Justice

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Executive summary

The Office of the Public Trustee of Saskatchewan (Office) administers the property and financial affairs of approximately 5,500 clients, including dependant adults, infants, and estates. For the year ended March 31, 1999, the Office acquired and disbursed approximately $38 million on behalf of its clients and held assets worth approximately $136 million.

The Office implemented a new computer system on October 1, 1999. This system was intended to help the Office administer the financial affairs of its clients and safeguard their assets.

The Office did not retain an expert consultant, independent of the contractor, to help it oversee the development of the new computer system. Also, the Office did not adequately test the system to ensure that it worked properly and met the Office’s requirements. These weaknesses contributed to the system being late, over budget, and not yet meeting all of the Office's needs.

Due in part to difficulties associated with the development of its new computer system, the Office did not properly administer clients’ affairs. The Office has not properly protected clients’ money and other assets. The Office did not have rules and procedures to prevent unauthorized access to clients’ money and other assets without detection. The Office did not limit access to its computer system and data and it did not keep reliable records showing the amounts it owed to clients. Also, the Office did not properly control the bank account holding the clients' money and has not properly controlled clients' other assets. In addition, the Office could not prepare its financial statements for the year ended March 31, 2000.

We did not do specific procedures to determine if clients’ assets were used inappropriately. It is not practical for us to do this work. This is because the nature and extent of weaknesses in the Office’s processes allow errors or improper transactions to occur without detection.

The Office needs to promptly take corrective action to fix its computer system and to properly administer its clients’ affairs. Until these steps are taken, the risk of fraud, errors, and instances of non-compliance with the law will continue.

Introduction

The mandate of the Department of Justice is to promote safe communities, social and economic order, and fair and just relations among people through the operation of an independent, impartial, and effective justice system that upholds the rule of law and defines the basic legal rights of citizens.

The Department administers justice services, police services, and adult corrections in the Province. Also, the Department administers registry systems for corporations and personal property. In addition, the Department regulates pensions, trusts, credit unions, and businesses.

In Chapter 7 of our 2000 Fall Report – Volume 3, we reported the results of our audits of the Department of Justice and the related special purpose funds and Crown agencies for the year ended March 31, 2000, with the exception of the Public Trustee for Saskatchewan. This chapter includes the results of our audit of the Public Trustee for Saskatchewan for the year ended March 31, 2000.

Public Trustee for Saskatchewan

The Office of the Public Trustee for Saskatchewan (Office) administers the property and financial affairs of approximately 5,500 clients. Clients include dependent adults, infants, and estates. The Public Trustee is assisted by two Deputy Public Trustees and approximately 29 staff.

For the year ended March 31, 1999, the Office acquired and disbursed approximately $38 million on behalf of its clients and held assets worth approximately $136 million. Reliable numbers are not yet available for March 31, 2000. The majority of clients' assets is money. The Office is also responsible for personal items of clients, such as real estate, vehicles, furniture, appliances, and miscellaneous items.

Clients depend on the Office to manage their financial affairs. The Office is responsible for protecting clients' assets and making financial decisions and payments on their behalf. The Office needs strong administrative systems to carry out these duties. Without strong administrative systems, the clients' assets and the administration of their financial affairs are vulnerable.

Background

In our 1997, 1998, and 1999 Spring Reports, we reported that the continued operations of the Office were at risk due to:

- old computer equipment;
- the lack of a tested disaster recovery plan; and
- inadequate computer programs that could not handle Year 2000 data.

The Office had to replace its computer system. The equipment and programs were obsolete and could not process data after December 31, 1999. In response to these issues, the Office developed and implemented a new computer system. Also, the Office developed a contingency plan for its Year 2000 issues. The implementation of this new system and the contingency plan resolved the issues related to the old computer equipment and the Year 2000 issues.

In April 1997, the Department of Justice publicly tendered for a contractor to help the Office build a new computer system. The contractor's responsibilities included providing project management services, helping the Office to identify the system's requirements, and then building the system based on the requirements. The Office was responsible for overseeing the management of the project, testing the new system to ensure that it met the Office's requirements, converting the data from the old system to the new system, and training its staff to use the new system.

The Office's original plan was to complete the project by December 31, 1998 at an estimated cost of $700,000. During the development of the system, the Office divided the project into two stages. A Public Trustee in another province offered to contribute money to enhance the system's capabilities (i.e., requirements) for a 50% ownership of the system. The Office agreed. The second stage of the system's development contains some of the Office's original requirements and those enhancements requested by the other Public Trustee.

At March 31, 2001, the Office's share of the project's cost was $2.1 million. The other Public Trustee's share of the project's cost was $1.1 million. These costs do not include the wages of the Office's staff that worked on the project. Also, the development of both stages is ongoing and therefore the Office will incur additional project costs.

