

## Northern Affairs

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## Main points

To help develop businesses in northern Saskatchewan, the Department of Northern Affairs makes loans to eligible persons beginning or operating businesses. For most of the year, the Department did not have a process to ensure it properly approves all loan documents before it makes the loans. Also, we report that the Department does not have a process to ensure it receives and analyzes the borrowers' financial and operating information as required by the loan agreements.

We report that the Department needs to comply with *The Financial Administration Manual* when it receives money in the mail and pays honorariums to members of its Environmental Quality Committee. The Department did not ensure that the two people who open the mail signed the records and did not ensure that it reconciled the cash received to the bank deposit.

During the year, the Department compensated government employees who served on its Environmental Quality Committee. These employees were not eligible for compensation. Near the year-end, the Department stopped compensating government employees serving on its committee.

## Introduction

During 2004-2005, the *Department of Northern Affairs Regulations* made under *The Government Organization Act* established the Department of Northern Affairs (formerly the Office of Northern Affairs-Department of Industry and Resources).

The mandate of the Department is “to promote the social and economic development of northern Saskatchewan communities in partnership with the Federal Government and northern communities by supporting regional development and development of businesses and industries, and coordinating government activities”.<sup>1</sup>

The Department has a program, called the Northern Development Fund, to help develop business in northern Saskatchewan. Under this program, the Department makes loans with fixed terms and interest to eligible persons beginning or operating businesses in northern Saskatchewan.

For the year ended March 31, 2005, the Department received \$4.9 million from the General Revenue Fund to provide programs and services. The Department also had an approved budget of \$2 million for the loan program for the year. During the year, the Department made loans totalling \$1.4 million.

## Audit conclusions and findings

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

- ◆ **the Department had adequate rules and procedures to safeguard public resources except for the matters described below**
- ◆ **the Department complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matters described below**

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<sup>1</sup> Saskatchewan. Department of Finance. (2004). *2004-05: Saskatchewan provincial budget: estimates*. Regina. Page 113.

## Controls over cash receipts required

The Department needs to safeguard the money it receives in the mail.

*The Financial Administration Manual (FAM)* of the Department of Finance applies to the Department. To safeguard public money adequately, the Department must follow the procedures set out in FAM. FAM requires that two people open the mail, record all money received, sign the record, and reconcile the money received to the bank deposit and accounting records.

The Department, however, does not follow FAM. Two employees open the mail, make an electronic record of the mail they open, and pass the cash received to another employee without signing the records. The other employee lists all cash received, totals the amount and makes the bank deposit.

No one in the Department agrees (reconciles) the electronic record of cash received to the bank deposits. This reconciliation would help ensure that the Department has deposited all money it received. Because the Department does not do this reconciliation, there is a risk that public money may be lost or incorrectly recorded in the financial records without timely detection.

We reported this matter in our 2004 Report – Volume 3. In May 2005, the Standing Committee on Public Accounts considered this matter and agreed with our recommendation.

We continue to recommend that the Department follow the procedures in FAM for opening the mail and safeguarding the money received.

## Better management of loan program required

The Department has not established adequate processes to manage the Northern Development Fund (NDF) loan program.

Under this program, the Department approves fixed-term loans to persons in northern Saskatchewan for economic development. The Department's strategic plan sets out the goals and objectives of this loan program. The Department is responsible to monitor the loans and collect the amounts due.

For most of the fiscal year, the Department did not have a process to ensure it properly approves all loan documents before it made the loans. The Department had a delegation of authority, but it was not up-to-date. For example, for approval of loans, it referred to positions that no longer existed. Therefore, it was not clear who had the authority to approve loans. Near the year-end, the Deputy Minister approved and communicated to staff an updated delegation of authority for loan approval.

The Department also needs to establish and communicate conflict-of-interest guidelines for approving loans. Those guidelines need to be consistent with the conflict-of-interest policies established by the Public Service Commission.

The Department also does not have adequate processes to monitor borrowers' operations to ensure the loan program is meeting the Department's goals as set out in its strategic plan.

To effectively monitor the loan program, the Department must receive and analyze the borrowers' financial and operating information as required by the loan agreements. The Department does not do so. Also, the Department does not have evidence of how its staff monitors outstanding loan balances. Staff appeared to be generally aware of the status of the loans, but the loan files did not have adequate evidence of monitoring.

Inadequate loan approval and monitoring processes increase the risk that the Department may not achieve its objectives for providing the loans or collect amounts due.

- 1. We recommend that the Department of Northern Affairs receive and analyze the borrowers' financial and operating information as required by its loan agreements.**

## **Unauthorized payments to committee members**

The Department made unauthorized payments to some of its Environmental Quality Committee members.

The Department established an Environmental Quality Committee to advise on environmental issues in northern Saskatchewan. Two of the

committee members are government employees. FAM states that government employees on departmental committees are not eligible for compensation.

During the year, the Department paid \$4,550 to the government employees on the committee. As a result, the Department did not comply with FAM and made unauthorized payments of \$4,550.

We also examined prior years to see if the Department had made similar payments. We found that in the period from April 1, 2000 to March 31, 2004, the Department made unauthorized payments to government employees on the Committee of \$11,284.

Near the year-end, the Department stopped compensating government employees serving on its committee.