

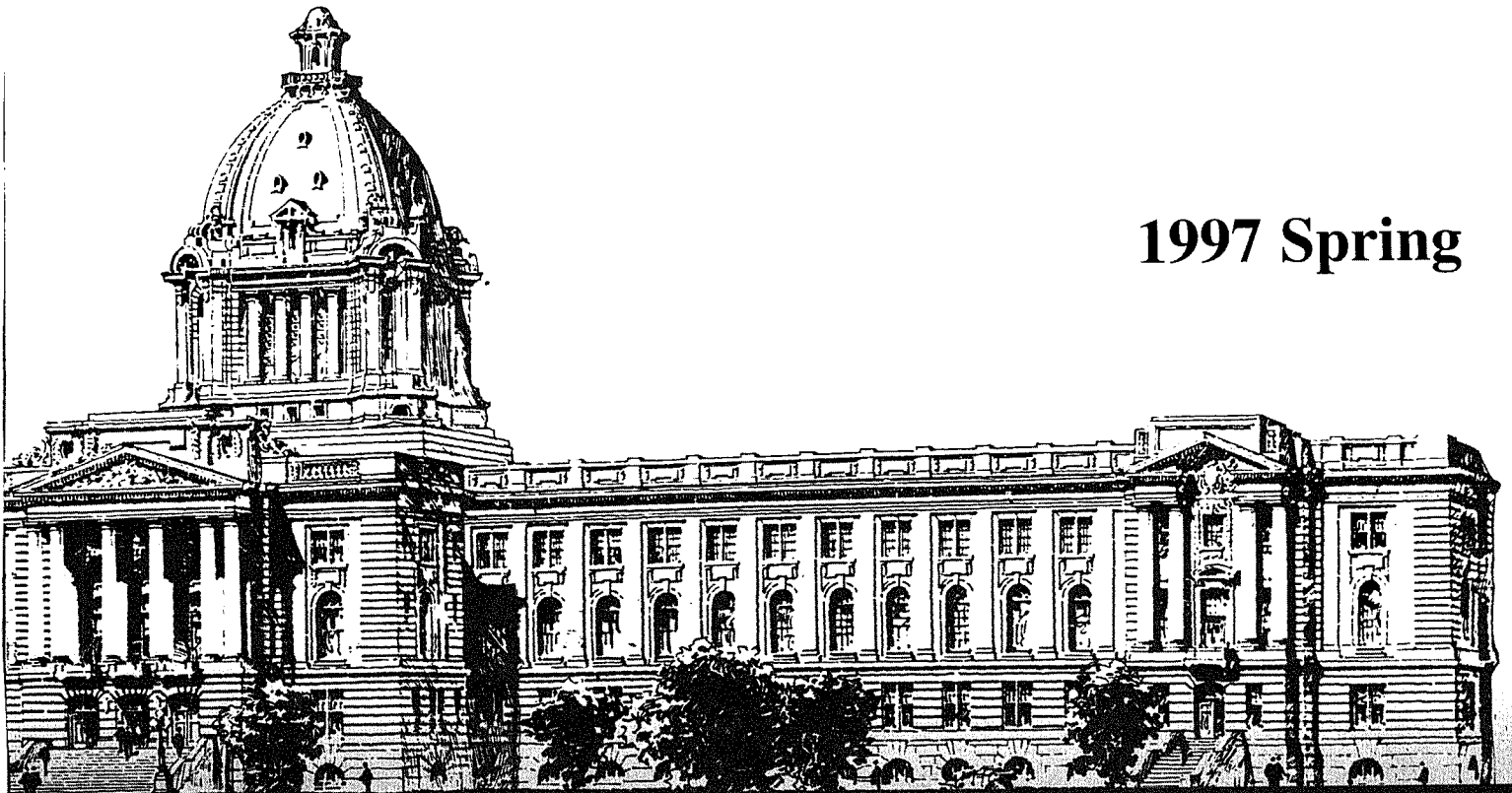


SASKATCHEWAN

Report of the Provincial Auditor

to the Legislative Assembly
of Saskatchewan

1997 Spring



Additional copies of this Report
may be obtained from:

**Provincial Auditor Saskatchewan
1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7**

**Telephone: (306) 787-6398
Fax: (306) 787-6383**

**Internet e-mail: prov.auditor.pas@govmail.gov.sk.ca
Website: www.legassembly.sk.ca/ProvAud/default.htm**

ISSN 0581-8214



Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Phone: (306) 787-6360
Fax: (306) 787-6383
Internet e-mail: wayne.strelioff.pas@govmail.gov.sk.ca

April 4, 1997

The Honourable Glenn Hagel
Speaker of the Legislative Assembly
Room 129, Legislative Building
REGINA, Saskatchewan
S4S 0B3

Dear Sir:

I have the honour of submitting my *Report of the Provincial Auditor: 1997 Spring*, to be laid before the Legislative Assembly in accordance with the provisions of Section 14 of *The Provincial Auditor Act*.

Respectfully yours,

Wayne Strelioff

Wayne Strelioff, CA
Provincial Auditor

/lk

Our Vision

We envision effective, open and accountable government.
We are committed to making a difference by encouraging excellence
in public sector management and reporting practices.

Our Mission

Our Office serves the people of Saskatchewan through the Legislative Assembly.
We encourage accountability and effective management in government operations through
our independent examinations, advice and reports on the management of public
resources entrusted to government.

Our Values

- ❖ **Accountability** - taking responsibility for and explaining one's actions.
- ❖ **Objectivity** - independence, integrity and professionalism.
- ❖ **Open communication** - understandable, fair, clear and honest.
- ❖ **Effectiveness** - economic, efficient and effective management.
- ❖ **Courtesy** - polite and equitable treatment for all.
- ❖ **Public confidence** - earning and keeping the respect and confidence of the public and their elected representatives.
- ❖ **Our employees** - our employees are our strength and major resource in achieving our mission and values. We value fairness and equity; personal development; creativity, challenge, and innovation; teamwork; and leadership. We also value balance and harmony between work, home and community responsibilities.

Foreword

I am pleased to present my *Report of the Provincial Auditor: 1997 Spring* to the Legislative Assembly. This Report focuses on my Office's examination of government organizations with fiscal years ending March 31, 1996.

I wish to thank the staff and officials of the government organizations audited by my Office for their co-operation and assistance. Also, I wish to thank the staff of my Office for their constant pursuit of excellence in public sector management and reporting practices.

Wayne Strelieff

Regina, Saskatchewan
March 21, 1997

Wayne Strelieff, CA
Provincial Auditor

Report of the Provincial Auditor

Table of Contents

Chapter	Topic	Page
1	Observations	1
2	Department of Education <i>(including comments on the following Fund and agencies)</i> School divisions Universities Student Aid Fund New Careers Corporation Regional Colleges	13
3	Department of Health <i>(including comments on the following agencies)</i> Saskatchewan Health Information Network Phase 1 La Ronge Hospital Board Board of Governors, Uranium City Hospital	41
4	District Health Boards Part A. Introduction Part B. District Health Needs Assessment Process Part C. District Financial Management & Accountability Systems and Practices Part D. District Annual Reports - Follow-up Part E. District Revenues, Expenses, Assets & Liabilities in More Detail	77
5	Department of Social Services	135
6	Board of Internal Economy	149
7	Information Technology Security	163
8	Year 2000	181
9	Pensions	189

Report of the Provincial Auditor

Table of Contents

Chapter	Topic	Page
10	Department of Agriculture and Food	209
	<i>(including comments on the following funds and agencies)</i>	
	Agriculture and Food Products Development and Marketing Council	
	Agri-Food Innovation Fund	
	Beef Development Board	
	Cattle Marketing Deductions Fund	
	Conservation and Development Revolving Fund	
	Horned Cattle Fund	
	Prairie Agricultural Machinery Institute	
	Saskatchewan Canola Development Commission	
	Canodev Research Inc.	
	Saskatchewan Crop Insurance Corporation	
11	Department of Economic Development	227
12	Department of Environment and Resource Management	233
	<i>(including comments on the following funds)</i>	
	Commercial Revolving Fund	
	Fish and Wildlife Development Fund	
	Resource Protection and Development Revolving Fund	
13	Department of Finance	243
	<i>(including comments on the following agency and fund)</i>	
	General Revenue Fund	
	Sinking Fund	
	Members of the Legislative Assembly Superannuation Plan	
	Municipal Employees' Pension Plan	
14	Department of Highways and Transportation	257
	<i>(including comments on the following fund)</i>	
	Highways Revolving Fund	

Report of the Provincial Auditor

Table of Contents

Chapter	Topic	Page
15	Department of Intergovernmental Relations	269
16	Department of Justice <i>(including comments on the following funds)</i> Correctional Facilities Industries Revolving Fund Public Trustee for Saskatchewan Queen's Printer Revolving Fund Victims' Fund	273
17	Department of Municipal Government <i>(including comments on the following agencies)</i> Public libraries Local governments Saskatchewan Archives Board Saskatchewan Arts Board Saskatchewan Heritage Foundation	289
18	Public Service Commission	307
19	Saskatchewan Gaming Corporation	311
20	Saskatchewan Liquor & Gaming Authority	323
21	Saskatchewan Property Management Corporation	331
22	Saskatchewan Research Council	335
23	Department of Energy and Mines	343
24	Department of Executive Council (including the Electoral Office)	349
25	Staffing the Public Service	353
26	Boards of Directors of Crown Agencies	359
27	Joint Evaluation of New Audit Process	365

Report of the Provincial Auditor

Table of Contents

Chapter	Topic	Page
Appendix I	<i>The Provincial Auditor Act</i>	369
Appendix II	List of organizations subject to an examination under <i>The Provincial Auditor Act</i>	381
Appendix III	Audits not completed at March 21, 1997	387
Appendix IV	Organizations where we found no significant matters to report to the Legislative Assembly	389
Appendix V	Examples of opinions we form on departments, Crown agencies and Crown-controlled corporations	391
Appendix VI	Reports of appointed auditors	395

Chapter 1 Observations

Table of Contents

Introduction . . . . .	.01
MLAs need performance information from the Government . . . . .	.07
The Government should provide MLAs with better performance plans and reports . . . . .	.13
Progress on preparing performance information is slow but progress is taking place . . . . .	.19
Performance should be measured and monitored . . . . .	.37
My Office is seeking advice on our future plans and priorities . . . . .	.49

Chapter 1

Observations

Introduction

.01 In my recent Reports, I state the Government's finances are improving but remain fragile. I also state government managers must now focus more on ensuring their organizations know what is to be achieved and that what is to be achieved should be stated in clear and measurable terms.

.02 The Government's finances remain fragile because of the size of deficits accumulated over the past many years, the percentage of revenues required to service the interest on the debt, and the percentage of revenues vulnerable to external factors and decisions such as commodity prices and Federal government transfers.

.03 In my *Report of the Provincial Auditor: 1996 Fall* (1996 Fall Report), I describe and discuss several key financial and economic measures that can be used to understand and assess the Government's financial condition. At the end of this Chapter, I provide an excerpt from my 1996 Fall Report that summarizes those measures for the six years ended March 31, 1996 (see Table 1).

.04 In my *Report of the Provincial Auditor: 1996 Spring*, I state government managers should focus more on setting out what their programs and services are to achieve and do achieve in terms of clear and measurable objectives. I also emphasize the importance of determining the costs of government programs and services, and of monitoring actual results in a systematic and timely manner.

.05 Members of the Legislative Assembly (MLAs) as well as managers of government organizations require performance information to ensure resource allocation decisions are based on evidence that programs and services are an effective use of the public's scarce and valuable resources.

.06 In this Chapter, I discuss further what the Government should do and, to some extent, is beginning to do, to ensure MLAs have the information they need to assess the performance of the Government. Much more work needs to be done.

Chapter 1 Observations

MLAs need performance information from the Government

.07 MLAs oversee the performance of a government that, each year, collects and spends over \$9 billion of public money and manages billions of dollars of public infrastructure, through nearly 200 organizations.

.08 MLAs must assess whether the resource allocation decisions of the Government are an effective use of the public's scarce resources. To make this assessment, MLAs need to know what the Government plans to achieve, and does achieve, in terms of clear and measurable objectives and performance indicators. Such information would help MLAs understand and assess the linkages between the allocation of resources and the achievement of desired results.

.09 All MLAs want to ensure the resources and responsibilities entrusted to the Government are managed in a manner that contributes to a better quality of life for all Saskatchewan people. But, how do MLAs know to what extent the Government's programs and services are doing so, and in a cost-effective and sustainable manner?

.10 A better quality of life relates to the opportunities available to all Saskatchewan people for better health, education and economic development. It also relates to maintaining a safe living environment and key support systems. Those systems include an infrastructure of public buildings, roads, communication and energy facilities; a network of social insurance programs; and a framework of properly administered laws.

.11 MLAs must also assess whether the Government's plan to contribute to a better quality of life is sustainable in terms of the resources of Saskatchewan. To what extent is the Government choosing to spend today and pay tomorrow; or, to use up resources instead of conserving them? What impact will this choice have on the ability of future generations of people to provide the same or a better standard of living?

.12 In this Chapter, I set out steps the Government should take to help all MLAs answer these important questions.

Chapter 1 Observations

The Government should provide MLAs with better performance plans and reports

.13 The first step the Government should take is to provide MLAs with performance plans and performance reports for each government organization, for key sectors of government, and for the Government as a whole.

.14 Performance plans, i.e., business and financial plans, set out what the Government plans to achieve, why, when and with what resources. In my *Report of the Provincial Auditor: 1994 Fall*, I describe key elements of a business and financial plan.

.15 Performance reports, e.g., annual reports, can set out what was achieved, how and with what resources. In my last several Reports, I describe key elements of annual reports.

.16 Performance plans and performance reports are important accountability documents. In such documents, elected and appointed government officials can demonstrate how they ensure they are making informed decisions that contribute to the success of their organizations.

.17 With good performance plans and performance reports, MLAs can better assess what the Government plans to achieve and the linkages between the allocation of resources and achievement of desired results.

.18 MLAs can then better assess and debate key policy issues. Such issues include the priorities of the Government, the linkages between government programs and what is to be achieved to ensure a better quality of life, and whether publicly-delivered, privately-delivered, or jointly-delivered initiatives are the most effective.

Progress on preparing performance information is slow but progress is taking place

.19 Progress is taking place at individual government organizations. Most organizations now prepare and use performance plans, i.e., business and financial plans. However, with the exception of the planning information made public by health districts, performance plans are not available to all MLAs.

.20 Corporations reporting to the Crown Investments Corporation of Saskatchewan (CIC) submit business and financial plans each year. CIC now has its own complete business and financial plan. Many organizations reporting directly to Treasury Board submit business and financial plans.

Chapter 1 Observations

In addition, health districts make public some of the planning information they provide the Department of Health.

.21 Almost all government organizations provide MLAs with annual performance reports. In our recent assessments of those reports, we note improvement. However, many organizations are unable to make their annual reports public in a timely manner as they must wait until the Legislature is in session. This is often over nine months after the end of the related year.

.22 For sectors of government, e.g., health and education, and for the Government as a whole, there is less progress in providing MLAs with performance information. There are two key exceptions. Those are the performance plan and report for the economic development sector, and the performance report related to the financial condition of the Government.

.23 In its “Partnership for Growth” reports, the Department of Economic Development sets out publicly the Government’s long-term strategy for economic growth. Specific goals, objectives and related actions are reported as well as the status of two key targets, i.e., the province’s gross domestic product and total employment. These valuable performance planning and reporting documents are available to all MLAs and to the public.

.24 In its summary financial statements, the Government sets out the financial position and results of operations for all of its organizations. This excellent financial performance report is published each year and is available to all MLAs.

.25 However, I continue to be concerned the Government provides MLAs with an incomplete financial plan and that MLAs do not focus on the Government’s summary financial statements when assessing the financial activities of the Government.

.26 In this 1997 Spring Report, I recommend improvements to the Government’s performance planning and reporting.

.27 In Chapter 2, **Department of Education**, I point out that the current system of accountability for the public money spent on education makes it difficult to understand and assess performance. The current system is inconsistent with the

Chapter 1 Observations

principle that the person raising the taxes should answer for how those taxes are spent.

.28 I note the financial statements provided to the Department by school divisions are inadequate. The statements do not contain reliable measures of program costs. Also, universities do not prepare or publish adequate performance information.

.29 In Chapter 3, **Department of Health**, I identify five key issues the Department needs to manage well. Those issues are identifying the public's health needs, deciding what services are required to meet those needs, and influencing public policy decisions and public attitudes on health. Those issues also include making sufficient resources available to health service providers and ensuring the Assembly and the public know that the right services are provided and in an effective manner.

.30 The Department's performance plans and reports should address each of these issues and should include the status of key performance indicators. The Department has taken an important first step by identifying several health status indicators that it is beginning to track through health districts.

.31 In Chapter 4, **District Health Boards**, I note health districts should work on determining the health needs of their residents and whether their programs and services are meeting those needs in a cost-effective manner. Health districts also should provide the public and the Minister with better information on the costs of their key programs and services, and the performance of their health programs.

.32 Sound performance planning and reporting will help ensure decisions about alternative health programs and services are based on evidence that the programs and services are an effective use of the public's scarce resources.

.33 In Part E of Chapter 4, I set out the financial results of each health district. In 1995-96, expenses of health districts exceeded \$1.2 billion.

.34 In Chapter 6, **Board of Internal Economy**, I describe several key issues the Board needs to manage well. The Board plays a key role in helping legislators influence public confidence in our institutions of government.

Chapter 1 Observations

.35 The Board should monitor its performance more carefully, keep better records of the equipment and furnishings provided to legislators, and prepare an annual report setting out what it does and has done. The Board should also strengthen the reporting and auditing it requires of caucus offices.

.36 In Chapter 17, **Department of Municipal Government**, I note the financial statements provided to the Department by local governments are inadequate. Those statements do not provide reliable measures of program costs.

Performance should
be measured and
monitored

.37 A key feature of managing public resources is ensuring relevant performance information is identified, measured and monitored for individual government organizations, key sectors of government, and the Government as a whole. Such information includes the status of key performance measures, issues or risks, and the costs of programs and services.

.38 Many of the issues contained in this 1997 Spring Report relate to measuring and monitoring performance. A common theme is that government organizations need to define more clearly their performance expectations in terms of the programs they plan to deliver, the costs, and the performance targets that managers are expected to meet.

.39 Performance targets can be expressed in terms of financial, operational and compliance objectives. A financial objective can relate to revenues, expenses, assets and liabilities. For example, a financial objective in the education sector could be that a school division allocates a certain percentage of revenue to a specific program.

.40 An operational objective can relate to the desired results or outcome. For example, an operational objective for a school division could be to increase the percentage of students who successfully complete a secondary education program.

.41 A compliance objective can relate to governing laws, regulations, an organization's policies and guidelines, as well as key agreements. For example, a compliance objective for a school division could be to work within the curriculum developed by the Department of Education.

Chapter 1 Observations

.42 With clearly defined performance objectives, senior officials then need to ensure they receive periodic reports setting out comparisons of what was planned and what was achieved. If there are significant variances, those variances should be explained, monitored and acted on when necessary.

.43 Measuring and monitoring performance requires constant vigilance and requires strong and secure information systems.

.44 In Chapter 2, **Department of Education**, I note that the Department does not know the extent of ineligible loans made to students in recent years. In 1995-96, the Department estimated the costs related to ineligible loans was nearly \$5 million.

.45 In Chapter 3, **Department of Health**, I note the Department did a good job of selecting the best outside proposal for developing a province-wide health information network. At the date of this Report, I do not know whether the Government has decided if it will proceed with this key initiative.

.46 In Chapter 7, **Information Technology Security**, I point out that information technology security is essential to all organizations. Poor security can result in incorrect information, lost information, and release of confidential information. Many organizations need to improve the security management of critical information.

.47 In Chapter 8, **Year 2000**, I remind legislators and government officials that the year 2000 brings with it many challenges to the viability and integrity of information systems. Many computer systems will need to be changed because their computer programs do not contemplate a year 2000.

.48 In Chapter 19, **Saskatchewan Gaming Corporation**, and in Chapter 20, **Saskatchewan Liquor and Gaming Authority**, I recommend both organizations ensure they have strong and independent internal audit groups. Their internal audit groups should report directly to their boards of directors.

My Office is seeking advice on our future plans and priorities

.49 This year, I will complete seven years as the Provincial Auditor. During that time, the state of the Government's finances as well as its financial management and accountability

Chapter 1 Observations

practices have received much attention. While much progress has been made, further progress is needed.

.50 Recently, I distributed a survey to each MLA, many public interest groups and individuals, and to many people working in or for public sector organizations. The purpose of the survey is to seek advice on how best to shape the work of my Office so we help continue that progress.

.51 In future reports to the Assembly, I will discuss how the advice provided to me will affect the work of my Office. My Office continues to be committed to making a difference by encouraging excellence in public sector management and reporting practices.

.52 This Report also includes several appendices showing:

- our legislative mandate (Appendix I);
- the organizations we are required to audit (Appendix II);
- the organizations where we did not complete our audit (Appendix III);
- the organizations where we found no significant matters to report to the Assembly (Appendix IV);
- the types of audits we do (Appendix V); and
- the reports of appointed auditors (Appendix VI).

.53 If you wish copies of any of my Reports to the Assembly, please contact my Office at the following address:

Provincial Auditor Saskatchewan
1500 Chateau Tower, 1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Phone: (306) 787-6398

Fax: (306) 787-6383

E-mail: prov.auditor.pas@govmail.gov.sk.ca

Chapter 1 Observations

Table 1

Summary of Key Financial and Economic Measures
 (derived from the Government's summary financial statements)
 (in millions)
 (excerpt from 1996 Fall Report)

	1991	1992	1993	1994	1995	1996
Gross Domestic Product (GDP) *	\$ 21,061	21,081	21,165	22,635	24,674	25,456
Accumulated Deficit	\$ 7,905	9,575	10,421	10,674	10,490	9,918
Annual Surplus (Deficit)	\$ (740)	(1,670)	(846)	(253)	184	572
Accumulated Deficit as a % of GDP	38%	45%	49%	47%	43%	39%
Debt Costs as a % of Total Revenues	19%	19%	21%	20%	19%	18%
Federal Government Transfers as a % of Total Revenues	22%	22%	19%	18%	17%	12%

* GDP was obtained from the Saskatchewan Bureau of Statistics for the years ending December 31.

Chapter 1 Observations

My colleagues at the Provincial Auditor Saskatchewan are:

Ahmad, Mobashar	Kuntz, Linda
Atkinson, Brian	Lahti, Jay
Bachelu, Gaylene	Lipon, Shelley
Beblow, Jolene	Lucas, Sheri
Black, Bob	Maier, Corrine
Bohn, Ray	Markewich, Dale
Borys, Angèle	Martens, Andrew
Callander, Charlene	Matchett, Joanne
Coulter, Jill	McNeely, Dawn
Creaser, Phil	Mitchell, Corinna
Dickin, Deann	Montgomery, Ed
Deis, Kelly	Nyhus, Glen
Earis, Lorianne	Orrange, Loyd
Evelt, Rosemarie	Peters, Cory
Ferguson, Judy	Pion, Jason
Fogg, Jonathan	Pion, Josh
Gavel-Mieyette, Charlene	Pradhan, Karim
Grabarczyk, Rod	Salman, Salma
Hansen, Wendy	Schiller, Rita
Harasymchuk, Bill	Schwab, Victor
Harrison, Garnet	Shorten, Karen
Heffernan, Mike	Smith, Curtis
Herdzik, Tony	Smith, Scott
Ho, Matthew	Smith, Shana
Hutchison, Duane	Sturgeon, Darold
Jersak, Rodd	Taylor, Kevin
Kinvig, Amy	Tomlin, Heather
Kirchner, Carolyn	Voss, Maureen
Klisowsky, Cathy	Walker, Sandra
Knox, Jane	Wendel, Fred
Kress, Jeff	Wendel, Leslie
Kucher, Tara	

Chapter 2
Department of Education

Table of Contents

Introduction . . . . .	.01
Costs of education and accountability	Page 15
Financial background . . . . .	.04
Accountability for education required . . . . .	.08
Special purpose funds and Crown agencies . . . . .	.14
Our audit conclusions and findings . . . . .	.16
School division accountability and reporting	Page 19
Improved reporting to Assembly needed . . . . .	.19
Proper financial statement standards required . . . . .	.34
University accountability and reporting	Page 23
Improved reporting to Assembly needed . . . . .	.44
Student Aid Fund . . . . .	.61
Our audit conclusions and findings . . . . .	.63
Lack of authority to limit interest write-down grants . . . . .	.64
Ineligible student loans . . . . .	.74
New Careers Corporation . . . . .	.87
Our audit conclusions and findings . . . . .	.89
Financial reports need improvement . . . . .	.91
Better control over payroll payments needed . . . . .	.99
Agreements need improvement . . . . .	.104
List of persons who received money required . . . . .	.111

Chapter 2 Department of Education

Table of Contents

Regional Colleges . . . . .	.115
Our audit conclusions and findings . . . . .	.117
Boards of directors need better information to oversee performance . . . . .	.122
Approved and tested contingency plan needed . . . . .	.136
Capital asset records needed . . . . .	.144
Budget deficit requires Minister's approval . . . . .	.149
External reporting requirements not met . . . . .	.153

Chapter 2 Department of Education

Introduction

.01 For the year ended March 31, 1996, the Department of Education had overall responsibility for delivering education programs in the province.

.02 After April 1, 1996, two departments share the responsibility for delivering education programs. The Department of Post-Secondary Education and Skills Training deals with policies and programs relating to post-secondary education and job related training. The Department of Education controls policies and programs relating to elementary and secondary education.

.03 To deliver education programs the Department works with many participants. These include students, teachers, taxpayers, members of locally elected school boards and the agencies created to deliver the Department's programs set out in paragraphs .14 and .15.

Costs of education and accountability

Financial background

.04 For 1995-96, the Government's summary financial statements show education expenses of \$828 million. Table 1 sets out education expenses as shown in the summary financial statements reconciled to education spending reported by the Department.

Table 1

(in millions of dollars)

Department of Education (<i>Public Accounts 1995-96 Volume 2 page 55</i>)	\$ 868.9
Deduct: Teachers' pensions and benefits paid (<i>Public Accounts - Volume 2 page 55</i>)	(127.2)
Add: Pension and benefits expense excluding interest costs	25.1
SIAST and regional college expenses not funded by the Department	61.3
Education expenses per summary financial statements	\$ 828.1

.05 Education expenses, as shown in the summary financial statements (Table 1), do not include the total costs of education delivered by public sector organizations in Saskatchewan. The

Chapter 2 Department of Education

cost of delivering education programs by public sector agencies totals \$1.63 billion (Table 2).

.06 The Department is responsible, and thus accountable, for the quality and cost of education programs delivered to the people of Saskatchewan. However, the Government does not raise all the taxes to pay for these programs. The General Revenue Fund pays for about 50% of education spending (see Table 3). This includes operating and capital grants to the agencies listed in Table 2, teachers' pensions and benefits, and the Department's operating costs. For school divisions, the General Revenue Fund pays for 45% of the costs and property taxes pay 55% of the costs.

.07 Table 2 shows the details of the costs to deliver current programs. Table 3 shows the sources of money used for education programs. We used the financial statements of the school divisions, universities, regional colleges, SIAST, and the Public Accounts to compile the revenue and costs. We note these costs do not include amounts spent on schools operated on Indian reserves or the costs of private schools. In 1996, we changed the way we report revenue and other expenses for one university's sales of goods and services. As a result, we restated the prior years results to make them comparable.

Table 2

Cost of Education by Public Sector Agencies
(in millions of dollars)

Institution	Year End	Salaries and Benefits			Other			Total		
		1996	1995	1994	1996	1995	1994	1996	1995	1994
School Divisions	December 1995	\$ 623.5	\$ 621.7	\$ 608.1	\$ 319.6	\$ 310.4	\$ 332.1	\$ 943.1	\$ 932.1	\$ 940.2
Teachers Pensions & Benefits	March 1996	25.1	44.9	31.0				25.1	44.9	31.0
Universities	April 1996	271.0	255.8	256.2	148.6	149.4	130.0	419.6	405.2	386.2
SIAST	June 1996	71.7	70.9	71.4	39.2	41.6	37.9	110.9	112.5	109.3
Department	March 1996	15.5	14.7	14.6	36.1	33.2	35.9	51.6	47.9	50.5
Student Aid Fund	March 1996	---	---	---	41.6	35.9	38.5	41.6	35.9	38.5
Regional Colleges	June 1995	23.7	23.4	19.3	15.6	15.3	19.2	39.3	38.7	38.5
Total		\$ 1,030.5	\$ 1,031.4	\$ 1,000.6	\$ 600.7	\$ 585.8	\$ 593.6	\$ 1,631.2	\$ 1,617.2	\$ 1,594.2

Chapter 2 Department of Education

Table 3

Major Revenue Sources for Education (in millions of dollars)

	1996		1995		1994	
General Revenue Fund	\$ 810.2	49.67%	\$ 821.4	50.79%	\$ 802.0	50.30%
Property taxes	510.4	31.29%	491.5	30.39%	481.1	30.18%
Tuition fees	82.9	5.08%	80.7	4.99%	77.5	4.86%
Sales of goods and services	90.8	5.57%	92.4	5.71%	108.0	6.77%
Gifts, grants and bequests	5.3	0.32%	11.3	0.70%	10.5	0.66%
Sponsored research	64.9	3.98%	59.1	3.65%	56.3	3.53%
Investment income	25.4	1.56%	21.9	1.35%	18.7	1.18%
Other	41.3	2.53%	38.9	2.41%	40.1	2.52%
	\$ 1,631.2	100.00%	\$ 1,617.2	100.00%	\$ 1,594.2	100.00%

Accountability for education required

.08 The current system of accountability for public money spent on education needs to be reviewed to consider whether it needs strengthening. The current system is inconsistent with the principle that the person raising taxes should answer for how those taxes are spent.

.09 School divisions raise some, but not all the taxes to pay program costs. They receive direction from the Department on the programs, and they do not determine teachers' salaries and benefits. Therefore, school divisions cannot be held fully accountable for their expenses.

.10 Individual school divisions do not set teachers' salaries and benefits, their largest single expense. Section 230(2) of *The Education Act* (Act) states:

“A bargaining committee consisting of:

(a) 4 persons appointed by the association; and

(b) 5 persons appointed by the Lieutenant Governor in Council; and that committee shall have exclusive authority, and shall be the sole party, to bargain collectively and to execute collective bargaining

Chapter 2 Department of Education

agreements on behalf of boards of education and conseils scolaires and the Government of Saskatchewan.”

.11 The association referred to in Section 230(2) is The Saskatchewan School Trustees' Association.

.12 Teachers' salaries and benefits, including pension benefits, are negotiated as part of collective bargaining. Teacher salaries and benefits, except pension benefits, total \$557 million of the \$623 million (Table 2) spent on school divisions salaries and benefits. The remainder includes \$54 million for support staff and \$12 million for administration. The cost of teachers' pension benefits for 1996 is \$25.1 million.

.13 The Assembly needs to consider whether the system of accountability for the education sector needs strengthening.

Special purpose funds
and Crown agencies

.14 The Department is responsible for the following special purpose funds and Crown agencies.

	<u>Year end</u>
Carlton Trail Regional College	June 30
Correspondence School Revolving Fund	March 31
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
New Careers Corporation	March 31
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Private Vocational Schools Training Completion Fund	March 31
Saskatchewan Book Bureau Revolving Fund	March 31
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Institute of Applied Science and Technology	June 30
Saskatchewan Indian Regional College	June 30
School Division Tax Loss Compensation Fund	March 31
Southeast Regional College	June 30
Student Aid Fund	March 31
Teachers' Superannuation Commission	June 30

Chapter 2 Department of Education

.15 The Department is also responsible for the University of Saskatchewan and the University of Regina. The year end for the universities is April 30.

Our audit conclusions
and findings

.16 This Chapter contains our findings for the Department (including special purpose funds) and its Crown agencies for fiscal years ending on or before June 30, 1996, except for SIAST, the Teachers' Superannuation Commission, and the Saskatchewan Indian Regional College. We reported our findings on SIAST for the year ended June 30, 1996 in our *Report of the Provincial Auditor: 1996 Fall*. We will report our findings on the Teachers' Superannuation Commission and the Saskatchewan Indian Regional College in a future report.

.17 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .14 are reliable except where we report otherwise in this Chapter;
- the Department and its agencies had adequate rules and procedure to safeguard and control their assets except where we report otherwise in this Chapter; and
- the Department and its agencies complied with the authorities governing their activities relating to financial reports, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

School division accountability and reporting

.18 To ensure public confidence, the Department needs to assure the public and the Assembly that school divisions properly safeguard and spend public money.

Improved reporting to
Assembly needed

.19 The Department needs to know how well school divisions safeguard and spend public money given to them.

Chapter 2 Department of Education

The Department needs this information to fulfil its reporting responsibilities to the Assembly.

.20 The Department is responsible for informing the Assembly that it properly safeguards and spends money appropriated for education. To do this, the Department needs to know and report whether school divisions properly safeguard and spend public money.

.21 In our opinion, the Act gives the Minister the power to obtain necessary information. The Minister can determine accounting principles, information systems and reporting requirements for agencies receiving public money. For school boards:

Section 277 of the Act states: "*A board of education or conseil scolaire shall furnish to the minister copies of budget estimates, financial statements and other information in such form and at such times as the minister may consider necessary*"; and

Section 306(1)(a) referring to information required on grants given to school divisions states: "*from each school division, any returns, statements, reports and information that he considers necessary*".

.22 The Department receives audited financial statements from all school divisions. Financial statements by themselves do not provide enough information to know whether school divisions properly safeguard and spend public money given to them. The Department does not require any information from school divisions on how well the divisions safeguard and spend public money.

.23 We have not examined the accounts of the school divisions to know whether the divisions properly safeguard and spend public money given to them.

.24 We also reported this matter in our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report) to the Assembly.

We recommend

.25 The Department should require school divisions to report on how well they safeguard and spend public money.

Chapter 2 Department of Education

.26 The Department should report to the Assembly on how well the school divisions safeguard and spend public money.

.27 The Department is responsible for informing the Assembly that school divisions meet the Department's program objectives. To do this, the Department needs to know school divisions meet the Department's objectives.

.28 Currently, the Department does not receive the necessary reports.

.29 We also reported this matter in our 1996 Spring Report to the Assembly.

We recommend

.30 The Department should require school divisions to report on their rules and procedures used to meet the Department's program objectives.

.31 The Department should require school divisions to report on their performance in achieving the Department's program objectives.

.32 The Department should report to the Assembly on school divisions' performance in achieving the Department's program objectives.

.33 In December 1996, the Standing Committee on Public Accounts (PAC) considered these matters. The PAC acknowledged the importance of locally elected school boards to safeguard public money and that the Department is continuing to seek to improve accountability to the public and the Assembly. The PAC also noted the Department will consult the Provincial Auditor with respect to improving public accountability of the province's public education system.

Proper financial statement standards required

.34 The Department needs to set proper financial statement accounting principles (standards) for school divisions.

.35 The Act (Section 277) requires the Department to set the standards for financial statements. These financial statements should help users understand and assess a school division's management of the public resources entrusted to it.

Chapter 2 Department of Education

.36 The Canadian Institute of Chartered Accountants (CICA) has researched and developed standards for government financial statements. These standards ensure financial statements show properly a government's financial position, results of operations and changes in financial position. The CICA has rules and procedures to ensure standard setting is done with due process. This is done through consultation and debate. The Government uses these standards to prepare its financial statements to report on the management of public resources entrusted to it.

.37 In 1996, the CICA published a research study on standards for school division financial statements. The study concluded that the objectives, general principles and many of the CICA's recommendations developed for local governments were generally appropriate.

.38 The Department set financial statement standards for school divisions, but these are not consistent with those developed by the CICA. For example, the Department's standards do not show a school division's proper financial position, results of operations and changes in financial position. The Department's standards are weak in the following areas:

- School divisions record debt repayments as expenses. As a result, the amounts recorded do not reflect the costs of programs delivered during the period.
- School divisions charge expenses they may incur in the future (reserves) as an expense of the current year. As a result, the amounts recorded do not reflect the costs of programs delivered during the period.
- School divisions do not show comparative figures for the preceding year. As a result, users cannot easily identify trends in financial activity.
- School divisions do not show their net investment in capital assets. As a result, users do not receive the information necessary to assess the school division's management of its capital assets.

Chapter 2 Department of Education

- School divisions do not include a comparison of planned results with actual results. As a result, users cannot compare actual results with planned results.

.39 As a result, the Department does not know what it cost to deliver the Department's programs.

.40 We also reported this matter in our 1996 Spring Report to the Assembly.

We recommend

.41 The Department should require school divisions to prepare their financial statements following the standards recommended by the CICA for the public sector.

.42 In December 1996, the PAC considered this matter and recommended "*school divisions should use Canadian Institute of Chartered Accountants standards for financial statements*".

<h3>University accountability and reporting</h3>
--

.43 To ensure public confidence, the Department needs to assure the public and the Assembly that universities properly safeguard and spend public money.

Improved reporting to Assembly needed

.44 To fulfil its reporting responsibilities to the Assembly, the Department needs to report on how the universities safeguard and spend public money and comply with authorities.

.45 The Department is responsible for informing the Assembly that it properly spends and safeguards money appropriated for education. To do this, the Department needs to know and report whether the universities properly safeguard and spend public money.

.46 In our opinion, the Act gives the Minister the power to obtain the necessary information. The Minister can determine accounting principles, information systems and reporting requirements for agencies receiving public money.

Chapter 2 Department of Education

.47 For example section 10.2(e) of the Act states: *“The minister may require a university to establish any accounting and information systems that he considers necessary for the proper conduct of the business affairs of the university and require the university to provide any reports and other information that he considers necessary.”*

.48 Currently, the Department receives audited financial statements from the universities. Financial statements, by themselves do not provide enough information to know whether the universities properly safeguard and spend the public money given to them. The Department does not require the universities to provide any information on how well they safeguard and spend public money and comply with authorities.

.49 We audit both universities and give the Department our conclusions and findings on their rules and procedures to safeguard and control assets and comply with authorities. We encourage the Department to provide this information to the Assembly to ensure good accountability.

.50 We also reported this matter in our 1996 Spring Report to the Assembly.

We recommend

.51 The Department should require universities to report on how well they safeguard and spend public money.

.52 The Department should table these reports, on how well the universities safeguard and spend public money, in the Assembly.

.53 In December 1996, the PAC considered this matter. The Committee concurred with our recommendations.

.54 The Department is responsible for informing the Assembly whether universities meet the Department’s program objectives. To do this, the Department needs to know whether universities meet the objectives.

.55 Currently, the Department does not receive the necessary reports.

.56 We also reported this matter in our 1996 Spring Report to the Assembly.

Chapter 2 Department of Education

We recommend

.57 The Department should require universities to report on the rules and procedures used to meet the Department's program objectives.

.58 The Department should require universities to report on their performance in achieving the Department's program objectives.

.59 The Department should table these reports in the Assembly.

.60 In December 1996, the PAC considered this matter and concurred with our recommendations.

Student Aid Fund

.61 The Department of Education uses the Student Aid Fund (Fund) to finance and account for student loans and other student financial assistance.

.62 The Fund had revenues of \$41.6 million in 1996 and assets of \$104.9 million at March 31, 1996. The Fund's *Annual Report 1995-96* includes its financial statements.

Our audit conclusions and findings

.63 In our opinion:

- the Fund's financial statements are reliable;
- the Department had adequate rules and procedures to safeguard and control the Fund's assets except for the matter referred to in paragraphs .74 to .86; and
- the Department complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter described in paragraphs .64 to .73.

Lack of authority to limit interest write-down grants

.64 The Department withheld certain interest write-down subsidies from students.

.65 On May 1, 1986, the government introduced an interest write-down program for student assistance loans obtained for

Chapter 2 Department of Education

courses commencing between May 1, 1986 and July 31, 1989. "The Interest Write-down Program" applied to all students receiving either Canada Student Loans or Saskatchewan Student Loans during this period. This program subsidized interest rates to 6%.

.66 When the Department started the program, the Student Guide explained the program. Neither the Guide nor the promissory notes signed by the students placed restrictions on the subsidy period. We think there is a continuing subsidy for students who received loans the first year (loans issued from May 1, 1986 to July 31, 1987) for the loan term.

.67 The Department sought legal advice regarding the subsidy period. The question was whether the subsidy should be for the loan repayment term or applied to some lesser, fixed period.

.68 The legal opinion stated if a limited benefit period was not communicated to the students either in the Student Guide, the promissory loan agreements or in another form, students may be in a legal position to expect the Department to grant the subsidy for the full term of the loan. This applies only to loans issued the first year as the Student Guide for the next year limits the subsidy period to 36 months.

.69 Contrary to its legal advice, the Department applied Interest Write-down subsidies over a 36 month benefit period on loans issued in 1986-87. Officials informed us they have no legal advice to support this practice.

.70 In our opinion, the Department acted beyond its authority when it limited the interest subsidy period for students who received loans in 1986-87.

.71 We also reported this matter in our 1996 Spring Report and previous reports to the Legislative Assembly.

.72 In January 1992, Cabinet directed that this be handled on a case-by-case basis. Any students who received a loan in 1986/87 and requests a review regarding their eligibility for an interest rate subsidy, will have the interest rate on those loans reduced to 6% for the repayment period.

Chapter 2 Department of Education

.73 In December 1996, the PAC reviewed the matter and concurred with Cabinet's direction. The Committee recommends "the Department deal with any student who received a loan in 1986-87 and who requests a review of their repayment on a case-by-case basis".

Ineligible student
loans

.74 The Department needs to adequately verify critical information on student loan applications.

.75 During the year, the Department approved 14,400 student loans for approximately \$40.5 million. The Department must ensure only eligible applicants receive aid in correct amounts, while remaining responsive to the applicant's financial needs. To do this the Department needs to verify the applicant's student and financial status. Applicants are responsible for providing accurate financial, personal and demographic information. We found the Department did not adequately verify critical information before granting loans.

.76 Inadequate resources limit the Department's ability to verify the information provided by applicants before granting loans. Therefore, the Department sometimes grants loans in error or in amounts greater than the law permits.

.77 The Department monitors the extent of ineligible loans and thus the adequacy of its rules and procedures by auditing loans after disbursement. During 1994-95, the Department completed its audit of loans granted for the 1992-93 school year. Audit results show 20% of all student loans granted during 1992-93 were for amounts greater than the law permits.

.78 During 1995-96, because of concerns raised by the audit results, the Department changed some procedures. Among the changes was requiring all single university students to update their pre-study estimate of earnings 30 days after the start of courses.

.79 The Department has not yet audited 1993-94, 1994-95 and 1995-96 student loans to know the extent of ineligible loans during these periods. Therefore, they do not know if the change in procedures has affected the extent of ineligible loans. Applying the 1992-93 error rate to loans granted in 1995-96 results in an estimate of loans granted in excess of what the law permits of \$8.1 million (1994-95 \$8.2 million).

Chapter 2 Department of Education

.80 In the Fund's financial statements, the Department recognizes expenses related to eligible and ineligible loans granted each year. These expenses result from the following factors:

- interest on the Fund's debt for the student's interest free period;
- bad debts if a student fails to repay the loan;
- interest relief granted to students who are having financial difficulties; and
- loan remission or forgiveness when students meet specific financial and academic criteria.

.81 Granting ineligible student loans will increase costs to the taxpayers because of the factors in paragraph .80. Using those factors, the Department estimated the expenses related to ineligible loans made in 1995-96. The estimated expense related to ineligible loans for 1995-96 is \$4.9 million (1994-95 \$4.8 million).

.82 We need information on the extent of ineligible loans for 1995-96 to form our opinions on the Department's rules and procedures for ensuring only eligible persons receive appropriate assistance. We are unable to report the Department complied with the authorities governing the loans granted to students in 1995-96 because of the lack of information.

.83 We also reported this matter in our 1996 Spring Report and previous reports to the Legislative Assembly.

We recommend

.84 The Department should adequately verify critical information on student loan applications and do so in a timely manner.

.85 In December 1996, the PAC reviewed this matter and concurred with our recommendation concerning the verification of critical information on student loan applications.

.86 Management told us, in 1996-97, the Department will require all university students to obtain confirmation of earnings from their employers.

Chapter 2 Department of Education

New Careers Corporation

.87 New Careers Corporation (New Careers) gives social assistance clients opportunities for greater independence and employment. It provides these opportunities through career planning, job search training, counselling, skills development, education upgrading, and work experience.

.88 New Careers had revenue of \$22.5 million, spent \$21.0 million in 1996 and held assets of \$5.9 million at March 31, 1996. New Careers' *Annual Report 1995-96* includes its financial statements.

Our audit conclusions and findings

.89 In our opinion:

- New Careers' financial statements are reliable;
- New Careers had adequate rules and procedures to safeguard and control its assets except for the matters reported in paragraphs .91 to .110; and
- New Careers complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

.90 We also report another matter for the Assembly's attention in paragraphs .111 to .114.

Financial reports need improvement

.91 New Careers' internal financial reports need improvement.

.92 Adequate internal financial reports should:

- be prepared in accordance with generally accepted accounting principles;
- show what an organization owns and what it owes;
- compare planned results to actual results for the period and year-to-date (e.g., revenues and expenses);

Chapter 2 Department of Education

- contain written explanations of variances between actual results to date and planned results;
- present prior years' figures for comparison purposes; and
- include a projection of revenue and expenses to the end of the year based on current information.

.93 New Careers does not use generally accepted accounting principles to record its construction revenues. New Careers records construction revenues when the customers pay New Careers. It should record these revenues and what customers owe when New Careers completes the work. As a result, New Careers' internal financial reports do not accurately show amounts due from construction customers and its construction revenues.

.94 New Careers' internal financial reports compare projected results with the annual budget and give written explanations of major variances. However, they do not show a comparison of the actual year-to-date revenues and expenditures to the year-to-date planned results. Also, they do not show year-to-date variances between actual and planned results or give written explanations of major variances. As a result, New Careers' internal financial reports lack important financial information.

.95 Inaccurate and incomplete financial reports can lead to incorrect decisions.

We recommend

.96 New Careers Corporation should record construction revenues in accordance with generally accepted accounting principles.

.97 New Careers Corporation's internal financial reports should compare the actual year-to-date expenditures with planned year-to-date results and provide written explanations for variances.

.98 In 1996-97, New Careers implemented the above recommendations.

Chapter 2 Department of Education

Better control over payroll payments needed

.99 New Careers needs better control over payroll payments from its bank account.

.100 Segregation of duties is inadequate when one person can conceal an error or fraud.

.101 New Careers uses the services of a payroll service company to pay employees. One employee is authorized to tell the company whom to pay and how much. There is no independent check on the accuracy of data given to the company.

.102 As a result, New Careers may pay for services not received.

We recommend

.103 **New Careers Corporation should segregate the duties of its employees.**

Agreements need improvement

.104 New Careers needs to improve its agreements with agencies delivering services for New Careers.

.105 New Careers makes service agreements with various agencies for the delivery of training and development services. Payments to these agencies totalled \$1.4 million for the year ended March 31, 1996.

.106 New Careers remains responsible for the training and development services provided by these agencies. Therefore, adequate service agreements are essential to ensure New Careers' financial, operational and compliance with authorities objectives are being met.

.107 Adequate service agreements should:

- set out clearly New Careers' financial, operational and compliance with authorities objectives;
- require the agencies to have systems to carry out New Careers' objectives and report to it on those systems;

Chapter 2 Department of Education

- require the agencies to report periodically on how well they have achieved New Careers' objectives;
- allow New Careers or an independent auditor to verify the reports; and
- describe how New Careers will provide funding.

.108 We found most service agreements set out financial and compliance with authorities objectives. However, the agreements do not clearly set out New Careers' operational objectives. One such objective would be to ensure social assistance recipients find long-term employment because of the training they receive. Also, the agreements do not require the agencies to establish and report on their systems to achieve New Careers' financial, operational and compliance with authorities objectives nor to report on how well they have achieved the objectives.

.109 Without better agreements, New Careers cannot ensure the agencies meet New Careers' financial, operational and compliance with authority objectives.

We recommend

.110 New Careers Corporation should improve its service agreements with agencies delivering services for the Corporation.

List of persons who received money required

.111 New Careers did not comply with the Standing Committee on Public Accounts' recommendation to provide a list of payees for each fiscal year.

.112 In March 1993, the Committee recommended all entities reporting to Treasury Board should provide a list of persons who have received money.

.113 Public accountability is strengthened when agencies who receive public money provide a list of persons who received money from them. This way, the Assembly can review the use of public money. We think this is essential. Also, we think agencies make better decisions when they must answer for who received money from them.

Chapter 2 Department of Education

We recommend

.114 New Careers Corporation should provide the Legislative Assembly with a list of persons who received money.

Regional Colleges

.115 The Government created nine regional colleges under *The Regional Colleges Act* to provide learning opportunities in the communities they serve. The Government has appointed other auditors to audit these colleges.

.116 Following is a list of the colleges and their appointed auditors included in this Chapter.

Carlton Trail Regional College	E.J.C. Dudley & Co.
Cumberland Regional College	T.A. Jellicoe
Cypress Hills Regional College	Stark & Marsh
Northwest Regional College	Downie Johnson Svenkeson
Northlands College	Elden Moline
Prairie West Regional College	Gilchrist & Partners
Parkland Regional College	Skilnick & Partners
Southeast Regional College	Court & Laidlaw

Our audit conclusions and findings

.117 My Office worked with the appointed auditors of the regional colleges listed above using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. The appointed auditors and my Office formed the opinions referred to in paragraph .118.

.118 In our opinion and the appointed auditors' opinions:

- the Colleges' financial statements are reliable;
- the Colleges had adequate rules and procedures to safeguard and control their assets except for the matter referred to in paragraphs .122 to .148; and
- the Colleges complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in paragraphs .149 to .156.

.119 We relied on the appointed auditors' reports on the Colleges' rules and procedures to safeguard and control their

Chapter 2 Department of Education

assets for the Colleges listed in paragraph .116 except for Carlton Trail and Northlands. In the opinion of its appointed auditor, Carlton Trail had adequate rules and procedures to safeguard and control its assets except that it was not readily evident an analysis of variances between planned and actual results was done. In the opinion of its appointed auditor, Northlands had adequate rules and procedures to safeguard and control its assets.