Our audit conclusions and findings

At the time of this report, the Office cannot prepare its March 31, 2000 financial statements. As a result, we cannot complete our audit of the Office for the year ended March 31, 2000. We will report our audit conclusions and findings for the March 31, 2000 financial statements in a future report.

We did not do specific procedures to determine if clients' assets were used inappropriately. It is not practical for us to do this work. This is because the nature and extent of the weaknesses in the Office's processes allow errors or improper transactions to occur without detection.

In our opinion, for the year ended March 31, 2000:

- **the Office's rules and procedures to safeguard and control clients' assets were not adequate because of the matters described later in this chapter; and**

- **the Office complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing, except for the matters described later in this chapter.**

The Office needs to promptly take corrective action to fix its computer system and to properly administer its clients' affairs. We set out our findings and recommendations under the following headings:

- system acquisition controls need improvement; and

- administration of clients' financial affairs needs improvement.

System acquisition controls need improvement

Information technology projects are risky. Studies show that a high percentage of projects are late, over budget, and do not meet requirements. Also, building a computer system is more risky than buying one. This is because designing and building a computer system is a complex task that requires additional skills and knowledge. In addition, it is more difficult to predict the project's costs.

To overcome the risks associated with information technology projects, it is essential that:

- senior management is committed to the project;
- system requirements are justified and the anticipated benefits are monitored and tracked; and
- good project management systems and practices are used.

We used these three criteria and the project management processes set out in Exhibit 1 to assess the Office's processes for acquiring its new system. We applied the project management processes on a risk basis to focus on the Office's processes that were most crucial to the project's success.

Senior management commitment

Senior management commitment includes actively overseeing, funding, and promoting the merits of a project. Commitment is crucial from the project's start to its finish. When projects lack strong senior management commitment, project goals and objectives become blurred and expected benefits are not realized.

The Office showed strong commitment to the project. The Office set up an effective project structure that provided clear lines of authority and communication. In addition, the roles and responsibilities of staff were clearly outlined. For example, the Public Trustee was responsible for all approvals throughout the project. The Public Trustee gave timely approval to all project decision documents.

System requirements and benefits

The Office needs to strengthen its processes to ensure that system requirements are justified, its contractor delivers a system that satisfies those requirements, and it realizes the expected benefits.

An organization should justify its requirements for a new computer system. The first step in this process is an analysis of the organization's needs (i.e., needs analysis). The second step is an assessment of its requirements in terms of their costs and benefits (i.e., cost-benefit analysis). Both steps are necessary if an organization is to ensure that a new computer system will meet its needs and be cost-effective. Also, an organization needs processes to ensure that all system requirements are properly built into the system. In addition, an organization needs processes to ensure that it realizes the system's expected benefits.

We found that the Office's contractor performed a detailed needs analysis for the Office. This analysis identified the key processes that existed at the Office, the Office's needs in carrying out its clients' responsibilities, and opportunities to streamline the Office's operations. Using this information, the Office selected the system's requirements.

However, we found that the cost savings set out in the Office's cost-benefit analysis were not adequately supported. Also, the Office approved several changes to the system's requirements without obtaining sufficient cost information, their impact on the project, and their expected benefits. In addition, we found that the Office did not have adequate processes to check whether the contractor delivered all of the approved system's requirements and to determine whether the Office would realize the system's expected benefits.

These weaknesses contributed to cost and time overruns and a system that does not yet fully meet the needs of the Office.

1. **We recommend that the Office ensure that future changes to the system's requirements are properly justified.**

2. **We recommend that the Office strengthen its processes to ensure that:**

- **the contractor delivers all the approved system requirements; and**

- **the Office realizes the benefits it planned to receive from the system.**

Project management processes

The Office needs to strengthen its project management processes. The Office did not have or acquire the necessary knowledge and skills in developing computer systems to oversee the development of the new system.

Project management consists of the processes necessary to effectively and efficiently bring together the application of skills, tools, and resources to achieve a common objective. Ultimately, a project's success depends on the project team having the necessary skills, knowledge, and experience to get the job done.

We note the following significant issues related to the management of the new computer system.

Human resource management. The Office did not have staff with experience and training in managing complex computer development projects. The Office partially compensated for this weakness by obtaining project management services from its contractor. However, we found that the Office did not hire an expert to help manage this project. An expert would be a qualified practitioner, independent of the Office's contractor, who has several years of experience in managing and assessing computer projects of similar size and complexity. Without expert advice, the Office could not effectively carry out its project responsibilities including managing its risks and holding its contractor accountable for the work performed.

Risk management. The Office did not manage all its significant risks when it implemented the new computer system. For example, the Office did not have a plan to manage the risks to clients' assets and records if the computer system did not work properly.

