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Main points

The Ministry of Municipal Affairs (Municipal Affairs) along with the Federal Government assists municipalities with funding for infrastructure. Projects to build or upgrade municipal infrastructure may create risks for the environment. Municipal Affairs is responsible to monitor whether municipalities comply with environmental assessment provisions in federal-provincial infrastructure agreements. Municipal Affairs had adequate processes to monitor municipalities' compliance in this area.

Introduction

The Ministry of Municipal Affairs (Municipal Affairs) works closely with municipalities, their representative organizations, and other provincial ministries to help ensure effective local government and sustainable municipal infrastructure and services. Municipal Affairs also provides the legislative framework as well as some technical and policy support for cities, urban, rural, and northern municipalities.¹

This chapter sets out the results of our audit of Municipal Affairs for the year ended March 31, 2010. Also, it includes the results of our audit of Municipal Affairs' processes to monitor municipalities' compliance with environmental assessment provisions in federal-provincial infrastructure agreements.

Special purpose fund and agency

At March 31, 2010, Municipal Affairs was responsible for the following Crown agency and special purpose fund (agencies):

	<u>Year-end</u>
Municipal Potash Tax Sharing Administration Board	December 31
Northern Municipal Trust Account	December 31

Each year, the Legislative Assembly (Assembly) receives the annual audited financial statements of each of the above agencies. Our 2010 Report – Volume 1 includes our audit conclusions of these agencies.

Financial overview

For the year ended March 31, 2010, Municipal Affairs had revenues of \$79.3 million (including \$78.5 million from the Federal Government) and had expenses of \$410 million. The following is a list of major programs and spending for the year ended March 31, 2010.

¹ Ministry of Municipal Affairs. (2010). 2009-10 Annual Report. Regina: Author.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Central Management and Services	\$ 4.8	\$ 4.7
Municipal Financial Assistance	265.8	337.7
Municipal Relations	7.4	7.8
Federal Municipal Assistance	60.2	58.5
Saskatchewan Municipal Board	<u>1.5</u>	<u>1.3</u>
Subtotal	<u>\$ 339.7²</u>	<u>\$ 410.0</u>

Municipal Affairs' 2009-10 Annual Report contains information about its revenues and expenses including reasons for significant differences between actual amounts and estimates.

Audit conclusions and findings

In our opinion, for the year ended March 31, 2010:

- ◆ **Municipal Affairs had adequate rules and procedures to safeguard public resources**
- ◆ **Municipal Affairs complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing**

Monitoring municipalities' compliance with environmental assessment provisions

Background

To be sustainable, communities need infrastructure for clean water, the disposal of waste, recreation, and transportation. The federal and provincial governments support municipalities with funding to help them build and maintain water treatment plants, sewage treatment plants, streets, bicycle paths, community arenas, and other infrastructure. These three levels of government sign funding agreements that set out the steps municipalities must take to obtain the infrastructure funding.

² The Legislative Assembly approved through Supplementary Estimates an additional \$77.7 million for Municipal Financial Assistance.

Municipal Affairs is responsible to monitor whether municipalities meet the requirements of infrastructure agreements when it gives the funding to the municipalities. Municipal Affairs must monitor hundreds of infrastructure projects as municipalities may request funding for multiple projects over the term of various types of agreements.

To reduce risks to the environment, environmental legislation requires environmental assessments for some infrastructure projects.³ Lack of environmental assessments or failure to correct problems could result in damage to the water supply, wildlife habitats, or public health. Federal-provincial infrastructure agreements require municipalities to comply with environmental assessment legislation and require Municipal Affairs to monitor municipalities' compliance. If municipalities do not comply with the provisions of infrastructure agreements, Municipal Affairs can withhold or require repayment of infrastructure funding.

Audit objective, criteria, and conclusion

The objective of this audit was to assess the adequacy, during the twelve months ended August 31, 2010, of Municipal Affairs' processes to monitor municipalities' compliance with environmental assessment provisions in federal-provincial infrastructure agreements. In particular, we audited processes to monitor compliance with environmental assessment provisions in the five following infrastructure agreements:

1. Municipal Rural Infrastructure Fund Agreement 2004-2010 (MRIF)
2. Provincial-Territorial Base Funding Agreement 2007-2017 (PT Base)
3. Building Canada Fund—Communities Component Agreement 2007-2017 (BCF)
4. Agreement on Transfer of Federal Gas Tax Revenues—Cities and Communities 2005-2015 (Gas Tax)
5. Infrastructure Stimulus Fund Agreement 2009-2011 (ISF)

To conduct this audit, we followed the *Standards for Assurance Engagements* published in the *CICA Handbook – Assurance*. To evaluate Municipal Affairs' processes, we used criteria based on the work of other

³ The *Canadian Environmental Assessment Act, 1992* and *The Saskatchewan Environmental Assessment Act, 2002* establish if environmental assessments are required when building infrastructure.

auditors and current literature listed in the selected references. Municipal Affairs agreed with the criteria in Exhibit 1.

