

Government Relations and Aboriginal Affairs

7

Main points	186
Introduction	187
Understanding the Department	187
Related special purpose funds and agencies.....	187
Overview of Department spending.....	188
Audit conclusions and findings	188
Audit findings—Department.....	189
Better monitoring needed for community development corporations	189
Better monitoring of First Nations Fund needed	191
Access denied to First Nations Fund and key change to accountability relationships	192
Audit findings—Northern Revenue Sharing Trust Account.....	194
Background.....	194
Operations need monitoring	194
Complete policies and procedures needed	195
Board pay needs approval	196
Annual report needed	196
Payee list required	197

Main points

This is the first year of operation for the Department as Government Relations and Aboriginal Affairs. Effective April 1, 2002, its responsibilities were expanded to assume the programs of the former Department of Intergovernmental and Aboriginal Affairs and the municipal programs of the former Department of Municipal Affairs and Housing. The Department is now responsible for overseeing two funds and three agencies.

In general, the Department has good practices to manage most of its activities with two exceptions. These exceptions are the adequacy of its oversight of the First Nations Fund and Northern Revenue Sharing Trust Account and monitoring of money provided to community development corporations.

We continue to report that the Department does not have adequate processes to know if the \$20.2 million it provided to the First Nations Fund was used as required by law. In addition, the Trustees of the First Nations Fund have denied us access to the Fund's records. As a result, we cannot audit the Fund for the year ending March 31, 2003. Also, we cannot report if the Trustees have fixed the significant problems we found in 2001 with their spending practices.

On August 1, 2003, the Legislative Assembly changed the law governing the Fund. The changes allow the Minister of Aboriginal Affairs to pay public money to a different entity called the First Nations Trust. This entity is not a Crown agency. As such, it is not accountable to the Legislative Assembly or subject to audit by our Office.

Introduction

In this chapter, we set out:

- ◆ a brief overview of the Department's mandate and spending; and
- ◆ the results of our 2003 audits of the Department, its special purpose funds, and its agencies.

Understanding the Department

The Department manages the Province's relations with other governments, in Canada and abroad, and works with Aboriginal peoples and their organizations to advance common interests. It works with communities to support local governance, provides them with financial and technical support, and develops laws and other policies to meet the changing needs of municipal governments. In addition, the Department coordinates and manages matters related to Government House, French-language services, official protocol, and provincial honours, and provides administrative services to the Office of the Lieutenant Governor.

The Department's web site contains its annual reports, other key publications, and agreements and further information about its programs. It is located at <http://www.graa.gov.sk.ca/>.

Related special purpose funds and agencies

The Department is responsible for the following special purpose funds and agencies:

	<u>Year-end</u>
First Nations Fund	March 31
Government House Foundation (Foundation)	March 31
Métis Development Fund	December 31
Municipal Potash Tax Sharing Administration Board (Board)	December 31
Northern Revenue Sharing Trust Account (NRSTA)	December 31

Each year, each special purpose fund and agency gives the Legislative Assembly (Assembly) its annual audited financial statements and/or its annual reports.

Overview of Department spending

For the year ended March 31, 2003, the Department spent \$176.0 million. It had revenues of \$13.4 million. These were primarily from the federal government for cost-sharing arrangements.

The following is a list of major programs and spending reported in the Department's 2002-2003 annual report:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Saskatchewan Municipal Board	\$ 1.0	\$ 0.9
Provincial Secretary	1.3	1.8
Administration	2.8	2.9
Accommodation and Central Services	2.8	2.4
Intergovernmental Relations	3.3	3.2
Municipal and Community Relations	4.1	4.4
Aboriginal Affairs	50.4	53.3
Municipal Financial Assistance	<u>107.9</u>	<u>107.1</u>
	<u>\$ 173.6</u>	<u>\$ 176.0</u>

Spending on Aboriginal Affairs includes \$19.6 million for payments under the Treaty Land Entitlement agreements, \$28.5 million for payments under the First Nations Gaming agreements, and \$2 million to the Métis Development Fund.

The *Public Accounts 2002-2003: Volume 2: Details of Revenue and Expenditure* reports information about the Department's revenue and expenditures (to view a copy of this report, see <http://www.gov.sk.ca/finance/paccts>).

