

Government Relations and Aboriginal Affairs

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Main points

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.

Introduction

Up to September 30, 2004, the Department of Government Relations and Aboriginal Affairs managed the Province's relations with other governments within Saskatchewan, Canada, and abroad. The Department:

- ♦ worked with Aboriginal peoples and their organizations to advance common interests
- ♦ worked with communities to support local governance, provide financial and technical support, and develop laws and other policies in response to the changing needs of municipal governments
- ♦ coordinated matters related to Government House, French-language services, official protocol, and provincial honours
- ♦ provided administrative services to the Office of the Lieutenant Governor and Department of Culture, Youth and Recreation

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

Effective October 1, 2004, Cabinet disestablished the Department. Its programs are continued under the Department of Government Relations or the Department of First Nations and Métis Relations.

Related special purpose funds and agencies

At September 30, 2004, the Department was responsible for the following special purpose funds and agencies:

	<u>Year-end</u>
First Nations Fund	March 31
Government House Foundation	March 31
Métis Development Fund (Development Fund)	December 31
Municipal Potash Tax Sharing Administration Board (Board)	December 31
Northern Revenue Sharing Trust Account (Account)	December 31

Each year, the Legislative Assembly (Assembly) receives the annual audited financial statements of each of the above. For agencies, the

Legislative Assembly receives an annual report. These are available at <http://www.gov.sk.ca/finance/>.

Financial overview

For the year ending March 31, 2004, the Department spent \$187.0 million and had revenues of \$11.9 million (including \$10.9 million from the federal government for the Canada-Saskatchewan Infrastructure Program). The following is a list of major programs and spending for the year ended March 31, 2004 obtained from the Department's *Annual Report 2003-2004*. This report explains significant differences between the Department's planned and actual revenue and expenses.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration	\$ 3.1	\$ 3.0
Accommodation and Central Services	2.1	2.1
Intergovernmental Relations	3.5	3.2
Aboriginal Affairs	56.1	54.4
Municipal Financial Assistance	117.9	116.5
Municipal Relations	4.9	4.9
Provincial Secretary	1.6	1.9
Saskatchewan Municipal Board	1.1	1.0
	<u>\$ 190.3</u>	<u>\$ 187.0</u>

For the six-month period ending September 30, 2004, the Department spent \$130.7 million and had revenues of \$1.4 million.

Audit conclusions and findings

This section sets out the results of our audits of the Department for the eighteen-month period ending September 30, 2004, and of the Development Fund, Board, and Account with years ended on December 31, 2004. It does not include the results of our audit of the Account's 2004 financial statements. We have not completed our audit of the Account's financial statements because management has not finalized the financial statements.

We last audited the First Nations Fund for its year ending March 31, 2002. Since that time, the Trustees of the First Nations Fund have denied us access to the Fund's accounts.

In our opinion for the fiscal years ended on or before December 31, 2004:

- ♦ **the Department, Development Fund, Board, and Account had adequate rules and procedures to safeguard public resources except for the matters reported in this chapter**
- ♦ **the Department, Development Fund, Board, and Account complied with authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters reported in this chapter**
- ♦ **the Development Fund and Board had reliable financial statements**

To form the above opinions related to the Development Fund, we worked with Deloitte & Touche LLP, its appointed auditor. To do our work, we used the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (available at <http://www.auditor.sk.ca/rrd.html>).

The following section sets out our detailed audit findings.

Audit findings—Department

Better monitoring of spending by First Nations Trust and community development corporations needed

The Department did not follow all of its processes to ensure the First Nations Trust (Trust) and community development corporations (CDCs) spend public money as required by law.

The Department pays (as required by the 2002 Framework Agreement (Agreement)¹) money to the Trust and CDCs. There are four CDCs—Painted Hand, Bear Claw, Gold Eagle, and Northern Lights. For the eighteen-month period ended September 30, 2004, the Department provided the Trust with \$27.1 million (2003-04: \$16.2 million, 2002-03: nil) and the four CDCs with \$10.9 million (2003-04: \$7.2 million; 2002-03: \$6.7 million).

The Agreement restricts the purposes for which the Trust and each CDC can spend these monies. In general, the Trust and the CDCs must use the money for social, cultural, economic, or other charitable purposes. For the Trust, the programs must be for First Nations people. For CDCs, each must fairly and equitably distribute the money among First Nations and non-First Nations organizations within and surrounding its community. Each is required to have adequate processes to properly account for and control this money.

Under the Agreement, the Department is entitled to information from the Trust and each CDC to ensure the Trust and each CDC properly manage public money and spend it only as permitted. Our 2003 Report – Volume 3 outlined the nature and type of information the Department required from the Trust and each CDC.