Also, the Office chose to proceed with the development of the system's second stage before the first stage was finished and working properly. This decision significantly increased the project's risks because it placed additional demands on the Office. Management and staff had to finish the first stage of the project, use an incomplete system to manage the assets and transactions of clients, and work on the second stage. This difficult situation contributed to the Office's failure to protect clients' assets.

Had the Office hired an expert to help assess its risks at key stages of the project, it would have strengthened its ability to effectively oversee the management of the project.

Quality management. The Office needed to improve its quality management processes. Quality management includes planning and executing tests to determine whether a system meets all of its requirements and works properly. For a complex computer system, this requires specialized skills and knowledge. For example, the Office needed information on the quality management practices the contractor used to develop and test the system. The Office needed to know the likelihood of undetected programming errors and whether the programs would process the amount of data required. Without this information, the Office could not successfully plan or execute tests to ensure the new system met requirements and worked properly.

We found that the Office's plans to test its new system were inadequate. Although the Office spent significant time doing system testing, some key aspects of the system received insufficient testing. For example, the automated bank reconciliation did not work when the system was implemented.

In summary, when project management processes are not effective, the risks of acquiring and implementing defective computer systems increase. Problems still exist with the system's first stage and that the development of the second stage is ongoing. An independent assessment of the project's risks at this time may help the Office resolve the system's current problems and prevent future system problems.

3. **We recommend that the Office hire an expert consultant to help strengthen its project management processes.**

Administration of clients' financial affairs needs improvement

Clients depend on the Office to administer their financial affairs. To do this, the Office needs rules and procedures to protect clients' assets and ensure reliable client and financial records.

Because the Office's rules and procedures are inadequate, unauthorized access to clients' assets could occur without detection. Also, the Office did not keep reliable records showing the amounts it owed to clients and it did not keep reliable financial records. In addition, the Office did not properly control its bank account, did not properly control clients' personal assets, and could not prepare its financial statements for the year ended March 31, 2000. As a result, the Office did not properly administer its clients' affairs.

We group our findings and recommendations in this section under the following headings:

- monitoring operations;
- computer access controls;
- investment earnings;
- client and financial records; and
- staff training.

Monitoring operations

The Office's management does not receive sufficient information to monitor the effectiveness of its rules and procedures for protecting clients' assets and administering their financial affairs.

One of the objectives of the Office's new computer system was to streamline operations by keeping track of work that staff needed to do on behalf of clients and by automating the processing of clients' transactions. For example, a second person no longer reviews and approves most payments from clients' accounts. In place of this procedure, the Office relies on its computer system to prevent unauthorized use of clients' money without detection. This approach is acceptable provided that the automated controls work effectively, access controls are strong, staff use the system properly, and management receives information to monitor its operations. Otherwise, the Office's risk of fraud and error increases.

The Office's management needs to receive information that will permit it to monitor the effectiveness of its system and monitor whether staff use it properly. For example, management needs to receive monthly financial statements and information on significant changes in clients' assets, unusual financial activity in clients' accounts, and unusual financial transactions. Also, management needs to receive information about clients' work not being done promptly, the adequacy of staff access controls, and whether staff are following the Office's procedures.

We found that management does not receive the kind of information described in the preceding paragraph. Without this information, the Office cannot ensure that clients' assets are properly protected.

4. We recommend that management obtain the information to determine whether:

- **its system of controls for protecting clients' assets is effective; and**
- **staff follow the Office's rules and procedures for administering clients' affairs.**

Computer access controls

The Office needs to strengthen its policies that limit the access to its computer system and data.

Security procedures that restrict employees' access to systems and data are critical for preventing unauthorized access to clients' assets without detection and for maintaining reliable records. Access controls define what information an employee can access and what changes, if any, that an employee can make. Therefore, adequate access controls ensure the segregation of incompatible duties (e.g., prevent an employee from initiating, authorizing, and making a payment).

Management should ensure access to systems and data is appropriately controlled. When access controls are weak, the risk of errors or improper transactions and their concealment increases. Also, weak access controls increase the risk of confidential information being inappropriately released.

The Office did not have sufficient access restrictions to its computer system and data. For example:

- Three staff that maintain financial records have unrestricted access to the computer system and data. As a result, there is the potential for these individuals to initiate, process, and conceal improper transactions.

- All staff have the ability to set up new vendors (i.e., payees). This increases the risk that payments could be made to fictitious vendors.

- Staff access to the computer system and data was not properly reviewed or approved.

As a result of inadequate policies to limit the access to its computer system and data, the unauthorized use of clients' assets could occur without detection. This is because this weakness, coupled with the extent of the other weaknesses described in this section, allows the concealment of unauthorized and improper transactions.

