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## Environment

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## **Main points**

In our 2005 Report – Volume 1, we reported that the Department of Environment (Department) incurred a loss of public money and possible loss of public money totalling about \$500,000. We identified several deficiencies in the Department's controls to reduce the risk of error or fraud and made several recommendations. In our 2005 Report – Volume 3, we made other recommendations to help the Department improve its processes to safeguard public resources.

In 2006 we examined the progress the Department made in addressing our recommendations. The Department has established rules and procedures to safeguard public resources but faces challenges in ensuring staff follow them. As a result, many of our recommendations remain outstanding. It is challenging for the Department to address our recommendations without a plan to do so. The Department needs a plan setting out when and how it will fully address our recommendations, and whether it has the resources to do so. In addition, a better human resource plan would help the Department determine the competencies it needs to those that exist along with strategies to address any gaps. We also make three new recommendations to help the Department improve its processes to safeguard public resources.

We also report that the Department needs to do more work to address our recommendations to better regulate air emissions. The Department addressed our recommendations relating to regulating the quality of drinking water.

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## Introduction

The Department of Environment (Department) is responsible for managing, enhancing, and protecting the Province's natural and environmental resources and sustaining them for future generations. Information about the Department is available on its website ([www.se.gov.sk.ca/](http://www.se.gov.sk.ca/)).

For the year ended March 31, 2006, the Government's summary financial statements show environment and natural resource expenses of \$174 million (2005 – \$154 million) comprised of the following:

	(in millions of dollars)	
	<u>2006</u>	<u>2005</u>
Department of Environment		
(2005-06 Public Accounts – Volume 1)	\$ 146	\$ 133
Deduct expenses shown as:		
Economic development related to forests	(12)	(13)
Community development related to urban parks	(4)	(4)
Other	(5)	-
Add expenses incurred by:		
Saskatchewan Water Corporation	28	25
Saskatchewan Watershed Authority	<u>21</u>	<u>13</u>
	<u>\$ 174</u>	<u>\$ 154</u>

The Department received \$146 million (2005 – \$133 million) from the General Revenue Fund for its programs (plus an additional \$37 million for capital asset acquisitions). Also, the Department recorded revenue of \$53 million (2005 – \$50 million). The Department raises revenue from licences and permit fees for fishing, gaming, and forestry. It also collects non-refundable deposits on beverage containers. In addition, the Department raises revenue and incurs expenses through its funds listed on the next page.

Information about the Department's revenues and expenses appear in the Department's 2005-06 annual report, (see [www.se.gov.sk.ca/](http://www.se.gov.sk.ca/)). The Department's major programs and spending include:

	<u>Original Estimates</u>	<u>Actual</u>
	(Millions of dollars)	
Central Management and Services	\$ 18	\$ 17
Environmental Protection and Water		
Management	23	24
Forest Services	14	14
Fire Management and Forest Protection	89	82
Resource Stewardship	7	7
Parks	14	15
Compliance and Field Services	14	14
Planning and Risk Analysis	5	5
Other	<u>5</u>	<u>5</u>
	<u>\$ 189</u>	<u>\$ 183</u>

The Department is responsible for managing the following special purpose and revolving funds (funds) and Crown agencies:

- ◆ Commercial Revolving Fund
- ◆ Fish and Wildlife Development Fund
- ◆ Resource Protection and Development Revolving Fund
- ◆ Operator Certification Board
- ◆ Saskatchewan Watershed Authority
- ◆ Water Appeal Board

## **Our audit conclusions and findings**

We worked with Meyers Norris Penny LLP, the appointed auditor for the Saskatchewan Watershed Authority, and Mintz & Wallace, the appointed auditor for the Operator Certification Board, to form our opinions. We used the framework recommended in the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors* (see our website at [www.auditor.sk.ca/rrd.html](http://www.auditor.sk.ca/rrd.html)). Our Office and the appointed auditors formed the following opinions.

