

**STANDING COMMITTEE ON PUBLIC ACCOUNTS**  
**May 16, 1985**

**Public Hearing: Saskatchewan Forest Products Corporation**

**MR. CHAIRMAN:** — We will call the 11th meeting of the Public Accounts Committee to order. Want to welcome to our committee Mr. Lawrence, who is acting general manager of the Saskatchewan Forest Products Corporation. Welcome, Mr. Lawrence. Before I go any further I will give you the opportunity to introduce the officials who are with you.

**MR. LAWRENCE:** — On my far right is Mr. Fred Hachey, our chief accountant; next to him is Darryl Binkley, our manager of finance and administration; and on my left is Ian Angell, from Mr. Hardy's office.

**MR. CHAIRMAN:** — Thank you. We begin these sessions with a warning to everyone and a comment to everyone, I guess, that what is said is privileged. What is said before the committee is privileged in the sense that it cannot be used in libel or slander action. On the other hand, it's taken down verbatim and is regularly available for use elsewhere. So you may govern yourself accordingly.

With that, I'll open the committee meetings for question.

**MR. MULLER:** — According to the auditor's report, the corporation's officials did not have an accounting procedure to ensure that all product shipped was invoiced. Could you tell me what steps have been taken to ensure that no product from Saskatchewan Forest Products Corporation has been shipped without proper invoicing?

**MR. BINKLEY:** — What we've done, and it had a lot to do with the control of our invoices, are invoices are now being filed numerically which ensure that all invoices are being accounted for. Bills of lading, in addition to the order numbers, are also shown on the invoice, and bills of lading are filed in numerical order and show customer order number and our order number.

Management also plans to do some internal audits of our invoicing just to ensure that all our shipments are invoiced. The problem that we had was just our control over the numerical sequence of invoices, and we think we've got that problem solved.

**MR. MULLER:** — And do you feel that controls which are absent from the accounting systems could increase the likelihood of fraud since people can seemingly enter data . . . (inaudible) . . .

**MR. BINKLEY:** — Number two, the rules and procedures and access to data is a control that the weakness is tough to control. I guess what we're looking at is we have compensating controls to ensure that no fraud takes place. And according to the auditor's report the weakness is there, and because of the number of employees that we have, and the limitations of our actual office procedures, it's tough to actually physically block up our computer room and control physical access to the data.

We have two operators that have access to our programs, and our programs do have passwords, and management does review the output that comes from the system. And those compensating controls, we feel, more than offset the inefficiency that's going to be involved in trying to restrict, not only physical access, but the access of our operators . . .

**MR. KATZMAN:** — On your passwords, if I may, do you change them every time you change a member of staff that has authority?

**MR. HACHEY:** — Yes.

**MR. KATZMAN:** — You do?

**MR. HACHEY:** — Yes.

**MR. KATZMAN:** — Fine.

**MR. MULLER:** — Okay, on number (3) there: "The procedures employed to determine an accurate inventory value of the Corporation's treatment plant were not adequate." How can you account for the company's financial position on a monthly basis if it's nearly impossible to get an accurate inventory of the treatment plant?

**MR. BINKLEY:** — What we've done is we've taken some steps to ensure that an accurate inventory count is being done each month, and we are, from management's standpoint, in the process of reviewing on an audit basis the inventory counts that are taking place. We're just going to spend more time at taking our physical inventories at the end of every month to ensure that they are accurate, to make sure that the pricing that we use is accurate.

**MR. MULLER:** — Are you finding any discrepancies? How's your inventory coming out when you're taking it every month?

**MR. BINKLEY:** — We really haven't found many discrepancies. They're actually pretty close.

**MR. MULLER:** — Okay. And: "The policy and procedure manuals were incomplete and not current, and there was no formal method of documenting changes to policies, procedures, or delegation of responsibility." What is being done to ensure that accounting policies and procedures are being implemented similarly in all parts of the corporation?

**MR. BINKLEY:** — We have to agree that we have not had policy and procedures manuals, and the manuals we have haven't been adequate. And what we've done to date is we're in the process of flow-charting all of our systems, document systems. We've got job descriptions from all our employees, and we're in the process of updating our policy and procedures manuals — as time permits, I might add. To document to the extent necessary is going to take a little bit of time, but we are attempting to work at it when time is available.

**MR. MULLER:** — How long do you think that will take?

**MR. BINKLEY:** — I would hope by . . . We're right in the middle of the process right now, and by the end of the year we should have policy and procedures manuals for most of our operation.

**MR. MULLER:** — So does this seem to satisfy the auditor?

**MR. MacKENZIE:** — Well definite progress has been made. For your information items (2) and (4) were also mentioned in our report this year. But there has been definite progress.

**MR. CHAIRMAN:** — What was the last year this company made money? It must have made money some time because I saw in the annual report that there was retained earnings of \$100,000 — sorry, \$1 million — in 1982.

**MR. BINKLEY:** — The last time we made money was '79.

**MR. CHAIRMAN:** — Incidentally, gentlemen, I want to congratulate you. I want to offer a note of congratulations with respect to your reports, your annual report. It's well set out in a helpful fashion that is an improvement over much of what we see. So I like the style of the annual report.

You indicate in your annual report that it has been a basically poor market. That's been the case since 1979?

**MR. BINKLEY:** — Yes. The price that we're selling at currently is about the price that we were

getting back in 1979.

**MR. CHAIRMAN:** — Is that generally true of the lumber industry?

**MR. LAWRENCE:** — Prices declining since '79? That's the pattern of the industry, yes. I wouldn't say that . . . our profit picture is a pattern of the industry, but certainly markets have declined since '79.

**MR. CHAIRMAN:** — Are you suggesting your profit picture is worse than what the industry is as a whole, or an average?

**MR. LAWRENCE:** — I don't believe it is last year.

**MR. CHAIRMAN:** — Pardon me?

**MR. LAWRENCE:** — I don't believe it was this last couple of years.

**MR. CHAIRMAN:** — I know the industry itself hasn't enjoyed great years. The B.C. lumber industry's gone through some tough times.

**MR. BINKLEY:** — I think our profit picture is comparable to other forestry operations out in B.C., and our losses aren't excessive as compared to the rest of the industry.

**MR. CHAIRMAN:** — Do you lose money on all of the operations, the sawmill, the Big River sawmill, the Carrot River sawmill, the Hudson Bay plywood plant, the wood treatment plant, the northern forest operations? Did you lose money on them all last year?

**MR. BINKLEY:** — Yes. All operations.

**MR. KATZMAN:** — Tell me what lumber company didn't, Mr. Chairman.

**MR. CHAIRMAN:** — Yes, we were recognizing that earlier. They noted that earlier, that that was the . . . What's your prognostication for the future? What do you see happening? When do you see the situation correcting itself, or do you see that in the immediate future, in the foreseeable future?

**MR. LAWRENCE:** — Well our main problem are markets. We feel like the operations are becoming more and more competitive, and the market is our biggest problem. And the experts don't really foresee that turning around abruptly. I think most prognoses are that the markets will gradually improve in the next few years, but nothing very dramatic.

