

Chapter 10

Government Relations

1.0 MAIN POINTS

This chapter reports the results of our 2012-13 audit of the Ministry of Government Relations (Ministry). The Ministry complied with authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

During 2012-13, the Ministry had effective rules and procedures to safeguard public resources except for the matters described below.

The Ministry needs to keep clear documentation of the estimation methods, supporting data, and key assumptions it uses in making its significant accounting estimates of revenue from the federal government for reimbursement of disaster-related costs. The Ministry also needs to implement a formal process to regularly review estimates relating to unpaid claims under the Provincial Disaster Assistance Program (PDAP).

The Ministry must improve its monitoring of service contracts for emergency management services. It needs to develop criteria for determining when and how much additional compensation should be paid to emergency management services contractors. Also, the Ministry needs to clearly document the services it expects to receive from these contractors and monitor that the contractors are performing as expected.

In order to protect its computer systems and data, the Ministry must consistently remove unneeded user access to its computer systems and data promptly.

2.0 INTRODUCTION

Effective May 25, 2012, the Ministry became responsible for municipal relations, public safety, and First Nations, Métis, and northern affairs.^{1,2}

The Ministry is responsible for coordinating, developing, promoting, and implementing policies and programs related to cities, municipalities (urban, rural, northern), and matters of an inter-municipal nature. This includes policies and programs related to:

- › Community planning, development, and diversification of cities and municipalities
- › Joint ventures related to municipalities
- › Administrative and technical advice provided to administrators/councils to support the effective and efficient operation of municipal governments

¹ Effective May 25, 2012 (Order in Council 277/2012), the Government created the Ministry of Government Relations by combining the former Ministry of Municipal Affairs, Ministry of First Nations and Métis Relations and part of the Ministry of Corrections, Public Safety and Policing.

² www.gr.gov.sk.ca (19 August 2013).



- › Community facilities
- › Local government elections

Also, the Ministry is responsible for coordinating, developing, promoting and implementing policies:

- › With respect to matters affecting First Nations and Métis peoples
- › To foster and advance development in northern Saskatchewan
- › For emergency management, disaster assistance, fire commissioner services, and building accessibility and other safety standards
- › For public safety (e.g., safety standards for boilers, pressure vessels, gas equipment and installations, electrical equipment and installations, elevators and amusement rides, and licensing and regulating of related persons)³

2.1 Financial Overview

For the year ended March 31, 2013, the Ministry had revenues of \$179.6 million (including \$154.7 million from the federal government) and expenses of \$592.6 million.

The following is a list of the Ministry’s major programs and spending. **Figure 1** compares actual spending to budget by program. For further details and variance explanations, see the Ministry’s *2012-13 Annual Report* available on its website at www.gr.gov.sk.ca.

Figure 1 – Comparison of Estimates to Actual by Major Program

	Estimates 2012-13	Actual 2012-13
	(in millions)	
Central Management Services	\$ 11.0	\$ 10.3
First Nations and Métis Engagement	75.0	91.1
Municipal and Northern Engagement	380.7	367.7
Saskatchewan Municipal Board	1.4	1.4
Public Safety	<u>9.1</u>	<u>121.1</u>
Total Appropriation	<u>\$ 477.2</u>	<u>\$ 591.6</u>
Capital Asset Acquisitions	(1.4)	(1.3)
Amortization of Capital Assets	<u>2.7</u>	<u>2.3</u>
Total Expense	<u>\$ 478.5*</u>	<u>\$ 592.6</u>

Source: *Ministry of Government Relations 2012-13 Annual Report*

* The Ministry obtained additional funds of \$120.7 million authorized through the Saskatchewan Supplementary Estimates and special warrants.

³ *The Ministry of Government Relations Regulations.*

3.0 AUDIT CONCLUSIONS AND SCOPE

In our opinion, for the year ended March 31, 2013:

- › **The Ministry had effective rules and procedures to safeguard public resources except as described in this chapter**
- › **The Ministry complied with the following authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Assessment Management Agency Act
The Assessment Management Agency Regulations
The Cities Act
The Crown Employment Contracts Act
The Department of Rural Development Act
The Department of Urban Affairs Act
The Federal-Provincial Agreements Act
The Financial Administration Act, 1993
The Government Organization Act
The Government Organization Exemption Regulations
The Ministry of Government Relations Regulations
The Indian and Native Affairs Act
The Métis Act
The Municipalities Act

The Municipal Board Act
The Municipal Grants Act
The Municipal Grants Regulations
The Northern Municipalities Act, 2010
The Provincial Disaster Assistance Program Regulations, 2011
The Public Service Act, 1998
The Purchasing Act, 2004
The Saskatchewan Gaming Corporation Act (Parts III.01 and III.1)
The Saskatchewan Natural Resources Transfer Agreement (Treaty Land Entitlement) Act
 2002 Gaming Framework Agreement
 Orders in Council issued pursuant to the above legislation

We used the control framework developed by the Canadian Institute of Chartered Accountants (CICA) to make our judgments about the effectiveness of the Ministry's controls. The CICA defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

In our 2012-13 audit, we examined the effectiveness of the Ministry's financial-related controls used to administer the spending listed in **Figure 1**, its revenues, and its contractual obligations. Also, we examined the effectiveness of the controls it uses to keep reliable financial records and prepare reliable financial reports.

