

Agriculture

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Main points

In our 2008 Report - Volume 3, we reported that the Ministry of Agriculture had transferred the responsibility to operate the Provincial Dairy Lab (Dairy Lab) to the Milk Control Board (Board) without proper legislative authority. The Board has spent about \$850 thousand to December 31, 2008 on operating the Dairy Lab since the transfer.

At March 2009, the related legislation remained unchanged and the Board and the Ministry have not yet determined who will be responsible for the costs of operating the Dairy Lab. Because of these issues, the Board's financial statements for the years ending December 31, 2007 and December 31, 2008 are not finalized. The Legislative Assembly and the public have not received the Board's annual report and financial statements for these years as required by law.

The Board needs to assign responsibilities to its staff so that accounting functions are appropriately separated. Its staff need a better understanding of generally accepted accounting principles to ensure they prepare accurate and reliable financial statements. Also, the Board must take steps to make sure employment contracts are filed with the Clerk of Executive Council as required by law.

Introduction

The purpose of the Ministry of Agriculture (Ministry) is to enable a prosperous market-driven agricultural industry through a supportive legislative framework, policies, and programs and services.¹

Special purpose funds and Crown agencies

At December 31, 2008, the Ministry was responsible for the following special purpose funds and Crown agencies. Each one has a March 31 year-end unless otherwise noted.

Agricultural Credit Corporation of Saskatchewan
Agricultural Implements Board
Agri-Food Council
Agri-Food Innovation Fund
Beef Development Board
Cattle Marketing Deductions Fund
Crop Reinsurance Fund of Saskatchewan
Horned Cattle Fund
Individual Cattle Feeder Loan Guarantee Provincial Assurance Fund
Livestock Services Revolving Fund
Milk Control Board (December 31)
Pastures Revolving Fund
Prairie Agricultural Machinery Institute
Saskatchewan Agricultural Stabilization Fund
Saskatchewan Crop Insurance Corporation
Thomson Meats Ltd. (December 31)
Pension Plan for the Employees of Thomson Meats Ltd. (December 31)

As explained later in this chapter, we have not completed the audits of the Milk Control Board's financial statements for the years ended December 31, 2007 and December 31, 2008. Also, we have not completed the 2008 audits of Thomson Meats Ltd. and its pension plan. We expect to report the results of these audits in our next report. Our 2008 Report – Volume 3 reports the results of our audits of the Ministry and its special purpose funds and agencies with years ended

¹ Government of Saskatchewan, Ministry of Agriculture, Plan for 2009-10, p. 1.

March 31, 2008. The next section sets out the results of our audit of the Milk Control Board (Board) for the year ended December 31, 2008.

Audit conclusion and findings – Milk Control Board

The mandate of the Board is to regulate the production, supply, pricing, and sale of milk. Working with producers, processors, and consumers, the Board is to provide producers with the opportunity to obtain a fair return while providing consumers with an adequate supply of high quality dairy products at reasonable prices.²

In our opinion, for the year ended December 31, 2008:

- ◆ **the Board had adequate rules and procedures to safeguard public resources except for matters noted in this chapter**
- ◆ **the Board complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing except for matters noted in this chapter**

Unauthorized transfer of the Provincial Dairy Lab

As reported in Chapter 3 of our 2008 Report – Volume 3, in April 2006, the Ministry of Agriculture (Ministry) transferred the responsibility to operate the Provincial Dairy Lab (Dairy Lab) from the Ministry to the Milk Control Board without proper legislative authority. The Board has operated the Dairy Lab without the proper authority since the transfer. Consequently, the Board spent about \$850 thousand from April 1, 2006 to December 31, 2008 on the Dairy Lab's activities without proper authority.

At March 26, 2009, the related legislation has not changed and the Board has not recovered the Dairy Lab costs from the Ministry. Also since December 2006, the Board has charged producers and the processor an additional levy of \$0.04 per hectolitre to absorb the additional cost of administering the Dairy Lab and quality regulations³ resulting in revenues of about \$381 thousand to December 31, 2008. In 2008, producers paid the Board about \$40 thousand for tests carried out by the Dairy Lab.

² Government of Saskatchewan, Milk Control Board, 2006 Annual Report, pp. 8-9.

³ Government of Saskatchewan, Milk Control Board, 2006 Annual Report, p. 9.

Under current legislation, the Ministry does not have the power to delegate or transfer its responsibilities to operate the Dairy Lab. If the Ministry desires to transfer the Dairy Lab to another agency, it must seek changes to the applicable legislation. Otherwise, it should resume operating the Dairy Lab directly.

We continue to recommend the Ministry of Agriculture comply with the law or seek changes to the law to allow the transfer of its regulatory responsibilities carried out by the Provincial Dairy Lab to another agency.

