

## Culture, Youth and Recreation

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## Main points

Although the Department of Culture, Youth, and Recreation is a relatively small department, it is responsible for a large number of special purpose funds and Crown agencies.

Documenting key processes in manuals or guides provides staff with clear direction and guidance on carrying out their responsibilities. In common with many other agencies, personnel at the Department is changing. As indicated in this chapter, the Department uses a variety of processes to oversee these agencies. We recommend that the Department document those processes.

## Introduction

In this chapter, we provide a brief overview of the mandate and spending of the Department of Culture, Youth and Recreation. We also set out the results of our audit of the Department and the agencies for which it is responsible for fiscal years ended up to May 31, 2004.

The Department's mandate is to support and enhance culture, youth, and recreation sectors in Saskatchewan and administer various heritage programs. The Department's vision is that "all Saskatchewan people are engaged in the ongoing success of the Province."

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

## Special purpose funds and Crown agencies

At March 31, 2004, the Department is responsible for the following special purpose funds and Crown agencies:

	<u>Year-End</u>
Community Initiatives Fund	March 31
Doukhobors of Canada C.C.U.B Trust Fund Board	May 31
Saskatchewan Archives Board	March 31
Saskatchewan Arts Board	March 31
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation	March 31
Western Development Museum	March 31

Each special purpose fund and Crown agency tables separate financial statements and/or annual reports in the Legislative Assembly. Copies of these are available as publications at <http://www.gov.sk.ca/finance/>.

## Financial overview

For the year ended March 31, 2004, the Department spent \$47.7 million including \$7.4 million for film employment tax credits and had revenues of

\$14 million primarily lottery licence fees from the Saskatchewan Lottery Trust Fund for Sport, Culture and Recreation.

The following is a list of major programs and spending reported by the Department.

	Original <u>Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Culture	\$ 12.2	\$ 14.5
Heritage	10.0	10.2
Community Initiatives Fund	8.6	7.1
Saskatchewan Communications Network	5.8	5.8
Youth	3.3	3.3
Recreation	1.6	2.9
Accommodation and Central Services	1.2	2.9
Administration	1.0	1.0
	<u>\$ 43.7</u>	<u>\$ 47.7</u>

The Department's *2003-2004 Annual Report* explains the differences between the actual expenses and original estimates. This report is available through its web site.

## Audit conclusions and findings

Virtus Group LLP Chartered Accountants & Business Advisors is the appointed auditor of the Community Initiatives Fund, the Saskatchewan Communications Network Corporation, and the Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation.

To carry out each audit and form the opinions below, we worked with Virtus Group. We used the framework recommended by *The Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (see <http://www.auditor.sk.ca/rrd.html>).

**In our opinion for the fiscal years ended up to May 31, 2004:**

- ♦ **the 2004 financial statements for the funds and agencies listed above are reliable except for the Community Initiatives Fund and the Saskatchewan Lotteries Trust Fund for Sport,**

**Culture and Recreation.** In Virtus Group’s opinion, the financial statements of the Community Initiatives Fund and the Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation are reliable;

- ♦ the Department and its agencies had adequate rules and procedures to safeguard public resources and comply with authorities governing their activities, except for the matter described in this chapter; and
- ♦ the Department and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

We did not rely on Virtus Group’s opinions on the financial statements of the Community Initiatives Fund and the Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation. *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the reports of appointed auditors. Our additional work consisted of reviewing grant request forms, reviewing the schedule of approved grants, and discussions with management.

## Findings—Department

### ***Overseeing special purpose funds and agencies***

The Department needs to document its processes to oversee the agencies for which it is responsible.

Departments must ensure their agencies use adequate controls to carry out their business, comply with authorities, and operate within their mandate. In addition, departments must ensure agencies contribute to the achievement of a department’s goals and objectives. The nature and extent of a department’s processes depend on the complexity, size, and nature of the agency’s business. For example, for more complex agencies, a department could review and approve the plans and results (e.g., financial and non-financial) of an agency. In addition, it could monitor the agency throughout the year to identify and ensure issues are resolved on a timely basis.

The Department is responsible for two special purpose funds and six agencies. The size, complexity, and nature of operations of these agencies vary. The process the Department uses to oversee its agencies varies from agency to agency.

For example, departmental staff attended board meetings or reviewed copies of the board minutes for most of its agencies. For a few of the agencies, departmental officials met with the agency management on a regular basis. Participation on boards, review of board minutes, and regular meetings helped the Department oversee agencies.

The Department includes key actions of several of its agencies within its performance plan. During the year, the Department worked with most of its agencies to ensure their plans and processes were consistent with those of the Department. However, the Department has not documented the processes it expects its staff to use to oversee its agencies.

1. **We recommend that the Department of Culture, Youth and Recreation set out written processes to adequately oversee its agencies.**

## **Findings—Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation and Community Initiatives Fund**

### ***Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation (Trust Fund)***

In 1973, the Government of Saskatchewan made an agreement with the Governments of Alberta and Manitoba regarding the conduct and management of a lottery scheme. Under *The Interprovincial Lotteries Act, 1984*, the Government designated Sask Sport Inc. (Sask Sport), a non-profit organization, to conduct and manage the established lottery scheme in Saskatchewan.

