

## Community Resources and Employment

# 4

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## **Main points**

The Department of Community Resources and Employment (DCRE) needs to strengthen its rules and procedures (processes) to ensure that it spends public money only for the purposes intended by the Legislative Assembly. DCRE needs to continue to strengthen its processes:

- ◆ to ensure that only eligible clients receive social assistance and that they receive the correct amount of assistance
- ◆ to ensure that it protects children and that payments to care givers are authorized
- ◆ to improve its assessment of the CBOs' progress in achieving DCRE's operational objectives

DCRE needs to focus the work of its internal auditor on the activities where DCRE is at greatest risk of loss of public money or spending money for unintended purposes.

DCRE needs a business continuity plan to help ensure that it can continue to deliver its critical services in the event of a disaster. Also, it must strengthen its information technology security processes to ensure the confidentiality, integrity, and availability of information systems and data.

We have observed that DCRE is working diligently to implement our recommendations and to improve its performance.

## Introduction

The mandate of the Department of Community Resources and Employment (DCRE) is to advance the economic and social well-being of Saskatchewan people. It provides basic income support, housing, child care, career services, and employment programs. DCRE helps vulnerable families care for and support family members. It supports independent community-based services for people with mental and physical disabilities.

The Government's summary financial statements show "social services and assistance" expenses of \$821 million for the year ended March 31, 2005.

The following table shows the Government's total spending for social programs and services:

	(in millions of dollars)	
	2005	2004
Department of Community Resources and Employment	\$ 602	\$ 604
Saskatchewan Housing Corporation	143	110
Department of Learning	20	20
Department of Government Relations	3	3
Department of Corrections and Public Safety	39	42
Department of Justice	14	13
Total	<u>\$ 821</u>	<u>\$ 792</u>

DCRE received \$602 million from the General Revenue Fund to deliver its programs and earned revenues of \$20 million. Information about DCRE's revenues and expenses appears in its annual report (see <http://www.dcre.gov.sk.ca>).

The following is a list of DCRE’s major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Income Support	\$ 315	\$ 314
Family and Youth Services	65	67
Community Living	78	77
Regional Service Centres	69	69
Child Care	23	23
Accommodation and Central Services	18	18
Other	30	30
Early Childhood Development	4	4
Total	<u>\$ 602</u>	<u>\$ 602</u>

### **Special purpose funds and Crown agencies**

DCRE is responsible for the following special purpose funds and Crown agencies:

	<u>Year-End</u>
Social Services Central Trust Account	March 31
Saskatchewan Housing Corporation (SHC)	December 31

We reported the results of our audit of SHC in our 2005 Report – Volume 1.

### **Our audit conclusions and findings**

**In our opinion, for the year ended March 31, 2005:**

- ◆ **the financial statements of the Trust Account are reliable**
- ◆ **DCRE had adequate rules and procedures to safeguard public resources except as described in this chapter**
- ◆ **DCRE complied with the authorities governing its financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except as described in this chapter**

## Business continuity plan required

DCRE needs a written, tested, and approved business continuity plan<sup>1</sup> to help ensure that it can continue to deliver its critical services in the event of a disaster.

DCRE delivers several critical services to the residents of Saskatchewan. Its services include providing social assistance payments and emergency funding to people in need. It is also responsible for protecting children from abuse and neglect, supporting families and communities in caring for children, and assisting people facing family violence.

DCRE must provide these services, even if a disaster disrupts its ability to deliver its programs and services in the usual manner. Without an adequate business continuity plan, DCRE is at risk of not being able to deliver its services in a timely manner.

To prepare an adequate business continuity plan, DCRE should:

- ◆ ensure management supports the plan including making the required resources available to create and maintain the business continuity plan
- ◆ design the plan using a threat and risk assessment including identifying and ranking mission critical functions
- ◆ include plan activation and notification procedures, emergency procedures that would be used in the event of a disaster, and steps for the recovery and restoration of key services
- ◆ document the plan, have management approve it, and make it easily accessible when the plan needs activation
- ◆ test the plan initially and on an ongoing basis
- ◆ include policies for ongoing maintenance and updating of the plan

DCRE does not have a complete business continuity plan. It has, however, some parts of a business continuity plan. For example, it has

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<sup>1</sup> **Business Continuity Plan** - Plans by an organization to respond to unforeseen incidents, accidents, or disasters that could affect the normal operations of the organization's critical operations or functions.

**Disaster Recovery plan (DRP)** - Plans by an organization to respond to unforeseen incidents, accidents or disasters that could affect the normal operation of a computerized system (also known as a **Contingency Plan**). A DRP or contingency plan is only one component of a Business Continuity Plan.

documented emergency social services procedures in the event of a disaster in a Saskatchewan community. However, it has not developed or documented all of the key components of a business continuity plan described earlier.

