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Special Investigation —Manitoba Region Departmental Response

August 18, 1986

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Indian and Northern Affairs Canada Affaires indiennes
et du Nord Canada

Deputy Minister Sous-ministre

Ottawa, Canada
K1A 0H4

Minister

Special Investigation -- Manitoba
Departmental Response to the Ward Mallette Report

Your predecessor ordered in March 1986 a special investigation of the allegations of the Manitoba Brotherhood of First Nations concerning the program management and financial operations of the Department's regional office in Manitoba. The results of the investigation were to be reported directly to the Minister before review by departmental officials.

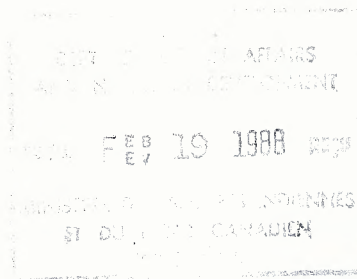
After Mr. Crombie released the Ward Mallette report to the Department on June 10, 1986, review groups were set up immediately. At headquarters, they were headed by the Assistant Deputy Minister, Indian Services and the Assistant Deputy Minister, Finance and Professional Services and in the Region, by the Regional Director General. Their task was to analyze fully the problems identified in the report and the causes, in addition to outlining corrective action that had been taken or remedial action still required.

The attached Departmental Response is the result of these concerted efforts over the past several weeks. I believe the response provides a solid basis for constructive consultations and communication between departmental officials and Indian leaders in Manitoba, and other interested parties in the immediate future.

Bruce Rawson

**Special Investigation
—Manitoba Region
Departmental Response**

August 18, 1986



Introduction:

In late March 1986, the Minister of Indian Affairs and Northern Development commissioned a special investigation of the Manitoba region. The Minister initiated the study in response to serious allegations, regarding program administration and financial operations, made by the Brotherhood of First Nations (B.F.N.). The study was carried out by the firm of Ward Mallette, Chartered Accountants.

The Ward Mallette report was submitted to the Minister on June 9, 1986 and was released on June 10 to the Brotherhood of First Nations, to the Standing Committee on Aboriginal Affairs and Northern Development, and to departmental officials. It was also distributed to the media and other interested parties.

The attached Departmental Response is an analysis of the findings of the Ward Mallette report undertaken by Indian and Northern Affairs Canada (INAC). It identifies the problems and their causes, as well as outlining the corrective action already taken and the further actions still required. The Departmental Response was prepared in consultation with Ward Mallette, Chartered Accountants. There were a number of discussions with the firm during which its officials reviewed and commented on the draft responses to ensure that the issues identified are appropriate and that the information presented by the Department is accurate, to the best of their knowledge.

Detailed action plans will be finalized following consultation between INAC and Manitoba Indian leaders.

An Overview of the Departmental Response:

In the case of a number of the Ward Mallette findings, the Department acknowledges that mistakes were made. In some cases these mistakes were significant.

A prime example is "payables at year end" (PAYE), a process intended to capture expenses for the current year which have not been paid prior to closing the books at year end. It is clear that non-compliance with PAYE policy resulted in costs being improperly reported from 1982-83 to 1984-85, that the Region overexpended its budget in successive fiscal years, and that unfunded commitments were not recorded. Corrective action, including training and direction to program managers, amendments to control procedures, and additional internal audits will ensure strict compliance with PAYE policy and procedures in future.

In another example, concerning the finding on the Pine Creek Band, we agree that not only was an error made in calculating the Band's education budget, but that it took an unacceptably long time (over 11 months) to correct it.

A second category of findings, we believe, arose from legitimate misunderstandings. For example, in the Department's view, all principles of the November 1985 Political Accord related to Manitoba Indian child welfare care agencies were followed in the negotiations successfully concluded by the Department with several Indian child welfare agencies in April 1986. Both the issue of off-reserve services and the definition of Indian residency will be dealt with in the negotiations on the extension of the Accord. The subject of outreach offices was addressed in good faith.

Misunderstandings resulting from poor communications are obvious as well. The off-reserve education for students of the Mathias Colomb Band (Pukatawagan), cited by Ward Mallette, is an example.

A third category of findings touch on fundamental issues with implications that reach far beyond the Manitoba borders. Band indebtedness policy, the overall adequacy of funding for Indian programs, and the policy of transfer of programs and services to Indian control are the principal examples.

The work of the Technical Committee is ongoing.

Evaluation studies, which were to have been completed before the end of the original agreement, are now to be completed by October 30, 1986. INAC has committed \$117,000 to the project and has identified the administrative conditions under which the Department will fund the evaluations.

It is expected that a new tripartite agreement between INAC, the Province and Indian groups will be in place by March 31, 1987.

Additional Background:

Prior to 1981, most Indian children living on reserve did not receive child welfare services, except in life threatening situations. Even then, the services provided did not demonstrate a sensitivity to social, cultural, and economic standards of the Bands. In 1976 Manitoba Indians initiated negotiations with the goal of taking over child welfare services for Indian children and families.

In 1982, INAC received authority from the federal Cabinet for the 1981-86 Canada/Manitoba/Indian (tripartite) agreements. This was both an interim and a practical solution to jurisdictional and constitutional impediments which had prevented significant progress for many years.

Tripartite agreements were signed with the three Indian political organizations in Manitoba. Within these "Master Agreements", sub-agreements were made with four newly-established Indian child welfare agencies for the actual delivery of child and family services. This brought the number of Indian child welfare agencies in Manitoba to six since two other agencies had been incorporated previously. Sagkeeng Child and Family Services Inc., which began operations in 1977 through a bilateral agreement with INAC, offers non-statutory services only. The Dakota Ojibway Child and Family Services Inc. (DOCFS), a fully-mandated agency, came into being in 1981 through complementary bilateral agreements (Manitoba-DOCFS and INAC-DOCFS). All six agencies work together on matters of common interest.

Preventive services, not child placements, were emphasized in the agreements. New services offered included family, marital and suicide counselling, physical and sexual abuse counselling, community awareness workshops, single parent workshops, homemakers and in-home placements.

In the three years since 1982-83, federal funding under these tripartite agreements has increased by 83 per cent. The figures are as follows:

1982-83 (actual)	\$ 6,915,000
1983-84 (actual)	\$ 8,567,400
1984-85 (actual)	\$10,784,300
1985-86 (budget)	\$ 9,058,000
1985-86 (actual)	\$12,696,000

The three child welfare master agreements were due to expire on March 31, 1986. Prior to this deadline, an evaluation of the existing agreements was to have been carried out. Approval was required then from the federal Cabinet to negotiate new arrangements. INAC was not in a position to negotiate these new arrangements for April 1, 1986 due to delays in reaching agreement with the agencies on common terms of reference and evaluation methodology.

On November 26, 1985, the Minister of INAC, the province of Manitoba and Indian representatives agreed, in a "Political Accord", to enter into and conclude negotiations for a one-year extension of the current agreements and, subsequently, to negotiate new multi-year agreements.

The following sections of the Accord should be considered when determining whether INAC's response was appropriate in this instance:

Section I.3.ii.b - "In identifying adequate fiscal resources, the following items shall be addressed in good faith: Anishnaabe Outreach Office, West Region Outreach sub-office and Southeast Child and Family Outreach Services, and Sagkeeng Child and Family Services Outreach."

Section I.3.iii - "The definition of 'Indian Resident on Reserve' within the meaning of the current agreement and which affects the scope of the agreement shall be fully canvassed and resolution sought."

Section 5 - "Issues identified beyond the scope of officials to resolve shall be referred to Ministerial/Chiefs meetings convened for the purposes of addressing and resolving. The process of negotiation shall include tripartite discussions at the officials level involving designated representatives of the Minister of Indian Affairs (Canada), the Minister of Community Services (Manitoba), the First Nations Confederacy and the Southeast Resource Development Council. Issues identified beyond the scope of officials to resolve shall be referred to Ministerial/Chiefs meetings convened for the purpose of addressing and resolving any issue requiring political direction and resolution."

Meetings with the Province and the six child care agencies were held December 16 to 20, 1985 in Winnipeg to review and discuss all points of the Accord related to the extension. At the meetings, INAC negotiators stated that the issue of payment for off-reserve services had national policy implications and could only be resolved at that level.

Further meetings involving all parties were held in Winnipeg January 6 to 10, 1986. INAC tabled a response regarding increased budgets for each agency, taking into account the points of the Accord. However, negotiations were terminated following Indian agency statements that Departmental officials were not respecting the Political Accord, were not negotiating in good faith, and were not prepared to address in good faith the adequacy of fiscal resources.

Telexes were sent to the Minister and INAC senior management was consulted. Discussions resumed between February 10 to 14, 1986.

By the end of March 1986, INAC had signed an agreement with each of the child care agencies on recommended budget increases for the fiscal year 1986-87.

A. MANITOBA INDIAN CHILD CARE AGENCIES

A.2.a Level of Funding

WARD MALLETTE FINDING: (Page 9)

Ward Mallette calculates that, if funded according to provincial standards, the South-East Indian Child Care Agency would have received an additional \$177,000, or \$1,150,000 in funding (compared to the \$973,000 provided by DIAND) and an increase in four staff from the approved level of 22 positions.

Issue:

- . Should Indian child care agencies be financed on the basis of the funding rationale for services provided by the province of Manitoba?

Departmental Response:

- . Departmental policy (INAC Circular G-1) calls for the funding of the operations budget of Indian child care agencies in Manitoba in accordance with provincial standards of service. However, since provincial standards did not exist at the time of negotiation, an estimate was made of the increased costs, resulting from the requirements under the new provincial law, which could be justified under the current master agreement. The Working Paper, prepared jointly by INAC and the Indian agencies, recommends an increase of \$144,152 for the South-East Indian Child Care Agency. Overall, the recommended increases for all six agencies total \$2.3 million. These increases are subject to federal Cabinet approval.

Action Plan:

- . INAC is aware that provincial standards have been developed recently although these proposed standards have yet to receive the necessary provincial Cabinet approval.
- . Contact will be maintained between the Department and the Province regarding any decision on provincial standards.

INAC intends to seek federal Cabinet approval, in the Fall of 1986, for \$2.3 million in increases for all agencies for 1986-87.

The required level of funding will be addressed again in negotiating the new master agreements.

Additional Background:

Provinces have jurisdiction in the "welfare" area. INAC uses provincial service delivery standards, where they exist, to justify its resource requirements (to Cabinet or Treasury Board) for services provided by the Department to Indians.

The definition of service delivery standards for the costing of child welfare agencies is difficult and complex.

In meetings with Indian agencies and the province of Manitoba (December 1985 to March 1986), INAC expressed the need for provincial standards.

On January 30, 1986 the Province provided the funding rationale for provincial services. It was careful to indicate that these were not to be construed as "standards".

In the absence of provincial standards, the "Manitoba Indian Child Welfare Working Paper - June 5, 1986" was prepared jointly by INAC and the Indian agencies. The report identified new funding requirements for the one year extension of the agreement. Incremental funding to the South-East Indian Child Care Agency was included.

Figures on federal funding to the South-East Indian Child Care Agency since 1982-83 follow:

1982-83 (actual)	\$659,800
1983-84 (actual)	\$885,300
1984-85 (actual)	\$906,800
1985-86 (actual)	\$918,300
1986-87 (budget)	\$918,300*

* Does not include the \$144,152 increase recommended in the Working Paper.

A. MANITOBA INDIAN CHILD CARE AGENCIES

A.2.b Level of Funding

WARD MALLETTE FINDING: (Pages 8-9)

There is agreement by all parties that there is a lack of enough skilled direct workers for the program and that the training funds provided in the original tripartite agreement were insufficient to meet the need.

The current method of funding training does not fully meet needs. The current status of funds for training for some agencies is unclear.

Issues:

- . Does the current method to fund training fully meet the needs of the Indian child-care agencies?
- . What is the status of training funds for the Indian child care agencies?

Departmental Response:

- . INAC agrees with the Ward Mallette analysis regarding training requirements. Higher-than-anticipated staff turnover, and the lack of sufficient numbers of professional Indian social workers, has resulted in higher-than-anticipated training requirements. The \$1,000,000 in training funds, approved by the Federal Cabinet in February 1982 for the original tripartite agreements, was fully utilized by March 1985.
- . From April 1985 to March 1986, INAC provided \$548,188 in additional funds through its Post-Secondary Education Program to the Awasis and Anishnaabe agencies which had requested additional funds for training. The requirements were identified through the June and November 1985 data bases and funds were obtained through two separate, supplementary submissions. The same level of funding was also made available for 1986-87.
- . For the four other child care agencies, INAC has requested extra funding through the June 1986 data base exercise. Approval of this funding depends on the results of the joint review by INAC and Treasury Board officials of the Social and Education data bases.

Action Plan:

INAC believes that sufficient funds for training skilled workers can be made available through the Post-Secondary Program and the University and College Entrance Program (UCEP). The first program is directed at those with a high school graduation certificate or equivalent. The second program is directed at those with lower levels of education. Both programs are funded through the Education data base.

The additional training requirements for committee members and other staff, who may or may not qualify for funding under the Post-Secondary Education Program, will be addressed fully in the negotiation of the new agreement.

Additional Background:

The original Child Welfare Agreements provided resources for training via the Social Development Program. Since these funds have been exhausted, the Department advised child care agencies in February 1986 that future training resources for the remaining child care agencies would be secured via the Education Program.

A related concern of the Indian agencies is why INAC did not go back to Cabinet to request additional funding, given that this option was provided to the Department in the original Cabinet approval. While the Cabinet authority covered the fiscal years 1981-82 through 1985-86, Treasury Board approval was received in February 1982 and the actual agreements were signed late in 1981-82 or even later. INAC's position is that, over the first two full years of the agreements, funding problems were not evident. In the third year, savings in "maintenance" were shifted to "prevention" to meet the increasing requirements. In the fourth and final year, INAC was due to approach Cabinet on the new agreement so it did not go forward on the old one. Instead, some funding was accessed through the Education data base.

A. MANITOBA INDIAN CHILD CARE AGENCIES

A.2.c Level of Funding

WARD MALLETTE FINDING: (Page 10)

The proposed regional budget for homemakers in FY 1986-87 is \$177,000, a reduction of \$651,000 or 79 per cent of last year's actual expenditures. Departmental officials contend that this is not a cutback but rather a return to budgetary levels of FY 1984-85. The Indian child care agencies do not feel that this complies with the Minister's statement to them that there would be no cuts to the existing programs.

Issue:

Has the homemakers' budget been cut?

Departmental Response:

As in previous years, INAC will continue to fund mandatory services to the extent required, as agreed to in the current tripartite agreements.

In June 1986, a review was completed of 1985-86 expenditures, in consultation with two agencies. The review findings supported the 1985-86 expenditure levels for agencies in general, with the exception of one agency. Based on the study, a similar level of funding is being recommended for 1986-87 via the data base exercise. Agencies were advised on June 15, 1986 of the proposed 1986-87 funding level for each agency.

