

Environment

7

| | |
|--|-----------|
| Main points | 88 |
| Introduction | 89 |
| Background | 89 |
| What happened | 91 |
| Objectives of our work | 91 |
| Purpose and structure of our Report | 91 |
| Part A—Loss of public money | 91 |
| What we did..... | 92 |
| What we found | 93 |
| Part B—Conditions that allowed loss of public money | 93 |
| Segregation of duties..... | 94 |
| Effective direction to employees | 96 |
| Overseeing operations | 98 |
| Hiring practices..... | 99 |

Main points

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.

Introduction

The Provincial Auditor Act requires our Office to investigate and report to the Legislative Assembly any losses to the Crown through the fraud, default, or mistake of any person. In December 2004, officials of the Department of Environment (Environment) told us that they had become aware of a possible misuse of public money by an employee. We have now completed our investigation of the alleged misuse of public money at Environment.

Also, in January 2005, the Standing Committee on Public Accounts (Committee) asked our Office to report to the Committee the results of our investigation of any loss of public money at Environment. This chapter sets out the results of our investigation.

Background

Environment is responsible for managing, enhancing, and protecting the Province's natural and environmental resources, and sustaining them for future generations. Effective April 1, 2004, Environment is organized into the following four divisions.

- ◆ Compliance, Fire and Forest Division (Compliance): responsible for field and compliance services, fire, and forest ecosystem
- ◆ Resource and Environmental Stewardship Division (Stewardship): responsible for environmental protection, Crown lands, parks, and fish and wildlife resource management
- ◆ Planning and Risk Analysis Division (Planning): responsible for key corporate strategic services including green policy development, environmental assessment, compliance and strategic planning, legislative services, and intergovernmental and aboriginal affairs
- ◆ Corporate Services Division (Corporate): responsible for strategic, operational, financial, human resource, and information management support

Environment also has a communications services branch that reports directly to the Deputy Minister. The branch is responsible for delivering strategic communications, information exchange, and coordinating communications with other government departments.

In 2004, Environment spent \$178 million to deliver its programs. Information about Environment’s revenues and expenditures appears in Environment’s annual report and its web site (<http://www.se.gov.sk.ca>). The Department of Finance processes cheques for all government departments including Environment. The Department of Finance mails out cheques directly to suppliers or, upon request, sends them to Environment for distribution.

In 2000 and 2001, we recommended that Environment improve its processes to ensure it only pays for goods and services received. We recommended this because the employees at Environment did not always follow the established rules for segregating the duties of employees involved in the payment process. Also, some of the established rules did not properly segregate duties because they allowed individuals to buy goods and services, receive them, and approve invoices for payment.

Since 1998, we have also recommended that senior management of Environment define and document its compliance reporting needs. The compliance reports would show how well employees comply with laws and policies and procedures. To ensure those reports are accurate, Environment should seek independent assurance from the internal audit function on the quality of employees’ compliance with laws and established policies. Environment does not have processes to receive compliance information from its managers. Nor does it seek assurance from its internal auditor. Since 2003, we have also reported that Environment needs to improve its internal auditor function.

Environment has not yet fully addressed our recommendations.

Table 1 below shows Environment’s level of spending by type for the last six years.

Table 1 (in \$000)

| Type of Spending | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Personal Services (Salaries) | 68,062 | 61,969 | 58,826 | 53,294 | 56,900 | 59,955 |
| Transfers/Grants | 24,812 | 20,957 | 13,612 | 12,848 | 12,271 | 12,586 |
| Forest Fire Operations | 50,209 | 59,028 | 25,813 | 20,854 | 47,705 | 66,026 |
| Total Others | 35,252 | 38,370 | 39,177 | 38,360 | 30,516 | 26,902 |
| Total | 178,335 | 180,324 | 137,428 | 125,356 | 147,392 | 165,469 |

What happened

In December 2004, Environment told us that an employee who worked in the resource stewardship branch (formerly sustainable land management branch) had used public money in a way that may have resulted in a loss to the Crown. Environment suspended the employee on December 6, 2004 and reported the matter to the RCMP. Environment terminated the employee on February 5, 2005.

According to Environment's initial investigation, the suspect employee misused significant amounts of money since 1998. Environment told us that its internal audit team is fully investigating this matter. Besides Environment's internal auditors, the internal audit team includes auditors from other Departments and an auditor contracted from a local accounting firm. Environment's internal audit team continues its investigation.

Objectives of our work

We set two objectives for our work. First, we wanted to determine the amount of the loss of public money. Second, we wanted to determine the conditions that allowed the loss of public money to occur and remain undetected.