Exhibit 1—Audit criteria for monitoring municipalities’ compliance

To have adequate processes to monitor municipalities’ compliance with environmental assessment provisions in federal-provincial infrastructure agreements, Municipal Affairs should:

1. Establish an appropriate framework to monitor compliance
 - 1.1. Establish clear roles and responsibilities
 - 1.2. Provide guidance on expected processes
 - 1.3. Require information about environmental assessments
2. Evaluate compliance
 - 2.1. Assign responsibility for monitoring
 - 2.2. Analyze results of monitoring procedures
 - 2.3. Identify required actions to address key risks
 - 2.4. Report non-compliance
3. Take action to improve compliance
 - 3.1. Communicate required actions to municipalities
 - 3.2. Monitor timely completion of required actions
 - 3.3. Report progress toward compliance

We concluded that, during the twelve months ended August 31, 2010, the Ministry of Municipal Affairs had adequate processes to monitor municipalities’ compliance with environmental assessment provisions in federal-provincial infrastructure agreements.

Key findings

In the following sections, we set out our key findings related to each of the criteria in Exhibit 1. Our expectations (criteria) are set out in italics.

Establishing a framework to monitor compliance

In its framework to monitor compliance with environmental assessment provisions in federal-provincial infrastructure agreements, we expected Municipal Affairs to:

- ◆ *establish clear roles and responsibilities*
- ◆ *provide guidance on expected processes*
- ◆ *require information about environmental assessments*

Municipal Affairs uses a framework of formal funding agreements to establish and monitor what municipalities must do to comply with environmental assessment provisions. Generally, there are two types of agreements for each funding program (e.g., BCF program, Gas Tax program). A multi-year agreement (infrastructure agreements) describes the funding program and outlines what municipalities must do to obtain the funding. A provincial-municipal funding agreement (funding agreement) states in more detail what the municipality must do.

The infrastructure agreements we audited establish clear responsibilities for municipalities and Municipal Affairs. These agreements also guide municipalities to take the required steps to obtain funding for their infrastructure projects. In addition, Municipal Affairs employs program advisors whose role includes helping the municipalities to understand the requirements of each infrastructure agreement.

The nature of the funding agreement influences the reports required. Each of the infrastructure agreements require each municipality to comply with “legislated environmental assessment requirements.” Municipal Affairs reinforces this requirement in its provincial-municipal funding agreements. Usually, these agreements require the municipality to arrange for a federal agency⁴ or engineering firm to do an environmental assessment.

Four of the funding agreements (i.e., MRIF, PT Base, BCF, and ISF) require municipalities to submit information to Municipal Affairs before Municipal Affairs releases funds. The municipality must state that it completed the required environmental assessment.

Under the Gas Tax agreement, Municipal Affairs provides federal per capita funding to municipalities upon receipt of an infrastructure investment plan. In these brief plans, municipalities outline eligible projects and the anticipated environmental benefits (e.g., better quality water). The Gas Tax agreement expects Municipal Affairs to distribute Gas Tax funds annually to municipalities, allowing them to accumulate funds before infrastructure projects begin.

⁴ Western Economic Diversification Canada, a department of the Government of Canada, arranges for completion of environmental assessments for many infrastructure agreements. It does not arrange environmental assessments under the Gas Tax Agreement.

Management monitors overall compliance with the Gas Tax agreement using a risk-based approach. Municipal Affairs reminds municipalities to comply with environmental assessment provisions at various times (e.g., in the funding agreement and in letters that approve municipal infrastructure plans). Management advised us that most Gas Tax projects do not require an environmental assessment due to the nature of the projects (e.g. roof replacement).

Evaluating compliance and identifying risks

To evaluate the compliance of municipalities with the environmental assessment provisions in infrastructure agreements, we expected Municipal Affairs to:

- ◆ *assign responsibility for monitoring*
- ◆ *analyze results of monitoring procedures*
- ◆ *identify required actions to address key risks*
- ◆ *report non-compliance*

Municipal Affairs assigns a civil engineer with knowledge of environmental science to supervise most of its infrastructure funding programs. Municipal Affairs also assigns program advisors and analysts to monitor municipalities' compliance with specific funding agreements.⁵ Municipal Affairs trains these employees on the job.