The homemakers budget for the past several years is as follows:

1982-83 (actual)	n/a
1983-84 (actual)	\$177,000
1984-85 (actual)	\$233,900
1985-86 (budget)	\$177,000
1985-86 (actual)	\$769,300
1986-87 (budget)	\$177,000
1986-87 (data base proposal)	\$537,000

Action Plan:

See "Departmental Response" above.

Additional Background:

Homemaker services involve workers visiting homes to undertake chores and parenting functions, which assist parents in carrying out their responsibilities. These services are offered under varying circumstances:

- in one case, homemakers assist and support the family or the parents.

- in another case, they replace the parents in a crisis situation (the parents are away temporarily or are unable to carry out their responsibilities while in the home).

In the first case, the support services may be justified and beneficial but they are not essential (discretionary). In the second case, the agency has no choice; it has to either place the child in another home or place a homemaker with the children (mandatory).

Mandatory costs are covered according to actual requirements while discretionary costs must stay within a fixed budget for this activity.

In the fiscal year 1985-86, the regional budget for homemaker services was \$177,000. By October 1985, the Region noticed a major financial increase in this area and, in November, it requested that the budget be increased to \$592,400. A further request for funds was made subsequently to complete the fiscal year 1985-86 (bringing the total requested funding to \$828,000). Prior expenditure patterns had not indicated that this level of funding would be required and, therefore, INAC was not prepared for the major increase. Nevertheless, the Department obtained Treasury Board approval, via the data base exercise, for the additional funds required in 1985-86. It should be noted that, as of July 21, 1986, actual billings for 1985-86 totalled \$769,300.

The approved increase was obtained for 1985-86. However, the same level of activity was not approved for 1986-87; thus the Department will have to go back to Treasury Board for any additional funds required.

Changes to the Manitoba child welfare legislation, which came into effect in March 1986, meant that more emphasis was placed on prevention and family support, and on keeping children in their own homes. As a result it was difficult to predict, with any accuracy, the next year's budget.

A. MANITOBA INDIAN CHILD CARE AGENCIES

A.1.a Political Accord of November 26, 1985

WARD MALLETTE FINDING: (Page 7)

Departmental officials stated to the Indian organizations and the Province on January 8, 1986, that they were willing to negotiate, in the extension to the existing agreement, anything in the political accord, except the issues of residency and off-reserve services, as these two issues are national in scope.

Provincial officials and representatives of the Indian client groups are concerned that either the intent to negotiate the issues outlined in the political accord was not sincere, or alternatively, that departmental officials are not complying with the terms and conditions of the accord signed by the Minister.

Issues:

- . Did the Accord require that the off-reserve services and residency issues be "canvassed and resolution sought" in the extension of the agreement?
- . Were negotiations on the definition of Indian residency and on the provision of outreach offices addressed in good faith?

Departmental Response:

- . The Department believes that all principles of the Accord have been followed:
 - . The issue of off-reserve services was clearly identified as a matter to be addressed in the second section of the Accord dealing with the negotiation of a new agreement.
 - . The definition of Indian residency was dealt with by a tripartite technical review committee, established as a result of the Accord. The Technical Committee (comprised of departmental and provincial officials and representatives of Indian groups) was set up to review some 800 cases associated with the residency issue.

Outreach offices were addressed in good faith and it was agreed not to raise further the funding of these offices in the Working Paper dealing with the extension of the current agreements. Accordingly, it was not mentioned in the recommendations and conclusions in the final version of the Working Paper which was agreed to by all parties.

Action Plan:

Work is underway to identify the concerns which the Indian organizations and the Province have regarding the issue. Work is proceeding, as well, on the identification of ways of defining "off-reserve" and on the costing of these options.

March 24-25, 1986 meetings in Winnipeg between INAC and the Indian organizations dealt with the drafting of the Manitoba Indian Child Welfare Working Paper, upon which the Cabinet Document was to be based. The substantive content of the main document was agreed upon by all parties at the March 24-25 meetings, with only the sections relating specifically to each agency missing. It had been agreed that each agency would draft its own section of the Working Paper and final input was received on June 4, 1986. The Working Paper was completed (wordprocessing) on June 5, 1986.

In addition, an attempt is being made to resolve, within the context of the current agreement, the issue of the definition of Indian resident on reserve. Through an agreement between the Province and the Department, a thorough review is underway. The study is to be cost-shared, 50/50, by the parties. Based on a sample of 100 of roughly 800 Manitoba Indian children in care, the study will look at ways to define residency and identify the cost of each option. The work, being carried out by an independent consultant, is under the direction of a tripartite technical review committee.

March 6, 1986 - the Technical Committee agreed on three options to be costed

May 29, 1986 - the Technical Committee agreed on the sample to be used in the costing

July 30, 1986 - the deadline for the consultant to complete costing of options based on the sample

mid-September, 1986 - Technical Committee to report.

A. MANITOBA INDIAN CHILD CARE AGENCIES

A.2.d Per Capita Funding

WARD MALLETTE FINDING: (Page 10)

The Department intends to hold southern Child Care agencies to their current level of funding (except for salary increments) and to provide substantial additional funds to the northern agencies. The realignment of funds is based upon perceived inequities when the level of funding to each agency is calculated on a per capita basis. The Indian Child Care Agencies and Provincial Officials are convinced that this per capita analysis is totally inappropriate.

Issues:

- . Is it appropriate to use per capita analysis in determining the level of funding to each agency?
- . What was the rationale for providing additional funds to the northern agencies?
- . What is an appropriate means to determine operating budgets for Indian child care agencies?

Departmental Response:

- . INAC agrees with the Indian agencies and the Province that using a per capita analysis approach is not, and would not be, an adequate basis for determining the level of operational funding provided by the federal government to the Indian child welfare agencies for service delivery to their communities.
- . In its initial presentations to the Indian agencies in early 1986, INAC used per capita analyses to illustrate the differences in the level of funding. Currently, INAC is authorized to use the following funding ratios:
 - one paraprofessional per 500-600 population.
 - one professional per three paraprofessionals, with the exception of the first two years of an agency's operations (considered to be its training phase) during which there are two professionals per three paraprofessionals.

The southern agencies started operating before the northern agency of Awasis and they were able to plan and organize their activities before there were full demands on the system from all Manitoba Indian communities for similar services. Although Awasis is allocated only 41.3 per cent of the Region's child and family services budget, it has a service area covering more than half the Indian population of Manitoba (25 reserves, total estimated on-reserve population 23,000). The Awasis budget appeared to be disproportionately small, given the high cost of northern travel, the large number of "fly-in" communities, the considerable distances to be travelled, as well as the time involved in reaching northern Manitoba communities. The larger amount recommended for Awasis was intended to address, at least in part, its current additional needs related to these costs.

Action Plan:

Recommendations for increasing the operational budgets of all of the agencies were agreed upon in the Working Paper developed jointly by the Indian agencies and INAC. IF the recommendations contained in the Working Paper are approved, the funding levels for 1986-87 would be adjusted to reflect the increased levels. (It should be noted that Treasury Board, in its original approval in February 1982, directed the Department to "report to the Board as soon as the allocated funds seem likely to be exceeded.")

Additional Background:

The following table shows the "operational" component of child welfare expenditures and the "total" expenditures under the tripartite agreements during the period 1982-83 through 1985-86 (in thousands of dollars):

	<u>"Operations"</u> <u>Component of</u> <u>Expenditures</u>	<u>Total</u> <u>Expenditures</u>
1982-83 (actual)	\$2,477.9	\$ 6,915.0
1983-84 (actual)	\$5,756.4	\$ 8,567.4
1984-85 (actual)	\$6,970.9	\$10,784.3
1985-86 (budget)	\$6,713.8	\$ 9,058.0
1985-86 (actual)	\$6,886.8	\$12,696.0

At the time of the extension negotiations, the agencies' operations budget requests were 80 per cent higher than their existing budgets (see table on next page). The supporting arguments by the agencies for an increase in funding appeared to be a rationalization of what already existed and what was perceived as the needs of the agencies.

The Province has repeatedly advised that it has neither formal standards for the funding of child welfare agencies nor specific standards for the provision of child welfare services. On the other hand, the Province has provided some qualified guidelines on the rationale it uses to justify its current funding levels. It should be noted, however, that provincial officials stressed the fact that there were proposals on this matter before the provincial Cabinet.

Also, necessary data from the required evaluations on the agreements was not available as the evaluations had not been carried out.

The Department felt that efforts should be made to minimize the funding disparities among the agencies. To achieve this end, INAC believed that more new funds should be directed toward "leaner" areas. As such, a two-phase approach was taken. First, an attempt would be made to secure equity in the arrangements being made for the one-year extension period. Second, the negotiation process for the new multi-year agreements would be used to seek overall increased funding. INAC's position was put forward at the January 6-10, 1986 tripartite meetings. After further discussion with the other parties, recommendations were agreed upon with respect to the one-year extension. These called for some additional funds to help meet some of the needs of the agencies.

Comparison of Existing 85-86 Budgets*, and
Funding Levels Requested by Indian Child Care Agencies

	<u>1985-86 Budget</u>	<u>Requested</u>	<u>Variance</u>	
SOUTHERN AGENCIES:				
Anishinaabe	850.7	1,232.0	381.3	45%
Dakota Ojibway	1,096.0	1,744.0	648.0	59%
Sagkeeng	214.9	868.0	653.1	304%
South-East	918.3	1,702.0	783.7	85%
West Region	<u>831.1</u>	<u>1,665.0</u>	<u>833.9</u>	<u>100%</u>
Sub-Total	3,911.0	7,211.0	3,300.0	84%
NORTHERN AGENCY:				
Awasis	2,759.9	4,808.0	2,048.1	74%
TOTAL ALL AGENCIES:	<u>\$6,670.9</u>	<u>\$12,019.0</u>	<u>\$5,348.1</u>	<u>80%</u>

* Budgets shown are those that existed at the time of negotiations. The final budget was \$6,713,800. Only the operations component of the Agencies' budget is shown as this was the main area of concern at negotiations. It should be noted that services provided by agencies vary.

B. MANITOBA INDIAN EDUCATION ASSOCIATION

B. 1 Budget Cutbacks

WARD MALLETTE FINDING: (Page 11)

Despite the Minister's assurances that there would be no cutbacks to existing programs, the budget of the Manitoba Indian Education Association (MIEA) was cut by approximately \$200,000 in FY 1985-86 and a further \$100,000 in FY 1986-87. It is not clear to Ward Mallette whether or not these cuts are justified.

Issues:

- . Has MIEA's budget been cut?
- . Is there an understanding of the roles and responsibilities of MIEA? Is it funded accordingly?

Departmental Response:

- . The funding of Indian education has not been reduced. In 1985-86, approximately \$1,500,000 in departmental funds, which formerly had been given directly to MIEA, were transferred to Indian Bands at the same time that student services programs, guidance counsellors and other personnel were transferred to the Bands.
- . It should be emphasized that the MIEA budget cut was a reallocation of funds to Bands which, in turn, had the option of either buying or not buying the services offered by MIEA. Band decisions on how to use the available funds for the services required were made at the community level.
- . The MIEA counselling budget was reduced by \$68,113, representing 3.5 positions. Equivalent positions were provided through budget negotiations to the Cross Lake, Norway House, and Lac Brochet Bands for counselling services, along with a budget of \$81,045.
- . MIEA will be providing additional documentation to INAC at which time the Departmental Response will be reviewed.

The following circumstances resulted in a further budget adjustment of \$114,600 for 1986-87:

- the direct transfer to Bands of \$33,600 in cultural grants, previously administered by MIEA, and

- the withholding of \$81,000 for the MIEA tutorial program, pending the receipt of confirmation that contracts with post-secondary institutions for this service have been signed.

Since decentralization, Bands receiving some of the funding previously given to MIEA still continue to request MIEA services, including counselling their students in Winnipeg and Brandon. However, a corresponding flow of funds from some Bands is not reaching MIEA so it can provide the services.

Certain funds, for example, the tutorial program, are paid by the Department directly to MIEA. February 25, 1986 and April 22, 1986 letters to MIEA from INAC responded to MIEA regarding the tutorial programs. The major point of contention was that funds for tutoring students (in 1984-85 MIEA had contracted these services with universities) were being converted to cover the cost of staff administrative positions. INAC's position was that monies for the tutorial program would be made available only when there was evidence that the funds were being used to cover contracts for direct student services.

Further discussions were held between the Region and MIEA. On May 21, 1986, representatives from MIEA met with the Minister to express concern that they no longer could remain open for business. The Minister undertook to "have INAC work with MIEA to ensure its survival past June 30, 1986".

On July 17, 1986, INAC and MIEA officials met to discuss further the role and responsibilities, as well as the current financial situation, of the association. This was a follow-up to a meeting on June 20, 1986 at which time confirmation had been sought by the Department that contracts with post-secondary institutions for tutorial services had been arranged by MIEA. It was at this meeting that an amendment of \$98,000 to the 1986-87

contribution arrangement was offered, and accepted by MIEA. This will provide for continued service to fiscal year-end. (The \$98,000 includes the \$81,000 for the tutorial program.)

Action Plan:

The Department received the necessary documentation concerning tutorial services on July 17, 1986. Accordingly, the related \$81,000 has been approved as an addition to the MIEA contribution agreement and a cheque will be issued in August 1986.

The roles and responsibilities of MIEA, and the resulting accountabilities to the Indian communities will be the basis of further review. It will include also the source, and appropriateness, of the funding level. It is anticipated that the review will be an extended process due to the nature of the issues involved in the transfer of full program control to Indian educational institutions.

Additional Background:

MIEA was established by the Chiefs of Manitoba in 1979 to meet the educational needs of Indian people. MIEA is a province-wide organization, which does not operate schools but does provide consulting services to Bands and counselling services to students. Currently, INAC funds four levels of organizations representing the interests of the Bands or providing services to them -- MIEA, political associations, Tribal Councils and Bands themselves.

The question of how to ensure that Bands (the communities) can control administrative organizations, which exist or are created to represent their interests or provide them with services, is a policy issue. For example, funds can be provided directly to Bands to allow them to fund the services and, therefore, the organizations that provide the services.

An April 17, 1986 letter from the regional office (INAC) to MIEA outlined the reasons for total budget changes between 1985-86 and 1986-87. These were related principally to the decentralization of funds from MIEA (as an INAC-funded, province-wide agency) to the Bands. As such, Bands could purchase the services required from MIEA or make other arrangements.

B. MANITOBA INDIAN EDUCATION ASSOCIATION

B.2 Departmental Accounting

WARD MALLETTE FINDING: (Page 12)

Some inaccuracy and errors in the departmental accounting systems and data base information were confirmed. For example, the contribution arrangement for FY 1986-87 provided \$587,787 for executive support which was allocated to the service code for Advice & Assistance - Band (3084). It should have been charged to the service code for Service Delivery (3005). As well, MIEA was instructed to pay a salary adjustment to their accountant out of funds identified under the student support budget.

Issues:

- . Are there inaccuracies and errors in the departmental accounting systems and in the national Education data base?
- . Should \$587,787 have been charged to service code 3005?
- . Why was MIEA instructed to pay a salary adjustment to its accountant from the student support budget?