We also reported this matter in previous years. In September 2004, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

We continue to recommend that DCRE prepare a business continuity plan.

Management has started to develop a business continuity plan.

## **Information Technology security needs strengthening**

DCRE needs to strengthen its security policies to ensure the confidentiality, integrity, and availability of information systems and data.

DCRE needs sound security policies to protect data and systems. DCRE should:

- ♦ design the security processes using a threat and risk assessment
- ♦ identify who is responsible for the security of systems and data
- ♦ define how and when DCRE will grant and remove an individual's access to systems to ensure that no one employee is able to both commit and conceal errors or fraud
- ♦ define how it will monitor compliance with security policies and procedures and address security weaknesses

DCRE also needs to have a security awareness plan to reduce the risk of staff unintentionally creating security risks resulting in loss or disclosure of data. Awareness training would help ensure that employees understand security policies, security risks, and privacy issues.

DCRE has recently prepared a vision statement for ideal IT security and is working to improve its IT security. Management had not approved or implemented the draft policies at the time of our audit.

We also reported this matter in our 2005 Report – Volume 1 and our 2004 Report – Volume 3. In June 2005, PAC agreed with our recommendation.

We continue to recommend that DCRE establish adequate security processes for its information systems.

### **Internal audit needs strengthening**

DCRE's audit committee needs to focus the work of the internal auditor on activities where DCRE is at greatest risk of loss of a significant amount of public money or spending money for unintended purposes.

DCRE needs to ensure that its internal auditor can provide it with information on the effectiveness of DCRE's processes to safeguard public resources and ensure that its revenues and expenses comply with the law. A risk-based audit plan would help the audit committee assess if DCRE's processes are adequate.

- 1. We recommend that the Department of Community Resources and Employment focus the work of its internal auditor on the activities where the Department is at greatest risk of loss of public money or spending money for unintended purposes.**

DCRE is doing the above risk assessment. It is also hiring a manager of internal audit. We will examine the quality of DCRE's risk assessment and report the result in a future report.

### **Need to follow processes to protect children**

DCRE needs to ensure that it protects children in its care and that it properly authorizes payments to the children's custodians.

DCRE is responsible to promote the well-being of children, youth, and families. DCRE has services designed to protect children from abuse and neglect, support families and communities in caring for children, assist people facing family violence, and adopt children.

DCRE has approximately 1,700 children in foster care and 700 in alternate care. Foster care providers usually do not have any prior

relationship with the child. Alternate care providers are extended family members or other persons who have a close connection to the child.

DCRE has processes to place children in its care. If DCRE does not follow its processes, it cannot ensure that the children in its care are safe and that payments to care providers are authorized. For First Nations children living on reserves, DCRE makes agreements with Indian bands (or their agencies) to provide these services on behalf of DCRE. The agreements require the bands to follow processes equivalent to DCRE's processes for children in care.

DCRE did not always follow its processes for the placement of children in its care. Also, it did not ensure that Indian bands followed equivalent processes. As a result, DCRE did not know whether all children in its care were protected or that payments to custodians were authorized. Exhibit 1 shows the results of our audit tests for the past three years on the rate of non-compliance where DCRE provides the services to protect children.

### **Exhibit 1: Percentage of client files not complying with child protection policies**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
No criminal record check*	20%	31%	40%
Inadequate home study	13%	31%	23%
Inadequate contact with children	35%	54%	NA**
No agreement with foster care provider	13%	33%	20%

\* Non compliance generally relates to adult non-care providers living in the home

\*\* Audited information not available.

The Exhibit shows that DCRE is improving compliance with its processes, but more progress is needed. DCRE has developed a long-term Quality Improvement Plan (Plan) to improve employees' compliance with its processes for protecting children in care. The Plan does not yet contain targets for the levels of compliance DCRE expects. The Plan, combined with long-term commitment from senior management, should provide a reasonable basis to ensure employees comply with processes to ensure that children in care are protected and that payments to custodians are authorized.

We also reported this matter in our 2003 Report – Volume 3. In September 2004, PAC agreed with our recommendation. We continue to



recommend that DCRE follow its rules and procedures to ensure that children in its care are protected and the payments to custodians are authorized.

## **Saskatchewan Employment Supplement processes need to be strengthened**

DCRE needs to strengthen its processes to ensure that only eligible persons receive the correct amount of Saskatchewan Employment Supplement program (SES) payments.

SES gives money to lower income working parents or single parents who receive child support from the absent parent. This money helps to ensure that low-income parents (clients) are better off working than on social assistance. For the year ended March 31, 2005, DCRE paid \$18 million to SES clients.

DCRE has rules and procedures for paying SES clients. Clients tell DCRE, usually by telephone, their employment income and family composition when they apply for SES money and monthly after that if there are any changes to their eligibility. Factors such as family composition and monthly income earned affect the amount of money a client is eligible to receive.