**MR. BINKLEY:** — We're trying to control our operating costs and increase our production, and that is coming along very well. But like Ernie says, the market price — the predictions are for a slow, gradual, around 5 per cent a year. So you know, it'll take one or two years to get us back to a reasonable situation.

**MR. KATZMAN:** — I hate to ask this question, but were you over-bureaucratized, body-wise?

**MR. LAWRENCE:** — Within our ranks?

**MR. KATZMAN:** — The total sphere, your amount of bodies that you had. When you got rid of the lumber yard and the other things, did you get yourself more into efficiency?

**MR. LAWRENCE:** — I would say in the past that's probably true.

**MR. CHAIRMAN:** — How about the total number of employees in Sask Forest Products?

**MR. LAWRENCE:** — Currently it's 417 employees.

**MR. CHAIRMAN:** — Pardon me?

**MR. LAWRENCE:** — Currently it's 417 employees.

**MR. BINKLEY:** — With 96 on lay-off, for a total of 513.

**MR. CHAIRMAN:** — Do you have a breakdown for the year under review — or for later, it doesn't matter — of how much the product is costing you to produce, and how much you're getting? Do you have that in a chart form, or do you have that in figures?

**MR. KATZMAN:** — Mr. Chairman, if I may. I've got to use old Jack Messer's arguments. I hope the numbers they give us are not numbers because they are a competitive industry, could be used against them. I think we had better consider your question with that in mind because they are in a competitive directly with other people.

**MR. CHAIRMAN:** — You gentlemen see that to be a problem?

**MR. BINKLEY:** — It may be a problem in the fact that if our competitors do know our cost of production, therefore they could probably vary their sales price. Right now the plywood market is taking a dip, and it looks like there is a little bit of a war going on, and one of the companies is drastically reducing its plywood price. So if they knew our operating costs, it might have an adverse effect.

**MR. CHAIRMAN:** — Is there a bit of a price war going on now?

**MR. LAWRENCE:** — In plywood, there is, yes.

**MR. CHAIRMAN:** — Yes, time to build our cottages. Is that reflected in the retail sales or not?

**MR. LAWRENCE:** — Probably not.

**MR. KATZMAN:** — It was the last time, Mr. Chairman, but not that much. It was about 1981 or something, '80, they had the big war on 2 by 6s, 2 by 4s, that stuff, and it did . . . (inaudible) . . . reflect it, but it took a long time to work its way through the system.

**MR. CHAIRMAN:** — Do you have your sales figures for 1979, I gather; do you?

**MR. BINKLEY:** — Sales figures for plywood were \$184 a thousand, for lumber . . .

**MR. CHAIRMAN:** — Okay. Now just . . . Now you're giving these to me in terms of plywood sales and lumber sales. Is that right ?

**MR. BINKLEY:** — Yes.

**MR. CHAIRMAN:** — Okay. I'm sorry, go ahead.

**MR. BINKLEY:** — The plywood sales for 1979 were \$184.64 a thousand, average.

**MR. CHAIRMAN:** — \$184 per thousand. That would be square feet, wouldn't it?

**MR. LAWRENCE:** — Square feet and three-eighths.

**MR. CHAIRMAN:** — Okay.

**MR. KATZMAN:** — I did have one question. It was something . . . (inaudible) . . . per thousand, that's your retail price or your selling price?

**MR. LAWRENCE:** — That's our selling price.

**A MEMBER:** — Is that net to the mill?

**MR. LAWRENCE:** — Net to the mill.

**MR. KATZMAN:** — Net to the mill, thank you.

**MR. CHAIRMAN:** — Okay. Go ahead then.

**MR. BINKLEY:** — For lumber, they were \$240.99.

**MR. CHAIRMAN:** — That would be per thousand board feet.

**MR. BINKLEY:** — Yes, \$240.99. As compared with 1984, our average was 208.56.

**MR. CHAIRMAN:** — 208.56 per thousand square feet of plywood?

**MR. BINKLEY:** — That's lumber.

**MR. CHAIRMAN:** — We're back to lumber again.

**MR. BINKLEY:** — The 240 was lumber too.

**MR. CHAIRMAN:** — Right, okay. 208 per thousand board feet?

**MR. BINKLEY:** — Yes. And plywood in 1984 was \$187.25.

**MR. CHAIRMAN:** — That is tough, isn't it.

**MR. BINKLEY:** — Yes.

**MR. CHAIRMAN:** — That's tough beans. What were your gross sales in '79?

**MR. BINKLEY:** — Total dollars?

**MR. CHAIRMAN:** — Total dollars. If you got the figures for '80 and '81, I'll take them as well. I realize it's not of the year under review, and I appreciate your courtesy in providing us.

**MR. BINKLEY:** — We don't have the gross figures, Mr. Chairman, for 1979.

**MR. CHAIRMAN:** — You don't have your revenue. The figure that appears in your annual reports, revenue sales of forest products, you don't have that with you.

**MR. BINKLEY:** — No, we don't have that with us. You could have that if you want.

**MR. CHAIRMAN:** — Do you have it for 1980?

**MR. BINKLEY:** — Gross or average?

**MR. CHAIRMAN:** — Gross.

**MR. BINKLEY:** — No, we've just got the net mill average.

**MR. CHAIRMAN:** — All right. I was just curious as to what your gross sales have been doing over the years. I see they increased dramatically from '82 to '83 and then fell back again. Have they gyrated? Have they been steady, or have they been gyrating around like that, or what?

**MR. BINKLEY:** — In '84 we had some curtailments because of poorer plywood markets, and we had some lumber production curtailments. So we had some volume variances and some price variances last year.

**MR. CHAIRMAN:** — Would the 1982 figure, would that have . . . I have that simply because I have your '83 annual report. The gross sales were 21.294 million. Do you know whether or not that was a relatively constant figure? Was it increasing and decreasing rapidly, as it did thereafter?

**MR. BINKLEY:** — The average price in 1982 . . .

**MR. CHAIRMAN:** — No, the gross sales again. You have no idea what the gross sales are, I guess?

**MR. BINKLEY:** — For '82, they're 21.294. That's in the annual report.

**MR. CHAIRMAN:** — You don't have them for '81.

**MR. BINKLEY:** — No.

**MR. CHAIRMAN:** — Were they about the same, or do you know?

**MR. BINKLEY:** — I'm not sure.

**MR. CHAIRMAN:** — Don't know. Okay.

**MR. KATZMAN:** — Just supplementary. Did the Americans' considered ban on lumber — and was it last year that they were concerned that we were . . . unfair practice, subsidized lumber, and so forth — did that affect your sales going across the line?