Departmental Response:

- . An inconsistency exists between INAC's coding descriptions in the "Directory of Services" and the "Data Base" coding instructions (see definitions of these items in "Additional Background" section below). For further information refer to section H.6 in this document.
- . It has been the accepted practice to code MIEA budget items to service code 3084, since MIEA provides services to Band-operated education programs. However, the Directory of Services indicates that 3084 cannot be used for overhead costs. Since a major portion of the MIEA budget relates to executive support services, it would be appropriate to code it to 3005.

In February 1981, the Region gave MIEA the authority to pay a salary adjustment from surplus resources in its student support budget. The approval of adjustments of this nature were within the Region's authority in 1980-81.

Action Plan:

The inconsistency between INAC's coding description in the "Directory of Services" and the "Data Base" coding instructions will be eliminated in the next data base exercise.

During the current revision of the Operational Planning Framework, the sub-planning element/planning variable structure within the Education planning element will be refined and needed additions or revisions to the Directory of Services identified. This project is scheduled for completion in October 1986.

Additional Background:

The "Directory of Services" is a listing of services which INAC has policy or programming authority to deliver. The range of services which INAC could deliver and the size of the budget for the delivery of these services can differ. The money to deliver these services or "financial authority" is secured separately. When INAC lacks resources, it lacks the ability to deliver all the services in the "Directory of Services".

Through the data base exercises, INAC secures "financial authority" to fund the services in the "Directory of Services". Data base consists of a series of forms on which estimates of the cost of particular services are calculated. Each service has a code. Bands contribute to this exercise by completing data base forms.

The lowest level of coding is very detailed. The detailed codes, however, are grouped together (rolled-up) into progressively more general categories. Various analyses and approvals are done at the various levels of roll-up, with Parliament giving approval at the least detailed level.

Service code 3005 is a generic code used to capture information on federal schools, Band schools, provincial schools, post-secondary education, adult education and devolution for service delivery. Service code 3084 is specific to Band-operated schools and devolution activities.

While these are useful distinctions at the field level, service codes 3005 and 3084 are within the same planning variable, planning element and vote and thus are not distinguishable (they are lumped together) in senior level reports. Therefore, although a coding error was made, it did not change the information reported to Parliament and to central agencies.

C. PEGUIS BAND

C.1 Keypunching Errors

WARD MALLETTE FINDING: (Page 13)

A number of keypunching errors made in preparing the record of eligible students were subsequently identified and corrected, after significant efforts on the part of the Peguis School Board.

Issue:

Was communication adequate to provide a consistent understanding, between INAC and Peguis School Board, of the nominal roll count?

Departmental Response:

A keypunch error was made involving two Bands and 50 students. The error was found in the course of the Department's routine verification process and corrected prior to the level of funding being set.

This error was corrected in February 1986. The final count was confirmed in April 1986 through the 1986-87 Contribution Agreement and by letter to the Band in July 1986.

Action Plan:

See "Departmental Response" above.

Additional Background:

Each September, a list, known as the "nominal roll", is prepared of the students attending school. An accurate list is important since the budget provided to a school is, in part, based on the number of students.

These lists are maintained in the INAC regional office. Each year the old lists are sent to the schools which, in turn, complete forms to request necessary changes. In total, approximately 15,000 students are listed in the regional computer.

During keypunching for the 1985-86 exercise, two pages from the Waywayseecappo Band batch were mistakenly placed in the batch for the Peguis Band.

Inputting of the wrong Band code for those two pages resulted in transferring 50 students from the draft nominal roll for Waywayseecappo to that for Peguis.

In January 1986, the updated computer listings were returned to Bands for verification; the error was identified by the Band and was corrected by the Department in February 1986.

C. PEGUIS BAND

C.2.a Budget Cutbacks

WARD MALLETTE FINDING: (Page 13)

Ward Mallette's analysis points out a 2 per cent decrease in tuition costs per unit for FY 1984-85 (\$4,375.65) as compared to FY 1985-86 (\$4,306.87). The Minister had promised no cuts to existing programs. Departmental analysis showed an increase in student unit costs.

Issue:

- . Was there a budget cutback?

Departmental Response:

- . Between 1984-85 and 1985-86, the total level of funding provided to the Peguis Band for elementary/secondary education related to the Band school operation was reduced by 8.7 per cent. This was due to a drop in student enrollment (8.6 per cent). Since education budgets are adjusted routinely for increases or decreases in the number of students attending school, this was not considered a budget cut-back.
- . The student unit count for the Peguis Band dropped from 595 in 1984-85 to 544 in 1985-86, or by 8.6 per cent. Although, over the same period, the actual elementary/secondary funding per student unit decreased from \$5,048 to \$5,039, a decrease of 0.2 per cent, this decrease resulted from one-time Operation and Maintenance funding of \$77,449 in 1984-85.
- . The reduced level of funding (based on the number of students in attendance) was not considered a cut to an existing program. If enrollment had increased, the level of funding would have increased accordingly in the following year.

Action Plan:

. See "Departmental Response" above.

Additional Background:

. In 1984-85 and prior years, the funding of Band-operated schools was negotiated directly with the Band, without benefit of a formula. In 1985-86, the Region started using a formula which attempted to provide equal treatment for all Bands. This was in line with headquarters direction and was supported by a letter from the Minister to the Band in 1985. The move to formula funding, however, did not result in a student unit cost decrease.

TABLE I

Comparison of the 1984-85 and the 1985-86 Elementary/
Secondary Tuition Costs Identified in the Audit
Report and INAC Data for the Peguis Band-Operated School

	Budget	Actual	Budget	Actual
	<u>1984-85</u>		<u>1985-86</u>	
Instructional Support	\$275,332	\$282,052	\$275,332	\$275,332
Instructional Services - Band School	1,864,706	1,858,006	1,662,257	1,662,277
O&M - Band School	463,473*	463,473*	405,347	405,347
Total Tuition Costs	<u>\$2,603,511</u>	<u>\$2,603,531</u>	<u>\$2,342,936</u>	<u>\$2,342,956</u>
Number of Student Units**	595	595	544	544
Funding per Student Unit	<u>4,376</u>	<u>4,376</u>	<u>4,307</u>	<u>4,307</u>

* An increase of \$77,449 was provided to the Peguis Band for O&M purposes for the Band school; one-time only funds. Confirmation of this arrangement is in the minutes of a February 21, 1986 meeting.

** One unit is one student (Grades 1 - 12) or two kindergarten students.

TABLE II

Comparison of the 1984-85 and the 1985-86 Elementary/Secondary
Actual Expenditures for the Peguis Band Operated School

Elementary/ Secondary Funding Items	Actual 1984-85	Actual 1985-86	Change	% Change
Instructional Support	\$282,052	\$275,332	(\$6,720)	(2.4%)
Instructional Services - Band School	\$1,858,006	\$1,662,277	(\$195,729)	(10.5%)
Guidance and Counselling	\$36,768	\$35,008	(\$1,760)	(4.8%)
Daily Transportation	\$363,355	\$363,356	\$1	--
O&M - Band School	\$463,473	405,347	(\$58,126)	(12.5%)
Total Elementary/ Secondary Actuals	\$3,003,654	\$2,741,320	(\$262,334)	(8.7%)
Number of Student Units* X	595	544	(51)	(8.6%)
Funding per Student Unit	\$5,048	\$5,039	(\$9)	(0.2%)
Total Elementary Secondary Actuals =	\$3,003,654	\$2,741,320		

* One student unit is one student (grades 1-12) or two kindergarten students.

C. PEGUIS BAND

C.3 Capital Expenditures

WARD MALLETTE FINDING: (Page 14)

The new school promised for 1979 has been repeatedly deferred. It is now scheduled for FY 1987-88. The acquisition of school furnishings and equipment in the amount of \$35,400 has been deferred to FY 1987-88 when a double allocation of \$70,800 has been promised. Ward Mallette states that this makes it difficult for the education authority to plan its affairs and that it will be very difficult for the Region to deliver on this promise.

Issues:

- . Was a new school promised?
- . Can the Department deliver on its promised capital allocation for school furnishings and equipment for the fiscal year 1987-88?
- . To what extent are there unforeseen changes to the capital plan during the course of a year?
- . How are Bands involved in the capital planning process?

Departmental Response:

- . INAC is unaware of a commitment to build a new school in 1979. Projects, such as new schools, are identified in a capital plan in order to initiate their development and implementation and to properly plan for community needs in the future. Large, complex projects are managed using processes similar to those employed by private industry.
- . INAC has included \$10,000 for school furniture and equipment in the 1986-87 capital plan. The balance of \$60,800 for furniture and equipment has been included in the 1987-88 capital plan.
- . Attempts are made to ensure that changes to the capital plan are kept to the minimum. However, the Department's first priorities are health, safety and education. When an urgent project arises, it receives priority and other projects are deferred.

Action Plan:

See "Departmental Response" above.

Additional Background:

In the Manitoba Region, a computerized "Capital Needs Registry" was initiated in 1984-85. It identified all Band capital need requests since 1980. Bands submit proposed capital projects to INAC and indicate how they rate them in terms of local priority. Print-outs of this computer-stored information are periodically sent to Bands for revision.

Capital funds, based on a formula, are provided to the Region by departmental headquarters. Typically, Manitoba receives approximately 17 per cent (\$53,064,000 or 17.5 per cent for 1986-87) of the total national capital budget (in 1986-87 the latter is \$303,064,000). A minimum of \$18,221,000 of the regional capital budget must be allocated to housing and the balance can be assigned to other capital projects.

INAC's capital planning process begins with the preparation, by Bands, of physical development plans. These identify the infrastructure and housing needs of their communities and reflect the social, cultural, economic, institutional and physical aspects of their lives on reserve. Based on these plans, Bands have the opportunity to develop capital budget proposals for the development and implementation of potential capital projects which they then submit to the Department for funding. The Department reviews the Band proposals to determine how available capital resources are to be allocated. Bands are consulted or made aware of changes to the INAC Capital Plan.

In assigning capital funds to projects, regional staff considers both INAC and Band priorities, as well as available funding and the historic distribution of capital. INAC's first priorities are health, safety and education. In recent years, the bulk of the non-housing budget has been assigned to build schools. The balance has been available for community infrastructure (e.g. water delivery, sewage disposal, and roads).

Each of these issues, given their many dimensions and their historical roots, would merit a separate in-depth report in its own right. Each has already been the subject of individual studies over the years. Many of the problems associated with these issues had no simple beginnings and it would be unrealistic for us to believe that simple solutions are available.

Not only has our analysis enabled us to identify the problems and their causes, and to outline corrective action already taken or still required, it has afforded us the opportunity for constructive consultation with Manitoba Indian leaders. We have attempted also, through the Departmental Response, to keep the lines of communications open.

Some Perspectives:

In order to consider the impact of the Ward Mallette findings, particularly the third category we identified as "fundamental", we felt it would be useful to provide some further perspectives on the issues.

Total native program expenditures, on a government-wide basis, increased from \$780 million in 1975-76 to \$2,860 million in 1985-86, an increase of 265 per cent, or 76 per cent in real dollar terms. During the same period, Canada's status Indian population (by far the major recipient group) grew by 27 per cent. Spending on aboriginal programs, also on a government-wide basis, rose during the period from 2.4 per cent of government expenditures, in 1975-76 to 3.3 per cent in 1985-86. In comparison, most other sectors of federal expenditure, excluding the public debt, were growing at a slower pace, with total program expenditures showing little per capita growth.

The Manitoba picture was much the same as the national one. Over the past eleven years (from 1975-76 to 1985-86), the Department's budget in the Manitoba Region has increased by 322 per cent (from \$63 million to \$266 million). In constant dollars, the increase has been 94 per cent. During the same 11-year period, the Indian population in the region has increased by only 32 per cent. The tables in Appendix A provide additional statistical information on the Manitoba Region.

Second, over the years, the Department has attempted to distribute the available funds in a fair and equitable way and to meet the pressing needs of Manitoba Indian communities in both the southern and northern areas of the province. In some cases, this has involved holding southern Bands to slower rates of funding increase than they had experienced earlier. Such a process inevitably generates controversy. However, the Department would still maintain that such action was needed to be fair to Bands throughout Manitoba.

Ironically, while the 27 Bands in southern Manitoba claim to have been underfunded by many millions of dollars, the five Bands involved in the Manitoba Northern Flood Agreement similarly have claimed that they have, over the past 10 years, been underfunded by \$123 million.

Third, we know that the staff in the Manitoba Region, excluding "in-school" positions, grew from 265 in 1975-1976 to 347 in 1985-86. Some of this increase is related to overall program growth, and some can be traced to the need to strengthen certain areas (for example, to address the Minister's "trust" obligations to Indians).

Nevertheless, there may be some duplication of services provided to Indian communities by the Department and by Indian organizations. We are ready to work with Indian First Nations to eliminate any such duplication.

Fourth, a major source of frustration for Indian governments is the rigidity of DIAND programs. Present rules make it difficult for Bands to decide how best to spend the funds transferred to them, to meet their most pressing needs.

The Department is willing to sit down and work with Manitoba Indian leaders to see how current funds can be applied with greater benefit. Recently, Treasury Board approved a policy on "Alternative Funding Arrangements" (AFA) which affords a greater opportunity for Indian leaders to design and manage federal programs and services delivered to their communities. As such, the Region will have more flexibility in using available resources. Should the AFA framework not be suitable, the Department is willing to look at other alternatives which could be adopted in the Manitoba Region.

No one wants to bankrupt Indian governments. The increases in the Manitoba Region's expenditures indicate the extent to which the federal government, despite severe financial difficulties, has gone to maintain an appropriate level of funding to Indian communities. Indian communities in the Manitoba Region have received their share of the increases on a basis which is consistent with the increases going to other areas in Canada.

The fact remains, however, that the written demands of the Brotherhood go far beyond what the Department has the authority to deal with. (The Brotherhood of Indian Nations' priority political and administrative resolutions, as stated in a press release dated August 6, 1986, is reproduced in Appendix B). The demand, for example, for a direct share in the revenues arising from resource development throughout Manitoba is a matter which would require political agreement at the highest levels of federal, provincial and Indian governments.

The Department recognizes that funding levels are not sufficient to meet all the pressing needs of Indian communities. Nevertheless, there is strong evidence to show that underfunding is not the main reason for the serious deficits of Manitoba Indian Bands. In addition to the Department's Indian Indebtedness Policy, INAC would support the establishment of a special process for Ministerial and senior departmental review, on a case by case basis, of Band deficit situations. When required and justified in a particular case, a request could be made to Treasury Board for consideration and approval of special deficit recovery measures.

Overall, I believe the Departmental response points us in the right direction and allows for frank and productive communications with Manitoba Indian leaders on those matters within the Department's authority. Your meeting with them at the end of August offers a new beginning in the dialogue.

In addition, the Departmental Response may be used for a wide variety of purposes: in discussions with central agencies of the federal government, in reporting to the members of the Standing Committee on Aboriginal Affairs and Northern Development and in allowing for a public airing of the issues raised and the steps that are proposed or that have been taken to address them.

Schools are constructed on a "worst first" basis. With the trend away from off-reserve education, a major requirement exists for school construction on reserve. Currently it is estimated that there is a need in Manitoba for a total of 55,623 square metres of new school facilities, and additions to or replacement of existing schools over the next fifteen years.

