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## Introduction

My Office helps to improve how government agencies manage public resources. We also help to improve the information that government agencies give to the Legislative Assembly.

The Government delivers its services through nearly 300 agencies. These agencies include departments, Crown corporations, authorities, boards, commissions, and special purpose funds. Appendix 2 of this report lists these agencies. This report covers mainly agencies with December 31, 2004 year-ends. Our 2005 Report – Volume 3 will cover mainly agencies with March 31, 2005 year-ends.

For the most part, the nearly 150 agencies covered by this report have adequate practices to manage risks to public resources. That is, the agencies have sound practices to safeguard public resources and have complied with the laws governing their operations. Also, most agencies published reliable financial statements. However, serious problems exist at some agencies. The Government needs to fix these problems.

Also, many government agencies continue to improve their public accountability. Later in this chapter, I highlight examples of significant progress.

Part A of this chapter highlights issues concerning risk management and accountability for several government agencies covered in this report. Part B presents the main points for each chapter of this report to provide an overall summary of the report.

## Risk management

My Office continues to focus on how government agencies manage risks related to the key forces and trends that affect them. Managing these risks is critical to effective government services and the ability to pay for those services. The key forces and trends affecting the Government include population change, advancing technologies, economic constraints, globalization, and pressures on the environment.

Government agencies that are managed well have good governance practices. They have a clear plan of what they want to do, they identify

risks that may prevent them from carrying out their plan, and they develop strategies to reduce their risks. They also monitor their progress in achieving their plans.

In addition, well-managed agencies tell legislators and the public what they plan to do and how much it should cost. They then report what they actually did and what they spent. Having to answer for what they actually did compared to what they planned to do improves how government agencies manage public resources.

The public sector continues to experience pressure from key forces. I highlight some of my Office's work related to pressures from population change, infrastructure, and economic constraints.

### **Population change**

Saskatchewan faces a potential shortage of skilled workers. This is a risk for the Government and for the economy as a whole. This year, we continued our focus on human resource plans.

Public sector agencies need sound human resource plans. Human resource planning helps to ensure agencies have the right people with the right skills at the right times.

*Chapter 2—Public Service Commission* describes how well the Commission leads the human resource planning practices of all government departments. Departments employ about 10,000 people who provide many essential public services.

The Commission needs a more formal process to identify human resource risks for the public service. It should also clarify human resource priorities for departments.

### **Infrastructure**

The Government has more than \$9 billion in infrastructure (e.g., roads, dams, gas lines, and power plants). To provide public services, the Government spends significant sums of money annually on infrastructure. The Government must not only spend money to buy or build infrastructure, it must also maintain and operate the infrastructure.

*Chapter 3—Saskatchewan Watershed Authority* reports on the adequacy of the Authority's practices for ensuring the safety of its dams. The Authority has dams and water work channels worth about \$1.4 billion. The largest dams are Gardiner, Qu'Appelle River, Rafferty, and Alameda. A failure of one of these dams would have major consequences. The Authority needs good maintenance practices to prevent a failure. As well, it needs good emergency practices to react to a dam failure.

The Authority should align its practices more closely to those expected by the Canadian Dam Association. For example, it needs to have current and tested emergency-preparedness plans in the event of a dam failure.

## **Economic constraints**

The demand for public services continues along with the demand for lower taxes. Good governance and supervisory practices help agencies respond to these opposing pressures.

Many of our findings in this report relate to poor or improper use of public resources when agencies do not carry out their duties effectively. For example:

- ◆ some agencies have good written practices for safeguarding public resources but staff do not always follow them
- ◆ other agencies need to improve their written practices to better safeguard public resources

*Chapter 4—Health* reports on the Department's practices for managing the Saskatchewan Prescription Drug Plan. The Department's drug costs were more than \$150 million dollars for the year ended March 31, 2004. Drug costs have doubled between 1999 and 2004.

The Department has good practices for managing the risks to achieving its objectives for the Drug Plan. However, the Department needs to monitor and evaluate drug use in the population. As well, it should publish more information on the performance of the Drug Plan. The Department is improving its practices to monitor the quantity and relevance of drugs used by individuals.