.120 In our opinion, Carlton Trail and Northlands Colleges had adequate rules and procedures to control their assets except for the matter reported in paragraphs .122 to .135.

.121 *The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the reports of an appointed auditor. Our additional audit work consisted of reviewing the Colleges' internal reports and discussions with management.

Boards of directors
need better
information to oversee
performance

.122 For Carlton Trail, Cypress Hills, Northlands, Parkland, and Prairie West, the Boards of directors need better information to monitor the Colleges' performances.

.123 The directors are the Colleges' stewards. As such, they are responsible for the Colleges' business. To carry out their responsibilities, directors need to approve and monitor control systems set up to safeguard and control assets, oversee internal and external communications, and monitor the Colleges' performances.

.124 Paragraphs .126 to .128 describe what we think is essential information for directors and what is lacking in the present information.

.125 The Colleges' internal reports lack essential information for the directors to monitor the Colleges' performance.

.126 These Colleges need written policies and procedures governing the financial, operational, and compliance with authority reporting needs. Policy and procedures should set out:

- the information needs of directors and senior management including:

Chapter 2 Department of Education

- financial reports prepared in accordance with generally accepted accounting principles;
 - financial reports showing the full costs of classes, programs, and activities;
 - operational reports showing program effectiveness, i.e., outputs and outcomes. Outputs are products or services. Outcomes are results.
 - compliance reports describing the related legislative authorities the College is subject to, and the degree of compliance;
 - reports comparing planned results for the period and year to date with actual results for the period and year-to-date; and
 - reports showing expected results to the end of the year based on current information.
- the nature and extent of variances between planned and actual results with written explanations including comparison of planned activity levels with actual activity levels, when possible.
 - who is responsible for preparing and reporting the results of the variance analysis.
 - who in the chain of command should receive and monitor the results of variance analysis.

.127 The reports to the directors were deficient. The reports did not show assets, liabilities, revenues and expenditures in accordance with generally accepted accounting principles. The reports did not compare planned results with actual results. Also, the reports did not show the costs of services and activities, whether the services provided achieved the intended results, or if the Colleges complied with the relevant laws.

Chapter 2 Department of Education

.128 Also, the Colleges have not formally defined and documented their internal reporting needs. The directors and senior management need to formally define their internal information needs to ensure they receive suitable and timely reports for decision-making.

We recommend

.129 The Boards of Directors should formally define and document their internal reporting needs.

.130 Regional Colleges' internal reports should be prepared in accordance with generally accepted accounting principles.

.131 Regional Colleges' internal reports should include a comparison of planned results with actual results and written variance explanations.

.132 Regional Colleges' internal reports should show the cost of services and activities, whether the services provided achieved the intended outcomes, and the degree of compliance with relevant authorities.

.133 Carlton Trail's management told us the directors have now formally defined their reporting requirements.

.134 Cypress Hill's management told us the College intends to comply with the Provincial Auditor's recommendations. As a first step, management is defining the directors' and senior management's internal reporting needs.

.135 Northland's management told us the directors have considered the issue of governance and directed management to a course of action to ensure most if not all of our concerns will be alleviated. Management feels the process of implementing the Board of Director's directives should be essentially complete before the next review.

Approved and tested
contingency plan
needed

.136 Prairie West needs an approved and tested contingency plan for its computer systems.

.137 To provide continuous service, organizations must ensure systems and data are available when needed. If they are not, commitments may be missed, decisions delayed and

Chapter 2 Department of Education

essential data lost. This increases program and service costs and may weaken public confidence.

.138 A contingency plan sets out the procedures needed to protect the continuous operations of systems and availability of data. These plans should cover all significant operations and prioritize applications. Contingency plans should include:

- procedures for backing up system programs, applications, and data;
- procedures for the safe storage of backups;
- the recovery time for applications and data;
- arrangements to replace or rent essential equipment;
- requirements for senior management to approve the plans;
- procedures for periodically testing the contingency plans;
- training of staff in contingency plan procedures; and
- procedures for safe storage of the plans.

.139 During the year, Prairie West had a major computer system failure. Prairie West could not operate this system again and lost the data on the system. Prairie West purchased a new system. However, the new system was not fully compatible with the old system. As a result, Prairie West lacked the data to prepare timely financial reports for management.

.140 Senior management should review and approve a contingency plan for the new system. Prairie West needs to test the plan and ensure the recovery time meets its needs.

We recommend

.141 **Prairie West Regional College should establish a contingency plan for its computer system based on a risk analysis.**

Chapter 2 Department of Education

.142 Prairie West Regional College should specify in its contingency plan the recovery time for systems, applications, and data.

.143 Prairie West Regional College should test and approve the contingency plan and store it in a safe location.

Capital asset records
needed

.144 Southeast did not keep adequate records of its capital assets.

.145 To safeguard and control capital assets, the College needs to keep adequate records and adequately insure its capital assets. Also, the College must examine its capital assets periodically to verify their existence.

.146 Southeast's records of its capital assets are incomplete, therefore, it may not have adequate insurance. Also, Southeast does not periodically examine its capital assets to verify their existence. As a result, capital assets may be lost or stolen without timely detection.

.147 The Regional Colleges Regulations require the College to keep adequate records of its capital assets.

We recommend

.148 Southeast Regional College should keep records for all its capital assets and periodically examine its capital assets to verify their existence.

Budget deficit
requires Minister's
approval

.149 Prairie West did not obtain the approval of the Minister as required by *The Regional Colleges Act* for its budget deficit.

.150 Section 15(4) requires the College to obtain the Minister's approval for any deficit.

.151 During 1995-96, the approved budgeted deficit was \$55,710 while the actual deficit was \$96,034.

We recommend

.152 Prairie West Regional College should obtain Ministerial approval before exceeding the approved budget deficit.

Chapter 2 Department of Education

External reporting requirements not met

.153 Northwest did not submit annual financial statements to the Minister within 90 days of its year-end as required by law.

.154 Section 12.1(1) of *The Regional Colleges Act* requires Colleges to submit annual financial statements to the Minister in accordance with *The Tabling of Documents Act, 1991* (Act). Section 3 of this Act requires Colleges to submit financial statements to the Minister within 90 days of the year end. For the year ended June 30, 1995, Northwest did not complete its financial statements on time.

.155 Accordingly, Northwest has not complied with the law.

We recommend

.156 Northwest Regional College should submit annual financial statements to the Minister as required by law.

Chapter 3 Department of Health

Table of Contents

Introduction . . . . .	.01
Government spending on health . . . . .	.03
Crown agencies . . . . .	.04
Key issues the Department faces	Page 45
Results of our audit work	Page 50
Our audit conclusions and findings . . . . .	.11
Accountability Framework developed and issued . . . . .	.13
Establishing responsibilities and expectations	Page 53
Service agreements need improvement . . . . .	.21
Health plans need timely approval . . . . .	.30
Measurement and review	Page 55
District periodic reports either not prepared or not timely . . . . .	.37
Reports on District internal controls and compliance should be followed-up . . . . .	.43
Internal financial reports need improvement . . . . .	.50
CAP claims not timely . . . . .	.58
Incorrect charges to appropriation . . . . .	.63
Reports to the Assembly need improvement	Page 59
Reporting on District results needed . . . . .	.69
Annual Report needs improvement . . . . .	.78
Saskatchewan Health Information Network Phase 1	Page 62
Introduction . . . . .	.88

Chapter 3 Department of Health

Table of Contents

Planned phases . . . . .	.91
Our audit objective . . . . .	.93
Our audit criteria . . . . .	.95
Our audit conclusion . . . . .	.98
Significance of the audit . . . . .	.103
Our audit standards . . . . .	.106
Our audit findings . . . . .	.109
Criterion 1 - Senior management commitment to the development of SHIN	Page 66
Criterion 2 - A long-term plan for the development of SHIN based on needs	Page 68
Criterion 3 - Adequate policies and procedures to select the best outside proposal to develop SHIN	Page 70
Department's response . . . . .	.136
La Ronge Hospital Board . . . . .	.137
Our audit conclusions and findings . . . . .	.139
Written policies and procedures required . . . . .	.140
Board of Governors, Uranium City Hospital . . . . .	.149
Our audit conclusions and findings . . . . .	.151
Directors need to define required periodic financial information . . . . .	.152
Board pay and expenses exceed authority . . . . .	.159
Reservation in Auditor's Report on financial statements . . . . .	.164

Chapter 3

Department of Health

Executive Summary

- In this Chapter, we identify five key issues the Department must manage well. We think the Department's annual report should describe how it manages these issues.
- The Department's accountability framework is an important positive step. We think the framework could serve as a model for other government organizations trying to improve their accountability and the accountability of organizations that deliver services on their behalf.
- The Department should improve its accountability to the Assembly by:
 - providing the Assembly with its business and financial plan;
 - preparing a timely annual report that describes the Department's planned and actual performance;
 - ensuring Districts' health plans and performance reports are prepared and approved on a timely basis;
 - improving service agreements with Districts;
 - documenting its monitoring of the Districts' performance.
- The Department must ensure its senior management receive the financial information they need to manage program costs and activities.
- The Department made incorrect charges to its appropriation of \$25.3 million.
- The Department has a good project control environment to select the best outside proposal for the development of the Saskatchewan Health Information Network (SHIN).
- The La Ronge Hospital Board and the Uranium City Hospital need to ensure Directors receive the necessary information to manage their hospitals well.

Chapter 3 Department of Health

Introduction

.01 The Department's mandate is to provide leadership and vision to the health system to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, direct services and funding.

.02 The Legislature creates various agencies to deliver health programs. These include District Health Boards and other Crown agencies listed in paragraph .04. The Department works with these public agencies to achieve the Department's objectives.

Government spending on health

.03 Table 1 shows total health costs of \$1.780 billion by object. Table 2 shows total funding sources for the \$1.780 billion of health costs. We obtained the information for tables 1 and 2 from the *Public Accounts 1995-96 Volume 2*, the District Health Board's March 31, 1996 financial statements and the March 31, 1996 financial statements of the agencies listed in paragraph .04. We restated amounts obtained from the District's financial statements to present comparable information. These costs do not include Federal Government "Indian and Northern Health Services" costs or the public's cost for private health services.

Table 1

Health Cost by Object (in millions of dollars)				
	1996		1995	
Salaries and benefits	\$ 795	44.7%	\$ 776	44.8%
Doctor services	330	18.5	328	18.9
Supplies and services	136	7.6	141	8.1
Grants to private health agencies	187	10.5	173	10.0
Medical & surgical drugs and supplies	137	7.7	123	7.1
Interest	103	5.8	95	5.5
Amortization	53	3.0	50	2.9
Other	39	2.2	46	2.7
	\$ 1,780	100.0%	\$ 1,732	100.0%

Chapter 3 Department of Health

Table 2

Funding Sources for Health (in millions of dollars)				
	1996		1995	
General Revenue Fund (GRF)	\$ 1,555	87.4%	\$ 1,534	88.6%
GRF received in prior year	19	1.0	9	0.5
Patient and agency charges	107	6.0	106	6.1
Ancillary and dietary revenue	15	0.9	14	0.8
Local government taxes	12	0.7	12	0.7
Donations	13	0.7	9	0.5
Investment income	11	0.6	10	0.6
Other	36	2.0	24	1.4
Prior years' surplus	12	0.7	14	0.8
Total revenues	\$ 1,780	100.0%	\$ 1,732	100.0%

Crown agencies

.04 During 1996, the Department was responsible for several Crown agencies:

Health Services Utilization and Research Commission
 La Ronge Hospital Board
 Saskatchewan Cancer Foundation
 St. Louis Alcoholism Centre
 Board of Governors, Uranium City Hospital
 Whitespruce Youth Treatment Centre

.05 In Chapter 4, we list the District Health Boards responsible to the Department.

Key issues the Department faces

.06 One of the objectives of our Office is to ensure government managers and legislators know the key issues their organizations need to manage well. We think that if such issues are known, those issues (and the organizations themselves) are more likely to be managed better. Such an outcome is a necessary ingredient to public confidence in our system of Government. We discussed our understanding of those issues with management to confirm we have identified the right issues.

Chapter 3 Department of Health

.07 In this Chapter, we identify five key issues the Department must manage well to succeed. These issues are:

1. the need to identify the public's health needs;
2. the need to decide the types, levels and standards of services required to meet the public's health needs, make those services available, and monitor how those services are delivered;
3. the need to influence public policy decisions and public attitudes on health to improve public health and to help control the cost of the health system;
4. the need to have sufficient resources to deliver the required health services; and
5. the need to ensure the Assembly and the public know whether the Department is doing the right things well.

.08 We arrived at the following issues through a review of the Department's annual report, legislative authorities, other key Department documents and discussions with management.

1. *The need to identify the public's health needs.*

To know what services to provide, the Department must know the public's health needs. Assessing health needs is complex. The complexity includes finding needed data, preparing data and analysing it, and reporting the resulting assessments and decisions. Saskatchewan's sparse population makes data more difficult to interpret.

To identify health needs, the Department must obtain public input. Public expectations for health care are very high. The public tends to confuse health wants with health needs. As a result, the Department needs reliable information to help it evaluate what the public identifies as health needs. The Department has various forums for receiving and assessing public input. These forums include elected members of the Assembly, elected and appointed members of district health boards, committees and public meetings. Also, the Department

Chapter 3 Department of Health

carries out educational programs to inform the public about health issues.

The Department has taken several actions to identify the public's health needs. In Chapter 4, Part B we describe those actions.

2. *The need to decide the types, levels and standards of services required to meet the public's health needs, make those services available, and monitor service delivery.*

The Department must ensure the right health services are delivered at a reasonable cost. Limited resources challenge the Department in meeting the public's health needs.

To meet health needs, the Department must consider alternative services, their costs and expected health outcomes. For example, the Department expects that moving certain services from institutions to the community or to home will reduce costs and improve health outcomes. The Department must have information to measure alternative service costs and outcomes. Current health information focuses on services and activities, but not on health outcomes or costs.

The Department also provides resources to agencies, such as health districts, that deliver services for the Department. The Department must communicate health service expectations to these agencies, provide required resources, and ensure the agencies deliver the needed services. Providing resources to health agencies and communicating service requirements is a complex process and requires the Department to continually assess its systems and practices, which produce the necessary information. For example, the Department plans to create a provincial health information network (see paragraphs .88 to .136).

To determine whether health services meet expected outcomes, costs and standards, the Department needs to set standards and monitor services provided. When the Department's expectations are not met, it needs systems to effect the necessary changes.

Chapter 3 Department of Health

3. *The need to influence public policy decisions and public attitudes on health to improve public health and help control the cost of the health system.*

People's health is affected by income, education, lifestyle, working conditions, age, gender, and so on. Because factors other than the health system affect people's health, the Department works with other government agencies, health districts, municipalities, First Nations, private sector organizations, and the public to improve factors outside the health system that affect public health.

To encourage healthy lifestyle choices, governments set policies such as seat-belt laws and taxation of tobacco and alcohol products.

The Department encourages people to take responsibility for their health through various publications and educational programs. For example, it encourages the public to eat more wisely, exercise regularly and quit smoking.

4. *The need to have sufficient resources to deliver required services.*

To meet the public's health needs, the Department needs adequate resources. The two most important resources in the health system are human resources and infrastructure (i.e., capital assets such as buildings and equipment).

The Department must identify the resources needed to meet its long-term plan for public health. To ensure the health system has the right resources, the Department needs human resource plans and capital asset plans that are consistent with its overall long-term plan.

The Department must ensure its systems and practices are adequate to monitor the health system's human resources needs. The Department faces challenges in meeting these needs, and shares this challenge with health districts. Health reform (including the transfer of Department employees and employees of 400 health institutions to 30 Districts) has resulted in complex

Chapter 3 Department of Health

labour relations issues. In addition, Saskatchewan has difficulty attracting and keeping specialists for professional and personal reasons. For similar reasons, rural Saskatchewan finds it hard to retain family doctors.

Our public health system has over \$850 million of capital assets. The health system requires complex and expensive buildings and equipment for diagnosis and treatment. The Department must ensure its systems and practices are adequate to determine the health system's capital asset needs, compare the needs to existing assets, obtain needed capital assets at a competitive price, and properly maintain or replace existing assets. Capital asset needs are affected by where and how services are provided. Services provided in the community or home use fewer capital assets than services provided in hospitals and nursing homes. While the health system's reliance on institutional care has declined in recent years, the number of institutions and beds per capita in Saskatchewan is still among the highest in the world.

5. *The need to ensure the Assembly and the public know whether the Department is doing the right things well.*

The Department must ensure the public and the Assembly have the information they need to understand and assess the Department's performance. The public wants to know what the Department planned and what it achieved. The public also wants information about potential changes to the health system, the cost of those changes and their impact on health services.

To inform the Assembly and the public, the Department needs a communications strategy. This strategy could include publishing a business and financial plan. A business and financial plan would show the Department's vision and goals and provide a vehicle for consulting with and informing the public about the Department's plans.

The Department's annual report should help the public understand and assess the Department's performance and help ensure public confidence in the health system. The report should describe what the Department planned to

Chapter 3 Department of Health

achieve and how, and what performance indicators it used to measure its performance. Also, the report should set out the Department's results in comparison to its plan, showing whether it met its goals and objectives in a cost effective manner.

.09 In previous audits of annual reports, we have found that legislators want information to assess the performance of Government organizations. We think the Department's annual report should describe the key issues the Department faces and how it is managing those issues. In paragraphs .69 to .87 we assess the Department's annual report.

Results of our audit work

.10 In this Chapter, we set out the results of our audits of the Department and its Crown agencies. In paragraphs .88 to .136, we also set out the results of our audit of the development of the new provincial health information network. In Chapter 4, we do the same for our audits of District Health Boards (Districts).

Our audit conclusions
and findings

.11 In our opinion:

- the financial statements for the agencies listed in paragraph .04 are reliable except for the Board of Governors, Uranium City Hospital (see paragraphs .164 to .167);
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and
- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

Chapter 3 Department of Health

.12 We also report other matters for the Assembly's attention in this Chapter.

Accountability Framework developed and issued

.13 The document, *A Framework of Accountability: The Minister of Health and District Health Boards*, outlines the accountability of the District Health Boards (Districts) to the Minister and the public. It also sets out the Minister's accountability to the Legislative Assembly and the public. We think this Framework is a positive step in improving the accountability of the Minister and Districts.

.14 Briefly, the Framework says the Minister has the highest authority and responsibility for our health system. The Minister and the Department are responsible for setting provincial health objectives, program and service standards, and for ensuring they are achieved and maintained.

.15 The Framework states the Districts' responsibilities and authorities include: assessing health needs of persons to whom they provide services; planning, managing, delivering and integrating the provision of health services; and promoting health and wellness.

.16 The Framework describes accountability in terms of three key elements: establishing responsibilities and expectations, measurement, and review.

.17 In accountability relationships, there is a need to **establish responsibilities and expectations.**

- Minister/Department. The Framework explains the Minister's accountability to the Assembly. We think the Minister needs to provide the Assembly with the Department's business and financial plan. This plan would describe the Department's financial and operational goals and would explain how performance will be measured. The Department has not yet provided a complete plan to the Assembly.
- Districts. The Framework explains the Department's and the Districts' responsibilities and expectations. These are also included in annual service agreements and health plans, and

Chapter 3 Department of Health

in Department policies and guidelines. The Department signed service agreements for the year ended March 31, 1996 with Districts in the Fall of 1995. The Districts did not prepare, and the Department did not approve, the Districts' Health Plans in a timely manner. However, the Health Plans were prepared and approved earlier than for the year ended March 31, 1995. We report these matters in paragraphs .21 to .35.

.18 In the next stage of an accountability relationship, there is a need **to measure and report** outcomes or progress toward meeting the defined responsibilities and expectations.

- Minister/Department. We believe the Minister could demonstrate his accountability by improving the Department's annual report to the Assembly. The Department's annual report should provide timely performance information. The Report was issued more than 9 months after the year end. (The law does not require the Department to issue its annual report any earlier). The Department needs to describe the key issues the Department faces, and how it manages these issues to achieve the financial and operational goals set out in its plan. We report this matter in paragraphs .69 to .87.
- Districts. The Department measures the performance of Districts by various means including receiving District periodic reports showing comparisons of planned results to actual results and explanations of variances. Most Districts did not provide the Department many of the required periodic reports. We report this matter in paragraphs .37 to .42.

.19 In the last stage of an accountability relationship, there is a need **to review** or examine how well responsibilities are carried out, i.e., whether expected results (outcomes) are achieved. Changes can then be made when necessary.

- Minister/Department. The Standing Committee on Public Accounts' (PAC) role is to review the financial and operational performance of the

Chapter 3 Department of Health

Department and to make recommendations for improvement when necessary. In past reports to the Assembly, we have recommended the PAC review the annual reports of Departments and Crown agencies.

- Districts. The Department assesses the Districts' performance by reviewing the Districts' periodic reports and by following up when Districts do not meet expectations. The Department has rules and procedures for effecting change when Districts do not meet expectations.

<h3>Establishing responsibilities and expectations</h3>

.20 The Department sets out its performance expectations for Districts in annual service agreements, in health plans, and in an accountability framework document. As follows, we think the Department needs to improve how it defines and communicates its performance expectations to the Districts.

Service agreements
need improvement

.21 The Department needs to improve its service agreements with the Districts.

.22 The Department is responsible to protect and improve the health of Saskatchewan people. The Department carries out many of its responsibilities through Districts. Therefore, the Department needs to ensure the delivery of health care by Districts achieves the Department's objectives.

.23 For the year ended March 31, 1996, the Department made service agreements with Districts in the fall of 1995.

.24 In our opinion, the service agreements are adequate except they do not require the Districts to report periodically on the systems and practices they use to achieve the Department's financial, operational and compliance objectives. These reports should be verified periodically by the Department or the District's independent auditor. To meet its responsibilities, the Department needs to know the Districts have systems to ensure they are able to meet the Department's objectives.

Chapter 3 Department of Health

.25 We recognize, as outlined in Chapter 13, Department of Health, paragraphs .26 to .28 of our *Report of the Provincial Auditor: 1996 Fall*, that the practice of providing audit assurance on systems and practices used to achieve operational objectives is evolving and can be expensive. We understand, therefore, that the Department will need time to decide how to obtain this assurance at reasonable cost.

.26 We also reported this matter to the Assembly in our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report) and previous reports.

.27 We commend the Department and the Districts for making service agreements. This is an important step toward better accountability.

We recommend

.28 The Department should work with Districts to ensure service agreements require Districts to report periodically on the systems and practices they use to achieve the financial, operational and compliance with authority objectives.

.29 The Department's 1996-97 health plan guidelines are starting to ask Districts to report on the systems they use to achieve the Department's objectives.

Health plans need timely approval

.30 The Department needs to approve Districts' health plans in a timely manner. These plans should be approved before, or very soon after, the year begins.

.31 Each year, the Department requires Districts to prepare health plans. These plans outline the Districts' financial and operational targets and are often prepared in consultation with the Department. The Department uses these plans to help evaluate the Districts' performance.

.32 For the year ending March 31, 1996, the Department did not approve the plans until the fall of 1995. While the Department regularly discusses plans with Districts, timely approval of the plans is important so the Department and the Districts can make decisions with a common understanding of the annual and long-term priorities and goals.

Chapter 3 Department of Health

.33 Making decisions without a common understanding on the priorities and goals may result in the Department and Districts making inappropriate decisions.

.34 We also reported this matter to the Assembly in our 1996 Spring Report.

We recommend

.35 The Department should work with the Districts to ensure the Department approves health plans in a timely manner.

<p>Measurement and review</p>

.36 The Department uses a number of methods to monitor the performance of Districts. The Department:

- reviews Districts' periodic reports showing comparisons of planned results to actual results and explanations of variances;
- attends Districts' Boards of Directors' meetings;
- has set up various committees of Department and District officials (including the Health District Advisory Committee consisting of the Minister, Department officials, and District Board members); and
- receives independent District accreditation evaluations.

District periodic reports either not prepared or not timely

.37 The Department did not receive most of the Districts' quarterly financial reports nor any of the Districts' annual program reports comparing planned and actual results and explaining variances. Also, the reports the Department received were often not timely.

.38 The Department requires Districts to report quarterly on their financial results compared to plan, and annually on program performance compared to plan.

Chapter 3 Department of Health

.39 Many Districts did not prepare the required financial reports, or did not prepare them on time. None of the Districts prepared the required reports on program performance.

.40 This lack of information could result in the Department and Districts making incorrect decisions.

.41 We also reported this matter to the Assembly in our 1996 Spring Report.

We recommend

.42 The Department should work with Districts to ensure the Districts submit all required reports on time.

Reports on District internal controls and compliance should be followed-up

.43 The Department needs to ensure the Districts have adequate rules and procedures to safeguard and control public money and to comply with authorities governing their operations.

.44 The Department needs to obtain information on the Districts' rules and procedures to safeguard and control public money and their compliance with authorities governing their operations.

.45 The Department requires all Districts to submit annually to the Minister reports from the Districts' auditors on:

- the rules and procedures used by the Districts to safeguard and control public money and to ensure compliance with authorities; and
- the Districts' compliance with those authorities.

.46 The Districts sent these audit reports to the Department. The Department told us it follows-up with Districts to ensure Districts address the problems set out in the reports. However, we did not find documented evidence of this procedure.

.47 We also reported this matter to the Assembly in our 1996 Spring Report.

We recommend

.48 The Department should document its follow-up on Districts' auditors' reports and work with Districts to take corrective action.

Chapter 3 Department of Health

.49 After March 31, 1996, the Department completed a financial management review of the Districts, including a follow-up of audit reports. We plan to examine this process during our 1997 audit.

Internal financial reports need improvement

.50 The Department needs to improve the internal financial reports it provides to senior management.

.51 The internal reports provided to senior management are adequate except they do not compare year-to-date expenses with budgeted amounts for the same period and explain variances in writing. We think this information is particularly useful in programs, such as payments to doctors and pharmacists, where activity levels vary during the year.

.52 We note other levels of management in the Department receive this information.

.53 In our opinion, comparison of year-to-date expenses to budgeted amounts for the same period would help senior management assess whether the Department is achieving its program cost and activity targets during the year, and to take corrective action where necessary. Also, senior management will be better able to assess the reasonability of forecasted expenses to the year end that the branches prepare for senior management.

.54 We also note the Deputy Minister has not given formal approval to the Department's internal reporting rules and procedures.

.55 We reported this matter in our 1996 Spring Report and previous reports.

We recommend

.56 The Department should improve its internal financial reports to senior management to:

- show a comparison of expenses for the year to date to budgeted amounts for the same period; and
- highlight and explain major variances between year-to-date expenses and year-to-date budgeted amounts.

Chapter 3 Department of Health

.57 The Standing Committee on Public Accounts (PAC), on December 9, 1996, reviewed this recommendation (Chapter 8, paragraph .55 of our 1996 Spring Report) and recommended the PAC: *encourage the Department of Health to review its internal financial reports to ensure that they meet the needs of senior management to plan adequately and appropriately in relation to the Provincial Auditor's recommendation 8.55.* The Department told us it has completed a review of its internal reports and has determined the reports are adequate to meet the needs of senior management.

CAP claims not
timely

.58 The Department needs to prepare timely claims on the Federal Government.

.59 The Government has an agreement with the Federal Government to share the costs of the Canada Assistance Plan (CAP). The Department can claim reimbursement for expenses incurred for the Plan.

.60 In 1995-96, the Department has not claimed reimbursement from the Federal Government for costs incurred. The Department estimates the Federal Government owes it \$7.8 million at March 31, 1996.

.61 The delay in claiming the money from the Federal Government results in a loss of interest income.

We recommend

.62 **The Department should submit timely claims to the Federal Government for costs incurred for the Canada Assistance Plan.**

Incorrect charges to
appropriation

.63 In our opinion, the Department made incorrect charges of \$25.3 million to its appropriation.

.64 *The Financial Administration Act* requires the Department to only charge appropriations for goods or services that are received or when the eligibility and performance requirements are met.

.65 The Minister signed capital project agreements with other agencies (several Districts and the Saskatchewan Cancer Foundation). The Department charged its appropriation \$19.7 million for capital construction not done. We think the

Chapter 3 Department of Health

Department should not charge its appropriation for the \$19.7 million until the agencies meet the terms of the agreement, i.e., carry out the construction.

.66 Also, during the year, the Department paid \$7 million to the Districts for rural health initiatives. The Department told the Districts to use this money for certain specified purposes. At March 31, 1996, the Districts had not spent \$5.6 million of this money for the specified purposes. We think the Department should not charge its appropriation for the \$5.6 million until the Districts use this money for the Department's specified purposes.

.67 We reported a similar matter to the Assembly in our 1996 Spring Report.

We recommend

.68 The Department should ensure it properly accounts for charges to its appropriation.

<h3>Reports to the Assembly need improvement</h3>

Reporting on District results needed

.69 The Department is required to provide an annual report to the Legislative Assembly. The Districts are not. Instead, *The Health Districts Act* requires Districts to report to their district residents and the Minister. The Act requires Districts to report information such as the cost of services, financial plans and results, the health status of residents, and the effectiveness of District programs.

.70 In the past, most major hospitals and all regional care centres provided annual reports to the Assembly. However, the information in those reports was not as useful as the law now requires because the reports contained only financial and statistical information.

.71 The Assembly no longer receives information directly from health care institutions. The Assembly receives only the information the Department provides. This is an important change in accountability relationships.

.72 The Assembly continues to be responsible for raising taxes and allocating money for spending on health care.

Chapter 3 Department of Health

However, the Assembly does not receive reports from the Districts delivering the services and spending the money.

.73 This change might weaken or might strengthen the Assembly's ability to scrutinize spending of public money and to answer to the public for revenue-raising practices. The key will be the quality of the information the Department provides to the Assembly.

.74 *The Health Districts Act* requires Districts to provide the Minister with very useful information. Accordingly, the Department will also be able to provide the Assembly with very useful information.

.75 The Department will be able to provide the Assembly information showing issues and trends from a number of important perspectives. For example, the Department could show and monitor the cost of a particular service for the Province as whole, for large and small Districts, and for individual Districts. Also, it could show and monitor the public's health status and District effectiveness, as well as financial plans and results, in a similar manner.

.76 If the Department provides the Assembly with such information, the Assembly will have more useful information than was provided in the past. Members of the Assembly would then be better able to carry out their responsibilities.

.77 Currently, Districts are not able to provide the Minister much information on the costs of services, the health status of residents and the effectiveness of the Districts' programs. The Districts are developing the related information systems, but this will take time.

Annual Report needs improvement

.78 We reviewed the Department's annual report for the year ended March 31, 1995. We think the report should explain the key issues the Department needs to manage well to succeed. To assess the Department's performance, the Assembly and the public need to know how the Department is managing its key issues. We have set out what we think are the Department's key issues in paragraph .08.

.79 The annual report does not specifically address the key issues set out in paragraph .08 or explain the systems and

Chapter 3 Department of Health

practices the Department uses to manage these issues. The annual report does, however, include some strategies and activities relating to the issues in paragraph .08.

.80 The annual report does not contain a complete financial plan. It only shows the revenue and expenditure plan for the current year. It does not give a summary of the Department's future financial plans.

.81 The report shows a comparison of the current year's revenues and expenses to budget and explains significant variances. It does not show what the Department owns and owes. For example, the report does not describe how the Department oversees the health system's \$850 million of infrastructure.

.82 The report does not contain a complete operational plan. It sets out the Department's operating goals and objectives, and activities to achieve them. The report, however, does not state whether the Department has achieved its goals and objectives. The report does not set out the Department's performance measures and targets.

.83 An important way for the Department to measure its performance is to periodically assess population health status. In the *Guidelines for Preparation of the 1996-97 Health Plan*, the Department is asking Districts to start to gather and analyse, as a minimum, information on the following health status indicators: infant mortality rates; percentage of low birth weight babies; teen pregnancy rates; life expectancy in years; and person years of life lost. We encourage the Department, in future years, to include information on health status indicators in its annual report.

.84 Public confidence in the health system is key to the Department's success. While many factors are involved, we think public confidence will improve if the Department improves its annual report.

.85 We also reported this matter to the Assembly in previous years.

We recommend

.86 In its annual report to the Legislative Assembly, the Department should describe how the Department manages the key issues it faces.

Chapter 3 Department of Health

.87 The report should provide a summary of the Department's financial and operational plans, performance targets, and actual results.

Saskatchewan Health Information Network Phase 1

Introduction

.88 In our *Report of the Provincial Auditor: 1995 Fall*, we describe two important Information Technology (IT) issues and our plan for examining them. The issues relate to the management of IT system development projects and IT security. We state our first audit of a major IT system development project will be the Saskatchewan Health Information Network (SHIN). In this Chapter, we report the results of the first phase of our audit of SHIN.

.89 Early in the health reform process, stakeholders recognized that the Saskatchewan health sector needed a new approach to information management. As a result, the Department of Health (Health), the District Health Boards (Districts) and the Saskatchewan Association of Health Organizations (SAHO) started a project to create a provincial health information network. Over time this network is to provide key information needed by Health and the DHBs to manage the delivery of health care efficiently and effectively.

.90 The SHIN system is one of the largest information system development projects ever initiated by the Government. Literature shows a high percentage of large IT development projects are cancelled, late or over budget. Therefore, strong control over these projects is essential.

Planned phases

.91 We plan to examine and report on SHIN's development process in four phases. These phases are consistent with the steps required to manage most large IT development projects.

Phase 1 - We will evaluate whether Health has an adequate project control environment to select the best outside proposal for the development of SHIN.

Phase 2 - We will review the controls established by Health, including the business case, the project

Chapter 3 Department of Health

and contract structure, the financing, and the detailed plan for the development of SHIN.

Phase 3 - We will assess the project management processes used by Health during the design and implementation of SHIN.

Phase 4 - We will examine the review performed by Health on SHIN after the project is complete.

.92 This Chapter sets out the results of our audit of Phase 1 of the development of SHIN.

Our audit objective

.93 The objective of our audit of Phase 1 was to determine whether Health had an adequate project control environment to select the best outside proposal for the development of SHIN.

.94 A project control environment is the systems and practices Health uses to manage the risks of the project. We reviewed Health's project control environment for the SHIN project for the period January 1, 1993 to December 15, 1996.

Our audit criteria

.95 Criteria are standards we use to assess performance. We developed criteria based on those recommended by the Office of the Auditor General of Canada, the Information Systems Audit and Control Foundation, and the Project Management Institute. We provided our criteria to officials at Health. They agreed the criteria were reasonable and attainable.

.96 We used the following criteria to assess Health's project control environment. We expected:

- senior management commitment to the development of SHIN;
- a long-term plan for the development of SHIN based on needs; and
- adequate policies and procedures to select the best outside proposal to develop SHIN.

.97 More detailed criteria support each of these criteria.

Chapter 3 Department of Health

Our audit conclusion .98 Overall, Health has an adequate project control environment to select the best outside proposal for the development of SHIN.

.99 An adequate project control environment is important to the success of all major IT development projects. Accordingly, we think Health has taken the right initial steps. However, because SHIN is a long-term project, we do think Health can and should strengthen further its project control environment. A strong environment is important for the success of the entire project. The following recommendations are intended to help Health do so. The basis for our recommendations is explained beginning at paragraph .111.

We recommend .100 Health's senior management should better demonstrate their commitment by:

- clearly setting out the SHIN Management Board's decision-making powers;
- linking the SHIN project directly to the health reform goals in the Department's strategic plan and annual report; and
- requiring the project manager to provide written performance reports periodically to the SHIN Management Board (SMB).

.101 Health's senior management should improve the long-term plan for SHIN by:

- documenting the performance indicators they will use to measure what the project has achieved; and
- preparing an in-depth cost benefit analyses for the project prior to the detailed design of SHIN.

.102 Health's response to our audit conclusions and recommendations is set out in paragraph .136 of this Chapter.

Significance of the audit

.103 The Government spends over \$1.5 billion per year on health care. The Government and health care providers need

Chapter 3 Department of Health

good information to make informed decisions. The SHIN system is to provide key information to manage the delivery of health care efficiently and effectively.

.104 Health estimates the SHIN system will cost in the tens of millions of dollars. Literature shows that over thirty percent of large IT projects are cancelled before they are complete. It also shows over fifty percent of large IT projects are over budget. A sound project development process can reduce these risks.

.105 The first critical stage for the success of a project is a strong control environment. We assessed how Health managed this stage.

Our audit standards

.106 We conducted our audit according to auditing standards for value-for-money audits set by The Canadian Institute of Chartered Accountants. Those standards require that we plan and carry out an audit to obtain reasonable assurance to support our conclusions. To meet those standards, we did both specific and general procedures.

.107 The following describes our procedures. We:

- interviewed key Health, SAHO and District officials;
- examined and analysed key documents, i.e., SMB minutes, SHIN long-term plan and the SHIN tendering documents; and
- analysed the evaluations completed by the evaluation committee in the tendering process.

.108 We provided Health with a detailed assessment of its control environment. We discussed our assessment with senior officials in Health and received their agreement that our detailed report was accurate and complete.

Our audit findings

.109 The following is a summary of our audit findings.

Chapter 3 Department of Health

.110 For each criterion, we describe what we expected and make a general statement about what we found. Then, we set out our findings.

<p>Criterion 1 - Senior management commitment to the development of SHIN.</p>
--

.111 We expected Health to establish a steering committee. Such a steering committee should include senior management. Health should assign responsibilities and authorities for accountability, security, confidentiality and ownership of the health information. We also expected Health's strategic plan and budget to refer to the development of SHIN and that Health would establish a timeline for the project.

.112 The Deputy Minister of Health and the Chief Executive Officer of SAHO established a steering committee. They call the committee the SHIN Management Board (SMB). The SMB includes senior representatives from Health, SAHO and the Districts. The SMB meets regularly to discuss issues regarding the SHIN project. The Terms of Reference of the SMB require it to provide broad direction and guidance to the SHIN project. During the period under review, the members had discussed the role of the SMB. We think the SMB terms of reference should more clearly indicate the decision-making powers of the SMB so that members more clearly understand their role.

.113 Through the establishment of the Provincial Information Network Branch, the Deputy Minister assigned authorities and responsibilities. This Branch is responsible for managing the development, implementation, operation and support for the SHIN. The head of this Branch is an executive director who reports directly to the Associate Deputy Minister who co-chairs the SMB. The job description of the executive director includes direct responsibility for the SHIN project.

.114 The Executive Director of the PIN Branch gave regular verbal updates to the SMB. The SMB has established no formal reporting guidelines. We recognize the project is still at the early stages. However, as the project moves forward, the SMB will have to provide more guidance to the project manager on the type of information it needs to fulfill its responsibilities. We would expect this guidance to include budget to actual

Chapter 3 Department of Health

comparisons and forecast information for both dollars and activities.

.115 Complete and accurate health data are essential to design, deliver and evaluate health services. Therefore, policies over the confidentiality, ownership and security of health data are important. The public needs to know that their health records are not at risk of misuse.

.116 Health has assigned the responsibility for data ownership, confidentiality and security to a Director of Information Management in a draft information policy entitled "Proposal for an Information Management Policy for Saskatchewan Health Districts". Key stakeholders are discussing the Document to obtain consensus. This Document includes principles to govern information management, general information management policies and proposed processes to implement those policies. Those policies address ownership, security and confidentiality issues. It also recommends the appointment of a Director of Information Management with responsibility for monitoring the adherence to the policies in the Document.

.117 Health budgeted for the first phase of the SHIN project in both 1995-96 and 1996-97. Health planned to select a partner eight months after starting the process. Later, Health extended the process to ten months when it began phase two. The SHIN evaluation committee, established by Health, presented their recommendation for a partner on time. However, Health did not make the announcement of the partner for an additional two months. Immediately following the announcement, Health made a contract with the selected partner for a more detailed plan for the project. The delay in the project could result in windows of opportunities being lost. Long delays can also reduce commitment and increase the risk of changing information needs.

.118 Health does not have a long-term strategic plan published in one document. *The Saskatchewan Vision for Health* Document includes health reform goals and strategies. However, Health does not include the SHIN project as a strategy in this document. *The Saskatchewan Health Annual Report 1994-95* mentions the progress of SHIN. But, the report does not directly link SHIN to the health reform goals.

Criterion 2 - A long-term plan for the development of SHIN based on needs.

.119 We expected Health to have an adequate approved strategic plan for SHIN. This plan should include a mission, goals, objectives, action plans and performance indicators. We also expected the plan to have an adequate preliminary project architecture and cost benefit analysis. We expected the plan would address initial staffing, training and organizational issues as well as user needs.

.120 A project architecture is the planned structure and logical organization of a computer system. An architecture addresses factors such as security and business requirements. It also organizes the data, process and network issues described in paragraph .125.

.121 Health approved a long-term plan for the development of SHIN. This plan includes goals, objectives and action plans. However, the only performance indicator for the project is a timeline. Also, we saw no evidence that Health monitored the timeline. Health expects benefits from the project such as easier access to information. However, it does not state the means of measuring these benefits.

.122 Health did an in-depth needs analysis. It held consultations and workshops to gather information on the needs of all the potential users of the system within the Districts and Health. These consultations resulted in the development of a target project architecture and transition plan. This work was completed in 1994-95. Health has not formally updated this needs analysis. We expect Health to contact all Districts to verify their needs before the more detailed design is completed.

.123 Health care professionals, who are not District employees, were involved in the needs analysis only to the extent that the Districts have included them. However, Health gave initial presentations on the SHIN system to various professional organizations such as the Saskatchewan Medical Association.

.124 We recognize the SHIN project is restricted to the needs of Health and the Districts at this stage. However, as the

Chapter 3 Department of Health

project moves closer to fulfilling its overall vision, we see benefits in obtaining the views of physicians and other health care professionals not employed by the Districts so that full support and co-operation among all user groups can be obtained.

.125 In 1994-95, Health developed an architecture for the SHIN project. It appears complete and includes a high level documentation of user needs. The architecture (Plan) includes three essential elements:

- A description of the key data needed in the system. The plan describes what the data should look like and how the system should record it. (Data are grouped to describe key parts of the system including people, health facilities and health services.)
- A description of the key processes in the system. The plan documents the key business activities the system must cover. Business activities include registering clients and performing health services.
- A description of the physical structure of the health network. The stage two tendering document contains a system model for Health and the districts. It includes all key fixed service points and mobile services needs. It identifies the location of the service points (e.g., hospital and long-term care facility) and mobile points like ambulances or home care workers. It identifies standards for equipment needed at each location and how all points should connect together.

.126 The architecture also includes a preliminary transition plan. The plan includes a summary of what is currently in place and expectations.

.127 The SHIN long-term plan includes the accumulated costs of all Districts, SAHO and Health. An accumulated expected benefit savings was included in the long-term plan. However, Health did not do a detailed cost-benefit analysis at this stage. Although Health estimates the costs to implement the system at

Chapter 3 Department of Health

each District, no detailed analysis was done to link costs and benefits.

.128 Health has addressed initial organizational and staffing issues by establishing the Provincial Information Network Branch (Branch) and appointing a project leader. As well, Health formed the SMB to provide direction to the Branch on the management, development, implementation and support of the SHIN.

.129 The tendering document requires potential partners to include a plan for training and staffing. This includes training centres, training courses, training costs and training requirements. This also includes a detailed plan for creating and maintaining jobs in the information technology sector. Health told us they are currently developing a more detailed organizational structure for the project.

<p>Criterion 3 - Adequate policies and procedures to select the best outside proposal to develop SHIN.</p>

.130 We expected Health to prepare a tendering document that was consistent with its plan. We expected written unbiased evaluation criteria to select a partner. We also expected the selection process to support the recommendation made to the SHIN Management Board.

.131 Health prepared an extensive tendering document called the *Request for a Strategic Partnership*. The document was consistent with the strategic plan for SHIN. The tendering process included 2 phases. The first phase was a pre-qualification stage which selected the qualified potential partners to participate in the final selection process. In the second phase, Health invited the potential partners to propose a solution for the development and implementation of SHIN.

.132 A 17 member evaluation committee was established. The committee had varying expertise with representatives from Health, SAHO, Saskatchewan Finance, Saskatchewan Economic Development and three private consultants.

Chapter 3 Department of Health

.133 SAHO managed the selection process. It assigned a person independent of the SHIN project to collect the proposals and give them to the evaluation committee.

.134 The evaluation committee established evaluation criteria for both phases of the process. The SHIN Management Board approved weightings for the criteria. In Phase 2, the committee evaluated the partners using 250 criteria.

.135 The selection process and evaluations supported the recommendation made to the SHIN Management Board.

Department's
response

.136 The Department's response is as follows:

Health has reviewed and accepts the chapter for the SHIN audit. The following comments are provided in response to the audit conclusions and recommendations:

- *The audit report makes recommendations regarding the SHIN Management Board and the need to clearly define its decision-making powers. Health is currently examining governance and organizational options more suitable for the nature of the SHIN initiative and its implementation. It is expected that these new structures will: adequately address decision-making powers; outline project reporting requirements; establish mechanisms for the continued alignment of SHIN objectives with the goals and objectives of health reform; and, provide performance indicators by which project progress will be measured.*
- *Health recognizes the need for a strategy to maintain commitment to the SHIN initiative and to incorporate changing information requirements throughout the life of the initiative. Management mechanisms will be established to continually examine information requirements, as well as new technologies, and will redirect the course of the initiative accordingly.*
- *Health concurs with the recommendations regarding an in-depth cost benefit analysis*

Chapter 3 Department of Health

regarding the SHIN. A Business Case currently under development and expected to be completed by the end of March, 1997 will outline in detail the required investment and benefits for the SHIN. The Business Case will provide the basis for the SHIN Management Board's recommendation to central government on the future of the initiative.

La Ronge Hospital Board

.137 The Hospital provides health care services to people in northern Saskatchewan.

.138 In 1996, the Hospital had revenue of \$6.7 million and held assets of \$15.1 million at March 31, 1996. The Hospital's financial statements are included in its *Annual Report and Financial Statement, La Ronge Health Centre 1995-96* report.

Our audit conclusions and findings

.139 In our opinion:

- the Board's financial statements are reliable;
- the Board had adequate rules and procedures to safeguard and control its assets except for the matters reported in paragraphs .140 to .148; and
- the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Written policies and procedures required

.140 The Board has not documented its rules and procedures to safeguard and control its assets and to comply with the law.

.141 Written policies and procedures provide for the orderly and efficient conduct of business. The lack of written policies and procedures increases the risk of a breakdown in control. Staff and the Board lack direction on proper handling of transactions.

.142 Policies should be developed by management and approved and monitored by the directors.

Chapter 3 Department of Health

.143 We also reported the following matters to the Assembly in our 1996 Spring Report.

We recommend

.144 Management should prepare and the Board should approve a written policy and procedure manual.

.145 The directors should define and document their periodic financial reporting requirements.

.146 The Board should improve its internal financial reports to include:

- an explanation of major variances between year-to-date actual and year-to-date budget;
- financial information on all activities of the Board including the capital fund and fund-raising activities; and
- actual amounts of the prior year for comparison purposes.

.147 The Board should keep records of all its capital assets.

.148 The Board should periodically take an inventory of its capital assets and compare the inventory to the records.

**Board of Governors,
Uranium City
Hospital**

.149 The Board provides health care to people in northern Saskatchewan.

.150 In 1996, the Board had revenue of \$1.5 million and held assets of \$0.5 million at March 31, 1996.

Our audit conclusions
and findings

.151 In our opinion:

- the Board's financial statements are reliable except we were not able to verify the value of the Board's inventory (see paragraph .164);
- the Board had adequate rules and procedures to safeguard and control its assets except for the matters reported in paragraphs .152 to .158; and

Chapter 3 Department of Health

- the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in paragraphs .157 to .163.

Directors need to define required periodic financial information

.152 The directors had not formally set out what financial reports they need to receive from management and when.

.153 The directors are responsible for the financial affairs of the Hospital. The directors need timely, accurate and complete financial information to meet their responsibilities and to hold management accountable.

.154 The directors, with the help of senior management, need to formally define their periodic financial information needs to ensure they receive suitable and timely financial reports for decision-making.

We recommend

.155 The directors, with the help of senior management, should define and document their periodic financial reporting requirements.

.156 The Board should improve its internal financial reports to include:

- a full set of financial statements that show what the Board owns and what it owes, and its revenues and its expenditures;
- a comparison of actual results for the period to budgeted results for the period using the accrual basis of accounting;
- an explanation of major variances between year-to-date actual and year-to-date budget;
- a projection of revenue and expenses to the end of the year based on current information; and
- actual amounts of the prior year for comparison purposes.

Chapter 3 Department of Health

.157 The Board should prepare and submit an annual report on its activities to the Minister.

.158 The Minister should table the Board's annual report received with the Legislative Assembly.

Board pay and expenses exceed authority

.159 The Board of Directors received pay and expenses that were not properly authorized.

.160 Section 22 of *The Interpretation Act, 1993* (the Act) states the person who has the power to make an appointment also decides the pay and expenses of the person appointed.

.161 The Executive Government appointed the Board of Directors by Order in Council. Order #508/95 set the rates for the directors pay and expenses at \$50 per meeting day and reimbursement of expenses at rates approved by *The Public Service Act*. However, on March 19, 1996, the directors increased their pay rates to \$150 per day while attending workshops and conventions and \$30 per day for meals.

.162 In our opinion, the Board of Directors increased their pay and expenses without adequate authority.

We recommend

.163 The Board should pay Board members using rates authorized by Order in Council.

Reservation in Auditor's Report on financial statements

.164 Our auditor's report on the Board's 1996 financial statements contains a reservation of opinion.

.165 We reserved our opinion because we could not verify the value of the Board's inventory.

.166 The Minister of Municipal Government held the net assets and operated the Hospital on behalf of the Northern Settlement of Uranium City prior to establishment of the Board. By Order dated April 25, 1996, under section 120 (1) of *The Northern Municipalities Act*, the Minister transferred the net assets to the Board effective June 5, 1995 for no monetary consideration.

