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Main points

The Department needs to follow its established procedures for approving loans and having all required loan documents completed before disbursing loans.

Also, the Department needs to improve the management of its Northern Development Fund Loan Program. The program provides fixed-term loans to persons in Northern Saskatchewan for economic development. The Department needs to ensure that its employees adequately monitor the outstanding loans and document evidence of such monitoring.

Introduction

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

The Department has the mandate “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”.¹

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, 2006, the Department received \$5.5 million from the General Revenue Fund to provide programs and services. The Department also had an approved budget of \$2.0 million for loans for the year. During the year, the Department made loans totalling \$1.8 million.

Audit conclusions and findings

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

- ◆ **the Department had adequate rules and procedures to safeguard public resources except for the matter 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 matter described below**

¹ Saskatchewan. Department of Finance. (2005). *2005-06: Saskatchewan provincial budget: estimates*. Regina. Page 111.

Better management of loan program required

The Department manages the Northern Development Fund (NDF) Loan Program. Under the NDF loan 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.

In our 2005 Report – Volume 3, we recommended that the Department receive and analyze the borrowers' financial and operating information as required by its loan agreements for the NDF loan program. We made this recommendation because the Department did not have adequate processes to monitor outstanding loans 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 assess the loan performance, document follow-up of accounts, determine if the borrower continues to comply with the terms of the loan agreement, and when a loan should be written off. During the year, we found that although staff appeared to be generally aware of the status of the loans, the loan files did not always have adequate evidence of monitoring of loans.

Also, the Department has not yet established and communicated conflict-of-interest guidelines for approving loans. Without conflict-of-interest guidelines, the Department is at risk of making inappropriate loans, resulting in a loss of public money. The Department needs to establish guidelines consistent with the conflict-of-interest policies established by the Public Service Commission.

In May 2006, the Standing Committee on Public Accounts considered this matter and agreed with our recommendation.

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

Loan agreements need proper documentation

The Department needs to ensure that properly signed loan agreements exist and all required loan documents are complete before employees disburse loans under The Northern Development Fund Loan Program.

The Department requires its employees to ensure a properly signed loan agreement exists and all other loan documents are complete before disbursing the loans. To help employees do so, the Department has established a delegation of authority and communicated requirements for other loan documents. However, staff did not always follow the established procedures. As a result, the Department made loan agreements without proper authority and disbursed loans without completing all the required loan documents. We found about 50% of the files did not have properly approved loan agreements and/or loan documents.

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

- 1. We recommend that the Department of Northern Affairs follow its established procedures for approving loans and having all required loan documents completed before disbursing loans under The Northern Development Fund Loan Program.**

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