**In our opinion, for the year ended March 31, 2006:**

- ◆ **the Department and its agencies had adequate rules and procedures to safeguard public resources except for the matters described in this chapter**

- ◆ **the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for the matter described in this chapter**
- ◆ **the financial statements of the Department's funds and agencies are reliable**

In this chapter, we also report the results of our follow-up of the Department's processes to regulate air emissions and the quality of drinking water. The Department needs to do more work to address our recommendations to better regulate air emissions.

Also, in our 2005 Report – Volume 1, we reported that the Department of Environment incurred a loss of public money and possible loss of public money totalling about \$500,000. We concluded that the Department needs to do the following in order to reduce the risk of error or fraud:

- ◆ 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

The Department has not yet fully addressed many of our past recommendations. It is challenging for the Department to address our recommendations without a plan to do so. The Department needs a plan setting out when and how it will fully address our recommendations, and whether it has the resources to do so.

## **Timely verification of forestry fees**

The Department needs to verify and collect forestry fees promptly. The Department collected forestry fees of approximately \$8 million for the year ended March 31, 2006.

The Department has forest management agreements (FMAs) with forestry companies. Generally, a FMA describes areas where a forestry company can harvest trees, amount and timing of fees payable to the

Department, and stipulates reforestation activities. The Department requires forestry companies to submit monthly returns and pay forestry fees based on an estimated volume of trees delivered. It also requires the companies to submit an annual return reconciling the estimated volume to the actual volume of trees delivered. This annual return helps determine the total fees for the year. However, the companies do not remit any remaining fees owing until the Department verifies the annual reconciliations.

The Department must promptly verify the annual returns the forestry companies submit. Verifying these returns ensures forestry companies promptly pay their forestry fees. At the time of our audit, the Department had not verified the annual returns for all the companies for the years ended March 31, 2005 and 2006. We also found no evidence that the Department's employees had informed senior management of the delays in verifying the returns of forestry companies. Delays in verifying annual returns results in delays in collecting forestry fees and may result in a loss of public money.

The Department uses its internal auditor to help ensure the forestry companies comply with the terms of FMAs and pay proper fees. However, the internal auditor's work plan for FMAs is not timely.

During the year, the Department's internal auditor audited the annual returns of a company covering the period April 1, 2000 to March 31, 2004. The internal auditor concluded that the company owed \$765,000 in fees to the Department. The Department has collected the unpaid fees.

- 1. We recommend the Department of Environment verify and collect forestry fees promptly.**

## **Segregation of duties**

In our 2005 Report – Volume 1, we recommended that the Department properly segregate the duties of the employees responsible for collection, receipt, disbursement, or expenditure of public money. Segregation of duties is important to prevent the misuse of public money.

The Standing Committee on Public Accounts (PAC) considered this matter in June 2005 and agreed with our recommendation.



During the year, the Department properly segregated the duties of employees around the collection and receipt of public money.

The Department has established policies setting out proper segregation of duties for processing payments. It has also provided training to employees on these policies. However, employees continued to have difficulties complying with the established policies. We found instances where there was no indication who received the goods and services. Also, employees did not always check for proper approval of invoices before paying them. The Department's internal auditor advised senior management that employees do not always comply with the segregation of duties policies for processing payments.

We continue to recommend that the Department properly segregate the duties of the employees responsible for disbursement or expenditure of public money.

## **Effective direction to employees**

In our 2005 Report – Volume 1, we recommended the Department clearly communicate to its employees its operating policies and ensure that its employees understand the reasons for the policies.

PAC considered this matter in June 2005 and agreed with our recommendation.

The Department has various operating policies and procedures manuals that provide guidance to its employees. The manuals include direction to employees for initiating and processing payments and reconciling revenue billings and payment records to the accounting records. The Department has also established an authority grid. During the year, the Department provided fraud awareness and internal control training to almost all its employees. Management told us it plans to provide such training annually. In addition, the Department requires its supervisors and managers to supervise the work of others.