Audit conclusions and findings

In our opinion for the fiscal years ending on or before March 31, 2003:

- ◆ **the Department, Foundation, Métis Development Fund, Board, and NRSTA had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter; and**

- ◆ **the Department, Foundation, Métis Development Fund, Board, and NRSTA complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter.**
- ◆ **the Foundation, Métis Development Fund, Board, and NRSTA had reliable financial statements.**

For the First Nations Fund, the Trustees of the Fund have denied us access to the Fund. As a result, we are unable to provide our conclusions and findings on the Fund.

We worked with Deloitte Touche LLP, appointed auditor for the Métis Development Fund, to form the above opinions related to the Fund. To do our work, we used 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>).

Audit findings—Department

Better monitoring needed for community development corporations

The Department needs to improve its processes to ensure that community development corporations (CDCs) spend public money as required by law.

Cabinet, through Orders in Council, authorizes the Department to provide the CDCs with money for social and economic development programs for First Nations people. In addition, Cabinet, through Orders in Council, approved agreements with the Federation of Saskatchewan Indian Nations (FSIN) and placed restrictions on the CDCs' spending of money received from the Department¹.

¹ Cabinet imposed conditions on spending of the Community Development Corporations through Order in Council 197/2000 dated March 20, 2000 through its approval of amendments to the 1994 Gaming Framework Agreement and subsequently amended through Order in Council 255/2001 dated March 27, 2001. Through Order in Council 399/2002 dated June 11, 2002, Cabinet imposed new conditions through approval of the 2002 Framework Agreement.

In 2002-03, the Department provided four CDCs' with a total of \$6.7 million.

In 2002-03, the Department designed a reasonable process that sets out the information that it requires from CDCs. See Exhibit 1 for the nature and type of required information. In addition, the Department obtained approval to hire additional staff in 2003-04 to administer this process.

Exhibit 1—Reporting expected from community development corporations

The Department plans to work closely with the Government appointed *ex officio* member of the Board of each community development corporation (CDC) to identify any concerns with the operations of the CDCs. In addition, the Department requires each CDC to provide it with the following each year:

- the name of the auditor it has selected;
- an audit opinion on whether the money received by the CDC has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the receipt and allocation of the money received by the CDC;
- an audit opinion on whether the money the CDC expended was for the purposes outlined in the 2002 Gaming Framework Agreement;
- audited financial statements;
- an annual report; and
- a copy of the management letter issued by the CDC's auditor for each audit and the CDC's response to the management letter.

The Department plans to use the requested information to determine whether the CDCs spend public money only as permitted and take corrective action, as necessary. The Department has shared its information expectations with each CDC.

The Department had not yet fully implemented the process at March 31, 2003. During 2003, the Department received some, but not all, of the requested information from each of the CDCs. Without all of the requested information, the Department was not able to determine if the CDCs spent public money as intended. As a result, we cannot determine if the Department spent public money for the purpose required by the law.

We also reported this matter in our 2002 Fall Report – Volume 2.

- 1. We recommend the Department ensure that it receives sufficient and timely information from each community development corporation to determine if each corporation properly managed public money and spent it only as permitted by law.**

Better monitoring of First Nations Fund needed

The Department does not have adequate processes to know if the public money it provides to the First Nations Fund is used as required by law.

The Saskatchewan Gaming Corporation Act (Act), in effect during the audit period, established the Fund. The Act made the Trustees of the Fund accountable to the Minister of Aboriginal Affairs. The Act restricted the purposes for which the Trustees of the Fund can spend money.

Under the Act, the Department provided the First Nations Fund with money and the Trustees must use this money for social and economic development programs for First Nations people.

Since our 2001 Spring Report, our Office has reported each year that the Department needs to improve its processes to ensure the Trustees of the Fund spend money with due care and in accordance with the Act. In each year, we reported that the Trustees did not have adequate processes to know if the money was spent for approved purposes. In our 2002 Fall Report – Volume 2, we noted the Trustees did not make the necessary improvements. We also cited specific examples of their spending that did not meet the requirements of the Act.

The Department is aware that the Trustees did not have adequate processes to administer the Fund and that they were spending money without authority. In 2002-03, the Department did not take steps to ensure the Trustees made the necessary corrections. Nevertheless, the Department provided the First Nations Fund with \$20.2 million in 2002-03 (2002 - \$15.1 million, 2001 - \$11.2 million). As a result, we cannot determine if the Department spent public money for the purpose required by the Act.