The Department set procedures to review and follow up requested information in 2002-03. These procedures are reasonable. The procedures help staff decide on potential corrective actions depending upon the nature of the breach, the amount of money involved, and the overall level of compliance. For severe breaches, staff recommend actions for the Minister's approval. See Exhibit 1 for a summary of the Department's processes. The Department did not hire additional staff in 2003-04 to administer this process as it had previously planned.

The Department requested the information to which it is entitled. It set clear deadlines for receipt of information (i.e., July 31 for CDCs and

¹ The 2002 Framework Agreement is a 25-year agreement between the Government of Saskatchewan and the Federation of Saskatchewan Indian Nations (FSIN). It provides for FSIN to establish a trust and for four Tribal Councils to set up Community Development Corporations (CDCs) each located within their communities. It sets out the portion of annual net profits of the casinos operated by Saskatchewan Indian Gaming Authority that the Trust and CDCs are eligible (i.e., 37.5% - Trust; 25% from on-reserve casinos - CDCs).

August 31 for the Trust). Some of its requests were not timely or made as expected. For example, it wrote to the Trust's auditor two months after the Trust's fiscal year-end to indicate the audit reports it required. Although it reminded CDCs in writing of their audit and reporting responsibilities, it did not provide the auditors of CDCs with a similar letter.

Exhibit 1

The Department's processes to monitor the First Nations Trust and each CDC (entity) include the following.

Each January/ February:

- ◆ Reminds the auditor of each that audit reports must address whether related entity has appropriate rules and procedures to ensure the following:
 - fair and equitable distribution of money
 - money is expended for purposes set out in related agreement
 - all moneys are accounted for
 - Trustees/Directors charge reasonable fees and expenses
 - Trustees/Directors follow conditions set out in related agreement
- ◆ Advises each entity's auditor of the Department's plans to rely on their work and reports

By July 31:

- ◆ Reminds each entity to submit required information by required dates (e.g., audited financial statements, management letter issued by auditor including response thereto, and annual report, if not already received)

Each August:

- ◆ Reconciles amount reported in each entity's audited financial statements to the amount the Department paid
- ◆ Assesses information in reports from each entity and its auditor to identify non-compliance with related agreement and whether department agrees with the entity's related corrective plans, if any
- ◆ Advises entity of actions the Government expects it to take and by when

Each October:

- ◆ Reviews content of entity's annual report to assess compliance with related agreement

The Department must work closely with the Government-appointed *ex officio* member of the Board of each CDC to identify any concerns with the operations of the CDCs.

The Department must make all key communications to the entity in writing. In addition, it must initiate follow-up actions that respond to the severity of the issue. Its procedures help staff decide on the necessary follow-up actions. Actions may include: writing the entity (e.g., reminders outlining requirements, directing specific actions within specified timeframes), initiating direct meetings with trustees/directors of entity to review issue and jointly develop corrective plan acceptable to department, and recommending to the Minister the delay or withholding of payments to entity.

Responsibility for this program transferred to First Nations and Métis Relations on October 1, 2005. The Department did not review information it received when it should have. For example, although the Department received most of the requested reports from the Trust in mid-September,

First Nations and Métis Relations did not review the reports until early December 2004. Then, it asked the Trust, by way of letter, to outline, in writing, its efforts to address the serious concerns raised in the reports. It did not set out when it expected the Trust to provide this information.

Even though the Department reminded each CDC of their reporting obligations in writing in April, not all CDCs provided the Department with the requested information when expected. For example, by early December:

- ♦ one of the four CDCs did not submit its 2003-04 audited financial statements or management letter issued by its auditor
- ♦ three of the four CDCs did not submit 2003-04 annual reports. For the one CDC that did submit an annual report, the report was not complete
- ♦ two of the four CDCs did not submit the required 2003-04 audit report on the adequacy of the CDCs' processes over receipt and allocation of money they receive and use of money as required

In early December, First Nations and Métis Relations reminded the CDCs that had not provided any 2003-04 reports to provide such reports by December 31.

Timely review of information is critical. It helps ensure the Department receives information as required, identifies problems as quickly as possible, and takes corrective action promptly to reduce the risk that public money is spent inappropriately.

The Department's corrective action was not always consistent with the nature of the breach, the amount of money involved, and the overall level of compliance. During the year, the Department delayed payments to one CDC until the CDC submitted its 2002-03 reports. However, when the same CDC had not provided its 2003-04 reports by early December 2004, First Nations and Métis Relations has not yet taken similar action. It continued to make the quarterly payments to this CDC.

In a second example, the Department was advised in September that the Trust did not have sufficient rules and procedures to ensure, first, that the Trust spends money only for the purposes set out in the Trust Indenture, and, second, that recipients of money from the Trust only use this money

for the purposes set out in the Trust Indenture. At mid-December, First Nations and Métis Relations had not followed its processes. It had not completed its review of the information received or determined necessary corrective action (e.g., meet with the trustees to review the situation and jointly develop a plan for remedying the situation or recommend delay of quarterly payments).