*Chapter 5—Justice* reports on the Department's practices to reduce the risk of financial loss or inequities to pension plan members. The Superintendent of Pensions regulates nearly 400 pension plans with assets worth \$14.5 billion.

To better protect pension plan members, the Department should focus its work on those areas that present the greatest risk to the members.

*Chapter 6—Community Resources and Employment* reports that an employee misused public money resulting in a loss of about \$1 million. The Department did not ensure that employees followed approved written practices for paying social assistance to clients. Also, the Department needed to better control its employees' access to its computer system that makes payments to clients. We have voiced the same concerns with the Departments practices in past reports.

The Department has a plan to improve employee compliance with approved practices. The Department is making progress implementing the plan.

*Chapter 7—Environment* reports that an employee misused public money resulting in a loss and possible loss of about \$500,000. The Department did not ensure employees followed approved written practices for paying suppliers for goods and services. In past reports, we have reported on the need for the Department to improve its supervisory practices over the payments to suppliers.

Also, the Department's internal audit function had not identified employees' non-compliance with established practices as a problem for senior management. We have reported in the past that senior management should approve a work plan for the internal auditor that deals with the Department's most important risks.

*Chapter 8—Government Relations and Aboriginal Affairs* reports that the Department is not doing enough to know that public money that it pays to the First Nations Trust and four community development corporations is used for its intended purpose. The Department paid \$38 million to these agencies for the 18 months ended September 30, 2004.



The Department has reasonable written practices for ensuring that the money it gives to these agencies is used for its intended purpose. However, employees are not following the Department's written practices.

## Government accountability

My Office continues to focus on improving the Government's accountability to the Legislative Assembly. The ability of the Assembly to hold the Government accountable is key to good government.

This year, we continued our focus on the performance reports of government agencies as well as on the transparency and authority for senior management pay and expenses.

*Chapter 12—Crown Investments Corporation of Saskatchewan* reports our assessment of the quality of the annual reports of four Saskatchewan Crown corporations compared to Crown corporations in other provinces.

These Saskatchewan Crown corporations' reports compare favourably with reports in other provinces. We will continue to monitor how agencies improve their annual reports.

*Chapter 11—Workers Compensation Board* reports that management did not file their employment contracts with the Clerk of the Executive Council as required by *The Crown Employment Contracts Act*. Filing the contracts would improve the Board's transparency.

## Acknowledgement

My Office accomplishes its work through the dedicated efforts of our staff. The knowledge and commitment of our staff make this report possible. A list of staff is set out in the following exhibit.

## Exhibit

My colleagues at the Office of the Provincial Auditor for Saskatchewan are:

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## Compilation of main points

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## **Chapter 2—Public Service Commission**

Effective human resource planning helps the Government meet its strategic goals. The Public Service Commission is responsible for oversight, strategic direction, and coordination of human resource planning across all departments. In this chapter, we report on whether the Commission has adequate processes to lead human resource planning across departments.

To lead human resource planning, we expected that the Commission would:

- ◆ guide human resource planning
- ◆ manage human resource risks across departments
- ◆ analyze department human resource planning
- ◆ build capacity for human resource planning within departments

As of October 31, 2004, the Commission had adequate processes to lead human resource planning with two exceptions.

First, departments need clear human resource priorities to help them decide what is critical to their human resource planning and what to do first. We recommend that the Commission identify and communicate to departments a manageable number of human resource priorities.

Second, the Commission has substantial information about human resource risks, but does not have a formal process to analyze these risks. We recommend the Commission use a risk management framework to identify and analyze human resource risks and help it decide what levels of risk it can accept in order to achieve desired results.

## **Chapter 3—Saskatchewan Watershed Authority**

Saskatchewan Watershed Authority operates, maintains, and inspects Saskatchewan's dams and related water work channels worth an estimated \$1.37 billion. A significant number of Saskatchewan residents rely on these dams to provide stable water supply for municipal and industrial use, irrigation, hydroelectric power generation, and recreation opportunities, and to protect downstream communities from flooding.

