

Environment

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Main points

We report two new areas that the Department of Environment (Department) needs to improve. The Department needs to establish processes to ensure proper recording and collection of amounts owing to the Department. Also, the Department needs to follow its rules and procedures to ensure that it reconciles its bank balances to the bank's records promptly.

In addition, we continue to report that the Department has not fully addressed the matters we reported in our prior reports. Accordingly, we continue to recommend the Department:

- ◆ document its internal reporting needs;
- ◆ follow its procedures for controlling capital assets;
- ◆ prepare a complete contingency plan and test that plan to ensure that it works; and
- ◆ strengthen its internal audit function by promptly reviewing the audit plan and the audit findings.

Introduction

The Department of Environment (Department) is responsible for managing, enhancing, and protecting the Province’s natural and environmental resources, and sustaining them for future generations. Information about the Department’s mandate and its organizational structure are available at its web site (<http://www.se.gov.sk.ca/>).

For the year ended March 31, 2004, the Government’s summary financial statements show environment and natural resource expenditures of \$189 million. The following table shows the expenditures of government agencies for environment and natural resources.

(in millions of dollars)	
Department of Environment	
(2003-04 Public Accounts – Volume 2)	\$ 178
Deduct expenditure shown as:	
Economic development related to forests	(10)
Community development related to urban parks	(4)
Add expenditures incurred by:	
Saskatchewan Water Corporation	12
Saskatchewan Watershed Authority	12
Other	1
Environment and natural resources expenditures	
per the Government’s Summary Financial Statements	<u>\$ 189</u>

The Department received \$178 million from the General Revenue Fund for its programs. Also, the Department collected revenue of \$64 million. The Department collects revenue from licences and permit fees for fishing, gaming, and forestry. It also collects non-refundable deposits on beverage containers. In addition, the Department collects revenue and incurs expenses through its special purpose funds listed below.

Information about the Department’s revenues and expenditures appears in the Department’s 2003-04 annual report, (see <http://www.se.gov.sk.ca/>). The following table shows the Department’s major programs and spending:

	Original	
	<u>Estimates</u>	<u>Actual</u>
	(Millions of dollars)	
Field Operations and Land Management	\$ 44	\$ 44
Forest Fire Management	37	76
Forestry, Fish, and Wildlife	22	21
Environmental Protection	13	13
Administration	13	13
Water Management	9	9
Other	<u>2</u>	<u>2</u>
	<u>\$ 140</u>	<u>\$ 178</u>

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

- ◆ Commercial Revolving Fund
- ◆ Fish and Wildlife Development Fund
- ◆ Forest Fire Contingency Fund
- ◆ Resource Protection and Development Revolving Fund
- ◆ Operator Certification Board
- ◆ Saskatchewan Watershed Authority
- ◆ Water Appeal Board

Our audit conclusions and findings

We worked with Meyers Norris Penny LLP, the appointed auditor for the Saskatchewan Watershed Authority, and Mintz & Wallace, the appointed auditor for the Operator Certification Board, to form our opinions. We used the framework recommended in the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors* (see our web site at <http://www.auditor.sk.ca/rrd.html>). Our Office and the appointed auditors formed the following opinions.

In our opinion, for the year ended March 31, 2004:

- ◆ **the Department and its Crown agencies had adequate rules and procedures to safeguard public resources except for the matters described in this chapter;**

- ◆ **the Department and its Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing; and**
- ◆ **the financial statements of the Department’s special purpose funds and Crown agencies are reliable except for the Operator Certification Board.**

Internal reporting needs improvement

In our 2003 Report – Volume 3 and previous reports, we recommended the Department should define and document its operational and compliance reporting needs.

The Standing Committee on Public Accounts (PAC) considered this matter in January 1999 and agreed with our recommendation.

The Department has not documented its operational reporting needs. Senior management does receive and review quarterly operational reports. However, these quarterly operational reports do not include information on performance measures and targets, and how the Department is progressing to achieve those targets. Also, the Department has not yet defined and documented its compliance reporting needs. The compliance reports should show the Department’s compliance with legislative and related authorities (e.g., the laws and policy manuals.)