.167 Because of the delay in completing the transfer of the Hospital's net assets to the Board, we were unable to observe

Chapter 3 Department of Health

the taking of inventories at either the beginning or at the end of the year, and we could not satisfy ourselves concerning those inventory quantities by alternate means.

Chapter 4 District Health Boards

Table of Contents

A.	Introduction	Page 79
B.	District Health Needs Assessment Process	Page 85
C.	District Financial Management & Accountability Systems and Practices	Page 93
D.	District Annual Reports - Follow-up	Page 119
E.	District Revenues, Expenses, Assets & Liabilities in More Detail	Page 125

Chapter 4 District Health Boards

Part A - Introduction

Table of Contents

Background . . . . .	.01
District responsibilities . . . . .	.02
Financial summary . . . . .	.05
Our audit approach . . . . .	.07
List of the 30 District Health Boards . . . . .	.10

Chapter 4 District Health Boards

Part A - Introduction

Background

.01 Beginning in 1992, the Government created District Health Boards (Districts). In 1995-96, there were 30 Districts. In 1995-96, District expenses exceeded \$1 billion. Their responsibilities include:

- assessing the health needs of persons to whom they provide services;
- planning, managing, delivering and integrating the provision of health services; and
- promoting health and wellness.

District responsibilities

.02 In carrying out their responsibilities, District boards of directors and senior management groups face many challenges. Those challenges include:

- entering into service agreements with affiliated health organizations;
- establishing new financial information systems to integrate the financial accounts and records of various hospitals and other health organizations;
- integrating and co-ordinating the delivery of health care in the health districts; and
- reporting to the Minister and the public on:
 - the health status of health district residents and the effectiveness of District programs; and
 - District services and activities, and their costs.

.03 In addition, Districts are expected to set up more useful management and accountability information systems and practices, i.e., they are expected to move to a higher standard.

.04 In this Chapter, we discuss some of those expectations and identify issues Districts need to address. Some of the

Chapter 4 District Health Boards

Part A - Introduction

issues can be addressed quickly. Other issues will take more time to address as Districts will need new information systems.

Financial summary

.05 The combined revenues and expenses of the 30 Districts for the years ended March 31, 1996 and 1995 are:

	Operating fund (in thousands of dollars)	Capital fund (in thousands of dollars)	Restricted fund (in thousands of dollars)	Total	
				1996 (in thousands of dollars)	1995 (in thousands of dollars)
Revenue	\$1,150,146	\$ 45,324	\$ 3,171	\$1,198,641	\$1,093,831
Expense	1,147,643	67,249	1,281	1,216,173	1,120,687
Surplus (Deficit)	2,503	(21,925)	1,890	(17,532)	(26,856)

.06 The total assets and liabilities of the 30 Districts at March 31, 1996 and 1995 are:

	1996 (in thousands of dollars)	1995 (in thousands of dollars)
Assets	\$1,086,295	\$1,106,685
Liabilities	231,986	235,027
Equity		
Operating fund	28,814	35,278
Capital fund	791,951	800,418
Restricted or general fund	<u>33,544</u>	<u>35,962</u>
	<u>\$854,309</u>	<u>\$871,658</u>

Our audit approach

.07 For 1995-96, we participated in the financial audits of all 30 Districts. We carried out our audit responsibilities by working with the many accounting firms engaged by the Districts.

.08 In general, we followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. We have not completed the audit of one District. We will report the results of this audit in a future report. Together, our audit examinations focused on:

Chapter 4 District Health Boards

Part A - Introduction

- the adequacy of management systems and practices related to financial reporting, compliance with authorities and safeguarding assets;
- compliance with key legislative authorities; and
- the reliability of the financial statements issued publicly.

.09 In this Chapter, our conclusions, findings and recommendations are organized as follows:

- In Part B, **District health needs assessment process**, we set out the results of our follow-up examination of the process Districts use to assess the health needs of district residents.
- In Part C, **District financial management and accountability systems and practices**, we describe the results of our audits of District financial management and accountability systems and practices.
- In Part D, **District annual reports**, we explain the results of our follow-up on whether District annual reports provide the information needed to assess performance.
- In Part E, **District revenues, expenses, assets and liabilities in more detail**, we provide a more detailed description of District financial results for the years ended March 31, 1995 and 1996.

List of the 30 District Health Boards

.10 The 30 Districts are:

Assiniboine Valley District Health Board
Battlefords District Health Board
Central Plains District Health Board
East Central District Health Board
Gabriel Springs District Health Board
Greenhead District Health Board

Chapter 4 District Health Boards

Part A - Introduction

Living Sky District Health Board
Lloydminster District Health Board
Midwest District Health Board
Moose Jaw-Thunder Creek District Health Board
Moose Mountain District Health Board
North Central District Health Board
North-East District Health Board
North Valley District Health Board
Northwest District Health Board
Parkland District Health Board
Pasquia District Health Board
Pipestone District Health Board
Prairie West District Health Board
Prince Albert District Health Board
Regina District Health Board
Rolling Hills District Health Board
Saskatoon District Health Board
South Central District Health Board
South Country District Health Board
South East District Health Board
Southwest District Health Board
Swift Current District Health Board
Touchwood Qu'Appelle District Health Board
Twin Rivers District Health Board

Chapter 4 District Health Boards
Part B - District Health Needs Assessment Process

Table of Contents

Introduction . . . . .	.01
Our recommendations . . . . .	.04
Our follow-up procedures . . . . .	.06
The Department's actions to support Districts . . . . .	.08
Actions of PAC and the Government's response . . . . .	.13
Our findings and plans . . . . .	.15

Chapter 4 District Health Boards

Part B - District Health Needs Assessment Process

Introduction

.01 The Government spends over \$1.6 billion on health (the Government's summary financial statements, *Public Accounts 1995-96 Volume 1*, p.36). In 1994, the Government began to move toward a funding formula based on health needs. The Department of Health now expects District health boards (Districts) to show how they identify health needs and to allocate resources to address those needs.

.02 Assessing health needs is a new process in Saskatchewan. Previously, health planners projected the future need for health services from the volume of services used in the past. As a result, health service agencies could not easily direct resources toward specific health needs.

.03 Districts provide a range of services to all age groups. Formal assessments of health needs help Districts as follows. It helps them select priorities; allocate resources in response to health needs; identify new priorities; and change programs and services. Through public discussions and reports, assessments also help District residents see Districts' health needs in balance with the whole range of possible service options, (e.g., from community agencies to hospitals).

Our recommendations

.04 In our *Report of the Provincial Auditor: 1996 Spring*, we report on the results of our examination of the process Districts used to assess the health needs of their residents.

.05 In that Report, we recommend:

- *Districts should plan for the entire health-needs assessment process over the long term (e.g., three to ten years).*
- *Districts should organize and combine their health-needs assessment information to present an overview. This should be done in a way that helps Districts compare key information at District, provincial and national levels, and allows the information from all Districts to form a provincial picture.*
- *Districts should improve their analysis of collected needs assessment information, including*

Chapter 4 District Health Boards

Part B - District Health Needs Assessment Process

their process to identify important health needs and set priorities for action.

Our follow-up procedures

.06 Given the complexity of assessing health needs and the many priorities Districts face, we recognize it will take time for Districts to adopt our recommendations. We studied the response of the Standing Committee on Public Accounts and the Government to our recommendations. We decided to focus our initial follow-up work on activities by the Department to help Districts with health-needs assessment.

.07 We asked the Department to tell us what help it gave to Districts in 1995 and 1996 to improve the health-needs assessment processes that Districts use. We also reviewed relevant documents. This work is not an audit. Rather it reports on the status of our recommendations.

The Department's actions to support Districts

.08 In 1996, the Department took several actions to help Districts improve their health-needs assessment process. The Department:

- Continued to give the Districts advice and guidance.
- Clarified health goals and set initial indicators to monitor health status in Saskatchewan.
- Gave Districts more access to data about the health of their communities.
- Encouraged research and analysis.

For the future, the Department plans to use a long-term strategy to help Districts with various complex tasks, including health-needs assessment.

.09 To continue providing advice and guidance on health-needs assessment, the Department:

- Publishes written material (e.g., *Health-needs Assessment Guide for Saskatchewan Health Districts*, and other planning and action guides).

Chapter 4 District Health Boards

Part B - District Health Needs Assessment Process

- Supports Districts through consultants who regularly visit each District.
- Surveyed Districts to discover which Districts require extra help in carrying out health-needs assessments. In 1995, the Department reviewed the needs assessment reports of all Districts. In late 1996, the Department asked Districts if they wanted help with the health-needs assessment process. At the time of this work, it did not have the results of this survey.
- Plans to offer a one-day training session in 1997 to address District priorities for learning more about the health-needs assessment process.

.10 The Department clarified health goals and set initial indicators to monitor health status. The *Guidelines for Preparation of the 1996-97 Health Plan* encouraged Districts to use the Provincial Health Council's population health goals (p.6). The same document set out five "health status indicators" and five indicators of "basic social and economic conditions" (p.4). The Department encourages Districts to collect and report this information including infant mortality rates, teen pregnancy rates, and the percentage of residents over age 65 or under age 18.

.11 To give Districts better access to health status information, the Department:

- Continues to provide data about demographics, disease and service use, (e.g., Community Profiles) in both hard-copy and electronic format.
- Provides detailed statistics in separate publications. The *Health Source Book* (1995) contains selected data on the health status of Saskatchewan people. *Hospital Separations by Health District and for Selected Conditions 1993-94* (1996) compares provincial hospitalization rates with District rates.

Chapter 4 District Health Boards

Part B - District Health Needs Assessment Process

- Released childhood injury data for research and analysis. As a result, the Saskatchewan Institute on Prevention of Handicaps and the University of Saskatchewan published *Child Injury in Saskatchewan: Injury Hospitalizations and Deaths 1989-1994* (1996). This report analyses child injury data and comments on age and gender differences, unique geographic or ethnic findings and changes over time. Districts will find it useful when they plan child safety projects.

.12 To encourage further research and analysis on health status issues, the Department acted internally and in partnership with others. It:

- Formed an advisory committee to expand the list of health status indicators.
- Uses a committee of experts to collect data on health status not available elsewhere. In 1997, this committee plans to ask the public about aspects of their health status. It expects these data will be valuable to Districts and may reduce the need for local surveys by Districts.

Actions of PAC and the Government's response

.13 On May 14, 1996, the Standing Committee on Public Accounts (PAC) reviewed our recommendations set out in paragraph .05. The Committee members expressed appreciation for the work of Districts and the sensitivity of our Office to the challenges of health-needs assessments. The Committee, in its report to the Legislative Assembly, recommended the Department and Districts continue to work together over the next few years to improve needs-assessment processes and address our Office's concerns.

.14 In October 1996, the Government responded to PAC's Report to the Assembly. Both PAC and the Government recognized there are many issues involving Districts during this transition period. The Government agreed that the Department and various affected agencies will work alongside Districts to resolve these issues over the next few years.

Chapter 4 District Health Boards

Part B - District Health Needs Assessment Process

Our findings and plans

.15 Districts now have access to more information about the health of their communities. Districts still need help from the Department and others:

- To plan for needs assessments over the long term;
- To collect and compare key information at District, provincial and national levels and report information that forms a provincial picture of health; and
- To analyse health status information and interpret the importance of the health needs discovered to set priorities for action in their District.

.16 Health-needs assessments will have a large impact on health spending and the Government's ability to control public health costs in the future. We plan to continue monitoring how Districts manage this complex area.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.04
Background . . . . .	.11
Monitoring performance	Page 97
Monitoring performance is an important responsibility . . . . .	.15
Directors need better internal reports . . . . .	.16
Safeguarding assets	Page 98
Written rules and procedures required . . . . .	.24
Bank accounts need to be controlled . . . . .	.30
District needs to safeguard and control donations . . . . .	.41
Capital assets need to be safeguarded and controlled . . . . .	.47
Cash and customer accounts need to be safeguarded and controlled . . . . .	.52
Control over inventory needed . . . . .	.58
Community trust funds need to be controlled . . . . .	.60
Control over client trust accounts needed . . . . .	.63
Investments need to be controlled . . . . .	.64
Restricted funds need to be controlled . . . . .	.68
Expenditures not properly approved . . . . .	.74
Financial reports and accounting records need to be accurate . . . . .	.76
Personnel policies required . . . . .	.79
Computer records need to be safeguarded . . . . .	.86

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

Table of Contents

System development controls required . . . . .	.93
Written operating agreements need improvement . . . . .	.99
Complying with legislative authorities and agreements	Page 111
Districts need to comply with authorities . . . . .	.105
Ministers approval not received . . . . .	.108
Approval of the Minister required for equipment purchases . . . . .	.113
Budget submitted late . . . . .	.117
Investment in Mutual Funds need authority . . . . .	.120
Not all residents' money is kept in a separate bank account as required . . . . .	.125
Separate bank account required for all community trust funds . . . . .	.129
Disclosure of nature and extent of conflict of interest needed . . . . .	.133
Ensuring adequate accountability to district residents and the Minister of Health	Page 114
External reporting needs improvement . . . . .	.138
Reporting required by <i>The Health Districts Act</i> . . . . .	.140
Public meetings . . . . .	.149
Recommendations of PAC . . . . .	.152
Reservations of opinions on financial statements . . . . .	.156

Chapter 4 District Health Boards (Districts)
Part C - District Financial Management & Accountability Systems and Practices

Introduction

.01 For 1995-96, we participated in the financial audits of all 30 District Health Boards (Districts). We carried out our audit responsibilities by working with the accounting firms engaged by Districts.

.02 In general, we followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.

.03 Our audit examinations focused on:

- the reliability of the financial statements issued publicly;
- the adequacy of management systems and practices related to financial reporting, compliance with authorities and safeguarding assets; and
- compliance with legislative authorities.

Our audit conclusions and findings

.04 The Districts' appointed auditors and our Office formed the opinions referred to in paragraph .08 except as follows.

.05 One District's appointed auditor did not do sufficient work to form opinions on the District's operational components of the internal financial reporting to the directors and the adequacy of the District's affiliation agreements.

.06 We disagree with the reports of another appointed auditor who did not report the matters described in paragraphs .15 to .23 and .138 to .148.

.07 *The Provincial Auditor Act* requires us to do additional audit work when we are unable to rely on the reports of an appointed auditor. Our additional work consisted of reviewing the Districts' internal financial reports, affiliation agreements and discussions with management.

.08 In our opinion:

- the Districts' financial statements are reliable except for two Districts. For one District, we

Chapter 4 District Health Boards

Part C - District Financial Management & Accountability Systems and Practices

could not verify the completeness of donation revenue and for the other District, we could not verify certain assets and liabilities. (see paragraphs .156 to .158);

- the Districts' rules and procedures to safeguard and control their assets are adequate except for the matters reported at paragraphs .15 to .104; and
- the Districts complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except as we report at paragraphs .105 to .151.

.09 We also report other matters for the Assembly's attention in paragraphs .152 to .155.

.10 At the date of this Report, the audit of one District Health Board is not complete. We will report the results of this audit in a future report.

Background

.11 In carrying out their responsibilities, the Boards of directors and senior management face many challenges. Those challenges are described in Part A, paragraphs .02 and .03.

.12 In this report, we discuss some of those expectations and identify issues Districts need to address. Some of the issues can be addressed quickly. Other issues will take more time to address as Districts will need new information systems. We note improvements from last year in the accuracy of Districts' accounting records and internal financial reports (see paragraph .76 to .78) and the timeliness of the annual financial statements (see paragraph .142).

.13 We organize our audit findings and recommendations into four groupings. These groupings reflect important responsibilities of the directors in their role of overseeing the Districts' operations. These are:

- monitoring performance;

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

- safeguarding assets;
- complying with authorities; and
- ensuring adequate accountability to district residents and the Minister of Health.

.14 We think the directors need to improve how they oversee the Districts' operations.

Monitoring performance

Monitoring performance is an important responsibility

.15 As stewards of the Districts, the directors are responsible for approving health service objectives, the services to be provided and their expected costs. Also, they need to periodically assess if their objectives and expectations are being met. Key to fulfilling this responsibility is monitoring the Districts' performance.

Directors need better internal reports

.16 In our opinion, the directors for all Districts need better internal reports to monitor their Districts' performances.

.17 To monitor performance, the directors need to tell management what performance the directors expect. The directors need written governing policies setting out what services the Districts should deliver, for whom and at what cost. The directors then need to receive reports showing what management did compared to what the directors expected.

.18 When providing direction for preparing the Districts' governing policies, the directors should specify for each service the Districts deliver:

- what need the service will satisfy (objective);
- the expected cost of the service and related activities;
- how many services or activities the Districts expect to deliver;

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

- the desired outcome of the service and how the Districts will measure the outcome (e.g. fewer low birth weight babies);

.19 We found the directors of all Districts have not provided the direction set out in paragraph .18. Accordingly, these directors do not receive internal operational reports showing this information. We recognize providing the direction in paragraph .18 will take time.

.20 Also, we found the internal financial reports at eight Districts do not show what the Districts own and what they owe. For example, at some Districts, the directors do not receive a statement of financial position (balance sheet - assets, liabilities and equity). In other Districts, the directors receive incorrect information about what their Districts own and owe. As well, the internal reports at six Districts do not show all their financial activities, for example, the activities of the capital fund.

We recommend

.21 The directors should formally define and document what services their Districts need to deliver to meet the needs of district residents, at what costs, and the performances they expect from management.

.22 The Districts' internal reports should show actual performance and costs for services delivered compared to desired performance and costs.

.23 The Districts' internal reports should show what Districts own and what they owe (statement of financial position), and all their financial activities.

Safeguarding assets

Written rules and procedures required

.24 The directors need to ensure management has established adequate written rules and procedures to safeguard and control the Districts' assets.

.25 For 1995-96, we found 13 Districts need to either develop or improve their written rules and procedures.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.26 Written rules and procedures provide for the orderly and efficient conduct of business. Written rules and procedures also reinforce the directors' delegation of authority and responsibility for all employees.

.27 These rules and procedures should set out:

- the information needs of the directors and senior management;
- job descriptions for all staff positions including delegated authority levels;
- significant accounting policies; and
- administrative control procedures for all accounting systems.

.28 The lack of proper written rules and procedures increases the risk of errors, fraud, breakdowns in control and unauthorized transactions. Without adequate written rules and procedures, a District cannot be assured it operates efficiently and effectively.

We recommend

.29 Management should recommend proper rules and procedures to safeguard and control Districts' assets for the directors' approval.

Bank accounts need to be controlled

.30 Fourteen of the Districts need stronger rules and procedures to safeguard and control their bank accounts.

.31 We noted the following deficiencies in the Districts' rules and procedures to control their bank accounts. These deficiencies could result in payments for goods and services not received, payment for unauthorized goods and services, and other losses without timely detection.

.32 Four Districts did not adequately segregate the duties of staff who record payments to suppliers, prepare the cheques for payment, and mail the cheques.

.33 Two Districts did not reconcile their recorded bank balances to the banks' records on a timely basis.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.34 Two Districts did not ensure appropriate staff authorized the purchase of goods and services. The signing officers for these Districts did not examine purchase orders to ensure the goods and services paid for were properly authorized.

.35 Five Districts paid suppliers without evidence the Districts received goods and services. These Districts did not always have a report acknowledging the receipt of goods and services signed by an authorized official. Also, for five Districts, there was no evidence department heads or other authorized persons approved supplier invoices before they were paid.

.36 Three Districts did not adequately segregate the duties of employees responsible for making payments to staff. These Districts hire payroll service organizations to pay their staff. In each of these Districts, one employee was authorized to tell the service organizations whom to pay and how much. No other employee checked this person's work to ensure all payments were authorized and accurate.

.37 One District did not reconcile its records to the payroll reports received from its service organization.

.38 Management at two Districts did not periodically review pay rates for staff to ensure staff were paid at the correct rates. Also, three Districts did not authorize the positions or salaries of several employees.

.39 At four Districts, authorized persons did not always approve employee time sheets before payment.

.40 In one District, a senior manager used a district credit card for personal purposes. The District does not have a written policy for the use of District credit cards. Amounts charged to the card were recorded in the District's accounting records as receivable and have been repaid.

District needs to safeguard and control donations

.41 One District needs to safeguard and control donations to the District.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.42 The District conducts door-to-door fund-raising campaigns. It is important that the District receives all donations made to the District.

.43 The District should establish written rules and procedures for fund raising for the District. The rules and procedures should require:

- numerically controlled donation receipts;
- independent reconciliation of receipts issued to cash received and recorded in the District's records;
- an accounting for unused receipts;
- written procedures for the canvassers (volunteers) and fund raising committee; and
- terms of reference for the fund raising committee.

.44 The District did not have appropriate rules and procedures.

.45 Also, the District approved another fund-raising campaign during the year. The District allowed a group to obtain a lottery license under the District's name. However, the District did not actively control the proceeds of the campaign. Also, it did not control cheque signing, financial records, or financial reporting for the campaign.

.46 As a result of the above weaknesses, the District may not have received all the money donated to the District.

Capital assets need to be safeguarded and controlled

.47 Three Districts need better rules and procedures to safeguard and control their land, buildings, equipment and furnishings (capital assets).

.48 We note the following deficiencies in Districts' rules and procedures to safeguard and control their capital assets. These deficiencies could result in assets being lost without timely

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

detection, buying unneeded assets, and buying assets that are not authorized.

.49 Two of the Districts need to know what assets they own. These Districts did not have complete records for their capital assets.

.50 One District did not reconcile its capital asset records to the amount shown for capital assets in its financial statements. Also, this District did not periodically inspect the assets to verify their existence and condition.

.51 One District bought capital assets without the directors' approval. The directors' capital assets policy requires management to obtain specific approvals from the directors for certain purchases. Management bought capital assets without obtaining proper approval.

Cash and customer accounts need to be safeguarded and controlled

.52 Eight Districts need better rules and procedures to control cash receipts and ensure the accuracy of their customers' accounts.

.53 Four Districts did not adequately segregate the duties of employees handling cash and recording cash. In these Districts, there was only one employee responsible for receiving cash and cheques and recording cash receipts in the Districts' records. As a result, the Districts may not have recorded all cash received.

.54 Two Districts did not ensure staff record all receipts issued in their records. The failure to account for receipts could result in losses of money and in inaccurate records of amounts owed to the District.

.55 Five Districts did not reconcile their records of amounts owed by customers to their financial records. Without accurate and complete records these Districts cannot follow up and collect money owed to them.

.56 One District, wrote off customer account balances owing without proper authorization. The District needs to set policies to ensure accounts receivable write-offs are properly approved.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.57 Two other Districts did not adequately control their billings. One District did not ensure its staff recorded and billed for all patient visits. Staff at the second District did not check the accuracy and completeness of billings for long-term care charges. Without adequate controls over billings, the Districts cannot ensure proper billings are made to patients and long-term care clients.

Control over
inventory needed

.58 One District needs rules and procedures to ensure pharmacy inventory is not misappropriated.

.59 The District did not adequately segregate the duties of staff who control the pharmacy inventory. Segregation of duties is inadequate when one person can conceal an error or fraud. All pharmacy staff have access to inventory and can also change inventory records.

Community trust
funds need to be
controlled

.60 One District did not maintain current and accurate accounting records for its Community Trust Funds.

.61 This District manages Community Trust Funds having a total value of \$4.3 million.

.62 The District prepared the accounting records for these Funds after the end of the year. We found significant errors in these records.

Control over client
trust accounts needed

.63 Two Districts did not reconcile their records of amounts held for clients with the bank's records on a timely basis. Without accurate and complete records of clients' trust accounts, the Districts cannot ensure clients receive the money owed to them.

Investments need to
be controlled

.64 Three Districts need rules and procedures to safeguard and control their investments.

.65 One District held investments, registered to the bearer, in a safe that was open and accessible during office hours. This could result in investments being misplaced or stolen.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.66 Two other Districts did not adequately control investment transactions as follows:

- management of one District did not review investments on a timely basis and did not report investment transactions to the directors; and
- at the second district, staff transferred investment accounts between financial institutions and consolidated maturing investments without authorization.

.67 This could result in the loss of investments or investment earnings without timely detection.

Restricted funds need
to be controlled

.68 Districts have many agreements requiring them to do business in specific ways.

.69 Four Districts did not have adequate rules and procedures to ensure they carry out their responsibilities according to agreements for dealing with restricted funds (trust accounts) under their control. We note the following concerns with these Districts' practices.

.70 At one District, each agreement requires the District to obtain prior approval from an advisory committee before making payments from a restricted fund. The District, however, received approval only after making payments.

.71 At the second District, the agreements do not clearly set out who has the authority to spend restricted funds. This allows the possibility of unauthorized payments from the restricted funds.

.72 At the third District, the directors approved a payment of \$93,061 from a restricted fund that did not comply with the terms of the agreement with the restricted fund.

.73 At the fourth District, the directors were not informed of the details of transactions affecting the restricted funds. As a result, they were unable to monitor compliance with its agreement.

*

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

Expenditures not properly approved

.74 One District needs rules and procedures to ensure the directors approve certain expenditures in accordance with the directors' policies.

.75 We found the District made the following payments without the directors' approval as required by the policies:

- directors' expenses of \$10,029;
- expenses of the executive director of \$5,106; and
- employee severance of \$42,757.

Financial reports and accounting records need to be accurate

.76 Four Districts used inaccurate accounting records to prepare financial reports.

.77 Management needs to establish a process to check the accuracy and reliability of accounting records and the authority for transactions. As a result:

- i. Staff did not always reconcile the following accounting information or records:
 - recorded bank balance to the bank's records;
 - the total overall accounts receivable to the detailed records of amounts owed by customers;
 - accrued liabilities to detailed records;
 - interest earned to interest received;
 - recorded amounts held for patients to bank records; and
 - payroll information provided by the Districts' payroll service organizations to the accounting records.
- ii. One District made changes to the accounting records that were not authorized by management.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

- iii. Two Districts did not always record investment transactions promptly.
- iv. One District did not always follow set month-end and year-end procedures to ensure the completeness and accuracy of monthly and annual financial statements.
- v. Management for one District did not review journal entries or other adjustments to accounts receivable ledgers and payroll registers to ensure adjustments to accounting records are authorized and accurate.
- vi. At two Districts, there were significant errors in the accounting records.

We recommend

.78 Districts should establish and the directors should approve written policies and procedures to safeguard and control Districts' assets and to govern:

- **the proper authorization and recording of transactions; and**
- **the preparation of monthly financial reports.**

Personnel policies required

.79 Five Districts require better personnel policies for financial management and administrative staff.

.80 These Districts have not established written knowledge, skills, and abilities requirements for financial and administrative staff. Also, the Districts do not have training plans for these staff.

.81 As a result, work may not get done, or may not get done properly.

.82 To ensure work gets done and gets done properly, the District must hire staff with appropriate knowledge, skills and abilities; tell staff what their jobs are; and provide staff training.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.83 Also, one District did not have a chief financial officer. Given the decentralized nature and size of its operations, the district should have a chief financial officer. A chief financial officer would help ensure accounting records are complete, and accurate internal financial reporting is done as required, and operations are carried out effectively.

We recommend

.84 Districts should establish written criteria for hiring staff and for training plans.

.85 Districts should have a chief financial officer with appropriate training and experience.

Computer records
need to be
safeguarded

.86 Six Districts need better rules and procedures to safeguard their computer records.

.87 Two Districts did not restrict employees' access to the Districts' computer records. We found employees had unlimited access to all computer records. As a result, there could be unauthorized access to the Districts' computer records (such as the payroll records). This could result in unauthorized changes or destruction of the Districts' computer records.

.88 One District allows staff to make changes to the records it uses to pay suppliers without approval. This allows the possibility of unauthorized payment.

.89 At another District, there is no requirement to regularly store copies of its computer records off site. As a result, the District is at increased risk that all copies of computer records could be lost.

.90 Three Districts need written and tested contingency plans to ensure they can operate effectively if a major loss or destruction of their computer systems occur.

We recommend

.91 Districts should establish rules and procedures to:

- restrict access to computer records to authorized staff;

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

- allow only authorized changes to the computer records used to pay suppliers; and
- regularly store backup copies of computer records off site.

.92 Districts should prepare a written contingency plan and test the plan.

System development controls required

.93 Sixteen Districts require written rules and procedures for developing information systems.

.94 Developing new systems is risky. If the development of new systems is not managed well, costs increase, deadlines pass, and systems fail.

.95 The *Health District Financial Reporting Guide* advised Districts to integrate the information systems of all their health agencies into one management information system. Also, as noted in paragraph .12, Districts are expected to set up more useful management and accountability information systems, i.e., they are expected to move to a higher standard. An improved and integrated information system will help management make sound decisions, integrate and co-ordinate programs and treatments, and meet the reporting requirements of *The Health Districts Act*.

.96 Because Districts will be changing many of their systems and practices, they need appropriate system development controls and policies. The directors should approve the policies.

.97 To ensure proper development of new systems, Districts should have policies to:

- establish a strong management commitment to the project by:
 - ensuring the long-term plan of the district includes the project; and
 - appointing a steering committee to ensure the project is successful;

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

- ensure project development does not start before directors and management satisfy themselves the project is the right one for the District;
- ensure strong project management systems and practices. This includes management approval of:
 - a strong project manager accountable for the success of the project;
 - a system development process and the management system that will permit project planning and monitoring;
 - a project development plan, which sets out all technical and resource requirements, meets user needs, and sets target completion dates for all project tasks;
 - the project design after meeting all development plan needs;
 - an implementation plan that reflects the needs and resource constraints of the District; and
 - a post-implementation review of the project to ensure the completed project meets the District's needs and to identify areas for improvement.

We recommend

.98 Districts should establish written policies for systems development.

Written operating agreements need improvement

.99 Thirteen Districts need operating agreements with those organizations in their districts that provide services for the Districts. When these Districts had operating agreements with those organizations, the agreements were not adequate.

.100 Written agreements help ensure there is no misunderstanding of responsibilities and expectations.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.101 In 1995-96, the Districts provided operating funding to many hospitals and nursing homes that provided services for the Districts.

.102 Districts are responsible for providing necessary health services in their districts. To meet this responsibility in a cost-effective manner, they need to co-ordinate the services they provide directly with services they fund but are provided by other organizations. Therefore, the Districts need to ensure those organizations properly deliver health services necessary to achieve the Districts' objectives.

.103 Because the Districts are responsible for the quality of health services provided in their districts, they need to make sound operating agreements. The agreements should:

- describe the authorities and responsibilities of the Districts and the organizations;
- describe the financial, operational and compliance objectives¹ needed to manage the delivery of health care successfully;
- describe services and activities to be provided by the organizations to achieve the Districts' objectives;
- require the organizations to report to the Districts periodically on;
 - the systems and practices used to achieve the objectives; and
 - how well the organizations achieved the objectives.
- allow the Districts or independent auditors to verify the organization's reports; and
- describe the basis of funding the Districts will provide to the organizations.

We recommend

.104 Districts should have adequate operating agreements

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

with each organization that provides services for the Districts.

1. Financial, Operational and Compliance objectives.

Financial objectives relate to revenues, expenses, assets and liabilities. For example, a financial objective could be that funded organizations allocate a certain percentage of revenue to a specific program.

Operational objectives relate to desired results or outcomes. For example, an operational objective could be to decrease the rate of low birth weight babies.

Compliance objectives relate to compliance with governing laws, regulations, the District's policies and guidelines, as well as key agreements. For example, a compliance objective could be that funded organizations comply with the annual operating agreement.

Complying with legislative authorities and agreements
--

Districts need to comply with authorities

.105 The directors of Districts need to ensure management has established adequate rules and procedures to comply with legislative and other authorities including key agreements.

.106 To do this, directors need compliance reports that describe the laws and other authorities (such as key agreements and the directors' delegation of authority) governing management's actions and the degree of compliance.

.107 We note the following instances of non-compliance.

Ministers approval not received

.108 Five Districts did not obtain the Minister's approval for transactions relating to:

- a) borrowing money;
- b) sale of real property; and
- c) facility renovation.

.109 *The Health Districts Act* requires Districts to obtain the Minister's approval of these transactions unless the Lieutenant Governor in Council, by regulation, exempts the Districts.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.110 The Lieutenant Governor in Council has issued regulations requiring Districts to obtain approval from the Minister for transactions that exceed prescribed amounts.

.111 During 1995-96, Districts did not receive the Minister's approval for the following transactions that exceeded the prescribed amount:

Borrowings	\$5,010,000
Real Property	
Disposals	\$ 34,126
Facility Renovation	\$ 51,693

We recommend

.112 Districts should obtain the Minister's prior approval to borrow money, sell real property or renovate facilities as required by *The Health Districts Act*.

Approval of the Minister required for equipment purchases

.113 Thirteen Districts did not obtain the Minister's approval for the purchase of hospital equipment costing \$1,706,172.

.114 The Hospital Standards Regulations require the Districts to obtain the Minister's approval before purchasing hospital equipment costing more than \$1,000, \$2,500 or \$4,000 depending on the number of beds in the hospital.

.115 The Districts did not ask the Department of Health to approve their equipment purchases in excess of the above limits.

We recommend

.116 Districts should obtain the Minister's prior approval before purchasing hospital equipment costing more than the prescribed limit.

Budget submitted late

.117 None of the Districts submitted their 1995-96 annual estimates (budgets) to the Minister on time.

.118 Section 31 of *The Health Districts Act*, required the Districts to submit their 1995-96 budgets to the Minister before March 31, 1995. All Districts submitted their budgets to the Minister after that date.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

We recommend

.119 Districts should submit their budgets to the Minister on time.

Investment in Mutual Funds need authority

.120 Two Districts held unauthorized investments in a mutual fund totalling \$387,095.

.121 Section 26(2) of *The Health Districts Act* allows the Districts to invest money in those securities in which trustees are permitted to invest under *The Trustees Act*.

.122 Section 3 of *The Trustees Act* describes the types of investments in which trustees are allowed to invest. The section does not allow investments in mutual funds.

.123 Accordingly, we believe the Districts' investments in mutual funds are not authorized. Prior to year end, one of the Districts disposed of its mutual funds and made authorized investments.

We recommend

.124 Districts should hold only authorized investments.

Not all residents' money is kept in a separate bank account as required

.125 Three Districts did not keep their special-care residents' money in a separate bank account. Instead, one District kept each resident's money in an envelope. The second kept the residents' money in the District's general operating bank account. The third District, kept some of its residents' money in a locked filing cabinet in the facility.

.126 The Housing and Special Care Home Regulations requires Districts to keep residents' money in a separate bank account.

.127 Keeping cash on the premises increases the risk of loss or fraud.

We recommend

.128 Districts should keep residents' money in a separate bank account.

Separate bank account required for all community trust funds

.129 Two Districts did not keep money received from communities in separate bank accounts as required under pre-amalgamation agreements.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.130 The pre-amalgamation agreements require the Districts to set aside the money in a separate bank account.

.131 The Districts know how much money they hold under agreements. However, the Districts did not keep separate bank accounts for this money. Instead, the Districts put the money into their operating bank accounts.

We recommend

.132 Districts should set up separate bank accounts for the money they hold as required by pre-amalgamation agreements.

Disclosure of nature and extent of conflict of interest needed

.133 At four Districts, some directors declared a conflict of interest. However, they did not disclose the nature and extent of their conflict in writing, nor did the Districts record this information in their minutes.

.134 Section 4(2)(a) of *The District Health Board Conflict of Interest Regulations* requires directors to disclose the nature and extent of any conflict of interest. The Regulations also require directors to make this disclosure either in writing or ask to have it entered in the Board minutes.

We recommend

.135 Districts should establish a conflict of interest policy and conflict of interest disclosure process.

.136 Districts should require directors, who have a conflict of interest, to report the nature and extent of their conflict either in writing or ask to have it entered in the Board minutes.

.137 Recently, the Department of Health has developed conflict of interest guidelines for the use of Districts.

Ensuring adequate accountability to district residents and the Minister of Health
--

External reporting needs improvement

.138 The directors are the accountability link to the community and the Minister of Health for the Districts' performance. To be fully accountable, the directors need to

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

provide the community and the Minister information necessary to understand and assess the Districts' performance.

.139 The directors need to provide more information on the Districts' performances.

Reporting required by
The Health Districts Act

.140 The Districts did not submit to the Minister and the public some information required by *The Health Districts Act*. Other information was submitted late.

.141 Subsection 35 (2) of the Act requires the Districts to submit to the Minister within three months of the Districts' year end, the following:

- a) a detailed audited set of financial statements and a schedule of investments;
- b) a report on the Districts' services and activities and their costs; and
- c) a report on the health status of the residents and the effectiveness of the Districts' programs.

.142 Nine Districts did not submit their audited financial statements including a schedule of investments to the Minister, within three months of the year end.

.143 None of the Districts submitted a report either on the Districts' services and activities and their costs or on the health status of the residents and the effectiveness of the Districts' programs.

.144 Districts have taken initial steps in providing the Minister and the public with information on the health status of their residents and the effectiveness of their programs. For example, Districts are starting to report this information in annual reports and reports to the community.

.145 However, these reports do not meet the full range of requirements set out by Subsection 35(2) of the Act. More work needs to be done before the Districts can report more fully their costs of services and activities, the health status of residents, and the effectiveness of their programs.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

.146 As mentioned in paragraphs .15 to .23, the Districts need to improve their internal reports. These internal reports should provide a sound basis for the preparation of external reports to the Minister and the public showing the Districts' services and activities and their costs and the effectiveness of their programs.

We recommend

.147 The Districts should continue to work with the Department, other boards and our Office to ensure they can provide the Minister and the public the full range of required information.

.148 We understand the Districts and the Department of Health are studying how best to measure and report on the cost of services and activities, the health status of residents and the effectiveness of District programs.

Public meetings

.149 One District held only one public meeting in the 1995-96 fiscal year.

.150 Subsection 37(1) of *The Health Districts Act* requires Districts to hold at least two public meetings each fiscal year.

We recommend

.151 The District should hold at least two public meetings each fiscal year.

Recommendations of
PAC

.152 For 1995-96, 20 Districts did not publicly report a list of persons who received money from the Districts.

.153 It is usual practice for government organizations to publicly report a list of persons who received public money.

.154 Public accountability is strengthened when all Districts provide a list of persons who received money from them. This way, the Assembly and the public can review the use of public money by Districts. We think this is essential. Also, we think Districts make better spending decisions when they must answer for who received money from them.

We recommend

.155 The Districts should publicly report a list of persons who received money from the Districts.

Chapter 4 District Health Boards
Part C - District Financial Management & Accountability Systems and Practices

Reservations of
opinions on financial
statements

.156 The auditors' reports on two Districts' 1995-96 financial statements contain a reservation of opinion.

.157 For one District, we reserved our opinion because we could not verify the completeness of donation revenue reported in the District's financial statements (see paragraphs .41 to .46).

.158 For the other District, we reserved our opinion because, in the absence of an agreement between the District and another organization regarding a facility operated by the District, we could not verify the accounting treatment of certain assets and liabilities related to the facility. As a result, we were unable to determine if adjustments were required in respect of the identified assets and liabilities.

Chapter 4 District Health Boards
Part D - District Annual Reports - Follow-up

Table of Contents

Introduction . . . . .	.01
Our follow-up procedures . . . . .	.04
Guidelines for preparers of District annual reports . . . . .	.05
Improvements in District annual reports . . . . .	.08
Actions by PAC and the Government's response . . . . .	.10
Progress to be monitored . . . . .	.12

Chapter 4 District Health Boards

Part D - District Annual Reports - Follow-up

Introduction

.01 This Chapter reports the results of our follow-up of the actions taken by the Department of Health and seven District health boards (Districts) in response to recommendations we made in our *Report of the Provincial Auditor: 1996 Spring* (Chapter 9, Part D). In that report, we discuss whether the annual reports of Districts provide the Minister of Health and the public the information they need to assess the performance of Districts.

.02 We recommended the Department should work with Districts to develop and issue annual report guidelines. Guidelines should encourage each District to effectively communicate the following information:

- the Districts' roles and responsibilities;
- what the Districts plan to do;
- the Districts' results in relation to their plans;
- the Districts' management systems and practices designed to help ensure financial integrity, effective operations, and compliance with the law; and
- periodic audit assurance on the Districts' systems and practices to ensure financial integrity, compliance with the law, and due regard for effective operations.

.03 We also recommended that each District make its annual report public within three months of its fiscal year end as required by *The Health Districts Act*.

Our follow-up procedures

.04 To decide whether the Department and Districts accepted our recommendations, we carried out the following procedures:

- we examined the Department's draft *Guide to Health District Annual Reports*. The draft Guide, issued to Districts for comment in January, 1997, outlines the purpose and content of Districts' annual reports;

Chapter 4 District Health Boards

Part D - District Annual Reports - Follow-up

- we determined when annual reports of Districts became available; and
- we examined the 1996 annual reports of seven Districts to see if they contained the information in paragraph .02.

Guidelines for preparers of District annual reports

.05 The Department is working with Districts to prepare guidelines for preparing Districts' annual reports, and expects to issue the guidelines soon. The Department issued draft guidelines in January 1997 to all Districts for comment. The guidelines will help ensure Districts' annual reports are more useful accountability documents.

.06 The Department's draft guidelines provide sound direction to preparers in the first three areas in paragraph .02, but are silent with respect to providing information on the Districts' management systems and practices designed to help ensure financial integrity, effective operations, and compliance with the law, and providing independent assurance on these systems and practices.

.07 Also, the draft guidelines permit Districts to include summarized information on assets, liabilities, revenues and expenses, together with information on how to obtain the full set of financial statements. However, the guidelines do not indicate minimum requirements for summarized financial information. As a result, readers will not be assured that they can assess the District's financial results and compare these results to other Districts. Until the Department has issued guidance on minimum financial results disclosure, annual reports should contain complete financial statements.

Improvements in District annual reports

.08 We found improvements in all seven annual reports we examined. Improvements include better descriptions of Districts' roles and responsibilities and financial plans and results. Most Districts issued their reports at least two months earlier than the previous year. One District issued its report within the legal time limit of June 30, 1996.

.09 All Districts' annual reports continue not to provide descriptions of the Districts' management systems and practices

Chapter 4 District Health Boards
Part D - District Annual Reports - Follow-up

designed to help ensure financial integrity, effective operations, and compliance with the law, and periodic audit assurance on these systems and practices. The reports also continue not to include performance measures and targets.

Actions by PAC and the Government's response

.10 On May 14, 1996, the Standing Committee on Public Accounts (PAC) reviewed our recommendations set out in paragraphs .02 and .03. The PAC, in its report to the Legislative Assembly, recommended the Department work with Districts to develop guidelines for annual reports.

.11 In October 1996, the Government responded to PAC's Report to the Assembly. Both PAC and the Government recognized there are many issues involving Districts during this transition period. The Government agreed that the Department and various affected agencies will work alongside Districts to resolve these issues over the next few years.

Progress to be monitored

.12 We will continue to monitor the information contained in the annual reports of Districts.

Chapter 4 District Health Boards
Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

Introduction

.01 In Part E of Chapter 4, we set out the financial results of Districts for the years ending March 31, 1996 and 1995.

.02 The first schedule shows the assets and liabilities of Districts as a whole (see page 128).

.03 The second schedule shows revenues and expenses of Districts as a whole (see page 129).

.04 The third schedule shows the revenues, expenses, assets and liabilities of each District (see pages 130 to 133).