**MR. LAWRENCE:** — I don't think so.

**MR. WEIMAN:** — Just a couple of general questions. Where is your biggest market?

**MR. LAWRENCE:** — For lumber?

**MR. WEIMAN:** — Yes.

**MR. LAWRENCE:** — It's in the U.S.

**MR. WEIMAN:** — It is in the U.S.? What — north-western states, mid-western states?

**MR. LAWRENCE:** — A lot of our lumber goes to Manitoba to wholesalers, and then it's shipped down to the U.S. We can't really track it all, but I think generally your statement is fairly accurate.

**MR. WEIMAN:** — And when you were talking about the competitiveness of the business, you are as competitive as any American operation?

**MR. LAWRENCE:** — Price-wise?

**MR. WEIMAN:** — Yes.

**MR. LAWRENCE:** — Sales-wise I would say so. It's the way the market works.

**MR. WEIMAN:** — Very close?

**MR. LAWRENCE:** — Well if you're not competitive, you don't sell your product.

**MR. WEIMAN:** — Yes. No, I was just wondering how close. To what extent is Sask Forest Products involved in reforestation? Are they involved in reforestation at all, whether through grants or actually involved in the process of reforestation?

**MR. LAWRENCE:** — I would say minimal. And the reason for that is that we don't have a lease area per se that is ours to manage. If we had . . . That's one of the arguments in favour of the FMLAs (forestry management licensing agreements). If we had an area that was ours to manage, then the company would enjoy the benefit of any reforestation that it does. The way we're structured now, if any money is spent on reforestation by Sask Forest, we'd have no guarantee that we would, in fact, be able to harvest those trees later on.

**MR. BINKLEY:** — The answer to that, I guess, just adding, is that we contribute to the forestry fund through Parks and Renewable Resources, and they do the tree planting on our behalf. That's how Sask Forest Products contributes.

**MR. WEIMAN:** — That's what I meant, yes — how you're involved in it. You do give to that fund?

**MR. BINKLEY:** — Yes.

**MR. WEIMAN:** — Is that a set amount right across the province for any other group or . . .

**MR. BINKLEY:** — I'm not sure how any other group handled it.

**MR. WEIMAN:** — I'm wondering how they assess that.

**MR. MULLER:** — Would that not be based on the stumpage that you pay to Parks and Renewable Resources?

**MR. BINKLEY:** — We do pay the stumpage fee, but the tree-planting funds are a little different. I think our contribution over the last few years has been . . . I think it's around 35 to 50,000 yearly.

**MR. MULLER:** — Annually? Total?

**MR. BINKLEY:** — Well there was . . . The reforestation fund was undergoing some review the last couple of years, so our exact figures aren't . . . It's kind of fluctuated. We don't know what they'll be on the long term.

**MR. MULLER:** — Another supplementary, Mr. Chairman. In comparison to private operators and PAPCO, what do you pay for stumpage?

**MR. BINKLEY:** — The timber dues that Sask Forest Products has paid last year, 1984, amount to 1.386 million — 1.386 million is our total, compared to PAPCO paid 174,258.

**MR. MULLER:** — Yeah, okay. But I mean per 1,000 or for . . . Can you break it down into units? Like, I mean, PAPCO does all its own reforestation.

**MR. BINKLEY:** — The average dues, \$13.40 a cord we pay.

**MR. MULLER:** — And private operators, do you have that?

**MR. BINKLEY:** — I don't have that.

**MR. MULLER:** — No, you probably don't.

**MR. BINKLEY:** — Simpson's is comparable to ours. They paid 1.381 last year. Over the last 10-year period we paid approximately 10 million in stumpage fees, as compared with PAPCO's 3 million.

**MR. MULLER:** — Of course, PAPCO does 110 percent of reforestation on their cut.

**MR. WEIMAN:** — 110 per cent. How do you mean?

**MR. MULLER:** — They plant 110 per cent of what they cut. In recent years they replant 10 per cent more than they've cut, than their annual cut was.

**MR. WEIMAN:** — I'm just curious on the growth period of reforestation. What is the growth period up in that area of Saskatchewan — 25 years, 30 years?

**A MEMBER:** — Double.

**MR. WEIMAN:** — It's double that — 60 years?

**A MEMBER:** — I would say it's more than that, yes, 60.

**MR. MORRIS:** — 60 or 70, I would guess.

**MR. CHAIRMAN:** — Just a curiosity.

**MR. WEIMAN:** — These are perhaps the wrong people to ask, but I can't help but remember a documentary show — I can't remember whether it's Fifth Estate or whatever — that showed the reforestation program in Denmark. I believe it was Denmark, Sweden, in the Nordic countries, and the type of reforestation that they do where actual farmers, just as we have trout farmers, they farm trees.

**MR. BINKLEY:** — I think the silviculture research has really made some strides in the last few years. Ontario is an example of that, where they're really reducing the growth period, you know, from 60 to 80 down to 40 to 60.

**MR. LAWRENCE:** — I think the common term is intensive forest management.

**A MEMBER:** — You say they're farming.

**MR. WEIMAN:** — That's right. It's a cash crop for them. Alongside anything else they're doing, the forest industry is a cash crop.

**MR. LAWRENCE:** — They increase the growth, and they increase the volume per acre, that kind of a pay-off.

**MR. WEIMAN:** — Just one last question. Page 14 of your annual report, I'm curious about this one item: the summary of the financial position of Western Overlay Industries. As I understand it, the corporation feels there was a breach of agreement, and there's legal action to be taken. I don't want to know about the legal action taken, but could you please instruct me to what Western Overlay was and what they did?

**MR. BINKLEY:** — Western Overlay was a manufacturing of an overlay product. They took the plywood from Hudson Bay, and they took it up to Yorkton where the idea was to build a manufacturing plant for this overlay process. What they'd do is take a sheet of plywood and put an overlay process on it.

The market that they thought that they would reach would be basements and that type of thing. The market never materialized, and Western Overlay lost somewhere in the amount of \$1.82 million without really generating any sales at all. And in effect we had to wind Western Overlay down. The market wasn't there. The market that was there was already covered. And I guess the research just hadn't been done.

**MR. WEIMAN:** — Are we the, for want of a better term, sole owners of Western Overlay? Are they a subsidiary of . . .

**MR. BINKLEY:** — It was a joint ventureship. We're 51 per cent and the other joint partners were 49 per cent.

**MR. WEIMAN:** — So we were liable for about \$900,000 of that loss.

**MR. BINKLEY:** — We were liable for the whole loss.

**MR. WEIMAN:** — The whole loss?

**MR. BINKLEY:** — Yes. The other 49 per cent partners did not put up any equity, and their contribution was more or less in expertise and that type of process.

**MR. WEIMAN:** — What is the chances of recovery of that, or is there any possibility of recovery for that?

**MR. BINKLEY:** — We have a court action against the other parts of the joint venture, but . . .

**MR. WEIMAN:** — But that is only against the fixed assets of 281,000, as your report states?

**MR. BINKLEY:** — No, we've recovered all of the assets that are in Western Overlay. They returned to Saskatchewan Forest Products. But the losses, the recovery of the losses from the other joint ventures is, in effect, nil because it's our understanding that they don't have any funds, and proceeding further would just more or less add extra legal costs without recovering any of the dollars.