The total estimated cost, for Manitoba school projects, in 1985-86 constant dollars, to meet needs is \$108,735,000. Construction of schools in remote areas has been expensive. A recent school project in a remote special access community, with 266 students, has a projected total cost of \$10,119,600. It includes a kindergarten, eight standard classrooms, a gymnasium, specially-fitted rooms, and eleven teacher residences with independent water and sewage systems, hydro generation and fuel storage facilities for the school complex. The construction of the school was submitted for tender under Treasury Board authority; the cost is representative of this type of facility in a remote area.

The Region's strategy is to commit fully its capital budget to projects. The process often requires a re-setting of priorities in the capital plan to maintain an adequate response to community need. Should an unexpected priority arise, the urgent project receives priority and other projects are deferred. Revisions to capital plans are a difficult exercise especially for those Bands whose projects may be delayed.

On June 20, 1986 letters were sent to those 27 Bands throughout the Province with Band-operated schools, including the Peguis Band, confirming the available budget level for furniture and equipment in 1986-87.

C. PEGUIS BAND

C.4 Loans Management

WARD MALLETTE FINDING: (Pages 14-15)

Based upon a written regional commitment the Red Eagle Construction Company of the Band borrowed \$155,000 from the Department to purchase heavy construction equipment to build a floodway. The construction project which was to account for one-third of the company's total revenue has not proceeded. The balance on the outstanding loan was \$257,052. A debt retirement plan is under discussion.

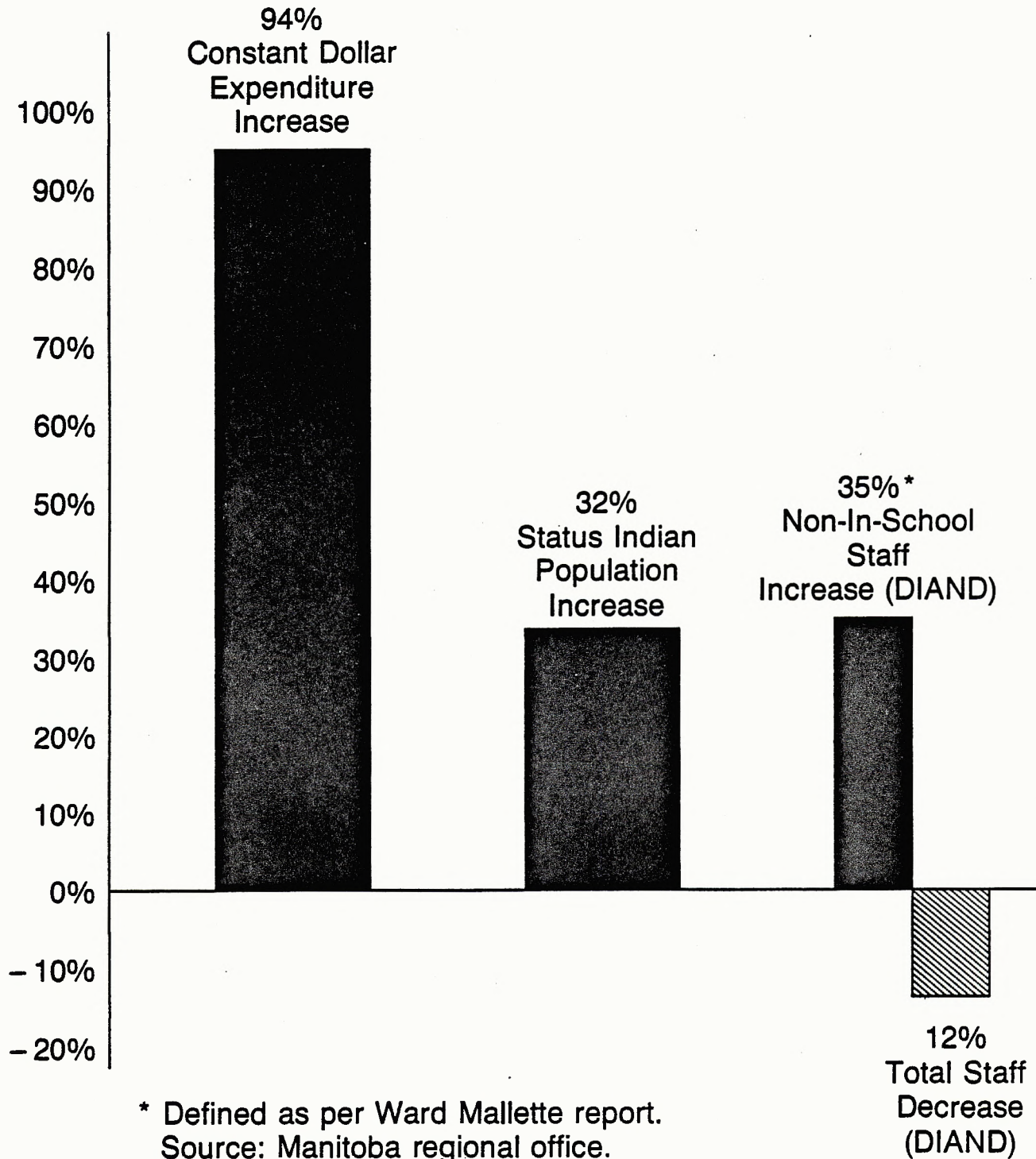
Issues:

- . Was the decision to finance Red Eagle Construction dependent upon the floodway project?
- . Is the current financial situation of Red Eagle Construction due to the fact that the floodway project did not proceed?
- . Why was there a delay on the part of the Department in taking action to collect the debt?

Departmental Response:

- . Although the floodway project has been under serious study, it has never been included in the Department's capital plan, and has never received preliminary or final "effective" approval. Both the Band and the Red Eagle Construction Company were aware of this situation. The Band receives a copy of the capital plan. However, in order to support the request for Special Agricultural Rural Development Agreement (ARDA) funds from the Department of Regional Economic Expansion (DREE), all parties agreed to proceed on the assumption that the project would go ahead.
- . Had the project proceeded in 1983-84, it was expected that 35 per cent of the projected revenues of the Red Eagle Construction Company would have accrued from this work during fiscal years 1982-83 through 1984-85.

MANITOBA REGION – RELATIVE CHANGE: EXPENDITURES, POPULATION AND STAFF 1975 to 1985



MANITOBA REGION
COMPARISON OF ACTUAL EXPENDITURES BY PROGRAM
(\$ Millions)

	<u>79/80</u>	<u>80/81</u>	<u>81/82</u>	<u>82/83</u>	<u>83/84</u>	<u>84/85</u>	<u>85/86</u>
Program Administration*	4.0	4.1	4.4	4.3	4.7	4.7	4.7
Reserves and Trusts	0.3	0.4	0.5	0.7	0.8	1.5	1.5
Education	34.9	38.2	47.0	53.1	59.0	69.5	75.8
Economic & Employment Development	7.6	7.3	6.8	8.1	9.1	9.9	11.9
Social Services	29.9	38.5	44.7	53.6	63.0	71.8	76.1
Community Infrastructure**	24.0	27.3	36.1	44.8	66.4	76.7	80.1
Band Government	<u>6.6</u>	<u>8.4</u>	<u>9.8</u>	<u>10.3</u>	<u>15.5</u>	<u>16.1</u>	<u>16.3</u>
TOTAL MANITOBA	<u>107.3</u>	<u>124.2</u>	<u>149.3</u>	<u>174.9</u>	<u>218.5</u>	<u>250.4</u>	<u>266.4</u>
Year-Over-Year Increase	-	16%	20%	17%	25%	15%	6%
Cumulative Increase	-	16%	39%	63%	104%	133%	148%

* In 1983/84 Activity Management was transferred from all main activities and became a new planning sub-element under Program Administration.

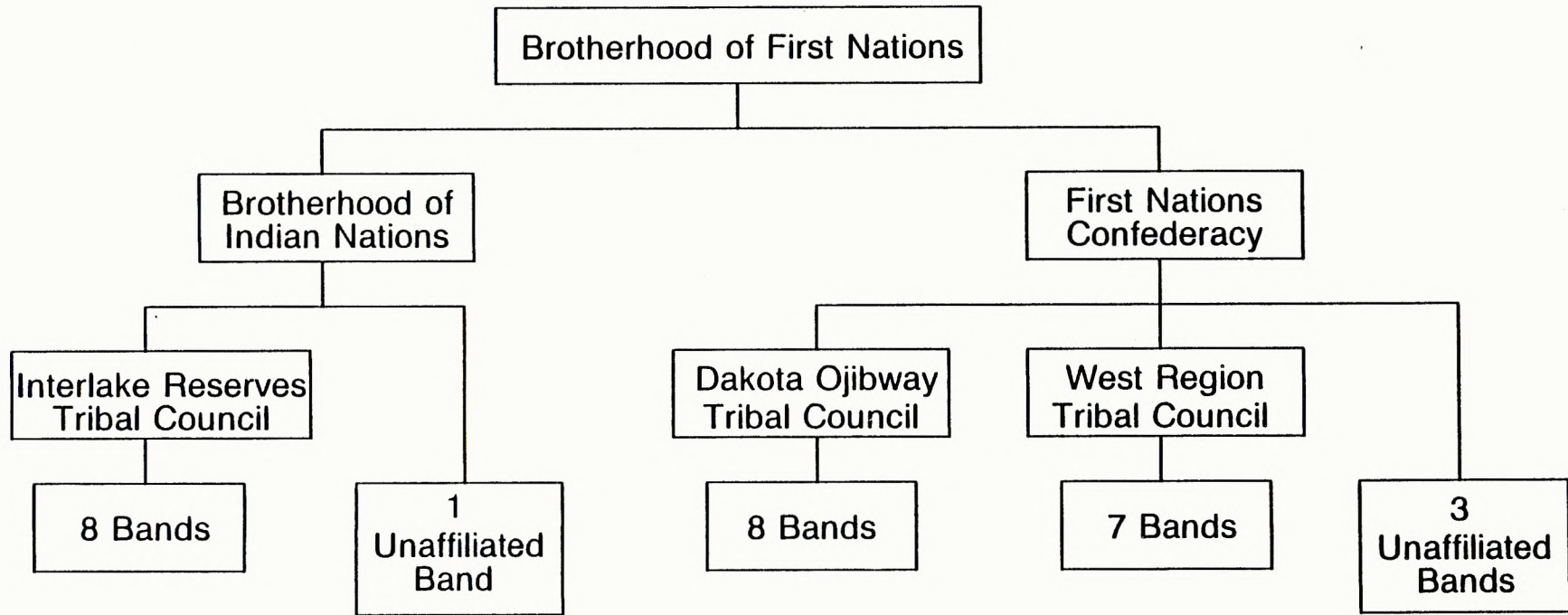
** Includes Education O&M and Capital.

(Cont'd)

Political Affiliation	Tribal Council	Bands
OTHER (33 Bands)		
Southeast Resource Development Council (8 Bands)	Southeast Resource Development Council (8 Bands)	Berens River Bloodvein Brokenhead Buffalo Point Hollow Water Little Black River Little Grand Rapids Poplar River
Manitoba Keewatinowi Okimaknaak (24 Bands)	Island Lake Tribal Council (4 Bands)	Garden Hill Red Sucker Lake St. Theresa Point Wasagamack
	Keewatin Tribal Council (13 Bands)	Barren Lands (Brochet) Fort Churchill Cross Lake Fox Lake God's Lake Narrows God's River Nelson House Northlands (Lac Brochet) Oxford House Shamattawa Split Lake War Lake (Ilford) York Factory
	Swampy Cree Tribal Council (7 Bands)	Chemanawin Grand Rapids Indian Birch Mathias Colomb Moose Lake Shoai River The Pas
No Political Affiliation (1 Band)	No Tribal Council Affiliation (1 Band)	Norway House
Total		60 Bands

MANITOBA REGION
STATUS INDIAN POPULATION
1975 to 1985

RESIDENCY	December 1975	December 1985	Percentage Increase
On-Reserve/Crown Land	31,351	39,826	27%
Off-Reserve	<u>9,836</u>	<u>14,460</u>	<u>47%</u>
TOTAL	<u>41,187</u>	<u>54,286</u>	<u>32%</u>



MANITOBA INDIAN BANDS
REGIONAL SUMMARY OF AFFILIATION

JUNE, 1986

Political Affiliation	Tribal Council	Bands
BROTHERHOOD OF FIRST NATIONS (27 Bands)		
Brotherhood of Indian Nations (9 Bands)	Interlake Reserves Tribal Council (8 Bands)	Dauphin River Fairford Fisher River Jackhead Lake Manitoba Lake St. Martin Little Saskatchewan Peguis
	No Tribal Council Affiliation (1 Band)	Dakota Tipi
First Nations Confederacy (18 Bands)	Dakota-Ojibway Tribal Council (8 Bands)	Birdtail Sioux Dakota Plains Oak Lake Roseau River Sandy Bay Long Plain Sioux Valley Swan Lake
	West Region Tribal Council (7 Bands)	Crane River Ebb & Flow Gambler Pine Creek Rolling River Waternen Waywayseecappo
	No Tribal Council Affiliation (3 Bands)	Fort Alexander Keeseekoowenin Valley River

RESOLUTION OF ACCESSING OUR ABORIGINAL
AND TREATY RIGHTS RESOURCES*

1. access the return to our respective Indian Nations our fair and equitable share of those resources revenues now being taken by the Federal and Provincial Governments from all of our lands and resources both surface and subsurface, and,
2. that such a program and plan of action include but not be limited to such acts as --
 - a. revenue sharing
 - b. tax rebates and tax revenue returns
 - c. equalization payments
 - d. a percentage, to be negotiated and resolved, of all the revenues from our shared resources such royalties, charges and assessments benefits taken by the Federal and Provincial Governments, and
3. that such a program and plan of action include a negotiating strategy for the carrying out of the proposed program and plan of action, and
4. that such a program and plan of action be presented to the Chiefs by the staff of the Interlake Reserves Tribal Council at the earliest date possible, and
5. that the proposed program and plan of action be presented to the Councils and to the people of our respective Indian Nations for their information and approval, and
6. upon approval of our respective Indian Nations, that the program and plan of action for the return of our fair and equitable share of resources from our aboriginal lands, both surface and sub-surface as is our Treaty right, be reaffirmed through further negotiations and implemented as soon as possible.

* Provided by the B.I.N. to INAC on August 6, 1986.

BROTHERHOOD OF INDIAN NATIONS
PRIORITY POLITICAL RESOLUTIONS*

1. Establish a framework for a renewed relationship between Canada and the First Nations.
2. Formalize a development plan to redefine the renewed relationship between Canada and the First Nations aligned with the Treaties and the advanced stage of Indian Government in Manitoba.
3. Formalize joint political compliance mechanism, mandated to complete six developmental tasks supporting Indian Government in Manitoba.
4. Formalize tasks, time frame, accountability, reporting and on-going dialogue between the Minister of Indian Affairs and the First Nations.
5. Presentation of the Ward Mallette Report to the Standing Committee on Aboriginal Affairs and Northern Development, to be given by James W. Currie, C.A., followed by a tabling in the House of Commons.
6. Tabling in the House of Commons the recommendations as presented by the First Nations to Standing Committee on April 15, 1986.
7. Formalized involvement of the Prime Minister's Office throughout the developmental plan.
8. Nation to Nation Assembly prior to First Minister's Conference of March, 1987.