Chapter 4 District Health Boards
Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Combined Financial Position
As at March 31

(in thousands of dollars)	1996 Total	1995 Total
ASSETS		
Current Assets:		
Cash and short-term investments	\$ 94,421	\$ 105,829
Accounts Receivable		
Saskatchewan Health - General Revenue Fund	17,027	18,635
Other Assets	26,880	24,830
Inventory	17,437	17,378
Prepaid expenses	5,217	5,952
Total Current Assets	<u>160,982</u>	<u>172,624</u>
Assets held for restricted purposes:		
Cash and short-term investments	47,182	49,005
Long term investments	4,731	4,388
	<u>51,913</u>	<u>53,393</u>
Investments	16,514	17,636
Capital Assets	856,886	863,032
	<u>873,400</u>	<u>880,668</u>
Total Assets	<u>\$ 1,086,295</u>	<u>\$ 1,106,685</u>
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts payable	\$ 48,983	\$ 41,370
Accrued salaries and vacation payable	62,009	67,714
Current portion of mortgages payable	5,029	4,989
Current portion of capital lease obligation	31	2
Deferred revenue	13,874	13,908
	129,926	127,983
Mortgages payable	101,946	107,037
Capital lease obligations	114	7
Total Liabilities	<u>231,986</u>	<u>235,027</u>
Fund Balance:		
Appropriated for reserves	37,190	40,376
Unappropriated	817,119	831,282
Fund balances - Statement 2	854,309	871,658
Total Liabilities and Equity	<u>\$ 1,086,295</u>	<u>\$ 1,106,685</u>

Chapter 4 District Health Boards
Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Combined Revenues and Expenses
For the Year ended March 31

(in thousands of dollars)	Operating Budget	Operating Fund	Capital Fund	Restricted Fund	1996 Total	1995 Total
REVENUES:						
Saskatchewan Health - General Revenue Fund	\$ 988,062	\$ 988,253	\$ 18,910	\$ 177	\$1,007,340	\$ 919,494
Funds received under Hospital Revenue Act	2,757	2,743	5,720	---	8,463	8,642
Long-term resident and respite income	74,087	73,865	---	---	73,865	77,863
Home based service client fees	7,456	7,666	---	---	7,666	5,331
Emergency response service fees	5,165	5,479	---	---	5,479	3,347
CMHC mortgage subsidies	2,660	2,820	458	---	3,278	3,263
Out-of-province charges & third party reimbursements	20,094	19,770	---	---	19,770	19,159
Donations	350	2,058	9,216	1,076	12,350	8,846
Investment income	2,995	7,455	1,189	1,880	10,524	9,818
Ancillary operations - income	4,980	6,529	8,817	---	15,346	14,316
Other	<u>30,197</u>	<u>33,508</u>	<u>1,014</u>	<u>38</u>	<u>34,560</u>	<u>23,752</u>
TOTAL REVENUE:	<u>1,138,803</u>	<u>1,150,146</u>	<u>45,324</u>	<u>3,171</u>	<u>1,198,641</u>	<u>1,093,831</u>
EXPENSES:						
Acute services	559,715	567,043	36,779	210	604,032	594,518
Community health, wellness and social centres	12,808	13,955	1,676	279	15,910	15,494
Supportive care services	258,972	259,669	9,779	478	269,926	262,895
Grants to affiliates:						
Acute services	27,240	27,298	88	---	27,386	30,765
Community health, wellness and social centres	1,361	1,492	---	---	1,492	2,034
Supportive care services	64,627	63,854	582	---	64,436	61,817
Home based services	62,616	60,661	419	5	61,085	54,411
Health improvement initiatives	10,331	6,604	12	---	6,616	3,512
Emergency response services	13,256	13,601	780	20	14,401	13,043
Alcohol and drug services	4,978	4,928	---	---	4,928	1,145
Community health services	36,906	35,682	60	---	35,742	11,879
Mental health services	47,799	50,824	28	---	50,852	14,310
Rehabilitation services	24,106	22,638	---	---	22,638	21,085
Ancillary operations - expenses	1,723	1,432	941	1	2,374	2,675
Other	<u>18,399</u>	<u>17,962</u>	<u>16,105</u>	<u>288</u>	<u>34,355</u>	<u>31,104</u>
TOTAL EXPENSES	<u>1,144,837</u>	<u>1,147,643</u>	<u>67,249</u>	<u>1,281</u>	<u>1,216,173</u>	<u>1,120,687</u>
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES:	<u>\$ (6,034)</u>	2,503	(21,925)	1,890	(17,532)	(26,856)
Fund balances, beginning of year		35,278	800,418	35,962	871,658	878,442
Transfers between funds		(7,135)	13,214	(6,079)	---	20,542
Adjustments to Equity		<u>(1,832)</u>	<u>244</u>	<u>1,771</u>	<u>183</u>	<u>(470)</u>
FUND BALANCES, END OF YEAR		<u>\$ 28,814</u>	<u>\$ 791,951</u>	<u>\$ 33,544</u>	<u>\$ 854,309</u>	<u>\$ 871,658</u>

Chapter 4 District Health Boards

Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Financial Summary
for the year ended March 31, 1996

(In thousands of dollars)	Assiniboine Valley	Battlefords	Central Plains	East Central	Gabriel Springs	Greenhead
REVENUES:						
Saskatchewan Health - General Revenue Fund	16,507	42,636	17,740	37,178	9,410	10,104
Local Government Taxes	197	288	55	276	12	216
Patient and Agency Charges	2,979	4,169	1,582	6,632	198	2,071
CMHC Subsidies	271	0	226	312	0	145
Donations	73	1,166	360	181	3	809
Investment Income	144	343	156	419	61	211
Ancillary & Dietary Revenue	0	768	59	212	42	0
Other	673	1,628	152	1,000	156	270
TOTAL REVENUE	20,844	50,998	20,330	46,210	9,882	13,826
EXPENSES:						
Acute services	7,387	16,590	1,778	23,648	4,030	5,048
Community health, wellness and social centres	0	1,120	720	362	0	347
Supportive care services	10,243	10,848	5,139	16,957	0	5,677
Grants to affiliates	0	1,011	9,454	76	4,419	0
Home based services	2,439	1,667	1,919	2,384	801	1,165
Health improvement initiatives	0	173	165	502	87	242
Emergency response services	410	273	357	506	141	456
Alcohol and drug services	5	305	91	163	21	0
Community health services	465	1,866	366	1,823	222	412
Mental health services	4	17,191	121	3,364	17	0
Rehabilitation services	0	154	0	472	37	0
Ancillary operation - expenses	0	0	73	46	0	0
Other	0	0	0	420	0	0
TOTAL EXPENSES	20,953	51,198	20,183	50,723	9,775	13,347
EXCESS OF REVENUE OVER EXPENSES:						
- Operating Fund	133	37	157	(2,564)	308	143
- Capital Fund	(311)	(244)	(10)	(2,049)	(209)	444
- Restricted Funds	69	7	0	100	8	(108)
TOTAL EXCESS OF REVENUE OVER EXPENSE	(109)	(200)	147	(4,513)	107	479
Equity, beginning of year	7,491	15,600	4,912	20,335	2,334	9,703
Adjustments to Equity	0	(77)	0	0	0	0
EQUITY, END OF YEAR	7,382	15,323	5,059	15,822	2,441	10,182
ASSETS						
Cash and short-term investments	660	4,083	1,272	---	672	4,657
Accounts receivable	300	1,891	1,071	986	76	262
Inventory	479	785	153	760	140	239
Prepaid expenses	62	261	71	235	9	48
Assets held for restricted purposes	1,590	931	108	2,613	134	1,607
Long term investments	---	---	145	645	267	7
Capital assets	10,844	13,707	6,577	30,719	1,685	8,436
TOTAL ASSETS	13,935	21,658	9,397	35,958	2,983	15,256
LIABILITIES						
Accounts payable and accrued liabilities	1,664	4,643	887	8,272	485	1,832
Mortgage payable - Current portion	92	24	27	272	---	120
Capital lease obligation - Current portion	---	---	---	---	---	2
Deferred revenue	291	558	547	552	57	214
Mortgage payable	4,506	1,110	2,877	11,040	---	2,901
Capital lease obligation	0	---	---	---	---	5
TOTAL LIABILITIES	6,553	6,335	4,338	20,136	542	5,074
Fund Balance:						
- Operating Fund	(126)	2,706	1,368	(8,302)	585	2,655
- Capital Fund	6,401	12,513	3,691	21,838	1,593	6,372
- Restricted Funds	1,107	104	0	2,286	263	1,155
Fund Balance - Statement 2	7,382	15,323	5,059	15,822	2,441	10,182

Chapter 4 District Health Boards
Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

Living Sky	Lloydminster	Midwest	Moose Jaw-Thunder Creek	Moose Mountain	North Central	North East	North Valley	Northwest
10,203	5,219	14,730	46,111	9,788	14,922	13,224	14,025	7,990
175	183	313	459	198	103	129	41	183
2,207	2,068	2,947	2,335	1,760	2,074	2,032	1,144	1,492
34	85	230	120	51	79	294	37	103
121	56	108	552	100	31	545	0	168
101	524	358	391	176	410	150	109	252
19	190	0	129	0	215	233	0	2
437	8,138	538	634	252	178	0	74	152
13,297	16,463	19,224	50,731	12,325	18,012	16,607	15,430	10,342
4,549	9,314	4,534	23,582	4,770	7,648	6,835	194	4,571
148	45	532	0	0	0	378	282	111
6,670	6,678	10,679	5,192	5,115	8,105	6,978	3,533	3,573
0	0	0	10,414	0	0	0	9,152	0
1,200	751	1,553	3,227	1,064	912	1,014	1,340	549
196	23	184	257	96	83	89	105	85
328	206	476	593	315	155	167	265	415
14	0	41	564	74	89	0	78	109
258	0	1,186	1,630	302	1,303	244	426	257
29	0	365	2,445	23	0	193	0	142
0	0	0	577	0	0	105	151	47
31	0	0	107	0	0	0	0	2
0	0	0	0	0	85	222	0	0
13,423	17,017	19,550	48,588	11,759	18,380	16,225	15,526	9,861
332	462	1,312	1,388	918	457	412	(70)	588
(579)	(1,016)	(1,515)	709	(449)	(998)	(30)	(88)	(90)
121	0	(123)	46	97	173	0	62	(17)
(126)	(554)	(326)	2,143	566	(368)	382	(96)	481
7,926	22,096	16,292	16,678	4,717	12,903	10,525	2,113	7,337
0	0	0	0	0	0	0	0	0
7,800	21,542	15,966	18,821	5,283	12,535	10,907	2,017	7,818
10	3,752	4,814	6,769	3,067	3,915	1,529	600	166
262	1,729	300	655	225	298	248	222	376
337	359	335	548	170	292	278	61	179
67	139	81	789	68	180	91	26	27
795	2,635	1,987	1,102	528	2,233	698	1,274	2,024
300	1,209	5	---	---	---	---	52	1,590
8,083	17,070	15,115	16,763	4,783	9,633	14,681	1,996	6,568
9,854	26,893	22,637	26,626	8,841	16,551	17,525	4,231	10,930
675	2,064	1,935	4,600	1,013	1,453	1,178	467	700
28	47	61	33	32	19	59	15	28
---	---	---	---	---	---	---	---	---
21	773	457	606	388	318	243	446	405
1,330	2,467	4,218	2,566	2,125	2,226	5,138	1,286	1,979
---	---	---	---	---	---	---	---	---
2,054	5,351	6,671	7,805	3,558	4,016	6,618	2,214	3,112
625	4,433	3,538	1,574	2,284	2,914	1,374	246	1,234
6,725	17,109	10,836	16,446	2,626	7,388	9,533	730	5,422
450	0	1,592	801	373	2,233	0	1,041	1,162
7,800	21,542	15,966	18,821	5,283	12,535	10,907	2,017	7,818

Chapter 4 District Health Boards

Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Financial Summary
for the year ended March 31, 1996

(In thousands of dollars)	Parkland	Pasquia	Pipestone	Prairie West	Prince Albert	Regina
REVENUES:						
Saskatchewan Health - General Revenue Fund	13,267	14,196	17,497	11,196	51,099	257,779
Local Government Taxes	159	184	240	213	489	2,648
Patient and Agency Charges	2,241	2,484	4,444	755	3,410	17,713
CMHC Subsidies	442	188	0	0	336	0
Donations	276	88	122	224	124	2,666
Investment Income	0	375	436	0	512	1,681
Ancillary & Dietary Revenue	0	12	0	78	707	1,892
Other	241	135	195	86	790	5,737
TOTAL REVENUE	16,626	17,662	22,934	12,552	57,467	290,116
EXPENSES:						
Acute services	4,558	7,511	7,118	4,146	27,283	163,723
Community health, wellness and social centres	0	44	640	1,153	528	240
Supportive care services	8,618	8,562	11,784	4,719	7,802	13,744
Grants to affiliates	0	0	0	0	7,689	31,551
Home based services	1,239	1,522	1,758	1,097	2,511	9,136
Health improvement initiatives	0	291	227	235	966	1,269
Emergency response services	248	452	525	544	465	2,796
Alcohol and drug services	33	42	0	93	290	1,498
Community health services	214	333	1,200	260	2,303	6,194
Mental health services	38	48	0	189	3,931	9,212
Rehabilitation services	0	0	0	51	0	20,738
Ancillary operation - expenses	927	1	0	0	548	557
Other	555	0	0	947	105	30,275
TOTAL EXPENSES	16,430	18,806	23,252	13,434	54,421	290,933
EXCESS OF REVENUE OVER EXPENSES:						
- Operating Fund	749	(101)	270	(55)	1,103	(943)
- Capital Fund	(657)	(1,268)	(947)	(941)	1,899	126
- Restricted Funds	104	225	359	114	44	0
TOTAL EXCESS OF REVENUE OVER EXPENSE	196	(1,144)	(318)	(882)	3,046	(817)
Equity, beginning of year	5,027	21,383	17,230	8,556	20,279	190,493
Adjustments to Equity	0	0	0	0	0	0
EQUITY, END OF YEAR	5,223	20,239	16,912	7,674	23,325	189,676
ASSETS						
Cash and short-term investments	2,506	2,868	3,472	635	7,077	15,456
Accounts receivable	299	264	589	449	2,884	12,782
Inventory	307	382	372	276	505	3,325
Prepaid expenses	77	10	79	30	465	799
Assets held for restricted purposes	1,077	2,538	4,300	1,592	3,079	0
Long term investments	---	---	---	9	1	6,161
Capital assets	11,158	21,382	14,588	5,231	22,941	182,537
TOTAL ASSETS	15,424	27,444	23,400	8,222	36,952	221,060
LIABILITIES						
Accounts payable and accrued liabilities	1,526	1,604	2,150	465	7,030	27,355
Mortgage payable - Current portion	55	56	119	---	204	---
Capital lease obligation - Current portion	---	---	---	---	29	---
Deferred revenue	8	254	169	83	780	4,029
Mortgage payable	8,612	5,291	4,050	---	5,475	---
Capital lease obligation	---	---	---	---	109	---
TOTAL LIABILITIES	10,201	7,205	6,488	548	13,627	31,384
Fund Balance:						
- Operating Fund	1,308	2,179	2,113	561	(1,760)	2,207
- Capital Fund	2,491	16,211	10,419	5,521	22,797	187,469
- Restricted Funds	1,424	1,849	4,380	1,592	2,288	0
Fund Balance - Statement 2	5,223	20,239	16,912	7,674	23,325	189,676

Chapter 4 District Health Boards

Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

Rolling Hills	Saskatoon	South Central	South Country	South East	Southwest	Swift Current	Touchwood Qu'Appelle	Twin Rivers	Total
	(Note3)			(Note3)		(Note1)	(Note3)		
7,698	259,318	27,024	9,976	17,504	9,977	23,602	8,483	8,937	1,007,340
148	0	330	91	168	333	288	154	190	8,463
525	23,641	4,660	1,617	2,662	2,057	2,065	1,399	1,417	106,780
30	0	149	0	0	0	0	69	77	3,278
9	3,982	26	218	111	94	50	42	45	12,350
135	1,744	418	59	122	272	553	85	327	10,524
45	9,645	906	127	0	18	0	0	47	15,346
108	11,792	18	63	227	91	586	71	138	34,560
8,698	310,122	33,531	12,151	20,794	12,842	27,144	10,303	11,178	1,198,641
1,517	228,768	6,363	2,497	0	4,615	14,290	2,649	4,516	604,032
1,343	0	1,356	367	6,194	0	0	0	0	15,910
1,754	61,716	17,555	5,072	2,899	5,063	6,841	4,225	4,185	269,926
2,948	0	1,308	2,658	8,463	830	1,549	1,792	0	93,314
660	12,593	1,464	1,238	1,787	1,017	1,402	880	796	61,085
52	240	85	231	0	64	336	62	271	6,616
243	885	919	229	777	476	222	256	301	14,401
42	1,086	0	44	0	32	214	0	0	4,928
43	7,497	4,418	265	369	327	1,388	171	0	35,742
25	10,893	0	44	594	81	1,903	0	0	50,852
0	0	139	0	0	65	102	0	0	22,638
50	0	0	0	0	32	0	0	0	2,374
0	504	0	27	0	0	167	303	745	34,355
8,677	324,182	33,607	12,672	21,083	12,602	28,414	10,338	10,814	1,216,173
139	(2,894)	298	(300)	312	256	(431)	72	15	2,503
36	(11,166)	(374)	(485)	(712)	(127)	(839)	(107)	72	(21,925)
(154)	0	0	264	111	111	0	0	277	1,890
21	(14,060)	(76)	(521)	(289)	240	(1,270)	(35)	364	(17,532)
7,903	369,830	9,724	9,495	12,781	10,913	10,536	5,030	11,516	871,658
0	292	0	0	0	0	5	(37)	0	183
7,924	356,062	9,648	8,974	12,492	11,153	9,271	4,958	11,880	854,309
774	18,461	1,062	292	823	3,199	169	1,206	455	94,421
478	14,204	734	66	590	264	542	157	704	43,907
137	4,826	667	203	127	269	460	156	310	17,437
14	1,115	140	70	22	76	111	52	3	5,217
1,470	7,316	738	1,223	1,821	2,309	0	215	3,976	51,913
3	---	3,302	---	---	---	2,640	---	178	16,514
6,157	366,643	8,805	8,687	12,844	6,936	7,213	5,956	9,148	856,886
9,033	412,565	15,448	10,541	16,227	13,053	11,135	7,742	14,774	1,086,295
435	29,433	2,826	1,005	1,002	1,049	1,840	482	922	110,992
5	3,476	110	13	66	13	10	24	21	5,029
---	---	---	---	---	---	---	---	---	31
285	875	335	185	143	465	---	387	---	13,874
384	22,719	2,529	364	2,524	373	14	1,891	1,951	101,946
---	---	---	---	---	---	---	---	---	114
1,109	56,503	5,800	1,567	3,735	1,900	1,864	2,784	2,894	231,986
728	(2,500)	843	(396)	446	2,605	2,073	918	381	28,814
6,429	358,562	8,805	8,300	10,254	6,550	7,198	4,040	7,682	791,951
767	0	0	1,070	1,792	1,998	0	0	3,817	33,544
7,924	356,062	9,648	8,974	12,492	11,153	9,271	4,958	11,880	854,309

Chapter 4 District Health Boards
Part E - District Revenues, Expenses, Assets & Liabilities in More Detail

District Health Boards
Notes to the Financial Summary
March 31, 1996

1. Unaudited Financial Statements

We used unaudited financial statements in preparing the schedules for one District as audited financial statements were not available at the time of preparation.

2. Reclassification of Information

Certain figures from the current and the previous year have been reclassified to conform to a consistent financial statement presentation.

3. Breakdown of Expenses not by Programs

The audited financial statements for three Districts do not include a breakdown of revenues from patient and agency charges by long-term resident and respite income, home based service client-fees, and emergency response service fees. As a result, we estimated the allocation of revenues based on the actual percentage allocated to each revenue item for the other Districts.

Chapter 5 Department of Social Services

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.05
Financial reports need improvement . . . . .	.07
Policies and procedures need to be followed . . . . .	.13
Suspected social assistance fraud needs to be prosecuted . . . . .	.21
Agreements with Community-Based Organizations need improvement . . . . .	.29
Agreements with Indian Bands need improvement . . . . .	.38
Better control over bank account required . . . . .	.47
Case planning for social assistance clients	Page 145
Background . . . . .	.54
Our follow-up procedures . . . . .	.57
Department's actions . . . . .	.58
Our plans . . . . .	.64

Chapter 5

Department of Social Services

Introduction

.01 The Government's summary financial statements show social services and assistance expenses of \$588 million for the year ended March 31, 1996. The following table shows the expenses of Government agencies for social services and assistance.

(in millions of dollars)

Department of Social Services	\$ 536
Department of Municipal Government	41
Other Government agencies (net of Department Social Services and Municipal Government grants)	<u>11</u>
	<u>\$ 588</u>

.02 The Department is to:

- help families care for and support their members;
- provide basic income support for those in need;
- work to reduce the risks and disadvantages of poverty;
- protect children from abuse and neglect;
- provide services for youth in conflict with the law;
- promote a standard quality of day care; and
- support independent community-based services for people with mental and physical disabilities.

.03 The Department managed General Revenue Fund appropriations of \$536 million and revenues of \$244 million for the year ended March 31, 1996. Information about the Department's appropriation and revenue appears in the *Public Accounts 1995-96 Volume 2* on pages 200 and 13 respectively.

Chapter 5 Department of Social Services

.04 The following is a list of the Department's spending on its major programs:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Social Assistance Plan	\$ 315	\$ 318
Family and Youth Services	54	57
Community Living	50	50
Regional Service Centers	36	36
Child Care	17	15
Saskatchewan Income Plan	14	14
Accommodation and Central Services	11	12
Payments to new Careers Corporation	9	9
Family Income Plan	6	4
Payments to Saskatchewan Legal Aid Commission	9	9
Other	<u>12</u>	<u>12</u>
	<u>\$ 533</u>	<u>\$ 536</u>

Our audit conclusions
and findings

.05 In our opinion:

- the Department had adequate rules and procedures to safeguard and control its assets except where we report otherwise in this Chapter; and
- the Department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

.06 We also note a matter for the Assembly's attention in paragraph .54.

Financial reports need
improvement

.07 In our opinion, the Department needs better internal financial reports to safeguard and control the Department's revenues and expenditures.

.08 The Department's internal reports are adequate except it does not use accrual accounting to report the results of all its

Chapter 5 Department of Social Services

programs. The Department uses accrual accounting to report the year-to-date costs of the Saskatchewan Assistance Plan. However, it does not use accrual accounting to report on its other programs. These other programs account for 40% of its total expenditures. Also, for these other programs, the reports do not clearly link the activity information to the financial information.

.09 Financial reports are inaccurate when they are not prepared using accrual accounting. Inaccurate reports can result in incorrect decisions.

.10 We also reported this matter in our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report).

We recommend

.11 For all its programs, the Department should prepare internal financial reports that:

- use the accrual basis of accounting; and
- clearly link activity levels to variance explanations.

.12 The Department told us it will use accrual accounting to report on its Family and Youth program in 1997. For the remaining programs, the Department told us it relies on the government's central accounting system to record expenditures. This system is not set up to report expenditures on the accrual basis of accounting. Also, this system makes it difficult to link activity information to financial information.

Policies and procedures need to be followed

.13 The Department needs to follow its rules and procedures to ensure only eligible persons receive assistance and they receive the correct amount of assistance.

.14 Due to the nature of social assistance, errors in assistance payments are unavoidable. To keep assistance errors to acceptable levels the Department has established rules and procedures for paying assistance. Also, it has established audit procedures to monitor its error rate in making social assistance payments.

.15 The Department prepares a report on the results of its audit procedures annually. It uses the report to decide if it

Chapter 5 Department of Social Services

needs to change its procedures. The Department has decided it will reconsider its procedures for paying social assistance if the results of its audit procedures show errors more than 4% of total assistance payments. We think the 4% error rate is reasonable for social assistance payments.

.16 The results of the Department's audit procedures report that the Department had an overpayment error rate of 1.9%. However, the audit results are not reliable because the Department's internal auditors did not completely follow established audit procedures. For example, auditors did not verify client circumstances adequately.

.17 As a result, we are unable to determine whether eligible clients received assistance and that they received the correct amount of assistance because the Department has not completely followed its rules and procedures.

.18 We also reported this matter in our 1996 Spring Report.

We recommend

.19 The Department should ensure its auditors follow established rules and procedures.

.20 The Department told us that corrective action was implemented in April 1996 after we reported this matter to its attention in January 1996.

Suspected social assistance fraud needs to be prosecuted

.21 The Department needs to ensure all suspected cases of social assistance fraud are investigated and prosecuted when appropriate.

.22 Social programs, such as social assistance, are susceptible to fraud. For the Department to successfully administer this program, fraudulent cases must be prosecuted. Prosecution makes the fraud public. This action builds public confidence that the Department is managing abuse of the system, deters future frauds, and reduces program costs.

.23 The Department needs to improve its systems for ensuring all suspected cases of fraud are investigated so that fraudulent cases are prosecuted.

.24 To ensure the effectiveness of its systems, the Department needs a control environment that ensures staff and

Chapter 5 Department of Social Services

the public are aware the Department does not tolerate fraud. This requires:

- the promotion of a culture and an attitude within and outside the Department that fraud will not be tolerated;
- the identification and central reporting by the Department of all suspected cases of fraud;
- the investigation of all suspected cases of fraud; and
- the laying of criminal charges by the police when evidence warrants.

.25 The Department documents suspected cases of social assistance fraud and refers them to police for investigation and the laying of charges. The Department told us the Regina Police Service advises they are not investigating and laying charges for suspected fraud cases referred to them by the Department due to limited resources. The Department also told us that, in April 1996, the Saskatoon Police Service advised the Department it has stopped processing and laying charges for suspected fraud cases.

.26 As a result, the Department's ability to maintain a control environment that does not tolerate fraud is at risk in those centres where police are not laying charges for suspected fraud.

We recommend

.27 The Department should ensure all suspected cases of social assistance fraud are investigated and prosecuted when appropriate.

.28 The Department told us it is working with the Department of Justice and the Regina and Saskatoon Police Services to ensure suspected cases of social assistance fraud are investigated, so that all suspected frauds are prosecuted. The Department also told us it has expanded its comprehensive approach to fraud prevention and detection by entering into agreements for computer matching with other provinces, Revenue Canada (income tax) and Canada Pension Plan.

Chapter 5 Department of Social Services

Agreements with
Community-Based
Organizations need
improvement

.29 The Department's agreements with Community-Based Organizations (CBOs) need improvement.

.30 Annually, the Department makes service agreements with many CBOs. Payments to CBOs totalled \$43 million for the year ended March 31, 1996. CBOs provide various social services for the Department.

.31 In our opinion, adequate service agreements:

- set out clearly the Department's financial, operational and compliance with authorities objectives;
- require the CBOs to have systems to carry out the Department's objectives and to report to the Department on their systems;
- require the CBOs to report to the Department periodically on how well the CBOs have achieved the Department's objectives;
- allow the Department or an independent auditor to verify the CBOs' reports; and
- describe how the Department will provide funding to the CBOs.

.32 The Department's annual agreements with CBOs set out the Department's financial and compliance with authorities objectives, allow the Department to verify reports received and describe the basis of funding the Department will provide to the CBOs. However, the agreements do not clearly set out the Department's operating objectives such as decreasing repeat young offenders through a day program. Also, the agreements do not require the CBOs to establish and report on their systems to achieve the Department's financial, operational and compliance with authorities objectives, and to report on how well they have achieved the objectives.

.33 The Department remains responsible for social services provided by CBOs. Therefore, adequate service agreements are essential.

Chapter 5 Department of Social Services

.34 As a result, the Department does not know if its financial, operational and compliance with authority objectives are being met.

.35 We also reported this matter in our 1996 Spring Report.

We recommend

.36 The Department should continue to strengthen service agreements with CBOs.

.37 The Department is working with our Office to improve its service agreements with CBOs.

Agreements with Indian Bands need improvement

.38 The Department's service agreements with five Indian Bands for providing social assistance payments to off-reserve Indians need improvement.

.39 The Department made agreements with five Indian Bands for the Bands to pay social assistance to off-reserve Indians for the Department. For the 1996 fiscal year, the Indian Bands paid \$7.3 million (1995 - \$5 million) to off-reserve Indians for the Department.

.40 In our opinion, adequate service agreements:

- set out clearly the Department's financial, operational and compliance with authorities objectives;
- require the Indian Bands to have systems to carry out the objectives and to report to the Department on those systems;
- require the Indian Bands to report to the Department periodically on how well they have achieved the objectives;
- allow the Department or an independent auditor to verify the Band's reports; and
- describe how the Department will provide funding to the Indian Bands.

.41 The Department's service agreements with the Indian Bands set out the Department's financial, operational and

Chapter 5 Department of Social Services

compliance objectives and allow the Department to verify reports received, and describe the basis of funding. However, the agreements do not require the Indian Bands to establish and report on their systems to achieve the financial, compliance and operational objectives, and to report to the Department on how well they have achieved the objectives.

.42 The Department remains responsible for basic income support for those in need no matter who administers the program. Therefore, adequate service agreements are essential.

.43 As a result, the Department does not know if its financial, operational and compliance with authority objectives are being met.

.44 We also reported this matter in our 1996 Spring Report.

We recommend

.45 The Department should strengthen its service agreements with Indian Bands.

.46 The Department is working with our Office and the Indian Bands to improve its service agreements.

Better control over bank account required

.47 The Department requires better control over its bank account.

.48 The Department pays out more than \$300 million from its Social Allowance bank account.

.49 Reconciling the Department's recorded bank balance to the bank's records is an important control. This control provides a check on the accuracy and reliability of accounting records. It also ensures that all charges to the bank account are appropriate. As a result, the reconciliation should be prompt and approved.

.50 The Department did not promptly reconcile the Social Allowance bank account. For example, it did not reconcile the bank account for January and February 1996 until October 1996 and it did not reconcile the bank account for March 1996 until November 1996. Also, the person responsible for approving the reconciliations did not do so until December 1996.

Chapter 5 Department of Social Services

.51 As a result, the Department's bank account could be misapplied without timely detection.

.52 Our audit procedures did not reveal a financial loss from this control weakness.

We recommend

.53 The Department should promptly reconcile its bank account.

<h3>Case planning for social assistance clients</h3>
--

Background

.54 Case planning can help employable social assistance clients gain the skills they need for long-term financial independence.

.55 In 1994-95, we assessed whether the Department had adequate systems and practices to develop, record, carry out, update and evaluate case plans for employable social assistance clients. In our 1996 Spring Report, we set out actions the Department of Social Services took in response to our 1995 recommendations.

.56 We make four recommendations to the Department in our *Report of the Provincial Auditor: 1995 Spring* (1995 Spring Report) (Chapter 15, p.167).

- *The Department should provide workers with complete written guidance to carry out, record and revise case plans.*
- *The Department should establish clear criteria to identify clients most likely to benefit from case planning.*
- *The Department should provide a system that helps workers consistently record current case planning information and progress toward client goals.*
- *When a system that captures the necessary information and consistently records case plans is in place, the Department should evaluate the effects of case planning.*

Chapter 5 Department of Social Services

Our follow-up
procedures

.57 To find out if the Department adopted the above recommendations, we carried out the following procedures. We considered the current social services environment and how it affected our recommendations. We asked officials to tell us about relevant activities. We reviewed various 1996 reports and documents. This work is not an audit.

Department's actions

.58 As we report in our 1995 Spring Report, the Department intends to restructure its social assistance programs. In 1996, it began consulting with the public. The Department is negotiating with the Government of Canada to redesign social assistance programs. These negotiations are not complete. The Department expects to have redesigned programs in place in 1998 or later.

.59 The Department told us that it continues to support our recommendations. When the Governments agree on the redesign of the social assistance programs, the Department plans to use our recommendations.

.60 Meanwhile, the Department continues to research the effectiveness of various social work activities. These activities include case planning for social assistance clients.

.61 For example in 1996, the Department met with former social assistance clients. The Department asked these former clients to describe their views on the Department's social work activities. The Department continues to analyse these data.

.62 Also, the Department is changing how it estimates caseloads. It now more actively involves its regional staff when forecasting the size of caseloads and explaining changes in these forecasts. It also met with other departments (e.g., Health) to identify additional data to gather. It hopes that over time this data will improve its ability to estimate caseloads and to understand changes in caseloads.

.63 The Department also told us it keeps our recommendations in mind when making related changes in other programs. For example, the Department improved computer access, established a new accountability system, began to develop a manual for its new system, and continued to evaluate its programs. We are pleased that the Department applies our recommendations to its other programs.

Chapter 5 Department of Social Services

Our plans

.64 Our Office will monitor changes to the social assistance programs. When the Governments agree on the redesign of the programs, we will monitor actions with respect to case planning for employable social assistance clients. We will report our findings then.

Chapter 6

Board of Internal Economy

Table of Contents

Introduction . . . . .	.01
Key issues faced by the Board	Page 151
Background . . . . .	.04
The Board needs to ensure the Legislative Assembly and its committees can function effectively	Page 153
The Board needs to ensure MLAs can receive appropriate resources, information, and advice to enable them to carry out effectively their responsibilities in the Assembly	Page 154
The Board needs to ensure MLAs can receive appropriate resources to carry out their activities in their constituencies and are appropriately accountable for the use of those resources	Page 155
The Board needs to ensure the public can assess whether the work of the Assembly and MLAs is relevant and done well	Page 155
What we audited	Page 156
Our audit objectives . . . . .	.30
Our audit conclusions and findings . . . . .	.31
Better control over the expenses of MLAs and the expenses of caucus offices is required . . . . .	.33
Better internal reports are required . . . . .	.45
Better control over capital assets is needed . . . . .	.53
An annual report is needed . . . . .	.60

Chapter 6

Board of Internal Economy

Introduction

.01 The Board is to provide funding and support services to Members of the Legislative Assembly (MLAs) and the Legislative Assembly and its Committees. The Board is to inform the public of the Legislature's activities. The Board also provides administrative services for the Office of the Ombudsman and the statutory offices of the Information and Privacy Commissioner and of the Conflict of Interest Commissioner.

.02 In 1995-96, the Board managed General Revenue Fund appropriations of \$13.5 million. Information about the Board's appropriation appears in the *Public Accounts 1995-96 Volume 2*.

.03 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Payments and Allowances to MLAs	\$ 9.0	\$ 8.0
Legislative Assembly Services	2.9	2.7
Administration	1.6	1.6
Caucus Operations	1.1	1.0
Other	<u>0.4</u>	<u>0.2</u>
	<u>\$ 15.0</u>	<u>\$ 13.5</u>

Key issues faced by the Board

Background

.04 To carry out our audit work, one of our objectives is to ensure we understand the key issues facing an organization. To identify key issues, we reviewed the Board's responsibilities outlined in Section 68.8 of *The Legislative Assembly and Executive Council Act* and in various reports and documents. We discussed our understanding of those issues with management and confirmed we have identified the right issues.

.05 It is important that legislators and the public know the key issues facing an organization and receive information on those issues to understand and assess the organization's

Chapter 6 Board of Internal Economy

performance. We think sharing our understanding with legislators and the public will help them better understand and assess an organization's performance.

.06 Information on how an organization is managing its key issues is a necessary ingredient to public confidence. Annual reports are used to provide this information to legislators and the public. In paragraphs .60 to .66, we report the Board does not prepare an annual report and we recommend it do so.

.07 Members of the Legislative Assembly (MLAs) have many important responsibilities. For example, MLAs:

- determine the laws that govern the people's activities and the Executive Government's activities;
- hold the Executive Government accountable for how it carries out its activities; and
- bring the views and concerns of the people they represent to the Assembly for public discussion.

.08 How MLAs carry out their responsibilities influences public confidence in our parliamentary system of government.

.09 The Board plays a key role in helping MLAs influence public confidence. In carrying out its role, the Board faces many issues.

.10 In this Chapter, we identify four key issues facing the Board. The Board needs to ensure:

1. the Legislative Assembly and its committees can function effectively;
2. MLAs can receive appropriate resources, information, and advice to enable them to carry out effectively their responsibilities in the Assembly;
3. MLAs can receive appropriate resources to carry out their activities in their constituencies and are appropriately accountable for the use of those resources; and

Chapter 6 Board of Internal Economy

4. the public can assess whether the work of the Assembly and MLAs is relevant and done well.

The Board needs to ensure the Legislative Assembly and its committees can function effectively

.11 For our society to govern itself, it is important that MLAs debate and decide our taxes, the spending plans of the Executive Government, and the laws that govern us.

.12 To help this happen, the Board provides advisory and staff services to the Legislative Assembly and its committees, and to the Speaker's office.

.13 To do so effectively, the Board must ensure:

- the Assembly, its committees and the Speaker, receive appropriate advice on procedural rules to ensure the effective operation of the Assembly and its committees;
- the proper recording of the debates and decisions of the Assembly and its committees;
- the security of the building housing the Assembly, while ensuring public access; and
- adequate staffing in the Assembly to provide sessional services and to ensure staff are properly trained and orientated on procedural rules and protocol.

.14 The Board must ensure salaries and benefits of MLAs are set at a level that will attract appropriate people and that also are seen as reasonable by taxpayers (see paragraph .20).

Chapter 6 Board of Internal Economy

The Board needs to ensure MLAs can receive appropriate resources, information, and advice to enable them to carry out effectively their responsibilities in the Assembly

.15 For MLAs to consider and debate issues in the Assembly, MLAs must know the rules and procedures of the Assembly, receive appropriate information and advice, have support staff and accommodations, and receive adequate resources.

.16 To help MLAs understand the workings of the Assembly and its committees, the Board provides training to MLAs on the workings of the Assembly and its committees.

.17 To support the work of MLAs in the Assembly, the Board provides MLAs funding for and access to research and advice. Currently, the Board maintains the Legislative Library and provides members with legal services for drafting Bills, obtaining legal opinions, and interpreting legislation and regulations. Also, the Board provides resources to caucus offices for research, secretarial support and general operating expenses.

.18 The Board provides MLAs administrative and secretarial support and accommodations when MLAs work at the Legislative building.

.19 The Board faces a difficult challenge in determining the amount of resources necessary for MLAs to carry out effectively their work in the Assembly. To do so, the Board needs to obtain the views of MLAs. Also, taxpayers must view the amount as reasonable. In addition, the Board must ensure the resources are used effectively. For some time, the public has expressed considerable concern with the use of resources given to caucus offices.

.20 During 1994, an Independent Committee on MLA Compensation was established to make recommendations respecting salaries, allowances, and reimbursement of expenses. The Committee obtained the views of the public and the MLAs in determining its recommendations. After March 31, 1996, the

Chapter 6 Board of Internal Economy

Board established new rules and procedures for these expenses based on the recommendations of this committee.

The Board needs to ensure MLAs can receive appropriate resources to carry out their activities in their constituencies and are appropriately accountable for the use of those resources

.21 To enable MLAs to fulfil their role as representatives of the citizens of Saskatchewan, MLAs need to receive proper expense allowances.

.22 The Board must determine what resources are necessary to carry out this activity effectively, e.g., travel, telephone, secretarial, communication and constituency offices and services. To do so, the Board needs to obtain the views of MLAs. Also, taxpayers must view the resources allocated as reasonable. In addition, the Board needs to ensure those resources are used appropriately. Currently, the Board provides guidance to MLAs on the resources available, what the resources can be used for, how to make claims on the resources, and the reporting required. Also, the Board monitors all MLAs' expenses.

.23 For some time, the public has expressed considerable concern with this matter.

.24 In addition, as discussed in paragraph .20, an Independent Committee on MLA compensation was established to make recommendations respecting salaries, allowances, and reimbursement of expenses.

The Board needs to ensure the public can assess whether the work of the Assembly and MLAs is relevant and done well

.25 The Board must ensure the public has the information it needs to understand and assess the Assembly's and MLAs' performance. The public wants to know what the Assembly

Chapter 6 Board of Internal Economy

does and what it did. The public also wants to know what the Board's plans are and what it achieved.

.26 To inform the public, the Board needs a long-term communication plan. This plan could include publishing a business and financial plan. A business and financial plan would ensure the public is aware of the Board's goals, objectives, strategies, and action plans.

.27 The Board has to ensure management is aware of its goals, objectives, strategies, and action plans. Also, the Board should receive reports from management to monitor the Board's success in achieving its goals, objectives, strategies, and action plans.

.28 To ensure the public knows how successful the Board is in achieving its goals and objectives, the Board could prepare an annual report.

.29 Ensuring the public access to the debates and decisions of the Assembly is an important responsibility of the Board. The Board currently informs the public about debates and decisions through television broadcasts to some communities. The Board provides verbatim reports, legislative publications, educational material, and visitor services. Also, the Conflict of Interest Commissioner ensures proper disclosure of MLAs' conflicts of interest.

What we audited

Our audit objectives

.30 The objectives of our audit were to report to the Legislative Assembly our opinions on:

- the rules and procedures used by the Board to safeguard and control its assets and ensure compliance with authorities. We limited our audit to those authorities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing activities; and
- the Board's compliance with those authorities.

Chapter 6 Board of Internal Economy

Our audit conclusions
and findings

.31 In our opinion:

- the Board had adequate rules and procedures to safeguard and control its assets except for the deficiencies reported in paragraphs .33 to .59.
- the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

.32 We also report another matter for the Assembly's attention in paragraphs .60 to .66.

Better control over
the expenses of MLAs
and the expenses of
caucus offices is
required

.33 In our *Report of the Provincial Auditor: 1995 Spring*, we reported the Board needs better controls over MLAs' expenses for travel, constituency offices, telephones, and for communications and other expenses of caucus offices.

.34 Our concerns with the Board's rules and procedures for these expenses continued for the Board's year ended March 31, 1996. After March 31, 1996, the Board established new rules and procedures for these expenses.

.35 We think the Board's new rules and procedures for MLAs' travel, constituency office, telephone, and communication expenses are an improvement.

.36 One of the difficult challenges the Board faces is to balance the amount of freedom MLAs are given to decide how they perform their duties and incur expenses with the risk of errors or fraud. To reduce the risk of errors or fraud, the Board now requires more disclosure from the MLAs.

.37 For travel expenses, the Board now requires MLAs to submit a travel expense claim or have expenses paid directly by the Board. The MLAs have to describe the claim period and the number of kilometres travelled. The Board relies on an honour system where MLAs certify they made a trip for Legislative Assembly or constituency business. As a result, the Board may pay MLAs for travel expenses not incurred on Legislative Assembly or constituency business.

Chapter 6 Board of Internal Economy

.38 Under the new procedures, for travel, constituency office, telephone, and communication expenses, MLAs still authorize the purchase of goods or services, receive the goods or services, and receive and approve supplier invoices for payment. As a result, the risk of errors or fraud without timely detection remains because of a lack of segregation of duties. This risk is reduced because of new disclosure rules for these expenses.

.39 For travel, constituency office, telephone, and communication expenses, the Board now requires all MLAs to prepare an annual report showing expenditures made by or on behalf of the MLAs during the year. The report is to include details of suppliers, amounts paid, and descriptions of items or service purchased. The MLAs are required to submit the reports to the Board, who will make the reports available for public viewing and table the reports in the Legislative Assembly.

.40 We think the Board's new rules and procedures for expenses of caucus offices are an improvement. The Board now requires audited financial statements from caucus offices. However, we think the Board needs to do more to ensure caucus offices spend public money appropriately. We think the Board should require caucus offices to include a payee list with their financial statements. We also think the Board should receive reports from the caucus offices' appointed auditors indicating whether:

- the caucus offices have adequate rules and procedures to safeguard and control public money; and
- the caucus offices used the money as the Board intended.

.41 Currently, the Board's rules and procedures require it to table caucus offices' financial statements in the Assembly. We think the Board's rules and procedures should also require caucus offices to table payee lists in the Assembly.

We recommend

.42 The Board should require a payee list from caucus offices.

Chapter 6 Board of Internal Economy

.43 The Board should require caucus offices to have their auditors report to the Board:

- on the adequacy of the caucus offices' rules and procedures to safeguard and control public money; and
- whether the caucus offices used the money given to them as the Board intended.

.44 The Board should table caucus offices' payee lists in the Legislative Assembly.

Better internal reports are required

.45 The Board's internal reports require improvement.

.46 The Board receives an appropriation from the Legislative Assembly to carry out its activities. The Board also collects revenue for some of the services it delivers. The Board is responsible to manage this public money and provide necessary services. The Board needs to tell management what performance the Board expects.

.47 To properly monitor its financial performance, the Board needs information comparing planned performance with actual performance.

.48 Currently, the Board approves a financial plan. However, in the three meetings they held during the year, we found no evidence the Board received and reviewed the internal performance reports prepared by management.

.49 Also, we think the internal reports prepared by management require the following improvements. Management should prepare the internal reports using the accrual basis of accounting. Also, the internal reports should compare actual expenses for the year to date to planned expenses for the year to date and provide written explanations of significant variances.

We recommend

.50 The Board's internal reports should follow the accrual basis of accounting.

.51 The Board's internal reports should show a comparison of planned performance with actual

Chapter 6 Board of Internal Economy

performance and provide written explanations of significant variances.

.52 The Board's minutes should provide evidence of the Board's regular receipt and review of the internal reports.

Better control over capital assets is needed

.53 The Board needs better rules and procedures to safeguard and control its capital assets.

.54 The Board's capital assets include office equipment and furnishings. The Board's capital assets also include the office equipment and furnishings purchased by the MLAs and caucus offices with money received from the Board.

.55 The Board does not know if its detailed records of capital assets are complete. Also, the Board has not:

- inspected its capital assets to ensure they still exist;
- assessed the risk of loss or damage to its capital assets; and
- acquired any necessary insurance.

.56 As a result, the Board will not know if its capital assets are missing. Also, the Board's ability to operate effectively may be impaired if assets are lost or damaged and the Board lacks resources to replace them.

We recommend

.57 The Board should keep complete records of its capital assets.

.58 The Board should periodically inspect its capital assets.

.59 The Board should assess the risk of loss or damage to its capital assets and acquire insurance, if necessary.

An annual report is needed

.60 The Board does not prepare an annual report.

.61 *The Legislative Assembly and Executive Council Act* does not require the Board to prepare an annual report. However,

Chapter 6 Board of Internal Economy

almost all government organizations provide the Assembly with an annual report. In addition, the Standing Committee on Public Accounts recommends that all government departments provide annual reports on their activities and do so in a timely manner.

.62 Legislators and the public need an annual report to understand and assess the performance of the Board.

.63 To understand and assess the Board's performance, we think the public needs to know how the Board is managing its key issues. We have set out what we think are the Board's key issues in paragraph .10.

.64 An annual report can help legislators and the public understand and assess the Board's performance. Also, the report should describe what the Board planned to achieve and how, and what performance indicators and targets it uses to measure its performance. The report should also set out the Board's actual results in comparison to its plan, and show whether it met its goals and objectives in a cost effective manner. Also, the report should describe what the Assembly does and what it did.

.65 The Board plays a key role in ensuring public confidence in our parliamentary system of government. We think public confidence will improve if the Board prepares an annual report and provides the report to the Assembly.

We recommend

.66 The Board should prepare an annual report on its activities and provide the report to the Legislative Assembly.

Chapter 7 Information Technology Security

Table of Contents

Introduction . . . . .	.01
IT security must be managed well . . . . .	.04
Survey objective and findings . . . . .	.09
Agencies need security policies and procedures . . . . .	.19
Responsibility for security needed . . . . .	.29
Staff security awareness needed . . . . .	.39
Better protection of IT resources needed . . . . .	.48
Better controls to protect the confidentiality and integrity of IT systems needed . . . . .	.59
Approved and tested contingency plans needed . . . . .	.70
Summary observations . . . . .	.82

Chapter 7

Information Technology Security

Introduction

.01 Information technology (IT) includes computers, software, and telecommunications. Government departments and public sector agencies (Crown corporations, boards, commissions, and universities) rely heavily on IT to deliver their programs, manage their resources, and account for what they do. The cost of IT in departments and public sector agencies exceeds \$225 million each year. Public sector agencies spend \$185 million.

.02 In our *Report of the Provincial Auditor: 1995 Fall*, we describe two important IT issues and our planned approach for examining them. These issues are the management of IT system development projects and IT security.

.03 In our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report), we report on the management of the risks to IT security in departments. We also state it is our intention to report on the management of the risks to IT security in public sector agencies. This Chapter sets out the results of our work.

IT security must be managed well

.04 IT security is essential to organizations. In this Chapter, IT security means the measures organizations use to protect the confidentiality, integrity and availability of their IT systems and data. Poor security can result in incorrect information, lost information, and the release of confidential information.

.05 IT security depends on good management. Absolute security is not possible or even practical. Security costs money and often reduces efficiency. Given these constraints and limited resources, senior managers must direct and monitor IT security practices. They need to ensure security risks are reduced to an acceptable level.

.06 The effective management of IT security requires organizations to:

- direct their senior management to review and approve security policies and procedures;
- clearly assign roles and responsibilities for IT security;

Chapter 7 Information Technology Security

- inform and train staff in their IT security responsibilities;
- administer IT resources in a secure manner;
- protect the confidentiality and integrity of IT systems and data; and
- ensure the continuous operations of IT systems and the availability of data.

.07 The Royal Canadian Mounted Police recommends the above IT security standards for businesses.

.08 In large decentralized organizations like the Government, it is important to have an IT security strategy that balances the needs of the centralized and decentralized functions. This ensures the Government's and individual organization's needs are met.

Survey objective and findings

.09 Our objective was to find out if public sector agencies (agencies) had systems and practices to properly manage IT security. We asked the agencies to evaluate themselves. The questions were based on the security standards listed in paragraph .06. We limited our work to assessing the reasonableness of the responses and compiling the results. These procedures do not constitute an audit.

.10 In August, 1996, we sent our security survey to sixteen of the largest agencies. All agencies reported their computer systems and data were secure. We asked the agencies to rate the effectiveness of their security measures. Most agencies rated their security measures as effective.

.11 Our work focused on the management of IT security. Based on the standards for IT security management set out in paragraph .06 and the agencies' responses to the survey, we think the agencies should strengthen their security management practices. Better management practices will help senior managers adequately secure their IT systems. Our specific findings and recommendations are in paragraphs .19 to .81.

.12 As part of our survey, we asked the agencies to identify significant financial and non-financial IT systems. We also

Chapter 7 Information Technology Security

asked the agencies to identify what information they process and store on their systems.

.13 The agencies reported approximately 250 significant IT systems. We asked the agencies to rate the importance of these IT systems on a scale of one to ten, with ten being the most important. They rated 60% of their IT systems as having an importance greater than seven.

.14 Agencies reported they store and process a variety of sensitive data. These data include demographic, financial, education, health, property, and confidential business information.

.15 Agencies reported using mainframe and network computer systems to run nearly all of their important IT applications. Mainframes are large computers that have centralized data processing and storage. Security techniques for these systems are well established. Agencies use these systems to run their larger, more complex applications.

.16 Networks are smaller computers that are connected and have decentralized processing and storage. They allow many employees to directly access and change data. Networks are relatively new and their use is rapidly increasing. Security techniques for these systems are evolving. Agencies generally use these systems to run their smaller, less complex applications.

.17 In summary, the agencies have a significant investment in diverse IT systems. The agencies need to protect this investment. Good IT security management practices are necessary.

.18 The following paragraphs summarize the agencies' security management practices and set out our recommendations for improvement.

Agencies need security policies and procedures

.19 Agencies need approved security policies and procedures that meet their needs.

.20 The management of security starts with the establishment of security policies and procedures. Agencies need policies and procedures that:

Chapter 7 Information Technology Security

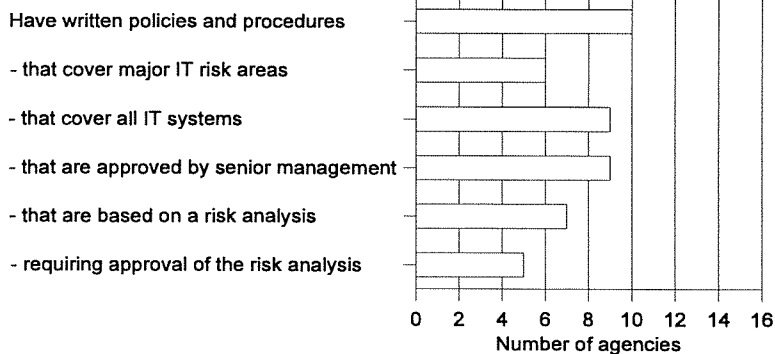
- are documented;
- cover major IT risk areas;
- cover all significant IT systems;
- are reviewed and approved by senior management;
- are based on a risk analysis; and
- ensure the risk analysis is approved by senior management.

.21 Without clearly defined and properly approved security policies, agencies may not carry out proper security procedures. Agencies may be over secured, leading to increased costs, or under secured, thus placing the agencies' goals and objectives at risk.

.22 We asked the sixteen agencies questions to find out if they had IT security policies and procedures that met the standards set out in paragraph .20. Figure 1 summarizes the results.

Figure 1

Agencies reporting that they:



.23 Figure 1 shows that some agencies lack written and approved policies and procedures that cover the main areas of IT security and all their IT systems. Also, Figure 1 shows that the agencies' written policies do not always cover the major risk areas.

.24 In our review of policies, we did not find any government-wide security policies and procedures.

.25 We think the Government should have government-wide general IT security policies that apply to departments and agencies with significant IT systems. These general policies should set out security performance standards that the agencies must meet. Each agency's senior management should approve IT security policies and procedures that meet the government-wide IT security policies and the security needs of the agency.

We recommend

.26 The Government should establish a general security policy for its significant IT systems.

.27 Agencies should set and approve security policies and procedures that meet the government-wide general security policy and the security needs of the agency.

.28 Agencies should do a risk analysis to determine their security needs.

Responsibility for security needed

.29 Agencies need to change employees' IT security responsibilities.

.30 Agencies should clearly define the roles and responsibilities for IT security. Agencies need policies and procedures that:

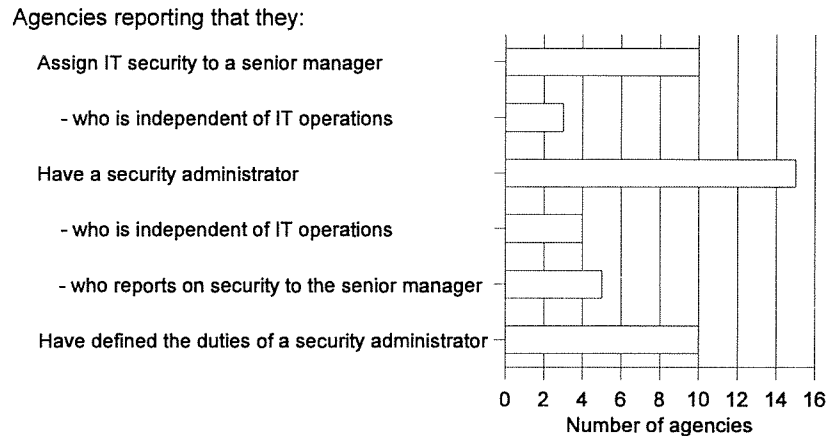
- assign responsibility for IT security to a senior manager who is not responsible for IT operations and programming;
- appoint a security administrator who is independent of IT operations and programming and is accountable to the senior manager responsible for IT security; and
- set out the roles and responsibilities of a security administrator.

.31 Agencies must separate employees' responsibilities for IT security from computer operations and programming to protect their IT systems. If they do not, employees may not carry out approved policies and procedures. In smaller agencies, the separation of these functions may be impractical if the risk is assessed as low.

Chapter 7 Information Technology Security

.32 We asked the sixteen agencies questions to find out how they defined the roles and responsibilities for IT security. We based our questions on the standards set out in paragraph .30. Figure 2 summarizes the results.

Figure 2



.33 Figure 2 shows most agencies have not adequately segregated employees' responsibilities for IT security from computer operations and programming.

.34 Thirteen agencies do not assign the responsibility for IT security to a senior manager outside of IT operations. In addition, the security administrators in twelve agencies have responsibilities for IT operations and eleven administrators do not report directly to the senior manager in charge of security.

.35 We think the agencies need to change employees' IT responsibilities to strengthen security.

We recommend

.36 Agencies should assign the responsibility for IT security to a senior manager.

.37 Agencies should define the roles and responsibilities of their security administrator(s). These roles and responsibilities should be based on criteria set out in the government-wide general security policy.

.38 The security administrator(s) should report directly to the senior manager responsible for IT security.

Chapter 7 Information Technology Security

Staff security awareness needed

.39 Agencies should make staff aware of security by informing and training them in their IT security responsibilities.

.40 Staff need a good understanding of IT security. This is due largely to advances in IT. Organizations are moving to computer networks to process and store critical data. As a result, people inside and outside the organization can potentially access and change data.