Purpose and structure of our Report

The purpose of our Report is to inform the Legislative Assembly what we found and what Environment should do to better safeguard public money. We have structured this Report in two parts. In Part A, we describe the work we did to determine the amount of the loss of public money. In Part B, we describe the conditions that allowed the loss of public money to occur and remain undetected. Part B also includes our recommendations for improvement.

Part A—Loss of public money

As we stated earlier, effective April 1, 2004, Environment is organized into four divisions. Each division is further divided into three branches. Each branch is headed by a Director or an Executive Director. Upon the

Legislative Assembly’s approval of the Department’s budget, the Deputy Minister allocates funds to each branch. The Directors of the branches are responsible to control and monitor the spending of their branches. They also provide monthly spending reports to senior management setting out actual and planned expenses and a forecast to the year-end. The reports explain significant differences between the planned spending for the year and the spending forecast for the year.

What we did

We assessed Environment’s plan to investigate the loss of public money. The plan’s objectives were to determine:

- ◆ if there was a misuse of public money by the suspect employee, and if so, the extent of the misuse, and how it was carried out
- ◆ if any other employee may have carried out similar activities to misuse public money
- ◆ if Environment’s processes need strengthening to prevent or detect such misuse of public money

Environment’s plan was reasonable to achieve the above objectives. Environment did most of the investigative work. We examined Environment’s work and findings. We did tests and other procedures we considered necessary to ensure that Environment’s work was adequate.

We considered the risk of misuse of public money high for those branches of Environment where the suspect employee had worked. The suspect employee had worked in the resource stewardship branch. This branch also had poor segregation of duties and expense monitoring.

Table 2 shows the level of spending of the resource stewardship branch for the last six years.

Table 2 (in \$000)

| Type of Spending | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Personal Services (Salaries) | 1,374 | 1,250 | 1,272 | 1,214 | 961 | 882 |
| Transfers/Grants | 0 | 0 | 0 | 2 | 0 | 0 |
| Others | 409 | 277 | 324 | 503 | 381 | 312 |
| Total | 1,783 | 1,527 | 1,596 | 1,719 | 1,342 | 1,194 |

What we found

Misuse of money is difficult to detect because the acts are designed to conceal the misuse. Even an audit of every transaction might not reveal all misuse of money if it is concealed by false documents, or involves collusion with other persons.

We determined 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. The loss of public money totalled at least \$260,000; and the possible additional loss of public money totalled \$240,000.

We found about 200 payments totalling \$260,000 that resulted in a loss of public money because Environment did not receive any goods and services. The payments were described as payments for meeting rooms, equipment rentals, catering, professional services, training, travel, and translation services.

We also found about 350 further payments totalling \$240,000 that might result in a loss of public money. It is not practical for us to investigate these payments further. These payments were described as payments for meeting rooms, equipment rentals, catering, professional services, training, travel, consulting, translation services, and maps.

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

Part B—Conditions that allowed loss of public money

No system to safeguard public money can prevent or detect all fraudulent acts because the acts are designed to conceal the fraud and may involve collusion with others. A sound system to safeguard public money creates an environment where errors or frauds are either less likely to occur, or if they occur, are more likely to be detected. Through diligent planning and oversight, an agency's senior management reduces the risk of errors and fraud.

Environment incurred a loss and a possible loss of public money totalling \$500,000. This resulted from poor segregation of duties and inadequate supervision of employees.

Loss of public money is more likely to occur when the following conditions exist:

- ◆ Segregation of duties is absent, weak, or loosely enforced
- ◆ Ineffective direction to staff
- ◆ Employees are poorly supervised
- ◆ Employees are hired and retained without due consideration to their honesty or integrity

We describe below our findings for each of the above conditions.

Segregation of duties

Proper segregation of duties ensures that no one employee or group of employees is in a position to perpetrate and conceal errors and fraud. A lack of segregation of duties increases the risk of loss of public money without ready detection.

Although Environment had established some policies setting out proper segregation of duties for processing payments, employees did not always follow those policies. Senior management has not established processes to assess how well employees comply with established policies. Nor does senior management receive any assurance from its internal auditor on how well employees follow established policies. We have reported for many years that Environment needs to know how well its staff comply with laws and established policies.

Some managers approved the set up of new suppliers in Environment's computer system, initiated purchases, received goods/services ordered, and approved the transaction for payment. In addition, some managers requested the signed cheques from the Department of Finance for distribution. For example, in the resource stewardship branch, managers initiated purchases, received the goods, approved invoices for payment, developed budgets, and monitored and explained differences between actual, forecast, and planned spending.

Employees at Environment routinely instructed the Department of Finance to send signed cheques to Environment without documenting the reasons for such requests. Accounting staff at Environment gave these cheques to employees that had initiated and approved the cheque requests. Returning signed cheques to those who initiated and approved the cheque requests increased the risk of loss of public money. Environment had received the signed cheques for distribution for most of the payments that we identified as a loss of public money.