We continue to recommend the Department define and document its operational and compliance reporting needs.

Control over capital assets needed

In our 2003 Report – Volume 3 and previous reports, we recommended that the Department ensure staff follow the Department’s established rules and procedures to control the Department’s capital assets.

PAC considered this matter in May 2003 and agreed with our recommendation.

In 2003, the Department began updating its capital asset records in accordance with the Department of Finance's guidance for recording capital assets. The Department's capital asset records now agree with its financial records.

The Department has rules and procedures to safeguard the Department's capital assets. The Department's procedures include inspecting capital assets regularly to ensure capital assets exist and that capital asset records are accurate. During the year, the Department inspected some capital assets. The Department identified differences between the capital assets examined and the capital assets recorded. However, the Department did not investigate those differences nor did it make corrections to the capital asset records. The Department should inspect all of its capital assets regularly, investigate any differences, and correct its capital asset records if necessary. This way the Department will know that the capital assets included in its records exist and their location.

We continue to recommend that the Department ensure staff follow the Department's rules and procedures to safeguard its capital assets.

In our 2003 Fall Report – Volume 3, and previous reports we also recommended that the Department's annual report should describe:

- ◆ the capacity of each major category of capital assets;
- ◆ the extent to which the use of capital assets achieved planned results; and
- ◆ the strategies used to manage major risks to the key capital assets in its annual report.

PAC considered this matter in May 2003 and agreed with our recommendation.

The Department continues to provide some information in its annual report about the capital assets that it bought during the year. However, the Department needs to provide more information in its annual report about its capital assets.

We continue to recommend that the Department describe in its annual report the capacity of each major category of capital assets, the extent to which the use of capital assets achieved planned results, and the strategies used to manage major risks to the key capital assets.

Recording and collection of public money need strengthening

The Department needs to establish processes to collect all public money due from others (accounts receivable).

To safeguard public money, the Department needs to ensure that it properly records and collects all accounts receivable. At March 31, 2004, the Department had accounts receivable totalling \$8.5 million. The Department, however, has not provided written guidance to help staff collect those amounts. Also, we noted that staff did not generally use the guidance provided in the Provincial Comptroller's Financial Administration Manual for recording and collection of public money.

Written guidance would include processes to follow up all accounts receivable, how and when to hire collection agencies to help collect the accounts, and when to consider an account uncollectible. Lack of written guidance to staff increases the risk that they may not take the right action at the right time.

Although the Department had \$8.5 million in accounts receivable, we did not see any evidence of regular review and follow up of those accounts. For example, the Department's accounts show that the lease customers owed the Department about \$1 million at March 31, 2004. The records also show that about \$0.8 million of those accounts had been outstanding for more than a year. The Department did not have evidence of what it has done to collect the money or to resolve any disputes with these customers, and to determine if these accounts are uncollectible.

At year-end, the Department estimated that it might not be able to collect about \$1.8 million of its accounts receivable.

- 1. We recommend the Department of Environment establish processes to collect money due from others.**

Control over bank accounts needs strengthening

The Department needs to improve its control over its bank accounts.

The Department's established rules require staff to agree (reconcile) its recorded bank balances to the bank's records each month. The established rules also require management to review and approve the reconciliations. Regular reconciliation of recorded bank balances to the bank's records provides a check that all charges and deposits to the bank accounts are proper. It also provides a check on the accuracy and reliability of the Department's accounting records.

During the year, the Department did not regularly reconcile all of its bank accounts promptly. For example, at year-end the Department had not reconciled its recorded bank balances with the bank's records for the last five months.

- 2. We recommend that the Department of Environment follow its rules and procedures to reconcile its recorded bank balances to the bank's records promptly.**

Contingency plan needed

In our 2003 Report – Volume 3 and previous reports, we recommended that the Department prepare a complete written contingency plan based on a risk analysis and test that plan to ensure that it works.