Because the Ministry receives significant federal funding for various municipal programs and provides significant grants to municipalities, we paid particular attention to the Ministry's controls for managing grant payments to municipalities. This included assessing its processes for awarding grants, approving grant payments, and monitoring municipalities' compliance with federal and provincial funding agreements. Also, because the Ministry provides financial assistance to individuals and organizations for provincial disaster claims and expects to receive significant reimbursements from the federal government for a portion of the amount it pays, we examined the Ministry's controls over managing disaster claims and recovering amounts from the federal government. This included processes for making and recording significant accounting estimates for provincial disaster assistance claims and for recoveries from the federal government.



4.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we outline key observations from our assessments and the resulting recommendations.

4.1 Regular Review of Estimated Unpaid PDAP Claims from Prior Years Needed

The Ministry did not have a formal, documented process to regularly review its estimate of amounts owing related to prior year claims under the Provincial Disaster Assistance Program (PDAP) and adjust the estimated amounts where necessary.

Under PDAP, the Ministry provides financial assistance to help residents, small businesses, agricultural operations, communal organizations, non-profit organizations, parks, and communities recover from the effects of natural disasters, including flooding, tornadoes, plow winds, and other severe weather.⁴ When the Ministry receives a PDAP claim from individuals or organizations, it assesses the claim for eligibility using provincial eligibility criteria. It also considers the type and severity of damage, historical estimates, claimant deductibles, and reports from professional adjusters, engineers, and/or appraisers to estimate the amounts it expects to pay. As noted in **Figure 2**, at March 31, 2013, the Ministry estimated that it owed \$85.5 million (2012 – \$70.7 million) for unpaid PDAP claims. Of the \$85.5 million, about \$73 million related to unpaid PDAP claims for prior years. The actual amounts paid can vary from the estimated amount depending on the final information received.

Figure 2—Provincial Disaster Assistance Program Claim Experience from 2007

Claim Year	Total # of PDAP claims	# of PDAP Claims by Claim Year that Remained Unpaid at March 31, 2013	Estimated PDAP Claims Payable by Claim Year at March 31, 2013 (in millions)
2012	929	516	\$ 8.9
2011	8,663	1,422	63.6
2010	6,418	153	12.1
2009	14	-	-
2008	473	-	-
2007	<u>1,790</u>	<u>6</u>	<u>0.9</u>
Total	<u>18,287</u>	<u>2,097</u>	<u>\$ 85.5</u>

Source: Saskatchewan Legislative Assembly Votes and Proceedings (Minutes) April 10, 2013 and Ministry of Government Relations' financial records

Preparing financial information consistent with generally accepted accounting principles requires management to make estimates when not all information is known. Accounting estimates inherently involve making assumptions. Assumptions must reflect information currently available along with conditions that management expects to exist and courses of action it expects to take. Accounting estimates require regular reviews to confirm they

⁴ www.gr.gov.sk.ca/PDAP (19 August 2013).

remain reasonable (i.e., at least annually) and must be revised when circumstances change or new information becomes available. Management must maintain clear documentation (e.g., of the estimation method used, supporting data, and key assumptions) to demonstrate the basis and reasonableness of the estimate. Also, clear documentation facilitates efficient future revisions.

During 2012-13, the Ministry reviewed its estimate of amounts owing under PDAP related to prior fiscal years. This review resulted in the Ministry reducing its estimate by about \$20 million. This was the first time such a comprehensive review was completed for amounts owing related to prior year claims under PDAP. The Ministry does not have a process to require similar reviews of prior year claims in the future.

Not having a formal process to regularly review these estimates increases the risk of inaccurate estimates (e.g., at each financial reporting period). Inaccurate estimates can result in incorrect financial information being used for decision making.

- 1. We recommend that the Ministry of Government Relations establish a formal process to regularly review its prior year estimates of amounts owing under the Provincial Disaster Assistance Program.**

Management indicated that it is developing a formal process for regular review of PDAP estimates.

4.2 Better Support for Estimates of Revenue from the Federal Government for Disaster-Related Costs and Flood Mitigation Needed

The Ministry did not clearly document the basis for its estimates of revenue from the federal government for Disaster Financial Assistance Arrangements (DFAA) and one-time Flood Mitigation program.

