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## Main points

Saskatchewan Power Corporation (SaskPower) incurred a loss of public money totalling nearly \$190,000 over a period of four years. An employee made unauthorized purchases, ineligible expense claims, and unauthorized cellular phone charges. This occurred due to poor supervision of and ineffective direction to staff and lack of segregation of duties. Also, the employee may have misused signatures of staff to show receipt of goods and approve purchases and payments.

Agencies with effective boards, strong management, and control systems cannot prevent or detect all losses of public money. Nevertheless, they can take steps to reduce the risk of such losses.

In this chapter, we recommend SaskPower take additional steps to reduce the risk of future losses of public money. SaskPower should educate its staff on the importance of controls to safeguard public resources and the warning signs that may indicate fraud and error. SaskPower's management should determine if the duties they assign to staff contribute to sound control. Where these duties, as assigned, increase the risk of fraud and error, management should set out procedures they will use to compensate.

## Introduction

Saskatchewan Power Corporation (SaskPower) has annual revenues of about \$1.3 billion, expenses of about \$1.2 billion and manages over \$4.1 billion of assets. It has approximately 2,400 permanent full-time employees.

In early April 2006, SaskPower notified the public of its investigation of a case involving financial irregularities by an employee. Consistent with its Code of Conduct Policy, SaskPower's internal audit investigated a complaint received from within the Corporation. By late September 2006, SaskPower reported the following:

- ◆ it had terminated the employment of the individual for cause on April 24, 2006
- ◆ it had completed its internal investigation and forwarded the results to the RCMP
- ◆ the total amount involved was just less than \$190,000
- ◆ it carries sufficient insurance to protect the Corporation and its customers from these types of incidents

Through the investigation, SaskPower determined that it lost just less than \$190,000 (including over \$39,000 of electronic equipment that it recovered). An employee made unauthorized purchases (mainly using a procurement card), ineligible expense claims, and unauthorized cellular phone charges. SaskPower has made a claim under its insurance policy to recover the loss.

In this chapter, we report on the conditions that allowed SaskPower's loss of public money to occur and remain undetected over a four-year period (i.e. May 2002 to March 2006). We also make recommendations to help SaskPower further reduce the risk of loss of public money in the future.

As noted, SaskPower's internal audit investigated the loss. We relied on the work and reports of internal audit as much as possible. To provide a basis for our reliance, we evaluated internal audit's work and tested the accuracy, and reasonableness of its conclusions. We concluded we could rely on its work and reports. Also, we did other tests and procedures (e.g., interviews, review of documents) as necessary.

## Our findings

Loss of public money is more likely to occur when one or more risk factors are present. These factors include:

- ◆ poor supervision of staff
- ◆ ineffective direction to staff
- ◆ absent, weak, or loosely enforced segregation of duties

Fraud, by its nature, involves one or more persons deceiving others and results in loss of public money. Even agencies, with effective boards, strong management, and control systems cannot prevent or detect all fraudulent acts. However, agencies can take steps to reduce their risk of loss.

SaskPower's loss of public money was primarily due to poor supervision of and ineffective direction to staff, and lack of segregation of duties.

For each of these factors, the following sets out the factor's importance (in italics) and our findings as of October 2006.

### **Supervision of and direction to staff**

*Supervising staff includes providing employees with on-the-job oversight and review of their work. Review of work determines if the employee completes the work as expected (e.g., consistent with the policies, procedures). Approvals provide evidence of review and supervision.*

*For controls to operate as designed, employees must respect the importance of those controls. They must understand the purpose of the control and carry out procedures as intended. Documented policies and procedures along with active training and communication are essential to foster a strong control environment.*

*Agencies with sound control systems must not let down their guard. Boards and management must be aware of and recognize warning signs that increase the risk of fraud and error. Also, agencies must send a clear consistent message throughout the organization that it will not tolerate fraud or breach of controls. If the agency detects fraud or breaches, it must act consistent with its stated values and policies.*

SaskPower has policies and procedures that provide staff with direction. This direction requires more than one employee to be involved in any financial transaction and for them to authorize that the transaction is for SaskPower's business. It requires independent review of financial reports. Also, SaskPower gives certain employees<sup>1</sup> authority to initiate and approve purchases and payments by type, and sets limits. In general, business units<sup>2</sup> are responsible for initiating and approving most purchases and payments, and confirming the receipt of goods and services<sup>3</sup>. Corporate and Financial Services is responsible for processing the approved payments and preparing financial reports.

SaskPower had set up sound control processes, but work unit management did not follow the established processes. Management did not properly review the employee's expense claims and procurement card purchases prior to approving for payment. This allowed the employee to purchase goods and services inappropriately.

Also, the employee may have misused signatures of staff with signing authority to show receipt of goods and approve purchases and employee expense claims for payment. Furthermore, certain cost and variance reports of the work unit were not reviewed independent of the employee. An independent review may have detected unusual expenses.