Also, Environment had not properly segregated the duties of employees who sent information electronically for payment to the Department of Finance's new centralized payment system called MIDAS. Once MIDAS receives the information for payment, it generates cheques for mailing to suppliers. We noted many of the employees responsible for sending information to MIDAS could initiate purchases on-line without prior authorization and approve these payments on-line without any independent review or approval. Although Environment's policies require managers to review and approve payments before they are sent to MIDAS, we noted that managers did not always comply with the established policies.

Environment provided purchase cards with specific spending limits to certain employees. Employees used these cards to make certain purchases. Environment's electronic purchase card system did not allow for adequate segregation of duties. As a result certain employees could approve their own purchase card transactions on-line without detection.

In addition, employees did not always know the purpose of using password protection for their computers. A password restricted computer system will deny access to a user unless the user enters a designated password. To ensure the integrity and security of the electronic systems, employees must keep their passwords confidential. Some employees at Environment did not do so. It was common for employees to know their supervisors' passwords. Supervisors use their passwords to approve their staff's travel expenses on-line. Because some supervisors did not keep their passwords confidential, Environment would not know if the staff travel expenses were properly approved.

In cases where adequate segregation of duties is not possible, agencies reduce the risk of significant errors or misuse by rigorously supervising

operations. Sound budgetary controls are essential ingredients of good supervising practices. Budgetary controls include budgeting and forecasting processes, and analyzing differences between the actual and budget expenses.

- 1. We recommend the Department of Environment properly segregate the duties of the employees responsible for collection, receipt, disbursement, or expenditure of public money.**

Environment told us that management has begun the process to improve the segregation of duties throughout the Department. Environment told us that this process includes the review of current segregation of duties throughout the key financial systems as well as communication of the importance for the need for segregation of duties to all staff.

Effective direction to employees

Environment has various operating policies and procedures manuals that provide some guidance to its employees. The manuals include directions to employees on how to initiate and process payments. Environment has also established an authority grid. The authority grid sets out who has the authority to initiate and approve payments and the maximum amount and the nature of transactions they can approve. Environment revised its authority grid in June 2004. The current authority grid is adequate. However, the authority grid in place prior to June 2004 did not provide for adequate segregation of duties for processing payments.

Also, Environment did not communicate to its employees the reasons for allowing deviations from standard policies when the manuals allow for such deviations. Nor did the employees responsible for requesting cheques from the Department of Finance always know what approval they must obtain before doing so.

Accounting staff responsible for requesting cheques did not ensure that they requested cheques only for those payments that had proper approval and support. Accounting staff could not identify the approver of some payments that we examined. Some accounting staff told us that they processed payments that had evidence of approval without checking the authority of the approver. Environment should ensure that accounting

staff process only those payments that are properly authorized and supported. Environment can do that by providing necessary training/guidance to them and establishing a culture of fraud awareness for all employees.

We also noted many employees asked accounting staff to add new suppliers on the Department of Finance's payment system. Most of these requests did not have adequate supporting documents and accounting staff did not question the reasons or authority for setting up new suppliers. Accounting staff did not do so because Environment had not communicated to staff who could add new suppliers and what support they needed.

Well-managed agencies provide fraud awareness training to their employees. Environment should provide such training to its employees. Fraud awareness training would help Environment in establishing a culture of fraud awareness. It would also help employees in detecting and preventing internal and external frauds.

To ensure its employees perform duties in accordance with established policies, Environment should tell employees the reasons for doing certain tasks in certain ways. Employees are more likely to follow established policies when they know the reasons for those policies.

- 2. We recommend the Department of Environment clearly communicate to its employees its operating policies and ensure that its employees understand the reasons for the policies.**
- 3. We recommend the Department of Environment train its employees to help establish a culture of fraud awareness.**

Environment told us that management is in the process of delivering training to all staff. Environment also told us that this training will focus on a number of financial operating processes as well as its delegated signing authority standards.

Environment also told us that it has delivered fraud awareness and internal control training to its senior management group, and finance,

administration, and parks branches. Environment further told us that it plans to continue to deliver such training to all of its other branches.

Overseeing operations

Since 1999, we have recommended that Environment define and document its compliance reporting needs. The compliance reports would show Environment's compliance with laws and policy manuals. Environment has not yet addressed our recommendation.

Environment requires its branch managers to monitor monthly spending and explain differences between the actual, forecast, and planned spending. We interviewed senior officials of all branches of Environment. Some managers documented what they did and some left no evidence of their work. Managers documented their work inconsistently because Environment had not established and communicated a clear policy setting out who should do such monitoring and how.