* Provided by the B.I.N. to INAC on August 6, 1986.

BROTHERHOOD OF INDIAN NATIONS
PRIORITY EXECUTIVE ADMINISTRATION RESOLUTIONS*

1. Suspension of INAC Band indebtedness policy in Manitoba.
2. Corrective action to relieve Manitoba First Nations in debt, as a result of INAC underfunding.
3. Suspension of INAC formula funding in Manitoba, to be replaced by funding based on actual program costs.
4. Replacement of lost revenues to Manitoba Indian First Nations, as a result of INAC underfunding.
5. Suspension of INAC Indian Government initiatives in Manitoba, to be replaced by First Nations Initiatives, i.e. alternative funding arrangements.
6. Acceleration of Manitoba INAC downsizing to be planned in conjunction with the First Nations.
7. No further cutbacks to any First Nations programs.
8. No retribution by INAC officials, regionally and nationally.
9. Comprehensive financial review to Manitoba to re-establish an accurate "A Base".
10. Restoration of November data base.
11. Further, on-going DIAND investigation in Manitoba region.

* Provided by the B.I.N. to INAC on August 6, 1986.

MANITOBA REGION EXPENDITURES

1975-76 to 1985-86

ACTUAL EXPENDITURES					CONSTANT DOLLAR EXPENDITURES		
DIAND MANAGED (\$ Millions)	INDIAN/ PROVINCIAL MANAGED (\$ Millions)	TOTAL (\$ Millions)	YEAR-OVER-YEAR INCREASE (%)	CONSUMER PRICE INDEX (1981 = 100)	ADJUSTED ACTUAL EXPENDITURES IN 1981 \$ MILLIONS	CONSTANT DOLLAR INDEX (1975-75 = 100)	
1975-76	\$41	\$22	\$63	-	58.5	\$108	100
1976-77	48	31	79	25%	62.9	126	117
1977-78	47	39	86	9%	67.9	127	118
1978-79	53	47	100	16%	73.9	135	125
1979-80	42	65	107	7%	80.7	133	123
1980-81	44	80	124	16%	88.9	139	129
1981-82	48	101	149	20%	100.0	149	138
1982-83	64	111	175	17%	110.8	158	146
1983-84	74	145	219	25%	117.2	187	173
1984-85	67	183	250	14%	122.3	204	189
1985-86	64	202	266	6%	127.2	209	194

C. PEGUIS BAND

C.2.b Budget Cutbacks

WARD MALLETTE FINDING: (Page 13-14)

The Manitoba Region has frozen the student transportation budget at \$363,853 because they were already overfunded by about \$83,000 (according to a regional formula). The School Board claims that funds provided are not adequate and have severely increased deficits. The Region provided the Band with \$5,000 in FY 1985-86 to conduct a transportation study. It has not yet been received. (N.B.: As outlined below, the student transportation budget was frozen at \$363,355.)

Issue:

- . Should the Peguis Band receive more than \$363,853 for school transportation?

Departmental Response:

- . INAC provided \$5,000 to the Peguis Band in May 1985 for an independent study leading to recommendations on funding levels. In June 1985, INAC requested from the Band a status report on it. To date the study has not been received. Once it is, the Department is prepared to negotiate the matter, if warranted.

Action Plan:

- . See "Departmental Response" above.

Additional Background:

- . In recent years INAC has moved towards formula or data base funding. This approach has been effective in securing funds, since it uses a methodology accepted by Treasury Board, and it also ensures greater consistency in the levels of funding provided to Bands.
- . Budgets for school transportation in the Manitoba Region are derived by formula, using a number of criteria. These include the number of students, the length of bus routes, the price of fuel at the

nearest outlet, the year and make of vehicles, annual inspections, regular servicing, vehicle depreciation, and the wages of drivers.

The Band's "daily transportation" budget was \$327,796 in 1982-83 and \$363,355 in 1983-84. In September 1984 the Peguis Band submitted a transportation study which called for a budget of \$465,757 for 1984-85, that is, an increase of \$102,402 (28 per cent). The Region considered the budget proposal too costly since the amount calculated under the regional formula was \$280,086. The regional formula was utilized for the first time in 1984-85. Accordingly, it was decided to freeze the budget at the base level of \$363,355 for 1984-85.

During the 1985-86 budget discussion with the Peguis Band, the Department provided the Band with \$5,000 to commission an independent review of the Band's school transportation system, which would provide recommendations to the Band and the Department on operation and maintenance requirements.

Even though work did not proceed on the floodway, 65 per cent of the company's revenues was to be generated by other jobs. In fact, the Red Eagle Construction Company used its equipment on several other projects. However, the Company did not apply any of the revenues from these projects to the loan. The debt is regarded as a debt of the Band, because the Band provided a written guarantee for the company's loan; discussions are underway to establish a debt retirement plan.

INAC is working with the Peguis Band on the development of a "financial management plan"; however, notwithstanding their written guarantee, the Band does not accept responsibility for the Red Eagle debt. As a result, interest continues to accrue on the loan while the Department and the Band disagree on what constitutes the Band's total debt.

Action Plan:

INAC has recommended to the Band that the Red Eagle debt be included in its debt recovery plan.

In order to stabilize the debt until it can be dealt with by the Band, INAC is considering whether it should exercise the "right of offset" (see "Additional Background" section below) over a period of time to cover accrued interest and to freeze the loan principal.

Additional Background:

When the Red Eagle Construction Company approached INAC for a loan, the company presented the following financial projections to the Department:

	<u>Total Projected Company Revenues</u>	<u>Anticipated Floodway Project Revenue</u>	<u>% Total Revenues From Floodway Project</u>
1982-83	\$ 410,000	\$ 63,000	15.0%
1983-84	472,000	200,000	42.0%
1984-85	545,000	250,000	45.8%
TOTAL	<u>\$1,427,000</u>	<u>\$513,000</u>	<u>35.0%</u>

Prior to making its economic development loan to the company, INAC was provided with a formal guarantee from the Band for the loan. In addition, the Red Eagle Construction Company arranged a Special ARDA grant with DREE (which did not require repayment), in the amount of \$173,365, before approaching INAC for 1982-83 financing. In order to support the company, INAC provided a letter of support, dated September 22, 1981, to Manitoba Special ARDA.

It indicated that a commitment in principle had been given by the Department subject to a class A estimate which involved, over the next three years, potential capital heavy equipment work (estimated at \$2,000,000) related to a flood diversion project.

The financial status of the company at the time that INAC provided the loan was as follows:

\$ 68,000	Owner's equity
138,692*	Special ARDA (80 per cent of grant)
<u>2,000</u>	Training funds provided by the Province
<u>\$208,692</u>	Total non-repayable funds

- * Special ARDA advanced 80 per cent of the total grant of \$173,365, which is the usual procedure. ARDA would have provided the remaining 20 per cent (\$34,673) at the end of the control period (42 months), once it had been determined that the company had fulfilled all the terms and conditions of the agreement (i.e had the floodway proceeded and had the company worked on it).

A portion (\$26,000) of the total INAC loan of \$155,000 provided the company with bridge financing to cover part of the 20 per cent holdback from Special ARDA. The company did not fulfill the terms of the Special ARDA grant within the control period, did not receive the \$34,673 held back by Special ARDA, and consequently, did not repay the \$26,000 to INAC.

Even though the floodway project did not proceed, the Red Eagle Construction Company carried out a number of other construction projects over the three-year period. None of the revenues from these projects was applied to the company's debt.

In addition, the company provided municipal-type services to the Peguis Band but failed to collect all the monies owed by the Band for these services, nor were financial statements provided to INAC, as required by the loan agreement.

Under the Financial Administration Act, the "right of offset", in the case of default on a loan, enables the Department to attach a portion of future departmental transfers to the Band against the loan.

INAC will recommend that accrued interest be paid quarterly on the debt of the company until such time as it is addressed by the Band.

D. KEESECKOOWENIN BAND

WARD MALLETTE FINDING: (Page 16)

The Department contributed towards the construction of a new Band office for which it would fund \$21,800 of the \$49,443 in annual operation and maintenance requirements. Given the limited alternate revenue sources available to the Band and their current deficit position, Ward Mallette assesses that either the Band's deficit will increase or the condition of the building will likely deteriorate over time.

Issue:

- . Is INAC's contribution to the operation and maintenance of the Keeseekoowenin Band Office adequate?
- . Is the current funding level provided by INAC for the operation and maintenance of community facilities adequate for small Bands whose sole or major source of funding is the federal government?

Departmental Response:

- . INAC contributes approximately 67 per cent of the annual operation and maintenance requirement of the administration building (Band office). When the facilities were built, the Band was aware of the level of funding which could be expected from the Department. The Band expressed confidence that it could fund the difference. Any further departmental contribution would require the reallocation of funds from other INAC programs or an increase in the departmental budget. The policy provides for up to 20 per cent of the financing of operations and maintenance costs of community facilities, from the Community Infrastructure and Services operations and maintenance budget, subject to the availability of funds for this purpose. The remaining 80 per cent, or the difference between INAC's contribution and the funding required, is provided for by other departmental or governmental programs, or is the financial responsibility of the Band and its members.
- . The Band's 1985-86 operation and maintenance (O&M) requirements, for all community facilities, was \$49,304. INAC's contribution to each of these is illustrated on the next page:

	<u>Total Estimated O&M Cost</u>	<u>INAC's Contribution</u>	
Admin. Building	\$26,100	\$17,470	67%
Community Hall	10,424	1,945	19%
Warehouse	6,540	1,220	19%
Park/Playground	<u>6,240</u>	<u>1,165</u>	<u>19%</u>
TOTAL	<u>\$49,304</u>	<u>\$21,800</u>	<u>44%</u>

Health and Welfare Canada also leases space in the Band office at an annual cost of \$6,180. This amount with that contributed by INAC represents 90 per cent of the O&M requirement of the office building. The 5,600 sq. ft. administration facility can accommodate other users, who should also be able to contribute to the O&M costs. Any change to the current funding level provided by INAC to Keeseekoowenin would require a change in national policies.

Action Plan:

The Department is working with the Band to identify other sources of revenue.

The overall financial situation of the Band will be addressed through a "Financial Management Plan".

INAC will review the existing policy on funding community facilities. Any change in policy would mean securing of new funds or re-directing funds from other areas.

Additional Background:

The administration building (Band office) was completed in 1984-85 at a cost of \$268,000. INAC contributed \$100,000 to the project, which is the maximum level of support it provides for this type of facility. Bands can build larger facilities if they can get additional funding from other sources -- the Keeseekoowenin Band identified an additional \$180,000 through the NEED Program, Manitoba Job Fund, Social Assistance, Medical Services and Band Equity.

INAC's contribution agreement with the Band required that the "Operation and Maintenance costs be estimated in the process of developing the project concept". INAC's potential contribution to the operation and maintenance costs was less than what was required for the size of the building being constructed. The matter was discussed between the Department and the Band, and the Band was confident it could secure other revenues.

INAC subsidizes the cost of operating and maintaining "community facilities", but only up to a maximum of 20 per cent of projected annual operating costs. In addition, the Department provides a contribution to the Band under the Band Support Funding program to enable the Band to provide office space to Band staff sponsored by the Department. In total, Keeseekoowenin received \$17,470 in 1985-86, which consisted of the subsidy (\$4,870) and service employee office costs for three Band employees (\$12,600). The latter includes, for example, the cost of providing office space and basic telephone service.

Higher subsidies are provided to facilities which are used for health, safety and education purposes. "Community facilities" have a lower priority. In addition, Departmental policy assumes that rents will be paid by user groups or the facility will be supported by local fund-raising or volunteer activity.

E. PUKATAWAGAN (MATHIAS COLOMB BAND)

E.1 Social Service Payments

WARD MALLETTE FINDING: (Page 17)

Delays in the submission of appropriate documentation by the Band to the Department accounts for \$129,942 of the total Band deficit of \$191,640.

Issue:

- . How does the Department propose to deal with this deficit?

Departmental Response:

- . A review of INAC's Social Assistance records and the Band's audited financial statements was undertaken, dating back to 1981-82. Discrepancies were found in the size of the deficit reported in the two sets of records. At the Band level there is inadequate documentation to reconcile the records.
- . INAC's record of the Social Assistance accounts of the Mathias Colomb Band (Pukatawagan) shows that \$129,942 is owed to the Department. That is, the Band has not submitted documentation to justify the expenditure of this amount of money. However, the Band's audited record indicates that the Band has overspent, by \$26,440, the revenues provided by the Department. As such, there is a discrepancy of \$156,382 between INAC's and the Band's records. Because of a lack of documentation at the Band level, it is difficult to reconcile the two sets of records. It should be noted that due to difficulties that the Band had with its audit firm, the Band Council changed its auditor during the 1985-86 fiscal year.
- . In March 1986, INAC developed a plan with the Band to assemble adequate documentation in order to eliminate \$64,115 of the Band's 1984-85 Social Assistance liability. In August 1986, the Department met with the Band and its current auditor. The problems related to the absence of documentation were discussed and agreement was reached to eliminate the \$129,942 owed to the Department. The Band is to provide a supporting Band Council Resolution.

. The Department is confident that the amounts owing were paid out as Social Assistance, in other words, to meet the basic needs of Indians in the community. INAC noted improvements in the Band's accounting records.

Action Plan:

. See "Departmental Response" above.

Additional Background:

. The Mathias Colomb Band (Pukatawagan) administers its own Social Assistance program; the 1985-86 approved expenditures for this program were \$919,836. Under the conditions of the program, Bands are advanced funds to cover their needs for two or three months. As the funds are disbursed, the Band is required to submit appropriate documentation to INAC. The Department reviews the supporting documentation and renews the Band's advance. At year end, the account is closed and reconciled. The supporting documentation is part of an audit trail to prove that funds were properly disbursed.

E. PUKATAWAGAN (MATHIAS COLOMB BAND)

E.2.a Transfer of School Maintenance Responsibilities

WARD MALLETTE FINDING: (Page 17)

When the Band took over the operation and maintenance of school facilities in FY 1984-85, the Department apparently withheld \$82,000 from the contribution in order to pay bills of the previous year. \$55,373 has since been returned to the Band. (N.B.: As discussed below, the actual amount repaid was \$53,175.)

Issue:

- . Has the Department withheld improperly \$82,100 from the Band's 1984-85 contribution agreement?
- . Should the Department have paid the 1983-84 hydro and fuel bills?

Departmental Response:

- . Of the \$82,100, which was withheld, \$53,175 was appropriately held back since:
 - . \$26,727 worth of fuel was provided for 1984-85; and,
 - . \$26,448 was transferred to the Band as an amendment to its contribution agreement in the fiscal year 1984-85.
- . This fuel was requested by the principal of the Pukatawagan School. INAC placed an order with Shell Canada in Lynn Lake, Manitoba on the understanding that the Pukatawagan Band would pay the account from the 1984-85 fuel budget. Because the Band did not have an acceptable credit rating with Shell, and because it was more convenient to deliver the fuel in March rather than in May due to frost conditions, agreement was reached among all parties (INAC, the school principal and the Chief and Council) -- INAC agreed to pay for the fuel shipment and to deduct a proportionate amount from the Band's 1984-85 budget. The Band's actual fuel budget for 1984-85 showed a surplus of \$1,221.