.41 For agencies to maintain IT security in this environment, they should:

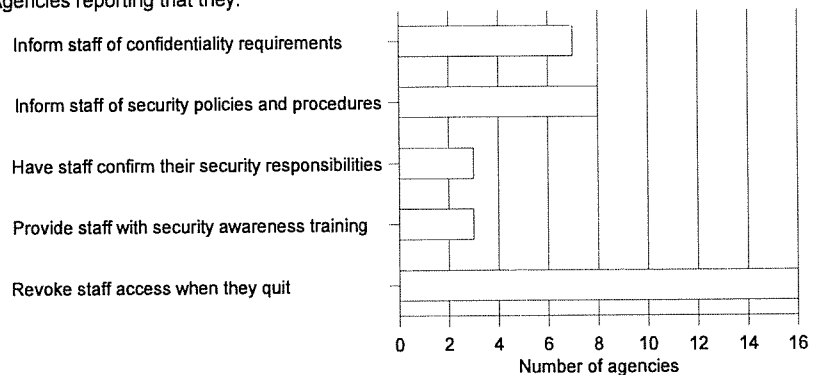
- inform staff of confidentiality requirements;
- inform staff of security policies and procedures;
- have staff periodically agree in writing to their security responsibilities;
- provide staff with security awareness training; and
- revoke access to IT systems when staff quit or move to other duties.

Without these procedures, management cannot ensure its IT systems and data are secure.

.42 We asked the sixteen agencies questions to find out if their procedures for informing and training staff met the standards set out in paragraph .41. Figure 3 summarizes their responses.

Figure 3

Agencies reporting that they:



Chapter 7 Information Technology Security

.43 Figure 3 shows some agencies do not always inform staff of their confidentiality requirements relating to IT. Figure 3 also shows many agencies do not inform staff of security policies and procedures and the threats to IT security.

.44 We think agencies should make staff more aware of security by informing and training them in their IT security responsibilities.

We recommend

.45 Agencies should inform staff of IT security policies and procedures and confidentiality requirements.

.46 Agencies should provide security awareness training to staff.

.47 Agencies should have staff agree periodically in writing with their security responsibilities.

Better protection of IT resources needed

.48 Agencies need to assess the security surrounding their IT resources.

.49 Organizations need strong physical controls over their IT resources and need to monitor and periodically assess the effectiveness of their security practices. They need to know if employees follow security policies and/or if security procedures remain effective. Without this information, management can not take prompt corrective action.

.50 For organizations to manage their investment in IT resources and maintain IT security, they should:

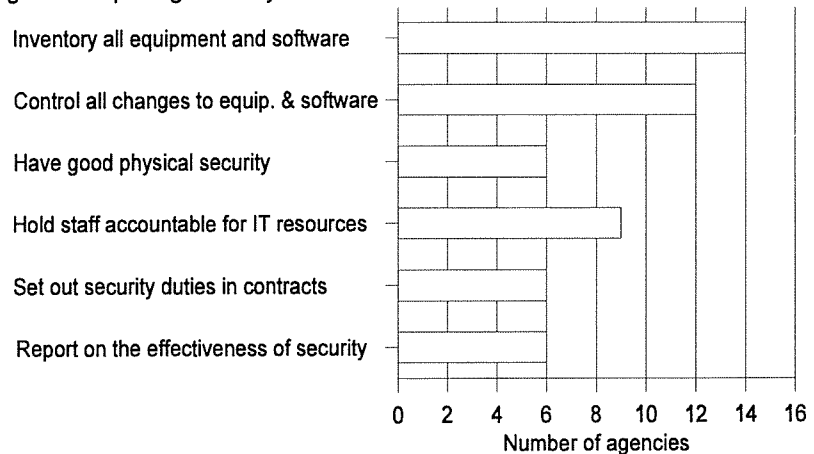
- inventory computer equipment and software;
- control and approve all changes to computer equipment and software;
- have good physical security;
- hold staff accountable for IT resources under their control;
- ensure contracts set out the security obligations of IT consultants and other parties who access their IT resources; and

- monitor and report on the effectiveness of, and compliance with significant IT security policies and procedures.

.51 We asked the sixteen agencies questions to find out if their procedures for administering IT resources met the standards set out in paragraph .50. Figure 4 summarizes their responses.

Figure 4

Agencies reporting that they:



.52 Figure 4 shows that most agencies use the practices set out in paragraph .50. Figure 4 also shows that ten agencies do not report on the effectiveness of their IT security and ten agencies do not always set out security duties in their contracts with external consultants.

.53 Six agencies thought they had good physical security. Four agencies thought they should improve the physical security over their IT resources. We think most agencies could improve their physical security over IT resources.

.54 Also, we think agencies should periodically assess the adequacy of their IT security. This requires identifying the risks to IT resources and reporting on the effectiveness of their security policies and procedures. In paragraph .28 we recommend that agencies should conduct a risk analysis to determine their security needs.

.55 Agencies should ensure they have adequate insurance coverage based on their assessed needs. Without this, agencies may not be able to adequately protect their IT resources.

Chapter 7 Information Technology Security

We recommend

.56 Agencies should periodically report on the effectiveness of their security policies and procedures. Senior management should review and approve these reports.

.57 Agencies should ensure their contracts with external consultants and other parties include requirements for security and confidentiality.

.58 Agencies should assess their physical security needs and assess the adequacy of their security measures.

Better controls to protect the confidentiality and integrity of IT systems needed

.59 Agencies should strengthen their procedures for protecting the confidentiality and integrity of IT systems.

.60 For agencies to maintain the confidentiality and integrity of their IT resources, they should:

- identify all confidential data kept on IT systems;
- set standards for the composition and changing of passwords that permit access to confidential data;
- have the owners of data (program managers) define and authorize who can access or change their data;
- track who accesses very sensitive data and when; and
- control the access of system support staff (computer operators, programmers, systems analysts and consultants) to confidential systems and data.

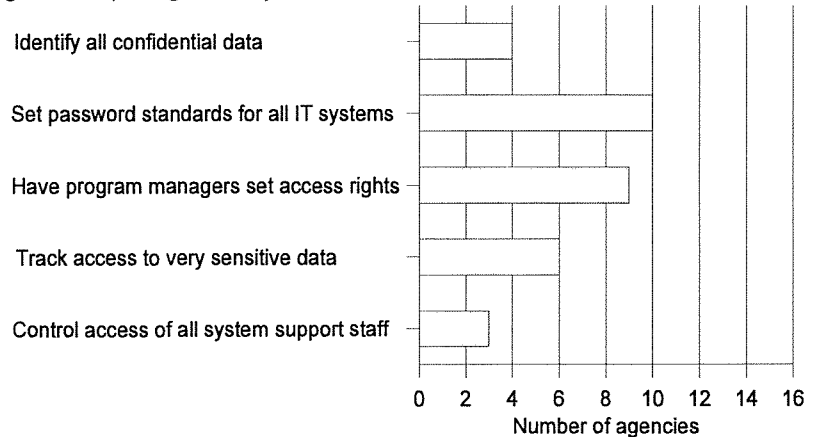
.61 Without these policies and procedures, agencies cannot ensure the confidentiality and integrity of their IT systems and data. If people gain unauthorized access, have access they don't need, or have uncontrolled access, they can obtain confidential information or change IT systems and data.

Chapter 7 Information Technology Security

.62 We asked the sixteen agencies questions to find out if their security procedures met the standards set out in paragraph .60. Figure 5 summarizes their responses.

Figure 5

Agencies reporting that they:



.63 All agencies report using passwords to control access to their IT systems. However, as Figure 5 shows, six agencies do not set password standards for all their IT systems. When organizations do not set password standards, staff often use passwords that others can guess.

.64 Figure 5 shows that twelve agencies do not identify all their confidential data. Also, Figure 5 shows that seven agencies do not require program managers to set access rights. Program managers know best who should access their data and the related risks.

.65 IT support staff should not have direct access to data or to the IT systems and programs that process the data. This could result in unauthorized changes to the IT systems and data without detection. When direct access is necessary, it should be controlled and monitored. Figure 5 also shows that ten agencies do not track or monitor the access and changes made to IT systems that contain sensitive data. Thirteen reported they did not control the access of support staff.

We recommend

.66 Agencies should set password standards for all their IT systems and applications.

.67 Agencies should identify all their confidential data. This should be based on government-wide security criteria.

Chapter 7 Information Technology Security

.68 Agencies should require program managers to define who can access their data.

.69 Agencies should control and monitor the access of IT support staff to IT systems.

Approved and tested contingency plans needed

.70 Agencies should approve and test their IT contingency plans.

.71 Government programs and services are dependent on IT systems. To provide continuous services, agencies must ensure their IT systems and data are available when needed. If they are not, commitments may be missed, decisions delayed and essential data lost. This increases program and service costs and may weaken the public's confidence in government agencies.

.72 Contingency plans should set out:

- the procedures for making electronic copies (backups) of the system programs, applications, data, and recovery procedures;
- the procedures for the safe storage of the backups;
- the importance of systems, applications, data and the recovery time;
- the arrangements made to replace or rent essential IT equipment;
- the requirement for senior management to approve the plans;
- the procedures for periodically testing the contingency plans;
- the training of staff in contingency plan procedures; and
- the plan to deal with the year 2000 problems. (See Chapter 8).

Chapter 7 Information Technology Security

.73 Senior management should review and approve the contingency plans and the testing of these plans. They need to ensure the recovery time will meet the needs of the organization and that the plans work.

.74 We asked the sixteen agencies questions to find out if their contingency plans met the standards described in paragraph .72. Figures 6 and 7 summarize the results. Figure 6 shows the results for the fourteen agencies with mainframe systems. Figure 7 shows the results for the sixteen agencies with network systems.

Figure 6

Agencies reporting that they:

- Regularly backup all systems and data
- Store backups at another location (offsite)
- Have contingency plans (CPs) for all Mainframes
 - CPs specify importance and recovery time
 - CPs arrange for replacement equipment
 - CPs approved by senior management
 - CPs tested in last 12 months
 - Staff trained in CPs
 - CPs stored offsite

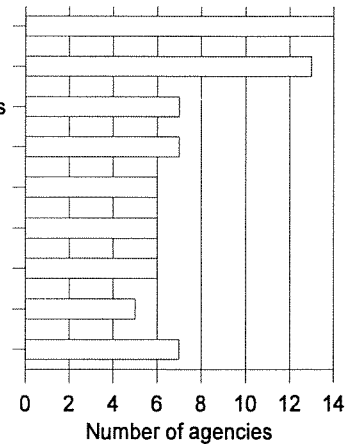
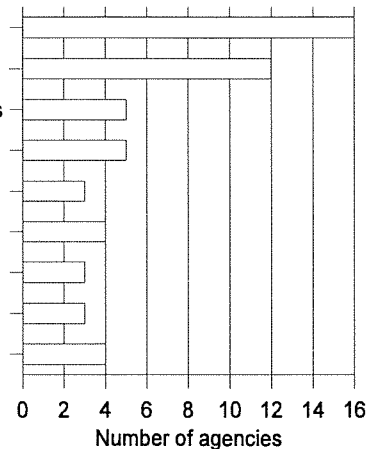


Figure 7

Agencies reporting that they:

- Regularly backup all systems and data
- Store backups at another location (offsite)
- Have contingency plans (CPs) for all Networks
 - CPs specify importance and recovery time
 - CPs arrange for replacement equipment
 - CPs approved by senior management
 - CPs tested in last 12 months
 - Staff trained in CPs
 - CPs stored offsite



Chapter 7 Information Technology Security

.75 The most common causes of service interruptions are due to system and data errors, power loss, or equipment malfunctions. Figures 6 and 7 show that agencies have sufficient back-up to resume operations after these interruptions. All agencies regularly backup their IT systems and nearly all store their backups offsite.

.76 Agencies need additional measures to prevent the loss of IT services due to a breakdown of IT equipment or from the loss of the agencies' processing sites. Three agencies noted they had some replacement equipment for key components of their networked systems. For mainframe IT systems, six agencies reported they had made arrangements for equipment replacement or an alternate processing site.

.77 Figures 6 and 7 show most agencies do not have approved contingency plans for their IT systems. Of those that did, three agencies reported their plans for mainframe systems met all the conditions listed in Figure 6. For network systems, one organization reported having contingency plans that met all the conditions listed in Figure 7.

.78 We think agencies should improve their contingency plans. They should ensure their plans reflect their risks and will meet their needs.

We recommend

.79 Agencies should base their contingency plans on the risk analysis recommended in paragraph .28.

.80 Agencies should specify in their contingency plans, the recovery time for each IT system.

.81 Agencies should test, approve and store their contingency plans in a safe location.

Summary observations

.82 The results of this survey are similar to the results shown in our 1996 Spring Report on security at departments. We expected these results to be better because large organizations with more IT staff generally manage IT security better.

.83 However, it is encouraging to see practices moving forward. As we did this survey, we noted that some of the

Chapter 7 Information Technology Security

agencies surveyed were changing their policies and procedures to ensure appropriate security.

.84 Also, the Standing Committee on Public Accounts has concurred with the recommendations in Chapter 4 of our 1996 Spring Report for improving departments' IT security.

**Chapter 8
Year 2000**

Table of Contents

Introduction . . . . .	.01
Year 2000 challenges . . . . .	.05
Year 2000 opportunities . . . . .	.11
Best practices . . . . .	.13
Preliminary status of the year 2000 plans . . . . .	.14
Our future plans for examining and reporting on the year 2000 issue . . . . .	.15

Chapter 8

Year 2000

Executive Summary

- The year 2000 problem is significant and it will cost large sums of money to fix.
- The problem stems from programs using a two-digit year code that will go from 99 to 00 on December 31, 1999. Computer systems will assume 00 is before 99. This causes problems in sorting data, calculating interest, validating information, and recording transactions.
- This problem affects not only IT systems, but also non-IT systems. A lot of equipment contains computers or computer chips that may be affected by the year 2000 problem.
- The key to being ready for the year 2000 is management. A manager should be put in charge (project manager). The project manager should develop a plan, have it approved, and ensure the organization carries out the plan.
- Organizations cannot change the project deadline. There is currently a shortage of programmers to help in fixing the problem. This shortage could become worse because all organizations face the same deadline. They must manage this shortage.
- We contacted 24 of the largest Government agencies to obtain a preliminary status of the year 2000 plans. This work does not constitute an audit. We found all of these agencies are aware of the issue and are working on it.

Chapter 8

Year 2000

Introduction

.01 The objectives of this Chapter are to describe:

- the challenges and opportunities facing government as it manages its information systems into the year 2000; and
- the audit we plan to do of the Government's systems and practices for ensuring its information systems will work after 1999.

.02 The Government's investment in Information Technology (IT) is significant. In Chapter 7, we note that agencies (Government departments, Crown corporations, commissions, boards, and universities) spend large amounts of money on IT systems each year. These systems are critical to the agencies' operations and contain sensitive data. Agencies need to develop plans to ensure their systems can operate after 1999.

.03 Computer industry experts estimate the worldwide cost of fixing the year 2000 problem to be between \$300 billion and \$600 billion. The Government estimates its costs as high as \$30 million to fix the systems used by its agencies. These systems are important because they affect:

- the health and safety of people;
- the amount or timing of payments to people or organizations;
- access to certain government programs or services;
- the accuracy of information in systems used for decision-making; and
- confidential information.

Chapter 8 Year 2000

.04 The Government must meet many challenges. Its agencies must ensure their key systems will run properly in the year 2000. Also, they must respond to their stakeholders' need for better information to judge the Government's performance. Agencies need to improve information systems to meet this challenge. The year 2000 deadline puts increased pressure on the Government to fix key systems now. The shortage of qualified staff and limited resources compound these management challenges. This Chapter explains the year 2000 challenges.

Year 2000 challenges

.05 Computer systems originally had limited processing capacity (memory) and limited data storage. As a result, developers of computer systems used a two digit year code to record dates (e.g., 1996 was recorded as 96). This was done to reduce memory and storage needs.

.06 IT systems include computer programs, operating systems, hardware, screens, and reports. IT systems use the year to sort data, calculate interest, validate information, and record transactions. On January 1, 2000, the two-digit year field will go from 99 to 00. Systems may not recognize the year and may make mistakes because they assume that 00 is before 99. Mistakes could result in an incorrect calculation, an inappropriate response, or a system failure. The management challenge lies in ensuring that agencies identify all key systems and make them year 2000 compliant. Management needs to set priorities, plan for the costs and the expertise needed, and set a time frame to complete the work. They also need to ensure they address their other information needs.

.07 Agencies need to ensure their programs meet their needs. Although this sounds simple, literature tells us it will be a significant programming and management problem. To fix the problem, programmers will need to search through and change large programs, upgrade operating systems and hardware, and ensure they all work together. This is a specialized skill. It requires knowledge of applications, programming languages, and the year 2000 issue. Agencies will need to gather the knowledge through hiring, contracting, and training. As we get closer to the year 2000, the shortage of skilled people will become even greater. With this shortage, the estimated \$30 million cost for all agencies to fix the problem, could increase significantly.

Chapter 8 Year 2000

.08 Also, changing the systems will require significant time from other staff. Seventy to ninety percent of the project time will be needed to test the IT systems after changes are made. Agencies must test all aspects of each computer system individually and as part of a whole system test. This will reduce the chance of having a system that does not operate correctly after 1999.

.09 Agencies cannot extend the deadline. In Chapter 3, we note that most IT projects are not completed on time. All critical projects must be completed before December 31, 1999; some must be completed much earlier. All agencies face the same deadline. This will make the shortage of the necessary skilled people even greater.

.10 Along with ensuring IT systems can operate after 1999, there are significant areas that are not directly IT related. The year 2000 problem affects a lot of equipment that contains computers or computer chips. Agencies must ensure all of their equipment can operate in the year 2000. Depending on the operations of the agency, this may be a significant task.

Year 2000
opportunities

.11 While addressing the year 2000 problem, agencies will have the opportunity to replace some of their old systems. With the replacement, they have the opportunity to use new technology to gain cost efficiencies and to improve the way their systems operate. For example, by developing a new financial system, an agency could improve how it manages information.

.12 The Government could also use this as an opportunity to set policies on standardization of software, hardware, and communications. For example, this would be important for software such as: office productivity software, e-mail, and financial systems. This would help the Government share information and use human resources more efficiently.

Best practices

.13 To address the year 2000 issue adequately, each agency should:

- appoint a 'year 2000' project manager to carry out the agency's year 2000 plan; and

Chapter 8 Year 2000

- document and approve the agency's plan to address the issue, including:
 - a listing of all systems that the year 2000 problem affects. This would include both IT and non-IT systems;
 - a ranking of the systems as to their importance to the agency's operations;
 - an estimate of all of the costs to fix the problem;
 - documentation of who is going to carry out the work and how the agency is going to cope with the possible shortage of skilled people;
 - a time-line to show when the agency will carry out and complete the work;
 - a testing plan to ensure testing is done before the year 2000;
 - the process to obtain guarantees from the manufacturers of all purchased software that their products are year 2000 compliant. Management must assess the risk that the manufacturers will not meet the guarantees. Once the agency has reliable guarantees, it should include the software in its testing plans; and
 - written approval of the changes to systems by appropriate officials in the agency.

Preliminary status of
the year 2000 plans

.14 We contacted 24 of the largest agencies to obtain a preliminary status of the year 2000 plans. This work does not constitute an audit. We found all of these agencies are aware of the issue and are working on it.

Chapter 8 Year 2000

Our future plans
for examining and
reporting on the year
2000 issue

.15 We plan to examine and report on the agencies' year 2000 plans. We will examine agencies' plans and will assess them against best practices. We will describe the results of our work in a future report to the Assembly.

Chapter 9

Pensions

Table of Contents

Introduction . . . . .	.01
Purpose of Chapter . . . . .	.03
Section I - Examination of annual reports	Page 191
Our audit objective . . . . .	.05
Reports examined . . . . .	.07
Reports not examined . . . . .	.08
Criteria . . . . .	.09
Audit standards . . . . .	.12
Our audit conclusions and findings . . . . .	.13
Criterion 1 - What the Plan is all about	Page 194
Summary of criteria . . . . .	.18
Our findings . . . . .	.19
Criterion 2 - What the Plan has done	Page 195
Summary of criteria . . . . .	.24
Our findings . . . . .	.25
Criterion 3 - Where the Plan is now	Page 196
Summary of criteria . . . . .	.28
Our findings . . . . .	.29
Criterion 4 - What the Plan intends to do	Page 197
Summary of criteria . . . . .	.33
Our findings . . . . .	.34

Chapter 9 Pensions

Table of Contents

Criterion 5 - Annual report presentation	Page 198
Annual report presentation . . . . .	.38
Section II - Examination of legislative requirements	Page 199
Legislative requirements are inconsistent . . . . .	.41
Section III - Follow-up work	Page 201
Progress on recommendations in our 1996 Spring Report . . . . .	.52
Allocation of earnings is inconsistent . . . . .	.55
Estimates are inconsistent . . . . .	.62
Plans need cash flow information . . . . .	.71
Pension commission/task force . . . . .	.75
Section IV - Future audit plans	Page 207
Our future audit plans . . . . .	.80

Chapter 9 Pensions

Introduction

.01 The Government's pension plans are significant to the Legislative Assembly, the members of the pension plans, and the public.

.02 The pension plans are significant because of the number of members that belong to them and the size of the assets and liabilities they manage. Approximately 133,000 members belong to pension plans administered by the Government. On March 31, 1996, these plans had assets totalling \$4.7 billion and liabilities of \$7.7 billion.

Purpose of Chapter

.03 In this Chapter, we report the results of our audit of pension plans' annual reports. We discuss:

- the need to improve the annual reports of the Government's pension plans; and
- differences in legislative requirements affecting these annual reports.

.04 Also, in paragraphs .52 to .79, we report on our follow-up work on the Government's actions in response to our recommendations on pensions included in our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report). We outline our future audit plans in paragraphs .80 to .83.

Section I - Examination of annual reports

Our audit objective

.05 In our 1996 Spring Report, we state our intention to report on the consistency and adequacy of the information contained in the annual reports of pension plans.

.06 Our purpose is to decide whether pension plans' annual reports, provided to the Legislative Assembly, give sufficient information for readers to understand the plans and assess their performances.

Reports examined

.07 We examined the most recent annual report of each of the following plans provided to the Legislative Assembly:

Chapter 9 Pensions

- Municipal Employees' Superannuation Plan - December 31, 1994
- Workers' Compensation Board Superannuation Plan - December 31, 1994
- Judges of the Provincial Court Superannuation Plan - March 31, 1995
- Members of the Legislative Assembly Superannuation Plan - March 31, 1995
- Public Employees (Government Contributory) Superannuation Plan - March 31, 1995
- Public Service Superannuation Plan - March 31, 1995
- Teachers' Superannuation Plan - June 30, 1995
- Liquor Board Superannuation Plan - December 31, 1995
- Saskatchewan Pension Plan - December 31, 1995
- Saskatchewan Research Council Employees' Pension Plan - December 31, 1995

Reports not examined

.08 Several Government pension plans do not table an annual report in the Legislative Assembly. Annual reports are not tabled for the following pension plans:

- Capital Pension Plan;
- Saskatchewan Government Insurance Superannuation Plan;
- Power Corporation Superannuation Plan; and
- Saskatchewan Telecommunications Superannuation Plan.

Chapter 9 Pensions

Criteria

.09 To complete our audit, we used criteria for assessing annual reports. Our general criteria require pension plans to prepare annual reports that describe:

- what the Plan is all about;
- what the Plan has done;
- where the Plan is now; and
- what the Plan intends to do.

.10 We also developed more detailed criteria. We summarize these in paragraphs .18, .24, .28 and .33. In addition, we examined the way the information was presented.

.11 To ensure our criteria are reasonable, we provided both the general criteria and the detailed criteria to pension plan administrators for their advice. They found our criteria to be reasonable. Then, we used the criteria to assess pension plans' annual reports tabled in the Assembly.

Audit standards

.12 We did our examination in accordance with the recommendations of The Canadian Institute of Chartered Accountants for the public sector and accordingly we included such tests and other procedures as we considered necessary.

Our audit conclusions and findings

.13 We concluded the Members of the Legislative Assembly, the members of the pension plans and the public need better information to understand and assess the performances of pension plans because:

- most pension plans' annual reports contain very little information other than the financial statements and information required by legislation; and
- most pension plans' annual reports provide little or no information to enable the reader to assess the plans' performances.

.14 We also note the following additional matters for the Assembly's attention:

Chapter 9 Pensions

- several pension plans do not give the Assembly an annual report; and
- pension plans have different legislative reporting requirements.

We recommend

.15 The Government should table all of its pension plans' annual reports in the Legislative Assembly.

.16 The Government should improve the content of its pension plan annual reports.

.17 The Government should study the legislation for its pension plans to decide what type of information should be provided in annual reports and whether it is appropriate for that information to be more consistent. If more consistency in the type of information is not considered appropriate, the Government should explain why.

Criterion 1 - What the Plan is all about

Summary of criteria

.18 A pension plan's annual report should give readers sufficient information for them to understand the plan's purposes and goals. Therefore, these annual reports should describe:

- the plan's purpose and its significant legislation. This should include its major activities and assets that are critical to its success;
- the plan's broad goals or measures of success; and
- the plan's annual objectives or financial and operating targets to accomplish its broad goals.

Our findings

.19 In summary, we found most annual reports need to provide better information to enable readers to understand the plans' purposes and goals.

.20 We found most annual reports had only a very brief description of the plan. Several reports did not fully explain the

Chapter 9 Pensions

role of the Board, the administrator, or the specialists, such as the investment manager, the investment consultant and the investment custodian.

.21 Most annual reports did not describe the plans' broad goals or measures of success. Also, they did not describe the plans' annual objectives or the financial and operating targets needed to accomplish their broad goals.

.22 The Saskatchewan Pension Plan's (SPP) annual report was the only report that discussed broad goals. SPP described its broad goals for investments. This included its overall investment strategy and investment mix guidelines. SPP also described the legislation affecting its investments and the role of its Board, its investment managers and its investment custodian in managing and safeguarding the plan's investments.

.23 Most annual reports included little or no information on other broad goals or measures of success. For example, although all plans place a high priority on member satisfaction with their services and performance, most reports included little or no mention of the services available for members. These services include telephone access to information on the computer, newsletters and other information available for members making retirement decisions. Only one plan included its address and telephone number in its annual report.

Criterion 2 - What the Plan has done

Summary of criteria

.24 A pension plan's annual report should inform readers what the plan accomplished. Annual reports should describe:

- the plan's major activities during the year; and
- what the plan did compared with what it planned to do.

Our findings

.25 In summary, we found annual reports need to provide more information to enable readers to assess the plans' performances.

Chapter 9 Pensions

.26 Most annual reports provide no information comparing the plans' actual results with their planned results. Readers are therefore unable to assess the plans' performances. They are unable to determine whether:

- investment returns were better or worse than planned;
- operating costs were higher or lower than planned;
- changes in revenues, expenditures, assets and liabilities were more or less than expected;
- operating targets were met or not;
- members were satisfied with services received; and
- the plans complied with the law.

.27 Only two plans gave the reader a comparison of their planned performance with their actual results. The Teachers' Superannuation Plan (TSP) and the Liquor Board Superannuation Plan (LB) both provided a comparison of actual investment returns with their planned or benchmark returns. TSP and LB both included a note on investment performance within their financial statements. In this note, they compared their actual investment return earned with their planned benchmark return. This comparison showed the rates for both the current year and a five-year average. We congratulate both these plans for this initiative and encourage other plans to follow their lead. We encourage all plans to provide more information on their performance targets for achieving their broad goals and objectives.

Criterion 3 - Where the Plan is now
--

Summary of criteria

.28 A pension plan's annual report should give readers information to assess the plan's current situation. Annual reports should show:

- financial highlights and analysis; and

Chapter 9 Pensions

- information about significant activities.

Our findings

.29 In summary, we found annual reports need to provide more information to enable readers to assess the plans' current situation and their progress in meeting their goals and objectives.

.30 We found all plans' annual reports included their audited financial statements and an auditor's report on those statements. The financial statements were prepared according to generally accepted accounting principles and were reliable. However, few reports provided financial highlights and analysis.

.31 Also, apart from the financial statements, there was little information about significant activities. SPP stated it was now at the point when more than one investment manager was needed. However, most plans did not discuss the current situation regarding their significant activities.

.32 Therefore, readers of annual reports are unable to assess whether the plans are meeting their broad goals and objectives, or whether the plans are progressing toward these goals and objectives.

Criterion 4 - What the Plan intends to do

Summary of criteria

.33 A pension plan's annual report should give readers information on the plan's future intentions. Annual reports should provide information on:

- planned changes to goals or objectives;
- planned changes to improve performance;
- planned changes affecting significant plan assets or liabilities;
- anticipated changes in future revenues or expenditures;

Chapter 9 Pensions

- anticipated changes affecting plan membership or plan membership profile; and
- the impact of approved changes to legislation.

Our findings

.34 In summary, we found annual reports need to provide information to enable readers to assess the future intentions of these plans.

.35 We found annual reports provided little information on the future intentions of these plans. One plan stated its intention to upgrade its computer systems. Another plan discussed its marketing plans for the upcoming year, its coming anniversary and the investment outlook. Most annual reports had no information on future intentions.

.36 Some plans have significant surpluses of assets over liabilities. We think readers would be interested in how plans intend to manage the surpluses.

.37 Alternatively, some plans have significant deficits of liabilities over assets. We think readers would be interested to know how these plans expect to deal with these shortfalls. For example, the Liquor Board Superannuation Plan shows the additional funding required annually over the next fifteen years to extinguish its unfunded liability. However, other plans simply state the General Revenue Fund will meet the unfunded liability. We think these plans should describe the additional cash flows required in the future to meet the obligations of these plans.

Criterion 5 - Annual report presentation

Annual report presentation

.38 Besides reviewing the type of information included in pension plans' annual reports, we also examined the way the information was presented.

.39 Generally, we found the presentation of information in the reports was good. The information was well-organized and presented without bias.

Chapter 9 Pensions

.40 We think plans could improve their reports in two areas. First, plans could write the reports so that the average reader more easily understands them. Second, plans could use more charts or graphs to present their information. We encourage all Government pension plans to consider improvements to make their annual reports more easily understood.

Section II - Examination of legislative requirements

Legislative requirements are inconsistent

.41 As part of our examination of pension plans' annual reports, we also examined the legislation governing the plans. We were interested in what information plans provided in their annual reports to comply with legislation. Also, we wanted to know if the legislative requirements were consistent for all plans.

.42 We found considerable differences in the type of information required by legislation. We found some legislation required plans to provide extensive information in their annual reports. Other legislation required plans to provide little or no information.

.43 For the plans set out in paragraph .08, there is no legislative requirement for them to give the Legislative Assembly an annual report.

.44 The legislation for the Saskatchewan Research Council Employees' Pension Plan only requires the plan to provide its financial statements to the Legislative Assembly. This plan provides no additional information.

.45 The legislation for the Judges of the Provincial Court Superannuation Plan requires it to provide a report on the business of the plan and the financial statements. The plan provides none of the information described in paragraphs .46 and .49.

.46 Legislation requires the following five plans to provide the details of their investments. It also requires details of investments purchased and sold during the year. The five plans are:

- Liquor Board Superannuation Plan;

Chapter 9 Pensions

- Members of the Legislative Assembly Superannuation Plan;
- Public Employees (Government Contributory) Superannuation Plan;
- Workers' Compensation Board Superannuation Plan; and
- Teachers' Superannuation Plan.

.47 Although not required by its legislation, the Saskatchewan Pension Plan also provides this information on its investments. The other plans do not provide this detail and their legislation does not require it.

.48 Legislation requires the following five plans to provide detailed information on any of their members who have retired or died during the last year:

- Liquor Board Superannuation Plan;
- Municipal Employees' Superannuation Plan;
- Public Service Superannuation Plan;
- Workers' Compensation Board Superannuation Plan; and
- Teachers' Superannuation Plan.

.49 Legislation requires the plans in paragraph .48 to provide most or all of the following information:

- the name or identification number of each member who retired or died during the last year;
- the nature of their employment or the position last held;
- the length of service;
- the age at retirement or death;

Chapter 9 Pensions

- the rate or salary payable to each member at the time of retirement or death;
- the cause for retirement if they retired early; and
- the amount and type of allowance granted.

.50 Legislation does not require the other plans to give this type of detailed information about their members in their annual reports. These plans do not provide this information.

.51 We are not aware of the reasons for the different legislative requirements for disclosure of information in the annual reports of the Government's pension plans. However, we think there should be more consistency in the type of information required.

<h3>Section III - Follow-up work</h3>

Progress on
recommendations in
our 1996 Spring
Report

.52 In our 1996 Spring Report, we make four recommendations regarding the Government's pension plans.

- The Government should study the investment earnings allocation policies of its defined contribution pension plans to decide whether it is appropriate to have a consistent policy. If consistent policies are not considered appropriate, the Government should explain why.
- The Government should use consistent estimates for COLA increases and inflation to calculate the pension liability for its defined benefit pension plans.
- The Government's defined benefit pension plan annual reports should show future cash flow information.
- The Government should consider establishing a pension commission to study the many issues related to its pension plans.

Chapter 9 Pensions

.53 In May 1996, the Standing Committee on Public Accounts (PAC) met to consider these recommendations. At this meeting, the PAC agreed with our recommendations. In paragraphs .54 to .79, we report on the Government's actions to effect our recommendations.

.54 The following procedures describe our follow-up work. We:

- examined the plans' financial statements completed in the year to March 31, 1996;
- discussed progress with pension plan administrators; and
- read the Government's October 1996 response to the PAC report.

The work we did to report on our follow-up is not an audit.

Allocation of earnings
is inconsistent

.55 First, we reported the Government's defined contribution plans followed inconsistent policies for allocating their investment earnings to plan members.

.56 The allocation of investment earnings to members directly affects plan members' final pensions. When plan members retire or leave, they receive their contributions, the Government's contributions and the investment earnings allocated to them. Typically, plan members use the money received to buy a retirement annuity.

.57 Each year, plan members receive an allocation of investment earnings based on contributions and the investment earnings of the pension fund. When they retire or leave, plan members also receive an allocation of investment earnings.

.58 The Government's defined contribution pension plans follow different policies for allocating investment earnings to plan members. Some plans allocate more of their annual investment earnings to plan members than do other plans.

.59 The Capital Pension Plan and the Saskatchewan Research Council Employees' Pension Plan continue to allocate all investment earnings to plan members. Other plans continue

Chapter 9 Pensions

to hold back investment earnings from plan members. They do this to smooth their allocation of investment earnings from year to year. Since our 1996 Spring Report, the unallocated earnings held by these plans have increased. These plans had the following unallocated earnings at their last fiscal year end:

Defined Contribution Pension Plans	Unallocated earnings
Capital Pension Plan	\$ nil
Members of the Legislative Assembly Superannuation Plan	\$ 0.4 million
Municipal Employees' Superannuation Plan	\$ 0.3 million
Public Employees (Government Contributory) Superannuation Plan	\$ 40.0 million
Saskatchewan Pension Plan	\$ 4.2 million
Saskatchewan Research Council Employees' Pension Plan	\$ nil

.60 Plan members' final pensions are directly affected by the earnings allocated to them, particularly in the year they retire. If plans do not allocate all earnings or losses, less or more is available upon retirement from the plan to purchase an annuity or transfer to another plan. As a result, the members will receive smaller or larger pensions.

.61 Since our 1996 Spring Report, the Members of the Legislative Assembly Plan has changed its policy and now allocates more of the annual investment earnings to its members. In addition, management of the Public Employees (Government Contributory) Superannuation Plan recently told us it plans to change its policy and allocate all unallocated earnings to plan members effective March 31, 1997. The other plans have not changed their policies on how investment earnings are allocated to plan members.

Estimates are inconsistent

.62 Second, we reported that the Government used inconsistent estimates to calculate the pension liability for its defined benefit pension plans. The inconsistencies related to

Chapter 9 Pensions

estimates of future inflation and an estimate of future ad hoc increases to pensions to help pensioners cope with inflation.

.63 Regarding future inflation, we reported the Government used estimates of 4%, 4.5% and 5% for calculating its pension liabilities. We think the inflation rate should be the same for all Government pension plans because they all operate in the same economy.

.64 Officials of the Department of Finance recently told us that all plans intend to use an inflation rate of 4% for calculating their pension liabilities.

.65 The ad hoc increases to pensions to help pensioners cope with inflation are referred to as cost of living adjustments (COLA). Since 1985, the Government based these adjustments on increases in the Consumer Price Index (CPI).

.66 The Government makes these COLA increases under *The Superannuation (Supplementary Provisions) Act*. The Act applies to the following defined benefit plans:

- Liquor Board Superannuation Plan;
- Power Corporation Superannuation Plan;
- Public Service Superannuation Plan;
- Saskatchewan Telecommunications Superannuation Plan; and
- Workers' Compensation Board Superannuation Plan.

.67 In our 1996 Spring Report, we state the Government estimated its pension liability using different COLA increases for the plans in paragraph .66. The Government used estimates of 40%, 50% and 60% of the Consumer Price Index (CPI). Because the Government decides the COLA increase that applies to all these plans, it should use the same rate to calculate the liability for the increases.

.68 Since our 1996 Spring Report, the range of estimates of COLA increases used by the Government's pension plans has narrowed. For four plans, the Government calculated its

Chapter 9 Pensions

pension liability using future increases of 50% of the CPI. However, for the Saskatchewan Telecommunications Superannuation Plan, the Government continues to calculate its liability using future increases of 60% of the CPI. If the Government had used the same estimate of future increases that it used for the other four plans, its pension liability for Saskatchewan Telecommunications would be \$6.8 million less. The amount of \$6.8 million is based on the analysis provided by Saskatchewan Telecommunications's actuary.

.69 With inconsistent estimates, boards of directors of the plans, other government agencies, the Legislative Assembly, members of the plans and the public lack comparable information. They need comparable information to understand and assess the performances of the Government's pension plans.

.70 In October 1996, the Government responded to our second recommendation regarding pensions. It said:

"The Government is working on achieving a final resolution to this issue."

Plans need cash flow information

.71 Third, we reported pension plans need cash flow information to manage their investments. Other Government agencies (e.g., Treasury Board) require cash flow information to know when they will need cash to pay the pension promised by the Government.

.72 We said the Assembly and the public required cash flow information to understand and assess how the Government is managing its \$3.0 billion pension liability. We reported none of the Government's defined benefit pension plans' financial statements or annual reports show future cash flow information.

.73 Since our 1996 Spring Report, more defined benefit pension plans began to assemble information on their future cash flows. However, these pension plans have not yet included future cash flow information in their annual reports or financial statements.

.74 In October 1996, the Government responded to our third recommendation regarding pensions. It said:

Chapter 9 Pensions

“The Government is working toward inclusion of this information in annual reports of defined benefit plans for 1996-97.”

Pension
commission/task force

.75 Lastly, we recommended the Government should consider establishing a pension commission to study its pension plans. We said a commission could examine the many issues related to its pension plans.

.76 In May 1996, the Standing Committee on Public Accounts made the following recommendation regarding establishment of a Pension Commission:

“The government should establish a pension commission to study the many issues related to its pension plans.”

.77 To date, the Government has not established a pension commission or task force.

.78 In October 1996, the Government responded to our last recommendation regarding pensions. It said:

“The Government has systems in place to manage and account for its public sector pension plans. The Government will continue to work toward resolution of issues respecting the pension plans it administers.

The Government recognizes its financial obligations, including its pension obligations. Balanced budgets and the Government’s debt reduction strategy will ensure the Government is able to meet its future obligations while safeguarding core areas including health and education.”

.79 A pension commission would provide an opportunity for all affected to provide their opinions. It could also facilitate consensus on pension issues and provide direction to the Government for its pension plans.

Chapter 9 Pensions

<h3>Section IV - Future audit plans</h3>
--

Our future audit plans

.80 We plan to continue to examine the systems and practices pension plans use to manage their key risks.

.81 We will encourage pension plans to improve the information included in their annual reports. In a future report, we plan to report on their progress.

.82 We plan to report on the information plans provide to enable readers to understand and assess their performance.

.83 We are developing criteria to assess the plans' practices for obtaining the services of investment managers. We will seek advice from pension administrators to complete these criteria and then assess current practice. We plan to report our findings in a future report.

Chapter 10

Department of Agriculture and Food

Table of Contents

Introduction . . . . .	.01
Special purpose funds and Crown agencies . . . . .	.06
Our audit conclusions and findings . . . . .	.07
Background . . . . .	.11
Internal reports need improving . . . . .	.12
Credit checks needed . . . . .	.14
Accurate estimate of bad debts needed . . . . .	.16
Accurate financial reports needed . . . . .	.18
Boards need supervision . . . . .	.20
Annual report needs financial statements . . . . .	.22
Funds and board administered by the Department . . . . .	.24
Internal reporting needs improvement . . . . .	.26
Complete and up-to-date manual needed . . . . .	.32
Approved budgets needed . . . . .	.37
Inventory policies should be followed . . . . .	.42
Non-compliance with <i>Financial Administration Manual</i> . . . . .	.47
Assembly needs financial statements . . . . .	.50
Annual report should be timely . . . . .	.53
Prairie Agricultural Machinery Institute . . . . .	.55
Contingency plan needed . . . . .	.57
Saskatchewan Canola Development Commission . . . . .	.60

Chapter 10
Department of Agriculture and Food

Table of Contents

Canodev Research Inc. . . . . .	.62
Written agreements needed . . . . .	.64
Commission must ensure grant recipients meet terms and conditions . . . . .	.70
Subsidiary created without authority . . . . .	.77
Timely annual report needed . . . . .	.83
Board pay and expenses need approval . . . . .	.88
Commission should provide financial statements to the Assembly . . . . .	.93
Payee lists required . . . . .	.100
Saskatchewan Crop Insurance Corporation . . . . .	.105
Special purpose fund . . . . .	.107
Our audit conclusions and findings . . . . .	.108
Comparison of planned to actual results needed . . . . .	.111

Chapter 10

Department of Agriculture and Food

Introduction

.01 The Department's goal is to foster a commercially viable, self sufficient, sustainable agriculture and food industry.

.02 In 1996, the Department received \$222 million from the General Revenue Fund (GRF) and spent this money on its programs. Also, the Department raised \$62 million of revenue. The *Public Accounts 1995-96 Volume 2* reports information about the Department's revenues and expenses on pages 9, 10, 14, 16, 34 and 36.

.03 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Payments to Saskatchewan Crop Insurance Corporation	\$ 91	\$ 86
Payments for Farm Income Stability and Development	145	67
Payments to Agricultural Credit Corporation	22	22
Agricultural Research	12	11
Agricultural Development	11	11
Livestock Operations	5	6
Agriculture Industry Assistance	6	5
Land and Regulatory Management	4	4
Other	<u>11</u>	<u>10</u>
	<u>\$ 307</u>	<u>\$ 222</u>

.04 The following is a list of major sources of revenue:

	<u>Actual</u>
	(in millions of dollars)
Transfers from Government entities	\$ 5
Transfers from the Federal Government	29
Agricultural lands	24
Other	<u>4</u>
Revenue transferred to the GRF	<u>\$ 62</u>

Chapter 10 Department of Agriculture and Food

.05 The Government's summary financial statements show Agriculture expenses of \$375 million. This amount includes the \$222 million the Department received from the GRF and spent on its programs. It also includes spending from sources outside the GRF. Most of this spending relates to the expenses of the Saskatchewan Crop Insurance Corporation.

Special purpose funds
and Crown agencies

.06 The Department is responsible for the following special purpose funds and Crown agencies.

Year end

Agricultural and Food Products Development and Marketing Council, including:	December 31
• Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
• Saskatchewan Canola Development Commission	July 31
• Saskatchewan Chicken Marketing Board	December 31
• Saskatchewan Commercial Egg Producers' Marketing Board	December 31
• Saskatchewan Pulse Crop Development Board	August 31
• Saskatchewan Sheep Development Board	December 31
• Saskatchewan Turkey Producers' Marketing Board	December 31
• Saskatchewan Vegetable Marketing and Development Board	June 30
• SPI Marketing Group	December 31
Agricultural Credit Corporation of Saskatchewan	March 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Conservation and Development Revolving Fund	March 31
Crop Reinsurance Fund of Saskatchewan	March 31
Horned Cattle Fund	March 31
Milk Control Board, The	December 31
Prairie Agricultural Machinery Institute	March 31
Saskatchewan Crop Insurance Corporation	March 31
Saskatchewan Grain Car Corporation	July 31
South Saskatchewan River Irrigation District No. 1	December 31

Chapter 10 Department of Agriculture and Food

Our audit conclusions
and findings

.07 Our *Report of the Provincial Auditor: 1996 Fall* (1996 Fall Report) contains our audit findings for Crown agencies with fiscal years ending on or before December 31, 1995, except the Agricultural and Food Products Development and Marketing Council. We include it in this Report.

.08 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .06 are reliable except where we report otherwise in this Chapter;
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and
- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

.09 Due to established priorities, we have not completed our audit of the Conservation and Development Revolving Fund's financial statements. We will report our conclusions and findings in a future report to the Assembly.

.10 Also, we have not audited several of the Crown agencies listed in paragraph .06. We are trying to decide the best approach to auditing the following smaller producer elected boards:

Saskatchewan Broiler Hatching Egg Producers'
Marketing Board
Saskatchewan Chicken Marketing Board
Saskatchewan Commercial Egg Producers' Marketing
Board
Saskatchewan Pulse Crop Development Board
Saskatchewan Sheep Development Board
Saskatchewan Turkey Producers' Marketing Board
Saskatchewan Vegetable Marketing and Development
Board

Chapter 10 Department of Agriculture and Food

Background

.11 Our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report) brought several matters to the Assembly's attention. These matters relate to specific areas of the Department's operations that it did not have sufficient time to address before March 31, 1996. Therefore, we do not make additional recommendations for this part of the Department's operations in this Report. Paragraphs .12 to .23 summarize the contents of our 1996 Spring Report. We will monitor the Department's progress on these matters and report in a future Report.

Internal reports need improving

.12 The Department needs better internal reports to safeguard and control its assets. The Department should define and document its internal reporting needs. This process will help ensure it receives suitable and timely reports.

.13 We continue to recommend the Department should formally define and document its internal reporting needs.

Credit checks needed

.14 The Department needs to check the credit worthiness of lease applicants before leasing them Crown land. We think credit checks will significantly reduce defaults on these receivables.

.15 We continue to recommend the Department should establish a system to ensure staff check the credit worthiness of all lease applicants.

Accurate estimate of bad debts needed

.16 The Department needs adequate rules and procedures to estimate the amounts that will not be collected from clients who lease, rent or buy Crown land. The Department did not adequately study its client accounts. Also, the Department's records do not support its estimate of bad debts.

.17 We continue to recommend the Department should have adequate rules and procedures to estimate its bad debts.

Accurate financial reports needed

.18 The Department needs to ensure the financial reports it provides to the Provincial Comptroller are accurate. The Comptroller uses these reports to prepare the General Revenue Fund financial statements.

Chapter 10 Department of Agriculture and Food

.19 We continue to recommend the Department should ensure financial reports submitted to the Provincial Comptroller are accurate.

Boards need supervision

.20 The Minister established the Agriculture and Food Products Development and Marketing Council to supervise the operation of development and marketing boards. Without adequate supervision, the Council will not know if boards fail to safeguard their assets or comply with governing laws.

.21 We continue to recommend the Council should ensure marketing and development boards have adequate rules and procedures to safeguard and control their assets and comply with authorities governing their activities.

Annual report needs financial statements

.22 The Agriculture and Food Products Development and Marketing Council does not include the financial statements of development and marketing boards in its annual report to the Assembly. Including the statements of these boards in the Council's annual report would improve its public accountability.

.23 We continue to recommend the Council's annual report should include the financial statements of all development and marketing boards.

Funds and board administered by the Department

.24 The Department's staff do the day-to-day administration for the following funds and board.

Agri-Food Innovation Fund

The Agri-Food Innovation Fund is a Crown corporation that supports diversification, research, development and economic opportunities in the Saskatchewan agriculture and food industry.

The Fund had revenue of \$10.3 million in 1996 and held assets of \$28.3 million at March 31, 1996. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A15.

Beef Development Board

The Beef Development Board's goal is to provide for the enhancement of the Saskatchewan beef and beef cattle industry through research, development and promotional activities.

The Board had revenue of \$0.1 million in 1996 and held assets of \$2.1 million at March 31, 1996.

Cattle Marketing Deductions Fund

The Department uses the Cattle Marketing Deductions Fund to develop, improve and promote the cattle industry. The Cattle Marketing Deductions Act Advisory Committee (Committee) administers the Fund.

The Fund had revenue of \$1.3 million in 1996 and held assets of \$0.9 million at March 31, 1996. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A224.

Conservation and Development Revolving Fund

The purpose of the Conservation and Development Revolving Fund is to manage the Community Pasture Program.

The Fund had revenue of \$5.1 million for the year ended March 31, 1996 and held assets of \$1.0 million at March 31, 1996.

Horned Cattle Fund

The Department uses the Horned Cattle Fund to promote research and development in the livestock industry. The Horned Cattle Purchases Act Advisory Committee (Committee) administers the Fund.

In 1996, the Fund had revenue of \$0.4 million, expenses of \$0.6 million and held assets of \$0.8 million. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A244.

Chapter 10 Department of Agriculture and Food

.25 We found similar deficiencies in the Department's rules and procedures for safeguarding and controlling the assets of the above funds and board. As a result, we report our conclusions and findings on a summary basis.

Internal reporting
needs improvement

.26 The Department should strengthen its rules and procedures for preparing the funds' and board's financial reports.

.27 The Department needs to define the financial reports needed to monitor the operations of the funds and the board, and provide written guidance to its staff. Without clear guidance, staff may prepare reports that are inaccurate or inadequate for management's purposes.

.28 For example, the Department prepared reports that did not show the following essential information: the amounts owing to the funds and the board; the amounts owed by the funds and the board; and comparisons of planned and actual results with explanations of significant variances. Also, for the Conservation and Development Revolving Fund, the Department did not prepare reports to show important operating statistics by pasture or region, such as, the number of cattle pastured and number of bulls wintered.

.29 In addition, the Department prepared inaccurate reports. It did not use generally accepted accounting principles to prepare the reports. The funds' and board's statements presented for audit contained significant errors. We advised the Department of these errors. It corrected the statements.

.30 Inadequate and inaccurate reports can lead to incorrect decisions.

We recommend

.31 The Department should establish written rules and procedures for preparing adequate and accurate financial reports.