When municipalities request funding from most infrastructure programs (i.e., MRIF, PT Base, BCF, and ISF), program advisors monitor whether the municipality meets the environmental assessment requirements of the agreement. For example, the program advisors use a checklist to monitor that Municipal Affairs received all required reports. If a municipality fails to submit a required report, the checklist documents that fact, the action taken, and the results. For example, if the checklist shows that the report of an environmental assessment is missing from the file, the checklist will also show when Municipal Affairs contacted the municipality, and whether the municipality immediately submitted the required report.

⁵ Also, Municipal Affairs hires employees with demonstrated analysis and critical thinking skills.

Municipal Affairs monitors hundreds of infrastructure projects. To make this process efficient, a software program tracks actions related to specific projects⁶ and spreadsheets help Municipal Affairs analyze the results of its monitoring procedures. This allows Municipal Affairs to analyze whether municipalities consistently comply with environmental assessment requirements. For the Gas Tax program, Municipal Affairs tracks its receipt of a report outlining the environmental benefits of the infrastructure project (e.g., better quality water).

Municipal Affairs uses the environmental assessment reports it receives to identify key risks (e.g., for MRIF, PT Base, BCF). For example, if a municipality needs another well to enhance its water supply, it must dig the new well in a specific, safe location. Municipal Affairs then uses its own monitoring processes to identify further key risks during the project. For example, if a municipality changes the project design (such as the well's location), Municipal Affairs asks for another environmental assessment.

Before each interim or final payment to a municipality for all funding programs, Municipal Affairs staff complete a checklist and use it to document actions required to address risks. Risks could involve construction delays, missing permits (e.g., to build a water treatment plant), or failure to arrange for a required environmental assessment or mitigation step.⁷ For example, if local weather conditions delay a building project, Municipal Affairs documents the delay and the date that the municipality expects to resume the project.

Municipal Affairs staff verbally report minor non-compliance to a manager (e.g., required documents submitted late). Municipal Affairs reports serious non-compliance to an oversight committee, explaining the nature of the problem and recommending action.

For the MRIF and BCF infrastructure programs, the oversight committee consists of senior managers representing the federal and provincial

⁶ In 2009, Municipal Affairs created the Municipal Grant Administration Program (MGAP), a specialized payment system to track and manage payments. MGAP stores project information, applicant information, project start dates, municipal council resolutions, environmental assessment determinations, funding, etc. In addition, MGAP can generate letters to recipients, pulling information directly from the database.

⁷ An environmental assessment report sets out any mitigation steps that the municipality must take during or after the project (e.g., obtain building permits, use safety practices, replace in another location a fish habitat damaged by a building project). Municipal Affairs often lists environmental mitigation steps in a schedule added to the funding agreement.

governments and holds monthly telephone conference calls. The oversight committee has the authority to decide what action the municipality must take to address risks for all types of infrastructure agreements. The committee keeps detailed minutes of its decisions. It identifies decisions that set a precedent so that it can make consistent decisions over time.

For the Gas Tax program, the oversight committee has representatives of federal and provincial governments and the municipalities.⁸ In early 2010, the Gas Tax oversight committee adopted a compliance strategy. This strategy guides Municipal Affairs to withhold funds from municipalities that repeatedly do not comply with significant provisions of the funding agreement.

Taking action to improve compliance

To take action to improve municipalities' compliance with the environmental assessment provisions in infrastructure agreements, we expected Municipal Affairs to:

- ◆ *communicate required actions to municipalities*
- ◆ *monitor timely completion of required actions*
- ◆ *report progress toward compliance*

Municipal Affairs finds that municipalities rarely proceed with an infrastructure project without completing the required environmental assessment and mitigation steps. In the unusual event that a municipality fails to comply with the funding agreement in this way, Municipal Affairs communicates with the municipality by telephone and letter. Municipal Affairs verbally alerts the municipality to the problem. Then, Municipal Affairs sends a letter explaining actions the municipality must take to retain funding received to date and receive the final payments. Failure to comply with the required actions could mean that the municipality must repay any funds it received.

The letter includes the date by which the municipality should complete the required action. This makes it possible for Municipal Affairs to monitor the timely completion of those required actions. Program advisors monitor required actions when municipalities do not comply with the requirements set out in their funding agreement. In addition, program auditors review

⁸ The Gas Tax Oversight Committee is also called the New Deal Partnership Committee.

each project's documents before authorizing payments and withhold funds if the municipality has not complied with environmental or other requirements.

Municipal Affairs reports progress toward compliance to the oversight committee at its regular meetings. This enables Municipal Affairs to make timely decisions (e.g., if necessary, to declare a municipality in default of its agreement).

If necessary, Municipal Affairs can withdraw public funds from the infrastructure project until the situation is resolved. However, the oversight committee most often guides municipalities to comply with funding agreements in ways that protect the environment and meet municipalities' need for infrastructure.

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