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Main points

For the year ended December 31, 2003, we examined three areas in more depth at Crown Investments Corporation of Saskatchewan (CIC) and its related corporations. We examined payments to Crown corporation directors and senior executives related to their pay, benefits, and expenses; reports of payee information; and processes related to sponsorships and promotion.

Most payments to directors and senior executives were supported and for business purposes. However, there were some exceptions. We also found some cases where Crowns need to improve their policies.

CIC Crowns have prepared comprehensive reports of their payees for the year ended December 31, 2003. Overall, CIC and its related corporations have done a good job in presenting this information. However, to improve future reporting, the Standing Committee on Crown and Central Agencies needs to clarify the requirements of the Committee's disclosure policy. Also, Crown corporations need to provide more complete payee information to comply with the Committee's disclosure policy.

SaskPower, SaskTel, and SGI had adequate processes to control and monitor their sponsorship and promotion expenses; SaskEnergy needs to improve its policies and procedures in this area.

Introduction

During 2004, we did additional work at Crown Investments Corporation of Saskatchewan (CIC) and its related corporations in three areas. We examined the following matters for the year ended December 31, 2003.

- ◆ payments to Crown corporation directors and senior executives related to pay, benefits, and expenses;
- ◆ reports of payee information; and
- ◆ policies for sponsorships.

Payments to Crown corporation directors and senior executives

Background

In early 2004, SaskEnergy Incorporated became aware of problems at the Corporation. SaskEnergy hired Deloitte & Touche LLP, its appointed auditor, to examine the Corporation's policies for executive pay and benefits and the payments made to its executives in 2003. Deloitte's report of preliminary findings noted several irregularities such as the lack of approval for executive pay and benefits. As part of our regular annual audit process, we work with appointed auditors. We ask them to confirm to us that Crown corporation directors' and executives' pay, benefits, and expenses are properly authorized and supported.

Prior to the Deloitte report, nothing had been brought to our attention that indicated any concerns with the authority and support for payments to Crown corporation directors and executives. However, given the items reported by Deloitte, we decided to examine directly the payments made in 2003 to board members and executives at the following CIC Crowns: Crown Investments Corporation of Saskatchewan (CIC), Saskatchewan Power Corporation (SaskPower), SaskEnergy Incorporated (SaskEnergy), Saskatchewan Government Insurance (SGI), and Saskatchewan Telecommunications (SaskTel). Also, we plan to examine payments made in 2004.

What we did

We examined these five Crown corporations to determine whether:

- ◆ there was adequate authority for the amounts paid to board members and executives for pay, benefits, and expenses;
- ◆ all payments were made in accordance with that authorization;
- ◆ all board members' and executives' pay and benefits were included on their annual T4s;
- ◆ there was sufficient documentation to support board members' and executives' expenses and to indicate that the expenses were incurred for the benefit of the corporation; and
- ◆ all executives' pay and benefits agree with the information they are required to file with the Clerk of the Executive Council under *The Crown Employment Contracts Act*.

Our conclusions

For the year ended December 31, 2003, we found:

- ◆ **payments were properly authorized except as reported below;**
- ◆ **pay and benefits were properly included on annual T4s;**
- ◆ **expenses were properly supported except as reported below; and**
- ◆ **a lack of public information on the benefits that executives receive.**

Our findings and recommendations

Findings – payments to board members

SaskPower does not have systems to document when board members have been authorized to attend business or social functions (i.e., other than board meetings) and submit claims for those functions. Board members are paid their expenses, meeting fees, and travel fees for attending business or social functions when authorized by the Chair, board, or corporation to attend. Because there is no system to document such authorization, there is insufficient documentation to support these payments.

The other corporations had few instances where board members attend business or social functions on behalf of the corporation.

- 1. We recommend that SaskPower document the prior approval of board members to attend business or social functions on behalf of the corporation.**

Findings – payments to executives

Crown employment contracts

Crown corporation employees have not complied with *The Crown Employment Contracts Act*. The Act requires that each permanent head (i.e., president), and each employee reporting directly to a permanent head, file a complete copy of their employment contract with the Clerk of the Executive Council, who then makes them available to the public. We did not find any case where this occurred in 2003. Instead, we found that, in the absence of written contracts, executives filed letters that summarize their salary, salary range, and benefit categories, which the Clerk made public. However, these letters do not provide details of actual benefit entitlements. To supplement these letters, SGI and SaskTel submitted schedules of benefit entitlements to the Clerk's office, but this information was not made available to the public.

The Clerk of the Executive Council has advised us that, effective November 25, 2004, each CIC Crown has filed detailed schedules of benefits provided to their executives. The Clerk will make these schedules available to the public together with the letters reporting each executive's pay. These documents will give the public the information they are entitled to under *The Crown Employment Contracts Act*.

Board approval of pay and benefits

The board, or a committee authorized by the board, did not approve some of the pay and benefits earned by executives, as follows.