Environment did not know how well the branches monitored their spending or if employees followed the established policies and procedures. Senior management did not know this because it did not ask the internal auditor to examine and report on the quality of compliance by the employees.

In addition, we found many instances where one person both initiated and approved payments. Generally, Environment's policies do not allow this practice. However, staff routinely processed such payments. Senior managers did not know the extent of this practice.

As we said earlier, Environment is decentralized. Decentralized agencies cannot always monitor staff compliance routinely. Such agencies usually rely on assurances from their internal auditors. Environment has an internal audit function. However, internal audit has not provided senior management any assurances on the quality of employees' compliance with policies and procedures. Internal audit focuses its work towards monitoring forestry management agreements.

To ensure that the internal auditor's work covers the key operational areas, the internal auditor's plan should include a risk assessment of all of Environment's programs and activities. In 2003, we recommended that

the internal auditor prepare its plan based on a complete risk assessment of Environment's programs and activities. Also, we recommended that management receive the internal auditor's reports as planned and act promptly to remedy any deficiencies reported. Environment has not yet addressed our recommendations.

We continue to recommend the Department of Environment define and document its compliance reporting needs. In January 1999, the Standing Committee on Public Accounts (PAC) agreed with this recommendation.

We continue to recommend the Department of Environment ensure the internal auditor prepares its audit plan based on a complete risk assessment of the Department's programs and activities. In May 2004, PAC agreed with this recommendation.

We continue to recommend the Department of Environment receive the internal auditor's report as planned and act on any recommendations. In May 2004, PAC agreed with this recommendation.

Hiring practices

Environment uses hiring practices established by the Public Service Commission. While those practices require the Department to screen prospective employees, they do not require the Department to do a criminal record check for certain prospective employees. Criminal record checks would be useful to determine the suitability of applicants for the position being filled. Currently, criminal record checks are mandatory for certain employees working in other government agencies.

Criminal record checks are a good source of information for an employer to assess if the individual's past behaviours align well with the requirements of the job. Criminal record checks, however, do not guarantee an individual's future behaviour and honesty. To address this risk, agencies buy insurance policies (fidelity bonds) to help protect them from any losses resulting from employees' behaviour or dishonesty.

To protect public money, the Legislative Assembly passed legislation for bonding of public officials. *The Public Officials Security Act (Act)* requires:

...every public official shall... enter into a bond or other security for the due performance of the trust reposed in him and for his duly accounting for all public moneys entrusted to him or placed under his control or that may come into his hands.

Under the Act, a public official means “a person appointed to an office or employment by or under the Government of Saskatchewan, wherein he is concerned in the collection, receipt, disbursement or expenditure of public money”. The Act also gave Cabinet authority to accept a bond from Saskatchewan Government Insurance (SGI) as a guarantee for the due performance of duties by public officials subject to the requirements of this Act. This bond substitutes for the need for public officials to provide individual bonds.

Insurance companies offer various types of fidelity bonds to protect employers from losses resulting from employees’ behaviour or dishonesty. Individual bonds and blanket bonds are fairly common. Individual bonds cover each named employee. The insurers do due diligence about the individual before bonding and sometimes after bonding. Individual bonds are relatively expensive and difficult to obtain. Blanket bonds cover specific positions in an agency. The insurers do due diligence about the agency rather than employees holding positions in the organization. Blanket bonds cost less but are less effective unless supplemented by criminal record checks.

The Act requires all public officials to provide a bond. However, Cabinet under the authority of the Act has arranged a blanket bond with SGI to substitute for individual bonds. This blanket bond covers all departmental positions for a standard coverage of \$20,000 per position. The standard coverage has remained \$20,000 since 1970.

Also, under the current bond, departments can ask for special additional coverage for positions that handle cash or other valuables. Environment does not have additional coverage for any specific position.

To reduce the risk of loss of public money, Environment should assess if it needs to seek additional bond coverage for those employees who hold positions of trust (responsible for the collection, receipt, disbursement, or expenditure of public money). Environment should also assess if the standard coverage is appropriate. Alternatively, it should consider

supplementing the current bond by doing criminal record checks for all employees who hold or will hold positions of trust.

4. **We recommend the Department of Environment assess if the Government’s standard blanket fidelity bond (insurance) coverage reduces its risks of loss to an acceptable level.**
5. **We recommend the Department of Environment assess the risk of loss of public money by employees in positions of trust (responsible for collection, receipt, disbursement, or expenditure of public money) and reduce the risk to an acceptable level (e.g., increasing insurance coverage or requiring criminal record checks).**

Environment told us that management will assess the Government’s blanket fidelity bond coverage in light of the risk of financial loss within the Department. Environment also told us that management will assess the risk of loss of public money to employees in positions of trust and will focus on reducing this risk to an acceptable level.

This page left blank intentionally.