However, employees do not follow the established policies for processing payments and reconciling accounting records. We found payments without properly approved invoices. Also, we found employees did not agree (reconcile) revenue billings to the accounting records on a timely

basis. For the year ended March 31, 2006, employees had not reconciled all license and forestry revenues to the accounting records by September 2006. Nor had the supervisor taken action to ensure the reconciliations were complete, assessed the consequences of not completing reconciliations, and informed senior management. Lack of timely reconciliation increases the risk that errors and misuse of resources could occur without detection. The Department must ensure its employees understand the established policy and the consequences for not following those policies. Also, the Department needs to train and direct its supervisory staff to help supervise the work of their employees.

Also, the Department needs to improve its direction to employees for safeguarding inventory. The Department and its funds hold a significant amount of inventory. Some of this inventory is for sale (e.g., maps, books) and the rest of it is consumable (e.g., fuel, airplane parts). At March 31, 2006, the Department and its funds had inventory of approximately \$15.7 million.

The Department did not provide timely guidance to staff for counting and valuing inventory. Because the Department had not provided any direction to its employees, they counted and valued some inventory incorrectly.

We continue to recommend the Department of Environment clearly communicate to its employees its operating policies and ensure that its employees understand the reasons for the policies.

## **Control over capital assets**

In our 2004 Report – Volume 3 and previous reports, we recommended that the Department should ensure its employees follow the established rules and procedures to control the Department's capital assets.

In May 2003, PAC considered this matter and agreed with our recommendation.

At March 31, 2006, the Department managed capital assets with a net book value totalling approximately \$76.2 million (2005 - \$33 million). These assets include land, buildings, machinery, transportation equipment (e.g. airplanes), and office equipment.

The Department has established appropriate processes for maintaining complete records of its capital assets. The established processes require employees to identify and record the capital assets acquired, transferred between locations, and disposed of during the year. The Department also require staff to inspect capital assets regularly to ensure capital assets exist and regularly reconcile (agree) the capital asset records to the financial records. However, the Department lacks adequate processes to supervise the completion of the capital asset processes.

The Department has not made progress in ensuring its employees follow established processes. Employees do not update the capital asset records properly and do not record the location of capital assets. Employees do not regularly reconcile the capital asset records to the financial records and investigate differences. We also found no evidence of supervisors ensuring the capital asset records are properly maintained. At year-end, the Department's financial records showed \$300,000 less capital assets than the capital asset records. In addition, we found the Department incorrectly expensed capital assets of \$750,000. Inadequate and inaccurate records increase the risks that the Department's capital assets may be lost or stolen without detection.

We continue to recommend the Department of Environment ensure staff follow the Department's rules and procedures to safeguard its capital assets.

## **Compliance with the Financial Administration Manual**

In our 2005 Report – Volume 3, we recommended the Department prepare complete and accurate year-end financial reports as required by the *Financial Administration Manual* (FAM).

PAC considered this matter in March 2006 and agreed with our recommendation.

FAM requires the Department to give the Department of Finance a year-end financial report that shows the revenues, expenses, assets, and liabilities of the Department. The Department of Finance uses this report to prepare the Government's financial statements.

The Department's year-end financial reports contained several errors for the year ended March 31, 2006. The Department's year-end financial reports included \$1.7 million owing to others. The Department did not know who this amount is owed to and why. The Department's financial reports also did not record \$13 million in rental expenses to other Departments. The Department also did not know the full amount of forestry fees it is owed at March 31, 2006.

We continue to recommend that the Department of Environment prepare complete and accurate year-end financial reports as required by the *Financial Administration Manual*.

## **Better human resource plan**

In 2005-2006, the Department did not have an adequate human resource plan. An adequate human resource plan would help the Department to ensure it has the right employees, in the right jobs, at the right time.

An adequate human resource plan would:

- ◆ set out priorities and human resource needs and link to strategic direction of the Department
- ◆ identify key human resource risks and any competency gaps in current resources
- ◆ set out strategies and implementation plans to bridge competency gaps

The Department has determined its current human resource needs. It now needs to determine its future human resource needs and develop strategies to address any gaps between its current and future workforce. Also, the Department's development program for its accounting employees should assess if its employees have the competencies required to do the work and if needed, include a training program to ensure employees obtain the required competencies. When employees do not have the needed competencies, they may hesitate to do the assigned tasks or do them incorrectly.

