

## Chapter 45

### Finance and Environment—Contaminated Sites

#### 1.0 MAIN POINTS

Contaminated sites<sup>1</sup> can pose risks to public health and safety if not properly managed. Where the provincial government has caused contamination or accepted responsibility for cleanup of contaminants, it must assess the contamination and decide on actions and costs required to address it.

As of August 29, 2014, the Ministry of Environment (Environment) and the Ministry of Finance (Finance) have fully addressed three of the eight recommendations we made in two previous audits: one audit related to assessing, tracking, and monitoring contaminated sites, and the other audit related to readiness of the Government to account for costs to remediate contaminated sites for which it is responsible. Further work remains on five recommendations.

Environment, as the regulator of contaminated sites, does not have a complete database to track key information (including site assessment information) for contaminated sites. Environment also needs to provide requirements to government agencies for assessing contamination. The database and requirements are needed so that Environment can effectively monitor whether appropriate remedial (cleanup) action is taking place at highly contaminated sites.

Finance needs to complete guidance to government agencies to ensure that funding decisions for cleanup of contaminated sites consider risk and that it has reliable information to properly record the costs that the provincial government expects to pay for cleaning up contaminated sites it is responsible for.

#### 2.0 INTRODUCTION

Regulating contaminated sites is necessary to prevent, minimize, or mitigate potential damage to human or ecosystem health. Under *The Environmental Management and Protection Act, 2002* and related regulations, Environment is responsible for regulating activities that impact the environment. Environment is responsible for identifying contaminated sites located in Saskatchewan and for determining who is responsible for contaminating the sites. It then must ensure detailed assessments and appropriate remediation (cleanup) of the contaminated sites occurs.

Our *2008 Report – Volume 1*, Chapter 4 reported that Environment, in regulating contaminated sites, needed better processes to assess, monitor, and report on the status of contaminated sites. It contained four related recommendations. As reported in our *2011 Report – Volume 2*, Chapter 8, by March 2011, Environment had not fully implemented these recommendations.<sup>2</sup>

<sup>1</sup> Under *The Environmental Management and Protection Act, 2002*, section 11, a contaminated site is an area of land or water that contains a substance that may cause or is causing an adverse effect in a concentration that exceeds an environmental standard. A site requiring reclamation or decommissioning (e.g., abandoned oil wells) may not be contaminated.

<sup>2</sup> Chapter 6 of our *2009 Report – Volume 3* contains the results of our first follow-up. By August 2009, the Ministry of Environment had not implemented any of the four recommendations related to regulating contaminated sites contained in Chapter 4 of our *2008 Report – Volume 1*.



At times, the provincial government has caused contamination or has accepted responsibility for the remediation (cleanup) of contaminates. In these instances, the provincial government must assess the contamination to know and understand what public health and safety risks exist, and decide on actions to address or mitigate those risks. Also, starting April 1, 2014, Canadian public sector generally accepted accounting principles require the Government to account for and report the expected costs to clean up these contaminated sites.<sup>3</sup>

Finance is responsible for preparing the provincial government's Summary Financial Statements<sup>4</sup> in accordance with Canadian public sector accounting standards. Finance needs key information about the Government's contaminated sites to estimate the amounts that the Government expects to pay for cleanup costs and record these costs in the Government's 2014-15 Summary Financial Statements. Gathering this information takes time and the efforts of all government agencies responsible for contaminated sites. Complete and accurate financial reporting of the provincial government's liabilities for contaminated sites is important to reflect the full amount of future public resources required for cleanup.

Our *2013 Report – Volume 1*, Chapter 10 reported that at March 2013, the Government was in the early stages of identifying and managing all contaminated sites for which it was responsible. It included four related recommendations. At that time, many government agencies did not have a complete list of all suspected and known sites, did not fully know what public health and safety risks these sites posed, and had not made decisions on the cleanup of all identified sites.

This chapter describes our follow up of management's actions on the eight recommendations (i.e., four recommendations from our 2008 audit of Environment's regulating contaminated sites, and four recommendations from our 2013 audit on the readiness of the Government to account for its liabilities for contaminated sites). Of the eight recommendations, five related to Environment and three related to Finance.

