

Audit Objective

The purpose of the audit was to attest to the fair presentation in the financial statements of Government Telecommunications and Informatics Services Revolving Fund, of the financial position and results of operations and changes in financial position for the year ended March 31, 1999 for the purpose of reporting to the Deputy Minister and the ADM Government Operational Service and for reporting in the Public Accounts of Canada.

Audit Results

The audit resulted in the provision of the attached auditor's report (opinion) by Ernst & Young

**Please note that information has been withheld
pursuant to the provisions of the "Access to
Information Act."**

FINANCIAL STATEMENTS

**GOVERNMENT
TELECOMMUNICATIONS AND
INFORMATICS SERVICES**

REVOLVING FUND

March 31, 1999

AUDITORS' REPORT

To the **Director General, Audit and Review**
Public Works and Government Services Canada

We have audited the balance sheet of the **Government Telecommunications and Informatics Services Revolving Fund** as at March 31, 1999 and the statements of operations and accumulated surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the management of the Government Telecommunications and Informatics Services Revolving Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of **Government Telecommunications and Informatics Services Revolving Fund** as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting principles for Revolving Funds of the Government of Canada as described in note 2.

Ottawa, Canada,
July 18, 1999.

Ernst & Young LLP

Chartered Accountants

Balance sheet

Government Telecommunications and Informatics Services Revolving Fund

as at March 31 (in thousands of dollars)	1999	1998 (note 9)
Assets		
Current		
Accounts receivable		
Government of Canada	42,042	71,532
Outside parties	5,133	6,684
Inventories	624	1,428
Deferred charge	0	553
	<u>47,799</u>	<u>80,197</u>
Capital assets (note 3)	4,963	4,446
	<u>52,762</u>	<u>84,643</u>
Liabilities		
Current		
Accounts payable and accrued liabilities		
Government of Canada	2,837	2,192
Outside parties	7,300	9,371
Long-term obligations due within one year (note 4)	150	26
	<u>10,287</u>	<u>11,589</u>
Long-term obligations (note 4)	2,755	1,839
Contractual commitments (note 5)		
Equity of Canada		
Accumulated net charge against the Fund's authority	11,239	39,969
Accumulated surplus	28,481	31,246
	<u>52,762</u>	<u>84,643</u>

The accompanying notes are an integral part of the financial statements

Statement of operations

Government Telecommunications and Informatics Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998 (note 9)
Revenues	164,086	185,465
Cost of sales	139,820	160,262
Gross operating profit	24,266	25,203
Operating expenses		
Salaries and employee benefits	13,891	15,986
Provision for employee termination benefits	1,185	537
Provision for compensation	(46)	56
Transportation and communications	849	1,122
Information	122	382
Professional and special services	8,206	5,344
Occupancy costs	1,083	860
Rentals	88	297
Purchased repair and maintenance	221	178
Utilities, materials and supplies	343	825
Amortization	634	1,936
Interest on drawdown	1,021	520
Loss on disposal of capital assets	58	80
Corporate and administrative services	870	755
Year 2000 expenses	6,100	0
Other expenditures	14	2
	34,639	28,880
Net loss	(10,373)	(3,677)

The accompanying notes are an integral part of the financial statements

Statement of accumulated surplus

Government Telecommunications and Informatics Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998 (note 9)
Balance, beginning of year	31,246	34,923
Net loss	(10,373)	(3,677)
Write-off of employee departure program costs to accumulated net charge against the Fund's authority account (note 10)	7,608	0
Balance, end of year	28,481	31,246

The accompanying notes are an integral part of the financial statements

Statement of changes in financial position

Government Telecommunications and Informatics Services Revolving Fund

Years ended March 31 (in thousands of dollars)	1999	1998 (note 9)
Operating activities		
Net loss	(10,373)	(3,677)
Items not affecting use of authority		
Amortization	634	1,936
Amortization - Recoverable from OGD's	455	403
	(9,284)	(1,338)
Working capital change (note 6)	31,096	(35,117)
Changes in other assets and liabilities (note 7)	916	(7,811)
	22,728	(44,266)
Investing activities		
Capital assets		
Acquisitions	(1,664)	0
Disposals/adjustments	58	0
	(1,606)	0
Financing activities		
Write-off of employee departure program costs to accumulated net charge against the Fund's authority account	7,608	0
Transfer of assets and surplus	0	18,801
	7,608	18,801
Net decrease (increase) in accumulated net charge against the Fund's authority	28,730	(25,465)
Accumulated net charge against the Fund's authority beginning of year	(39,969)	(14,504)
Accumulated net charge against the Fund's authority end of year	(11,239)	(39,969)

The accompanying notes are an integral part of the financial statements

Notes to the Financial Statements

Government Telecommunications and Informatics Services Revolving Fund

1. Authority and purpose

The Government Telecommunications Agency (GTA) Revolving Fund was established in 1963 to plan and provide telecommunications facilities and services for federal departments and agencies. Section 5.2 of the *Revolving Funds Act* authorizes the Minister to make payments out of the Consolidated Revenue Fund for working capital, capital equipment and temporary financing of operating requirements, the total of which was not to exceed \$8,000,000 at any time. The authority was increased intermittently over the years. The last increase was for \$34,000,000 which brought the authority to \$64,000,000 as per *Appropriation Act No. 4, 1991-92* which was repealed in 1996 and replaced by section 5.5 of the *Revolving Funds Act*.