- 2. We recommend that the Department of Environment identify its future human resource needs and develop strategies to address any competency gaps.**

Management told us that the Department is in the process of identifying the critical competencies employees need to carry out the Department's strategic direction. Management also told us that the Department plans to re-evaluate its current human resources, determine its future human resource needs, identify the gap between the present and future workforce, and develop strategies to address those gaps.

## **Complete business continuity plan**

The Department needs a written, tested, and approved business continuity plan to help ensure that it can deliver its programs and services in the event of a disaster.

The Department delivers a number of environmental programs and services to the residents of Saskatchewan as part of its mandate. It must carry out its mandate, even if a disaster disrupts its ability to deliver its programs and services in the usual manner. Without an adequate business continuity plan, the Department is at risk of not being able to deliver its programs and services in a timely manner.

Business continuity plans should:

- ◆ be supported by management including making the required resources available to create and maintain the business continuity plan
- ◆ be based on a threat and risk assessment including identifying and ranking the Department's critical services
- ◆ 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 critical services
- ◆ be documented, approved by management, and easily accessible when needed
- ◆ be tested initially and on a regular basis
- ◆ include policies for regular maintenance and updating of the plan

The Department does not have a complete and tested business continuity plan. However, it has developed some procedures for storing and recovering programs and data for all major information technology systems as part of its contingency plan.

In our 2005 Report – Volume 3 and previous reports, we recommended the Department prepare a complete written contingency plan and test that plan to ensure it works. PAC considered this matter in May 2003 and agreed with our recommendations. However, we found the Department still does not have a complete written and tested contingency plan.

A contingency plan is only one component of a business continuity plan. To ensure they can respond to unforeseen incidents without significantly affecting the normal operations, well-managed agencies prepare a complete business continuity plan.

**3. We recommend the Department of Environment prepare a complete business continuity plan.**

## **Improving compliance reporting**

In our 2005 Report – Volume 1 and previous reports, we recommended the Department define and document its compliance reporting needs.

PAC considered this matter in January 1999 and agreed with our recommendation.

The Department has not yet defined and documented its compliance reporting needs. The compliance reports should show the Department's compliance with legislative and related authorities (e.g., the laws and policy manuals.) The Department told us it has drafted a plan to define and document its compliance reporting needs.

We continue to recommend the Department define and document its compliance reporting needs.

## **Control over bank accounts**

In our 2004 Report – Volume 3, we reported that the Department should follow its rules and procedures to reconcile its recorded bank balances to the bank's records promptly.

In January 2005, PAC considered this matter and agreed with our recommendation.

Although the Department has established rules to agree (reconcile) its bank balances to the bank's records promptly, including an independent review and approval of completed bank reconciliations, it still has not reconciled all bank accounts promptly. At March 31, 2006, the Department still had not reconciled its key transfer bank account since 2003. This key transfer bank account receives deposits of about one third of the Department's revenues, which are then transferred to the General Revenue Fund at the Department of Finance.

Without complete bank reconciliations, the Department does not know if its accounting records are accurate or if all money has been received and deposited.

We continue to recommend that the Department of Environment follow its rules and procedures to reconcile its recorded bank balances to the bank's records promptly.

## **Collection processes**

In our 2004 Report – Volume 3, we recommended the Department of Environment establish processes to collect money due from others.

In January 2005, PAC considered this matter and agreed with our recommendation.

In March 2006, the Department established an adequate collections policy. Because the collections policy was not implemented until close to the year-end, we cannot determine how well employees follow that policy. Next year, we will examine how well employees follow the collections policy.

We continue to recommend that the Department of Environment establish processes to collect money due from others.