**MR. WEIMAN:** — Are you telling me in a sense that we really have a pig in a poke? Really we have the assets, but they're worth nothing because they're of no value?

**MR. BINKLEY:** — Well we have the building, but the other assets and the inventory have been sold off, and in effect we're recovering very little off of our . . . (inaudible) . . .

**MR. WEIMAN:** — Please correct me — I'm relying on memory on this one. You stated that the reason that it did not succeed is because there already was a market that was commanded by somebody else on this. Did I hear that right?

**MR. BINKLEY:** — That's one of the reasons, yes.

**MR. WEIMAN:** — And that would have been stationed probably out of the States?

**MR. BINKLEY:** — MacMillan Bloedel does a lot of overlay.

**MR. WEIMAN:** — Okay. As I said, I'm just relying on memory here, and if I'm on the wrong topic, please correct me.

My understanding is that the lack of success was due to a gluing formula or a gluing process. Am I talking about the same company?

**MR. BINKLEY:** — I don't know if that was the total lack of its success.

**MR. WEIMAN:** — Can you shed some light on that, member from Rosthern?

**MR. KATZMAN:** — I think that maybe we're getting into the legal action and what could be used in a legal court, and I'm just nervous about that, Mr. Weiman.

**MR. WEIMAN:** — I just want to be certain that this was the same industry. All right. I'll leave it at that, then.

**MR. GLAUSER:** — I followed that up, and I'm looking at note 13 in the financial statement. Are those related? Does that relate to that, or is this something else?

**MR. BINKLEY:** — Yes.

**MR. GLAUSER:** — That's related to it?

**MR. BINKLEY:** — Yes, although the dollar amount on the legal costs wouldn't have any effect on the financial statement, because we don't feel that we're going to recover any significant amount.

**MR. GLAUSER:** — I don't see anything on the financial statement. That's why I was wondering why that note was included in there when there's really no . . . when it's not substantiated in the statement.

**MR. BINKLEY:** — No, there's not dollar amounts reflected in the statements for that legal . . .

**MR. MacKENZIE:** — Darryl, that note doesn't refer to Western Overlay. I think that was the original question.

**MR. BINKLEY:** — But I think he meant Western Overlays or the legal action against Western Overlays, Bill.

**MR. MacKENZIE:** — What was the original question? These are different lawsuits than the Western Overlay's lawsuit as far as the contingent liability goes. Maybe I just didn't hear it properly.

**MR. GLAUSER:** — Well that was my question.

**MR. MacKENZIE:** — All right. This is not the Western Overlay legal action. These are problems that we've had with some product and where we've been sued. It's a different topic.

**MR. BINKLEY:** — So the Western Overlay . . .

**MR. MacKENZIE:** — Is not in this, no.

**MR. GLAUSER:** — Then do those arise from . . .

**MR. MacKENZIE:** — No.

**MR. GLAUSER:** — Well, excuse me just a minute, but as well I don't see any figures.

**MR. MacKENZIE:** — Any figure that would have been required would have been set up, but based on the legal advice that we received we don't expect to have losses in these lawsuits. These are situations where customers are suing us for product deficiencies.

**MR. GLAUSER:** — I'm sorry. I can't hear you . . . The chairman discussing something with somebody out the door here.

**MR. MacKENZIE:** — The situation in note 13 are where we have shipped product, and for various reasons customers are suing us that we didn't ship the product that they say they ordered. And our legal advice is that no amounts are required to be accrued from our side on these. In the past we have had accruals as necessary. We get the numbers from the legal letters, but this particular note really doesn't have anything to do with Western Overlay.

**MR. WEIMAN:** — Supplementary to that. You had indicated that this was a joint ventureship, a 51-49 split?

**MR. BINKLEY:** — Yes.

**MR. WEIMAN:** — How many other joint ventureships are we involved in? I should say, how many other joint ventureships are Sask Forest Products involved in ? Or is it now at zero?

**MR. BINKLEY:** — It's zero, right at this point.

**MR. WEIMAN:** — At this point it's zero?

**MR. BINKLEY:** — As far as I'm aware, yes, it's zero.

**MR. CHAIRMAN:** — Any further questions?

**MR. KATZMAN:** — I have one, but I would like to be in camera for that one. I would prefer it not on the record.

**MR. CHAIRMAN:** — Okay. All right. I have a question, and something in your annual report caught my eye.

It had to do with the wood treatment plant, bottom of page 6.

The corporation has initiated a program to develop lodgepole pine poles from the Cypress Hills area if practical and feasible.

Has that proved to be practical and feasible, or where does that project stand?

**MR. LAWRENCE:** — Well, it appears that the raw material is there, and we will be pursuing that just this . . . We haven't taken anything out of that area, but the reconnaissance work has been done, and certainly in the case . . . There's a good potential for pine poles from that area. And we will be pursuing that this coming June, to go down and take a closer inventory of what is available. There are two areas currently being logged by two licensees.

**MR. CHAIRMAN:** — Okay. Anything else for the good and welfare?

Okay. I guess . . . You mean, off the record, is what you mean. Perhaps we could . . .

I have a comment to make. It's to do with the presence of the executive assistant to the minister.

I'm sorry. I've forgotten your name.

**A MEMBER:** — Ian Angell.

**MR. CHAIRMAN:** — Yes, Ian Angell. It's something I've not seen before, and that is — not since I've been chairman; I haven't seen it . . . (inaudible interjection) . . . Yes, I haven't seen them sit at the table as a witness. I've seen them sit back at the back, but not at the table as a witness.

It's, I think, an important facet of this committee that ministers don't attend. I think it affects our work, and I think it affects it for the better. In no sense objecting to your presence. You were at all times courteous and helpful. It's in no sense a personal comment, Mr. Angell.

I think I'm going to ask the Clerk for a ruling on it. It's just a little unusual to have a minister's executive assistant sitting as a witness. I don't know that there's anything against the rules. It just seems to me to violate the spirit of the thing. I'm going to ask the Clerk for a ruling on it, just out of curiosity. And as I say, it's in no sense directed to the particular individual who attended this morning.

**MR. KATZMAN:** — Mr. Chairman, I violently disagree with what you're attempting to do. As I have indicated before, I've sat on the committee for several years. This is nothing new, both for the former government to do the same. If there was sufficient room at the table, the guy would sit there and write his notes rather than write on his lap, and would flip pages for the individuals. That's nothing new.

I can remember individuals from the former government who were in the minister's office. In fact, the former government had one individual who was assigned to all Crown corporation meetings to take the notes of everything, which is not being done anymore.

**MR. CHAIRMAN:** — Because there is no need to take notes; you've got a verbatim.

**MR. KATZMAN:** — No, they had verbatims in those days too. And he sat in the back.

**MR. CHAIRMAN:** — They are certainly entitled to attend this as observers. What I'm curious about is the propriety of having executive assistants stand as witnesses.