To conduct this review, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate Environment's and Finance's progress towards meeting our recommendations, we used the relevant criteria from the original audits. Management agreed with the criteria in the original audits.

We obtained updates on progress from Finance and Environment, observed Environment's contaminated sites database, and assessed Finance's accounting guidance to government agencies regarding contaminated sites for which the Government is responsible.

### 3.0 STATUS OF RECOMMENDATIONS

This section sets out each recommendation including the date on which the Standing Committee on Public Accounts agreed to the recommendation, the status of the recommendation at August 29, 2014, and Environment and Finance's actions up to that date.

<sup>3</sup> A new Canadian public sector accounting standard, *PS3260 – Liability for Contaminated Sites*, came into effect on April 1, 2014.

<sup>4</sup> These statements consolidate the financial activities of all government agencies (e.g., ministries, school divisions, regional health authorities, and Crown corporations).

The first part focuses on the four recommendations related to Environment's regulatory role; the second part focuses on the four recommendations related to the Government's readiness to address and account for its liabilities related to contaminated sites.

We found Environment implemented two of our recommendations, partially implemented two, and has not implemented one. Finance implemented one of our recommendations and has partially implemented two.

## 4.0 REGULATING CONTAMINATED SITES

### 4.1 Adequate System for Tracking Contaminated Sites Needed

We recommended that the Ministry of Environment establish an adequate system for tracking contaminated sites. (2008 Report – Volume 1; Public Accounts Committee agreement June 16, 2008)

**Status** – Partially Implemented

To be able to regulate contaminated or potentially-contaminated sites effectively to minimize their risk on the environment, Environment needs key information about these sites located in Saskatchewan. We expected Environment to have a standardized system to capture and track key information about each contaminated site completely and accurately. Key information would include site location, site owner, party(ies) responsible for the site, substance responsible for contamination (potential), current information on completed site assessments (date, phase), degree of any contamination (i.e., NCSCS<sup>5</sup> rating), and current information on remediation plans (date, conditions, status of approvals).

While Environment developed and implemented in January 2014 a database for tracking information about contaminated sites, Environment recognizes that the database does not capture all key information, is not fully operational, and not all key information is entered.

For example, the database, as currently designed, does not effectively track the risk rating associated with the contaminated site (e.g., NCSCS rating). Also, Environment does not have the ability to generate useful reports from the database to facilitate its regulatory role. For example, Environment was unable to provide us with a database-generated listing of all contaminated sites and their associated risk rating. At August 2014, Environment was completing its identification of required enhancements to the database and making plans to seek them.

Also, while Environment had entered into the database information on sites identified since the database's January 2014 implementation date, it had not entered any of the

<sup>5</sup> NCSCS rating is a national classification system for contaminated sites used to convey the degree of contamination and required clean-up. Class 1 classification indicates that action is required to address existing concerns for public health and safety.



key data from its manual files. The manual files contain information on sites previously identified as requiring cleanup and monitoring (old active sites). The database also lacks information on sites for which the provincial government is responsible. Environment expects to enter key data on the active contaminated sites after enhancements of its database are made and as these sites require its monitoring.

Without a complete, accurate, and functional database for contaminated sites, Environment cannot effectively track the status of such sites and know which sites are higher risk and require more attention.

## 4.2 Evaluate Risk Assessments Where Required

We recommended that the Ministry of Environment complete its risk assessments for identified contaminated sites and rank them in terms of priority. (2008 Report – Volume 1; Public Accounts Committee agreement June 16, 2008)

**Status** – Partially Implemented

Sites with suspected or known contaminants require a preliminary site assessment (i.e., Phase 1 assessment) to identify if a site is likely to possess significant environmental concerns. If a site is likely to possess significant concerns, a Phase 2 environmental site assessment (ESA) is needed. Phase 2 ESAs ascertain to what degree a site is contaminated (i.e., NCSCS rating) and what remedial (cleanup) action is required. The lower the NCSCS rating, the higher the priority for action (e.g., NCSCS rating of Class 1 means an environmental site assessment has indicated that action is required to address existing concerns for public health and safety). Environment is responsible for ensuring the site owner's corrective action plan is acceptable and properly addresses the significant risks.