Because of the deficiencies noted, the Department does not know if the Trust and all of the CDCs spent public money as the law intended. As a result, we do not know if the money the Department provided to the First Nations Trust and all of CDCs was used as the law expects.

1. We recommend that the Department of First Nations and Métis Relations follow all of its processes to ensure the First Nations Trust properly protects public money and spends it as required by law.

We continue to make the following recommendation to which The Standing Committee on Public Accounts agreed on June 15, 2004. We recommend the Department of First Nations and Métis Relations ensure it receives sufficient and timely information from each community development corporation to determine:

- ◆ if each corporation properly managed public money
- ◆ spent it only as permitted by law

In March 2005, First Nations and Métis Relations advised us that it has hired a full-time professional accountant who will be responsible for monitoring spending by the Trust and CDCs. In addition, it noted that by March 2005 it had received the 2003-04 annual reports from two of the three CDCs.

Concerns over First Nations Fund continue

The matters reported in Chapter 7 of our 2003 Report – Volume 3 about the adequacy of the First Nations Fund's processes, its compliance with the law, and reporting continue. We continue to recommend:

- ◆ the Department supervise the Trustees of the First Nations Fund to ensure the Trustees spend public money with due care and in accordance with *The Saskatchewan Gaming Corporation Act* (Act)
- ◆ the Department provide our Office with the necessary access to the accounts of the First Nations Fund

The Standing Committee on Public Accounts agreed with the above recommendations on November 5, 2002, and June 15, 2004 respectively.

The Department has provided the First Nations Fund with \$51.9 million since 2001. As the revised Act expected, the Department stopped making payments to the First Nations Fund in July 2003.

Although the Department wrote and discussed concerns with the Trustee's legal adviser, it has not been successful in receiving sufficient information to oversee the Fund. Also, the Department has not obtained access to the records of the Fund for our Office.

In addition, the Trustees of the Fund have not met the reporting requirements of the Act. The Act requires the Trustees of the First Nations Fund to submit financial statements, in a format approved by Treasury Board, to the Minister by a set date (i.e., June 29th) and the Minister to table the statements in the Assembly 30 days after receipt (i.e., July 29th).

The Minister tabled the Fund's 2003 financial statements in the Assembly late (i.e., on March 26, 2004 instead of July 29, 2003) and without the required approval of Treasury Board. Treasury Board did not approve the 2003 statements because the Trustees denied our Office access to records of the Fund since the 2002 audit. At December 2004, the Minister had not yet received the 2004 financial statements of the Fund. The Minister received these statements in February 2005.

Without access to the records of the Fund since the March 31, 2002 audit, we cannot complete the audits of the Fund. As a result, we do not know if the Fund adequately safeguarded public money, complied with the law, and prepared reliable financial reports.

Audit findings—Northern Revenue Sharing Trust Account

Background

The Northern Municipalities Act (Act) establishes The Northern Revenue Sharing Trust Account (Account). The Act makes the Department of Government Relations (formerly Department of Government Relations and Aboriginal Affairs) responsible for administering the Account. In addition, Cabinet appoints an eight-member advisory board to advise the Minister on the allocations of northern revenue sharing grants, northern capital grants, and any changes to the law concerning the Account.

The Account includes all revenues of the Northern Saskatchewan Administration District (a designated area in the northern part of the Province) and money appropriated by the Assembly for the purposes of northern revenue sharing and grant programs.

The Account primarily provides money to northern municipalities for operations, water and sewer systems, and municipal facilities. In 2003, the Account had revenues of \$16.8 million, expenses of \$17.0 million, and held assets of \$32.8 million as at December 31, 2003.

Monitoring operations

Over the last few years, we recommended that the former Department of Government Relations and Aboriginal Affairs set out the reports it needs to adequately monitor the Account's operations and set up a process to oversee the Account's operations. The Standing Committee on Public Accounts (PAC) considered this matter in January 2005 and agreed with our recommendations.

Government Relations has not set out the key information (i.e., financial, operational, and compliance) that it must receive regularly from staff that manage the Account.

Staff prepare financial reports quarterly. However, those reports continue to be inadequate. They do not include the following: all revenues from lease fees, amounts the Account owes to others, amounts others owe to

the Account, and information on cash flows. Also, the reports do not adequately explain differences between the actual and planned results.

Agencies need complete, accurate, and timely reports to make decisions. Without such reports, management may make incorrect decisions.

Government Relations has not established a process to oversee the Account. It does not have an adequate process to review reports that the Account's staff prepare. Government Relations needs to monitor the Account's operations to help ensure that the Account is operating effectively and meeting the goals set out in its strategic plan.