**MR. KATZMAN:** — As long as they are just assisting, it doesn't matter.

**MR. CHAIRMAN:** — Well but I think there's something more than that when they are at the table. There may be nothing wrong with it. I'm going to ask the Clerk for a ruling. There may be nothing wrong with it. I just had not seen it happen before.

**MR. KATZMAN:** — Oh, I can give you a long list. You just didn't realize who they were before. That's the problem.

**MR. CHAIRMAN:** — That may have been. I may have not realized what was happening.

**MR. KATZMAN:** — That's not surprising for your side of the House, though, Ned.

**MR. CHAIRMAN:** — I'm going to ignore that spurious comment. I do want to thank all four witnesses for attending this morning. Your assistance was appreciated, and your courtesy in answering our questions was appreciated. Thank you very much.

#### **Public Hearing: Department of Highways and Transportation**

**MR. CHAIRMAN:** — I'd like to welcome to our committee the Department of Highways and Transportation. Leading the delegation is Mr. Jack Sutherland, the deputy minister. Mr.

Sutherland, perhaps I'll ask you to introduce your officials. My list is nowhere near complete here.

**MR. SUTHERLAND:** — On my right is Myron Herasymuik, the executive director of the operations division; to my immediate left is Al Schwartz, executive director, support services division; Erich Finkeldey next, he's the financial consultant from financial services branch; and to my far left, Paul Landry, the vice-chairman of the Highway Traffic Board.

**MR. CHAIRMAN:** — Okay. Do you wish to introduce the officials behind you, or are they just there in case you . . . You may omit the two reporters.

**MR. SUTHERLAND:** — Yes, it's Al Massier from management services, and Ivan Millard, the fellow from operations branch.

**MR. CHAIRMAN:** — Thank you very much. I begin these proceedings with a comment to everyone, and that is that what is said before here is privileged in the sense that it cannot be used in a libel or a slander action or in criminal proceedings. On the other hand, it is taken down verbatim and is readily available for use elsewhere.

With that I'll open the committee meetings to questions. The lead questioner is not here. Perhaps I'll wade into this myself, and if I could get someone . . .

**MR. KATZMAN:** — I'm ready, Ned.

**MR. CHAIRMAN:** — All right. Why don't you head out then?

**MR. KATZMAN:** — In the report under page 12 and page 13 of the auditor's report, he refers to your equipment systems. Could you indicate what's happened to your systems and the things that he mentioned here on this report?

**MR. SUTHERLAND:** — Well first, Mr. Katzman, I could just make a few opening remarks by saying that, you know, we have had some problems putting this equipment management inventory system into place. That was mentioned by the auditor in his 1982-83 report. And really the major problems related to integrating a purchase software package with an in-house system that we had designed ourselves. This is the way we design most of our systems, in-house.

And I guess as far as we're concerned, I guess really the bottom line is that as of December 1984, the system has been running on a current basis. We're getting good utilization from the people in the field, and they're using it for making management decisions, and the field staff are putting the current data into the system the day after the various transactions have occurred.

We feel the system works well, and we have confidence in that it's going to be of value to the department. We feel that most of the necessary controls are now in place. There are a few things, there are some organizational, some department policies, and some organizational controls that we're still working on.

I could also mention that during 1983-84 we reduced our total inventory in the department by about a half a million dollars.

Do you want me to go on and make a specific comment about some of the . . .

**MR. KATZMAN:** — If you could go into some of the comments made by the auditor, or I could ask some questions on each one, whichever is your preference. If you have some statement you can make on each of them.

**MR. SUTHERLAND:** — Well I guess one of the statements was the lack of financial information available, resulting in billings not being processed for up to 11 months. There was financial

information available during the year from our general ledger voucher system, and that system did provide — monitor gross expenditures. And it did determine funding requirements and allowed us to reconcile to the comptroller's office reports.

We used the system to ensure, you know — this, our own general voucher system — to ensure that we had enough funds available in the maintenance appropriation to cover any billings. And we used this, our internal system, to advise the program managers of their financial position. So we feel that we had enough financial information available for our people to manage their programs.

I could also add, I suppose, that over 90 per cent of the equipment rental billings are from the revolving fund to the department's appropriation. And so that, you know, most of the billings are internal type billings.

Another comment was that the quarterly financial statements were not submitted, and that is correct. This requirement could not be fulfilled because the information was not available. There was a verbal agreement between the department and the treasury board division to forego the quarterly submission of these statements until we had our data running on a current basis.

There was also a reference in here to a delay in preparing the annual financial statements, and that is correct. We wanted to have adequate controls in place before we processed the '83-84 data. And because we weren't running current, you know, a daily input, we had errors in our data from April '83 on. And when we tested our stock in our various shops, there were errors that were identified, missing receipts, so we felt it was best to rerun all the data from April of '83 on. So it was all rerun after we got the thing sorted out.

So those are some comments on some of the items that were raised.

**MR. KATZMAN:** — . . . (inaudible) . . . summary is that under the year that they audited your books, you agree with his comments. But since then, you believe that you have your system just about totally in place and operating sufficiently, but there is still some minor bugs still left in it. Am I correct with that assumption?

**MR. SUTHERLAND:** — Well that's basically correct.

**MR. KATZMAN:** — And the only other thing mentioned by the auditor's report, and I guess Mr. Landry answers that one, or you, I'm not sure who, is the personal licence plate issue.

**MR. SUTHERLAND:** — I'll let Paul handle that one.

**MR. LANDRY:** — Okay. Well basically, I guess, the auditor's report expresses two concerns: one is that PLP funds were directed to the Department of Revenue rather than through the Department of Highways and Transportation which is basically what the regulation suggested the revenue should be, and secondly that SCI should not have been netting those fees to cover their expenses.

I guess basically our reaction is that we agree with the auditor in that respect, and in terms of the routing of the revenue in July of 1984, we amended the regulations to provide for PLP fees, or personal licence plate fees, to flow to the Consolidated Fund. And in this particular instance, we're now providing, by way of the regulation, that they do go directly into the Department of Revenue, which is currently the case for all registration and driver licensing fees collected by SGI on our behalf.

With respect to the netting issue, again we agree with the auditor's report that the fees should not be netted. An accounts receivable has been set up within the department to collect the netted amounts, and we have been communicating with SGI on that issue, and it's in the process

of negotiations. So we believe that we've met the auditor's concerns in terms of that particular issue.

**MR. KATZMAN:** — If I read you correctly, and I guess the question is to the auditor, would it be proper of this committee to suggest in its report that SGI should not be taking it off the source and should be putting a bill out, or are you suggesting — which would be the normal way to financially do it — or is that out of our ballpark?

**MR. HUNT:** — Mr. Chairman, and Mr. Katzman, we have indicated that the administrative costs should have been paid from the appropriation which has been provided for that purpose. And I believe the officials agree with us in that respect.

