

## Environment

# 6

|  |           |
|--|-----------|
| <b>Main points .....</b>   | <b>80</b> |
| <b>Introduction .....</b>  | <b>81</b> |
| <b>Audit conclusions and findings .....</b>  | <b>82</b> |
| Supervision of staff needed .....  | 83        |
| Need to follow revenue guidance .....  | 83        |
| Segregation of duties .....  | 85        |
| Need to supervise reconciliations of bank accounts .....   | 85        |
| Need to follow payroll guidance.....   | 86        |
| Need to follow guidance for preparing financial records and financial reports .....                  | 86        |
| Established processes needed .....   | 88        |
| Processes required for monitoring agreements .....   | 88        |
| Adequate service level agreement needed.....   | 88        |
| Information technology processes needed .....  | 89        |
| Complete business continuity plan .....  | 90        |
| Making changes to lease rates.....   | 91        |
| Improving compliance reporting .....   | 91        |
| Timely audited financial statements needed .....   | 92        |
| <b>Status of other outstanding recommendations of the Standing Committee on Public Accounts.....</b> | <b>92</b> |

## Main points

The Ministry of Environment needs to establish adequate processes and supervise staff. It should have adequate processes to:

- ♦ monitor agreements
- ♦ sign an adequate agreement with the Information Technology Office for information technology services
- ♦ develop an information technology plan
- ♦ secure its systems and data
- ♦ prepare a complete business continuity plan
- ♦ change lease rates and customer information
- ♦ define and document its compliance reporting needs

The Ministry also needs to supervise staff to ensure they follow the Ministry's policies and procedures for:

- ♦ billing, collecting, and recording lease, and forestry fees revenues promptly
- ♦ reviewing reconciliations of its bank recorded bank balances to the bank's records promptly
- ♦ segregating the duties of the employees responsible for disbursement or expenditure of public money
- ♦ preparing the amount owing to terminated employees
- ♦ preparing accurate and timely financial records and financial statements for the Fish and Wildlife Development Fund and the Commercial Revolving Fund

## Introduction

The Ministry of Environment (Ministry) is responsible for managing, enhancing, and protecting the Province's natural and environmental resources and sustaining them for future generations.<sup>1</sup> Information about the Ministry is available on its website ([www.environment.gov.sk.ca/](http://www.environment.gov.sk.ca/)).

For the year ended March 31, 2008, the Ministry's program costs were \$168 million (2007 – \$194 million) and its net capital acquisitions were \$9 million. Also, the Ministry had revenue of \$47 million (2007 – \$52 million) from licences and permit fees for fishing, hunting, and forestry. It also collects non-refundable deposits on beverage containers. In addition, the Ministry raises revenue and incurs expenses through its funds listed on the next page.

Information about the Ministry's revenues and expenses appear in the Ministry's 2007-08 annual report, (see [www.environment.gov.sk.ca/](http://www.environment.gov.sk.ca/)). The Ministry's major programs and spending include:

|                                       | <u>Original Estimates</u> | <u>Actual</u> |
|---------------------------------------|---------------------------|---------------|
|                                       | (Millions of dollars)     |               |
| Central Management and Services       | \$ 17                     | \$ 16         |
| Environmental Protection and Water    |                           |               |
| Management                            | 26                        | 54            |
| Forest Services                       | 14                        | 13            |
| Fire Management and Forest Protection | 84                        | 58            |
| Fish, Wildlife and Biodiversity       | 10                        | 10            |
| Compliance and Field Services         | 15                        | 15            |
| Planning and Risk Analysis            | 12                        | 9             |
| Other                                 | 5                         | 6             |
|                                       | <u>\$ 183</u>             | <u>\$ 181</u> |

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

<sup>1</sup> Section 3 of *The Environmental Management and Protection Act, 2002*.

Year ended March 31

Commercial Revolving Fund (until November 21, 2007)  
Fish and Wildlife Development Fund  
Resource Protection and Development Revolving Fund  
Operator Certification Board  
Saskatchewan Watershed Authority  
Water Appeal Board

After November 21, 2007, the Commercial Revolving Fund became the responsibility of the Ministry of Tourism, Parks, Culture, and Sport. However, the Ministry of Environment continues to provide day-to-day administration of the Commercial Revolving Fund.

On April 1, 2007, the assets and liabilities of the Resource Protection and Development Revolving Fund became the responsibility of the Ministry. On May 14, 2008, *The Natural Resources Act* wound up the Revolving Fund.