As noted in **Section 4.1**, management must maintain clear documentation to demonstrate the reasonableness of estimates. This documentation should include the estimation method used as well as any relevant supporting data and key assumptions.

The Ministry seeks reimbursement of eligible PDAP costs from the federal government under DFAA. While the federal eligibility criteria for reimbursement under the DFAA are similar to the provincial PDAP criteria, some differences exist. For example, the provincial criteria allow for higher labour rates than the federal criteria. Also, the federal government may not designate all areas that received financial assistance under PDAP as a disaster area. As a result of these differences, for each PDAP claim it has paid, the Ministry must determine costs eligible for reimbursement based on federal eligibility criteria. In accordance with DFAA guidelines, the Ministry cannot submit a final claim until all provincial disaster claims (which include PDAP claims and other provincial government claims such as Ministry of Highways claims) are finalized and paid. The Ministry may submit an interim request for an advance reimbursement to the federal government. The amount that is paid is determined by the federal government.



While the Ministry has a process to assess whether costs are eligible for reimbursement from the federal government, it did not make these assessments on a timely basis. In 2011, the Ministry assigned additional staff to focus on completing DFAA assessments. We expected the Ministry to complete its DFAA assessments within six months of provincial disaster claims (which include PDAP claims and other provincial government claims such as Ministry of Highways claims) being finalized and paid. This would help ensure requests for reimbursement from the federal government are submitted as timely as possible and allow the Ministry to meet the federal government deadline for submitting requests for reimbursements.⁵

The Ministry has completed its reassessment of PDAP claims for federal eligibility for the 2005, 2006, and 2007 claim years.⁶ At March 31, 2013, it had carried out limited work on claims related to the 2010 and 2011 claim years, and no work on claims related to the 2012 claim year.⁷ By March 31, 2013, the Ministry had submitted requests for reimbursement to the federal government for the 2005 and 2006 claim years, and an interim request for the 2007 claim year.

As shown in **Figure 3**, at March 31, 2013, the Ministry expected to receive and had recorded a receivable from the federal government of \$355.5 million for the 2005 – 2011 claim years. At September 2013, the Ministry had received about \$33 million from the federal government for certain claim years.⁸

Figure 3—Estimated reimbursement from the Federal Government under the Disaster Financial Assistance Arrangement from 2005-2012 Claim Years

	Claim Year								Total
	2012	2011	2010	2009	2008	2007	2006	2005	
Estimated Recovery of All Provincial Government Agencies' Costs that are Eligible for DFAA at March 31, 2013* (in millions)	\$ -	206.7	63.1	-	-	73.7	6.6	5.4	<u>\$ 355.5</u>

Source: Ministry of Government Relations' financial records

*Note this does not include costs of the separate, one-time Flood Mitigation program

Because the Ministry did not complete its determination of eligibility for federal reimbursement under DFAA in a timely manner, it must make additional assumptions to estimate and record related revenues from the federal government. This increases the risk that the revenue recorded each year may not be accurate. We identified three areas related to the Ministry's revenue estimation process that need improvement.

Need to Obtain Supporting Information from Other Government Agencies

The Ministry is responsible for the preparation and submission of the claim for disaster-related costs from the federal government and the accuracy of those claims.

⁵ Starting with the 2008 claim year, the deadline for submission of the final provincial claim to the federal government is five years from the date of the federal Order in Council authorizing the provision of disaster assistance.

⁶ Claim year is the calendar year in which the disaster event occurred.

⁷ For 2010, the Ministry still has to reassess approximately 1,700 PDAP claims for DFAA eligibility. The Ministry indicated that, starting with the 2011 claim year, it will assess DFAA eligibility on a sample basis but at July 2013, it had not yet determined its sampling approach.

⁸ The Ministry received \$4 million for the 2005 claim year, \$19 million for the 2007 interim claim, and \$10 million for flood mitigation.

When a natural disaster occurs, multiple provincial government agencies incur disaster-related costs. For example, the Ministry of Highways and Infrastructure incurs costs to repair roads, and the Water Security Agency incurs costs to repair water structures such as dams. Some of these costs are eligible for reimbursement from the federal government.

To prepare the federal claim, the Ministry requests and obtains from other government agencies their estimates of eligible costs. However, it did not consistently request or receive supporting information on costs reported (e.g., detail of amounts paid) from these other agencies.