## **Hiring practices**

In our 2005 Report – Volume 1, we reported that the Department should assess the risk of loss of public money by employees in a position of trust and reduce this risk to an acceptable level by requiring criminal record checks. We also reported that the Department should assess if the

Government's standard blanket fidelity bond (insurance) coverage reduces its risks of loss to an acceptable level.

PAC considered these matters in June 2005 and agreed with our recommendations.

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 the Department has followed this new PSC policy.

The Department told us it is working with the Department of Finance and the PSC to assess if the Government's standard blanket fidelity bond (insurance) coverage reduces its risk of loss to an acceptable level.

We continue to 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).

We continue to 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.

## **Progress toward improving its regulation of air emissions**

The Department is responsible to protect Saskatchewan's air quality by regulating air pollutants that originate in the Province. The Department regulates air emissions from operators and monitors ambient (overall) air quality.

In 2003, we audited the Department's process to regulate air emissions. In our 2004 Report – Volume 1, we reported the Department did not have adequate processes to regulate air emissions. We made seven recommendations to help the Department improve its practices. PAC



considered these matters in December 2004 and agreed with our recommendations.

During September 2006, we reviewed what the Department has done to address our recommendations. We describe below our recommendations and the Department's progress.

## **Process established for waiving permits**

*Recommendation 1 – The Department should establish processes to obtain Minister's Orders for waiving permits for minor sources of air contaminants.*

We found that the Department had established a process to obtain Minister's Orders for waiving permits for minor sources of air contaminants. Management told us it is considering seeking changes to legislation to make this a simpler process.

## **Sound and consistent terms and conditions for permits needed**

*Recommendation 2 – The Department should set sound and consistent terms and conditions for permits to regulate air emissions.*

The Department has formed an Air Quality Permitting and Compliance Working Group to develop a consistent permitting process. An Air Quality Permitting Protocol that outlines the permitting process has been drafted. The Department also began overseeing its air quality program centrally in the 2004-05 fiscal year. This has resulted in more consistency in permitting, inspection, and monitoring across the province. However, senior management needs to approve the draft protocol so staff have written guidelines to use when setting permit terms and conditions.

We continue to recommend the Department set sound and consistent terms and conditions for permits to regulate air emissions.

## **Processes needed to ensure permits are properly approved and expired permits are followed up promptly**

*Recommendation 3 – The Department should establish processes to ensure permits to regulate air emissions are properly approved and expired permits are followed up promptly.*

The Department still does not have appropriate staff approve permits. The Department has begun to change its processes to follow up expired permits. The Department has taken an inventory of permits and documented the permits along with expiry dates on a spreadsheet. However, the Department needs to ensure it keeps the permit spreadsheet up to date so that it can follow up expired permits. Management told us they intend to use the spreadsheet to remind companies to apply for permit renewals. Management also told us the Department is considering tracking permits on a central database which currently tracks compliance of water and wastewater permits. This will allow the Department to track more detailed permit information and update information on a timely basis.

We continue to recommend the Department should establish processes to ensure permits are properly approved and expired permits are followed up promptly.

## **Processes for monitoring compliance with permits required**

*Recommendation 4 – The Department should set sound and consistent processes for monitoring compliance with permits to regulate air emissions and for handling air emission complaints.*

As noted above, the Department has drafted an Air Quality Permitting Protocol. When completed, the protocol will include requirements for monitoring compliance with permits. However, the Department has not yet established written guidelines to assess operator compliance with permit terms and conditions. The Department also has started developing an air monitoring directive that will assist staff and operators in understanding the monitoring and reporting requirements in the Province.

The Department has started developing a standardized compliance form for staff to use. This form will help ensure staff follow up all complaints in a consistent manner.

We continue to recommend the Department set sound and consistent processes for monitoring compliance with permits to regulate air emissions and for handling air emission complaints.

