

## Chapter 5 Highways

### 1.0 MAIN POINTS

The Ministry of Highways had effective rules and procedures to safeguard public resources for the year ended March 31, 2023. However, the Ministry incurred a loss relating to inappropriate supplier payments.

In March 2023, the Ministry incorrectly paid more than \$500,000 to an individual impersonating one of the Ministry's suppliers; it later recovered about \$400,000.

In August 2023, the Ministry strengthened its processes by requiring a second individual to verify and authorize changes to supplier banking information. Having a second individual review requested changes to supplier banking information provides additional scrutiny to the information provided and lowers the risk of inappropriate changes occurring.

During 2022–23, the Ministry and the Transportation Partnerships Fund complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. The 2022–23 financial statements of the Transportation Partnerships Fund are reliable.

### 2.0 INTRODUCTION

#### 2.1 Background

The Ministry of Highways is responsible for managing the provincial transportation network, which consists of 26,455 kilometers of highways. The Ministry also operates and maintains 692 bridges, more than 62,000 culverts, 12 ferries, 16 northern airports, and one barge.<sup>1</sup>

The Ministry is to provide the public with a safe, reliable transportation system, as well as manage and provide for future development of an integrated provincial transportation system.<sup>2</sup>

#### 2.2 Financial Overview

At March 31, 2023, the Ministry of Highways managed tangible capital assets (comprised primarily of the provincial transportation system) with a net book value of \$5.9 billion. In 2022–23, it incurred \$580 million in expenses, and acquired tangible capital assets of \$405 million comprised primarily of roads and bridges (see **Figure 1**).

<sup>1</sup> Ministry of Highways, *Annual Report for 2022–23*, p. 3.

<sup>2</sup> *Ibid.*

**Figure 1—Major Programs and Spending**

	Estimates 2022–23	Actual 2022–23
	(in millions)	
Central Management and Services	\$ 17.3	\$ 16.5
Strategic Municipal Infrastructure	32.7	31.0
Operation of Transportation System	219.2	248.6
Preservation of Transportation System	118.2	123.1
Transportation Planning and Policy	4.0	4.0
Infrastructure and Equipment Capital	454.6	410.1
<b>Total Appropriation</b>	<b>\$ 846.0</b>	<b>\$ 833.3</b>
Asset Retirement Obligation Adjustment to Opening Accumulated Deficit	(2.1)	(4.9)
Remediation of Contaminated Sites	(88.5)	(88.6)
Capital Asset Acquisitions	(452.6)	(405.2)
Capital Asset Amortization	259.2	245.3
<b>Total Expense</b>	<b>\$ 562.0</b>	<b>\$ 579.9</b>

Source: *Government of Saskatchewan – 2022–23 Estimates (Vote 16)*, pp. 71–75, and *Ministry of Highways, Annual Report for 2022–23*, p. 23.

In 2022–23, the Ministry had revenues of \$18.5 million including federal transfers of \$11.1 million.<sup>3</sup>

The Ministry is also responsible for the Transportation Partnerships Fund (Fund).

### 3.0 AUDIT CONCLUSIONS

In our opinion, for the year ended March 31, 2023, we found, in all material respects:

- **The Ministry of Highways had effective rules and procedures to safeguard public resources; however, the Ministry incurred a loss relating to inappropriate supplier payments (see Section 4.0)**
- **The financial statements of the Transportation Partnerships Fund are reliable**
- **The Ministry of Highways and the Fund complied with the following authorities governing their activities related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

*The Highways and Transportation Act, 1997*  
*The Railway Line (Short Line) Financial Assistance Regulations*  
*The Ministry of Highways Regulations, 2020*  
*The Fuel Tax Accountability Act*  
*The Executive Government Administration Act*  
*The Environmental Management and Protection Act, 2010 (section 9)*  
*The Financial Administration Act, 1993*  
*The Public Works and Services Act*  
*The Purchasing Act, 2004, and Regulations*  
 Orders in Council issued pursuant to the above legislation

<sup>3</sup> Ministry of Highways, *Annual Report for 2022–23*, p. 24.

We used standards for assurance engagements published in the *CPA Canada Handbook—Assurance* (including CSAE 3001 and 3531) to conduct our audit. We used the control framework included in COSO's *Internal Control—Integrated Framework* to make our judgments about the effectiveness of the Ministry of Highways' controls. The control framework defines control as comprising elements of an organization that, taken together, support people in the achievement of an organization's objectives.

Because the Ministry uses contractors to maintain and construct its highways and bridges, the audit paid particular attention to the Ministry's controls over managing its contracts. This included assessing its processes for awarding, approving, and adjusting contracts; retaining appropriate security and holdbacks; approving estimates; obtaining appropriate clearance from the Workers' Compensation Board and tax authorities before making final payments; and tracking its related contractual obligations.