As part of the restructuring announced June 25, 1993, GTA was merged with the informatics groups from the former Supply and Services Canada (SSC) and Public Works Canada (PWC) to form what is called Government Telecommunications and Informatics Services (GTIS). As of April 1, 1994 all balances in the GTA Revolving Fund were transferred to the GTIS Revolving Fund. The 1998-99 Planning, Reporting and Accountability Structure (PRAS) exercise transferred the activities providing internal support to PWGSC from the GTIS Revolving Fund to the Vote effective April 1, 1998 (note 9).

2. Significant accounting policies

The financial statements have been prepared in accordance with generally accepted accounting principles to the extent that they are in accordance with Government policies and directives. The significant accounting policies include the following:

- a) **Revenues and expenses**
Revenues and expenses are recorded on the accrual basis of accounting.
- b) **Inventories**
Inventories are valued at cost and are recorded on a first-in, first-out basis.

2. Significant accounting policies (continued)

c) Capital assets

Capital assets are stated at cost and are amortized on a straight line basis over their estimated economic lives as follows:

Category	Estimated economic life
Office Equipment	5 years
Furniture & Fixtures	10 years
Automobiles	3 years
Telecommunications Equipment	5 years

The current year acquisitions are amortized commencing the first day of the month following the month the expenditure for the asset is recorded.

d) Pension plan

Employees are covered by the *Public Service Superannuation Act* and the *Supplementary Retirement Benefits Act*. The Government of Canada's portion of the pension cost is included in the employee fringe benefit charge assessed against the Fund. The actual payment of the pension is made from the Public Service Superannuation and Supplementary Retirement Benefits Accounts.

e) Employee termination benefits

Termination benefits accrue to employees over their years of service with the Government of Canada as provided for under collective agreements, and the estimated costs of these benefits are recorded in the accounts as they are earned by the employees.

An accrual is made for severance entitlements on service prior to April 1, 1994. This accrual represents a net liability assumed by the Fund and thus was charged to the Fund's accumulated net charge against the Fund's authority.

f) Insurance

The Fund does not carry insurance on its property. This is consistent with the Government's policy of self insurance.

3. Capital assets and accumulated amortization

(in thousands of dollars)

Capital Assets	Balance beginning of year	Acquisitions	Disposals/ Adjustments	Balance end of year
Office Equipment	8,938	734	(180)	9,492
Furniture and Fixtures	907	16	0	923
Automobiles	90	0	0	90
Telecommunications Equipment	3,722	914	(103)	4,533
	13,657	1,664	(283)	15,038

Accumulated amortization	Balance beginning of year	Current year amortization	Disposals/ Adjustments	Balance end of year
Office Equipment	5,993	542	(221)	6,314
Furniture and Fixtures	618	91	0	709
Automobiles	90	0	0	90
Telecommunications Equipment	2,510	456	(4)	2,962
	9,211	1,089	(225)	10,075
Net	4,446		(58)	4,963

4. Long-term obligations

(in thousands of dollars)

	1999	1998
Provision for Employee Termination Benefits	2,905	1,865
Less portion due within one year	150	26
	2,755	1,839

5. Contractual commitments

The Fund is engaged in contracts with telecommunication suppliers. The future payments are as follows:

(in thousands of dollars)

1999-2000	1,841
2000-2001	1,026
	2,867

6. Changes in working capital

(in thousands of dollars)			
	1999	1998	Changes
Current assets	47,799	80,197	32,398
Current liabilities	10,287	11,589	(1,302)
	(37,512)	(68,608)	31,096

7. Changes in other assets and liabilities

(in thousands of dollars)			
	1999	1998	Changes
Other assets	0	0	0
Other liabilities	2,755	1,839	916
	2,755	1,839	916

8. Accounts Receivable write-off

During the year outstanding Government of Canada Accounts receivable totalling \$1,048,538 were written off. These accounts were deemed uncollectible thus management agreed in a one time approach to write-off the accounts.

9. Transfer of operations

Effective April 1, 1998, a portion of the current Information Management / Information Technology (IM/IT) Common Services Business Line was transferred to the Operational Support Business Line and is being funded through a Net Vote rather than the GTIS Revolving Fund. Also, effective April 1, 1998, the Enquiries Canada and Information Delivery Services (IDS) were transferred to the Optional Services Revolving Fund. The 1997-98 figures have been restated and the resulting impact on the Balance sheet and the Statement of operations is as follows:

(in thousands of dollars)

Balance sheet	1998	Transferred operations	Net results 1998
<u>Assets</u>			
Current assets	84,043	3,846	80,197
Capital assets	49,062	44,616	4,446
	133,105	48,462	84,643
<u>Liabilities and Equity of Canada</u>			
Current liabilities	59,604	48,015	11,589
Long-term obligations	11,749	9,910	1,839
Accumulated net charge against the Fund's authority	11,883	(28,086)	39,969
Accumulated surplus	49,869	18,623	31,246
	133,105	48,462	84,643

9. Transfer of operations (continued)

(in thousands of dollars)

Statement of operations	1998	Transferred operations	Net results 1998
Revenues	404,994	219,529	185,465
Cost of sales	160,262	0	160,262
Gross operating profit	244,732	219,529	25,203
Operating expenses	235,955	207,075	28,880
Net profit (loss)	8,777	12,454	(3,677)

10. Write-off of employee departure program costs

The amount of \$7,608,000 represents costs incurred by Government Telecommunications and Informatics Services Revolving Fund from 1995-96 to 1998-99 relating to employee departures under various work force reduction initiatives.

11. Uncertainty due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Revolving Fund's ability to conduct normal business operations. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Revolving Fund, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Government Telecommunications and Informatics Services Revolving Fund.

12. Comparative figures

Certain prior years amounts have been reclassified to conform with the presentation of the current year.