**MR. KATZMAN:** — Mr. Chairman, do you want to just put a flag on that issue then?

**MR. CHAIRMAN:** — I'm sorry, I can't hear you.

**MR. KATZMAN:** — Would you or the Clerk just put a flag by the issue that the department and the Clerk and the auditors indicated, as is indicated in the report, that SGI should pay the total amount and then bill back, rather than doing . . . and we may be able to . . .

**MR. CHAIRMAN:** — Yes. I had thought of that when we were going over the docket earlier that should be mentioned to SGI as well. We may be boxing the wrong ears here.

**MR. KATZMAN:** — Yes. Fair game.

**MR. CHAIRMAN:** — With respect, gentlemen, to . . . Do I take it that in your annual report for fiscal year ending March 31, 1984, that on page 17 to 19 contains a summary of all construction contracts let? Is that what I understand that to be?

**MR. SUTHERLAND:** — That's on construction accomplishments. I guess that would cover all contracts that are let. Some of the work, of course, wasn't done on that in that particular year.

**MR. CHAIRMAN:** — Right. With respect to contracts let, how many would there have been, then, in the year under review?

**MR. SUTHERLAND:** — How many contracts?

**MR. CHAIRMAN:** — Yes.

**MR. SUTHERLAND:** — 80 or 90 major contracts. You know, we have a lot of smaller, negotiated, day-labour projects but, you know, talking about the major projects that show up in the project listing that the minister tables.

**MR. CHAIRMAN:** — How would you define something that's negotiated with day-labour? I don't understand what that refers to.

**MR. SUTHERLAND:** — Well we have what we refer to as safety improvement programs. You might be cutting down in a hill, improving the sight distance, putting up guard-rail, improving an intersection treatment, this sort of thing. A lot of that is done with our own forces, of course, our own maintenance forces. Some of it is done on a day-labour basis. If it's over a certain value, then we invite bids, or we invite . . .

**MR. CHAIRMAN:** — But what is that value?

**MR. HERASYMUIK:** — Generally \$50,000 or less, we normally negotiate with one contractor. If it's in that range between 50 and 100, we usually invite from about three contractors. And over

\$100,000, it generally goes to public advertisement.

**MR. CHAIRMAN:** — Okay. With respect, then, to contracts over \$100,000, were all of those contracts advertised for public tender?

**MR. HERASYMUIK:** — There may have been a few that didn't lend themselves to advertising publicly which were over \$100,000, but there'd be very few.

**MR. CHAIRMAN:** — Could you give us a list of those which were not done by public tender?

**MR. SUTHERLAND:** — Yes, yes.

**MR. CHAIRMAN:** — Okay. And the reasons why they were not given to public tender?

**MR. SUTHERLAND:** — Just for the course of the year that we're talking about here, of course, for '83-84.

**MR. CHAIRMAN:** — Yes, for the year under review.

**MR. SUTHERLAND:** — Yes, no problem.

**MR. CHAIRMAN:** — All right. You'll want to provide 20 copies to the Clerk. We'll distribute them to the committee.

Okay. Now with respect to all contracts over \$100,000 which were let by public tender, was the low bidder taken in all cases?

**MR. SUTHERLAND:** — There were six contracts, Mr. Chairman. These would be the large contracts that are showing up in the book here that were awarded to other than the low bidder.

**MR. CHAIRMAN:** — All right.

**MR. KATZMAN:** — If it was other than the low bidder, would it have been because the low bidder had been maybe two or three jobs and he got one of them and then he went to the second bidder on the other job?

**MR. SUTHERLAND:** — Well there's a . . . Not really.

**MR. CHAIRMAN:** — Can you either orally, or in writing, give us a list of the six contracts and the reasons why they were not given to the low bidder?

**MR. SUTHERLAND:** — Well we have a list here of the contracts. I believe . . .

**MR. CHAIRMAN:** — You can read it into the record if you like.

**MR. SUTHERLAND:** — You want the low bidder, and do you want to know to whom it was awarded?

**MR. CHAIRMAN:** — I want to know to whom it was awarded, the name of the low bidder, and why they weren't given to the low bidder.

**MR. SUTHERLAND:** — Well the first one was a paving or rehabilitation job on Highway No. 9. It was awarded to ASL Paving Ltd., Saskatoon. And the low bidder was Mulder Investments Ltd., Winnipeg, Manitoba.

Second job was . . .

**MR. CHAIRMAN:** — Do you know the reason why it wasn't . . .

**MR. SUTHERLAND:** — Well I guess the reason is that the low bidder was from out of province. It was not a Saskatchewan . . .

**MR. CHAIRMAN:** — Are you able to disclose the amounts of those bids as well, the difference — give us the amounts of both the bids accepted and the low bid?

**MR. SUTHERLAND:** — Yes. That's all . . .

**MR. KATZMAN:** — Or, Mr. Chairman, it may be just as good if he gave the percentage.

**MR. CHAIRMAN:** — It doesn't matter much. I prefer the dollar figures. Then you can work the percentages for yourself.

**MR. SUTHERLAND:** — Well we can give you both. I mean, this information is made public at the time of the opening of the tenders, in any case.

**MR. CHAIRMAN:** — Okay, why don't you give us the absolute figures and the percentages then, if you got it right in front of you?

**MR. SUTHERLAND:** — The difference there in that one I just mentioned was \$15,368, 2.08 per cent difference.

And the next contract was a grading contract on No. 9 highway, south of the junction No. 18. The award was made to Paul Morsky Ltd., Regina. The low bidder was Hugh Munro Const. Ltd., Fort Whyte, Manitoba. The difference was \$26,497 or 4.73 per cent.

**MR. CHAIRMAN:** — I'm sorry. The reason for that again was?

**MR. SUTHERLAND:** — Well the low bidder, again, was a contractor from out of the province.

The third contract was No. 8 highway for the paving north of Moosomin. Contract was awarded to Ramsay Construction, Regina. Low bidder was Mulder Investments Ltd., of Winnipeg. The difference there was \$56,559, and the per cent difference was 4.36 per cent.

**MR. CHAIRMAN:** — Was that the same reason, out of province . . . (inaudible) . . .

**MR. SUTHERLAND:** — Same reason in all cases.

**MR. CHAIRMAN:** — In all six cases the reason is the same?

**MR. SUTHERLAND:** — Yes.

**MR. CHAIRMAN:** — Okay. Go ahead.

**MR. SUTHERLAND:** — The fourth one was paving on No. 9, U.S. border north. The award was made to Ramsay Construction Limited, Regina. Low bidder was Riverside Gravel Co. Ltd., Winnipeg. The difference in this case was \$133,724, 7.45 per cent.

Next one was a paving job on Highway No. 44. It was awarded to G.W. Construction Ltd., Buchanan, Saskatchewan. Low bidder was one I previously mentioned, Mulder Investments Ltd. of Winnipeg. The difference was \$68,340, and the per cent difference was 5.11 per cent.

The last one was a paving job on No. 1 highway. The award was to Ramsay Construction, Regina.

The low bidder once again was Mulder Investments Ltd., Winnipeg. The difference there was \$15,367 for a 3.28 per cent.