The internal auditor regularly audits SES payments to clients. The internal auditor asks the clients to submit documents that verify their employment income and family composition. If, after two written requests, a client does not submit the required documents, DCRE stops making payments to the client.

For the year ended December 31, 2004, the internal auditor reported a 5% overpayment error rate to clients. The internal auditor based this error rate only on clients who provided written evidence to support their reported income. Fourteen percent of clients did not provide the internal auditor this evidence. As a result, overpayments may be much higher than the 5% reported by the auditor.

DCRE has set a target error rate of 4% of total SES payments. DCRE's auditor has determined that the error rate exceeds 4% and has recommended that DCRE strengthen its processes to reduce the

overpayments to below 4%. DCRE has not done this yet. Because overpayments exceed 4%, DCRE's processes are not adequate to ensure that only eligible clients received the correct amount of SES payments.

2. **We recommend that the Department of Community Resources and Employment ensure that only eligible persons receive the correct amount of Saskatchewan Employment Supplement.**

### **Processes for social assistance payments need strengthening**

DCRE needs to strengthen its processes to ensure that only eligible persons receive the correct amount of social assistance.

In 2005, DCRE made over 700,000 payments for social assistance totalling \$239 million. It must make many of these payments quickly. A client's need for food, clothing, and shelter often require payment that day, or within a few days. DCRE must later verify the client's eligibility for assistance and the amount that was required.

In addition, a client's eligibility for assistance (e.g., living arrangements, levels of income) often changes; this affects the amount of required assistance. If the client does not promptly inform DCRE of such a change, it will make incorrect payments until it reassesses the client's need. DCRE's processes require this reassessment on every client at least once each year.

DCRE needs strong processes to identify incorrect payments, due to error or fraud, after they have been made and to recover any overpayments. In recent years, DCRE has improved its communications to its employees on the importance of its processes and has taken steps to ensure employees understand the intent of the processes. DCRE needs to ensure that employees know they are expected to bring any instances of non-compliance to management's attention. Formal fraud awareness training would help staff to identify and report any instances of non-compliance whether intentional or not.

Exhibit 2 shows the results of our audit tests for the past three years on the rate of non-compliance with DCRE's established processes.

**Exhibit 2: Percentage of client files containing inadequate support for payments**

<b>Eligibility not adequately documented or incorrectly recorded</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Client identification	10%	18%	33%
Needs/expenses	26%	29%	25%
Marital status	1%	8%	13%
Living arrangements	10%	16%	23%
High risk of overpayments (large payments) <sup>2</sup>	0%	7%	19%
Child support <sup>3</sup>	29%	33%	27%

The Exhibit shows that DCRE is improving compliance with its processes, but more progress is needed. DCRE has developed a long-term Quality Improvement Plan (Plan) to improve employees' compliance with its processes for social assistance payments. The Plan does not yet contain targets for the levels of compliance DCRE expects. The Plan, combined with long-term commitment from senior management, should provide a reasonable basis to ensure employees comply with processes to ensure that only eligible clients receive the correct amount of assistance.

DCRE, with assistance from the Department of Finance, is doing a review of all processes for social assistance payments. The purpose of the review is to strengthen processes to safeguard public resources and to ensure that only eligible persons receive the correct amount of assistance.

DCRE is preparing regular reports for senior management and all levels of staff on the rates of compliance with its processes, e.g, accuracy and completeness of applications for assistance and completion of annual reviews of clients' continued eligibility for assistance.

<sup>2</sup> These are client files that contained large unsupported or suspicious payments with little or no evidence that DCRE had followed up or questioned the payments. These payments include, for example, payments without invoices or receipts; medical payments without any evidence of medical problems; and payments to clients with significant bank balances or other assets.

<sup>3</sup> Clients must pursue other means of support before being eligible for assistance. A custodial parent receiving assistance is required to pursue child support from the other parent if obtaining such support is possible.

We reported this matter in prior years. In June 2001, PAC agreed with our recommendations.

We continue to recommend that DCRE follow its established processes that ensure only eligible clients receive assistance and that they receive the correct amount of assistance.

We continue to recommend that DCRE improve its records and document its procedures to ensure that custodial parents receiving social assistance pursue child support.

We also reported in our 2005 Report – Volume 1 the need for fraud awareness training. In June 2005, PAC agreed with our recommendation.

We continue to recommend that DCRE train its employees to help establish a culture of fraud awareness.

### **Community-based organizations**

DCRE needs to strengthen its supervision of community-based organizations (CBOs).

DCRE paid about \$80 million to over 260 CBOs that provide services for it. Services provided by CBOs include group homes, services to enable people to live in their own homes (who otherwise could not), and early childhood, youth-at-risk interventions, and employment assistance.