Each quarter, SaskPower's internal audit examines samples of purchases and payments, procurement card purchases, and employee expense claims to determine if staff follows policies and procedures. In prior years, internal audit noted few instances of non-compliance with policy and has reported that SaskPower has adequate controls in this area. At October 2006, internal audit had not yet completed its testing for the period January 1 to September 30<sup>th</sup>.

In May 2006, internal audit presented basic information about the importance of controls to executive management. In this presentation, internal audit expressed concern over the consistent application of controls. It recommended education in the need for and significance of controls and on how controls are applied.

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<sup>1</sup> These individuals are commonly referred as signing officers.

<sup>2</sup> SaskPower has three business units (i.e., Customer Services, Transmission & Distribution, and Power Production), and three corporate support groups (i.e., Corporate & Financial Services; Planning, Environment & Regulatory Affairs; and People & Processes).

<sup>3</sup> Individuals with these responsibilities are commonly referred as signing officers.

At October 2006, SaskPower does not provide its staff with training on the importance of controls or on factors that may indicate a greater risk of fraud.

- 1. We recommend that Saskatchewan Power Corporation educate its staff on the following:**
  - ◆ **the importance of the controls necessary to safeguard public resources to increase their understanding of the purpose of these processes**
  - ◆ **the importance of signing officers' role to verify the receipt of goods or services and invoices (including procurement purchases and employee expense claims) against supporting documents prior to granting their approval**
  - ◆ **the warning signs that may indicate fraud and error and of the employees' duty to bring that information forward**

Management told us SaskPower will develop a program to deliver internal control that includes the importance of signing officer's roles and fraud awareness training to its employees.

## **Segregation of duties**

*Essential to good control is a separation of key functions so that no employee or group of employees is in a position to commit and conceal fraud and error in the normal course of their duties. Good controls separate the following functions: the custody or access to assets (e.g., cash, inventory, equipment), the initiation of a transaction (e.g., decision to buy), the approval of transactions (e.g., approval to buy), and responsibility for recording (e.g., recording of the purchase) or reporting the transaction (e.g., preparation of monthly financial reports).*

*Sometimes, agencies assign incompatible functions to employees and rely on review and approval of work and reports to detect errors or irregularities. Staff assigned responsibility for review and approval of management reports must be fully aware of an employee's incompatible*

*functions and the related risks. They must keep the additional risks in mind when reviewing work and reports of an employee with incompatible functions.*

*Accurate job descriptions contribute to control by documenting overall duties and areas of responsibility of each employee. Job descriptions allow agencies to review assigned duties to identify potentially incompatible functions and take the necessary steps to reassign or reduce risk of fraud and error. Written job descriptions, also, help agencies ensure employees and their supervisors have a clear understanding of their responsibilities and provide a basis to monitor performance.*

The employee was assigned a wider than normal range of duties because of an unusual set of circumstances. SaskPower assigned the employee to a work unit responsible for a large geographic area that had limited staff. The employee had worked in environmental engineering, business administration, and information technology. Management viewed the employee's varied experience as an opportunity to gain efficiencies. As a result, they allowed the employee to assume responsibilities significantly different from those normally assigned to that position.

In addition to the employee's administrative duties (including the preparation of the work unit's budget), the employee provided computer support and environmental engineering services for the work unit. The employee had the authority to buy goods and services, and approve invoices for payment. In addition, the employee could receive goods. These duties allowed the employee to make unauthorized purchases.

Furthermore, management delegated to the employee the following: the review and approval of the unit's financial reports that compared actual costs to those planned, and periodic counts of the unit's computer equipment. As a result, no one reviewed transactions initiated or approved by the employee. These delegations further allowed the employee to conceal the misuse of public money. Management did not assess whether this combination of duties increased the risk of undetected fraud or error.

Although the unit assessed the employee's performance based on the additional responsibilities, it did not amend the employee's job description

to reflect these responsibilities. The additional responsibilities were significantly more than those on the job description. The work unit did not formally tell management outside the work unit that the employee's responsibilities had changed significantly. It should have.

As a result, management outside the work unit were not fully aware of the changes in the employee's duties. As such, they did not have sufficient information to help identify the additional risks resulting from the changes and require the work unit to mitigate the risks.

The assignment of authority and responsibility is a key part of control. Management, when assigning authority and responsibility to employees, must consider if the duties assigned contribute to sound control. In addition, they must assess if the assignment of duties:

- ◆ appropriately prevents errors or irregularities (e.g., separate the ability to approve a purchase from the receipt of the goods), or
- ◆ detects errors or irregularities that may have already occurred (e.g., review of reports, reconciliations).

Supervisors must take steps to ensure their employees understand how their duties contribute to the agency's control.

- 2. We recommend Saskatchewan Power Corporation require work units, when substantially changing an employee's duties, to assess and document for management's approval changes in assigned duties that increase the risk of fraud and error, and the procedures they will use to compensate.**

Management told us SaskPower will require management to document substantial changes to an employee's duties and to assess the risk of fraud and error.