## **Audit conclusions and findings**

We worked with Deloitte & Touche 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* ([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, 2008:**

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

- ♦ **the financial statements of the Ministry's agencies are reliable**

The Ministry needs to do more to supervise staff and establish adequate processes to safeguard public resources.

## **Supervision of staff needed**

Since our 2005 Report – Volume 1, we have recommended that the Ministry clearly communicate to its employees its operating policies and ensure that its employees understand the reasons for the policies. The Standing Committee on Public Accounts (PAC) considered this matter in June 2005 and agreed with our recommendation.

The Ministry 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 Ministry also provides training to employees on the importance of following established policies and procedures. However, employees did not always follow those policies and procedures. It is important that supervisors ensure employees follow policies and procedures. The following are instances where supervision was lacking.

### ***Need to follow revenue guidance***

The Ministry has written guidance for billing, collecting, and recording revenue from land leases, and forestry fees.

The Ministry generally bills customers for leases between May and August. However, in 2007-08 it did not bill customers until March 2008. Many of the customers are long standing customers that made payments during the year based on their own estimates of lease fees. The Ministry did not record the customers' payments received to the customers' accounts, it instead recorded the payments as unearned revenue. When the Ministry finally did bill customers, it did so correctly. However, the customers' accounts were overstated because the customers' accounts did not show the amounts that customers already paid in advance for their leases. At March 31, 2008, the Commercial Revolving Fund's and the Fish and Wildlife Development Fund's (FWDF) annual financial

statements presented for audit overstated amounts owed by customers by \$350,000 and \$16,000, respectively.

Through the FWDF, the Ministry has made agreements with agencies that have similar objectives of protecting wildlife habitat. The Ministry buys land and land easements with these agencies for protecting wildlife habitat. Within these agreements, the FWDF is entitled to its share in any revenue collected from jointly owned land in proportion to its ownership. Revenue could come from leasing the land for grazing and haying. The Ministry told us the revenue earned on jointly owned land is insignificant. However, it also told us it does not know the extent of revenue earned on jointly owned land nor has it received any revenue from joint owned lands. The Ministry's processes require it to bill, record, and collect these revenues.

The Ministry 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 Ministry verifies the annual returns. The Ministry has not verified the annual returns for all the companies for the year ended March 31, 2007.

When staff do not follow the Ministry's revenue procedures, the Ministry is at risk of a loss of public money.

- 1. We recommend the Ministry of Environment supervise its employees to ensure they follow the Ministry's policies and procedures for billing, collecting, and recording lease and forestry fee revenues promptly.**

Management told us it has signed new agreements with agencies that have similar objectives of protecting wildlife habitat, which include a provision of tracking and reporting revenues. Management also told us it was unable to ensure the receipt and verification of all forestry returns because of staff turnover.

### ***Segregation of duties***

Since our 2005 Report – Volume 1, we have recommended that the Ministry properly segregate the duties of the employees responsible for disbursement or expenditure of public money. PAC considered this matter in June 2005 and agreed with our recommendation.

Proper segregation of duties ensures that no one employee or group of employees is in a position to commit and conceal errors and fraud. Segregation of duties is important to prevent the misuse of public money.

The Ministry has established policies setting out proper segregation of duties for processing payments. It has also provided training to its employees about its policies. However, employees did not always follow the policies resulting in a lack of segregation of duties.

During the year, the Ministry's internal auditor reported to senior management that employees do not always comply with the segregation of duties policies for processing payments. For example, employees did not always obtain approved purchase orders before the purchase of goods/services and some payments lacked proper approval.

Also, the computer system the Ministry uses allows the same employee to enter and approve payments. Some of these employees are also set up as valid vendors for the purposes of travel advances. Management told us in October 2008 that it is now working with the Ministry of Finance to fix this segregation of duties concern.

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

### ***Need to supervise reconciliations of bank accounts***

Since our 2004 Report – Volume 3, we have recommended that the Ministry follow its rules and procedures to reconcile (agree) its recorded bank balances to the bank's records promptly. In January 2005, PAC considered this matter and agreed with our recommendation.

Regular reconciliation and review of recorded bank balances to bank records provides a check that all charges to the bank accounts are proper, the Ministry receives all the money, and deposits it in the right bank account.

