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Executive summary

Effective April 1, 2002, Cabinet disestablished the Department of Municipal Affairs and Housing. The Department's programs continue. Its municipal programs were amalgamated with those of the Department of Intergovernmental and Aboriginal Affairs to form the Department of Government Relations and Aboriginal Affairs. Its housing programs became the responsibility of the Department of Social Services, the provincial libraries became the responsibility of the Department of Learning, and its various public safety programs became the responsibility of the Department of Corrections and Public Safety.

For the year ended March 31, 2002, the Department paid over \$140 million to various organizations. Often the Department places conditions on the use of this money. Organizations must spend the money on projects that meet the Department's conditions. During the year, we found that the Department did not have adequate procedures to ensure two payments totalling \$5.7 million, met its conditions. Also, the Department recorded these payments incorrectly. We have reported similar problems in the past. In this chapter, we stress the importance of departments having procedures to ensure that monies are spent for the purposes intended.

In addition, we note no progress for the past seven years by the Saskatchewan Archives Board in obtaining an agreement with the University of Saskatchewan for the Board's accommodations and administrative and accounting services.

Introduction

In this chapter, we set out:

- ◆ a brief overview of the Department including its role, key challenges that it faces, and its finances; and
- ◆ the results of our 2002 audits of the Department, and of the special purpose fund and crown agencies for which it is responsible.

Understanding the Department

It is important that legislators and the public understand the role of the Department, the environment in which it operated, and its key challenges. This helps them assess the Department's performance.

Role of the Department

The Department was responsible for supporting and maintaining a viable system of municipal government in Saskatchewan. Its responsibilities were set out in over 50 different pieces of legislation. Its responsibilities included enabling communities to provide sustainable local governance, improve housing, provide access to public information, and protect the public.

The Department's Annual Report provided an overview of its mandate and operations. A copy of the report is available at http://www.graa.gov.sk.ca/annual_reports.htm.

Saskatchewan has an extensive system of local government. The Department worked with the over 800 municipalities, almost 300 public housing authorities, 10 public library systems, and various other agencies.

Related special purpose funds and Crown agencies

For the year ended March 31, 2002, the Department was responsible for the following special purpose funds and Crown agencies:

	<u>Year End</u>
Municipal Potash Tax Sharing Administration Board	December 31
Northern Revenue Sharing Trust Account	December 31
Saskatchewan Housing Corporation (Sask Housing)	December 31
Sask911 Account	March 31
Saskatchewan Archives Board	March 31
Saskatchewan Heritage Foundation	March 31
Western Development Museum	March 31

Each of these special purpose funds and agencies tables its annual report including audited financial statements in the Legislative Assembly each year.

Risks the Department faces

The Department worked to provide the legal framework, organizational support, financial assistance, and other services to meet the unique and changing needs of Saskatchewan people.

Four key economic, social, and demographic trends affect the Department and its services¹. The key trends are a concentration of economic activity in larger urban centres; a downturn in the agricultural sector reducing the number of farmers and farm income levels; the increased pressure on roads and highways due to abandonment of rail lines and grain elevator closures; and an aging population compounded by a shift of young people from rural to urban centres leaving fewer and higher percentages of older people in rural centres. Another trend mentioned in other publications is the increasing share of property taxes for education, particularly in rural municipalities.

Challenges for each of its main areas of responsibilities (i.e., municipal, housing, and public safety) primarily relate to:

- ◆ the capacity of municipalities to deliver the necessary services (e.g., adequate roads, water systems, housing, and public safety) at a reasonable cost to the public (e.g., level of property taxes, provincial taxes, and user fees),

¹ 2000-2001 Annual Report, Department of Municipal Affairs and Housing.

- ◆ the ability of Saskatchewan residents to access quality, affordable housing, and
- ◆ the maintenance of safe and enriching communities.

Effective April 1, 2002, the Department was disestablished. Its municipal programs were amalgamated with those of the Department of Intergovernmental and Aboriginal Affairs to form the Department of Government Relations and Aboriginal Affairs. Its housing programs became the responsibility of the Department of Social Services, the provincial libraries became the responsibility of the Department of Learning, and its various public safety programs became the responsibility of the Department of Corrections and Public Safety.

Overview of the Department’s finances

The Government’s Summary Financial Statements include the Department’s revenues and expenses. For the year ended March 31, 2002, the Department had revenues of \$34.6 million. The 2002 Summary Financial Statements show “social services and assistance expenses” of \$784 million of which \$167 million relates to spending of the Department. The Department’s remaining expenses are included in various other expense categories.

The following is a list of major programs and their spending for the year ended March 31, 2002.

	<u>Original Estimates</u>		<u>Actual</u>
	(In millions of dollars)		
Municipal Financial Assistance	\$ 99.6	\$	99.0
Housing	36.3		36.0
Infrastructure projects ²	--		11.2
Provincial Library	8.1		9.6
Heritage and Tourism Facilities	8.9		8.7
Municipal & Community Services	6.1		5.2
Public Safety	6.2		6.1
Accommodation & Central Services	3.2		3.3
Administration	2.4		2.7
	<u>\$ 170.8</u>	<u>\$</u>	<u>181.8</u>

² Estimates for this spending is including in Vote 70 – Centenary Fund. Payments are made to various organizations for projects that are of provincial or regional interest and develop municipal infrastructure.