› **Need Sufficient Support for Flood Mitigation Revenue Estimate**

Under the *Contribution Agreement for Cost-Sharing of Permanent 2011 Flood Mitigation Measures* (Agreement), the federal government provided Saskatchewan with funding for certain costs related to flood-mitigation projects it incurred from January 1, 2011 to the beginning of a flood event in 2011. In 2012-13, the Ministry recorded estimated revenue of \$18 million for funds it expected to receive from the federal government under the Agreement. The Ministry was unable to provide sufficient supporting documentation that showed how it determined this estimated revenue and the basis for its estimate.

› **Support Needed for Percentage Used to Make DFAA Claim Revenue Estimate**

For each claim year, the Ministry estimates the percentage of total PDAP costs that are eligible for reimbursement by the federal government for areas federally-designated as disaster areas. It used a percentage of 80% for the 2005 to 2011 claim years. In 2012-13, it increased this percentage to 90%. The Ministry did not document the method it used, the data it evaluated, and the assumptions it made to determine these percentages.

Without sufficient documentation of estimation methods, supporting data, and key assumptions used in developing significant accounting estimates, there is an increased risk of the Ministry making inaccurate estimates. Inaccurate estimates can result in incorrect financial information being used for decision making.

2. **We recommend that the Ministry of Government Relations keep clear documentation of the estimation methods, supporting data, and key assumptions it uses in making significant accounting estimates.**

4.3 Improved Monitoring of Service Contracts for Emergency Management Services Needed

The Ministry did not have sufficient processes to ensure contractors responding to provincial emergencies provided services as expected.

The Ministry regularly uses outside contractors to provide services where it does not have the resources or expertise available within the Ministry to meet its needs. In 2012-



13, the Ministry's Emergency Management and Fire Safety Division (Division) hired contractors at a cost of \$2 million (2011-12: \$1.9 million) including \$26 thousand (2011-12: \$114 thousand) for additional compensation.⁹

To ensure it receives and only pays for services expected, contracts with its service providers must clearly describe:

- › The nature, timing, and extent of services to be provided
- › The responsibilities of each party
- › The basis for paying for services
- › The reporting requirements to allow the Ministry to be able to monitor the receipt of the services and performance of the contractor

The Ministry's signed annual contracts with these contractors set out each party's general responsibilities and included a general description of the nature of the services to be provided. The contracts also included a set, annual fee to be paid for the work done but did not set out, in sufficient detail, the extent of services the Ministry expected each contractor to provide (e.g., the amount of work expected [hours] or the outcome expected).

In 2011-12, the Ministry amended these contracts to allow it to authorize "additional compensation" for additional services rendered in the event of an emergency as defined in *The Emergency Planning Act*. As the Ministry would not always know what specific duties may be required for a particular emergency, we expected the Ministry to have documented criteria for determining when and how much additional compensation is to be paid.

We found that the Ministry was unable to provide sufficient support for the additional compensation paid. The Ministry indicated that when determining whether to pay additional compensation, staff considered whether the contractor worked hours over and above what was expected. However, as noted above, neither the contracts nor other Ministry documentation set out the detailed extent of services expected.

Without such criteria, the Ministry is at risk of continuing to make unsupported payments for additional compensation for emergency management services.

3. We recommend that the Ministry of Government Relations develop criteria for determining when and how much additional compensation should be paid to emergency management services contractors and communicate these criteria to the contractors.

Monitoring the performance of suppliers is critical to controlling costs and managing risks. Supplier performance must be monitored throughout the contracting process. We also expected the Ministry to actively monitor the nature and type of services provided by emergency management services contractors. Active monitoring would include, at

⁹ The Ministry had a total of 58 contractors in place at various times throughout 2012-13 (2011-12 – 63 contractors).

least annually, formally assessing the performance of each contractor. Other monitoring activities could include discussions at regularly-held meetings, review by senior management of performance reports prepared by management responsible for emergency management services, etc.

We found that the Ministry did not always request or receive sufficient verification of services provided (e.g., time records or other information showing specific duties performed by the contractor each month) before paying contractors. Also, we found no formal processes for monitoring the performance of emergency management service contractors.

Without such information, there is increased risk that the Ministry may not be receiving services as expected and may be making payments for services not provided.

- 4. We recommend that the Ministry of Government Relations clearly document the services it expects to receive from emergency management services contractors, formally communicate those expectations to contractors, and monitor that contractors are performing as expected.**

4.4 Timely Removal of User Access Needed

We recommended that the Ministry of Government Relations (formerly the Ministry of Municipal Affairs) document and implement procedures to ensure unneeded user access to its information technology systems and data is removed promptly. (2012 Report – Volume 2; Public Accounts Committee has not yet considered this recommendation)

Status – Not Implemented

In 2012-13, Ministry management reminded staff, in writing, that they must make timely requests for the removal of unneeded user access (e.g., prior to the date that staff leave the employment of the Ministry). However, we noted 14 instances where Ministry staff did not make timely requests for removal of unneeded user access.