The Ministry established a policy to reconcile its recorded bank balances to the bank's records promptly. The Ministry is reconciling its bank balances to the bank records promptly. The policy also requires a review and approval of completed bank reconciliations independent of their preparation. However, there were some instances where there was a lack of evidence of a supervisor's review and approval of the Ministry's bank reconciliations.

2. **We recommend the Ministry of Environment supervise its employees to ensure they follow the Ministry's policies and procedures for reviewing the reconciliation of its recorded bank balances to the bank's records promptly.**

### ***Need to follow payroll guidance***

The Ministry has established written guidance for reviewing and approving payroll for new hires and for terminations of staff. However, staff are not following this guidance.

During the year, the supervisors did not always submit staff termination notices to the payroll department prior to calculating final pay. As a result, the Ministry overpaid terminated employees \$16,000. These overpayments resulted from terminated staff owing amounts to the Ministry for such items as outstanding travel advances.

3. **We recommend the Ministry of Environment supervise its employees to ensure they follow the Ministry's policies and procedures for preparing the amount owing to terminated employees.**

### ***Need to follow guidance for preparing financial records and financial reports***

The Ministry is responsible for administration of the Fish and Wildlife Development Fund (FWDF) and the Commercial Revolving Fund (CRF).



It needs prompt and accurate financial reports. It needs to provide staff with adequate written guidance and direction for preparing financial records and financial reports promptly and accurately. The Ministry also needs to supervise staff to ensure they complete their duties.

The financial records and financial statements of the FWDF contained several errors. Many of the errors occurred because staff did not follow established guidance and because of a lack of supervision. For example, the Ministry provides guidance to staff on how to record capital asset purchases in the financial records. Staff did not follow this guidance. Both staff purchasing land and those recording the land purchases in the financial records did not effectively communicate with each other to ensure the proper recording of land purchases for FWDF. Supervisors did not review the work of staff to ensure the proper recording of land purchases. As result, FWDF's financial statements presented for audit understated capital assets including land by about \$400,000. The Ministry corrected the financial statements for these amounts. The errors in the FWDF financial statements delayed their completion.

Due to the several errors in the financial records of the FWDF, the Ministry prepared inaccurate interim financial statements for the FWDF. Incorrect financial statements can result in inappropriate decisions by management.

The CRF's financial statements presented for audit contained errors. For example, the Ministry recorded \$167,000 in capital asset purchases in the CRF, which belonged to the Ministry, not the CRF. The Ministry corrected the financial statements for these amounts.

**4. We recommend the Ministry of Environment supervise its employees to ensure they follow the Ministry's policies and procedures for preparing accurate and timely financial records and financial statements for the Fish and Wildlife Development Fund and the Commercial Revolving Fund.**

Management told us preparation of accurate financial records and financial statements for the Fish and Wildlife Development Fund did not occur because of staff turnover.

## **Established processes needed**

The Ministry needs to establish processes to guide staff.

Written guidance helps staff to do those activities required to meet the Ministry's goals and objectives. The following are some examples where the Ministry needs to establish processes.

### ***Processes required for monitoring agreements***

The Ministry does not have adequate processes for monitoring its agreements.

Agencies need written guidance to monitor their agreements. Guidance helps agencies ensure that the terms and conditions of the agreements are complied with. Guidance should include maintaining records of the agreements, amounts paid, owing, and committed. Without adequate written guidance there is a risk agencies will not receive what they are entitled to, will fail to do what they have agreed to do, and pay the incorrect amount for the goods/services.

During the year, the Ministry did not have an adequate record of its agreements. For example, the Ministry did not have a complete record of the agreements it administers including the amounts paid, owing, and amounts committed. Without such a record, it is difficult for staff to ensure correct amounts are paid. For the FWDF, it was not until July 2008 that staff prepared a complete record of FWDF's agreements. Also, staff did not monitor compliance with agreements. As a result, the Ministry staff prepared, reviewed, and approved a duplicate payment of \$42,200 for the purchase of land easements. The Ministry's processes did not detect this overpayment. In the month following the second payment, the vendor notified the Ministry and refunded the second payment.

### **5. We recommend the Ministry of Environment establish processes to monitor compliance with its agreements.**

### ***Adequate service level agreement needed***

Beginning in 2006, the Information Technology Office (ITO) began providing information technology (IT) services that the Ministry's own

employees provided in the past. ITO billed the Ministry \$4.6 million for the services it provided to the Ministry for the year ended March 31, 2008.