Complete and up-to-date manual needed

.32 The Department needs complete and up-to-date accounting policies and procedures manuals for the funds and the board.

Chapter 10 Department of Agriculture and Food

.33 The Department should record its administrative policies, procedures, and other reference material for managing the funds and the board. These records can be a guide to staff as they carry out their duties. Recorded policies and procedures, approved by the Department will help in the orderly and efficient conduct of business. The manuals should include:

- a chart of accounts;
- significant accounting policies; and
- administrative control procedures for all accounting systems.

.34 The Department has policies and procedures manuals for the funds and board, except for the Agri-Food Innovation Fund. However, the Department's manuals are not complete and up-to-date. The lack of complete and up-to-date manuals increases the risk of a breakdown in controls.

We recommend

.35 The Department should establish and maintain complete and up-to-date policies and procedures manuals for the funds and the board.

.36 The Department told us it is documenting its current accounting policies and procedures for the Beef Development Board.

Approved budgets
needed

.37 The Agri-Food Innovation Fund's Board of Directors did not approve the Fund's March 31, 1996 budget until February, 1996. The Beef Development Board's Board of Directors did not approve the Board's March 31, 1996 budget until March 29, 1996.

.38 Also, the Department prepared budgets for the Cattle Marketing Deductions Fund and the Horned Cattle Fund. The Committees responsible for these funds did not approve the budgets.

.39 Budgets are key documents because they can approve a whole year's actions in advance. Also, budgets set goals for expected results. One of the primary functions of a board or committee is to approve the annual budget.

Chapter 10 Department of Agriculture and Food

We recommend

.40 Boards of Directors and responsible Committees should approve annual budgets before the fiscal year begins.

.41 The Department told us the directors of the Beef Development Board, and the Committees responsible for the Cattle Marketing Deduction Fund and the Horned Cattle Fund approved their 1997 budgets before the fiscal year began.

Inventory policies should be followed

.42 The Department does not follow its policies and procedures for the Conservation and Development Revolving Fund to safeguard inventory held at pastures.

.43 The Department cannot economically segregate the duties of pasture managers. Segregation of duties is inadequate when one person can conceal an error or fraud. The pasture managers order and receive inventory as well as verify the year-end inventory. As a result, pasture managers can misapply the assets of the Fund without timely detection.

.44 The Department has policies and procedures to reduce the risk of pasture managers misapplying the assets of the Fund. The Department requires regional managers to approve all pasture managers' purchases and monitor their performance through statistical analysis. However, regional managers do not always document that they do these procedures.

.45 We audited 42 purchases to see if regional managers approved them. We found four purchases totalling about \$9,600 that regional managers did not approve. Based on the sample, we estimate managers bought \$78,000 of goods and services during the year without the regional managers' approval.

We recommend

.46 The Department should follow its policies and procedures to safeguard inventories held at pastures.

Non-compliance with *Financial Administration Manual*

.47 The Department did not comply with the *Financial Administration Manual* (FAM), issued by the Provincial Comptroller, at the Conservation and Development Revolving Fund.

.48 The FAM sets out procedures for controlling public money. The FAM requires the Department to make deposits

Chapter 10 Department of Agriculture and Food

daily if money on-hand exceeds \$500. We noted several instances totalling about \$71,000 when staff did not deposit money as required by the FAM.

We recommend

.49 The Department should comply with the *Financial Administration Manual at the Conservation and Development Revolving Fund* or seek an exemption.

Assembly needs
financial statements

.50 The Minister has not given the Legislative Assembly (tabled) the Conservation and Development Revolving Fund's financial statements.

.51 *The Tabling of Documents Act, 1991* requires the Minister to table the Fund's March 31, 1995 financial statements by March 21, 1996. The Minister has not yet tabled the Fund's financial statements.

We recommend

.52 The Minister should table the Fund's financial statements as required by the law.

Annual report should
be timely

.53 *The Crown Corporations Act, 1993* requires the Minister to table the March 31, 1995 annual report of the Agri-Food Innovation Fund in the Legislative Assembly by March 21, 1996. The Minister tabled the annual report on May 16, 1996.

We recommend

.54 The Minister should table the Fund's annual report by the date required by law.

**Prairie Agricultural
Machinery Institute**

.55 The Prairie Agricultural Machinery Institute (PAMI) tests and appraises machinery, publishes reports, bulletins and pamphlets, and does development work to improve machinery.

.56 PAMI had revenue of \$3.1 million in 1996 and held assets of \$2.4 million at March 31, 1996. PAMI's annual report includes its financial statements.

Contingency plan
needed

.57 PAMI needs a written and tested contingency plan to ensure it can operate effectively if a major loss or destruction of its computer systems or records occurs.

.58 PAMI depends on computer systems to keep most of its records and to monitor and control its business. PAMI needs

Chapter 10 Department of Agriculture and Food

a written and tested contingency plan because its operations depend on the reliability of its computer systems.

We recommend

.59 PAMI should prepare a written contingency plan and test the plan.

**Saskatchewan
Canola
Development
Commission**

.60 The Saskatchewan Canola Development Commission (Commission) investigates new uses for canola oil and meal, promotes the value of canola oil and its products, and develops market opportunities for canola. The Commission does this by funding approved research and development projects, providing grants and by directly promoting canola.

.61 The Commission had revenues of \$1.2 million in 1995-96 and held assets of \$1.3 million at July 31, 1996.

**Canodev Research
Inc.**

.62 Canodev Research Inc. (Canodev) is a wholly-owned subsidiary of the Commission. Canodev administers research and development projects designed to investigate and promote canola and its by-products.

.63 Canodev had revenues of \$90 thousand in 1995-96 and held assets of \$253 thousand at July 31, 1996.

**Written agreements
needed**

.64 The Commission does not have written agreements with many grant recipients.

.65 The Commission needs written agreements with recipients stating the conditions of the grants. Written agreements help to ensure each party understands the other party's expectations and responsibilities.

.66 During 1995-96, the Commission began establishing written agreements with grant recipients for new research projects. However, many grant recipients still do not have written agreements with the Commission.

.67 We also reported this matter in our 1996 Fall Report.

We recommend

.68 The Commission should have written agreements for all grants. These agreements should set out all terms and conditions of the grants.

Chapter 10 Department of Agriculture and Food

	<p>.69 The Commission told us it is obtaining written agreements outlining the terms and conditions for all new projects.</p>
<p>Commission must ensure grant recipients meet terms and conditions</p>	<p>.70 The Commission pays grants without ensuring the recipients meet the terms and conditions of the grants.</p> <p>.71 The Canola Council of Canada (CCC) administers many projects for the Commission. For these projects, grant recipients submit interim and final reports to CCC rather than to the Commission. CCC reviews the reports and asks the Commission to pay interim and final instalments.</p> <p>.72 For projects administered by CCC, the Commission must ensure grant recipients have met the terms and conditions of the grants before it pays grants. If the Commission chooses to rely on CCC's evaluation of the reports, the Commission must ensure CCC uses the same criteria that the Commission would use to evaluate the reports. It also must ensure CCC applies those criteria properly.</p> <p>.73 For projects administered by CCC, the Commission chose to rely on CCC's report evaluations. However, the Commission has not given its criteria for evaluating reports to CCC. Therefore, the Commission does not know whether the recipients met the Commission's criteria.</p> <p>.74 We also reported this matter in our 1996 Fall Report.</p>
<p>We recommend</p>	<p>.75 The Commission should ensure all grant recipients meet the terms and conditions of the grants.</p> <p>.76 The Commission told us it is now ensuring all grant recipients meet the terms and conditions of the grants before making payments.</p>
<p>Subsidiary created without authority</p>	<p>.77 The Commission created a subsidiary without Lieutenant Governor in Council approval.</p> <p>.78 On July 25, 1994, the Commission incorporated Canodev Research Inc. (Canodev) to administer research and development projects. The Commission is the sole owner of Canodev.</p>

Chapter 10 Department of Agriculture and Food

.79 The Lieutenant Governor in Council established the Commission by Order in Council 95/91. The Order gave the Commission specific powers. The Commission was not given the power to create a subsidiary. Therefore, the Commission went beyond its powers when it incorporated Canodev. The Commission has not obtained appropriate approval for creating Canodev.

.80 We also reported this matter in our 1996 Fall Report.

We recommend

.81 The Commission should obtain Lieutenant Governor in Council approval before creating subsidiaries.

.82 The Commission told us creating a subsidiary is within its powers because the subsidiary would be carrying out the purposes of the Commission under the plan. Also, the Commission told us it does not want to be engaged in any activity that anyone can suggest is improper or illegal. Therefore, its lawyer wrote the Minister requesting a change in the Saskatchewan Canola Development Plan regulations specifically allowing the Commission to create a subsidiary.

Timely annual report needed

.83 The Commission submitted its 1996 annual report to the Agricultural and Food Products Development and Marketing Council (Council) late.

.84 The Commission's fiscal year end is July 31. Section 8(4) of The Saskatchewan Canola Development Plan Regulations requires the Commission to submit annual reports to the Council before the end of September (within sixty days of year end). The Commission told us it submitted its 1996 annual report to the Council on January 10, 1997.

.85 We have reported this matter in previous reports to the Assembly.

We recommend

.86 The Commission should submit its annual reports to the Agricultural and Food Products Development and Marketing Council by the date required by law.

.87 The Commission told us the Agri-Food Council is still working towards changing *The Agri-Food Act* so that the regulations may be amended to increase the reporting time to within 150 days after the Commission's year end.

Chapter 10 Department of Agriculture and Food

Board pay and expenses need approval

.88 The Commission and Canodev made unauthorized payments to their board members.

.89 Section 11(2) of *The Agri-Food Act* requires that producers approve rates of pay and expenses for members of elected boards through resolution at a general meeting.

.90 On March 28, 1995, the Board of Directors approved an increase in the rate of board members' pay and expenses. Producers did not approve this rate increase through a resolution at a general meeting.

We recommend

.91 Board members' pay and expenses should be approved at a general meeting.

.92 The Commission told us approval of board members' pay and expenses will be presented to the membership at the next general meeting.

Commission should provide financial statements to the Assembly

.93 The Commission did not comply with the Standing Committee on Public Accounts' (PAC) recommendation to table annual financial statements in the Legislative Assembly.

.94 In March 1993, PAC recommended all Government corporations should table annual financial statements in the Assembly.

.95 The Commission is a corporate body. The Government controls the Commission and Canodev through the Agri-Food Council. As a result, the Commission is a Government corporation managing public money.

.96 The Commission did not table its financial statements or those of Canodev, its subsidiary, for the year ended July 31, 1995 in the Assembly.

.97 We also reported this matter in our 1996 Fall Report.

We recommend

.98 The Commission should provide its financial statements and those of its subsidiary, Canodev, to the Legislative Assembly.

.99 The Commission thinks that the fully refundable levy from its members is not public money.

Chapter 10 Department of Agriculture and Food

Payee lists required

.100 The Commission did not provide the Assembly a list of payees as recommended by PAC.

.101 In March 1993, PAC recommended: "All Government departments, agencies and Crown corporations reporting to Treasury Board provide a list of persons who have received money."

.102 We also reported this matter in our 1996 Fall Report.

We recommend

.103 The Commission should provide a list of payees to the Legislative Assembly and also make the list available to the producers.

.104 The Commission thinks that the fully refundable levy from its members is not public money.

Saskatchewan Crop Insurance Corporation

.105 The Saskatchewan Crop Insurance Corporation (SCIC) pays grain and livestock producers for production failures due to adverse weather. It also pays grain producers for short term price declines. The Federal Government helps pay for these programs.

.106 SCIC held assets of \$216.0 million, had revenues of \$185.9 million, and had expenditures of \$180.0 million. SCIC's *Annual Report 1995-1996* includes its financial statements.

Special purpose fund

.107 SCIC also manages the Crop Reinsurance Fund of Saskatchewan (Fund). The Fund has a deficit of \$136.5 million as at March 31, 1996.

Our audit conclusions and findings

.108 Our Office worked with KPMG, SCIC's and the Fund's appointed auditor, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. KPMG and our Office formed the opinions in paragraph .109.

.109 In our opinion and KPMG's opinion:

- SCIC's and the Fund's 1996 financial statements are reliable;

Chapter 10 Department of Agriculture and Food

- SCIC complied with the authorities governing its and the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and
- SCIC had adequate rules and procedures to safeguard and control its and the Fund's assets.

.110 We also note the following matter for the Assembly's attention.

Comparison of
planned to actual
results needed

.111 The SCIC's and the Fund's published financial statements do not include a comparison of planned to actual results.

.112 Such a comparison helps legislators and other users of financial statements understand and assess what the SCIC and the Fund planned to do compared with what they did. This, in turn, helps them to assess the performance of the SCIC and the Fund.

.113 We also reported this matter in our 1996 Spring Report.

We recommend

.114 The SCIC's and the Fund's published financial statements should include a comparison of actual results to those planned.

.115 The SCIC told us that it is prepared to review disclosure options related to planned versus actual financial results. It will carefully consider whether this disclosure should be in its financial statements or notes thereto, or elsewhere within its annual report.

Chapter 11
Department of Economic Development

Table of Contents

Introduction . . . . .	.01
General Revenue Fund appropriation . . . . .	.04
Our audit conclusions and findings . . . . .	.06
Service agreement required . . . . .	.07
Loans require Board's recommendation . . . . .	.14

Chapter 11

Department of Economic Development

Introduction

.01 The Department of Economic Development promotes and coordinates policies and programs to develop, diversify, and renew the Saskatchewan economy. Often, the Department works in partnership with others.

.02 In late 1995, the Lieutenant Governor in Council (Cabinet) made the Minister of Economic Development responsible for part of the Department of Economic Development. Also, it made the Minister of Northern Affairs responsible for part of the Department of Economic Development (i.e., Office of Northern Affairs).

.03 The Office of Northern Affairs is a branch within the Department of Economic Development. It is staffed and funded by the Department. Therefore, two Ministers use this Department to carry out their responsibilities. In turn, both are accountable to the Legislative Assembly for activities carried out through this Department.

General Revenue Fund appropriation

.04 In 1995-96, the Department managed General Revenue Fund appropriations of \$48.8 million, revenues of \$0.7 million, loans of \$17.4 million and guarantees of \$5.6 million. The Department plans to include this information in its Annual Report 1995-96.

.05 The Department's major programs and spending are:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Business Investment Programs	\$ 21.0	\$ 20.6
Tourism	7.7	7.5
Accommodation and Central Services	2.1	1.9
Payments to Saskatchewan		
Opportunities Corporation	3.8	3.7
Diversification	4.0	3.9
Administration	3.4	3.2
Business, Co-operatives and		
Community Economic Development	3.3	3.1
Office of Northern Affairs	2.4	2.0
Policy and Co-ordination	1.1	1.0
	<u>\$ 48.8</u>	<u>\$ 46.9</u>

Chapter 11 Department of Economic Development

Our audit conclusions
and findings

.06 In our opinion:

- the Department had adequate rules and procedures to safeguard and control its assets except for the matter referred to in paragraphs .07 to .18; and
- the Department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter referred to in paragraphs .14 to .18.

Service agreement
required

.07 The Department needs written agreements, before receiving or providing services without charge, with the Department of Finance.

.08 At times, the Department of Finance carries out the work of the Department. The Department of Finance manages a loan to Hudson Bay Mining and Smelting. This loan was made by the Department of Economic Development. It does not pay the Department of Finance for these services.

.09 At other times, the Department carries out work for the Department of Finance. The Department manages the Labour-Sponsored Venture Capital Tax Credit Program. The Cabinet has assigned this program to the Department of Finance. The Department of Finance does not pay the Department for these services.

.10 In 1993, the Standing Committee on Public Accounts (PAC) recommended that agencies should have authorized contracts before providing goods and services without charge to other government agencies.

.11 The Department needs written agreements with others when receiving or providing services. Sound agreements:

- describe the authority and responsibility of both parties;
- describe services and activities the other party carries out to achieve the Department's objectives;

Chapter 11 Department of Economic Development

- require the other parties to report periodically to the Department on:
 - the systems and practices used to achieve the objectives; and
 - how well the other parties achieved the objectives; and
- allow the Department or independent auditors to verify the other parties' reports.

.12 The Department does not have written agreements with the Department of Finance. Also, the Department has not complied with the PAC's recommendation.

We recommend

.13 The Department should have written agreements with the Department of Finance for the services they receive or provide.

Loans require Board's recommendation

.14 The Department made a loan of \$118,730 without the Northern Review Board's recommendation.

.15 Subsection 6(1) of *The Northern Economic Development Regulations* requires the Minister to request a recommendation from the Northern Review Board before approving any loans exceeding \$25,000. The Minister is not required to follow the Board's recommendation.

.16 The Cabinet authorized the appointment of the Board on June 20, 1995. The Board held its first meeting in January 1996. The Minister approved the loan of \$118,730 in December 1995 without requesting the Board's recommendation.

We recommend

.17 The Minister should request and obtain required recommendations before approving loans exceeding \$25,000.

.18 In February 1997, the Department told us the Minister now requests the Board's opinion before approving loans exceeding \$25,000.

Chapter 12
Department of Environment and Resource Management

Table of Contents

Introduction . . . . .	.01
Financial background . . . . .	.04
Special purpose funds and Crown agency . . . . .	.05
Our audit conclusions and findings . . . . .	.06
Accurate and adequate internal reports required . . . . .	.07
Approval required for system changes . . . . .	.18
Fish and Wildlife Development Fund . . . . .	.23
Our audit conclusions and findings . . . . .	.25
Compliance with <i>The Government Organization Act</i> . . . . .	.26
Resource Protection and Development Revolving Fund . . . . .	.31
Our audit conclusions and findings . . . . .	.33
Accurate revenue recording needed . . . . .	.34
Complete capital asset records needed . . . . .	.40
Financial reports needed . . . . .	.47
Services provided without authority . . . . .	.50

Chapter 12

Department of Environment and Resource Management

Introduction

.01 The Department is responsible for managing, enhancing and protecting the province's natural resources and sustaining them for future generations.

.02 The Department received \$162.6 million from the General Revenue Fund for its programs. Also, the Department raised \$40.2 million of revenue. The *Public Accounts 1995-96 Volume 2* contains information about the Department's revenue and expenses on pages 10 and 72 respectively. Revenue consists of license and permit fees, federal transfers for fire fighting, beverage container refund deposits, and environmental handling charges.

.03 Following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Forest Fire Management	\$ 24.9	\$ 87.6
Operations	19.1	21.0
Environmental Protection	14.4	15.0
Forests and Lands	9.2	10.0
Other	<u>27.0</u>	<u>29.0</u>
	<u>\$ 94.6</u>	<u>\$ 162.6</u>

Financial background

.04 For 1995-96, the Government's summary financial statements show environment and natural resource expenses of \$191.6 million. Table 1 sets out environmental and natural resource expenses as shown in the summary financial statements reconciled to environmental and resource management spending reported by the Department of Environment and Resource Management.

Chapter 12 Department of Environment and Resource Management

Table 1

(in millions of dollars)

Department of Environment and Resource Management <i>(Public Accounts 1995-96 Volume 2 page 72)</i>	\$ 162.6
Deduct expenses shown as:	
Economic Development - Forestry Programs	(7.5)
Add expenses funded by:	
Saskatchewan Water Corporation	22.5
Others	14.0
Environment and Natural Resources per summary financial statements	\$ 191.6

Special purpose funds
and Crown agency

.05 The Department is also responsible for managing the following special purpose funds and Crown agency:

Commercial Revolving Fund
Resource Protection and Development Revolving Fund
Fish and Wildlife Development Fund
Saskatchewan Wetland Conservation Corporation

Our audit conclusions
and findings

.06 In our opinion:

- the financial statements of the funds and Crown agency listed in paragraph .05 are reliable;
- the Department and its Crown agency complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter; and
- the Department and its Crown agency had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter.

Accurate and adequate
internal reports
required

.07 Senior management needs accurate and adequate internal reports to manage the Department including its special purpose funds.

.08 The Department has established adequate rules and procedures for internal financial reporting. However, staff did not follow these rules and procedures.

.09 As a result, the Department's internal financial reports for its special purpose funds were inaccurate and inadequate. The financial reports did not:

- accurately measure revenues, expenses, assets and liabilities;
- show assets and liabilities;
- compare actual results with planned results; and
- provide adequate explanations for variances between planned and actual results.

.10 Inadequate or inaccurate financial reports may result in incorrect decisions.

.11 Also, the Department has not fully documented its operational information needs or established rules and procedures for preparing operational reports. Operational reports should show the effectiveness of programs, i.e., outputs and outcomes. Outputs are products and services. Outcomes are the results.

.12 We realize defining and documenting operational reporting needs is not easy and will take time. However, we think the Department should work toward this goal.

.13 The Department has started to document these needs. However, current internal reports do not show whether the Department achieved its goals and objectives.

We recommend

.14 The Department should ensure staff follow established rules and procedures for preparing financial reports.

.15 The Department should formally define and document its operational information needs.

.16 The Department's internal reports should show whether it achieved its goals and objectives.

Chapter 12 Department of Environment and Resource Management

.17 The Department told us it uses the Provincial Comptroller's Revenue and Expenditure System for financial management. The Department thinks the Comptroller's system is not adequate for the Department's financial management and is considering changes to its financial systems.

Approval required for system changes

.18 The Department needs to comply with the *Financial Administration Manual* (FAM) issued by the Provincial Comptroller when changing a financial system.

.19 In section 1011, FAM requires the Department to obtain formal approval from the Provincial Comptroller when changing financial systems.

.20 The Department did not obtain formal approval from the Provincial Comptroller before changing its system for transferring money from regional bank accounts to the General Revenue Fund.

We recommend

.21 The Department should obtain the Provincial Comptroller's approval for the changes to its banking system.

.22 Management told us they received informal approval for the system change after the year-end.

Fish and Wildlife Development Fund

.23 The Assembly established the Fish and Wildlife Development Fund (Fund) for the purposes of:

- preventing the continual reduction of wildlife habitat and population in the agricultural area of the province; and
- conducting fish enhancement projects to prevent the loss of fish or fish habitat.

.24 The Fund had revenues of \$3.3 million in 1996 and held assets of \$14.5 million at March 31, 1996. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A235.

Chapter 12 Department of Environment and Resource Management

Our audit conclusions
and findings

.25 In our opinion:

- the Fund's financial statements are reliable;
- the Department complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described in paragraphs .26 to .30; and
- the Department had adequate rules and procedures to safeguard and control the Fund's assets except for the matters described in paragraphs .07 to .17.

Compliance with *The
Government
Organization Act*

.26 The Department needs Lieutenant Governor in Council (Cabinet) approval for agreements resulting in payments greater than \$10,000.

.27 Section 17 (2) of *The Government Organization Act* requires Cabinet approval for agreements resulting in payments greater than \$10,000.

.28 The Department set a policy of not obtaining Cabinet approval for agreements resulting in payments greater than \$10,000 except for land purchases. As a result, all payments made under this policy did not comply with the law.

We recommend

.29 The Department should obtain Lieutenant Governor in Council approval for agreements when required by law.

.30 In May 1996, the threshold for payments requiring Cabinet approval increased to \$50,000. Management told us the Department will obtain approval when required in the future.

Chapter 12 Department of Environment and Resource Management

Resource Protection and Development Revolving Fund

.31 The Assembly established the Resource Protection and Development Revolving Fund (Fund) to provide resource protection and development services.

.32 The Fund had revenues of \$2.2 million in 1996 and held assets of \$3.1 million at March 31, 1996. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A204.

Our audit conclusions
and findings

.33 In our opinion:

- the Fund's financial statements are reliable;
- the Department complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described in paragraphs .47 to .56; and
- the Department had adequate rules and procedures to safeguard and control the Fund's assets except for the matters described in paragraphs .07 to .17 and .34 to .46.

Accurate revenue
recording needed

.34 The Department needs rules and procedures to record revenue accurately.

.35 During the year, the Department did not properly record the revenue it earned. As a result, internal financial reports were inaccurate.

.36 The Department recorded revenue it did not earn totalling \$52,000. Also, it recorded \$128,000 of Goods and Services Tax (GST) collected as revenue. After the year-end, management found this error and corrected the Fund's records.

.37 Inaccurate internal financial reports may result in incorrect decisions.

We recommend

.38 The Department should establish procedures to record revenue accurately.

Chapter 12 Department of Environment and Resource Management

- .39 Management told us they now have procedures to record revenue accurately.
-
- Complete capital asset records needed
- .40 The Department needs complete capital asset records.
- .41 The Department has equipment records. But, the Department does not know if the records are accurate because it does not reconcile these records to the total value of its investment in capital assets.
- .42 The Department needs complete capital asset records to detect promptly any loss of these assets.
- .43 Also, the Department lacks complete information about the value of its capital assets. Without this information, the Department may make incorrect asset purchase and disposal decisions. Also, the Department cannot accurately assess asset risk or create an adequate five-year capital acquisition plan as required by the *Financial Administration Manual* (FAM).
- .44 During our audit, we noted an unexplained increase in the Fund's capital asset records. We asked management to investigate the increase. Management found errors totalling \$66,000 in the Fund's capital asset records at year-end. Management corrected the Fund's records.
- We recommend
- .45 The Department should keep complete records of its capital assets and reconcile these records to the total value of its investment in capital assets.**
- .46 Management told us they now have procedures for keeping complete capital asset records.
-
- Financial reports needed
- .47 The Department did not submit quarterly financial statements for the Fund to Treasury Board as required by section 1010-3 of FAM.
- We recommend
- .48 The Department should submit quarterly financial statements for the Fund to Treasury Board.**
- .49 Management told us they will seek an exemption from Treasury Board regarding this requirement.

Chapter 12 Department of Environment and Resource Management

Services provided
without authority

.50 The Department provided services to the Aboriginal Government Employees Network (Network) without authority.

.51 Section 19 (2) of *The Natural Resources Act* empowers the Minister to provide resource protection and development services. The Resource Protection and Development Regulations, 1994 clarifies this as providing services for activities related to: fire suppression, radio communication networks, provincial forest and resource lands, fisheries, wildlife or timber resources.

.52 The Network's purpose is to achieve a public service representative of the province's population.

.53 The Network's activities fall outside the Fund's mandate.

.54 The Department provided the Network with administrative services and office space at no cost. Also, the Department collected revenues of \$49,600 and made payments of \$45,756 related to the Network without authority.

We recommend

.55 The Department should not provide services without authority.

.56 Management told us the Department will not provide administrative services to the Network effective April 1, 1997.

Chapter 13
Department of Finance

Table of Contents

Introduction . . . . .	.01
Pension and benefit plans . . . . .	.07
Our audit conclusions and findings . . . . .	.08
Information late for payment on a guarantee . . . . .	.14
Annual report needed . . . . .	.18
Special warrants . . . . .	.25
Physical assets need disclosure . . . . .	.26
Sinking fund statements required . . . . .	.30
Members of the Legislative Assembly Superannuation Plan . . . . .	.35
Our audit conclusions and findings . . . . .	.37
Spousal payments require authority . . . . .	.38
Act needs change . . . . .	.44
Municipal Employees' Pension Plan . . . . .	.50
Our audit conclusions and findings . . . . .	.52
Written procedures needed . . . . .	.54
Annual reports should be timely . . . . .	.62

Chapter 13

Department of Finance

Introduction

.01 The Department of Finance (Department):

- administers various tax, grant, and refund programs;
- arranges financing, banking, investing and borrowing functions;
- provides policy and financial analysis to the Treasury Board and Executive Council;
- develops tax policy alternatives;
- provides economic forecasting, and economic, social and statistical data;
- prepares the annual *Budget Address*, the *Estimates* and the *Public Accounts*; and
- administers public sector pension and benefit plans.

.02 Also, the Department helps the Government and the Legislature manage and account for public money. As well, it controls spending from the General Revenue Fund (GRF) and ensures the GRF receives all revenue.

.03 In 1996, the Department received \$1.525 billion from the GRF and spent this money on its programs. It also collected revenues of \$4.449 billion. These revenues include \$507 million received from Crown agencies for debt costs.

.04 Information about the Department's revenues and expenses is in the *Public Accounts 1995-96 Volume 2* on pages 9, 11, and 89 to 97. Additional information is in the *Public Accounts 1995-96 Volume 1* on page 13.

Chapter 13 Department of Finance

.05 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Interest-General Revenue Fund	\$ 873	\$ 849
Interest-User Fee Enterprises	<u>536</u>	<u>507</u>
Interest on Debt	1,409	1,356
Employee Benefits	129	144
Tax Collection Expenses	7	7
Provincial Comptroller	5	4
Budget Analysis	4	4
Other	<u>10</u>	<u>10</u>
	<u>\$ 1,564</u>	<u>\$ 1,525</u>

.06 The following is a list of major revenue sources:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Individual Income Taxes	\$ 1,055	\$ 1,111
Interest-User Fee Enterprises	536	507
Sales Taxes	763	779
Transfers from Government of Canada:		
Equalization	654	215
Established Programs Financing	385	381
Fuel Taxes	336	341
Corporation Capital and Income Taxes	360	459
Tobacco Taxes	114	114
Transfers from Government Entities	308	340
Motor Vehicle Fees	88	92
Other	<u>107</u>	<u>110</u>
Revenue transferred to the General Revenue Fund	<u>\$ 4,706</u>	<u>\$ 4,449</u>

Pension and benefit plans

.07 The Department is responsible for managing the following funds and Crown agencies. The list includes the date their fiscal year ends.

Chapter 13 Department of Finance

	<u>Year end</u>
582099 Saskatchewan Ltd.	June 23, 1995
General Revenue Fund	March 31, 1996
Judges of the Provincial Court Superannuation Plan	March 31, 1996
Liquor Board Superannuation Plan	December 31, 1995
Members of the Legislative Assembly Superannuation Plan	March 31, 1996
Municipal Employees' Pension Commission	December 31, 1995
Public Employees Deferred Salary Leave Fund	December 31, 1995
Public Employees Disability Income Fund	December 31, 1995
Public Employees Dental Fund	December 31, 1995
Public Employees Benefits Agency Revolving Fund	March 31, 1996
Public Employees (Government Contributory) Superannuation Plan	March 31, 1996
Public Employees Group Life Insurance Fund	December 31, 1995
Public Service Superannuation Plan	March 31, 1996
Saskatchewan Pension Plan	December 31, 1995
SaskPen Properties Ltd.	December 31, 1995
SP Two Properties Ltd.	March 31, 1996
Sinking Fund	March 31, 1996
Workers' Compensation Board Superannuation Plan	December 31, 1995

Our audit conclusions
and findings

.08 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .07 are reliable except where we report otherwise in this Chapter;
- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter; and

Chapter 13 Department of Finance

- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter.

.09 We report on the Government's summary financial statements and the General Revenue Fund's statements in our *Report of the Provincial Auditor: 1996 Fall* (1996 Fall Report). We report the Government's summary statements included in the *Public Accounts 1995-96 Volume 1* are reliable. We report the General Revenue Fund's statements included in the *Public Accounts 1995-96 Volume 1* are reliable except for the matter reported in paragraph .10.

.10 The General Revenue Fund's statements do not properly show annual pension costs and total pension liabilities. Had pension liabilities been recorded, liabilities and the accumulated deficit would increase by \$3.4 billion and expenses would increase and the surplus for the year would decrease by \$108 million.

.11 We report additional matters in paragraphs .18 to .29 for the Legislative Assembly's attention. In paragraphs .30 to .34, we also provide an update on a recommendation in our *Report of the Provincial Auditor: 1995 Spring* (1995 Spring Report).

.12 This Chapter covers audits of pension and benefit plans and other Crown agencies with years ending on or before March 31, 1996, except as follows. Our 1996 Fall Report reports on our audits of pension and benefit plans with years ending on or before December 31, 1995. We have not completed our audit of the Municipal Employees' Pension Commission. We will report the results of this audit in our 1997 Fall Report.

Information late for
payment on a
guarantee

.13 The Department did not give the Legislative Assembly a statement of facts for a payment made on a guarantee as required by *The Financial Administration Act, 1993* (Act).

.14 Section 62(2) of the Act requires the Minister of Finance to give the Legislative Assembly a statement of facts for all payments made on guarantees. The Minister must table these statements within 15 sitting days of the payment date.

Chapter 13 Department of Finance

.15 The Department was late in tabling a statement of facts for a \$353,000 payment on a Community Bond guarantee. The Act required the Department to table the statement of facts for the payment by March 20, 1996. The Department tabled it on May 15, 1996.

We recommend

.16 The Department should give the Legislative Assembly statements of facts for payments made on guarantees within 15 sitting days of the payments.

.17 The Department told us this was the first guarantee paid under this program. The Department also told us it now has established procedures for this program to ensure statements of facts are tabled on time.

Annual report needed

.18 The Department does not prepare an annual report on its activities.

.19 The Standing Committee on Public Accounts recommends departments provide timely annual reports on their activities. Legislators and the public use annual reports to assess the performance of departments.

.20 To be useful, an annual report should be timely and describe:

- what the department is all about;
- what the department has done;
- where the department is now; and
- what the department plans to do.

.21 Other provincial finance departments prepare and publish annual reports on their activities. Examples include Alberta, British Columbia and Manitoba.

.22 We reported this matter in our 1995 Spring Report and our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report).

We recommend

.23 The Department should prepare an annual report on its activities.

Chapter 13 Department of Finance

.24 In March 1996, the Deputy Minister of Finance told us the Department did not prepare an annual report because it provides information in other reports tabled in the Legislature. These reports include the *Estimates*, the *Budget Speech*, the *Mid-Year Financial Report* and the *Public Accounts*. In our view, these reports do not meet the criteria set out in paragraph .20.

Special warrants

.25 The law requires us to report when a special warrant approved the payment of public money. In 1995-96, the Government approved the spending of \$115 million by special warrant. It later included these special warrants in an appropriation act.

Physical assets need disclosure

.26 The GRF's financial statements do not show its acquired physical assets.

.27 Governments acquire physical assets with economic lives exceeding one year. They include land, buildings and equipment. These assets are available for use, require operating and maintenance expenditures and may need to be replaced in the future.

.28 We think the GRF's financial statements should show its acquired physical assets on hand and available for use. This information helps readers understand and assess the management of its physical assets and future requirements for maintenance and replacement.

We recommend

.29 The Department should show the GRF's acquired physical assets in the GRF's financial statements.

Sinking fund statements required

.30 The Department should prepare financial statements for the Government's Sinking Fund.

.31 Generally, when the Government borrows money, the debt is a charge on and payable from the GRF. For some debts, the Government requires a sinking fund. The GRF pays money into the Sinking Fund to retire the debts on maturity. At March 31, 1996, the Sinking Fund held assets of \$515 million.

Chapter 13 Department of Finance

.32 We think the Department should prepare and publish financial statements for the Sinking Fund. These statements should show the Sinking Fund's assets, liabilities, revenues and expenses. We think this information is necessary for the Department to show how it manages the public money in the Sinking Fund.

.33 We reported this matter in our 1995 Spring Report and previous Reports. In our 1995 Spring Report, we recommend the Department should prepare and publish general purpose financial statements for the Government's Sinking Fund. We did not report this matter in our 1996 Spring Report because the Department was exploring how best to comply with our recommendation.

.34 The Department told us it continues to explore how best to comply with our recommendation.

Members of the Legislative Assembly Superannuation Plan

.35 The Public Employees' Benefits Agency (the Department) manages the Members of the Legislative Assembly Superannuation Plan (Plan). The Plan receives contributions from Members and the General Revenue Fund and receives investment income. The Department uses the money to pay pensions, annuities and administration costs.

.36 In 1996, the Plan had investment income of \$0.8 million and the Department paid pensions of \$2.1 million from the Plan. The Plan had net assets of \$13.2 million at March 31, 1996. The Plan's financial statements are included in the *Financial Statements - Compendium 1995-96* on page B317.

Our audit conclusions
and findings

.37 In our opinion:

- the Plan's financial statements are reliable;
- the Department had adequate rules and procedures to safeguard and control the Plan's assets; and
- the Department complied with the authorities governing the Plan's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in paragraphs .38 to .49.

Chapter 13 Department of Finance

Spousal payments
require authority

.38 The Department did not pay allowances to surviving spouses as required by *The Members of the Legislative Assembly Superannuation Act, 1979* (Act).

.39 Section 26.1 of the Act states:

Where a person who was a member and:

- a) *is entitled to or in receipt of a supplementary monthly allowance pursuant to section 25, 25.1 or 26; or*
- b) *was entitled to a supplementary monthly allowance pursuant to section 25, 25.1 or 26 that has been discontinued under Section 37.1;*

dies leaving a spouse, 60% of the supplementary monthly allowances that he was receiving or that he was or would have been entitled to pursuant to sections 25, 25.1 and 26 shall be paid to his spouse for life.

.40 When pensioners die, the Department pays surviving spouses 60% of the supplementary allowances as required by Section 26.1. However, when it grants new supplementary allowances, the Department pays 100% of these allowances to surviving spouses. Section 26.1 requires the Department to pay only 60% of these allowances to surviving spouses. We believe the amount paid more than the 60% rule is contrary to the law.

.41 We reported this matter in our 1996 Spring Report and previous Reports.

We recommend

.42 The Department should pay allowances to surviving spouses as required by the Act or seek changes to the Act to allow these payments.

.43 In June 1994, the Deputy Minister of Finance told us the Department would seek a legislative change to clarify Section 26.1. In April 1995 and June 1996, the Department told us it continues to seek legislative changes.

Chapter 13 Department of Finance

Act needs change

.44 *The Members of the Legislative Assembly Superannuation Act, 1979* needs to set out how the Department should administer profits or losses from underwriting annuities.

.45 The Department underwrites annuities for Members and pays these annuities out of the Plan. When the Department writes annuity contracts, it should ensure it will have the money to make future payments. Due to uncertainties related to future events, such as investment earnings and changes in mortality rates, the amount set aside may be insufficient to make future payments.

.46 The law does not specify the source of funding for any future losses. Also, the law does not direct the use of profits.

.47 We reported this matter in our 1996 Spring Report and previous Reports.

We recommend

.48 **The Department should seek changes to the Act to provide direction for the handling of profits or losses from annuity underwriting.**

.49 In 1989, the Minister responsible for the Act told us the Department would seek a change to the law. In June 1994, the Deputy Minister told us the Department is continuing to pursue a legislative amendment to clarify the handling of profits and losses on the annuity underwriting operations. In April 1995 and June 1996, the Department told us it continues to seek legislative changes.

**Municipal
Employees' Pension
Plan**

.50 The Municipal Employees' Pension Commission (Commission) manages the Municipal Employees' Pension Plan (Plan). It consists of a defined benefit pension plan, a money accumulation plan, annuity underwriting activities and supplementary benefits activity.

.51 In 1995, the Commission received contributions of \$9 million from municipal employees and \$9 million from municipal employers. At December 31, 1995, the Commission held assets of \$523 million and had liabilities of \$490 million. We obtained this financial information from the Commission's draft financial statements.

Chapter 13 Department of Finance

Our audit conclusions
and findings

.52 In our opinion:

- the Commission had adequate rules and procedures to safeguard and control the Plan's assets except for the matters reported in paragraphs .54 to .61; and
- the Commission complied with the authorities governing the Plan's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in paragraphs .62 to .65.

.53 We have not completed our audit of the financial statements. When our audit is complete, we will report on them.

Written procedures
needed

.54 The Commission needs to establish and document procedures to calculate its pension liability.

.55 The Commission needs timely actuarial valuations to manage its affairs and to prepare timely financial statements.

.56 The Commission has no formal written record of its procedures for calculating its pension liability. These procedures would include:

- the timing of the valuations and extrapolations;
- the timing of the contracting/tendering of the valuations;
- a schedule of the dates and types of data to be provided to the actuary;
- how the Commission sets and supports its best estimate assumptions;
- the actuarial methods the Commission uses;
- identifying Plan changes for the actuary;

Chapter 13 Department of Finance

- the information the actuary will show in his report;
- reconciling the data provided to the actuary to what appears in the actuary's report; and
- reviewing the actuary's report for reasonableness.

.57 The Commission's actuary uses pension data from the Plan to calculate the Commission's pension liability. The pension data includes members' names, birth dates, years of service, spouses' names, spouses' birth dates, salaries, dates pensions started and the amounts of monthly pensions. However, the Commission did not provide data to its actuary on a timely basis. As a result, the Commission received the actuary's report late.

.58 Also, the Commission did not carry out procedures to ensure the accuracy of the actuary's report. The Commission's staff did not reconcile the data reported by the actuary to the data provided to the actuary. As a result, the Commission did not know if the data used was accurate.

.59 As a result of the deficiencies in the Commission's rules and procedures, the Commission was not able to prepare timely financial statements for the year ended December 31, 1995.

We recommend

.60 The Commission should establish and document its procedures to calculate its pension liability.

.61 Management told us they have some procedures in place although they have not formalized them. They said they would have formalized written procedures by June 1997.

Annual reports should be timely

.62 The Commission did not comply with *The Tabling of Documents Act, 1991*.

.63 *The Tabling of Documents Act, 1991* requires the Commission to table its 1994 annual report by April 26, 1995 and the 1995 annual report by April 24, 1996.

Chapter 13 Department of Finance

.64 The Commission tabled its 1994 annual report on March 8, 1996. The Commission has not yet tabled the 1995 annual report.

We recommend

.65 The Commission should table its annual report by the date required by law.

Chapter 14

Department of Highways and Transportation

Table of Contents

Government spending on transportation . . . . .	.01
Introduction . . . . .	.03
Significant issues facing the DHT . . . . .	.06
General Revenue Fund appropriation - DHT . . . . .	.07
Our audit conclusions and findings . . . . .	.09
Accurate financial reporting required for decision-making . . . . .	.10
Management direction required for interim financial reporting . . . . .	.13
Risk of loss or damage not adequately assessed . . . . .	.22
Highways Revolving Fund . . . . .	.28
Our audit conclusions and findings . . . . .	.30
More effective financial reporting system needed . . . . .	.31
Better interim financial reporting needed . . . . .	.38

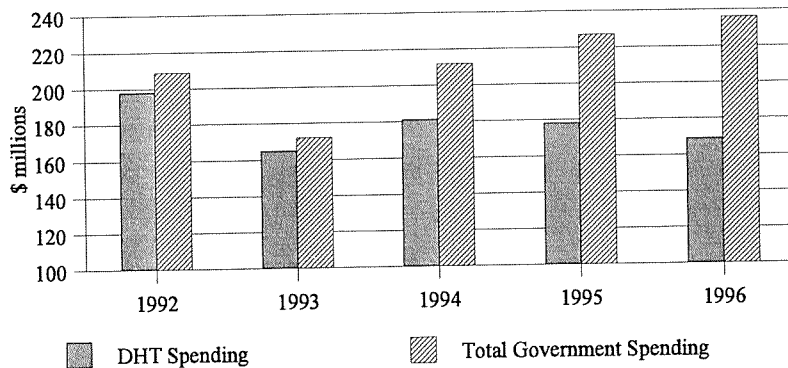
Chapter 14

Department of Highways and Transportation

Government spending on transportation

.01 In 1995-96, the Government spent \$235.5 million on transportation (the Government's summary financial statements, *Public Accounts 1995-96 Volume 1*, p. 36). The Department of Highways and Transportation (DHT) spent \$169.4 million including \$30.0 million spent by the Highways Revolving Fund (Fund). The Department of Municipal Government spent \$55.2 million on transportation.

.02 The following graph shows the Government's spending on transportation for the last five years.



Source: *Public Accounts* - General Revenue Fund's financial statements and the Government's summary financial statements

Introduction

.03 The DHT manages a General Revenue Fund appropriation as well as the operations of the Fund and the Transportation Partnerships Corporation (Corporation).

.04 This Chapter reports on the results of our audits of the DHT, the Fund and the Corporation.

.05 The DHT contributes to the social and economic benefit of the province by:

- developing and administering transportation policies and programs; and
- building, preserving, and regulating the safe use of the transportation system. This system includes public highways, winter roads, bridges, and provincial airports.

Chapter 14 Department of Highways and Transportation

Significant issues facing the DHT

.06 The DHT faces issues critical to its success. These issues include:

- preserving Saskatchewan's \$6.0 billion investment in an extensive highway network within established spending limits.

Fiscal restraint and increased road traffic challenge the DHT in preserving the serviceability of the highway system.

- efficient movement of goods to support economic growth and social well-being within the province.

Changes in Federal transportation policy affect the transportation systems in Saskatchewan. National transport services are being restructured. Railway companies are abandoning branch lines. These changes will transfer costs to grain producers, provincial and municipal governments, and industry groups. These changes challenge the DHT to maximize its contribution to the economic growth and social well-being of the province.

General Revenue Fund appropriation - DHT

.07 In 1995-96, the DHT managed General Revenue Fund appropriations of \$169.4 million and revenues of \$11 million. Information about these appropriations and revenues appears in the *Public Accounts 1995-96 Volume 2* on pages 9, 11, 113 and 115.

.08 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Construction of transportation systems	\$ 33.8	\$ 33.8
Maintenance of transportation systems	102.2	103.8
Operations	13.8	14.0
Accommodation and central services payments	6.9	6.8
Other	11.3	11.0
	<u>\$ 168.0</u>	<u>\$ 169.4</u>

Chapter 14 Department of Highways and Transportation

Our audit conclusions
and findings

.09 In our opinion:

- DHT had adequate rules and procedures to safeguard and control its assets except for the matters referred to in paragraphs .10 to .27;
- DHT complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and
- the Corporation's financial information is reliable.

Accurate financial
reporting required for
decision-making

.10 The Deputy Minister is responsible for the integrity of the whole financial process within the DHT. Also, the Deputy Minister must deliver the activities assigned to the DHT within established spending limits.

.11 To manage the affairs of the DHT properly, the Deputy Minister and other officials need accurate periodic financial reports. To prepare accurate reports, the DHT needs adequate rules and procedures. Inaccurate reports can result in incorrect decisions.

.12 In paragraphs .13 to .27, we describe deficiencies we found in the DHT's rules and procedures for managing its affairs.

Management direction
required for interim
financial reporting

.13 Management needs to clearly document its systems and practices for preparing sound interim financial reports.

.14 Management needs timely, complete, and accurate financial reports throughout the year to help them make sound decisions. During the year, we assessed the adequacy of the DHT's rules and procedures for preparing interim financial reports. We evaluated the DHT's rules and procedures against the criteria set out in paragraphs .15 and .16.

.15 Sound management direction to staff:

- would be clear and concise;

Chapter 14 Department of Highways and Transportation

- sets out the type of reports management requires (e.g., financial and non-financial);
- sets out when management requires those reports (e.g., weekly, monthly, quarterly);
- sets out the procedures it expects its staff to use when preparing those reports. For financial reports, those procedures should include the items listed in paragraph .16; and
- sets out who is responsible for preparing those reports (i.e., specific position or work area within the department).

.16 Sound interim financial reports:

- use proper accounting policies (e.g., those approved by Treasury Board);
- agree to actual results and activities recorded in accounts (i.e., supporting information systems);
- for revenues and expenses, include a comparison of actual results to those planned (i.e., initially budgeted and current forecast); and
- highlight and explain major variances between actual results and those planned. Explanations should be based on activities where possible.

.17 DHT management provides adequate direction to staff on how to prepare interim financial reports except for the following:

- direction provided is not concise. Currently, it consists of course materials and various memoranda. Clear policy and procedural manuals for preparing interim financial reports are not in place.
- direction does not formally define who (e.g., position or work division) is responsible for preparing the interim reports or set out the necessary procedures to prepare these reports.

This guidance is important given the DHT's new organizational structure and changes in authority of each division and positions within each division.

- direction provided does not formally define the nature of variances (i.e., sensitive accounts) or extent of variances (i.e., dollar value, percentage changes) management expects staff to explain. Currently, management relies on its staff to decide which variances to explain and to provide explanations.

.18 Inadequate guidance increases the risk of inaccurate interim reports. This in turn may result in adverse management decisions.

.19 We also reported this matter in our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report) to the Legislative Assembly.

We recommend

.20 The DHT should clearly document systems and practices necessary to prepare sound interim financial reports.

.21 Management told us the DHT has started a project to document its interim financial reporting requirements. Its recent reorganization makes this project more complex.

Risk of loss or damage not adequately assessed

.22 The DHT needs to assess the risk of loss or damage to its inventory and equipment.

.23 The DHT, through the Highways Revolving Fund, is responsible for \$46.3 million in inventory and equipment. Section AR 1210 of the Treasury Board *Accounting and Reporting Policy* manual states that departments responsible for handling assets "are required to establish procedures to ensure that adequate systems and controls are in place to reduce the risk of loss."

.24 We evaluated the DHT's systems and practices against the following. Adequate systems and practices to safeguard inventory and equipment from their risk of loss include:

Chapter 14 Department of Highways and Transportation

- tracking the purchase and location of inventory and equipment on an ongoing basis;
- restricting physical access to inventory and equipment;
- formally assessing the risk of loss or damage to its inventory and equipment; and
- insuring equipment and vehicles against risks identified in its risk assessment.

.25 At present, the DHT tracks the purchase and use of its inventory and equipment. It appropriately restricts physical access. Also, it insures some of its road equipment and vehicles through SGI plate insurance. However, the DHT has not formally identified the risks of loss or damage to its inventory and equipment. As a result, it cannot determine if the steps it has undertaken are sufficient to ensure risks are at an acceptable level.

We recommend

.26 The DHT should assess the risk of loss or damage to all of its inventory and equipment. It should then take the steps necessary to reduce risks identified to an acceptable level.

.27 Management told us they understood the Government had a policy of self-insurance and thinks they were in compliance with it. The DHT will assess the risk of loss or damage to its road equipment and vehicles.

Highways Revolving Fund

.28 The DHT uses the Highways Revolving Fund (Fund) to distribute the cost of equipment, materials, and labour to the DHT's programs and other custom-work projects. The Fund operates on a break-even basis.

.29 In 1995-96, the Fund had revenues of \$29.9 million, expenses of \$30.0 million, and held assets of \$49.5 million. \$23.6 million of the Fund's revenues came from the DHT's appropriation. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A176.