- ◆ SaskPower and SaskEnergy – these corporations changed their vacation policies giving executives six weeks of vacation per year, regardless of their length of service. In the case of SaskPower, a board committee reviewed this policy in 2002. According to the committee's mandate, however, it should have forwarded this

policy to the board for approval. SaskPower's board authorized this policy in September 2004. Three executives received additional vacation leave due to this policy change.

For SaskEnergy, an executive approved the change in policy in 1998. SaskEnergy's board authorized this policy in September 2004.

- ◆ SaskPower – the corporation established a flexible spending account plan in January 2000. Each executive receives \$7,500 plus 1% of their salary annually in the form of cash or specified benefits. A board committee approved this policy in 2000. According to the committee's mandate, however, it should have forwarded this policy to the board for approval. SaskPower's board authorized this policy in September 2004.
- ◆ SaskEnergy – beginning March 2001, the president approved an annual payout equal to an additional 20 days vacation for each executive. We did not find any reference in the minutes of the SaskEnergy board approving this policy. The chair said the board was not aware of this practice. The board ended this practice in September 2004 and has required executives to repay a portion of the amounts paid to them (i.e., the after-tax amounts they received) through a reduction of future vacation entitlements.
- ◆ SaskEnergy – an executive approved a policy allowing employees to receive a partial payout of their vacation entitlement after they earned it. However, the board did not approve this policy. In addition, the president approved a payout of his full vacation entitlement for 2003 at the beginning of the year, before earning it.

At SaskEnergy, the board received regular reports on various human resource matters, e.g., from the Human Resources Committee. However, these reports were inadequate. The boards of the other Crowns received adequate reports on these matters.

2. We recommend that SaskEnergy's board approve all executive pay and benefit policies.

- 3. We recommend that SaskEnergy’s board receive adequate reports about executive pay, benefits, and expenses so it can effectively oversee these costs.**

Payments for expenses

The Crowns generally had adequate support and approval for expenses paid to executives. However, at SaskEnergy, we found many instances where the president’s expenses were unsupported by receipts or where the support did not state the business purpose of the expense. Our findings are consistent with the report prepared by Deloitte. It is not our intention to repeat the details of the exceptions here, as Deloitte’s report, *SaskEnergy Incorporated—Report on Investigation of Certain Executive Compensation Policies and Expense Reimbursement Matters, July 7, 2004*, is available from SaskEnergy, Corporate Affairs.

- 4. We recommend that SaskEnergy improve its processes to ensure it has proper support for all expense payments, including documentation that they are for business purposes.**

Disclosure of payee information

In June 2003, the Standing Committee on Crown Corporations (Committee) recommended that Crown Investments Corporation of Saskatchewan (CIC) and its related corporations disclose additional information about persons (payees) who receive money from these corporations and the amounts they receive.

Our Office gave the Committee an undertaking to monitor the process to ensure Crowns follow its payee disclosure policy. We worked with CIC and its related corporations to reach a consensus on a standard format and guide for Crown corporations to use to prepare their payee information in a clear and consistent manner.

In September 2004, CIC provided the Standing Committee on Crown and Central Agencies (CCA) with payee information on CIC and its related corporations for the year ended December 31, 2003. This was the first time that CIC and its related corporations provided additional information about their payments. This is a significant improvement in public sector accountability.

In October 2004, we provided a report to the CCA regarding the disclosure of this new payee information. (available at <http://www.auditor.sk.ca>.) Overall, CIC and its related corporations have done a good job in presenting this information. However, to improve future reporting, CCA needs to clarify the requirements of the Committee's disclosure policy. Also, Crown corporations need to provide more complete payee information to comply with the Committee's disclosure policy.

Sponsorships

Background

An agency's marketing plan would include strategies and action plans to maintain or enhance its market share and to introduce new or changed merchandise to the public. Marketing plans also include agencies' public relations and publicity strategies. Public relations and publicity activities include providing information about the agency and/or its products and services to audiences that go beyond the agency's prospective customers. Marketing activities can be directed towards the public at large, to specific individuals or groups of individuals, and to fulfill the agency's responsibilities as a good corporate citizen.

In this section, general marketing refers to activities directed towards the public at large; promotion refers to activities directed towards specific individuals or groups of individuals; and sponsorship refers to activities to fulfill the agency's responsibilities as a good corporate citizen. Some agencies call promotion and sponsorship activities "goodwill advertising."

Agencies expect spending on general marketing activities to influence their revenues. However, they do not always expect spending on sponsorships and promotion to result in increased revenues.

Government agencies spend significant amounts on sponsorships and promotion. For the year ended December 31, 2003, the following Crown corporations spent the following amounts on sponsorships.¹

¹ For detailed information about each corporation's sponsorship spending, see the Report *Crown Corporations Payee Disclosure—2003*.

Saskatchewan Power Corporation (SaskPower)	\$1.7 million
Saskatchewan Telecommunications (SaskTel)	\$2.7 million
SaskEnergy Incorporated (SaskEnergy)	\$1.4 million
Saskatchewan Government Insurance (SGI)	<u>\$1.2 million</u>
Total	<u>\$7.0 million</u>

The amounts spent on promotion activities are not readily available because some corporations do not track promotion expenses separately. They track promotion expenses with general marketing.