**MR. CHAIRMAN:** — Do you have a cut-off policy? Do you say, under 5 per cent it goes to the province? It can't be 5 per cent because you had one that was 7 per cent. Do you have a policy? Do you have a figure? You say anything below that we give it to an in-province contractor; beyond that, we don't ask the taxpayer to foot the bill. What's your policy?

**MR. SUTHERLAND:** — There's no strict percentage. As you can see, most of the percentages were . . . I guess they ranged below 5 per cent. There are factors to be taken into consideration too, of course, like the amount of work that the particular contractor may have. He may be trying to stockpile and may have more work than he can already do. So there's a lot of factors that this.

**MR. KATZMAN:** — Was that the factor on one of those . . . (inaudible) . . .

**MR. SUTHERLAND:** — I would say not. I guess another factor, too, would be Saskatchewan content of . . . obviously a regular out-of-province contractor's operation.

**MR. CHAIRMAN:** — Any further questions on this aspect?

How many ferries do we maintain now? How many ferries are we running?

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

**MR. SUTHERLAND:** — I think there's 16 or 17. We don't look after those. Roughly, I think, 16 or 17.

**MR. CHAIRMAN:** — I gather you people built and constructed the ice road at Riverhurst crossing, Riverhurst.

**MR. SUTHERLAND:** — Yes. Yes, we've done that for quite a few years. It must be 15 years at least.

**MR. CHAIRMAN:** — Cost-wise, how much does that cost you to maintain it? Have you ever figured that out per vehicle-mile? Is it a cheap . . . something that's relatively cheap; something that's relatively expensive? I'm not suggesting that the cost is the only determining factor here.

**MR. SUTHERLAND:** — I don't have that information on the tip of my tongue. We can certainly obtain it. I would think . . . You know, I wouldn't want to hazard a guess. We've done a lot of research into that crossing. It's a unique situation. It's not like crossing a river or crossing a reservoir. But we've got the system worked out pretty well right now.

I don't know just what it would be per vehicle. But we can certainly provide that, yes. No problem.

**MR. GLAUSER:** — Mr. Chairman, I wonder if I could interject. What was the total of those six contracts?

**MR. SUTHERLAND:** — I don't have that right here. I haven't added it up. But we can easily do that. It would be . . .

**MR. GLAUSER:** — just a ball park . . .

**MR. SUTHERLAND:** — It would be roughly 300,000 — roughly. I could also add that, you know, I have the information here for 1982, '78, '77, '75. So this is not something that just happened in

1983.

**MR. KATZMAN:** — Are you suggesting, Mr. Sutherland, that that's about the normal thing that has happened over the past?

**MR. SUTHERLAND:** — Well, you know, it's . . .

**MR. KATZMAN:** — But there's always a few that aren't the low tender that are given out.

**MR. SUTHERLAND:** — Or to generalize, I think in '84 I believe there was only three. Is that right, Myron?

**MR. HERASYMUIK:** — I think so.

**MR. SUTHERLAND:** — Only three last year.

**MR. CHAIRMAN:** — The contracts between 50 and \$100,000 — you said you invite tenders on those, do you?

**MR. SUTHERLAND:** — Fifteen hundred, yes. These are just small little . . . We might be flattening the slopes on certain highways or doing just odd safety improvements. And what the fellows do, they know . . . They handle this in the districts. They know the people that have maybe a cat and a scraper and a patrol, and they just handle it on a district level. It seems to work very well.

**MR. HERASYMUIK:** — I might add, one reason for generally going with sort of this hourly bids is that a lot of the work doesn't lend itself to actually measuring units, like earth excavation by the cubic metre or something like that. It's just where you're flattening a bit of slope here and there. So really that's the type of work that goes out by the hour.

**MR. CHAIRMAN:** — Okay. I just have one more question, really. In the year under review, we built the road to Uranium City, did we not?

**MR. SUTHERLAND:** — You mean the winter ice road?

**MR. CHAIRMAN:** — The winter ice road.

**MR. SUTHERLAND:** — Yes.

**MR. CHAIRMAN:** — Was that the last year we built it?

**MR. SUTHERLAND:** — Yes. No, we didn't build it last year. We didn't for the last year.

**MR. CHAIRMAN:** — What was the cost of that road?

**MR. SUTHERLAND:** — The cost was roughly 350,000 — in that area.

**MR. CHAIRMAN:** — How many vehicle miles . . . What was its usage? I gather you measured that in vehicle miles.

**MR. KATZMAN:** — It was . . . (inaudible) . . . kilometres long.

**MR. SUTHERLAND:** — Well, in 1983-84, of course, there was much more units coming out than went in. A lot of the use by the heavy vehicles was from the winding-down, of course, of the Eldorado mine. There was a lot of heavy equipment taken out. And of course there was a lot of people moving personal belongings, and what have you. And of course there was the usual supplies going in to the community, but we . . . You don't have the . . .

**MR. HERASYMUIK:** — No, I don't have a listing. We have a listing of all the vehicles that crossed that ice crossing. We could supply that information.

**MR. CHAIRMAN:** — That would be very interesting, actually, if you could for that year.

**MR. KATZMAN:** — Would the use that year be very different from the year before?

**MR. SUTHERLAND:** — Well, we used it — it was more different, in that there was more coming out, many more units coming out than going in, sort of thing.

**MR. CHAIRMAN:** — I have one other question. It is a general question. I'm not quite sure how you respond to it.

There is an inordinate amount of complaining about the number of pot-holes. Are people getting harder to get along with? Is there some climatic problem? You may restrict your comments to the year under review, if you wish.

**MR. SUTHERLAND:** — I can comment on both years, as far as that is concerned. Really, you know, I haven't seen an inordinate number of complaints really. I think there's some exaggeration. We have a system where we do our own rating of all the roads in the province. We have this, what we call a car road meter. So we go over all our pavements — well, go over the pavements about twice a year, I guess. We go over the lighter oil treatments about four times a year, and it's sort of a mechanical rating. It's got a unit attached to the back wheel of the car, and it sort of accumulates the movement of the axle with respect to the body of the car.

So it's a pretty accurate estimate of how these highways ride. And I can give you some figures here. We have the ride on, say, our oil treatments which are our thin-surfacing structures, and then on our pavements.

And it's worked out on a basis of a scale of zero to 10 — the zero being terrible, impassable, 10 being excellent.

And for our oil treatments, the ride number has actually increased between 1980 and 1984. It was 5.5 in 1980, 5.5 in '81, also 5.5 in '82, 5.6 in '83, 5.7 in '84.

On the pavements, from '80 to '84 they went from 6.5, 6.5, 6.7, 6.8, 6.8.

So that doesn't quite jibe, you know, with the comments that the road system is falling apart. There are always some pot-holes this time of year, but not, you know, that's not to be avoided, but you know it's not a drastic increase. And I think something like this would back that statement up.