Our audit conclusions and findings

.30 In our opinion:

- the Fund's financial statements are reliable;

- the DHT had adequate rules and procedures to safeguard and control the Fund's assets except for the matters referred to in paragraphs .31 to .45; and
- the DHT complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

More effective financial reporting system needed

.31 The DHT needs to improve its financial reporting system for the Fund. Staff cannot efficiently produce interim and year-end financial reports for the Fund with the current system.

.32 Management needs adequate financial reporting systems to help them monitor and assess the performance of the Fund. Sound financial reporting systems would:

- efficiently integrate data from other systems;
- provide timely, adequate, and accurate information necessary to control operations;
- respond to the needs of management; and
- provide information to the appropriate persons when needed.

.33 The DHT's several computer systems do not work well together to provide efficient record keeping. As a result, staff must prepare many entries to update the general ledger. Many staff are involved in the preparation and approval of these entries. The use of manual entries increases the risk of incorrect and late changes to the general ledger.

.34 During the year, we noted the following difficulties:

- draft financial statements presented to us for audit required significant corrections. For example, a gain on sale of capital assets was overstated by \$135,680 and the net capital acquisitions were overstated by \$714,321.

Chapter 14 Department of Highways and Transportation

- the DHT did not prepare its annual financial statements by the date Treasury Board required.

.35 We also reported this matter in our 1996 Spring Report to the Legislative Assembly.

We recommend

.36 The DHT should formally define and document its reporting needs for the Fund and assess the cost-effectiveness of its accounting system for meeting these needs.

.37 Management told us the DHT has started a project with the mandate of improving the DHT's financial reporting system including the Fund's activities.

Better interim financial reporting needed

.38 Interim financial reports provided to management need strengthening.

.39 Complete and accurate interim financial reports are necessary to assist management in making sound decisions. Management should formally define and document the information they need for decision-making. We evaluated the DHT's systems and practices for preparing the Fund's interim financial reports against the criteria set out in paragraphs .15 and .16.

.40 The DHT had adequate rules and procedures for preparing the Fund's interim financial reports except:

- the DHT's reports are not adequate because management has not provided adequate direction to staff for variance analysis; and
- the DHT did not follow its established procedure of reconciling account balances to source information (e.g., records of transactions) on a timely basis throughout the year.

.41 This lack of adequate direction and non-compliance with established policy increases the risk of inaccurate interim reports and adverse management decisions.

We recommend

.42 The DHT should define and document what it considers a significant variance and require explanations.

.43 Management told us they are documenting the Fund's management processes and are ensuring all significant variances are analysed.

We recommend

.44 The DHT should ensure that all transactions are recorded timely and accurately in its accounts.

.45 Management told us that staff now do timely reconciliations of account balances to source information and these reconciliations are reviewed on a timely basis.

Chapter 15
Department of Intergovernmental Relations

Table of Contents

Introduction . . . . .	.01
General Revenue Fund . . . . .	.03
Our audit conclusions and findings . . . . .	.05
Improved rules and procedures needed for Infrastructure Program . . . . .	.06

Chapter 15

Department of Intergovernmental Relations

Introduction

.01 The Department is to coordinate and manage intergovernmental relations, protocol services and French-language services. The Department is responsible for the Office of the Lieutenant Governor, the Legislative Building and looks after the Government's interest in the Wascana Centre Authority.

.02 The Department also is responsible for the Saskatchewan Infrastructure Program. This Program provides funding for certain capital projects resulting from the Canada-Saskatchewan Infrastructure Works Program.

General Revenue Fund

.03 The Department managed General Revenue Fund appropriations of \$33.7 million and revenues of \$236 thousand. Information about these revenues and appropriations appears in the *Public Accounts 1995-96 Volume 2*.

.04 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in thousands of dollars)	
Administration	\$ 803	\$ 699
Accommodation and Central Services	1,680	1,747
Protocol Office	811	863
Intergovernmental Affairs	886	1,088
Telecommunications and Broadcasting	243	485
Expenses of the Lieutenant Governor	248	269
Office of French-Language Coordination	230	230
Wascana Centre Authority	2,636	2,634
Canadian Intergovernmental Conference Secretariat	47	39
	7,584	8,054
 Saskatchewan Infrastructure Program	 26,104	 21,167
	 <u>\$ 33,688</u>	 <u>\$ 29,221</u>

Our audit conclusions and findings

.05 In our opinion:

- the Department had adequate rules and procedures to safeguard and control its assets

Chapter 15 Department of Intergovernmental Relations

except where we report otherwise in this Chapter; and

- the Department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

Improved rules and procedures needed for Infrastructure Program

.06 The Department needs to improve its rules and procedures for managing the Infrastructure Program (IP).

.07 A management committee appointed by the Governments of Canada and Saskatchewan approve all IP projects. The Department makes conditional grants to the organizations carrying out the projects. The Department delegated the authority for paying the grants from the Department's appropriation to other Government agencies. The Department, however, remains responsible to know the costs of projects and whether the organizations comply with the grant conditions.

.08 The Department states it relies on work done by the other Government agencies to verify the costs of projects and compliance with the grant conditions. However, the Department has no written agreements with the Government agencies, which set out what work those agencies will do for the Department. As a result, misunderstandings may occur.

.09 We also reported this matter in our *Report of the Provincial Auditor: 1996 Spring*.

We recommend

.10 The Department should obtain written agreements with Government agencies for the Infrastructure Program setting out clearly the work they will carry out for the Department.

Chapter 16

Department of Justice

Table of Contents

Introduction . . . . .	.01
Special purpose funds and Crown agencies . . . . .	.06
Our audit conclusions and findings . . . . .	.07
Financial reports need improvement . . . . .	.08
Security policies and procedures needed . . . . .	.16
Contingency plans needed . . . . .	.26
Controls over capital assets need improvement . . . . .	.30
Correctional Facilities Industries Revolving Fund . . . . .	.35
Our audit conclusions and findings . . . . .	.37
Contract costs require monitoring . . . . .	.38
Procedures needed to ensure contract prices are appropriate . . . . .	.44
Financial reports need improvement . . . . .	.48
Public Trustee for Saskatchewan . . . . .	.53
Our audit conclusions and findings . . . . .	.55
Continued operations at risk . . . . .	.56
Records not properly secured . . . . .	.64
Better control over bank account required . . . . .	.67
Queen's Printer Revolving Fund . . . . .	.72
Our audit conclusions and findings . . . . .	.74
Internal financial reports need improvement . . . . .	.75
New financial systems need proper approval . . . . .	.82

Chapter 16
Department of Justice

Table of Contents

Victims' Fund .....	.85
Our audit conclusions and findings .....	.87
Recommendations of PAC .....	.89

Chapter 16

Department of Justice

Introduction

.01 The Government's summary financial statements show protection of persons and property expenses of \$194.8 million for the year ended March 31, 1996. The following table shows the expenses of Government agencies for the protection of persons and property.

(in millions of dollars)	
Department of Justice	\$ 178.6
Department of Labour	10.0
Department of Municipal Government	3.2
Other Government agencies	3.0
	<u>\$ 194.8</u>

.02 The Department is to maintain public order and safety through the operation of an independent, impartial and effective justice system that upholds the rule of law and that defines and protects the basic legal rights of citizens.

.03 The Department administers justice, police services and adult corrections in the Province. The Department administers registry systems for corporations, land titles and personal property. The Department also regulates pensions, credit unions and businesses.

.04 The Department received \$177.6 million from the General Revenue Fund and revenue from its Revolving Funds and spent this money on its programs. Also, the Department raised \$58.5 million of revenue. Information about the Department's revenue and expenses appears in the *Public Accounts 1995-96 Volume 2* (Public Accounts).

.05 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Policing Services	\$ 63.1	\$ 63.5
Adult Corrections	44.2	44.8
Court Services	22.0	22.4
Registry and Regulatory Services	9.9	10.5
Accommodation and Central Services	13.4	13.5
Legal Services	11.8	12.0
Administration	6.9	7.0
Boards and Commission	4.1	3.9
	<u>\$ 175.4</u>	<u>\$ 177.6</u>

Chapter 16 Department of Justice

Special purpose funds and Crown agencies

.06 The Department is also responsible for the operations of several trust and special purpose funds and Crown agencies. These are:

Agricultural Implements Board
Correctional Facilities Industries Revolving Fund
Judges of the Provincial Court Superannuation Plan
Law Reform Commission of Saskatchewan
Office of the Rentalsman Trust Account
Provincial Mediation Board Trust Account
Public Trustee for Saskatchewan
Queen's Printer Revolving Fund
Saskatchewan Legal Aid Commission
Trust accounts for courts, local registrars, and sheriffs
Victims' Fund

Our audit conclusions and findings

.07 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .06 are reliable;
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and
- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

Financial reports need improvement

.08 The Department needs to continue to improve its rules and procedures for preparing its internal periodic financial reports.

.09 The Deputy Minister receives monthly expense and quarterly revenue reports. The reports show and explain variances between the current and previous forecasts and between forecasts and budget. If staff do the variance analysis well, the reports can be an immense aid to senior management. Senior management can then focus on trouble spots and overall

Chapter 16 Department of Justice

supervision of the Department. However, we found the Department's expense and revenue reports:

- do not always show reasons, using activity levels when possible, for major variances between:
 - the current forecast and the previous forecast;
 - the current forecast and budget; and
 - between year-to-date actual amounts and the year-to-date budget (see paragraph .10); and
- are not always signed by branch heads to document their review of the reports.

.10 For example, we found the Department's reports did not show or explain the following major variances:

Decrease from the prior year in fines collected at the Provincial Court Payment Information Centre	\$ (846,000)
Fine Revenue from the prior year recorded in the current year	646,000

.11 Inadequate internal financial reports can lead to incorrect decisions.

.12 We also reported this matter in previous reports.

We recommend

.13 The Department should continue to improve its internal periodic financial reports to:

- **show reasons, using activity levels when possible, for major variances between:**
 - **the current forecast and the previous forecast;**
 - **between the current forecast and budget, based on levels of activity; and**

Chapter 16 Department of Justice

- between year-to-date actual amounts and the year-to-date budget; and

- show branch heads' signatures on the reports to document their review of the reports.

.14 The Deputy Minister issued a Monthly Expense Forecast Memorandum to all key staff in July 1995. The Memorandum set out instructions for staff for use when preparing expense and revenue reports. We believe the instructions are consistent with our recommendations.

.15 For the examples we set out in paragraph .10, the Department told us its reports did not show or explain major variances because:

- the Department determined traffic tickets issued decreased by 40% over the last five months of the year compared to the prior year. Since police forces issue traffic tickets, the Department did not have immediate information available to explain the decrease; and
- the Department recorded a 1995 accrual adjustment to its fines revenue in the 1996 year. The Department did not find the required adjustment until after its 1995 books were closed.

Security policies and procedures needed

.16 The Department needs approved security policies and procedures for its information technology (IT) systems.

.17 Without clearly defined security policies and procedures, the Department may not carry out proper security procedures. This may result in security measures that do not meet the needs of the Department. The Department may be over secured, leading to increased costs, or under secured, thus placing its goals and objectives at risk.

.18 To ensure the confidentiality and integrity of its IT systems, the Department's policies and procedures should include standards for:

Chapter 16 Department of Justice

- the composition and changing of passwords that permit access to confidential data; and
- achieving appropriate segregation of duties by restricting access to various IT systems, programs and data files through passwords.

.19 For example, the Department's staff record fine transactions using the following IT systems:

- Justice Automated Information Network (JAIN); and
- Provincial Court Management Information System (PCMIS).

The Public Accounts show the Department manages approximately \$10 million of revenue with these systems.

.20 The password system used by the Department does not adequately segregate the duties of staff. For example, staff who receive and record cash from fines have access to the JAIN and PCMIS records of who owes money to the Department.

.21 This deficiency in the Department's rules and procedures mean staff can misapply money without timely detection.

.22 We also reported the segregation of duties matter in our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report).

We recommend

.23 The Department should prepare security policies and procedures and senior management should approve them.

.24 The Department should set password standards for all its IT systems and applications.

.25 The Department should improve the segregation of staff duties at its larger court offices to ensure no one person can misapply money without timely detection.

Contingency plans
needed

.26 The Department needs a risk-based written, tested and approved contingency plan for its IT systems.

Chapter 16 Department of Justice

.27 The Department depends on its IT systems to carry out its programs and services. To provide continuous service, the Department must ensure its IT systems and data are available when needed. If they are not, the Department faces increased risk because of the possibility:

- it may miss commitments, need to delay decisions and lose essential data; and
- it may face increased program and service costs and a weakening in the public's confidence in the Department.

We recommend

.28 The Department should prepare a written contingency plan based on its analysis of the risks and the importance of each program and service.

.29 The Department should test, approve and store its contingency plan in a safe place.

Controls over capital assets need improvement

.30 The Department needs better rules and procedures to safeguard and control its equipment (capital assets).

.31 The Department does not keep records of all its capital assets. For example, the Department is currently preparing records of its computer equipment.

.32 We also found the Department does not:

- inspect its capital assets from time to time to ensure they still exist;
- assess the risk of loss or damage to its capital assets (e.g., risk reduced by measures such as restricted access, multiple locations and/or insurance); and
- include information about its capital assets in its annual report. (Such information would include the cost of the assets, their unconsumed cost and how the Department safeguards them.)

Chapter 16 Department of Justice

.33 The Provincial Comptroller provides guidance on capital assets record keeping in Section 640 of the *Financial Administration Manual*.

We recommend

.34 The Department should continue to develop records of its capital assets. The Department should also:

- inspect its capital assets from time to time;
- determine if the risk of loss of its capital assets is at an acceptable level; and
- include information about its capital assets in its annual report.

**Correctional
Facilities Industries
Revolving Fund**

.35 The Department uses the Fund to finance and account for work programs intended to reduce the costs of operating, maintaining, and repairing correctional facilities as well as to improve inmate work productivity.

.36 The Fund had revenue of \$1.1 million in 1996 and held assets of \$627 thousand at March 31, 1996. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A161.

Our audit conclusions
and findings

.37 In our opinion:

- the Fund's financial statements are reliable;
- the Department had adequate rules and procedures to safeguard and control the assets of the Fund except for the significant deficiencies reported in paragraphs .38 to .52; and
- the Department complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Contract costs require
monitoring

.38 The Department needs to establish rules and procedures to monitor costs of large contracts.

Chapter 16 Department of Justice

.39 Currently, the Department's records do not readily allow management to prepare reports comparing actual costs for specific contracts to planned costs. As a result, management does not have access to timely information that:

- would identify trouble spots and allow overall supervision of activities; and
- would be available to management when they negotiate similar future contracts.

.40 The lack of information can lead to incorrect decisions.

.41 We also reported this matter in our *Report of the Provincial Auditor: 1995 Spring* and our 1996 Spring Report to the Assembly.

We recommend

.42 The Department should establish rules and procedures to monitor the costs of large contracts.

.43 The Department told us it developed a system after the Fund's March 31, 1996 year end that will allow timely comparison of actual costs to planned costs for larger contracts.

Procedures needed to ensure contract prices are appropriate

.44 The Department needs rules and procedures to ensure prices quoted to customers for large contracts are appropriate.

.45 Shop supervisors estimate the costs of material and labour for each customer's contract and quote prices to customers. There is no evidence anyone reviews and approves these estimates and quotes.

.46 The lack of review and approval of the estimates and quotes allows the possibility of errors occurring in contract prices quoted to customers.

We recommend

.47 The Department should establish rules and procedures to ensure there is evidence someone reviews and approves the shop supervisors' estimates and quotes to customers for large contracts.

Financial reports need improvement

.48 The Fund's quarterly financial reports do not include an explanation of variances between planned and actual results.

Chapter 16 Department of Justice

.49 Financial reports that explain variances between planned and actual results allow:

- the Department's management to focus on trouble spots and overall supervision of activities; and
- other users of the financial reports to understand and assess the variances between what the Fund planned to do and what it did.

.50 Inadequate reports can result in incorrect decisions.

We recommend

.51 The Department should improve the Fund's quarterly financial reports by documenting explanations of major variances between planned and actual results.

.52 The Department told us the Fund manager verbally explains variances to senior management when they review the Fund's financial reports. The Department also told us the financial reports will include written explanations of variances in the future.

**Public Trustee for
Saskatchewan**

.53 The Public Trustee administers dependent adults' and infants' property by acting as their trustee.

.54 The Public Trustee administered assets valued at \$107 million at March 31, 1996. The Public Trustee's financial statements are included in the *Financial Statements - Compendium 1995-96* on page B276.

Our audit conclusions
and findings

.55 In our opinion:

- the Trustee's financial statements are reliable;
- the Department had adequate rules and procedures to safeguard and control the assets of the Trustee except for the significant deficiencies reported in paragraphs .56 to .71; and
- the Department complied with the authorities governing the Trustee's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Chapter 16 Department of Justice

Continued operations
at risk

.56 There is an important risk to the Trustee's ability to continue operations.

.57 The Trustee keeps the financial records of its over 5000 clients on a computer system. These records are a valuable asset and their availability is essential to continued operations.

.58 The Trustee's computer is old and this kind of computer is no longer made. To ensure the availability of client records, the Trustee has taken several precautionary measures. Staff regularly make copies of the data and store these copies in another location. Also, the Trustee has purchased some used computer parts in case the computer breaks down.

.59 However, these precautionary measures are not sufficient. The Trustee does not have a tested disaster recovery plan. In addition, because the computer is old, few organizations have a computer that is compatible with the Trustee's computer. Therefore, an alternate processing site is not readily available to test the Trustee's disaster recovery plan or to restore the Trustee's operations in the event the Trustee's computer breaks down.

.60 Also, the Trustee's present computer system will not accurately process financial information dated after December 31, 1999. The system will not recognize 21st century dates.

.61 Correcting this problem requires changes to the computer programs. Because the computer is old, it may not be cost-effective to fix the programs.

We recommend

.62 The Public Trustee should consider replacing its computer system.

.63 The Public Trustee told us it has requested funds to replace the computer system.

Records not properly
secured

.64 The Trustee needs to strengthen the security over financial records.

.65 The Trustee uses passwords to restrict access to the financial records. However, we found that staff do not regularly change their passwords. This increases the risk that

Chapter 16 Department of Justice

passwords become known and staff have inappropriate access to records.

We recommend

.66 The Public Trustee should ensure staff regularly change their passwords.

Better control over bank account required

.67 The Trustee should promptly reconcile its recorded bank balance to the bank's records.

.68 Reconciling the Trustee's recorded bank balance to the bank's records is an important control. This control provides a check on the accuracy and reliability of accounting records. Also, it ensures the bank has not made unauthorized charges to the Trustee's bank account. As a result, the reconciliation should be prompt and approved.

.69 The Trustee requires staff to reconcile the bank account monthly. However, we found staff did not reconcile the Trustee's bank account from November 1995 to February 1996 until after mid-April 1996. Also, staff did not reconcile the bank account for March 31, 1996 until mid May 1996.

We recommend

.70 The Public Trustee should promptly reconcile its bank account.

.71 The Department told us it has since improved its bank reconciliation procedures.

Queen's Printer Revolving Fund

.72 The Queen's Printer Revolving Fund publishes and distributes acts, regulations, *The Saskatchewan Gazettes* and other government publications to government and non-government clients.

.73 The Fund had revenue of \$929 thousand in 1996 and held assets of \$289 thousand at March 31, 1996. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A197.

Our audit conclusions and findings

.74 In our opinion:

- the Fund's financial statements are reliable;

Chapter 16 Department of Justice

- the Department had adequate rules and procedures to safeguard and control the assets of the Fund except for the significant deficiencies reported in paragraphs .75 to .81; and
- the Department complied with the authorities governing the Fund's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters reported in paragraphs .82 to .84.

Internal financial reports need improvement

.75 The Fund's internal financial reports need improvement.

.76 Internal financial reports should compare plans with actual results and explain variances. Management and other users of the Fund's financial reports can then understand and assess what the Fund planned to do and what it did. Written explanations of significant variances highlight matters for management's attention.

.77 The Fund's financial reports compare the year-to-date actual results with the annual budget. However, the reports do not show year-to-date budget amounts compared to year-to-date results, the variances between these amounts, and a written explanation of the variances. Also, the Fund's financial reports do not show sales and cost of sales information for major product lines (e.g., *The Saskatchewan Gazette*, looseleaf statutes, special orders). The reports show only one total for sales and one total for cost of sales.

.78 As a result, management and other users of the Fund's financial statements do not receive adequate information to understand and assess the Fund's operations.

.79 Inadequate reports can lead to incorrect decisions.

We recommend

.80 The Department should improve the Fund's internal financial reports to:

- show a comparison of year-to-date budget amounts to year-to-date results;

Chapter 16 Department of Justice

- highlight and provide written explanations of major variances between year-to-date actual and year-to-date budget; and
- show sales and cost of sales by major product lines.

.81 The Department told us the Fund's management provides it with verbal and written explanations of variances on request.

New financial systems need proper approval

.82 The Department changed its financial system without obtaining proper approval.

.83 The *Financial Administration Manual*, Section 1110-1, requires the Department to obtain the Provincial Comptroller's approval for significant changes to its existing systems. We found no evidence the Provincial Comptroller approved the change to the Fund's financial system.

We recommend

.84 The Department should obtain the Provincial Comptroller's approval before it changes or starts new financial systems.

Victims' Fund

.85 The Victims' Fund (Fund) receives all provincial and federal fine surcharges assessed under *The Victims of Crime Act* and the Criminal Code. Funds are spent to promote and deliver services and benefits to victims of crime.

.86 The Fund had revenue of \$2 million in 1996 and held assets of \$5.6 million at March 31, 1996. The Fund's financial statements are included in the *Financial Statements - Compendium 1995-96* on page A409.

Our audit conclusions and findings

.87 In our opinion:

- the Fund's financial statements are reliable;
- the Department had adequate rules and procedures to safeguard and control the assets of the Fund; and
- the Department complied with the authorities governing the Fund's activities relating to

Chapter 16 Department of Justice

financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

.88 We also report another matter for the Assembly's attention.

Recommendations of
PAC

.89 The Department did not provide the Assembly with a list of persons who received money from the Fund as recommended by the Standing Committee on Public Accounts (PAC).

.90 In March 1993, PAC recommended: "All Government departments, agencies, and Crown corporations reporting to Treasury Board should provide a list of persons who have received money."

We recommend

.91 The Department should provide the Legislative Assembly with a list of persons who received money from the Fund.

Chapter 17
Department of Municipal Government

Table of Contents

Introduction . . . . .	.01
Financial background . . . . .	.05
Special purpose funds and Crown agencies . . . . .	.06
Our audit conclusions and findings . . . . .	.07
Lottery license agreement needs strengthening . . . . .	.09
Administration of grant programs need strengthening . . . . .	.16
Assurance needed for library funding . . . . .	.26
Proper financial statements standards required for local governments . . . . .	.42
Saskatchewan Archives Board . . . . .	.48
Our audit conclusions and findings . . . . .	.50
Written contracts needed . . . . .	.52
Equipment records required . . . . .	.60
Non-compliance with the Standing Committee on Public Accounts recommendation . . . . .	.67
Saskatchewan Arts Board . . . . .	.71
Our audit conclusions and findings . . . . .	.73
Non-compliance with rules and procedures for grants . . . . .	.74
Saskatchewan Heritage Foundation . . . . .	.80
Our audit conclusions and findings . . . . .	.82
Board needs to control the Foundation's operations . . . . .	.83
Better internal reports required . . . . .	.91

Chapter 17

Department of Municipal Government

Introduction

.01 The Department is responsible for supporting and maintaining a viable system of municipal government in Saskatchewan.

.02 The Department helps enable communities to provide local government, public protection, social housing, and access to sport, recreation, culture and information. The Department also works in partnership with communities by providing financial and technical support, and by developing legislation, regulations and other policies to meet the changing needs of Saskatchewan people.

.03 In 1996, the Department received \$192 million from the General Revenue Fund and spent this money on its programs. Also, the Department raised \$25 million of revenue. Information about the Department's revenues and expenses appears in the *Public Accounts 1995-96 Volume 2*.

.04 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Urban Revenue Sharing	\$ 47	\$ 47
Rural Revenue Sharing	33	39
Transfer to Sask Housing Corporation	28	27
Municipal Infrastructure	21	17
Municipal Services	17	15
Housing	12	12
Community Development	10	5
Provincial Library	8	8
Heritage	7	7
Arts and Multiculturalism	5	5
Other	10	10
	<u>\$ 198</u>	<u>\$ 192</u>

Financial background

.05 For 1995-96, the Government's summary financial statements show community development expenses of \$158 million. Table 1 sets out community development expenses as shown in the summary financial statements reconciled to community development spending by the Department.

Chapter 17 Department of Municipal Government

Table 1

(in millions of dollars)

Department of Municipal Government (<i>Public Accounts 1995-96 Volume 2 page 165</i>)	\$ 192.4
Deduct expenses shown as:	
Transportation - Rural Revenue Sharing and Infrastructure	(55.2)
Social services and assistance - Housing and Municipal Services	(41.5)
Protection of persons and property - Public Safety	(3.3)
Add expenses funded by:	
Saskatchewan Lotteries Trust Fund	28.4
Indian and Métis Affairs Secretariat	22.3
Other	14.4
Community development expenses per summary financial statements	\$ 157.5

Special purpose funds and Crown agencies

.06 The Department is also responsible for the following special purpose funds and Crown agencies with fiscal years ending March 31, 1996:

Saskatchewan Archives Board
 Saskatchewan Arts Board
 Saskatchewan Centre of the Arts
 Saskatchewan Heritage Foundation
 Saskatchewan Lotteries Trust Fund for Sport,
 Recreation, and Culture
 Saskatchewan Municipal Board
 Western Development Museum

Our audit conclusions and findings

.07 In our opinion:

- the financial statements for the funds and agencies listed in paragraph .06 are reliable;
- the Department and its agencies had adequate rules and procedures to safeguard and control their assets except where we report otherwise in this Chapter; and

Chapter 17 Department of Municipal Government

- the Department and its agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter.

.08 We also note other matters for the Legislative Assembly's attention in this Chapter.

Lottery license agreement needs strengthening

.09 The Department's lottery licence agreement with Sask Sport Inc. (Sask Sport) needs strengthening.

.10 Sask Sport administers the Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation (Fund) for the Department. The Fund receives the net profits of lottery schemes offered by the Western Canada Lottery Corporation (\$37.3 million in 1996).

.11 The Department is responsible for the Fund. As a result, the Department needs to ensure Sask Sport carries out its work to achieve the Department's objectives.

.12 The current agreement with Sask Sport does not:

- set out clearly the financial, operational and legislative objectives of the Department for the Fund;
- require Sask Sport to report on its systems and practices used to achieve the Department's objectives;
- require Sask Sport to report on its performance in meeting the objectives (e.g., financial statements); and
- allow the Department access to Sask Sport's records to verify the reports received or require Sask Sport's auditor to verify the reports.

.13 As a result, the Department may not know if Sask Sport's rules and procedures are adequate to safeguard and control public money. Also, the Department may not know

Chapter 17 Department of Municipal Government

how Sask Sport contributes to the Department's overall objectives.

We recommend

.14 The Department's agreement with Sask Sport should:

- clearly set out the Department's objectives for the Fund;
- require Sask Sport to report to the Department on how well Sask Sport achieved the Department's objectives and on Sask Sport's system and practices for achieving the objectives; and
- allow the Department to verify the reports.

.15 The Department told us it plans to review the next agreement with Sask Sport and make the appropriate changes.

Administration of grant programs need strengthening

.16 The Department needs to improve its administration of the Municipal Infrastructure Program and the Rural Revenue Sharing Program.

.17 The Department spent \$17 million on the Municipal Infrastructure Program and \$39 million on the Rural Revenue Sharing Program. The Department makes grants to local governments carrying out the Municipal Infrastructure Program projects. The Department also makes grants to local governments under the Rural Revenue Sharing Program.

.18 To know if public money is properly spent, the Department needs to know:

- whether local governments comply with grant conditions;
- the costs of projects; and
- that correct data are used to calculate grants.

.19 The Department relies on the Department of Intergovernmental Relations (Provincial Secretary) and the Department of Highways and Transportation (Highways) to know the costs of projects and whether local governments

comply with grant conditions. The Department also relies on Highways to provide the correct data for use in the grant calculations. The Provincial Secretary and Highways recommend local governments' claims for payment. The Department does not carry out any procedures to justify relying on the work of the Provincial Secretary and Highways.

.20 The Department has no written agreement with the Provincial Secretary or Highways setting out what work they will do for the Department. Also, the Department does not know if Highways and Provincial Secretary have adequate rules and procedures to do the Department's work accurately. As a result, the Department may pay incorrect amounts to local governments. Because the Department did not do any procedures to see if the grants were calculated correctly we performed procedures to see if the grants were calculated correctly. We found, the Department paid an incorrect grant under the Rural Revenue Sharing Program. Highways calculated the grant using incorrect data resulting in a small error. Larger errors could, however, result because of the Department's lack of procedures.

.21 We think the Department needs written agreements to ensure there is no misunderstanding of the work the Provincial Secretary and Highways are expected to carry out for the Department.

We recommend

.22 The Department should obtain written agreements with the Provincial Secretary and the Department of Highways and Transportation for the management of the Infrastructure Program and the Rural Revenue Sharing Program.

.23 The Department should ensure infrastructure costs are verified and local governments comply with grant conditions.

.24 Effective April 1, 1996, the Department has assumed all the responsibilities for the Municipal Infrastructure Program.

.25 The Department told us it intends to rely on audits performed by the Federal Government. Also, the Department told us the Federal Government completed audits on infrastructure projects after the year-end.

Chapter 17 Department of Municipal Government

Assurance needed for library funding

.26 The Department needs assurance that the money it gives to libraries is used for the intended purposes.

.27 The Department gives money to libraries under Section 73 of *The Public Libraries Act, 1984* (Act). During the year, the Department paid a total of \$926,978 to northern and municipal libraries. The Public Libraries Regulations issued under the Act state libraries must use the money they receive to buy library materials or provide services during the fiscal year.

.28 The Department does not have adequate rules and procedures to ensure libraries properly safeguard and spend the public money they receive from the Department.

.29 The Department needs information on libraries' rules and procedures, so it can ensure that public money is properly safeguarded and spent.

.30 To ensure public money is properly spent, the Department needs to know whether the libraries:

- safeguard and control their assets;
- comply with legislative and related authorities; and
- meet the Department's objectives.

.31 In our opinion, the Act gives the Minister the power to obtain necessary information from the libraries. For example, Section 86 of the Act states:

The board of every library to which this Act applies shall, when requested by the minister, furnish the minister with that information that he may require respecting matters pertaining to the organization, equipment, cost, maintenance, finances and use made of the library.

.32 Currently, the Department receives the libraries' annual financial statements. Annual financial statements alone are not enough information to know libraries safeguard and control their assets, comply with legislative and related authorities, and meet the Department's objectives.

.33 Also, the Department has not set any standards for library financial statements to ensure libraries report consistently. Currently, some libraries are not using the accrual basis of accounting and some libraries are not providing financial statements that report on their combined operations. These differences in financial reporting make comparing library operations difficult. We think consistent accounting policies for financial reporting by libraries will help the Department in comparing the financial needs of the libraries.

.34 The Canadian Institute of Chartered Accountants has researched and developed standards for financial statements for local governments similar to libraries. These standards ensure financial statements show properly the financial position, results of operations and changes in financial position.

.35 Also, the Department has not told the libraries how they should contribute to the Department's overall objectives. The Department receives a policy statement from each library outlining the objectives of the library. However, the Department does not ensure the libraries' objectives are consistent with those of the Department. Accordingly, the Department does not know how the libraries are helping in achieving the Department's objectives.

.36 As a result, the Department may not know if libraries use the money the Department gives them for the intended purpose.

We recommend

.37 The Department should obtain periodic assurance that libraries' rules and procedures:

- safeguard and control their assets;
- comply with the legislative and related authorities; and
- meet the Department's objectives.

.38 The Department should require the libraries to prepare their financial statements using the standards recommended by The Canadian Institute of Chartered Accountants.

Chapter 17 Department of Municipal Government

.39 The Department should tell the libraries what performance it expects from the libraries to meet the Department's objectives.

.40 The Department should verify reports on how successful the libraries were in meeting the Department's objectives.

.41 The Department told us it has formed a committee to help set up the financial and operational reporting requirements for all libraries.

Proper financial statements standards required for local governments

.42 The Department needs to set proper financial statement accounting principles (standards) for local governments.

.43 The law (Section 70(1) of *The Rural Municipality Act, 1989* and Section 73(7) of *The Urban Municipality Act, 1984*) requires the Department to set the financial statement standards that local governments must use for public reporting. These financial statements should help users understand and assess a local government's management of the public resources entrusted to it.

.44 The Canadian Institute of Chartered Accountants (CICA) has researched and developed standards for government financial statements. These standards ensure financial statements properly show a government's financial position, results of operations and changes in financial position. The CICA has rules and procedures to ensure standard setting is done according to due process. This is done through consultation and debate. The Government of Saskatchewan uses these standards to prepare its financial statements to report on the management of the public resources entrusted to it.

.45 The Department set financial statement standards for local government before the CICA recommended standards for local government. The Department's standards are not consistent with the CICA's standards. The Department's standards do not show a local government's proper financial position, results of operations and changes in financial position. Following are some significant deficiencies in the Department's standards:

Chapter 17 Department of Municipal Government

- Local governments do not have to include all of the organizations they own or control in their financial statements. As a result, assets, liabilities, revenues and expenses may not be properly reported.
- Local governments record debt repayment as expenses. As a result, expenses are not properly reported.
- Local governments charge expenses they may incur in the future (reserves) as an expense of the current year. As a result, actual expenses are not properly reported.
- Local governments do not have to disclose all their capital assets. As a result, users lack information to understand and assess the local government's management of its assets.

We recommend

.46 The Department should require local governments to prepare their financial statements following the standards for local governments recommended by The Canadian Institute of Chartered Accountants.

.47 The Department told us it is working to improve financial reporting by local governments.

**Saskatchewan
Archives Board**

.48 The Saskatchewan Archives Board (Board) is responsible for acquiring and preserving documents relating to the history of Saskatchewan. The Board also provides these documents to the public for research.

.49 The Board had revenue of \$2.2 million in 1996 and held assets of \$0.7 million at March 31, 1996. The *Financial Statements - Compendium 1995-96* includes the Board's financial statements on page A313.

Our audit conclusions
and findings

.50 In our opinion:

- the Board's financial statements are reliable;
- the Board had adequate rules and procedures to safeguard and control its assets, except for the matter reported in paragraphs .52 to .66; and

Chapter 17 Department of Municipal Government

- the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

.51 We also report another matter for the Assembly's attention in paragraphs .67 to .70.

Written contracts
needed

.52 The Board needs written contracts with The University of Saskatchewan (U of S) and Saskatchewan Property Management Corporation (SPMC).

.53 The U of S provides the Board office space and administrative and accounting services. SPMC rents office space to the Board.

.54 The Board needs written contracts to set out the responsibilities and legal obligations of each party for services provided.

.55 The contract with the U of S should set out the Board's right to access accounting records, confidentiality needs, and the rules and procedures needed to safeguard and control the Board's assets.

.56 The contract with SPMC should set out rental costs, maintenance duties, the lease period, and cancellation terms.

.57 In March 1993, the Standing Committee on Public Accounts (PAC) reviewed the matter of the necessity of contracts when providing goods or services to others. The Committee recommended "*organizations should have properly authorized contracts before providing goods or services to others*".

We recommend

.58 The Board should have written contracts with the U of S and SPMC.

.59 Management told us the Board is currently negotiating an agreement with the U of S and is seeking a similar arrangement with SPMC.

Chapter 17 Department of Municipal Government

Equipment records
required

.60 The Board needs complete records to know what equipment it owns and to assess the risk of loss or damage.

.61 The Board's financial statements show it owns equipment totalling \$465,555. However, the Board does not have complete equipment records to know what specific equipment makes up this amount.

.62 Lack of complete records could result in undetected loss or inefficient purchasing and use of equipment. It also prevents the Board from assessing the risk of loss or damage.

We recommend

.63 The Board should keep complete records of all its equipment.

.64 The Board should periodically take an inventory of its equipment and compare the inventory with the records.

.65 The Board should assess the risk of damage to or loss of its equipment. After assessment, the Board should reduce risks to an acceptable level.

.66 Management told us they expect to have complete equipment records by March 31, 1997. Once they have complete equipment records, they intend to take an inventory of the equipment.

Non-compliance with
the Standing
Committee on Public
Accounts
recommendation

.67 The Board needs to comply with the PACs' recommendation to provide a list of payees to the Assembly for each fiscal year.

.68 The Board did not provide a list of payees for the year ended March 31, 1995 to the Assembly.

We recommend

.69 The Board should provide a list of its payees to the Legislative Assembly.

.70 Management told us they will include a list of payees in the Board's Annual Report for the year ended March 31, 1996.

Chapter 17 Department of Municipal Government

Saskatchewan Arts Board

.71 The Saskatchewan Arts Board (Board) fosters the development of the professional arts and artistic pursuits that enrich the lives of the people of Saskatchewan.

.72 The Board had revenue of \$4.2 million in 1996 and held assets of \$2.9 million at March 31, 1996. The Board's *1995-1996 Annual Report* includes its financial statements.

Our audit conclusions and findings

.73 In our opinion:

- the Board's financial statements are reliable;
- the Board had adequate rules and procedures to safeguard and control its assets, except for the matter reported in paragraphs .74 to .79; and
- the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matter reported in paragraph .74 to .79.

Non-compliance with rules and procedures for grants

.74 The Board needs to ensure grant recipients properly use the money given to them.

.75 The Board makes grants to individuals, groups and organizations to enrich the arts in Saskatchewan. These grants account for 75% of the Board's expenditures.

.76 The Board requires a report from grant recipients on what they did with the money. The report must show a full description of the project and the costs. The Board uses these reports to ensure the recipients use the money as the Board intended.

.77 We noted the Board did not receive all required reports. We also noted the Board did not follow up on the missing reports.

.78 As a result, for these grant recipients, the Board does not know if the recipients used the money as the Board intended.

Chapter 17 Department of Municipal Government

We recommend

.79 The Board should follow its established rules and procedures to ensure grant recipients use the money as the Board intends.

**Saskatchewan
Heritage Foundation**

.80 The Saskatchewan Heritage Foundation (Foundation) provides support for community-based heritage projects. These projects conserve, restore, develop and interpret Saskatchewan's rich heritage resources.

.81 The Foundation had revenue of \$0.4 million in 1996 and held assets of \$0.8 million at March 31, 1996. The Foundation's financial statements are included in its *Annual Report 1995-96*.

Our audit conclusions
and findings

.82 In our opinion:

- the Foundation's financial statements are reliable;
- the Foundation had adequate rules and procedures to safeguard and control its assets, except for the matter reported in paragraphs .83 to .99; and
- the Foundation complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Board needs to
control the
Foundation's
operations

.83 The Board of Directors needs to approve a financial plan (budget) for the Foundation and monitor its performance.

.84 The Board of Directors has many important stewardship responsibilities. One key responsibility is to provide direction to management. The directors must then monitor the performance of the Foundation ensuring management does as directed.

.85 To fulfill their responsibilities, the directors must set a budget for the Foundation and then receive regular internal reports from management to know if the Foundation is performing as planned.

Chapter 17 Department of Municipal Government

.86 Budgets are important documents because they can approve a whole year's actions in advance. Also, budgets set goals for expected results.

.87 The directors did not set a budget for the Foundation's year ended March 31, 1996 and received no internal financial reports during that year.

We recommend

.88 The Board of Directors should approve a financial plan for the Foundation before the beginning of the fiscal year.

.89 The Board of Directors should require management to prepare internal financial reports for the Board.

.90 Management told us the directors approved a financial plan for the Foundation for the year ended March 31, 1997.

Better internal reports
required

.91 The Foundation needs better internal reports.

.92 The Foundation's internal financial reports are inaccurate and incomplete.

.93 The directors should advise management what financial reports they need to monitor the operations of the Foundation. The lack of guidance for preparing financial reports increases the risk of inadequate reports.

.94 For example, the reports lacked the following essential information:

- a comparison of planned results for the period and year-to-date to actual results for the period and year-to-date;
- written variance explanations between planned and actual results; and
- a projection of expected results to the end of the year based on current information.

.95 In addition, the financial reports management prepared were inaccurate. For example, the financial statements presented to us for audit contained significant errors. The

Chapter 17 Department of Municipal Government

statements understated grant expenses by \$73,397 and overstated advances by \$81,747. We advised management of these errors. They corrected the financial statements.

.96 Inadequate and inaccurate reports can lead to incorrect decisions.

We recommend

.97 The Board of Directors should formally define and document their internal reporting needs.

.98 Management should establish rules and procedures to ensure the internal financial reports are accurate.

.99 Management told us they have now established rules and procedures to ensure the accuracy of the internal financial reports. Also, management told us they will prepare proper financial reports for the directors.

Chapter 18
Public Service Commission

Table of Contents

Introduction **.01**

Our audit conclusions and findings **.04**

Risk of loss or damage not adequately assessed **.05**

Chapter 18

Public Service Commission

Introduction

.01 The Public Service Commission (PSC) acts as a central agency for some of the human resource activities for all Government departments and for several Crown agencies, e.g., New Careers Corporation. The PSC works to enable equity and fairness in personnel administration in the public service. It also encourages good personnel practices.

.02 In 1995-96, the PSC received \$6.8 million from the General Revenue Fund and spent this money on its programs. Also, PSC raised \$552 thousand of revenue. The PSC's *Annual Report 1995-96* provides information about its expenses.

.03 The following are the PSC's major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Staffing and Development	\$ 2.0	\$ 1.9
Employee Relations	1.9	1.9
Other	<u>3.0</u>	<u>3.0</u>
	<u>\$ 6.9</u>	<u>\$ 6.8</u>

Our audit conclusions and findings

.04 In our opinion:

- the PSC had adequate rules and procedures to safeguard and control its assets except for the matter referred to in paragraphs .05 to .11; and
- the PSC complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Risk of loss or damage not adequately assessed

.05 The PSC needs to assess the risk of loss or damage to its assets.

.06 Section AR 1210 of the Treasury Board *Accounting and Reporting Policy* manual states that agencies responsible for handling assets "are required to establish procedures to ensure that adequate systems and controls are in place to reduce the risk of loss."

Chapter 18 Public Service Commission

.07 We think adequate rules and procedures to safeguard assets from risk of loss and damage include:

- tracking the purchase and location of assets;
- restricting physical access to assets;
- documenting the risk of asset loss or damage; and
- insuring assets against risks identified in its risk assessment.

.08 At present, the PSC tracks the purchase and location of its capital assets. It appropriately restricts physical access. Under its office space lease agreement, the PSC's equipment is protected from destruction or damage caused by deficiencies in the leased space.

.09 We found the PSC had adequate rules and procedures to safeguard its assets, except it has not prepared a written assessment of its risk of asset loss or damage. Such an assessment is necessary to evaluate the need for insurance.

We recommend

.10 The PSC should prepare a written assessment of the risk of loss or damage to its assets. It should then take the steps necessary to ensure the risks are at an acceptable level.

.11 Management told us they understood the Government had a policy of self-insurance.

Chapter 19
Saskatchewan Gaming Corporation

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.03
Background . . . . .	.05
Monitoring SGC's performance	Page 314
Better internal reports required . . . . .	.11
Safeguarding assets	Page 316
Independent internal audit function needed . . . . .	.23
Long-term human resource plan needed . . . . .	.29
Control over cash payments needed . . . . .	.36
Control over Silver Sage Casino revenue needed . . . . .	.41
Control over payroll payments needed . . . . .	.46
Documented tendering process needed . . . . .	.51
Control over changes to financial records needed . . . . .	.57
Ensuring adequate accountability to the Legislative Assembly	Page 320
Improved public accountability required . . . . .	.62

Chapter 19

Saskatchewan Gaming Corporation

Introduction

.01 The Saskatchewan Gaming Corporation (SGC) manages and operates Casino Regina.

.02 SGC had revenue of \$12.2 million in 1996 and held assets of \$41.1 million at March 31, 1996. SGC's *1995-1996 Annual Report* includes its financial statements.

Our audit conclusions and findings

.03 In our opinion:

- SGC's financial statements are reliable;
- SGC complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and
- SGC had adequate rules and procedures to safeguard and control its assets except for the deficiencies reported in paragraphs .08 to .60.

.04 We also report another matter for the Assembly's attention in paragraphs .61 to .65

Background

.05 SGC is a new organization operating in a complex, high-risk industry. We note Casino Regina only operated for two months in 1995-96 and many of the matters we report are not unusual for a new organization. We recognize SGC's Board of Directors faces many challenges managing in this new environment.

.06 SGC did a good job of initial staff training before the opening of Casino Regina, but needs to do more. Properly trained staff will help ensure SGC operates smoothly.

.07 We organize our audit findings and recommendations into three groupings. These groupings reflect important Board responsibilities in their role of overseeing management. These are:

- monitoring SGC's performance;
- safeguarding assets; and

Chapter 19 Saskatchewan Gaming Corporation

- ensuring adequate accountability to the Legislative Assembly.

Monitoring SGC's performance

.08 The Board needs to improve how it oversees SGC's performance.

.09 The Board has many important stewardship responsibilities including monitoring SGC's performance. The Board must tell senior management what performance it expects and ensure senior management performs as directed.

.10 We think the Board needs better information to monitor SGC's performance.

Better internal reports required

.11 Internal financial reports provided to the Board need improvement.

.12 SGC's internal reports should give the Board the information necessary to help the Board monitor SGC's performance.

.13 The Board has not formally defined and documented its information needs, nor has it formally delegated authority to senior management. The Board needs to do both to ensure it receives the information necessary to monitor performance. The Board's written policies should cover:

- The information needs of the Board. For example:
 - financial reports should be prepared in accordance with generally accepted accounting principles;
 - all reports should show SGC's assets and liabilities;
 - all reports should compare planned results for the period and year-to-date

with actual results for the period and year-to-date; and

- all reports should show a forecast of expected results to the year end based on current information.
- The nature and extent of variances between planned and actual results. Explanations of variances should include a comparison of planned level of activity with actual activity, when possible.
- Who is responsible for preparing and reporting the results of variance analyses.
- Who in the chain of command should receive and monitor the results of variance analyses.

.14 The Board began receiving monthly financial reports after the casino opened in January 1996. However, the reports need improvement. SGC should prepare the reports in accordance with generally accepted accounting principles, show SGC's assets and liabilities, show a comparison of planned and actual results and explain variances between planned and actual results.

We recommend

.15 The Board should formally define and document its internal reporting needs.

.16 The Board should formally define and delegate authority for various functions to management.

.17 SGC should prepare its internal reports using generally accepted accounting principles.

.18 SGC's internal reports should include a comparison of planned results with actual results and explain variances.

.19 SGC's internal reports should show its assets and liabilities.

.20 Management told us they recognize the importance of these issues and are making progress in improving their internal

Chapter 19 Saskatchewan Gaming Corporation

reporting. Management also told us the Board delegated authority for management functions after the year end.

<h3>Safeguarding assets</h3>

.21 The Board is responsible for safeguarding SGC's assets. To carry out its responsibilities, the Board needs assurance management adequately safeguards SGC's assets and complies with the legislative and related authorities including the Board's delegation of authority.

.22 In this section, we note several instances where management needs to improve the safeguarding of SGC's assets. We also discuss the need for the Board to receive information directly from SGC's internal auditor.

Independent internal
audit function needed

.23 The Board needs to receive independent information that management safeguards SGC's assets and complies with laws and related authorities including the Board's delegation of authority.

.24 The Board can receive this assurance through an independent internal audit function. The internal auditor should report directly to the Board or to the Finance and Audit Committee established by the Board. An effective audit committee may improve the effectiveness of SGC's controls over its assets and help the Board exercise due diligence.

.25 SGC hired an internal auditor in November 1995. The internal auditor is responsible for establishing financial and operating policies and procedures. We think SGC's actions are an important first step for the new organization. However, the internal auditor reports to management. To be independent, the internal auditor should report directly to the Board or to the Finance and Audit Committee of the Board.

.26 We also think the Board or the Finance and Audit Committee should:

Chapter 19 Saskatchewan Gaming Corporation

- review and approve the internal auditor's plans to ensure planned work will help the Board carry out its responsibilities;
- act on the internal auditor's conclusions and findings; and
- monitor the internal auditor's activities, results, and the adequacy of corrective action taken.

We recommend

.27 The internal auditor should report directly to the Board or the Finance and Audit Committee established by the Board.

.28 Management told us the internal auditor has access to the Finance and Audit Committee.

Long-term human
resource plan needed

.29 SGC needs a long-term human resource plan.

.30 One of SGC's major risks is loss due to fraud carried out by guests or staff. A well-trained casino staff will help SGC reduce its risk of losses due to fraud. Casino management and staff responsibilities include understanding SGC's rules and procedures and why they are important. Some of the matters we report result from inexperienced staff not understanding their responsibilities. We note this is not unusual in a new organization.

.31 A long-term human resources plan should include job descriptions for all positions. It also includes an ongoing training plan to ensure all staff are properly trained for their assigned duties.

.32 SGC trained staff before opening the casino in January 1996. This training was a good start, but current staff require more training and experience to acquire the expertise to do their jobs. Also, SGC will need training programs for new staff. This applies to all departments and levels; dealers, slot attendants, supervisors and security staff.

We recommend

.33 SGC should establish a long-term human resource plan.

Chapter 19 Saskatchewan Gaming Corporation

.34 SGC should establish ongoing training programs for all staff to ensure they understand SGC's rules and procedures and why they are important.

.35 Management told us a management committee is reviewing this area.

Control over cash payments needed

.36 SGC needs to control slot machine cash payments.

.37 SGC has established adequate rules and procedures for slot machine cash payments. However, SGC staff did not always follow these rules and procedures. We examined all slot machine cash payments for two days of the two months the Casino was open. We found two instances when payments were made without proper authority.

.38 From our discussion with staff, we noted cashiers were not always aware of the rules and procedures. Cashiers did not always know the level of approval required for making cash payments. Without proper approvals, SGC may make unauthorized payments.

We recommend

.39 SGC should ensure staff make cash payments only after obtaining proper approval.

.40 Management told us cashiers now follow the rules and procedures for slot machine payments.