We also evaluated the Ministry's:

- Controls over purchases using purchase cards
- Controls for estimating the value of aggregate stockpile inventory
- Processes for estimating and recording its contaminated sites liabilities and asset retirement obligations
- Controls over key IT systems used to manage the transportation system (e.g., appropriate service level agreements, change management, user access)

## 4.0 KEY FINDINGS

### 4.1 Scrutiny of Supplier Changes Strengthened

In March 2023, the Ministry of Highways incorrectly paid more than \$500,000 to an individual impersonating one of the Ministry's suppliers.<sup>4</sup> In August 2023, the Ministry strengthened its processes by requiring a second individual verify and authorize changes to supplier banking information.

The Ministry of Highways follows the Ministry of Finance's guidance for maintaining and changing supplier information, such as banking information, in the Government's key financial system (MIDAS Financials) used to pay suppliers.<sup>5,6</sup> Finance guidance requires staff at ministries to verify and authorize changes to supplier information (including banking information) before Finance staff update MIDAS Financials. At March 2023, Finance's guidance did not outline expectations on how to verify supplier banking information changes.<sup>7</sup> For example, Finance's guidance did not explain that ministry staff should use

<sup>4</sup> The Government reported this matter on May 1, 2023, in its *2022–23 Fourth Quarter Report of Public Losses for Ministries and Treasury Board Crowns*. [www.saskatchewan.ca/government/newsmedia/2023/may/01/lossreportstabled](http://www.saskatchewan.ca/government/newsmedia/2023/may/01/lossreportstabled) (4 October 2023).

<sup>5</sup> Suppliers provide banking information in order to receive payments electronically.

<sup>6</sup> The Ministry of Finance is responsible for administering the financial system used primarily by ministries and as the general ledger for Public Accounts called the Multi-Informational Database Applications System—Financials (MIDAS Financials).

<sup>7</sup> The Ministry of Finance provides ministries with guidance for completing a Supplier Maintenance Form (i.e., for initial set up of a supplier in the MIDAS system or for changes to supplier information such as address or name). The Supplier Maintenance Form requires two Ministry staff to sign off the form. Finance does not require staff to include a Supplier Maintenance Form when submitting banking information changes.



a different method of communication with a supplier requesting changes to banking information (e.g., phone the supplier if change request submitted via email) or require two staff to authorize the change.

If a supplier wants to change their banking information, they must contact the Ministry of Highways (e.g., via phone or email) to make their request. Suppliers are required to fill out and sign a Direct Deposit Payment Request Form that includes their banking information. One Ministry staff is then expected to check the authenticity of the supplier and supporting documentation (e.g., by assessing whether the supplier contact who signed the form is a known supplier representative), authorize the change, and send the form to the Ministry of Finance to update the information in MIDAS Financials.

In March 2023, the Ministry of Highways received an email request to change banking information from an imposter claiming to represent one of its suppliers. The imposter filled out the Direct Deposit Payment Request Form as required and included contact information on the form. To verify the appropriateness of the banking information change, Ministry staff used contact information provided on the form to communicate with the imposter, rather than using a reliable source, such as the supplier's website. This resulted in staff verifying the change with the imposter, instead of contacting the legitimate supplier. The same staff approved the change to the banking information and submitted the change to the Ministry of Finance.

For a few days in March 2023, the Ministry of Highways incorrectly paid about \$509,000 using the new banking information. In March 2023, the Ministry became aware that the payment was to an imposter and not its legitimate supplier. By August 2023, the Ministry recovered \$404,000 of the amount paid.

In August 2023, the Ministry of Highways implemented further steps for verifying supplier banking information changes. This included having separate staff verify the banking information change request came from reliable sources (e.g., phone contact based on information from company website) and approve the change before submitting the change request to the Ministry of Finance. We assessed one supplier banking information change requested after the Ministry of Highways changed its process. We found the Ministry appropriately verified and authorized the change, including having a second staff involved.

Having a second individual review the requested banking information change provides additional scrutiny to the information provided and lowers the risk of an inappropriate change occurring.

Having other ministries follow a similar process requiring independent staff verify and authorize changes to supplier banking information, would also reduce the risk of Government making inappropriate payments to illegitimate suppliers. We suggest the Ministry of Highways work with the Ministry of Finance to strengthen Finance's guidance to ministries for verifying supplier changes, and requiring a second individual to appropriately verify and authorize changes to suppliers' banking information. Finance may also want to provide ministries with training on how to verify supplier banking change requests.

Not having proper scrutiny of changes to supplier banking information can continue to result in a loss of public funds from making inappropriate payments to illegitimate suppliers.