The Ministry operated throughout the year without a service level agreement. The Ministry did have a service charter that identified generally the services and service levels it was to receive from ITO. On April 1, 2008, it signed a service level agreement with ITO. The agreement, however, does not adequately address disaster recovery and the Ministry's ability to obtain assurance as to security of its information systems. As a result, the Ministry does not know whether ITO can restore the systems and data when needed in the event of a disaster and that the Ministry's data is secure. During the year, the Ministry did make a request and receive from ITO evidence that ITO had backed up three of the Ministry's financial systems and data.

**6. We recommend the Ministry of Environment sign an adequate agreement with the Information Technology Office for information technology services.**

Management told us it plans to develop an adequate disaster recovery plan with ITO.

***Information technology processes needed***

The Ministry needs to ensure it has strong security to protect its information technology (IT) systems and data. Without strong security processes, the Ministry cannot ensure the confidentiality, integrity, and availability of its systems and data. Also, management may not know if it has addressed all the threats and risks to the Ministry's security. An IT plan can help management do so.

The Ministry does not have a multi-year information technology (IT) plan that links to its strategic objectives. Nor has it prepared an annual IT operational plan. An operational plan would set out the Ministry's objectives and how it plans to meet its objectives. The Ministry needs these plans to ensure it has the resources it needs to address its objectives.

During the year, the Ministry agreed to have ITO provide information technology services. However, the Ministry remains responsible for its

systems and data. The Ministry did not obtain independent assurance regarding the security of its information. The Ministry received some reports from ITO. However, these reports provided limited information on availability of systems and about the confidentiality and integrity of the Ministry's information.

The Ministry also has not required adequate security measures over some data. The Ministry uses laptop computers that contain sensitive data. It has not adequately secured all laptops through measures such as encryption. The Ministry also accepts credit card payment for some fees, such as the Big Game Draw. It is required to comply with industry standards for credit cards as part of its agreement with its credit card service provider. The Ministry does not have processes to determine if it complies with these standards. A lack of compliance with the industry security standards increases the risk of unauthorized access to credit card information by others without ready detection. This could lead to a loss of public money, loss of reputation, and loss of the ability to process payments by credit card.

The Ministry should establish an IT plan and IT policies and procedures. Then it should communicate the approved IT plan, policies, and procedures to all employees.

- 7. We recommend the Ministry of Environment establish an adequate information technology plan.**
- 8. We recommend the Ministry of Environment establish adequate processes to secure its systems and data.**

Management told us that it is engaging a consultant to review its processes to ensure compliance with industry standards for credit cards in 2008-09.

### ***Complete business continuity plan***

In our 2006 Report – Volume 3, we recommended that the Ministry prepare a complete business continuity plan. PAC considered this matter in March 2007 and agreed with our recommendation.

The Ministry 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 Ministry provides 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 Ministry is at risk of not being able to deliver its programs and services in a timely manner.

The Ministry does not have a complete and tested business continuity plan. However, it has ranked its critical services and begun developing procedures for the recovery and restoration of these critical services. The Ministry has contracted ITO to carry out its information technology services. It will need to ensure that its agreement with ITO supports its business continuity plan once completed.

We continue to recommend the Ministry of Environment prepare a complete business continuity plan.

### ***Making changes to lease rates***

The Ministry lacks guidance for staff making changes to lease rates and customer information maintained on its computer systems. There is no independent check that changes to the lease rates and customer information are correct. Also, the staff that make changes to lease rates and customer information also have access in the computer system to do billings. This deficiency increases the risk that the Ministry incorrectly bills customers.

- 9. We recommend the Ministry of Environment establish processes for changing lease rates and customer information on its computer systems.**

### ***Improving compliance reporting***

Since our 1998 Fall Report - Volume 2, we have recommended the Ministry define and document its compliance reporting needs for compliance with governing authorities.

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

The Ministry has developed a compliance plan. It has prioritized its risks and has defined compliance actions to reduce these risks. However, the Ministry has not yet documented all of its compliance reporting needs. Management told us the Ministry continues to review all of its legislation to assess the risk of non-compliance and the Ministry’s reporting needs.

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

**Timely audited financial statements needed**

The Ministry did not provide the Legislative Assembly the FWDF’s audited financial statements in accordance with *The Tabling of Documents Act, 1991*.