5. We recommend that the Office strengthen its policies for limiting the access to its computer system and data.

Investment earnings

The Office needs rules and procedures to ensure that clients' investment earnings are correctly recorded in clients' records.

The majority of clients' assets is money held in an investment fund. The rules for allocating the fund's earnings are set out in *The Public Trustee Regulations, 1999*. Each month, the Office determines the earnings for each client and allocates the earnings to its clients.

In March 2001, we discovered that the Office made an error in clients' investments' earnings. It recorded excess earnings in clients' accounts from October 1999 to February 2001. We also discovered that this error caused an error in the administration fees that the Office charges its clients. As a result of these errors, the Office did not comply with *The Public Trustee Act, 1999* and *The Public Trustee Regulations, 1999.* We informed the Office of these errors.

In March 2001, the Office determined that it had recorded approximately $2.5 million more in earnings than it should have in its clients' records. Also, because of this error, the Office had collected approximately $85,000 in excess administration fees from its clients. The Office is able to correct the records of its current clients. However, the Office paid approximately $270,000 of incorrect earnings to its former clients. The Office used money from other clients when it made these incorrect payments. If the Office is not able to recover these overpayments from its former clients, the Office must seek to recover the $270,000 from the Government.

6. We recommend that the Office:

- **develop rules and procedures to ensure that it correctly records clients' investment earnings and administration fees; and**

- **seek to recover the $270,000 from former clients' or from the Government's General Revenue Fund.**

The Office told us that it has corrected the current clients' records for the earnings it gave to them in error and it plans to return the excess administration fees it charged them.

Client and financial records

The Office needs to promptly complete procedures to ensure that its records are reliable.

We found the following:

- The Office did not keep accurate records of financial items (e.g. stocks, bonds, and mutual funds) owned by clients. We found a $490,000 difference between the Office's records and the financial items held by the Office on behalf of its clients.

- The Office did not keep accurate records of personal items (e.g. real estate, vehicles, furniture, and jewellery) owned by clients. We found that some items recorded in clients' records no longer existed and other items that did exist were not recorded. For example, the Office had not recorded a house and a car that were owned by a client. Also, the Office did not appraise all items in accordance with its policy (i.e., every three to five years).

- The Office did not ensure that its financial records were accurate. For example, it could not balance its books (i.e., general ledger). As of March 31, 2001, the Office still does not have accurate financial records for March 31, 2000.

- The Office did not compare its records to the bank's statements (i.e., reconcile its bank account) from October 1999 to March 31, 2000 until October of 2000. This procedure helps ensure the reliability of accounting records and would find any errors made by the bank.

7. We recommend that the Office promptly:

- **prepare accurate records of the financial and personal items owned by clients;**
- **balance its general ledger; and**
- **reconcile its bank account.**

Staff training

The Office needs to provide additional training to its staff in using the new computer system. Also, to help the staff carry out their duties, the Office needs to provide staff with updated guidance on using the computer system to record and monitor clients' data.

Training staff to properly use a system is a challenging task that requires strong change management processes. Training should be an ongoing process and include courses designed to meet the staff's needs, documentation that staff can study and refer to for guidance, and monitoring processes to determine whether staff need more help in learning how to properly use the new system.

The Office provided initial training courses and a procedures manual to staff. However, staff did not use the system as intended and the procedures manual needs updating. For example, the Office's new computer system has a budget feature to help manage the financial affairs of clients. The system also has a work queue feature to help staff keep track of clients' work. Staff are required to use these features. However, approximately 50% of the staff that manage clients' affairs did not use the budgeting and work queue features.

When staff do not receive sufficient training and/or guidance in the use of a new system, the risk of errors and mistakes increases.

8. We recommend that the Office:

- **provide additional training to staff in using the computer system to manage the affairs of clients; and**
- **update the staff's procedure manual.**

Exhibit 1

We chose the Project Management Institute's standard, A Guide to the Project Management Body of Knowledge, as the management framework to evaluate the project management processes used in the development of the new system. The eight processes are:

Scope management – the processes involved in determining what the users need, how the needs will be met, and verifying if they are met.

Time management – the processes of planning, scheduling, and controlling the project's activities to help get the project done on time.

Cost management - the processes of planning, estimating, and controlling the project costs.

Quality management – the processes needed to ensure that the project is well managed and satisfies the stakeholders' needs.

Human resource management – the processes required to make the most effective use of people involved in the project, including stakeholders. This includes change management, training, and staffing.

Communication management –the processes, including organizational structure, to ensure the timely and complete creation, movement, and storage of information.

Risk management – the processes to identify, evaluate, plan, and respond to risks.

Procurement management – the processes that determine what to contract for: tendering and selecting the best contractor; and negotiating, managing, and closing the contract.