The Standing Committee on Public Accounts (PAC) considered this matter on December 8, 2008 and concurred with our recommendation.

We note that the Board has delayed updating its strategic plan until this legal issue is resolved.

Financial statements and reports to Legislative Assembly late

The Board has not submitted its annual reports and audited financial statements for the years ended December 31, 2008 and December 31, 2007 as required by law.

The Milk Control Act, 1992 requires the Board, in accordance with *The Tabling of Documents Act, 1991*, to prepare and submit its annual report and audited financial statement by March 31 each year to the President of the Executive Council (premier) who must then provide these reports to the Legislative Assembly by April 30 each year. The financial statements are to be in the form required by Treasury Board.

In April 2008, the Ministry of Finance advised the Board and the Ministry of Agriculture that “until such time as the legal issues can be resolved regarding the transfer [of the Dairy Lab], we are unable to provide Treasury Board approval of the [Board]’s 2007 financial statements.” The legal issues resolving the transfer are not yet resolved.

At March 26, 2009, Treasury Board had not approved the 2007 financial statements. Also, at this date, the Ministry and the Board were determining which agency will be responsible for the costs of the Dairy Lab incurred since the transfer and the potential impact on associated

revenues. As a result, the Board has not finalized its 2008 financial statements.

Better understanding of accounting standards required

In Chapter 3 of our 2008 Report – Volume 3, we reported that the Milk Control Board’s staff needed a better understanding of generally accepted accounting principles (GAAP) to help ensure they prepare accurate and reliable financial statements.

The Board must prepare financial statements using GAAP. Staff need sufficient knowledge and understanding of GAAP. Also, the Board needs a sufficient understanding of GAAP to oversee the preparation of accurate and reliable financial statements.

During the audit, we noted the Board had included in its 2009 budget money for additional staff training and hiring of accounting expertise to assist staff in the preparation of reliable financial statements.

We continue to recommend the Milk Control Board provide its staff with support and training to increase their understanding of accounting standards.

PAC considered this matter on December 8, 2008 and concurred with our recommendation.

Inadequate segregation of accounting duties

The Board has not properly separated the accounting duties of employees and has not taken sufficient steps to mitigate the related risks.

As explained in the exhibit below, it’s essential for good control to separate key functions so that no one employee or group of employees is in a position to commit errors or conceal fraud in the normal course of their duties. Maintaining accurate job descriptions for all employees contributes to strong control. Agencies with effective boards, strong management, and good control systems cannot prevent or detect all losses of public money. Nevertheless, they should take steps to reduce the risk of such losses.

Exhibit 1 – Separating incompatible functions and using job descriptions

Good controls separate the following functions: the custody or access to assets (e.g., cash), the initiation of transactions (e.g., decision to buy), the approval of transactions (e.g., approval to buy), and the responsibility for recording and reporting the transaction (e.g., recording amounts in the accounting records). When agencies assign incompatible functions, they must rely on review and approval of work and reports to detect errors or irregularities. Staff who are assigned responsibility for review and approval of such work and reports must be fully aware of an employee's incompatible functions and related risks. They must keep the additional risks in mind when carrying out their review.

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 Board had a small staff with five employees (not including staff who operate the Dairy Lab) at December 31, 2008. After staff retirements in 2008, the Board assigned to one employee incompatible functions such as preparing the bank reconciliations, preparing deposits when another employee is absent, signing cheques as one of two required signers, recording transactions in the Board's accounting records, maintaining security over the computerized accounting system, and preparing financial reports for senior management's and the Board's approval. Also, there is no up-to-date job description for this employee. The Board is at risk of losses of public money and must take steps to reduce the risk of such losses.

- 1. We recommend the Milk Control Board assign responsibilities so that accounting functions that are not compatible are appropriately separated.**
- 2. We recommend that all employees of the Milk Control Board have job descriptions that accurately reflect their responsibilities.**

Employment contract not filed when required

The Board did not file an employment contract as required by law.

The Crown Employment Contracts Act requires certain employees to file copies of their employment contracts with the Clerk of Executive Council within 14 days of entering into the contract.

In May 2008, the Board changed the terms of employment (employment contract) for an employee who reports directly to the Chief Executive Officer. During our audit, we noted the employee had not filed the employment contract as required by law. When our Office brought this to the attention of the employee, he noted that he was unaware of the requirement to do so. Other employees affected by the Act appropriately filed their employment contracts. However, the Board does not have processes to remind staff to file their contracts. The affected employee subsequently filed the employment contract in early April 2009.

3. **We recommend that all employment contracts of Milk Control Board employees who fall under *The Crown Employment Contracts Act* be filed with the Clerk of Executive Council as required by law.**
4. **We recommend the Milk Control Board develop procedures so that employment contracts are filed as required by law.**