\$28,925 was withheld in error since it covered hydro expenses in 1983-84. This should have been paid by the Department in 1983-84 since it was incurred for goods and services used in the period before the school was transferred. This amount is owed to the Band.

Action Plan:

An amendment to the contribution agreement is currently being prepared in order to return the \$28,925 related to the 1983-84 hydro bill. The entire \$82,100 withheld from the 1984-85 budget base will thus have been fully accounted for.

Additional Background:

In 1984-85 the Mathias Colomb Band (Pukatawagan) took over the operation and maintenance of its school facilities. These include a school, teachers' residences, a pumphouse and a sewage lagoon.

In 1984-85, \$278,219 was transferred to the Band for the operation and maintenance of the school. The Department's District Office held back \$82,100 as a contingency fund which would be used to cover outstanding liabilities related to the school.

The hydro bills of \$28,925 were an old-year (1983-84) expense that was not paid in the old year (1983-84) due to a budget shortage.

The \$26,727 bill was for fuel delivered just before the end of the 1983-84 fiscal year -- the fuel was to be used in the next fiscal year. As such, goods were provided to the Band, as opposed to funds for 1984-85. Agreement was reached with the Band on this matter before the delivery. It was done for the convenience of the Band.

The Band's 1984-85 contribution agreement for school operations and maintenance was increased from \$304,667 in 1984-85 to \$417,377 in 1985-86. The 1984-85 total of \$304,667 includes the amendment of \$26,448 discussed in the "Departmental Response" above. No funds were withheld from the 1985-86 contribution agreement; that is, the \$82,100 became part of the Band's budget base in that year.

E. PUKATAWAGAN (MATHIAS COLOMB BAND)

E.2.b Transfer of Capital Facilities

WARD MALLETTE FINDING: (Page 17)

At the November 1984 data base meeting, the Band was advised that \$528,897 in repairs to school facilities were required (of which \$453,934 were Priority I for risk to health and safety).

Issue:

What action did the Department take to meet the concerns of the Band regarding the poor state of the school facilities?

Departmental Response:

The 1984 "Needs Assessment" provided cost estimates on repairs; upgrading, to meet fire or safety requirements; remodelling of certain facilities, to meet program requirements; energy efficiency improvements; and so on. The school complex contains several newer buildings which are considered to be in reasonable condition. INAC estimated that \$529,000 would be required to carry out the repairs identified by the needs assessment.

Regional school upgrading requirements, identified by needs assessments to be performed throughout the Region in 1984, totalled approximately \$6,000,000. One-time capital funds for school improvements were received by INAC in 1984-85; the amount made available to the region for this purpose was approximately \$1,900,000. As such, the Region had to reprioritize essential repairs to schools on a "worst first" (health and safety criteria) basis.

The status of the major items in the Pukatawagan Needs Assessment follows:

- (a) Repair berm at sewage lagoon and re-fence facility (Priority I - \$282,000)

Remedial work to protect the berm from erosion problems has proven unsuccessful. A feasibility study will be undertaken in 1986-87 in order to find a long-term solution to the site problem. (This is likely to be a capital project.)

(b) Repair pumphouse (Priority I - \$81,000)

A new pumphouse was constructed as part of a \$1,235,700 community water system completed in 1986-87.

(c) Repair trailer (Priority I, II and III - \$11,000)

The trailer was destroyed by fire and will not be replaced since it is no longer required.

(d) Other Priority I projects (\$89,000)

The remaining Priority I items consist of a variety of small projects (e.g. lighting, ventilation, and plumbing) at the school and the teachers' residences. Fifty-six per cent of these has been completed.

(e) Other Priority II and III projects (\$66,000)

Eleven per cent of these has been dealt with.

Work on all items has not been undertaken due to a shortage of maintenance funds in the Region. Supplementary funding amounting to \$104,000 was spent in 1984-85 for general repair work at Pukatawagan school facilities. The completed work includes repairs to the sewage lagoon, the purchase and construction of a maintenance shop, the purchase of maintenance and repair materials, and renovations to departmental teacher residences.

The Band's annual budget for minor repairs is roughly \$45,000. Two janitors are on staff who can do certain repair work; major repairs are eligible for funding through the normal capital process.

Action Plan:

A study will be undertaken in September 1986 to identify options for resolving the sewage lagoon problem.

Minor school repair items within sections (d) and (e) above should be completed through the school's repair budget. Major items will be considered in the capital budgeting process.

Additional Background:

In 1984-85, the Band took over the operations and maintenance of its school facilities, including the school, staff quarters, the pumphouse, and the sewage lagoon.

In 1984-85 the Region surveyed the condition of all its school facilities to determine its total resource requirements. The results were to be used to secure funds and to prioritize the allocation of available funds.

A "Needs Assessment" report on the Pukatawagan facilities was completed on October 17, 1984. The cost of repairs was estimated at \$529,000.

Priority I items over \$5,000 (these include \$282,000 for repairs to the sewage lagoon berm and to fence the lagoon, \$81,000 for the pumphouse filter and wiring, and \$7,000 to replace shower stall doors).	\$370,000
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Priority I items under \$5,000 (various repairs and changes to lighting, ventilation and plumbing systems).	89,000
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Priority II and III items (energy conservation, esthetics, such as painting and carpeting).	<u>70,000</u>
	<u>\$529,000</u>

In 1984-85, \$132,800 was reserved by the Region for repairs at Pukatawagan. In mid-March it became apparent that all planned work would not be completed in the 1984-85 fiscal year and the funds committed to the project would lapse. Approximately \$104,000 was spent on the Pukatawagan repairs.

Rather than lapse the funds, the Region purchased and shipped materials at a cost of \$28,000 to another construction site. This move meant that winter roads to the second site could be used and over \$15,000 in air freight charges could be saved.

With the end of the fiscal year and the closure of winter roads approaching rapidly, the change in plans was not properly authorized. As a result, the \$28,000 mentioned previously was charged incorrectly to the Pukatawagan project.

E. PUKATAWAGAN (MATHIAS COLOMB BAND)

E.3 Devolution of Education

WARD MALLETTE FINDING: (Page 17)

In late 1983 the Band initiated actions to take control of the education program. For a variety of reasons, devolution has not occurred. It is unlikely that the Band will assume control of its education operations on September 1, 1986.

The format used to describe incremental costs of the transfers of programs (Education) is misleading.

Cost information on Education program (Departmental) is unreliable.

Issues:

- . Will the Band be able to assume control of the education program on September 1, 1986?
- . What are the reasons for the delay in responding to the Band's request?
- . Is the departmental education program cost information, including the incremental costs of the transfer of programs, misleading/unreliable?

Departmental Response:

- . The process for transferring federal schools to Band control for the last several years has evolved as a result of ongoing consultations involving departmental and Treasury Board officials and Indian school authorities. These consultations, together with the experience gained from actual transfer submissions, has resulted in changes in presentation format and costing information required.

This last year has seen further refinement in the national format for transfers. INAC's strategy will be to fund new transfers at a level equivalent to the regional unit cost for Band-operated schools in the Region (number of students times regional unit cost.) This should eliminate controversies over presentation of incremental costs for

decision-making purposes. Regional officials were apprised regularly of the development of the new national format.

The new strategy is part of the national devolution policy scheduled for review by the Treasury Board in the Fall of 1986. The Band was advised that the transfer will not occur on September 1, 1986 and the expected date will be dependent on the Treasury Board decision regarding the national devolution policy.

Action Plan:

INAC plans to submit its devolution policy to Treasury Board in the Fall of 1986. It is proposed to fund school transfers at a level equivalent to the regional unit cost for Band-operated schools in the Region.

The Band was advised in writing in July, 1986 that the transfer cannot occur by September 1, 1986.

A draft Treasury Board submission is being prepared on the transfer. This submission will be subject to the direction set in the devolution policy. The Band will be consulted throughout the process.

INAC continues to take steps to produce reliable cost information of the education program.

MIEA is submitting additional documentation to INAC related to transfer costs. Details will be reviewed jointly by INAC, MIEA, and the Mathias Colomb Band in order to reach agreement on the Departmental Response.

Additional Background:

For some time, INAC's policy has been to transfer federally-operated schools to Bands and currently the majority of INAC-funded schools in the Manitoba Region are Band-controlled. A lack of funds to meet increased costs arising out of school transfers has slowed the transfer process in recent years. Nationally, on average, it costs 22 per cent more for a Band to operate a school than for the Department to do so. The Band has contended, however, that it could deliver the program at a cost only 1.5 per cent above federal expenses.

Discussions between INAC and the Band on the transfer of the Pukatawagan School began in late 1983, with the original transfer date set as September 1, 1985. A major point of contention was cost information and the services that should be funded. Yet another point of contention was whether the transfer proposal to Treasury Board should be written and presented by INAC or the Band. Discussions at the regional level were complicated further by a change in the national format for transfer presentations.

The first estimate was prepared by the Band with the help of the Manitoba Indian Education Association (MIEA). It indicated that transfer costs would be more than 400 per cent above current federal expenses. This reflected higher than federal rates for salaries, establishment of a significant administrative structure and modifications to educational delivery systems. A second estimate made, by means of an independent study commissioned by MIEA, indicated more than a 200 per cent cost increase. It used the regional funding formula to calculate the cost of program delivery in the manner desired by the Band. A third estimate, prepared jointly by the Department, MIEA and the Band, showed a 73 per cent cost increase. This amount is very close to the funding received by other Bands who run "Band-operated" schools in the Region. Subsequent to this estimate, the Band contended that its costs would be only 1.5 per cent above federal expenses. However, the Department felt this amount was not realistic as it was developed using a set of the most favourable assumptions.

In February 1986, an agreement-in-principle was reached between INAC and the Mathias Colomb Band (Pukatawagan) that the Band should receive funding on the same basis as all other Band-operated schools in the Region. This agreement will form the basis of a submission to Treasury Board for the school transfer. Prior to this submission, the Department's devolution plan must be approved by Treasury Board. Moreover, prior to devolution, the Band would be asked to submit an action plan to deal with its denial of auditor's opinion for 1984-85. At that time, the Band's deficit was \$191,600 or 4.4

per cent of INAC funded programs. The 1985-86 audit is not yet available, however, it is expected that it will show some improvement as a result of improved internal controls. As well, a substantial portion of the deficit will be eliminated as described in section E.1.

E. PUKATAWAGAN (MATHIAS COLOMB BAND)

E.4 INAC/Band Communication

WARD MALLETTE FINDING: (Pages 17-18)

Ward Mallette cited two examples of unsatisfactory communications with the Band.

Issue:

. Are communications between the Department and the Band unsatisfactory?

Departmental Response:

. The Department agrees that communications were poor and efforts will be made to improve the situation.

Action Plan:

. See "Departmental Response" above.

Additional Background:

. Details on the two communications concerns raised in the Ward Mallette report follow:

Item 1

. In October 1985, INAC questioned the placement of a number of students from the Mathias Colomb Band (Pukatawagan) in "off-reserve" schools. INAC should have checked this information with Band officials prior to communicating its decision on funding to the Band. Following further consultation between the Band and the Department, the Band's position, involving some 53 students, was accepted and the situation corrected.

Item 2

. INAC provides off-reserve education for some of the students from the Mathias Colomb Band (Pukatawagan) at McKay Student Residence. Other off-reserve students are placed in private homes.

An independent report commissioned by the Manitoba Indian Education Association and completed on May 23, 1984, provided "an estimate to the Band of the costs associated with operating the Education Program in the manner desired by the Band" for the years 1983-84 to 1985-86.

The report stated that the Band's preferred option, in the case of off-reserve students, was home placement and that it "did not anticipate sending students to the MacKay Residence effective June 30, 1984". Accordingly, funding was calculated on the basis of full private home placement.

Subsequent INAC correspondence to the Band assumed incorrectly that the student residence would continue to be used.

F. PINE CREEK BAND

WARD MALLETTE FINDING: (Page 20)

In FY 1984-85, a mistake was made in calculating the size of the Band school which resulted in an understatement of budgetary requirements by 50 per cent or \$49,000. The Department did not provide additional funds until one year after notification. This situation and the resultant interest losses contributed to the Band deficit.

Issues:

- . Was an error made in calculating the budgetary requirements of the Band's school?
- . Should INAC pay interest penalties for delays in providing funds to Bands?

Departmental Response:

- . INAC agrees that an error was made and that it took over 11 months to correct the error.
- . The Department has no authority to pay interest on losses of this sort. Still, INAC provided advance funding to the Band on its overall budget. This would have permitted it to benefit from interest income or savings in interest charges in amounts far in excess of those lost due to the error.

Action Plan:

- . On an annual basis, the Band will be asked to verify the content of the asset inventory as part of the budgetary process. This approach is in use at the present time.

Additional Background:

- . In the summer of 1983-84, when the Region's Capital Asset Inventory was updated, an error occurred in relation to the two-storey Pine Creek School -- funds were not allotted for the operations and maintenance of the top storey.
- . The inventory was used to set the 1984-85 budget. At the time that the error was discovered, the regional budget had been fully allocated and the

Region lacked flexibility in making the required adjustment. The Band brought the matter to the attention of INAC in April 1984.

A contribution agreement amendment for \$42,639 was signed in March 1985 by the Chief and Council and, subsequently, by the Region. Funds were released on March 19, 1985.

Because of the error, only 56 per cent of the formula funding was reserved for the school. Under current policies, the interest lost through delays in providing the balance of the funds cannot be reimbursed to the Band. The cost to the Band (assuming that the interest rate was 12 per cent and that it expended the full \$42,639 at the start of the second half of the fiscal year) would have been \$2,558.

On the other hand, the contribution agreement to the Pine Creek Band provided an advance of \$310,280, with which the Band had the opportunity to earn interest or save interest on its deficit. The Band's initial budget for all program areas in 1984-85 was \$1,241,119.

G. LAKE MANITOBA BAND

WARD MALLETTE FINDING: (Page 21)

When a contractor of new housing for the Lake Manitoba and Fairford Bands went bankrupt, it was determined that the percentage completed was substantially less than that certified by the Canada Mortgage and Housing Corporation (CMHC) Inspector. It has been estimated that the \$1,414,000 in additional funds required to complete the housing be shared. Canada Mortgage and Housing Corporation has agreed to pick up 80 per cent of the total costs, and it is proposed that the Department and the Bands each pick up 10 per cent. Ward Mallette states that this may well prove impossible for the two Bands as they both have significant deficits.

Issue:

How will the Bands be able to meet the additional financial responsibilities under the proposed solution?

Departmental Response:

See "Action Plan" below.

Action Plan:

The Department will contribute directly 10 per cent of the additional costs, leaving the balance of 10 per cent as a first charge against future housing capital allocations for the two Bands. The plan was understood and accepted by the Bands in March 1986, after agreement had been reached between CMHC and INAC, in December 1985, that the remaining costs to complete the housing would be shared (80 per cent, CMHC and 20 per cent, INAC capital budget).