We found Environment has not clearly conveyed what is expected for site assessments associated with contaminated sites (see **Section 5.1**). In addition, Environment does not have an adequate system for tracking site assessment information about contaminated sites (see **Section 4.1**). As a result, Environment was unable to demonstrate that site assessments are complete and reviewed for contaminated sites where required. For example, government agencies that require a Phase 2 ESA do not always have one. Cleanup plans (and prioritization of those cleanup plans) can only be evaluated once detailed site assessments (i.e., Phase 2 ESAs) are complete.

Ensuring risk assessments are completed for contaminated sites reduces the threat of high-risk sites not being given sufficient attention and not being cleaned up within an appropriate timeframe. Delays in cleanup may cause unnecessary damage to public health and safety.

### 4.3 Guidance Provided for Monitoring and Reporting Known Contaminated Sites

We recommended that the Ministry of Environment complete its written guidance for monitoring contaminated sites. (2008 Report – Volume 1; Public Accounts Committee agreement June 16, 2008)

**Status** – Implemented

Environment has substantively completed written guidance for the various activities associated with contaminated sites. It has developed documents with respect to the use of its database and expects to continue to do so as its database evolves. Also, it has developed supporting materials for the draft Environmental Code that it expects will come into force in the future.

Environment has completed various guides for site owners and operators of industrial facilities that could or have caused contamination; staff also use these guides. These documents provide guidance on how to identify and remediate (clean up) contaminated sites (including interaction with Environment), and outlines reporting requirements to Environment.

Also, each year, the Environmental Protection Branch (EPB) of Environment completes a branch compliance plan. Staff use the plan to guide operations within the EPB, including the monitoring of contaminated sites and sites that may cause contamination (e.g., storage of hazardous substances, waste, and dangerous goods). The plan outlines the compliance activities (e.g., inspections) that are to be undertaken in a given year at contaminated sites. The plan is based on identified priorities and risks (i.e., high-risk are inspected more frequently than medium-risk sites).

We recommended that the Ministry of Environment prepare a communication plan for internal and external reporting on the status of contaminated sites. (2008 Report – Volume 1; Public Accounts Committee agreement June 16, 2008)

**Status** – Implemented

Environment maintains a communication plan for its staff to use for reporting information on contaminated sites. The communication plan is expected to provide senior management, other government agencies, and the public with an understanding of how contaminated sites in Saskatchewan are monitored and addressed. The plan outlines the different stakeholders that may be involved (including the public) when contamination occurs, specifies when communication should occur, and who is responsible for that communication.

Environment maintains a website ([www.saskspills.ca](http://www.saskspills.ca)) that provides the public with information on environmental spills.



## 5.0 GOVERNMENT'S CONTAMINATED SITES

### 5.1 Government's Contaminated Sites Need Better Management

We recommended that the Ministry of Environment take steps to make government agencies fully aware of their responsibilities under the proposed *The Environmental Management and Protection Act, 2010* and the related Environmental Codes. (2013 Report – Volume 1; Public Accounts Committee has not yet considered this recommendation)

**Status** – Not Implemented

At August 2014, 10 different government agencies had identified that they were at risk of being responsible for cleanup costs for suspected or known contamination at about 80 sites.

At the time of our 2013 audit, the proposed *The Environmental Management and Protection Act, 2010* and draft Environmental Code contained specific requirements related to suspected or known contaminated sites (e.g., using a consistent system for classifying the degree of contamination) that were not included in existing legislation or guidance. These proposed requirements, once in effect, would apply to both government and non-government agencies. At the time of our 2013 audit, the Act and Code were not yet in effect and this information was not communicated to government agencies with suspected or known contaminated sites.