Over half of Authority's dams are more than 35 years old. Like all infrastructure, dams require continuous investment to ensure their ongoing safety and their ability to meet expected service needs. Inadequate investment of time and resources could significantly increase risks to public safety.

Saskatchewan's four largest dams are Gardiner, Qu'Appelle River, Rafferty, and Alameda. These dams would have major consequences downstream if they failed. This makes it critical for the Authority to have strong processes to keep these dams safe.

This chapter reports that while the Authority had adequate processes in many areas to keep these dams safe, it needs to make improvements in four areas. First, it should obtain independent comprehensive dam safety reviews on its four largest dams at least every five years. Second, it must have up-to-date tested emergency preparedness plans for each dam. Third, it needs a process to ensure it keeps all of its key manuals current and complete. And fourth, it should set long-term targets to better monitor the effectiveness of its dam safety activities.

## **Chapter 4—Health**

The Department of Health spends more than \$150 million per year on the Saskatchewan Prescription Drug Plan (Drug Plan).

In this chapter, we report on the adequacy of the Department's processes to monitor the quality and relevance of drug use and to report on the Drug Plan's performance.

The Department should do more analysis to monitor the quantity and relevance of drug use in the population. This analysis would allow the Department to determine the success of specific program efforts. It would also allow it to focus resources to encourage appropriate and economical prescribing practices.

The Department has a Drug Plan claims database with a wealth of information that can provide valuable insights. Currently, the Department is improving its processes to monitor the quantity and relevance of drug use at an individual level. The planned improvements to this system will serve to strengthen this process in the future.

The Department's public reports need to show whether the Drug Plan is achieving its purposes.

## **Chapter 5—Justice**

Under *The Pension Benefits Act, 1992*, the Superintendent of Pensions regulates and supervises pension plans in Saskatchewan. The Superintendent does so to reduce the risk of financial loss or inequities to pension plan members.

In 2004, we assessed the adequacy of the processes the Superintendent of Pensions used to supervise pension plans. We found that the Superintendent had adequate processes except as reflected in our following four recommendations. We recommend that the Superintendent:

- ◆ expand its analysis of pension plan risks to consider the key risks faced by all pension plans
- ◆ prepare a risk-based work plan to supervise pension plans
- ◆ provide staff with written guidance regarding information to document when registering and amending pension plans
- ◆ develop alternative ways to obtain information from pension plan administrators or seek legislative changes to expand its enforcement powers to obtain required information

## **Chapter 6—Community Resources and Employment**

In December 2004, officials of the Department of Community Resources and Employment (DCRE) informed our Office that they had become aware of a possible misuse of public money by an employee resulting in a loss to the Crown.

We investigated this matter to determine the amount of the loss and identify the conditions that allowed the loss of public money to occur and remain undetected.

DCRE incurred a loss of public money of about \$1 million. We concluded that DCRE needs to:

- ◆ properly segregate the duties of its employees
- ◆ provide effective direction of employees

- ♦ properly oversee operations
- ♦ use sound employee hiring practices

We make several recommendations for DCRE to help improve its processes to safeguard public money. DCRE is taking steps to improve its processes. In May 2004, it prepared a Quality Improvement Plan to improve its processes to ensure that only eligible clients receive the correct amount of assistance. As well, it is currently reviewing all established processes for social assistance payments. The purpose of the review is to strengthen processes to reduce the risk of future misuse of public money.

## **Chapter 7—Environment**

In December 2004, the Department of Environment (Environment) told us that an employee used public money in a way that may have resulted in a loss to the Crown. *The Provincial Auditor Act* requires us to investigate and report to the Legislative Assembly any losses to the Crown. In this chapter, we report the objectives of our investigation, our findings, and conclusions.

We report that for the period from April 1, 1998 to December 31, 2004 Environment incurred a loss of public money and a possible loss of public money totalling \$500,000. Environment incurred a loss of public money of at least \$260,000 and a possible additional loss of about \$240,000. It was not practical for our office to verify the payments totalling \$240,000. Most of these transactions related to the branch of Environment where the employee had worked for many years.

