MS. HERBACK:** — The only commissioner that has been replaced is K. Costante, and he has been replaced with Michael Benson. Michael Benson's appointment was June or July of '84.

**MR. CHAIRMAN:** — Thank you very much for your patience and your excellent reporting and the answers you've provided. Very helpful.

It there is no other business we will adjourn till tomorrow, when we will have the Department of Finance here.

The committee adjourned at 10:35 a.m.