Additional Background:

The overall project management responsibility in the case of housing construction lies with the Bands, which direct and control the contractors hired, and the flow of funds to them. For the most part, projects of this nature are funded through loans, with Ministerial guarantees, under the CMHC rental housing program but they are initiated with a

"contribution advance" from the Department. INAC's responsibility is that of a project officer. Under Section 27 of the federal Financial Administration Act, the Department ensures also that services are rendered for the contribution advanced to the Bands. CMHC inspectors provide inspection services to the lender (in this case, it is the Canadian Imperial Bank of Commerce and Peace Hills Trust).

At September 10 and 12, 1985 meetings involving CMHC and departmental officials and representatives of the Lake Manitoba and Fairford Bands, it became clear that the contractor had been paid for services which had not been rendered.

Subsequent meetings with all parties took place on numerous occasions between September 1985 and March 1986.

CMHC dismissed the housing inspector involved, on the grounds of dereliction of duty. The inspector had not benefited from his actions.

In December 1985, CMHC agreed to pay 80 per cent of the cost of finishing the houses; INAC agreed to assume the remaining 20 per cent. INAC will contribute 10 per cent of the additional costs directly from its budget. The remaining 10 per cent will be covered, as understood and accepted by the Bands, as a first charge against their future housing capital contributions from the Department. In addition, CMHC indicated a willingness to select, with the Bands, a project management firm to oversee the work. Housing completions are underway at the present time.

The revised estimate of the costs to complete the housing project now stands at \$1.6 million.

H. INDIAN AND NORTHERN AFFAIRS CANADA

H.1.a Band Indebtedness

WARD MALLETTE FINDING: (Page 22)

As of the end of FY 1984-85, 59 per cent of all Indian organizations in the region were in a deficit position. There is little indication the situation has improved for FY 1985-86.

Issues:

- . Is the current Band Indebtedness Policy adequate?
- . Why are so many Bands in debt?
- . Is the situation improving?

Departmental Response:

- . The current national policy and strategy approved in June 1984, and further elaborated upon in the Manitoba regional guidelines of July 15, 1985, are considered to be adequate.
- . This policy has been the basis for dealing with Band indebtedness situations for a number of years (the draft policy served as an unofficial guideline prior to 1984). In fact, several Regions applied similar procedures before national guidelines were issued. Experience indicates that this policy has been effective in enabling Bands to address and correct financial problems.
- . At the same time, it is recognized that there are and will be certain individual cases where this general policy is not adequate in dealing with the situation. In such cases, the Department would apply the policy to the extent possible, and would seek approval through Treasury Board for any exceptional provisions which might be necessary.
- . The Manitoba Region communicated with Bands, Tribal Councils and political associations over the period from August 1984 to June 1985 on the need to implement regional guidelines on Indian indebtedness. In July 1985 they were implemented without the consensus of the majority of the Bands in the Region. The Band deficit situation in

Manitoba is considered serious. In this respect, the situation in Manitoba is worse than any other Region, and is much worse than the national average.

In the Manitoba Region, the total Band debt as of March 31, 1985 was \$10,990,000; 39 of the 60 Bands were involved. The chart below indicates that, collectively, four of the 39 Bands have a deficit of \$3,972,760; in other words, of the Bands in debt, 10 per cent have 36 per cent of the total debt. The current total debt is estimated to be in the order of \$15,000,000. This will be verified when Band 1985-86 annual audit reports are received.

Band Deficit Profile - Manitoba

<u>Range \$</u>	<u>84-85</u>	<u>83-84</u>	<u>82-83</u>
Over \$1,000,000	2	-	-
700,000-999,999	2	1	-
500,000-699,999	1	4	3
250,000-499,999	12	6	7
100,000-249,999	11	6	11
50,000-99,999	5	11	6
25,000-49,999	5	4	4
10,000-24,999	1	3	1
9,999 or less	-	1	3
Number of Bands	<u>39</u>	<u>36</u>	<u>35</u>
Total (\$000)	\$10,873	\$7,745	\$6,644
Education Authorities (\$000)	<u>117</u>	<u>318</u>	<u>166</u>
<u>Total (\$000):</u>	<u>\$10,990</u>	<u>\$8,063</u>	<u>\$6,810</u>

In most cases, the deficits have accumulated and grown in recent years. The responses of Bands have varied:

- Certain Bands are providing a level of service to their members with the full knowledge that funds are not available, but in anticipation that departmental funds will become available. These Bands claim that their deficit position is

a direct result of the lack of adequate funding and, to our knowledge, do not plan to provide levels of service commensurate with available funds;

- Some Bands did not take firm action to bring expenditures into line with revenues before the problem became serious;
- Other Bands have taken the actions required to eliminate their deficit and control their expenditures;
- Still other Bands continue to carry out their operations without deficits.

There are a number of reasons why Band expenditures have exceeded funding:

- A review of annual Band audit reports has shown that some Bands had inadequate financial records and weak internal controls, resulting in deficit situations in various projects or programs. Even though the deficits can be readily identified through the annual audit process, some Bands have taken little or no action to address these situations.
- A significant portion of the deficit situation is related to housing construction. INAC provides a Subsidy Housing Program to assist Bands in building houses on reserves. This subsidy ranges from \$19,000 to over \$40,000, depending on the geographic location of the Band and on the consideration given to various economic factors. Each Band needs to obtain from other sources the additional funds needed to complete its housing program (beyond the amount provided by the housing subsidy program). These additional funds come from many sources including sweat equity, CEIC programs, CMHC, Social Housing Programs and owners' contributions. The deficits in the housing area are most likely the result of Bands spending more on housing construction than the amount of funding obtained from all sources.
- Deficits in administration are another contributing factor to the problem. Funding to

Indian Bands for Band Administration is provided by means of the Band Support Funding Program. The funding is based on a national formula which takes into account the size of the Band, its geographic location, and the nature and size of the program administration. The funds provided through this program are used by Bands to cover the cost of their day-to-day administration including, travel, salaries, heat-light, legal and other operations and maintenance costs. Bands sometime feel that this program does not adequately meet extraneous travel, salary and legal costs and as such have incurred over-expenditures in this category.

- Bands have stated that deficits are the result of underfunding by the Department. The Department recognizes that funding levels are not sufficient to meet all the pressing needs of Indian communities. Nevertheless, there is strong evidence to show that underfunding is not the reason for the serious deficits of Manitoba Bands. For example, as shown in Appendix A at the start of this report, the budget of the Manitoba Region has grown substantially during the past 10 years. Funds are allocated to Regions on a consistent basis, in accordance with planning processes.
- In fact, the total Manitoba regional budget, compared to on-reserve Indian population, is higher than it is for any other Region in Canada.
- In spite of large budget increases, including large increases in the past three years, and in spite of a total budget in the Manitoba Region which exceeds that of other Regions when compared to Indian population, Manitoba Bands have deficits which are greater than those of Bands in other Regions, and these deficits have continued to grow.
- There have been, in some cases, unresolved disputes between Bands and the Department over the permissibility of certain Band expenditures, and these have led to refusals by the Department to reimburse Bands for some expenditures regarded by the Bands as being legitimate program expenses.

- In some cases, Bands have made loans to Band members out of program funds and have failed to collect such loans.

The current Band deficit problem has resulted also from a lack of timely and firm action to correct the problem. This, in turn, has been the result of a number of factors:

- At times, departmental staff have found it difficult to decide whether to strictly enforce funding management procedures or to manage with fewer controls, in keeping with the philosophy of Indian responsibility and the growing role of Indian governments.
- At times, too, departmental officials who did take strong action to require the Bands to correct financial or management problems, have received strong criticism from Bands.
- Some Bands believe that financial deficits can and will be eliminated by placing political pressure on the Department and the Minister in order to obtain the required financial assistance.
- There was a reluctance by Bands and by the Department to take firm action to curtail expenditures to eliminate the deficits, given that such action would create difficulties for the communities, and that the problem might resolve itself without the need for tough measures.

A great deal of effort has been devoted, by the Department and by the Bands, in using the Band Indebtedness Policy with all Bands encountering financial difficulties. As a result, to date:

12 recovery plans are in place;
7 recovery plans are being negotiated; and,
17 recovery plans have yet to be negotiated.

A few Bands have refused to meet and discuss the development of Financial Management Plans. Many Bands are now waiting to see how the federal government responds to current demands to eliminate their deficits before agreeing to negotiate and implement such plans.

The "Additional Background" section below explains in greater detail the process of negotiating and implementing financial management plans. It is expected that the development and implementation of these plans will, over a two to four-year period, produce major improvements in the financial health of Manitoba Bands.

Action Plan:

The Department will continue to work with Bands and Tribal Councils to determine, on a case by case basis, the causes behind deficit situations, and to assist the concerned Bands and Tribal Councils to develop financial management plans for eliminating the deficits. The Department will expect Bands and Tribal Councils to make serious efforts to take the steps necessary to stop the growth of existing deficits, and further, to reduce and eliminate these deficits over a period of years.

Within the Department's authority for dealing with Indian band indebtedness situations, INAC would support the establishment of a special process for senior departmental and Ministerial consideration, on a case by case basis, of Band deficit situations which may require and justify a request to Treasury Board for approval of special deficit recovery measures.

Additional Background:

The Band Indebtedness Policy provides for a process to analyze the financial status of the Band, to establish the causes for financial problems, and to develop a plan for correcting these problems, usually over a period of several years. These plans are designed to reflect the nature of the problem in each case and can include special provisions to deal with the unique situation of each Band.

Except in the case of mandatory programs, such as social assistance, where the Band may have an entitlement to increased funding, the deficit is retired, not through additional funding but, rather, through reductions in future expenditures and application of the reductions to the past deficit.

Current policy guidelines call for the development of "Financial Management Plans" for all Bands in a serious deficit position or with a "denial of opinion" from their auditor. Twenty-four Bands had a denial of opinion in their 1984-85 audit statements, and thirty-nine are currently in a deficit position. Some Bands have both a deficit and a denial of opinion.

The table on the following page compares the Manitoba experience to the national one with regard to auditors' comments for the past three years (ending March 31, 1985).

It should be noted that three of Manitoba's seven Tribal Councils had deficits in excess of eight per cent of departmental contributions in 1984-85. Two of the three deficits had decreased substantially from the 1983-84 fiscal year. Tribal Council deficits at the end of 1984-85 totalled \$697,000. The Manitoba Indian Education Association had a surplus at the end of the 1984-85 fiscal year.

NUMBER OF AUDITORS' OPINIONS BY CLASSIFICATION

Auditors' Classification	National			Manitoba		
	82/83	83/84	84/85	82/83	83/84	84/85
Unqualified	220	247	292	15	13	19
Qualified	151	149	142	13	16	14
Denial	150	127	99	26	29	24
Other	<u>64</u>	<u>62</u>	<u>52</u>	<u>6</u>	<u>2</u>	<u>3</u>
TOTAL	<u>585</u>	<u>585</u>	<u>585</u>	<u>60</u>	<u>60</u>	<u>60</u>

The information in the above table shows the following:

- a) Unqualified Auditor Opinions: Both the Manitoba Region and the national figures show substantial improvement in the number of unqualified opinions received from the auditors, with Manitoba slightly behind the national trend. In 1984-85, 50 per cent of the national and 32 per cent of the regional audits were unqualified.
- b) Denial of Auditor Opinions: Nationally, there has been a substantial improvement in terms of reducing the number of denials of auditors' opinions; however, in Manitoba the number has stayed relatively steady.
- c) Other: Nationally and regionally, progress has been made in reducing this category. Examples of situations in this category include:
 - adverse opinions that financial information does not provide fair representation in accordance with generally accepted accounting principles;
 - a written communication from a chartered accountant providing a description of the work performed and a statement that an audit has not been performed and, consequently, no opinion is expressed;
 - extenuating circumstances, such as fire destroying records.

H. INDIAN AND NORTHERN AFFAIRS CANADA

H.1.b Band Indebtedness

WARD MALLETTE FINDING: (Page 22)

The likelihood of there being no November data base exercises in education and social development means additional resources will not be available through supplementary estimates. This eventuality could force the region to pay for mandatory services out of next year's funds and erode and distort the data base in Manitoba and other regions. In Manitoba, this could cause the collapse of many Indian organizations.

Issue:

. Will there be a November data base exercise?

Departmental Response:

. At the present time, current Departmental plans call for June and November data base exercises to ensure that price and volume increases are covered for 1986-87.

. The Department will not pay for mandatory services out of next year's funds.

Action Plan:

. "June" and "November" data base submissions will continue to be prepared in the Region. Bands will be asked for source information required to prepare the data base.

Additional Background:

. The Department is developing more effective forecasting techniques to ensure that adequate funding is provided to education and to social development programs through the Main Estimates process, rather than through Supplementary Estimates. As such, the education and social development areas will receive, at the beginning of the fiscal year, funds which would have been obtained normally much later in the fiscal year through Supplementary Estimates.

This approach will allow departmental officials to manage more effectively. It will ensure also that the Department pays for mandatory services in the year in which the expenditures take place.

Data base resource levels have consistently been too low requiring supplements via the June and November data bases and Supplementary Estimates.

In conjunction with Treasury Board, the Department will be attempting to quantify an amount above normal data base projections to cover the traditional shortfalls in Main Estimates. The objective would be to provide Treasury Board with advance notice of projected funding requirements so funds can be reserved to meet requirements and can be released on a more timely basis.

The November data base will continue to be undertaken in order to determine the allocations to Regions and Bands. It is hoped that the additional amount forecasted in Main Estimates will eliminate the need to go back through Supplementary Estimates for additional monies. However, if such is not the case, additional resources will be sought via final Supplementary Estimates.

H. INDIAN AND NORTHERN AFFAIRS CANADA

H.2.a Non-Transfer of Administration Costs/Maintenance
of Departmental Staffing Levels

WARD MALLETTE FINDING: (Page 23)

In FY 1975-76, the Department was directly administering approximately 80 per cent of the program which has been reduced to approximately 20 per cent of the program in 1984-85. However, non-teaching person-years have increased 48 per cent from 256 in 1975-76 to 379 in 1984-85.

The non-transfer of administrative positions and their related costs to Indian organizations means program delivery funds are being reduced to pay for administration.

Issue:

Has INAC failed to adequately transfer its administrative resources and has this led to program cuts to fund Band administrative requirements?

Departmental Response:

At all times, the program transfer process has included a provision for the transfer of administrative resources to ensure that funding allows the Bands to meet all direct administrative requirements of the program. INAC does not believe that the increased growth in departmental person-years (PYs) in the Region has resulted in the underfunding of administrative resource requirements of Bands. These requirements are addressed by the Band Support Funding formula; there has not been any shortfall in these commitments.

In the '70s, with the emergence of Tribal Councils each wanting to provide program services on behalf of its member Bands, the transfer of program delivery functions could, and did, occur only on an ad hoc basis. The only monies available for this purpose were program delivery funds and Tribal Councils met their administrative requirements through the utilization of these funds. It must be emphasized that the Bands and Tribal Councils made these decisions.