While we have completed our work to fulfill our responsibilities to the Legislative Assembly, Environment continues its investigation. Also, we understand a police investigation is ongoing independent of our work.

We concluded that Environment needs to:

- ♦ properly segregate the duties of its employees
- ♦ provide effective direction to employees
- ♦ properly oversee operations
- ♦ assess and reduce the risk of loss of public money by employees in positions of trust



We make five new recommendations for Environment to help improve its safeguarding of public money. We also continue to make three previous recommendations that Environment has not fully addressed.

## **Chapter 8—Government Relations and Aboriginal Affairs**

When Cabinet disestablished the Department of Government Relations and Aboriginal Affairs (Department) effective October 1, 2004, it continued the programs of the Department under two new departments—the Department of Government Relations (Government Relations) and the Department of First Nations and Métis Relations (First Nations and Métis Relations).

While this chapter notes some progress, it reports our continued concerns in the following two areas.

First, the Department was not doing enough to monitor spending by certain First Nations organizations (i.e., First Nations Trust and community development corporations). Each year under an agreement that the Department has with the Federation of Saskatchewan Indian Nations, it provides these organizations with significant public money (e.g., over \$23 million in 2003-04). Under the agreement, these organizations must use this money for social, cultural, economic, or other charitable purposes for First Nations people.

First Nations and Métis Relations has assumed responsibility of this arrangement. First Nations and Métis Relations must use its processes to monitor the spending of these organizations. In addition, it must ensure timely corrective action is taken in instances where these organizations do not spend the money as required by law.

Second, the Department needed to make further progress on its supervision of one of its special purpose funds—the Northern Revenue Sharing Trust Account (Account). It used this Account to pay for the services it delivers to communities in the Northern Saskatchewan Administration District.

Government Relations has assumed responsibility for the Account. Government Relations has made limited progress in addressing our previous recommendations to better supervise the operations of the

Account. In addition, Government Relations must improve controls over the Account's purchasing of goods and services through charge accounts and its security of information systems.

## **Chapter 9—Learning—Accountability of school boards**

The complexity of accountability relationships in the education sector makes it difficult to understand who is responsible to whom and for what. The Saskatchewan Minister of Learning is accountable to the Assembly for the overall quality of pre-Kindergarten to Grade 12 education in Saskatchewan and its cost. Locally-elected school boards are responsible for helping to deliver that education. School boards are accountable to the Minister but also to their local electorates.

Our Office has recommended that the Department of Learning provide legislators with a clear description of the accountability relationships between the Department and key provincial educational agencies, including school boards. Accountability that is clearly described helps delineate key roles and responsibilities. The importance of education and its cost reinforce the need for clear accountability relationships.

This chapter highlights the relationships between school boards and governments in six provinces. It describes common issues and identifies alternate approaches to school board accountability. It focuses on relationships in five key areas: curriculum, student achievement, teacher certification, facilities, and paying for education.

As the stakeholders in the Saskatchewan education system consider changes to accountability, we encourage those involved to ensure that accountability for education is clear and transparent. Also, we encourage the Government to ensure that Saskatchewan's legislation provides a solid foundation for the accountability to make it sustainable over time.

## **Chapter 10—Industry and Resources**

The Department of Industry and Resources faces many strategic risks that could influence its ability to meet its objectives.

We assessed the adequacy of the Department's planning processes as of December 31, 2004 to identify strategic risks to achieving its objectives.

Overall, the Department had adequate planning processes to identify strategic risks except as reflected in our recommendations.

We recommend the Department improve its processes to identify strategic risks and in particular:

- ◆ use systematic processes to detect risks to all of its objectives
- ◆ quantify the likelihood and impact of strategic risks to identify priorities

Strengthening the Department's processes to identify strategic risks would help the Department take timely action to manage its most important risks. It would also help the Department to take full advantage of opportunities.

## **Chapter 11—Workers' Compensation Board**

This chapter reports the results of our audits of the Workers' Compensation Board (WCB) and the Workers' Compensation Board Superannuation Plan (WCB Plan).