Audit conclusions and findings

This section contains our audit conclusions and findings for the 2002 audits of the Department, its special purpose fund, and crown agencies with March 31 year-ends. In Chapter 13 of our 2002 Spring Report, we provide the results of our audits of three Crown agencies for the year ended December 31, 2001.

To carry out the audit and to form the opinion below for the Sask911 Account, our Office worked with PricewaterhouseCoopers LLP, the appointed auditor for Sask911 Account. We worked together using the framework recommended in the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>).

In our opinion for the year ended March 31, 2002:

- ◆ **the following financial statements are reliable:**
 - **Sask911 Account;**
 - **Saskatchewan Archives Board;**
 - **Saskatchewan Heritage Foundation; and**
 - **Western Development Museum.**

- ◆ **the Department and the above agencies had adequate rules and procedures to safeguard and control their assets except for the matters reported in this chapter; and**

- ◆ **the Department and the above agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.**

Department

Adequate checks needed

The Department needs to ensure that recipients of infrastructure funding meet the conditions imposed.

The Department pays money to various organizations. Often the Department places conditions on the use of this money. The organizations must spend this money on projects that meet the specific conditions. The Department must have processes to determine when these organizations meet the Department's conditions to ensure it properly records these types of payments.

Generally accepted accounting principles requires departments to record payments as an expenditure when the recipient of the money uses it for the expected purposes. Until the money is spent for the expected purposes, it should record the amount paid as an asset.

During the year, the Department paid \$5 million³ to Sask Housing for the purpose of developing social housing projects and \$700 thousand to Government House Foundation for the purpose of renovating Government House. The Department did not have processes to check when these agencies meet its conditions. The Department recorded these payments as expenditures. At March 31, 2002, these agencies did not incur any expenses related to developing social housing projects or renovating Government House.

Because the agencies did not meet the conditions of these payments at March 31, 2002, the Department incorrectly recorded these payments. It has overstated its expenditures by the amount of these payments (i.e., \$5.7 million) and has understated its assets by the same amount. The expenditures recorded and disclosed in the 2002 Public Accounts are overstated by this amount.

In the previous years, we have reported a similar matter relating to payments made under the provincial-municipal infrastructure program.

- 1. We recommend that the Department responsible improve its procedures to ensure that payments meet the conditions of the related program and it appropriately records these payments.**

On April 1, 2002, Cabinet assigned the Department of Social Services the responsibility for social housing and the Department of Government

³ This amount is in addition to \$27.9 million provided to Sask Housing for its operations.

Relations and Aboriginal Affairs the responsibility for renovating Government House.

Status of previous recommendations

In this section, we set out a previously reported recommendation for improvement that is of continued relevance. In June 2001, the Standing Committee on Public Accounts considered this matter and concurred with our recommendation.

In this section, we also identified key activities that the Department has undertaken to move towards compliance with this recommendation.

Reporting on performance

We reviewed the Department's 2000-2001 annual report. We assessed the adequacy of the information contained in the report against the principles for performance reporting set out in Chapter 1 – *Towards a better public accountability system* of our 2000 Spring Report. We note improvements from prior reports, but also note further improvements are necessary.

To assess the performance of the Department, legislators and the public need adequate information about the Department's plans and the achievement of the plans. Future reports on the Department's programs should:

- ◆ Set out the key risks faced as well as the action its takes to reduce those risks to acceptable levels.
- ◆ Describe the measures of successful achievement of its strategic goals.
- ◆ Set out the achievements in the year (e.g., include a comparison of key targets to actual results and explanation of significant differences).
- ◆ Explain management's responsibility for the financial information presented in the reports and for the adequacy of controls to

safeguard and control the resources and to comply with the law and other key authorities.

- ◆ Include key financial information (e.g., financial statements).

Saskatchewan Archives Board

The Saskatchewan Archives Board (SAB) is responsible for acquiring and preserving documents relating to the history of Saskatchewan. SAB also provides these documents to the public for research.

SAB had revenue of \$3.5 million in 2002 and held tangible capital assets of \$250 thousand at March 31, 2002.

Status of previous recommendation on written contract

Beginning in Chapter 14 of our 1995 Spring Report, we recommended that SAB should have a written contract with the University of Saskatchewan (U of S). The U of S continues to provide SAB with office space and administrative and accounting services.

In October 1998 and later in June 2001, The Standing Committee on Public Accounts considered this matter and concurred with our recommendation.

SAB continues to need a written contract to set out the responsibilities and legal obligations of each party for services provided. The contract with the U of S should set out SAB's right to access accounting records, confidentiality needs, and the rules and procedures needed to safeguard and control SAB's assets.

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