On November 5, 2002, the Standing Committee on Public Accounts (PAC) concurred with our recommendation that the Department supervise the Trustees of the First Nations Fund to ensure that the Trustees spend public money with due care and in accordance with the Act. We continue to make this recommendation.

Access denied to First Nations Fund and key change to accountability relationships

The Trustees of the Fund have denied our Office access to information necessary for us to fulfil our duties to the Assembly. In late September 2003, the Department wrote the Trustees encouraging them to give us access. At October 2003, the Trustees have not given us access. As a result, we cannot complete the audit of the Fund and report to the Assembly.

Since 2001, we have reported significant problems with spending practices of the Trustees of the Fund. We recommended key changes (see Exhibit 2 for details). Because we cannot do our work, we do not know if the Trustees have made any changes to their practices since our last audit (i.e., March 31, 2002).

2. We recommend the Department provide our Office with the necessary access to the accounts of the First Nations Fund.

Exhibit 2—Outstanding recommendations on First Nations Fund

On November 5, 2002, PAC considered and concurred with our recommendations initially made in the 2001 Spring Report (Chapter 3) and repeated in the 2001 Fall Report – Volume 2 (Chapter 8A) and the 2002 Fall Report – Volume 2 (Chapter 8).

At October 2003, we do not know the status of these recommendations.

We recommended:

1. The Trustees should establish rules and procedures to ensure that the First Nations use the money received from the Trustees only for the purposes described in *The Saskatchewan Gaming Corporation Act*.
2. The Trustees should establish rules and procedures to ensure that recipient organizations (e.g., First Nations Addiction Rehabilitation Foundation) use the money received from the Trustees only for the purposes described in *The Saskatchewan Gaming Corporation Act* and the Framework Agreement.

3. The Trustees should ensure that all payments comply with the law; and
4. The Trustees should prepare an annual report that includes:
 - ◆ the Fund's audited financial statements;
 - ◆ the Fund's goals and objectives;
 - ◆ the Fund's planned and actual performance;
 - ◆ the Fund's risks and how the Trustees are managing those risks; and
 - ◆ a list of persons and organizations that have received money from the Fund and the amount each person or organization received.

On August 1, 2003, *The Saskatchewan Gaming Corporation Act* was changed. The new Act provides the Minister with the authority to wind-up the Fund once he receives certain information from the Trustees of the Fund. This information includes audited financial statements for the Fund's year ended March 31, 2003 and for the period from April 1, 2003 to the date of the Fund's wind-up.

In addition, the new Act allows the Minister to pay public money to the First Nations Trust instead of the Fund once the Trust is set up. The Act expected the Federation of Saskatchewan Indian Nations (FSIN) to set up the Trust to receive and distribute gaming funds in accordance with the 25-year Gaming Framework Agreement (2002 Framework Agreement). The Government made the 2002 Framework Agreement with the FSIN in June 2002. The 2002 Framework Agreement places spending restrictions on the Trust.

After March 31, 2003, the FSIN set up the First Nations Trust. In July 2003, the Department started to make payments to the Trust. The Department expects to use a process similar to its new process for CDCs to monitor the Trustees' operations.

The Trust is not a Crown agency, that is, it is not part of the provincial government. As such, it is not accountable to the Assembly and the Assembly will not receive information directly from the Trust as it did for the Fund. In addition, the Trust is not subject to audit by our Office.

Audit findings—Northern Revenue Sharing Trust Account

Background

The Northern Municipalities Act (Act) establishes The Northern Revenue Sharing Trust Account (NRSTA) and the Management Board (Board). The Department administers NRSTA. Cabinet appoints the Board. The Board advises the Minister on allocations of northern revenue sharing grants, northern capital grants, and any changes to the law concerning NRSTA.

NRSTA includes all revenues of the Northern Saskatchewan Administration District (a designated area in the northern part of the Province) and money appropriated by the Assembly for the purposes of northern revenue sharing and grant programs.

In 2002, NRSTA had revenues of \$14.9 million, expenditures of \$16.5 million, and held assets of \$25.6 million as at December 31, 2002.

Operations need monitoring

The Department needs to set up processes to oversee NRSTA's operations.

Staff prepare monthly financial reports. They provide these reports to program management. However, the reports are not adequate because they do not explain differences between planned and actual results. Also, the reports do not project the financial results for the remainder of the year. Because senior management does not regularly receive and review NRSTA's reports, errors and mistakes may occur without timely detection.