As of August 29, 2014, this legislation was still not in force. Also, Environment had not communicated any detailed requirements on managing contaminated sites to government agencies. That is, it had not set out appropriate sampling site assessment approaches<sup>6</sup>, required the use of a consistent system to classify the degree of contamination (i.e., NCSCS), set expected timeframes for developing cleanup plans where action is needed to address public health and/or safety concerns, or defined what information about the contaminated site agencies should track. Environment indicated that it has drafted guidance for government agencies and, if the proposed legislation is delayed further than early 2015, it plans to communicate specific requirements to government agencies by the end of the 2014-15 fiscal year.

These steps would provide the information necessary to ensure timely decisions. As a result, government agencies might not have undertaken the necessary actions to mitigate the safety risks created by contaminated sites in a timely manner.

<sup>6</sup> Assessing a sample of sites suspected of contamination may be an appropriate approach rather than assessing each site individually.

We recommended that Treasury Board require government agencies, when requesting funds for cleanup activities, to use the National Classification System endorsed by the Canadian Council of Ministers of Environment to prioritize cleanup activities where the provincial government is responsible for cleaning up contaminated sites. (2013 Report – Volume 1; Public Accounts Committee has not yet considered this recommendation)

**Status** – Partially Implemented

Government agencies need time and resources to assess the degree of contamination and subsequent cleanup plans for contaminated sites, which often results in the hiring of expertise outside of the Government. Each year, Treasury Board in its budget allocation process must decide which sites to assess and/or clean up. For example, Environment's 2014-15 Budget includes a total of \$1.25 million to complete site assessment work at five abandoned northern mine sites. These assessments are needed to formulate a NCSCS classification and determine if future cleanup is needed.

At August 2014, Finance had requested government agencies provide it with NCSCS ratings when submitting lists of contaminated sites; however, not all government agencies provided NCSCS ratings. Finance plans to have agencies use the NCSCS ratings when requesting funds from Treasury Board in the future. Use of the NCSCS ratings would facilitate consistent ranking, across the Government, of public health and safety risks posed by sites for which the provincial government is responsible for cleanup.

## 5.2 Some Accounting Guidance Given for Contaminated Sites

We recommended that the Ministry of Finance set out guidance in the Financial Administration Manual for recording liabilities of contaminated sites to enable complete reporting in the Government's 2014-15 Budget and Summary Financial Statements. (2013 Report – Volume 1; Public Accounts Committee has not yet considered this recommendation)

**Status** – Partially Implemented

As previously noted, a new Canadian public sector accounting standard that requires governments to record expected costs to clean up sites where contaminants exceed an environmental standard came into effect on April 1, 2014. As such, the Government's 2014-15 Summary Financial Statements should, for the first time, include these costs and related liabilities.

Under *The Financial Administration Act, 1993*, Finance is responsible for preparing the Summary Financial Statements. To record the Government's liabilities for cleaning up contaminated sites, Finance needs to set out what information government agencies must gather to consistently quantify cleanup costs of contaminated sites.



By August 2014, Finance had distributed accounting guidance for contaminated sites through various documents, emails, and discussions with government agencies. To have this guidance applied consistently and readily accessible, Finance plans to include it in the *Financial Administration Manual (FAM)* by March 31, 2015. Ensuring government agencies continue to use a consistent and reasonable basis for estimating liabilities for contaminated sites is important to reliably reflect the amount of public resources required for future cleanup.

We recommended that the Ministry of Finance set out its information requirements for accounting for costs (budget and actual) associated with the cleanup of contaminated sites. (2013 Report – Volume 1; Public Accounts Committee has not yet considered this recommendation)

**Status** – Implemented

Beginning fall of 2013, Finance met with the individual ministries to explain its 2014-15 accounting and budgeting requirements for contaminated sites (e.g., the need for them to determine liabilities for contaminated sites at April 1, 2014, and to obtain approval for incurring contaminated sites remediation costs through the annual budget submissions process).

In early 2014, Finance asked government agencies to submit their lists of contaminated sites, a preliminary estimate of associated 2014-15 liabilities, and basis thereof. At August 2014, Finance was working with these agencies to evaluate the information received along with the budget and accounting implications.

Finance also drafted information requests asking government agencies to provide contaminated site information required for the preparation of the Summary Financial Statements for the year ending March 31, 2015. It plans to send this information to agencies in conjunction with its annual year-end information reporting requirements.