We organize our findings on CBOs into three groupings:

- ◆ agreements with CBOs
- ◆ financial performance reports
- ◆ operational performance reports

### **Agreements with community-based organizations**

DCRE's agreements with CBOs need improvement.

Adequate service agreements:

- ◆ set out clearly DCRE's financial, operational, and compliance with the law objectives
- ◆ require CBOs to report periodically to DCRE on their assessments of the internal controls they have established to achieve DCRE's financial, operational, and compliance with the law objectives
- ◆ require CBOs to report to DCRE periodically on the CBOs' progress in achieving DCRE's objectives
- ◆ allow DCRE or an independent auditor to verify the CBOs' reports
- ◆ describe how DCRE will provide money to the CBOs

For CBOs managing small amounts of public money (e.g., less than \$250,000), DCRE could have less stringent reporting requirements than those described above. For smaller CBOs, DCRE could directly monitor and document their performance without requiring formal performance reports from them.

DCRE makes annual agreements with CBOs setting out DCRE's financial and compliance with the law objectives, the right to verify reports received, and describe the basis of DCRE's funding. The agreements need to set out more clearly the CBOs' operating objectives (i.e., what CBOs intend to achieve with the money they receive from DCRE). DCRE is working with CBOs to more clearly define the outcomes the CBOs are expected to achieve.

The agreements require most CBOs (i.e., Community Living CBOs) to report periodically their assessments of the internal controls they have established to achieve DCRE's objectives. The agreements allow DCRE to assess whether the CBOs' controls are adequate.

We commend DCRE for the improvements it has made to the agreements in recent years, but more improvement is needed. As a result of inadequate agreements, DCRE does not know if the CBOs are achieving its objectives.

We also reported this matter in previous reports. In September 2004, PAC agreed with our recommendation.

We continue to recommend that DCRE strengthen its agreements with CBOs by clearly setting out the CBOs' operating objectives and requiring CBOs to report periodically their assessment of the adequacy of processes to achieve their objectives.

### **Financial reports**

DCRE needs to ensure that it receives and reviews financial performance reports from CBOs on a timely basis.

Service agreements require the CBOs to provide DCRE with quarterly and annual financial reports including a comparison of actual to budget and an explanation of differences. The service agreements also specify the dates DCRE is to receive the reports.

Many CBOs did not provide the required financial information on time. We examined CBOs that had received funding of at least \$250,000 from DCRE. We examined CBO annual reports for the year ended March 31, 2004 and CBO quarterly reports up to June 30, 2004. We found that 46% of the quarterly and 52% of the annual reports were not submitted on time.

DCRE did not do timely reviews of the above noted CBOs' financial reports. Our audit tests showed that 61% of the CBOs' reports were not reviewed by DCRE within six months of the CBOs' year-end. Late reviews of financial reports could result in DCRE not taking timely corrective action.

Because DCRE did not adequately follow its rules and procedures, it did not know on a timely basis if the money provided to CBOs was used for the intended purposes.

### **Operational reports**

DCRE does not know if the CBOs are achieving DCRE's operational objectives.

DCRE requires CBOs to submit annual reports describing their services and activities. However, it does not require the CBOs to set performance

measures and targets to enable them to report their progress in meeting DCRE's objectives.

We reported the financial and operational performance reporting matters in previous years. In June 2001, PAC agreed with our recommendations.

We continue to recommend that DCRE ensure all CBOs submit timely performance reports to it as required by agreements.

We continue to recommend that DCRE perform timely reviews on all the performance information submitted by the CBOs.

We continue to recommend that DCRE work with CBOs to establish performance measures and targets that better allow it to assess the CBOs' progress in achieving DCRE's operational objectives.

DCRE is addressing our recommendations. It has engaged a senior official to review existing policies and practices and to develop a long-term plan for strengthening relationships with, and accountability of, the CBOs. DCRE has also established a committee of officials that work closely with CBOs to examine and make recommendations to senior management for addressing operational issues and improving accountability.

## **Hiring employees**

Our 2005 Report – Volume 1 describes how DCRE needs to strengthen its hiring processes to safeguard public money. It also needs to bond or otherwise insure persons involved in the collection, receipt, disbursement, or expenditure of public money.

We also reported this matter in our 2005 Report – Volume 1. In June 2005, PAC agreed with our recommendations.

We continue to recommend that DCRE assess if the standard blanket fidelity bond (insurance) coverage reduces its risk of loss of public money to an acceptable level.

We continue to recommend that DCRE assess the risk of loss of public money by employees in positions of trust (i.e., responsible for the

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).

In September 2005, the Public Service Commission (PSC) announced that all employees responsible for the collection, receipt, disbursement or expenditure of public money as well as all senior managers will require criminal record checks when hired and once every five years while employed. In a future audit, we will examine whether DCRE has followed this new PSC policy.