Also, the Department needs to define the operational and compliance reports it needs from the staff to monitor the operations of NRSTA. Operational reports would show the effectiveness of programs (i.e., what NRSTA is required to achieve and its progress towards achieving those requirements). Compliance reports would describe NRSTA's compliance with legislative and related authorities (e.g., the law and policies).

The Department has not set out the reports that staff must give to senior management regularly. Nor has the Department set up a process to review those reports and give directions to staff who manage NRSTA.

3. We recommend that the Department:

- ◆ **set out the reports it needs to monitor Northern Revenue Sharing Trust Account's operations; and**
- ◆ **set up a process to oversee Northern Revenue Sharing Trust Account's operations.**

Management told us that the Department is currently reviewing what reports it needs to monitor NRSTA's operations. Management also told us that the Department has allocated additional resources and has started to develop processes to oversee NRSTA's operations.

Complete policies and procedures needed

The Department does not have adequate accounting policies and procedures to prepare accurate financial statements for NRSTA.

Agencies need accounting policies and procedures to provide staff with guidance in completing their tasks. When accounting policies and procedures are not clear and complete, there is a greater risk that staff may make errors without timely detection.

The Department has documented some procedures to record transactions in NRSTA's accounting records. However, the Department has not documented procedures to ensure that the financial records are accurate and complete. As a result, the financial statements presented for audit had significant errors. The Department corrected the financial statements when it became aware of these errors.

The Department needs to document its processes to:

- ◆ determine community lands that NRSTA expects to develop;
- ◆ recover NRSTA spending on land development for communities;

- ◆ accurately record accounts payable and accounts receivable; and
- ◆ accurately record the revenues relating to cost-sharing projects, conditional grants, and unconditional grants.

Documented accounting policies and procedures help ensure that NRSTA's financial records are complete and accurate to prepare its financial statements.

4. We recommend that the Department set up processes to prepare accurate financial statements for the Northern Revenue Sharing Trust Account.

Management told us the Department has allocated additional resources and has started to develop accounting processes to prepare accurate financial statements.

Board pay needs approval

The Department needs to obtain approval for Board members' pay.

Section 287.3 of the Act requires Cabinet to approve the Board members' pay. While the Department obtained Cabinet's approval for the appointment of Board members, it did not obtain Cabinet's approval for the amounts it pays to the Board members.

5. We recommend that the Department obtain approval for the pay of Board members of the Northern Revenue Sharing Trust Account Management Board.

Management told us the Department plans to obtain approval for board members' pay.

Annual report needed

The Department needs an adequate annual report describing NRSTA's operations.

Currently, the Department provides the Assembly with audited financial statements and some additional information about its administration of NRSTA and its programs.

To be a good accountability document, an annual report should describe the purpose of NRSTA, how it manages its key risks, what it has done, where it is now, and what it plans to do. The annual report should include key performance targets for all of NRSTA's objectives and information on how NRSTA is progressing towards achieving those targets. Discussion and analysis about NRSTA's performance targets and its progress towards those targets would help readers assess the NRSTA's performance.

The report on NRSTA to the Assembly does not include this information. The Department could prepare an annual report for NRSTA that includes this information. Alternatively, the Department could provide this information about NRSTA in its annual report.

6. We recommend that the Department improve the information it provides to the Legislative Assembly on the operations of Northern Revenue Sharing Trust Account.

Payee list required

The Department did not provide the Assembly with a list of persons who received money from NRSTA.

In March 1993, PAC recommended: "All government departments, agencies, and Crown corporations reporting to Treasury Board should provide a list of persons who have received money." PAC set the following general standard of public disclosure of who received money from government agencies:

- ◆ persons who received salaries, wages, honorariums, and compensation for personal services of \$2,500 or more during the year;
- ◆ suppliers of goods and services who received more than \$20,000 per year; and

- ◆ persons who received transfer payments of more than \$5,000 per year.

The Department did not provide this information on NRSTA for the years ended December 31, 2001 and December 31, 2002. The Department did provide this information on NRSTA for the year ended December 31, 2000.

- 7. We recommend that the Department provide the Legislative Assembly with a list of persons who received money from Northern Revenue Sharing Trust Account in accordance with the standards established by The Standing Committee on Public Accounts.**

Management told us the Department plans to provide a list of persons who received money from NRSTA and the amounts each person received for the year ending December 31, 2003.