We continue to recommend that Government Relations:

- ◆ set out the reports it needs to adequately monitor Northern Revenue Sharing Trust Account's operations
- ◆ set up a process to oversee Northern Revenue Sharing Trust Account's operations

Business plan needed

Last year, we recommended that the former Department of Government Relations and Aboriginal Affairs:

- ◆ prepare a strategic plan for the Account setting out its goals, objectives, and priorities
- ◆ approve an annual business and financial plan (budget) for Account before the beginning of its fiscal year

PAC considered this matter in January 2005 and agreed with our recommendations.

We are pleased to report that Government Relations has prepared a strategic plan for the Account. Government Relations prepared the 2004 business plan and budget for the Account. However, the business plan is not complete because it does not address all of the Account's strategic objectives.

A complete business plan would align the Account's budget to its strategic objectives and describe how financial resource requirements, outlined in the budget, meet the Account's objectives. As a result,

Government Relations does not know if it approved adequate resources for the Account to meet its objectives.

We continue to recommend that Government Relations approve an annual business and financial plan for the Northern Revenue Sharing Trust Account before the beginning of its fiscal year.

Policies and procedures needed

Over the last few years, we recommended that the former Department of Government Relations and Aboriginal Affairs establish processes to record transactions in the accounting records and prepare financial statements for the Account. PAC considered this matter in January 2005 and agreed with our recommendation.

Agencies need accounting policies and procedures to provide staff with guidance in completing their tasks. This helps to safeguard public money and ensure that records are complete and accurate for decision-making. When accounting policies and procedures are not clear and complete, there is a risk that staff may make errors without timely detection.

Government Relations has established and documented some procedures to record transactions in the Account's accounting records. However, Government Relations has not established and documented all procedures to ensure the Account's financial records are complete and accurate.

We continue to recommend that Government Relations establish processes to record transactions in the accounting records and to prepare accurate financial statements for the Northern Revenue Sharing Trust Account.

In April 2005, management told us that Government Relations has now completed drafting most of the policies and procedures for the Account.

Written agreement required

Under the Act, revenues from lease fees on lands in the Northern Saskatchewan Administration District and proceeds from land sales belong to the Account. The Department of Environment (Environment)

administers these leases and land sales for the Account. Environment bills, collects, and maintains records of these revenues for the Account. Government Relations pays Environment \$430,000 annually for this work. Government Relations does not have a written agreement with Environment to administer lease and land sales for the Account.

Last year, we recommended that Government Relations document its agreement with Environment to administer lease and land sales for the Account. PAC considered this matter in January 2005 and agreed with our recommendation.

Government Relations told us that it is developing a written agreement with Environment to specify their respective roles and responsibilities.

We continue to recommend that the former Department of Government Relations and Aboriginal Affairs document its agreement with the Department of Environment to administer lease and land sales for Northern Revenue Sharing Trust Account.

Purchase of goods and services using charge accounts need controlling

Government Relations needs to strengthen its controls over purchases of goods and services using charge accounts. Government Relations needs to do this to ensure only authorized individuals can use those accounts.

To facilitate purchases from local suppliers, Government Relations authorized the Account to establish charge accounts with local suppliers. However, Government Relations has not established an adequate process to ensure only authorized individuals make purchases through those charge accounts.

We found that Government Relations did not always notify the suppliers of changes to the list of individuals authorized to use the charge accounts. Lack of prompt notification to charge account suppliers increases the risk that Government Relations might pay for goods it does not receive.

Government Relations does ensure proper approval for purchases before paying suppliers and we did not find any improper payments during our

audit. However, Government Relations may not be able to recover the charges if an unauthorized person used the charge accounts for the Account because of delayed notification to the suppliers.

- 2. We recommend that the Department of Government Relations promptly notify suppliers of officials authorized to buy goods using its charge accounts.**

Information technology security policies and procedures needed

Government Relations needs to improve information technology (IT) security to prevent unauthorized access to the Account's financial system.

Good security is critical to the successful use of IT. If security is poor, Government Relations risks not having accurate and reliable information to achieve its goals. Government Relations needs to protect the Account's information from unauthorized disclosure, accidental or deliberate changes, and accidental or deliberate destruction. Also, Government Relations must ensure that the Account has adequate procedures to recover from system interruptions.

Government Relations told us that it has drafted IT security policies and procedures. However, the staff at the Account either do not know the procedures or do not follow Government Relation's policies.

Staff did not regularly update and maintain passwords that prevent unauthorized access to the Account's financial records. Also, the Account did not have adequate physical security for the main computer server. The main computer server is located in an unsecured location.

- 3. We recommend that the Department of Government Relations clearly communicate its information technology security policies to staff responsible for the Northern Revenue Sharing Trust Account and ensure compliance.**

Management has told us that Government Relations has now made the Account staff aware of the drafted IT security policies.