Indeed, in a widely-circulated document, published in January 1983, the Manitoba Region discussed this situation. As a result of using program delivery funds in this manner, it is frequently stated that the Department "underfunded" Indian Bands in Manitoba by \$32,600,000. This figure is the sum of all money contributed to Manitoba Tribal Councils during the nine-year period 1974-75 to 1982-83. If the data is updated for the three-year period 1983-84 to 1985-86, the total of the "underfunding" would be \$80,565,000. The claim is that all funding for Tribal Councils should have come either from "new" money or from savings resulting from reductions in departmental staff.

As stated above, INAC agrees that program dollars were used to fund Tribal Councils. However, between 1975-76 and 1985-86 the budget of the Manitoba Region grew by 322 per cent, from \$63 million to \$266 million. It is clear that part of this substantial increase in program dollars was used to establish Tribal Councils. The following table illustrates actual and cumulative expenditures for both Tribal Council funding and the total regional budget.

	<u>Tribal Council Funding</u>		<u>Manitoba Region</u>	
	<u>Actual Expenditures</u> (\$000's)	<u>Cumulative Expenditures</u> (\$000's)	<u>Actual Expenditures</u> (\$000's)	<u>Cumulative Expenditures</u> (\$000's)
1974-75	\$127.1	\$127.1		
1975-76	381.2	508.3	\$63,000.0	\$63,000.0
1976-77	451.3	959.6	79,000.0	142,000.0
1977-78	625.0	1,584.6	86,000.0	228,000.0
1978-79	900.4	2,485.0	100,000.0	328,000.0
1979-80	2,661.0	5,146.0	107,000.0	435,000.0
1980-81	4,628.9	9,774.9	124,000.0	559,000.0
1981-82	10,153.4	19,928.3	149,000.0	708,000.0
1982-83	12,667.3	32,595.6	175,000.0	883,000.0
1983-84	13,926.3	46,521.9	219,000.0	1,102,000.0
1984-85	18,051.1	64,573.0	250,000.0	1,352,000.0
1985-86	15,991.7	80,564.7	266,000.0	1,618,000.0

The Tribal Council Funding policy, approved by Cabinet in 1984, provided authority for the establishment of tribal councils but did not provide new money. However, in a recent decision, \$4,000,000 of incremental resources were provided and these funds will be distributed to established tribal councils delivering services at the present time.

Action Plan:

See "Departmental Response" above.

Background:

Through the Band Support Funding formula, Bands receive funding for administrative resource requirements under the following headings:

- Basic Overhead: the cost of maintaining an administrative and accounting capacity, based on volume of basic services delivered and the population served;
- Unit Costs: the overhead costs incurred in the delivery of certain major services funded by the Department; and,
- Additional Costs: additional overhead to cover the need for office space by Band service employees, costs associated with the provision of an annual audit by the Band, and administrative costs for the Band Council related to coordination of Band activities and business.

If funds are insufficient in the Band Support budget, the departmental program concerned (for example, Education) provides an equivalent amount to the Band for administrative purposes. This is a fundamental condition of service transfers to Bands.

The Tribal Council Funding formula is similar to the Band Support Funding formula.

INAC believes that some program funds may have been used for Tribal Council administration. However, Tribal Councils are established only at the request of Bands and the Bands and their Tribal Council have full knowledge of the source of funds.

As described in the Ward Mallette report, there was a reduction in total INAC person-years over the period. However, INAC records show an actual growth in person-years occurred in other areas (256 to 348) including Education (excluding teachers, janitors, and student residence workers); Social Development; Economic Development; Lands, Reserves and Trusts; Band Support and Capital Management; Engineering and Architecture; and administrative functions, such as Management, Finance, Personnel and Planning.

The reasons for growth in INAC's "other program areas" include the need to consolidate and strengthen the capital and maintenance program; the growth in planning and finance requirements, driven by the priority placed across governments in the late '70s to strengthen these areas; the need to strengthen the Lands, Reserves and Trusts area to address the Minister's "trust" obligations to Indians; the requirement for person-years to deal with the impacts of flooding due to hydro developments; and, overall program growth and the accountability of the Minister under the existing Indian Act.

Many of the administrative positions remaining in the regional office are concerned with centralized service delivery functions and/or the Minister's accountability for programs. As such, these are more difficult to transfer. Fragmenting a centralized service delivery function into smaller delivery units may be ineffective or cost prohibitive, or both.

H. INDIAN AND NORTHERN AFFAIRS CANADA

H.3 Financial Control

WARD MALLETTE FINDING: (Page 23-24)

Ward Mallette identified amounts of \$321,334 for 1982-83; \$3,350,921 for 1983-84; and \$342,524 for 1984-85 that should have been included in the Payable at Year End (PAYE) accounting process. Regional officials identified a further \$477,143 which had not been set up in PAYE in 1983-84.

Regional officials confirmed that for the three years ended FY 1985-86, financial expenditures for the region had exceeded their budget allocation by an aggregate amount of \$4,658,000.

The region reported that the current commitment control system does not keep track of unfunded commitments.

This has caused significant distortions in the reported costs of delivering various programs over the years.

Issues:

- (i) Were Treasury Board and departmental directives regarding PAYE followed?
- (ii) Did the Manitoba Region overspend its allotted budget?
- (iii) Does the current commitment control system keep track of unfunded commitments?
- (iv) Have there been significant distortions in the costs of delivering various programs over the years?

Departmental Response:

(i) PAYE

The Region has been unable to identify all of the invoices referred to by Ward Mallette. However, it is clear that in 1982-83 and 1983-84, amounts were not submitted to the PAYE accounting process as a result of decisions taken by regional management officials not to submit charges beyond their authorized limits. In 1984-85, the Region took

remedial action to clear old-year billings and to ensure future compliance in the Region with Departmental PAYE policy. Much of the amount excluded in 1984-85 can be traced to the failure of departmental headquarters to process the PAYE items.

(ii) Budget Overexpenditures

The Region overexpended its budget in the 1983-84 and 1984-85 fiscal years. A growing deficit had developed when the Region's data base submission did not contain enough justification for needed increases in the Social Assistance and Education areas. These two programs are essential to the basic needs of Indian people at the community level and service delivery could not be deferred. Therefore, overexpenditures occurred. A special review in 1985-86 led to budgetary adjustments for Social Assistance and Education and the Region's year-end financial position improved significantly.

(iii) Commitments

Unfunded commitments were not recorded by the Region on direction from INAC headquarters. Now these commitments are being recorded, in accordance with revised direction.

An unfunded commitment occurs when a priority program item requiring funding arises after budget funds have been fully committed. In this case, previously-made commitments must either be cancelled or adjusted downward to free funds, or new funds must be found.

(iv) Program Costs

Non-compliance with the PAYE policy resulted in costs being reported improperly from 1982-83 to 1984-85 inclusive. For 1983-84, the Office of the Auditor General identified in excess of \$3 million which the region failed to process through PAYE. However, the amounts were not deemed material enough to warrant a note in the Public Accounts.

Action Plan:

The regional office will provide direction and training to program managers to ensure that all valid charges against a fiscal year are certified and submitted for payment within the PAYE deadline.

The Region will ensure that charges are properly processed in accordance with Chapter 9 of the Guide on Financial Administration and INAC's Financial Directive DD 2.2. It is anticipated that the Office of the Auditor General will continue to include Manitoba Region in its annual "Authority and Attest" audit as it has in each of the past seven years. This will provide an independent test of compliance.

Variance reporting procedures will be amended to include the reporting of negative variances in discretionary areas. The Region will advise headquarters of these budgetary variances.

Regional commitment procedures will be amended to include unconfirmed/uncertified commitments in the Budgetary Control System.

In 1986-87, a formal certification, on whether or not a manager has lived within or has exceeded his/her budgetary authority, will be included in the performance review and employee assessment process.

Additional Background:

"Payable At Year End" (PAYE) is an accounting process through which "the books" are left open after the end of the fiscal year so outstanding charges can be recorded against that fiscal year. Responsibility for processing of PAYE items is shared among all managers with budgets and the Finance Directorate. Managers are responsible for securing or estimating PAYE charges prior to the accounting cutoff date at the beginning of each May. Finance is responsible for auditing and processing the charges. (Refs: Departmental Directive 2.2 and Treasury Board Circular 1984-43.)

As a general rule, the availability of funds must be certified prior to entering into a financial commitment. This is done to ensure that budget overruns do not occur and to make sure that funds are available to cover all eventual expenditures.

H. INDIAN AND NORTHERN AFFAIRS CANADA

H.4 Illegal Transfer of Funds

WARD MALLETTE FINDING: (Pages 24-25)

Instances of significant transfers of funds between programs and votes were found to be within the Region's authority or had been approved by Headquarters.

Issue:

. None.

Departmental Response:

. n/a

Action Plan:

. n/a

Additional Background:

. Transfers result from a shortage of funds in a priority area. Ideally, the budget should match requirements in each expenditure area thus eliminating the need for transfers. When it does not, transfers are required from low to high priority areas to live within the overall budget ceiling.

H. INDIAN AND NORTHERN AFFAIRS CANADA

H.5 Micro-Computer Purchases

WARD MALLETTE FINDING: (Page 25)

Ward Mallette states that it appears Departmental purchasing controls may have been circumvented in two instances between January and October 1984 in the Region's purchase of computer equipment.

Issue:

Were Departmental purchasing controls circumvented over the time period?

Departmental Response:

An internal investigation regarding regional compliance with controls over the purchase of computer equipment between January and October 1984 was conducted by officials from departmental headquarters in January 1985. The result of the review of both cases was disciplinary action in the form of a reprimand. Remedial follow-up action has been taken by the Region and is being taken by headquarters. As well, measures have since been introduced nationally to strengthen planning and control over computer purchases. The equipment purchased is on regional inventory.

Action Plan:

Based on discussions held June 2 and 11, 1986, the Departmental Audit Committee has requested that the Departmental Audit Branch review its plan to audit major functions. The purchasing function, on a departmental basis, is included in the plan. It is anticipated that the audit will be conducted within 12 to 15 months. In addition, a special examination of contracting procedures will be carried out in late August.

Additional Background:

INAC's Materiel Management Manual, Financial Management Manual and various Department directives outline general purchasing policies and procedures. Direction on the acquisition of computer equipment is provided also. Such direction existed in 1985 and has evolved to meet requirements since then.

In 1984-85 and 1985-86, the Region submitted its requirements for Electronic Data Processing (EDP) equipment via an annual Information Technology Systems Plan. The plan is reviewed by functional specialists in departmental headquarters and their recommendations provide direction to the Region on its purchases.

In 1985-86, a Regional Systems Steering Committee was established to plan and control systems activity in the Region. It is chaired by the Regional Director General and a headquarters liaison officer sits on the Committee. Among the Committee's tasks is the identification of the requirements for the Information Technology Systems Plan.

Equipment and software purchases are centralized within Materiel Management and at headquarters, in compliance with controls over acquisitions (with the exception of computer equipment and software for educational purposes on reserve).

Ward Mallette identified the purchase of some equipment by local purchase order. In April 1985, measures were taken by the Region to restrict severely the issuance of local purchase order books. In October 1985, further controls were introduced; three signatures, including that of the Regional Director General, are required to release them.

H. INDIAN AND NORTHERN AFFAIRS CANADA

H.7 Devolution Process

WARD MALLETTE FINDING: (Page 25)

The Department has still not made its submission to the Treasury Board on the management of the devolution process. The lack of this policy has made it virtually impossible for Indian groups to gain additional control of their own programs.

Issues:

- . When will the Department submit its devolution policy?
- . To date, has the lack of a devolution policy impeded Indian control of programs?

Departmental Response:

- . An extensive devolution project was begun by the Department in April 1986 and has been completed. A formal submission is being prepared for submission to Treasury Board in the Fall of 1986.
- . The Department agrees that the devolution of programs has been delayed by the lack of a policy. However, this has only affected the devolution programs which would have increased the Department's overall costs. The major reasons for these higher costs when programs are devolved, in order of significance, are as follows:
 1. creating new administrative units and functions at the band and tribal/district council level (there should be some offsets in departmental personnel and costs);
 2. lost economies of scale due to the decentralization of service delivery;
 3. replicating DIAND support systems and services at the band level;
 4. program enrichment associated with the change from DIAND control to band or local control; and,

5. DIAND's new and continuing role of supporting, monitoring and facilitating the new transfer policy.

Additional Background:

In 1956, Bands and Tribal Councils administered no departmental programs. By the late 1960s, they had assumed control of \$34,900,000 in program service delivery. Transfers have continued to take place and by March 31, 1986 the value of programs transferred nationally to Indian organizations was \$848,400,000 or 55 per cent of departmental program expenditures. INAC administers 28 per cent (\$428,100,000) and the provinces another 17 per cent (\$264,700,000).

By March 31, 1986, the value of programs transferred to Indian organizations in the Manitoba region was \$170,000,000, or 64 per cent of regional program expenditures. INAC administers 24 per cent (\$64,000,000) and the Province another 12 per cent (\$32,000,000).

A major component of the framework for the transfer of services to Indian Bands, Tribal Councils, school authorities and other Indian institutions is full consultation with all Indian authorities affected on such matters as budget negotiations, levels of service, and scheduling.

H. INDIAN AND NORTHERN AFFAIRS CANADA

H.6 Education Data Base Expenditure Accounting System

WARD MALLETTE FINDING: (Page 25)

Ward Mallette states they have severe reservations about the accuracy of actual expenditures recorded in the education data base and the expenditure accounting system.

Issue:

Are actual expenditures reflected accurately in the education data base and in the expenditure accounting system?

Departmental Response:

Failure to comply fully with PAYE procedures has meant that expenditures were not recorded in the year they were incurred. Expenditures were overstated in 1984-85 and understated in earlier years. The nature of the problem and remedial measures are described in section H.3 of this document.

In 1985, an internal audit of the budgetary submissions in the elementary and secondary data base was carried out in Manitoba, Saskatchewan and Alberta Regions. The auditors found that the education data base process used in November 1984 was neither an effective nor an efficient tool for developing the \$314,000,000 program budget for elementary and secondary education. Major changes are required in the current departmental system to increase the involvement of school authorities in budgetary planning, in the allocation of funds in accordance with approved submissions, in the consistent coding of expenditures at the detailed source level, in establishing control mechanisms to ensure the reliability of the information in the data base, and in documenting policies and procedures to be followed in preparing budgetary submissions. These audit findings are being used by the Department, in consultation with the Treasury Board secretariat, in developing plans for the conversion of the data base system to a simpler, formula-based system.

The Department believes that a formula-based approach would best meet the objectives of equity in funding allocations while permitting Bands the flexibility to adjust departmental allocations to local circumstances. The proposal for a review of the actual education costs of all Bands would not address the need to maintain local flexibility. It would only confirm that communities have different priorities for their education activities.

Action Plan:

To ensure that costs are reflected accurately in the expenditure accounting system, a review system for the coding of expenditures will be established. In addition, during the completion of the June data base submission, a further check between the data base and the expenditure accounting system will be carried out.

Additional Background:

Section H.3 of this document discusses concerns on the recording of expenditures in the correct fiscal year.

Section B.2 discusses concerns on the appropriate coding of budgets and expenditures.