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## Main points

The Department of Northern Affairs (Department) needs to improve its management of loan and grant programs. For the past two years, we have reported the Department needs to improve its processes. We also make two new recommendations this year to improve processes relating to the management of loans and grants. We recommend that the Department document and communicate its processes to administer its loan and grant programs, and ensure that employees who approve loans do not have authority to record transactions related to those loans.

Also, the Department needs to review payroll for accuracy prior to paying its employees, and it should make a service agreement with its payroll services provider.

## Introduction

The *Department of Northern Affairs Regulations* made under *The Government Organization Act* established the Department of Northern Affairs (Department). 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.”<sup>1</sup>

To help develop businesses in northern Saskatchewan, the Department operates a program called the Northern Development Fund (NDF). Under this program, the Department makes loans with fixed terms and interest to eligible persons who either operate businesses in northern Saskatchewan or starting a new business in that part of the province.

For the year ended March 31, 2007, the Department received \$5.35 million from the General Revenue Fund to provide programs and services. The Department also had an approved budget of \$2.5 million for loans for the year. During the year, the Department made loans totalling \$1.4 million.

Information about the Department’s expenses appear in the Department’s 2006-07 annual report, (see [www.northern.gov.sk.ca](http://www.northern.gov.sk.ca)). The Department’s major programs and spending include:

	<u>Original Estimates</u>	<u>Actual</u>
	(Thousands of dollars)	
Central Management and Services	\$ 1,384	\$ 1,547
Northern Strategy	618	882
Resources & Economic Development	3,707	2,914
Other	<u>7</u>	<u>7</u>
	<u>\$ 5,716</u>	<u>\$ 5,350</u>

<sup>1</sup> Saskatchewan. Department of Finance. (2006). *2006-07: Saskatchewan provincial budget: estimates*. Regina. Page 119.

## Audit conclusions and findings

In our opinion, for the year ended March 31, 2007:

- ◆ 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 matter relating to employees' pay described later in this chapter

### Better management of loan program required

The Department manages 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 is also 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. 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 performance plan. Although the Department analyses the borrowers' financial and operating information, it does not receive the financial and operating information from all of its borrowers.

In our 2006 Report – Volume 3, we also recommended that the Department follow its established procedures for approving loans and having all required loan documents completed before disbursing loans under the NDF loan program.

The Standing Committee on Public Accounts (PAC) considered these matters in May 2006 and May 2007. PAC agreed with our recommendations.

During the year, the Department hired an independent consulting firm to review the controls over its loan program. After the year-end, the consultant completed the work and provided recommendations for improvement. Management told us the Department plans to implement all of the consultant's recommendations.

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.

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

### **Complete policies and procedures for loan and grant programs needed**

The Department needs to establish written policies and procedures for its loan and grant programs. Written policies and procedures help ensure that employees have readily available guidance when needed.

When documented and approved, the Department should clearly communicate the policies and procedures to all employees together with reasons for the processes. When employees do not understand the reasons for established policies, they may not always follow the policies.

The Department should document and communicate to employees all of its policies specifically relating to its loan and grant programs. Although the Department has documented some of its policies, they are not complete. The Department needs to complete its policies for its programs. For example, the Department needs to document and approve its policies for:

- ◆ follow-up of outstanding loan agreements
- ◆ documenting the follow-up performed for outstanding accounts
- ◆ classifying accounts as active or inactive

- ◆ loan write-offs
- ◆ analysis of overall loan performance

Although employees appear to be generally aware of the Department's processes for monitoring loans, they do not always leave evidence that they carried out those processes. For example, we found that several loan accounts did not have any activity, but there was no evidence that these accounts should remain active. Inaccurate assessment of loan status increases the risk that staff may not begin, on a timely basis, procedures to recover assets securing the loans. Also, inaccurate assessment of the loan status results in inaccurate interest earnings.

1. **We recommend that the Department of Northern Affairs document and communicate to employees its processes to administer its loan and grant programs.**

As mentioned earlier, management told us the Department plans to implement recommendations of a consulting firm that it hired to recommend improvements to its rules and procedures.

## **Proper segregation of duties needed**

The Department needs to segregate of duties of its employees who administer and operate its loan program. Segregation of duties is not adequate when an employee or a group of employees can perpetrate and hide the misuse of money.

The Department uses a loan database to manage its loan program. The Department could not provide us information about its employees who have specific access to the loan database. We found that two employees had full access to the database and all of its functions. One of these employees also approved loans and loan payments. This lack of segregation could result in disbursement of inappropriate loans without timely detection.

2. **We recommend that the Department of Northern Affairs ensure that employees who approve loans do not have authority to record transactions related to those loans.**

As mentioned earlier, management told us the Department plans to implement recommendations of a consulting firm that it hired to recommend improvements to its rules and procedures.

## **Better control over employees' pay needed**

The Department needs to better control employees' pay.

During the year, the Department reviewed its payroll costs during its review of monthly financial reports. However, the Department did not adequately review the accuracy of key payroll data for each pay period prior to paying employees. As a result, employees' pay has not been approved in accordance with *The Financial Administration Act, 1993*.

This weakness increases the risk that employees may be paid incorrect amounts.

- 3. We recommend that the Department of Northern Affairs adequately review the payroll for accuracy prior to paying its employees to ensure that all employees' pay is approved in accordance with *The Financial Administration Act, 1993*.**

## **Service agreement needed**

The Department does not have a written service agreement with the Department of Finance (Finance). Finance provides payroll services to the Department.

In the past, the Department of Industry and Resources provided the Department payroll services. The Department had an agreement with the Department of Industry and Resources.

A service agreement for payroll services would describe the services the other department would provide (e.g., as timecard entry, new employee set up), the service delivery targets (such as timeframe for entering timecards), and any other terms. The Department should make such an agreement with Finance that would clearly set out the roles and responsibilities of both Finance and the Department.

Without a signed service agreement, there is a risk that the Department may not receive the services it needs. Also, written agreements are useful to resolve any future dispute because the agreement would have the roles and responsibilities of both parties documented.

- 4. We recommend that the Department of Northern Affairs make an appropriate service agreement with its payroll services provider.**