Agencies use sponsorships and promotion to generate awareness, build relationships with customers, and enhance their corporate image. The effects of such activities are not usually apparent in the short term. Accordingly, agencies must use rigorous guidelines for staff to follow for assessing sponsorships and promotion requests and opportunities.

We assessed if the above corporations had adequate processes to manage spending for sponsorships and promotion. We focused our work on the policies they used for the year ended December 31, 2003.

What we did

We examined each corporation's processes to manage their sponsorship and promotion activities. We did not examine their processes to manage their general marketing activities.

We expected the corporations would have processes to:

- ◆ Communicate clearly the goals and objectives of sponsorship and promotion activities, setting out broad eligibility rules for assessing requests for funding;
- ◆ Set out an authority grid for making agreements with other parties for sponsorship and promotions;
- ◆ Provide guidelines for:
 - the types of events that can be sponsored;
 - the disposition of events tickets received in consideration of providing funding;

- maintaining records for such disposition;
 - providing food and beverages to invitees at those events;
and
 - assessing success in meeting set objectives for the event;
and
- ◆ Monitor the corporation's compliance with the approved processes.

Our conclusions

We concluded that for the year ended December 31, 2003:

- ◆ **SaskPower, SaskTel, and SGI had adequate processes to manage their sponsorship and promotion expenses; and**
- ◆ **SaskEnergy should strengthen its processes to manage sponsorship and promotion expenses.**

Our findings and recommendations

Clear objectives

Each corporation had communicated clearly the goals and objectives for its promotion and sponsorship activities. Their policies and procedures set out goals and objectives for such activities and established priorities. Approved policies provide guidance on what kinds of projects they will support, for what, and for how much. They also set out clear guidance on those projects that they would not support (e.g., political, religious, or special lobby).

Authority grids

All corporations, except SaskEnergy, had established and communicated authority grids for approving sponsorship and promotion projects and for making agreements with others. An authority grid sets out the extent of approval authority for individuals holding specific positions within an agency. Each corporation also provided guidance to staff and management on how to assess and approve requests for sponsorships and their authority limits.

SaskEnergy did not have a documented authority grid for approving sponsorship and promotion projects and for making agreements with others. SaskEnergy told us that, while it did not have a documented authority grid, in practice staff are aware of their approval authority levels. SaskEnergy should document an authority grid for approving sponsorship projects and for making agreements with others. It should communicate the authority grid to all staff. A lack of clear communication of authorities and responsibilities increases the risk that staff may not carry out their responsibilities as expected.

- 5. We recommend SaskEnergy should document who is authorized to approve sponsorships and promotion activities and for what amounts and communicate that to its staff.**

Guidelines for type and nature of sponsorship

As part of sponsorship and promotion activities, Crown corporations often help others to organize events either for fundraising or for promoting certain causes or sports. In return, they receive event tickets. Generally, the corporations provide those tickets to large customers, staff as rewards for performance, or a suitable charity. To ensure that they only approve appropriate events, most corporations have established guidelines on the type and nature of events they will approve. They also require staff to ensure the sponsored events fit the established objectives.

All corporations, except SaskEnergy, require staff to maintain records of the disposition of event tickets. Corporations also pay for food and beverages when they use the event tickets to entertain their customers. Corporations require staff to exercise discretion when entertaining customers or prospective customers. The corporations provided detailed directions to staff on the allowable expenses and rules for seeking reimbursements.

Some corporations also had enclosed dedicated seats (skyboxes) at certain sports and entertainment arenas. Corporations rent skyboxes to support certain sports (e.g., football, hockey). They used the skyboxes to entertain their customers, prospective customers, and to reward staff for performance. All corporations that used skyboxes required staff to maintain records of who used those boxes and when.

Some corporations do not rent skyboxes. Instead, they use dedicated seats at sports arenas. Sports arenas allow dedicated seat holders to use specific lounges to entertain their guests. SaskEnergy used dedicated seats at certain sports arenas to entertain their customers and guests. However, it did not require its staff to maintain records of who used those dedicated seats or event tickets.

SaskEnergy has a broad policy requiring staff to make decisions based on economic factors and the best interests of SaskEnergy in their dealings with customers or prospective customers. However, it did not provide written guidelines to staff on what they are allowed to do when entertaining customers or prospective customers. Also, SaskEnergy does not have a policy related to the time employees may spend on sponsored events or charitable activities. According to its annual report, SaskEnergy staff spent about 4,400 hours on these activities in 2003. A lack of detailed direction to staff increases the risk that staff may not fully understand or follow the broad policy directives.

- 6. We recommend that SaskEnergy require its staff to keep records of who receives event tickets and why.**
- 7. We recommend that SaskEnergy establish written guidelines for allowable entertainment expenses and communicate those guidelines to staff.**
- 8. We recommend that SaskEnergy review its policies for sponsored events and other charitable activities, and update them where appropriate.**

Monitoring compliance

All Crown corporations had established processes to ensure staff comply with the approved policies and procedures relating to sponsorships and promotion. We did not find instances of non-compliance with those policies.