The Minister of Culture, Youth and Recreation made an agreement with Sask Sport setting out terms and conditions of the designation. One of those terms and conditions required Sask Sport to create the Trust Fund to account for all monies received from the lottery scheme and all monies

paid out on behalf of the Minister. The agreement requires Sask Sport to establish operating policies for managing the Trust Fund.

For the year ended March 31, 2004, the Trust Fund's financial statements reported lottery sales of \$133 million (2003 - \$134 million), net lottery profits of \$41 million (2003 - \$42 million), investment income of \$1.0 million (2003 - \$1.2 million), directed payments<sup>1</sup> of \$16.2 million (2003 - \$16.3), grants of \$28.8 million (2003 - \$27.8 million), and net assets of \$16.3 million (2003 - \$20.2 million).

### ***Community Initiatives Fund (Initiatives Fund)***

The Initiatives Fund was established in 1996 under *The Saskatchewan Gaming Corporation Act* (Act). The Lieutenant Governor in Council appoints the Initiatives Fund's Board of Trustees. The Trustees are responsible to manage and operate the Initiatives Fund. The Board of Trustees has an agreement with Sask Sport to provide administration services for the Initiatives Fund.

Under the Act, the Initiatives Fund receives a portion of certain government gaming revenues. The Act specifies that the Trustees can make payments from the Initiatives Fund:

- ◆ to charities and exhibition associations in Saskatchewan;
- ◆ to any organization or association representing Métis people in Saskatchewan;
- ◆ to any person, organization or association in Saskatchewan prescribed by the Lieutenant Governor in Council; or
- ◆ for any purpose prescribed by the Lieutenant Governor in Council.

For the year ended March 31, 2004, the Fund's financial statements report revenues of \$7.3 million and expenses of \$10.8 million, and net assets of \$4.9 million.

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<sup>1</sup> Directed payments are the amounts that the Trust Fund is required to pay to the federal and provincial governments and certain other organizations under the agreement the Minister signed with Sask Sport.

***Reliability of financial statements***

The financial statements of both the Trust Fund and Initiatives Fund are not reliable. Each of these statements incorrectly reports grant expenses and the net assets. As we stated earlier, Sask Sport manages the Trust Fund and keeps the Initiatives Fund's accounts for the Trustees.

Canadian generally accepted accounting principles (GAAP) require public agencies to expense grants when they approve those grants and the receiving organizations have met the eligibility criteria. When public agencies approve grants for a future period, GAAP requires them to record grant expenses in the period in which the receiving agencies would use the grants.

Sask Sport does not follow GAAP to account for the grants of the Trust Fund. The Trustees do not follow GAAP to account for the grants of the Initiatives Fund. Both funds record grant expenses when the grants are approved, even when the receiving organizations will use the grants to pay for future expenses.

For the Trust Fund, Sask Sport approved in 2004 grants totalling \$12.3 million (2003 – \$12.0 million) to pay for future expenses of the organizations. Sask Sport recorded these grants as 2004 expenses. Sask Sport should not have recorded \$12.3 million (2003 – \$12.0 million) as grant expenses of the Trust Fund because those grants relate to future periods.

As a result, the Trust Fund's financial statements for the year ended March 31, 2004 overstate grant expense by \$0.3 million, net loss (i.e., decrease in restricted funds) by \$0.3 million, and grants payable by \$12.3 million. In addition, the Trust Fund's financial statements understate the restricted funds by \$12.3 million. The Department of Finance told us that Treasury Board approved the format of those financial statements.

For the Initiatives Fund, the Trustees approved in 2004 grants totalling \$3.3 million to pay for future expenses of the receiving organizations. The Trustees recorded these grants as 2004 expenses. The Trustees should not have recorded \$3.3 million as grant expenses of the Initiatives Fund because those grants relate to future periods.



As a result, the Initiatives Fund's financial statements for the year ended March 31, 2004 overstate grant expense by \$3.3 million and net loss (i.e., deficiency of revenue over expenses) by \$3.3 million. Also, at March 31, 2004, the Initiatives Fund's financial statements understate prepaid grants by \$1.2 million and net assets by \$3.9 million, and overstate grants payable by \$2.7 million. The Department of Finance told us that Treasury Board approved the format of those financial statements.

In Chapter 13—Department of Agriculture, Food and Rural Revitalization, we report a similar matter about the reliability of the financial statements for the Saskatchewan Agricultural Stabilization Fund (Stabilization Fund) for the year ended March 31, 2004. We also reported that matter for the Stabilization Fund in our prior reports.

In November 2002, the Standing Committee on Public Accounts (PAC) considered the matter reported for the Stabilization Fund. PAC also heard that the Canadian Institute of Chartered Accountants (CICA) is currently examining accounting standards concerning grants to clarify principles for recording grants because the current standards are open to interpretation. PAC deferred its decision pending the results of the CICA's project.