PAC considered this matter in May 2003 and agreed with our recommendation.

A contingency plan is important because the Department's operations depend on the reliability of its information systems. The Department needs a complete contingency plan covering its computer systems to ensure that it can operate effectively in case its computer systems fail or are accidentally destroyed.

A contingency plan sets out the procedures needed to ensure the continuity of operations and the availability of data. These plans should cover all significant information technology (IT) operations based on the importance of each program and service. An agency's contingency plan is

an important part of its business interruption plan, which sets out how the agency will recover from an unplanned business interruption.

Management should regularly review and approve the contingency plan. Management should also test the contingency plan regularly to ensure it works.

The Department has documented some contingency plan procedures for storing programs and data for all major systems. However, the Department does not have a complete written, tested, and approved contingency plan for its major IT systems.

We continue to recommend that the Department prepare a complete written contingency plan and test that plan to ensure that it works.

Internal audit function needs strengthening

In our 2003 Report – Volume 3, we recommended that the internal auditor prepare its audit plan based on a complete risk assessment of the Department's programs and activities; and management receive the internal auditor's reports as planned and discuss those reports with the internal auditor promptly.

PAC considered these matters in May 2004 and agreed with our recommendations.

Departments that carry out diverse programs and activities should receive independent assurance on their processes from their internal auditors. To be independent, the internal auditor should report its findings to the Deputy Minister or an Executive Committee established by the Deputy Minister.

The Department's internal auditor prepared an audit plan for 2003-04. However, the audit plan was not adequate. The plan did not include a risk assessment of all the Department's programs and activities. A complete risk assessment would ensure the audit plan covers the key operational areas of the Department. The Department did not approve the internal auditor's audit plan for 2003-04. Nor did it promptly review the internal auditor's reports and findings.

To be effective, the Department should approve the internal auditor's plan, ensure that the plan is completed, and promptly review the internal auditor's reports and findings.

We continue to recommend that the Department ensure that the internal auditor prepares its audit plan based on a complete risk assessment of the Department's programs and activities.

We continue to recommend that the Department ensure that management receives the internal auditor's reports as planned and discusses those reports with the internal auditor promptly.

Operator Certification Board

The Operator Certification Board (Board) operates under *The Water Regulations, 2002* to certify operators of water and sewage works.

For the year ending March 31, 2004, the Board's financial statements report revenues of \$85,000, expenses of \$51,000, and net income of \$34,000. At March 31, 2004, the Board held assets of \$52,000. The Board's financial statements are included in its annual report.

Board needs adequate rules and procedures over revenue

The Board needs to establish rules and procedures to ensure that it receives all application and renewal fees.

The Board employs only one person to keep its books and records. In a small organization, it is often impossible to have adequate segregation of incompatible duties. That is, to ensure that no one person is in a position to conceal errors or frauds. To reduce the risk of errors and frauds occurring without timely detection, small organizations often establish other processes to compensate for the lack of segregation of duties.

In July 2003, the Department of Environment began receiving and recording all of the Board's incoming mail. The Department provides the mail receipt record to the Board. The Board's administrator receives the operators' applications with the appropriate application or renewal fees, records the fees, reconciles the bank account, and prepares financial

reports. However, the Board does not ensure that its records agree to the mail receipt records that the Department provides.

In 2004, the Board recorded application and renewal fees of \$59,000 from operators. However, we are unable to determine whether the Board recorded all application and renewal fees it received because the Board started the new arrangement in mid year. Also, the Board did not reconcile its records to the Department of Environment's mail receipt records.

We reported this matter in our 2003 Report – Volume 3 and in our previous reports and recommended that the Board establish rules and procedures to ensure it receives all application fees. PAC considered this matter in February 2002 and agreed with our recommendation.

Reliability of the financial statements

The Board's financial statements for the year ended March 31, 2004 may not be reliable.

As explained above, the Board did not have adequate rules and procedures to ensure that it receives all application and renewal fees. As a result, we could not determine whether the Board had recorded all revenue in its financial statements for the year ended March 31, 2004.

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