**MR. CHAIRMAN:** — That's interesting because I don't represent a rural riding, but when I'm out talking to rural people there does seem to be a lot of complaining about pot-holes that I haven't noticed before.

**MR. MEAGHER:** — Psychological . . . (inaudible) . . .

**MR. CHAIRMAN:** — Perhaps it is, Paul.

**MR. KATZMAN:** — . . . (inaudible) . . . the biggest pot-hole this year . . . (inaudible) . . .

**MR. SVEINSON:** — Well there was a 12-foot pot-hole at . . . (inaudible) . . . the other day . . . (inaudible) . . . four metres deep, he said.

**MR. SUTHERLAND:** — Yes well, you know, I could comment on that. I'm glad you raised that. That's a result of a heavy spring run-off in some light sandy material. A three-inch rainfall occurred up there, and of course there was a large culvert through a grade that's light, sandy material. So the culvert is flowing under full head, and what happens is the water starts eroding outside of the culvert, between the culvert and the . . . And it kind of eats its way back in between the culvert and the earth. And then there's a big hole develops under there. And of course it's hard for our people to know when, you know, a large truck goes over that and bang, down you go.

We might get one or two of those a year. It doesn't matter what you do, that's going to happen. It makes for good headlines, I guess.

**MR. SVEINSON:** — By definition, that wouldn't be a pot-hole.

**MR. SUTHERLAND:** — No, that would actually be a failure in the road caused by a wash-out, a partial wash-out of the culvert.

**MR. CHAIRMAN:** — I have no further questions. I don't know whether anyone else does or not.

**MR. GLAUSER:** — I didn't get the answer I was looking for. What I was asking was the total of those contracts.

**MR. SUTHERLAND:** — Oh, the total value of the contracts. Oh, I gave you . . . Oh, okay. Well I can give you that within some quick arithmetic here — six and a half million, roughly, six and a half to six and three-quarter million, in there.

**MR. GLAUSER:** — Yes, that brings it into better perspective when you look at . . . And then you're talking about an average, if I was doing a quick calculation in my head, and you're looking at an average of about 3.5 per cent on six contracts.

**MR. SUTHERLAND:** — Yes, it would be less than 5 per cent, yes.

**MR. GLAUSER:** — Less than 5 per cent. Yes, that brings it into better perspective. That's all.

**MR. SVEINSON:** — Okay. I just have a couple of points I'd like to raise. I have a letter here that was sent to one Robert Lee in 1984 from the Minister of Highways, dated June 12, 1984. It's in response to a letter that he sent the minister on May 23rd. The minister responds to a quiz by this Mr. Robert Lee regarding a conciliation procedure that was undertaken in the mid '70s or late '70s. In this letter he directs Mr. Lee that:

Conciliation proceedings on these three contracts (and I can number them or name them: C-73087; C-74047; and C-75073) were held, and for all practical purposes were completed when Mr. Lashyn made his report on August 5, 1977.

An offer of settlement was made by the department by a letter dated August 17, 1977. The offer was not accepted by your firm. In any event, the conciliation proceedings were superseded when the matter went before the courts of the land . . .

**MR. GLAUSER:** — Mr. Chairman, I'd like to bring a point of order here. I do not believe that this item falls under the year under review and therefore does not come into this committee.

**MR. SVEINSON:** — Well it does. The letter is dated June 12, 1984, Mr. Chairman.

**A MEMBER:** — The year under review.

**MR. SVEINSON:** — That's the year under review, and it's a letter responding to an earlier

situation, but the minister did respond to this letter.

**MR. CHAIRMAN:** — When did this situation . . . June 12, 1984 is not in the year under review. When did the problem occur though?

**MR. SVEINSON:** — Well the problem . . . The year under review is 1984, isn't it?

**MR. CHAIRMAN:** — No, year ending March 31, '84. When did the occasion occur though?

**MR. SVEINSON:** — Oh, I'm sorry. It occurred between 1977 and 1979.

**MR. GLAUSER:** — That is the crux of the matter, and therefore does not fall under . . .

**MR. SVEINSON:** — Well I guess we'll have to raise it next year when, in fact, this is under review. Unfortunate, but . . .

**MR. GLAUSER:** — The letter is not relevant to the year in which this occurred, and we're dealing with the year . . .

**MR. SVEINSON:** — Well this letter is from the minister, and the letter is relevant, but I just have to raise it in the year under review, as the member observes.

**MR. WEIMAN:** — The problem is that the year under review passed eight years ago.

**MR. SVEINSON:** — Well no, the letter was dated June 12, 1984.

**MR. WEIMAN:** — The letter was dated 1984, but the issue and the incident was in 1977-1978.

**MR. SVEINSON:** — Well, we'll raise that again, next year.

**MR. CHAIRMAN:** — Not going to raise it for the moment, at any rate. It is not in the year under review. Neither the incident nor the letter occurred in the year under review. I would have thought the relevant time would have been the time in which the incident occurred, not the minister's letter. But I won't rule on that in advance.

**MR. SVEINSON:** — Well I think that accuracy the letter deserved the attention . . .

**MR. CHAIRMAN:** — I won't rule on that in advance. If you want to raise it next year, we'll worry about that when it comes. It doesn't appear to be in the year under review right now.

I for my part have no objection to the question being raised, but if other members do, I will have to rule it out of order.

**MR. KATZMAN:** — Oh well, I would love to go back to 1977. A lot of things must have changed.

**MR. CHAIRMAN:** — As I say, if any member objects, I have to rule it out of order. Any further questions? If not, I will thank you gentlemen . . . Mr. Kraus.

**MR. KRAUS:** — I would just like to raise one point. I feel I have to be on record here. It's back pertaining to the financial system. We support the department in all the work they've done to try and correct the problems, but we still haven't been able to approve the system. And I just want you to be aware of that, that there are some difference of opinion. And I think that these problems are resolvable, but we haven't yet, and I want to make sure that we do get this resolved so it disappears.

**MR. KATZMAN:** — . . . Mr. Kraus, that's what Mr. Sutherland said, that they weren't perfectly

satisfied — perfect — but they were getting very close.

**MR. KRAUS:** — Well, we hope so because we would like to see this go away, I guess.

**MR. KATZMAN:** — I gather from what he said, in 1984, they thought they had them just about licked.

**MR. KRAUS:** — Well, it's still there, Mr. Katzman, and we have to go some ways to making sure there are some controls, weaknesses resolved, and I just wanted to be on record.

**MR. SUTHERLAND:** — We're working hard on trying to wrap up these outstanding items, I can assure you of that. And we'll do our best to do that in the next few months. It's a very complex system.

**MR. KRAUS:** — We're satisfied that the problems can be resolved. We just want to make sure they're resolved, Mr. Sutherland, so well, we don't have to deal them for very much . . .

**MR. SUTHERLAND:** — Right. Yes. I appreciate that.

**MR. CHAIRMAN:** — Okay. I will thank the witnesses for coming. And we'll ask you to complete your undertakings as soon as you can.

The committee adjourned at 10:50 a.m.