We report that the WCB has addressed our past recommendations to administer injured workers' claims except for receiving timely injury reports from employers, and approving an adequate plan for its internal auditor. The WCB continues to make progress to address these issues. The President and employees directly reporting to the President did not file their employment contracts with the Clerk of the Executive Council as required under *The Crown Employment Contracts Act*.

We also report that both the WCB and the WCB Plan did not verify that all of their investments comply with the laws and their investment objectives.

The WCB Plan has not acted on our 2003 recommendations to improve its governance processes. Effective January 1, 2005, the Workers' Compensation Board is responsible to administer the WCB Plan.

## **Chapter 12—Crown Investments Corporation of Saskatchewan**

In this chapter, we report the results of the audits of Crown Investments Corporation of Saskatchewan (CIC) and the Capital Pension Plan (Plan) for the year ended December 31, 2004.

We concluded that the financial statements of CIC and the Plan are reliable. CIC complied with the authorities governing its activities and had adequate processes to safeguard public resources.

The Plan complied with the authorities governing its activities. It had adequate processes to safeguard public resources except the Plan needs to improve its governance processes.

We reviewed the 2003 annual reports of four large CIC Crown corporations. They compare well against Crowns in most other Canadian jurisdictions, although the reports of Crowns in a few other jurisdictions are more advanced in some areas. We encourage Saskatchewan's CIC Crown corporations to continue to improve their performance reports using the CCAF's reporting principles as guidance.

## **Chapter 13—Saskatchewan Telecommunications Holding Corporation**

Saskatchewan Telecommunications Holding Corporation (SaskTel) is one of Saskatchewan's major Crown corporations. At December 31, 2004, SaskTel had assets of over \$1,200 million, revenues over \$900 million, and net income of \$94.5 million.

SaskTel operates its business through many separate companies. Each of SaskTel's companies has its own board. To ensure SaskTel's success, it is critical these companies have a clear understanding who is responsible to whom and for what. In addition, it is important that SaskTel have sound processes to direct and manage each of these companies so that they fulfill their mandate and make good use of public resources – that is SaskTel must have good governance.

In 2004, we reported how well SaskTel governed its companies and made recommendations for improvement. In this chapter, we highlight

progress SaskTel has made towards those two recommendations. SaskTel is improving its processes to communicate its governance expectations. It ensures the boards of the companies it owns and controls have terms of reference. Management advised us that it is introducing new processes for developing shareholder agreements and articles of incorporation to help ensure that owned and controlled companies are subject to the same governance expectations as SaskTel itself.

SaskTel is also improving its processes to assess the effectiveness of the companies' boards. It is ensuring that board and management evaluations take place. Management advised us it is also planning to address governance-related risks more specifically in information provided to the Board.

## **Chapter 14—Information Services Corporation of Saskatchewan**

Information Services Corporation of Saskatchewan (ISC) needs to test its business continuity and disaster recovery plans in order to verify that it can promptly continue to deliver its services if key facilities and or computer systems are lost.

ISC strengthened its performance measurement and reporting processes but more work needs to be done. It needs to use its internal auditor to test its performance measuring systems and to verify key results.

## **Chapter 15—Standing Committee on Crown and Central Agencies**

The Standing Committee on Crown and Central Agencies is one of the Assembly's four policy field committees. It considers matters relating to Crown Investments Corporation of Saskatchewan (CIC) and its corporations, supply and services, central agencies, liquor, gaming, and all other revenue-related agencies and entities. During its review of Crown corporation annual reports, the Committee can inquire about current matters, future objectives, and past performance.

The Committee also reviews significant transactions made by these corporations. Increasingly, the Committee's discussions relate to broader issues including strategic plans, key risks to achieving goals and

objectives, and performance measurement. It also reviews chapters of our reports concerning CIC and its related corporations.

Through its work and recommendations, the Committee helps the Assembly hold the Government accountable for its management of these corporations. In the Exhibit, we set out the status of the Committee's eight recommendations that are not yet implemented.