## **Human resource plan needs improvement**

*Recommendation 5 – The Department should complete its human resource plan including a plan for employee training to regulate air emissions.*

The Department continues to improve its human resource plan. The Department is in the process of identifying specialized competencies in the Department and determining if gaps exist for these specialized competencies (see page 196 also). Regarding regulation of air emissions, management told us the Department has assigned additional resources in the area and has provided some training. Where gaps continue to exist, management told us the Department plans to implement further measures, including training, to address the gaps.

We continue to recommend the Department complete its human resource plan including a plan for employee training to regulate air emissions.

## **System to collect and maintain information to prepare reliable reports needs improvement**

*Recommendation 6 – The Department should establish systems to collect and maintain information to prepare reliable reports.*

The Department continues to maintain manual records on each of its permit holders and uses a spreadsheet to collect and maintain information centrally. The Department needs to regularly update the spreadsheet. Also, the spreadsheet does not contain information about monitoring results. The Department continues to consider the merits of storing permit information on a central database.

We continue to recommend the Department establish systems to collect and maintain information to prepare reliable reports.

## **Internal and external reporting on air emissions progressing**

*Recommendation 7 – The Department should improve its internal and external reporting on air emissions.*

The Department has improved its internal reporting since we first reported this matter. Senior management now receives quarterly reports that describe Department activities, such as setting up a regional air quality monitoring network. However, the Department needs to provide information about emission limits set, actual emissions, permitted operators, compliance with permit terms and conditions, investigation of complaints, and the Department's enforcement activities to senior management. The information should also be timely. The Department should also provide this information to industry and to the public. As stated earlier, management told us it started developing an air monitoring directive that outlines industry requirements for reporting air emission information. This should allow the Department to make such information available to industry and the public.

The Department is updating its website. The website currently has a link to the activities of the Canadian Council of Ministers of Environment.<sup>1</sup> Potentially, this could be expanded to include links to other air quality initiatives such as the National Pollutant Release Inventory.<sup>2</sup>

The Department told us that its website will soon be able to provide near real-time data and air quality information from the provincial ambient air monitoring stations. The Department now gathers data from four ambient air monitoring stations in the province (compared to two at the time of our audit).

We continue to recommend the Department improve its internal and external reporting on air emissions.

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<sup>1</sup> The Canadian Council of Ministers of Environment work together to reach specific goals with regard to inter-jurisdictional issues such as waste management, air pollution and toxic chemicals.

<sup>2</sup> The National Pollutant Release Inventory is Environment Canada's database that contains information on key pollutants in Canada.

## **Regulating the quality of drinking water**

The Department of Environment has primary responsibility for carrying out the Government's Safe Drinking Water Strategy. The Department is responsible under *The Environmental Management and Protection Act, 2002 (EMPA)* and *The Water Regulations, 2002* to regulate and inspect municipal waterworks, municipal wells connected to a distribution system, certain pipelines, and other public waterworks with a capacity of 18 cubic metres or more per day (i.e., villages, towns, cities).

In 2005, we audited the Department's processes to regulate the quality of drinking water. We reported our audit results in Chapter 6 of our 2005 Report – Volume 3 and made two recommendations for the Department to help improve its processes.

We recommended that the Department:

- ◆ adequately document its quality control reviews of waterworks inspections
- ◆ follow up water quality monitoring results

PAC considered these recommendations in March 2006 and agreed with our recommendations.

In September 2006, we assessed the Department's actions to address our recommendations. We set out the results of our work below.

### **Documenting quality control reviews**

The Department has improved its processes. It requires documentation of the quality control reviews. During our follow-up work the quality control reviews included adequate documentation.

### **Monitoring results**

The Department monitors the frequency and results of drinking water tests. The Department has set out procedures for employees to follow if a test result is unacceptable (e.g., showing harmful bacteria).

The Department has established a process to track the actions that the Department takes in the event of an unacceptable test result (e.g.,

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showing harmful bacteria). During our follow-up work, we saw evidence of the Department's quarterly tracking to ensure its employees follow up the monitoring results. This will help the Department address any concerns related to water quality in a consistent and appropriate manner.

We commend the Department for its quick action on our recommendations to regulate the quality of drinking water.