*The Natural Resources Act* requires the Ministry to provide the Legislative Assembly a report on the business activities of the FWDF and its audited financial statements for the year ended March 31, 2008 by July 29, 2008. The Ministry provided the Legislative Assembly FWDF’s March 31, 2008 audited financial statements on August 18, 2008.

- 10. We recommend the Ministry of Environment provide the Legislative Assembly with the Fish and Wildlife Development Fund’s audited financial statements in accordance with the law.**

**Status of other outstanding recommendations of the Standing Committee on Public Accounts**

The following table provides an update on recommendations previously made by the Standing Committee on Public Accounts (PAC) that are not yet implemented and not reported elsewhere in this chapter.<sup>2</sup>

<sup>2</sup> For the definitions of the key terms used in the table, see Chapter 21 – Standing Committee on Public Accounts.

| PAC<br>REPORT<br>YEAR <sup>3</sup>  | OUTSTANDING RECOMMENDATION   | STATUS  |
|---|--|---|
| <b>Saskatchewan Watershed Authority (Cross-Government Infrastructure)</b> |  |   |
| 2005  | PAC concurs:<br>3-1 that the Saskatchewan Watershed Authority should obtain an independent comprehensive dam safety review on each of its very high consequence dams (i.e., Rafferty, Alameda, Qu'Appelle River, and Gardiner) at least every five years.  | <b>Partially implemented</b> (as at September 30, 2007).<br><br>We plan a follow-up for 2010.   |
| 2005  | PAC concurs:<br>3-2 that the Saskatchewan Watershed Authority should have up-to-date tested emergency preparedness plans for each of its major dams (i.e., Rafferty, Alameda, Qu'Appelle River, and Gardiner).   | <b>Partially implemented</b> (as at September 30, 2007).<br><br>We plan a follow-up for 2010.   |
| 2005  | PAC concurs:<br>3-3 that the Saskatchewan Watershed Authority should set processes that ensure its manuals always include complete procedures to operate, maintain, and monitor dam safety.  | <b>Partially implemented</b> (as at September 30, 2007).<br><br>We plan a follow-up for 2010.   |
| <b>Ministry of Environment</b>  |  |   |
| 2005  | PAC concurs:<br>7-5 that the Department of Environment should 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). | <b>Partially implemented</b> (as at March 31, 2008).<br><br>The Ministry and PSC have identified job positions that would need criminal record checks with the objective to receive all such checks over the next two years. We plan to report our assessment of their progress in a future report. |

<sup>3</sup> PAC Report Year refers to the year that PAC first made the recommendation in its report to the Legislative Assembly.

| <b>PAC<br/>REPORT<br/>YEAR<sup>3</sup></b>   | <b>OUTSTANDING RECOMMENDATION</b>  | <b>STATUS</b>   |
|--|--|---|
| <b>Ministry of Environment (Air Quality)</b> |  |   |
| 2005   | PAC concurs:<br><br>10-2 that the Department of Environment should set sound and consistent terms and conditions for permits to regulate air emissions.  | <b>Partially implemented</b> (as at March 31, 2006).<br><br>We plan to follow-up in 2009. |
| 2005   | PAC concurs:<br><br>10-3 that the Department of Environment should establish processes to ensure permits to regulate air emissions are properly approved and expired permits are followed up promptly.           | <b>Partially implemented</b> (as at March 31, 2006).<br><br>We plan to follow-up in 2009. |
| 2005   | PAC concurs:<br><br>10-4 that the Department of Environment should set sound and consistent processes for monitoring compliance with permits to regulate air emissions and for handling air emission complaints. | <b>Partially implemented</b> (as at March 31, 2006).<br><br>We plan to follow-up in 2009. |
| 2005   | PAC concurs:<br><br>10-5 that the Department of Environment should complete its human resource plan including a plan for employee training to regulate air emissions.  | Partially Implemented (as at March 31, 2006)<br><br>We plan to follow-up in 2009.         |
| 2005   | PAC concurs:<br><br>10-6 that the Department of Environment should establish systems to collect and maintain information to prepare reliable reports.  | <b>Not implemented</b> (as at March 31, 2006).<br><br>We plan to follow-up in 2009.       |
| 2005   | PAC concurs:<br><br>10-7 that the Department of Environment should improve its internal and external reporting on air emissions.   | <b>Partially implemented</b> (as at March 31, 2006).<br><br>We plan to follow-up in 2009. |