Control over Silver Sage Casino revenue needed

.41 SGC needs to ensure it receives all the money due from the Silver Sage Casino.

.42 SGC received revenues of \$5.3 million in 1995-96 for slot machines it placed in the Silver Sage Casino.

.43 SGC has established rules and procedures to ensure slot machine revenue is complete. SGC uses a computer system to do so. SGC requires staff to monitor information from this system to ensure there was no unauthorized access to the slot machines or the system.

.44 SGC followed these rules and procedures for slot machines at Casino Regina. However, senior management did not assign responsibility for ensuring there was no unauthorized

Chapter 19 Saskatchewan Gaming Corporation

access to the slot machines or the system at Silver Sage. Accordingly, SGC does not know if it has received all the money due from Silver Sage Casino.

We recommend

.45 SGC should use its established rules and procedures to ensure it receives all the money due from Silver Sage Casino.

Control over payroll payments needed

.46 SGC needs adequate rules and procedures for paying its employees.

.47 SGC uses a payroll agency to pay its employees. Two SGC employees tell the agency whom to pay and how much. There is no independent check on the accuracy of data given to the agency. Also, there is no independent review of the reports received from the agency to ensure payments to employees are correct.

.48 As a result, SGC may pay for services not received.

We recommend

.49 SGC should establish adequate rules and procedures for paying its employees.

.50 Management told us there is now independent approval of payroll prior to payment.

Documented tendering process needed

.51 SGC needs to document its tendering process.

.52 Tendering rules and procedures are necessary to ensure SGC buys the required quantity of goods and services for the right price, in the right quality and at the right time.

.53 SGC followed a tendering process when awarding some significant contracts for the purchase of goods and services. We think this tendering process was adequate for its contracts. However, SGC has not formally documented this process and did not always use it to award contracts. We noted SGC awarded a contract to a tour operator and another contract to a computer consultant without following this process. In these cases, SGC cannot be certain it purchased goods and services for the right price, in the right quality and at the right time.

We recommend

.54 SGC should formally document its tendering process.

Chapter 19 Saskatchewan Gaming Corporation

.55 SGC should follow its tendering process when awarding contracts.

.56 Management told us SGC has now documented its tendering process for contracts.

Control over changes to financial records needed

.57 SGC needs to comply with its established rules and procedures to ensure its financial records are correct.

.58 SGC's established rules and procedures require the Controller to review and approve changes to SGC's financial records. Without this review, evidenced by the Controller's approval, errors may occur and the financial records may not be accurate. We found no evidence the Controller approved changes made during the year.

We recommend

.59 The Controller should follow established procedures and approve all changes to SGC's financial records and leave evidence of approval.

.60 Management told us the Controller now approves all changes to the financial records.

Ensuring adequate accountability to the Legislative Assembly

.61 The Board is accountable to the Minister in charge of SGC and through the Minister to the Legislative Assembly for SGC's performance. To be fully accountable, the Board needs to provide the Assembly with the information necessary to understand and assess SGC's performance.

Improved public accountability required

.62 SGC needs to improve its public accountability.

.63 SGC's financial statements should show a comparison of its planned results with actual results.

.64 Legislators and the public use the financial statements to understand and assess SGC's financial affairs. To understand and assess its financial affairs, legislators and the public need to know what SGC planned to do compared with what it did.

Chapter 19 Saskatchewan Gaming Corporation

We recommend

.65 SGC should include a comparison of planned results with actual results in its financial statements.

Chapter 20
Saskatchewan Liquor & Gaming Authority

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.03
Board needs to oversee operations . . . . .	.05
Independent internal audit function needed . . . . .	.12
Current contingency plan needed . . . . .	.20
Documented rules and procedures over computer operations needed . . . . .	.24
Improved public accountability required . . . . .	.29

Chapter 20

Saskatchewan Liquor & Gaming Authority

Introduction

.01 Saskatchewan Liquor & Gaming Authority (SLGA) regulates liquor and gaming activities in the province. It operates retail liquor stores and manages video lottery terminal gaming.

.02 SLGA had revenues of \$462 million in 1996 and held assets of \$257.3 million at March 31, 1996. SLGA includes its financial statements in its *1995-96 Annual Report*.

Our audit conclusions and findings

.03 In our opinion:

- the financial statements for SLGA are reliable;
- SLGA complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing; and
- SLGA had adequate rules and procedures to safeguard and control its assets except for the matters described paragraphs .05 to .28.

.04 We also report another matter for the Assembly's attention in paragraphs .29 to .32.

Board needs to oversee operations

.05 The Board of Directors needs to oversee SLGA's operations. The Board has important management responsibilities. These are overseeing SLGA's performance, safeguarding assets, complying with the laws and other authorities and ensuring adequate public accountability.

.06 Section 3(4) of *The Alcohol and Gaming Regulation Act* requires the Board to manage the affairs and business of SLGA.

.07 To oversee SLGA's operations, the Board needs to meet regularly and review financial and operational reports received from management. Currently, the Board consists of the Minister responsible for SLGA and the Minister of Highways and Transportation. We saw no evidence of any Board meeting during the year.

.08 Also, to properly oversee SLGA's performance, the Board must tell management what performance it expects. It must also receive reports from management showing what management did compared with what the Board expected.

.09 The Board has not formally defined and documented its financial and operational information needs. The Board needs to define its information needs formally to ensure it receives suitable and timely reports. The Board should document its reporting needs setting out:

- The Board's information needs. For example:
 - financial reports should be prepared in accordance with generally accepted accounting principles;
 - all reports should compare planned results for the period and year-to-date to actual results for the period and year-to-date; and
 - all reports should show a forecast of expected results to the year end based on current information.
- The nature and extent of variances between planned and actual results. Variance explanations should include a comparison of planned level of activity with actual activity, when possible.
- Who is responsible for preparing and reporting the results of variance analyses.
- Who in the chain of command should receive and monitor the results of variance analyses.

We recommend

.10 The Board of Directors should formally define and document its internal reporting needs.

.11 The Board of Directors should regularly review financial and operational reports from management and document their review in the Board's minutes.

Independent internal
audit function needed

.12 The Board needs to receive independent information that management safeguards SLGA's assets and complies with the laws and related authorities including the Board's delegation of authority.

.13 The Board is responsible for safeguarding SLGA's assets and complying with laws and other authorities. To carry out this responsibility, the Board needs assurance management has established rules and procedures to safeguard assets. The Board also needs assurance management complies with the laws governing SLGA's activities including the Board's delegation of authority to management.

.14 In a large complex organization such as SLGA, the Board needs independent assurance that management carries out operations according to the Board's direction. The Board can receive this assurance through an independent internal audit function. To be independent of management, the internal auditor should report directly to the Board or to an audit committee. An effective audit committee improves the effectiveness of controls and helps the Board exercise due diligence.

.15 Currently, SLGA has no audit committee. SLGA has an internal auditor, who reports to management. The internal auditor's activities focus mainly on auditing liquor stores and gaming (e.g., bingos, raffles, casinos).

.16 We think the Board should:

- Have the internal auditor report directly to the Board;
- Review and approve the internal auditor's plans to ensure planned work will help the Board discharge its responsibilities;
- Act on the internal auditor's conclusions and findings; and
- Monitor the internal auditor's activities, results, and the adequacy of corrective action taken by management.

Chapter 20 Saskatchewan Liquor & Gaming Authority

.17 We also reported this matter in our *Report of the Provincial Auditor: 1995 Spring* and our *Report of the Provincial Auditor: 1996 Spring* reports to the Legislative Assembly.

We recommend

.18 The internal auditor should report directly to the Board or to an audit committee established by the Board.

.19 The Board should use the internal auditor's work and reports to help the Board discharge its responsibilities.

Current contingency plan needed

.20 SLGA needs a written and tested contingency plan to ensure continuous operations if computer processing is interrupted.

.21 A contingency plan is important because SLGA's operations depend on the reliability of its information systems. We note SLGA had a plan but it is no longer current. SLGA has undergone major organizational and system changes since making the plan. Therefore, SLGA cannot be sure it can continue operations quickly if computer processing is interrupted.

We recommend

.22 SLGA should update its written contingency plan and test the plan.

.23 Management told us SLGA is planning to update the contingency plan.

Documented rules and procedures over computer operations needed

.24 SLGA needs to fully document its rules and procedures for computer system operations and ensure staff understand the operating rules and procedures.

.25 SLGA is dependant on its computer systems for day-to-day operations. Properly documented rules and procedures for computer operations and trained staff should ensure the confidentiality, integrity, and availability of the data on SLGA's systems.

.26 When SLGA prepares written procedures for operating its computer systems, it should carry out a risk analysis. Good documentation should consider the following:

- passwords to control access to computer systems and information;
- reports listing changes to computer programs and information;
- physical security including locked doors and cabinets;
- signed confidentiality agreements for employees and consultants; and
- one person carrying out and monitoring the rules and procedures.

We recommend

.27 SLGA should fully document rules and procedures for operating its computer systems and ensure staff understand the rules and procedures.

.28 Management told us SLGA plans to improve its documentation of rules and procedures for operating its computer systems.

Improved public
accountability
required

.29 SLGA needs to improve its public accountability.

.30 SLGA's financial statements should show a comparison of planned results with actual results.

.31 Legislators and the public use SLGA's financial statements to understand and assess its financial results. To understand and assess the financial results, legislators and the public need to know what SLGA planned to do compared with what it actually did.

We recommend

.32 SLGA's financial statements should include a comparison of planned results with actual results.

Chapter 21
Saskatchewan Property Management Corporation

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.03
Process to dispose of supplies needs improvement . . . . .	.06
Recovery of salary needed . . . . .	.12

Chapter 21

Saskatchewan Property Management Corporation

Introduction	<p>.01 Saskatchewan Property Management Corporation (SPMC) provides services, accommodation, and facilities to various government agencies.</p> <p>.02 SPMC earned revenues of \$142 million during 1995-96 and held assets of \$478 million as at March 31, 1996. SPMC's <i>Annual Report 1995-96</i> contains its financial statements.</p>
Our audit conclusions and findings	<p>.03 Our Office worked with Deloitte & Touche (SPMC's appointed auditor) using the framework recommended by the <i>Report of the Task Force on Roles, Responsibilities and Duties of Auditors</i>. Deloitte & Touche and our Office formed the opinions in paragraph .04.</p> <p>.04 In our opinion and in Deloitte & Touche's opinion:</p> <ul style="list-style-type: none">• SPMC's 1996 financial statements are reliable;• SPMC had adequate rules and procedures to safeguard and control its assets except the matter described in paragraphs .06 to .11; and• SPMC complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except the matter described in paragraphs .06 to .11. <p>.05 In paragraphs .12 to .17, we report another matter for the Legislative Assembly's attention.</p>
Process to dispose of supplies needs improvement	<p>.06 SPMC needs to improve its process to ensure supplies (e.g., vehicles, furniture, equipment) are disposed of properly.</p> <p>.07 SPMC, as a central agency, is responsible for various supplies. It lends these supplies to other government agencies. SPMC reassigns or disposes of these supplies when these agencies no longer need them. In 1995-96, SPMC sold about \$6.9 million of supplies.</p> <p>.08 The law requires agencies, that borrow supplies from SPMC, to give a person in their agency the authority to decide</p>

Chapter 21 Saskatchewan Property Management Corporation

when they should return supplies to SPMC. By law, SPMC must obtain the agency's approval before it can sell or discard supplies used by that agency. This helps ensure SPMC does not sell or discard useful supplies.

.09 During the year, SPMC did not maintain a list of persons who can approve the disposal of supplies. As a result, SPMC did not know if agencies properly approved the disposal of supplies returned to SPMC.

We recommend

.10 Before selling or discarding supplies, SPMC should check to ensure government agencies approve the disposal.

.11 SPMC told us it is now compiling a list of persons who can approve the disposal of supplies. SPMC also told us it will ensure persons on the list approve the disposal of supplies.

Recovery of salary
needed

.12 SPMC did not recover salary costs as the Standing Committee on Public Accounts (PAC) expects.

.13 PAC recommended Ministers should ensure employees do not provide services to others, except by secondment.

.14 Treasury Board provided further guidance in its *Accounting and Reporting Policy* manual section AR 554. This section requires that an entity benefitting from a secondment longer than two months reimburse salary costs to the employer.

.15 SPMC paid three months salary (i.e., \$15,665) to an employee who worked solely for the benefit of another government agency. SPMC did not recover these costs from the other government agency.

We recommend

.16 SPMC should set up agreements including terms for salary recovery for secondments longer than two months.

.17 Later, SPMC seconded this employee to this agency. SPMC now recovers all costs related to this employee.

Chapter 22 Saskatchewan Research Council

Table of Contents

Introduction . . . . .	.01
Pension Plan . . . . .	.03
Our audit conclusions and findings . . . . .	.04
Better internal reports required . . . . .	.05
Control over bank account needed . . . . .	.19
Borrowing authority required . . . . .	.26

Chapter 22

Saskatchewan Research Council

Introduction	<p>.01 The Saskatchewan Research Council (SRC) provides scientific, engineering and technical services to help further the economy of the Province of Saskatchewan.</p> <p>.02 In the year ended March 31, 1996, SRC had revenue of \$21.7 million, had expense of \$22.6 million and held assets of \$7.9 million. SRC's <i>Annual Report 1995-96</i> contains its financial statements.</p>
Pension Plan	<p>.03 SRC also manages the Saskatchewan Research Council Employees' Pension Plan (Plan). At December 31, 1995, the Plan held assets of \$20.2 million and had a surplus of \$1.4 million.</p>
Our audit conclusions and findings	<p>.04 In our opinion:</p> <ul style="list-style-type: none">• SRC's and the Plan's financial statements are reliable;• SRC had adequate rules and procedures to safeguard and control its and the Plan's assets except for the matters referred to in paragraphs .05 to .25; and• SRC complied with the authorities governing its and the Plan's activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except for the matters described in paragraphs .26 to .30.
Better internal reports required	<p>.05 We think the internal reports provided to directors needs strengthening. The directors need better information for evaluating SRC's performance.</p> <p>.06 To effectively monitor SRC's performance, the directors need to receive information on what senior management has done, compared to what the directors expect. The directors need to set out clearly, in writing, the programs that SRC plans to deliver, the costs, and the performance targets the directors expect management to meet.</p>

Chapter 22 Saskatchewan Research Council

.07 The directors should set out their financial, operational, and compliance information needs. These policies should include:

- The information needs of directors. For example:
 - Financial reports should be prepared in accordance with generally accepted accounting principles;
 - Financial reports should show the full costs of programs, services and activities;
 - Financial reports should show the results of operations and the SRC's financial position (i.e., what it owns and owes).
 - Operational reports should show the effectiveness of programs, i.e., outputs (e.g., number of services) and outcomes (e.g., results of outputs);
 - Compliance reports should describe senior management's compliance with laws and other authorities;
 - Reports should show a comparison of expected results for the period and year-to-date to actual results for the period and year-to-date; and
 - Reports should show expected results to the end of the year based on current information.
- The reports should explain the nature and extent of variances between expected and actual results. Explanations of variances should include a comparison of expected program delivery compared to actual program delivery, when possible.
- Who is responsible for preparing and reporting the results of the variance analyses.

- Who in the chain of command should receive and monitor the results of the variance analyses.

.08 The directors have not formally defined and documented their information needs and the performance they expect of management.

.09 SRC needs better internal reports. SRC's reports provide the information set out in paragraph .07 except for points we report in paragraphs .10 to .12.

.10 SRC's internal reports do not show written variance analyses, the full costs of services and activities, and if SRC achieved its objectives.

.11 Also, SRC's reports are not prepared in accordance with generally accepted accounting principles. SRC's statement of operations does not include all significant payables to suppliers and does include some unearned revenue. SRC's reports do not include a balance sheet. A balance sheet would provide information on funds invested in receivables, payables and deferred revenue. The directors need this information to assess cash flow and operating results.

.12 In addition, SRC needs to improve its financial forecasting system. For example, the forecasting system produced the following information. At the October 1995 Council meeting, SRC's management forecast a \$261,700 loss. At the February 1996 Council meeting, SRC's management forecast a loss of \$559,000. The March 31, 1996 financial statements, however, show a loss of \$966,000.

.13 Inadequate and inaccurate reports can lead to incorrect decisions.

We recommend

.14 The Board of directors should define and document their internal reporting needs and the performance they expect of management.

.15 The SRC's internal reports should show written variance analyses, the full costs of services and activities and whether the programs delivered achieved the objectives of SRC.

Chapter 22 Saskatchewan Research Council

.16 The SRC should prepare its internal reports using generally accepted accounting principles.

.17 The SRC should improve its financial forecasting system.

.18 Management agrees with the recommendations and told us that they are developing a process to improve internal reporting based on the directors' expectations.

Control over bank
account needed

.19 SRC needs to better safeguard and control its bank account.

.20 SRC has established adequate rules and procedures to safeguard and control its bank account except it has not restricted access to blank cheques and signature plates. Also, staff do not always follow established rules and procedures. As a result, SRC may pay for unauthorized goods and services or for goods and services not received. Following are examples of staff not following established rules and procedures.

.21 SRC's rules and procedures require one cheque signing officer to review purchasing documents attached to the cheques to ensure SRC received the goods and services, and authorized staff approved the purchase of the goods and services. We noted instances where SRC paid suppliers when a signing officer did not review the documents. We also noted instances where the cheque signing officer signed the cheque when staff without written authorization approved the purchase of the goods and services.

.22 SRC's rules and procedures require authorized staff to approve all changes to the employees' rates of pay. We noted staff did not obtain all required approvals for the 1995 salary increases.

We recommend

.23 SRC should restrict access to blank cheques and the signature plates.

.24 SRC should execute all transactions according to its established rules and procedures.

Chapter 22 Saskatchewan Research Council

.25 Management agrees with the recommendations. Also, starting in June 1996, it has restricted access to the signature plates.

Borrowing authority
required

.26 SRC borrowed more money than the Minister of Finance authorized.

.27 *The Financial Administration Act, 1993* states “no department and no public agency shall borrow any moneys or engage in any capital market activity without the prior approval of the minister.”

.28 The Minister of Finance has authorized SRC to borrow \$5.1 million.

.29 On April 27, 1995, SRC had a bank overdraft of \$5.3 million.

We recommend

.30 SRC should obtain the prior approval of the Minister of Finance for all of its borrowings.

Chapter 23
Department of Energy and Mines

Table of Contents

Introduction . . . . .	.01
Our audit conclusions and findings . . . . .	.04
NewGrade payments need authority . . . . .	.05

Chapter 23

Department of Energy and Mines

Introduction

.01 The Department is responsible for managing Saskatchewan's energy and mineral resources.

.02 In 1996, the Department had expenses of \$25 million and collected revenue of \$682 million. Information about the Department's revenues and expenses appears in the *Public Accounts 1995-96 Volume 2* on pages 67 and 10 respectively.

.03 The following is a list of the Department's major tax and royalty revenues:

	1993		1994		1995		1996	
	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual	Original Estimates	Actual
Oil	\$ 213	\$ 262	\$ 235	\$ 300	\$ 212	\$ 529	\$ 348	\$ 447
Potash	61	57	59	51	49	89	72	122
Natural Gas	40	34	34	50	91	61	68	41
Uranium	19	26	26	32	25	20	17	44
Coal	15	13	14	15	15	16	15	15
Other	10	12	10	13	10	11	12	13
Total	\$ 358	\$ 404	\$ 378	\$ 461	\$ 402	\$ 726	\$ 532	\$ 682

Our audit conclusions and findings

.04 In our opinion:

- the Department had adequate rules and procedures to safeguard and control its assets; and
- the Department complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing except for the matter described in paragraphs .05 to .14.

NewGrade payments need authority

.05 The Department paid \$1,639,611 to NewGrade Energy Inc. (NewGrade). The Department called this payment "NewGrade Royalty Rebate". The Department used Order in Council 7/89 as its authority for the payment. The authority to issue this Order is Section 24 of *The Financial Administration Act, 1993*.

Chapter 23 Department of Energy and Mines

.06 The Order imposes the following conditions:

- Producers of the gas must pay the Department the full amount of royalties due under the law.
- They also must assign to NewGrade their right to the remission under this Order.
- The Department must pay the amount of the remissions to NewGrade for a minimum of fifteen years or until NewGrade's debt, guaranteed by the Government in December 1986, is paid.

.07 Section 24 of the Act allows the Lieutenant Governor in Council (Cabinet) to remit (forgive) or exempt any person from liability to pay any tax, royalty, rental or fee to the Crown.

.08 We believe the only persons who can be forgiven are the persons liable to pay the royalties. Because the Order imposes the condition that the producers must still pay, there is no forgiveness. The only change is that NewGrade receives the moneys collected instead of the Crown. Therefore, the effect of the Order is not a remission to producers but a grant to NewGrade.

.09 Section 24 of the Act gives Cabinet the power to remit royalties but not the power to make grants. Accordingly, the grant of \$1,639,611 to NewGrade is not authorized under Section 9 of *The Department of Energy and Mines Act*.

.10 The Department records this grant as a reduction of revenue. We think the Department should record this grant as an expense. Recording the grant as an expense would provide the Legislative Assembly the opportunity to annually debate and provide the money to pay the grant. We think this is an important parliamentary principle.

.11 We also reported this matter in our *Report of the Provincial Auditor: 1996 Spring* and previous reports to the Assembly. In these reports, we recommend:

The Estimates should present future payments to NewGrade under this agreement as expenditures.

Chapter 23 Department of Energy and Mines

The Department should report these payments as an expense of the Department.

.12 The Standing Committee on Public Accounts of the Twenty-Second Legislature considered this matter several times. This Committee made the following recommendation to the Assembly on May 25, 1992, March 17, 1993 and March 29, 1994:

if the remission of natural gas royalties is to continue to be paid to NewGrade Energy Inc. the amount to be provided should be included in the estimates and presented to the Legislative Assembly for their consideration.

.13 The Assembly concurred with the 1992, 1993 and 1994 recommendations of this Committee.

.14 The Standing Committee on Public Accounts of the Twenty-Third Legislature considered this matter on December 13, 1996. This Committee agreed to the following motion:

That the Public Accounts Committee disagrees with the Auditor's recommendations as cited in paragraphs 15 and 16 of Chapter 15 of his 1996 Spring Report; and notes that the Department is in compliance with the accounting requirements provided for in section 24 of The Financial Administration Act as it pertains to Order-in-Council 7/89.

Chapter 24
Department of Executive Council (including the Electoral Office)

Table of Contents

Introduction . . . . .	.01
Our audit is not finished . . . . .	.04

Chapter 24

Department of Executive Council (including the Electoral Office)

Introduction

.01 The Department provides organization and record keeping services to the Premier and the Government and ensures compliance with *The Election Act*. The Department also provides support to the Premier in his roles as: Head of Government; Chair of Cabinet; Chair of the Planning and Priorities Committee; and Head of the political party with a mandate to govern.

.02 In 1996, the Department received \$13.1 million from the General Revenue Fund and spent this money on its programs. The *Public Accounts 1995-96 Volume 2* contains information about the Department's expenses.

.03 The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration	\$ 3.1	\$ 2.9
Communications Coordination	1.4	1.7
Cabinet and Policy and Planning Secretariats	1.1	0.9
Accommodation and Central Services	0.9	0.9
Members of Executive Council	<u>0.6</u>	<u>0.6</u>
	7.1	7.0
Electoral Office	<u>0.6</u>	<u>6.1</u>
	<u>\$ 7.7</u>	<u>\$ 13.1</u>

Our audit is not finished

.04 In our *Report of the Provincial Auditor: 1996 Fall*, we report the results of our audit of the Department for the year ended March 31, 1996. In that Report we state we had not finished our work at the Department because the Chief Electoral Officer (CEO) had not finished his work.

.05 At the date of this Report, we are still not finished our work because the CEO is not finished his work.

.06 The CEO is responsible to ensure candidates and political parties comply with *The Election Act* (repealed on January 1, 1997 and replaced with *The Election Act, 1996*).

.07 *The Election Act* requires the CEO to collect all anonymous donations over \$100 (\$250 in *The Election Act, 1996*) to political parties or candidates and to pay those donations to the General Revenue Fund.

.08 Recently, there is public concern regarding the use of “special funds” (including contributions from federal political parties) to finance provincial political parties and candidates. The concern relates to the public’s need to know who gave the money to the special funds which was later given to political parties and candidates. Our concern with this matter relates to ensuring the CEO collects all anonymous donations over \$100 and pays those donations to the General Revenue Fund.

.09 The CEO is currently investigating the special funds. He wrote to the three major political parties to obtain information about special funds to ensure compliance with the Act.

.10 When the CEO has finished his work, we will report our findings, conclusions and recommendations.

Chapter 25

Staffing the Public Service

Table of Contents

Introduction - the Public Service . . . . .	.01
Our recommendations . . . . .	.09
Our follow-up procedures . . . . .	.12
The PSC's action to date . . . . .	.13
Our plans . . . . .	.15

Chapter 25

Staffing the Public Service

Introduction - the Public Service

.01 In Chapter 3 of our *Report of the Provincial Auditor: 1996 Spring* (1996 Spring Report), we describe the role of the Public Service Commission (PSC) with respect to staffing the Public Service. We set out the general size and composition of the Public Service. We report the results of our 1994 audit of the Commissioner's public report entitled *Saskatchewan Public Service Commissioners' Report - Effectiveness and Fairness of the Staffing Process*.

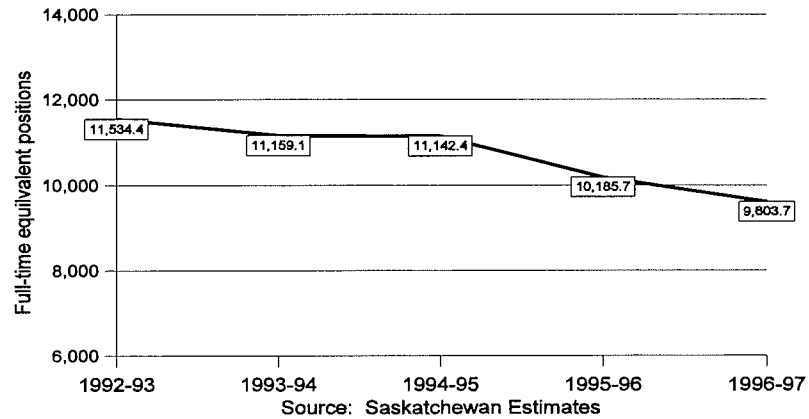
.02 The PSC acts as a central agency for some human resource activities for less than 40% of the Government's employees, i.e., the Public Service. The PSC works to ensure equity and fairness in personnel administration in the Public Service.

.03 The Lieutenant Governor in Council, i.e., Cabinet, appoints the chair and members of the Commission. The Commission represents the public's interest in maintaining a respected Public Service. In addition, the Commission oversees the operations of the PSC. The members of the Commission call themselves 'Commissioners'. The chair, a Commissioner, is also the executive officer of the PSC.

.04 The 'Public Service' refers to those persons employed in departments and a few government agencies. At June 1996, the 'Public Service' had 9,633 actual full-time equivalent (FTE) positions. About 65% of these positions were permanent; the remaining were part-time, temporary, casual or labour service. Cabinet appointments accounted for about 2% of these positions (i.e., unclassified positions).

Chapter 25 Staffing the Public Service

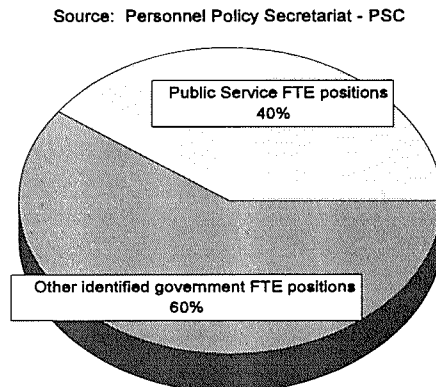
.05 Over the last five years, the Government has reduced the number of positions included in the 'Public Service' from 11,534 to 9,603 FTE positions (i.e., about 16%). (Source: Saskatchewan Estimates)



.06 The 'Public Service', as defined in *The Public Service Act*, is one of many employers in the Saskatchewan Government. Other Government employers do not use the services of the PSC. The persons employed by these employers are not considered part of the 'Public Service'.

.07 At June 1996, these other 'Non-public Service' employers have about the following number of FTE positions: CIC Crown corporations have 9,396, SIAST and regional colleges have 1,748, and other Treasury Board Crown corporations and agencies have 3,020. Summarized statistics on the numbers of those employed by the health districts and employed elsewhere in the health sector are not publicly available. (Source: Personnel Policy Secretariat - PSC)

.08 As shown in the chart, the 'Public Service' represents about 40% (i.e., 9,633) of the total number of FTE positions identified in paragraph .07 where employment figures are available (i.e., 23,797).



Chapter 25 Staffing the Public Service

Our recommendations

.09 In 1996, the Commissioners' tabled a report in the Legislative Assembly. It is entitled *Saskatchewan Public Service Commissioners' Report - Effectiveness and Fairness of the Staffing Process* (report).

.10 This report fairly describes the PSC's systems and practices in use from October 1, 1993 to September 30, 1994, and the effectiveness of those systems and practices in fairly obtaining the right permanent employees to meet the staffing needs of the classified Public Service according to *The Public Service Act* and collective bargaining agreements. We audited Section III of this report.

.11 In Chapter 3 of our 1996 Spring Report, we make two recommendations:

- *The PSC should agree with departments and agencies, in writing, on the expected length of time to hire a permanent employee in the classified division of the Public Service; and*
- *To monitor its performance, the PSC should compare actual times to agreed upon times to hire employees.*

Our follow-up procedures

.12 To decide if the PSC adopted our recommendations, we asked various PSC officials to tell us of any actions taken. We then reviewed relevant documents. This work is not an audit. Rather, it reports on the status of our recommendations.

The PSC's action to date

.13 From June 1995 to October 1996, the PSC made little progress in achieving our recommendations. The PSC continues to regard timely hiring of employees as important. However, it is unsure of its role compared to the role of departments in ensuring this happens. As a result, the PSC has not taken steps to seek agreement with departments on the expected length of time to hire a permanent employee. Also, it has not set out the expected length of time to hire employees.

.14 Starting in late 1995, the PSC regularly prepares and distributes reports on timeliness of hiring. These reports set out the actual number of days taken to complete various stages of the staffing process. Because benchmarks are not formally set, the reports can not compare actual days with those expected.

Chapter 25 Staffing the Public Service

Our plans

.15 We encourage the PSC to work closely with departments and agencies to ensure they hire people efficiently. We also encourage the Commissioners to monitor the performance of the PSC in this area.

.16 Our Office will continue to monitor the PSC's actions with respect to staffing the Public Service. We will report our findings in the future.

Chapter 26
Boards of Directors of Crown Agencies

Table of Contents

Introduction . . . . .	.01
Our follow-up procedures . . . . .	.04
Summary of the Government's actions . . . . .	.05
Office plans to monitor actions . . . . .	.06

Chapter 26

Boards of Directors of Crown Agencies

Introduction

.01 In Chapter 4 of our *Report of the Provincial Auditor: 1995 Fall*, we identify the following concern. The Government needs to improve its systems and practices to ensure boards of directors of Crown agencies understand the effect general laws have on their roles, responsibilities and duties. We recommend the following.

- *The Government should advise each Crown agency's Board of Directors which general laws provides broad powers and duties to specific government officials or groups (e.g., Cabinet, Treasury Board, Ministers and the Board of Crown Investments Corporation of Saskatchewan).*
- *The responsible government official or group should provide the Board of Directors of each Crown agency with written guidance setting out how general laws affect the Board's decision-making ability.*
- *The responsible government official or group should ensure they inform the related Board of the nature and effect of how the responsible government official or group uses general laws.*

.02 The Standing Committee on Public Accounts (PAC) accepted the above recommendations in May 1996. In May 1996, PAC included them in its first report to the Assembly.

.03 This Chapter reports on the Government's actions taken in response to these recommendations.

Our follow-up procedures

.04 To decide if the Government adopted the above recommendations, we carried out the following procedures:

- We asked officials from the Crown Investments Corporation of Saskatchewan (CIC), Department of Finance and several other government departments to tell us about the guidance they provide to Boards;

Chapter 26 Boards of Directors of Crown Agencies

- We looked at the guidance the Government issues to Boards about their roles, responsibilities and duties;
- We reviewed the Government's response to PAC for indications of work done and any plans proposed; and
- We looked for relevant significant changes in general laws (e.g., *The Financial Administration Act, 1993*, or *The Crown Corporations Act, 1993*).

Summary of the Government's actions

.05 From August 1995 to October 1996, the Government made some progress in achieving our recommendations. Its actions include the following.

- Treasury Board makes orders and directives under *The Financial Administration Act, 1993*. In June 1996, Treasury Board listed departments and Crown agencies that are subject to its orders and directives. It told these departments and agencies which directives govern their activities. Also, it told them that from time to time Treasury Board may require them to follow certain administrative, managerial and accounting policies.
- In 1996, CIC briefed the directors of its subsidiary Crown corporations (e.g., SaskTel, SaskPower) on the following general laws:

The Crown Corporations Act, 1993;
The Interpretation Act, 1993; and
The Tabling of Documents Act, 1991.
- In 1996, the Government reviewed its Crown corporations including their corporate governance. Because of this review, CIC has told us that it plans to prepare a Crown corporation director's manual.

Chapter 26 Boards of Directors of Crown Agencies

- In late October 1996, the Government responded to PAC's first Report to the Assembly. In its response, the Government states the following:
 - It recognizes general laws play an important role in the decision-making and operating environments of Crown agencies;
 - It is committed to act accordingly to meet the recommendations; and
 - Due to the large number of participants and the many pieces of legislation it must review, it thinks achieving the recommendations will take time.

- In June 1996, *The Crown Corporation Act, 1993* (Act) was changed. In general, the changes provide the Lieutenant Governor in Council (Cabinet) with more discretionary powers over Treasury Board Crown corporations. For example, Cabinet can now make Treasury Board Crown corporations subject to the Act. This would then require the corporation to follow the relevant provisions of the Act. As of October 1996, Cabinet has not made any Treasury Board Crown corporation subject to the Act.

Office plans to monitor actions

.06 We will continue to monitor the Government's actions to meet our recommendations.

Chapter 27
Joint Evaluation of New Audit Process

Table of Contents

Introduction . . . . .	.01
Background . . . . .	.03
Joint evaluation . . . . .	.07

Chapter 27

Joint Evaluation of New Audit Process

Introduction

.01 Chapter 6 of our *Report of the Provincial Auditor: 1996 Spring* includes an evaluation of using the recommendations of the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (Task Force). That Chapter evaluated the results of using the new system to audit CIC Crown corporations for the year ended December 31, 1994. The evaluation was prepared jointly by the President of Crown Investments Corporation of Saskatchewan (CIC) and by the Provincial Auditor.

.02 This Chapter contains an evaluation of the results of using the new system to audit CIC Crown corporations for the year ended December 31, 1995. It was also prepared jointly by the President of CIC and the Provincial Auditor. In doing the evaluation, the President of CIC and the Provincial Auditor consulted those directly involved in the audit process.

Background

.03 For many years, there were different interpretations about the roles, responsibilities and duties of auditors auditing government organizations. In 1993, the Standing Committee on Public Accounts considered the matter and recommended more co-operation among all parties concerned.

.04 In response to the Committee's recommendation, the Provincial Auditor and CIC formed the Task Force in February 1994. They asked that the Task Force reach a consensus and provide recommendations on how the audit system for CIC Crown corporations could function more efficiently and effectively. The Standing Committee on Public Accounts and the Standing Committee on Crown Corporations supported this initiative.

.05 In June 1994, the Task Force issued its report. The Task Force provides a useful framework for strengthening the audit system. It recommends several improvements to the process for auditing CIC Crown corporations and reporting the results to the Legislative Assembly.

.06 The Task Force recommends that CIC and the Provincial Auditor jointly evaluate the new system in each of the first two years and communicate the results to key constituents.

Chapter 27 Joint Evaluation of New Audit Process

Joint evaluation

.07 The following paragraphs set out the views of the President of CIC and the Provincial Auditor.

.08 In our view, the audit process recommended by the Task Force is a valuable improvement. Most of the constituent groups accept the new audit system as an improved and workable process. Accordingly, we will continue to support the new system.

.09 The following paragraphs summarize our evaluation of the new system as it was applied to the 1995 audits of CIC Crown corporations.

.10 As we expected, the second year of applying the new system was more successful than the first year. Overall, the process has become more efficient. For example, it took less time to issue reports that contain matters to be reported to the Legislative Assembly. However, management, appointed auditors, and the Provincial Auditor's staff should ensure they always follow the process. For example, auditors should agree on audit plans before starting audits, agree on the contents of reports before they issue them, issue their reports promptly, and notify each other prior to attending key meetings with management.

.11 We are pleased the Government is using this process whenever it chooses to use appointed auditors. To ensure the new system continues to be effective, we encourage audit committees, management and auditors to continue to assess the audit system and suggest improvements to us.

.12 We thank the audit committees, management and appointed auditors of the various CIC Crown corporations, and the Provincial Auditor's staff for their willingness to use the new audit system. We also thank them for providing their comments about the new process.

Appendix I

NOTE:

All persons making use of this consolidation are reminded that it has no legislative sanction, that the amendments have been embodied only for convenience of reference and that the original statutes and regulations should be consulted for all purposes of interpretation and application of the law. Please note, however, that in order to preserve the integrity of the original statutes and regulations, errors that may have appeared are reproduced in this consolidation.

The Provincial Auditor Act

SHORT TITLE AND INTERPRETATION

- 1 This Act may be cited as *The Provincial Auditor Act*.
- 2 In this Act:
 - (a) "acting provincial auditor" means the acting provincial auditor appointed pursuant to section 5;
 - (a.1) "appointed auditor" means an auditor appointed pursuant to an Act or other authority by the Lieutenant Governor in Council or another body to examine the accounts of a Crown agency or Crown-controlled corporation or accounts otherwise related to public money;
 - (b) "audit" means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;
 - (c) "Crown" means Her Majesty the Queen in right of Saskatchewan;
 - (d) "Crown agency" means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:
 - (i) are appointed by an Act or by the Lieutenant Governor in Council; or
 - (ii) are, in the discharge of their duties, public officers or servants of the Crown;and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

Appendix I

(e) "Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) "fiscal year" means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) "provincial auditor" means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

(h) "public money" means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) "public property" means property held or administered by the Crown. 1983, c.P-30.01, s.2; 1986-87-88, c.26, s.4.

APPOINTMENT AND OFFICE

3(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) **Repealed. 1986-87-88, c.26, s.5.**

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

Appendix I

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly. 1983, c.P-30.01, s.3; 1986-87-88, c.26, s.5.

4(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less than his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund. 1983, c.P-30.01, s.4.

5(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor. 1983, c.P-30.01, s.5.

6 No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan. 1983, c.P-30.01, s.6.

7 For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary. 1983, c.P-30.01, s.7.

8(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

Appendix I

(4) *The Public Service Superannuation Act* and *The Superannuation (Supplementary Provisions) Act* apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or fund established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office. 1983, c.P-30.01, s.8.

9 The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation. 1983, c.P-30.01, s.9.

10 The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly. 1983, c.P-30.01, s.10.

DUTIES AND POWERS

11(1) The provincial auditor is the auditor of the accounts of the Government of Saskatchewan and shall examine all accounts related to public money and any accounts not related to public money that he is required by an Act to examine, and shall determine whether, in his opinion:

- (a) the accounts have been faithfully and properly kept;
- (b) public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- (c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) An appointed auditor is subject to the examination responsibilities prescribed in clauses (1)(a) to (d).

Appendix I

(3) For the purposes of this section, where an auditor, including an appointed auditor, is required to examine accounts and render an opinion on those accounts, he shall do so in accordance with generally accepted auditing standards as prescribed from time to time by the Canadian Institute of Chartered Accountants. 1986-87-88, c.26, s.6.

11.1(1) In the fulfillment of his responsibilities as the auditor of the accounts of the Government of Saskatchewan, the provincial auditor may rely on the report of the appointed auditor of a Crown agency or Crown-controlled corporation if he is satisfied that the appointed auditor has carried out his responsibilities pursuant to section 11 with respect to that Crown agency or Crown-controlled corporation.

(2) Where the provincial auditor determines pursuant to subsection (1) that he is unable to rely on the report of the appointed auditor with respect to a Crown agency or Crown-controlled corporation, the provincial auditor shall conduct additional audit work with respect to the accounts of that Crown agency or Crown-controlled corporation.

(3) Where the provincial auditor has performed additional audit work on the accounts of a Crown agency or Crown-controlled corporation pursuant to subsection (2), he shall report in his annual report pursuant to this section:

- (a) the reason that he was unable to rely on the report of the appointed auditor of the Crown agency or Crown-controlled corporation;
- (b) the nature of the additional audit work he conducted; and
- (c) the results of the additional audit work. 1986-87-88, c.26, s.6.

12(1) At the end of each fiscal year, the provincial auditor and every appointed auditor shall prepare a report on the results of all examinations that they have conducted of departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations during that year giving details of any reservation of opinion made in an audit report, and shall identify any instances they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly, including any cases in which they observe:

- (a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;
- (b) any public money was not duly accounted for and paid into the appropriate fund;
- (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;
- (d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

Appendix I

- (e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;
- (f) a special warrant authorized the payment of public money; or
- (g) essential records were not maintained or the rules and procedures applied were not sufficient:
 - (i) to safeguard and control public money;
 - (ii) to effectively check the assessment, collection and proper allocation of public money; or
 - (iii) to ensure that expenditures were made only as authorized.

(1.1) On completion of any examination of the accounts of a Crown agency or Crown-controlled corporation, an appointed auditor shall submit to the provincial auditor the report prepared pursuant to subsection (1) with respect to that Crown agency or Crown-controlled corporation.

(1.2) At the end of each fiscal year, the provincial auditor shall compile the reports submitted to him by appointed auditors pursuant to subsection (1.1) and shall submit them together with his report prepared pursuant to this section in the form of an annual report to the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

- (a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and
- (b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), neither the provincial auditor nor any appointed auditor is required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant. 1983, c.P-30.01, s.12; 1986-87-88, c.26, s.7.

13 The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent. 1983, c.P-30.01, s.13.

14(1) Notwithstanding *The Tabling of Documents Act, 1991*, the provincial auditor shall submit to the Speaker, as soon as practicable:

- (a) his annual report prepared pursuant to section 12;

Appendix I

(b) any supplemental report based on the financial statements of the Government of Saskatchewan; and

(c) any special report that is prepared by him pursuant to section 13;

and the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to this subsection.

(2) Where the Legislature is not in session when the Speaker is required to lay the reports referred to in subsection (1) before the Legislative Assembly, the Speaker shall submit the reports to the Clerk of the Legislative Assembly, whereupon such reports shall be deemed to be tabled.

(3) On receipt of the reports referred to in subsection (1), the Clerk of the Legislative Assembly shall:

(a) cause copies of the reports to be delivered to all members of the Legislative Assembly;

(b) make the reports available for public inspection during normal business hours of the Clerk of the Legislative Assembly.

(4) Where the Speaker submits the reports referred to in subsection (1) to the Clerk of the Legislative Assembly pursuant to subsection (2), those reports shall be deemed referred to the Standing Committee of the Legislative Assembly on Public Accounts. 1994, c.44, s.2.

15(1) The provincial auditor or the appointed auditor, as the case may be, shall express an opinion, in accordance with the outcome of his examinations, on the financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which there is an appointed auditor. 1983, c.P-30.01, s.15; 1986-87-88, c.26, s.9.

16(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

Appendix I

- (i) requests the provincial auditor to perform a special assignment; and
 - (ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and
- (b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding *The Tabling of Documents Act*:

- (a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and
- (b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

- (a) the Lieutenant Governor in Council:
 - (i) requests the provincial auditor to perform a special assignment; and
 - (ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and
- (b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council. 1983, c.P-30.01, s.16.

17 Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be,

Appendix I

shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance. 1983, c.P-30.01, s.17.

18 The provincial auditor shall:

- (a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;
- (b) assure himself that the securities described in clause (a) have been properly cancelled; and
- (c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities. 1983, c.P-30.01, s.18.

19 On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

- (a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16(1) on the request of the committee; and
- (b) during its review of the items described in clause (a). 1983, c.P-30.01, s.19.

AUDIT COMMITTEE

20(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

- (2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.
- (3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.
- (4) The audit committee may determine its rules of procedure. 1983, c.P-30.01, s.20.

21 On the request of the provincial auditor or the Minister of Finance, the chairman of the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee. 1983, c.P-30.01, s.21.

Appendix I

22 The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the results of any audit or examination made by him. 1983, c.P-30.01, s.22.

23 The provincial auditor shall present to the audit committee:

- (a) his annual report; and
- (b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker. 1983, c.P-30.01, s.23.

GENERAL

24(1) The provincial auditor or the appointed auditor, as the case may be, is entitled:

- (a) to free access, at all convenient times, to:
 - (i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and
 - (ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or, in the case of the provincial auditor, with respect to which he is examining pursuant to a special assignment; and

- (b) to require and receive from employees of a department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor or an appointed auditor, as the case may be, may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed. 1983, c.P-30.01, s.24; 1986-87-88, c.26, s.10.

25 The provincial auditor may examine any person on any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may

Appendix I

exercise all the powers of commissioners under *The Public Inquiries Act*. 1983, c.P-30.01, s.25.

26 Neither the provincial auditor nor any appointed auditor is required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature. 1983, c.P-30.01, s.26; 1986-87-88, c.26, s.11.

26.1 Where the auditor of a Crown agency or Crown-controlled corporation has been changed, the new auditor and the previous auditor shall deal with the transition in accordance with the rules of professional conduct as established from time to time by the Institute of Chartered Accountants of Saskatchewan. 1986-87-88, c.26, s.12.

27(1) An accountant, who is:

- (a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;
- (b) not employed by a department of the Government of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and
- (c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts. 1983, c.P-30.01, s.27.

28 The provincial auditor may charge a reasonable fee for professional services provided by his office. 1983, c.P-30.01, s.28.

29 The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act. 1983, c.P-30.01, s.29.

30 The provincial auditor, any employee in his office, an appointed auditor, any employee of an appointed auditor or any advisor, specialist or consultant engaged pursuant to section 7:

- (a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act; and

Appendix I

(b) shall not communicate those matters to any person, other than when he is required to do so in connection with:

- (i) the administration of this Act;
- (ii) any proceedings under this Act; or
- (iii) any proceedings in a court of law. 1983, c.P-30.01, s.30; 1986-87-88, c.26, s.13.

31 Subject to subsection 4(4), any sums required by the provincial auditor for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose. 1983, c.P-30.01, s.31; 1986-87-88, c.26, s.14.

32(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Finance Act*, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force. 1983, c.P-30.01, s.32.

REGINA, SASKATCHEWAN
Printed by the authority of
THE QUEEN'S PRINTER

Appendix II

List of organizations subject to an examination under *The Provincial Auditor Act*

Appendix II lists the departments, Crown agencies, Crown-controlled corporations, special purpose and trust funds, offices of the Legislative Assembly and other organizations subject to an audit examination under *The Provincial Auditor Act* at March 31, 1996.

Departments and Secretariats:	Year End
Department of Agriculture and Food	March 31
Department of Economic Development	March 31
Department of Education	March 31
Department of Energy and Mines	March 31
Department of Environment and Resource Management	March 31
Department of Finance	March 31
Department of Health	March 31
Department of Highways and Transportation	March 31
Department of Intergovernmental Affairs	March 31
Department of Justice	March 31
Department of Labour	March 31
Department of Municipal Government	March 31
Department of Social Services	March 31
Executive Council	March 31
Indian and Metis Affairs Secretariat	March 31
Women's Secretariat	March 31
Crown Agencies:	
CIC Forest Products Ltd.	April 30
582099 Saskatchewan Ltd.	June 23
Carlton Trail Regional College	June 30
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
North West Regional College	June 30
Northlands College	June 30
Parkland Regional College	June 30
Prairie West Regional College	June 30
Saskatchewan Indian Regional College	June 30
Saskatchewan Institute of Applied Science and Technology	June 30
Saskatchewan Vegetable Marketing and Development Board	June 30
Southeast Regional College	June 30
Teachers' Superannuation Commission	June 30
Canodev Research Inc.	July 31
Saskatchewan Canola Development Commission	July 31

Appendix II

Crown Agencies (continued):	Year End
Saskatchewan Grain Car Corporation	July 31
Saskatchewan Pulse Crop Development Board	August 31
National Pig Development (Canada) Co. Ltd.	September 30
Bayhurst Gas Limited	December 31
Channel Lake Petroleum Ltd.	December 31
CIC Industrial Interests Inc.	December 31
CIC Mineral Interests Corporation	December 31
CIC Pulp Ltd.	December 31
Crown Investments Corporation of Saskatchewan	December 31
DirectWest Publishers Ltd.	December 31
Greystone Capital Management Inc.	December 31
KROP Transport Ltd.	December 31
Liquor Board Superannuation Commission, The	December 31
Many Islands Natural Gas (Canada) Limited	December 31
Many Islands Pipe Lines (Canada) Limited	December 31
Milk Control Board	December 31
Moose Jaw Packers (1974) Ltd.	December 31
Municipal Employees' Pension Commission	December 31
Municipal Financing Corporation of Saskatchewan	December 31
Municipal Potash Tax Sharing Administration Board	December 31
Northern Enterprise Fund Inc.	December 31
Power Greenhouses Inc.	December 31
Power Corporation Superannuation Board	December 31
Saskatchewan Assessment Management Agency	December 31
Saskatchewan Auto Fund	December 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Chicken Marketing Board	December 31
Saskatchewan Commercial Egg Producers' Marketing Board	December 31
Saskatchewan Development Fund Corporation	December 31
Saskatchewan Forest Products Corporation	December 31
Saskatchewan Government Growth Fund Ltd.	December 31
Saskatchewan Government Growth Fund II Ltd.	December 31
Saskatchewan Government Growth Fund III Ltd.	December 31
Saskatchewan Government Growth Fund Management Corporation	December 31
Saskatchewan Government Insurance	December 31
Saskatchewan Housing Corporation	December 31
Saskatchewan Opportunities Corporation	December 31
Saskatchewan Pension Plan Board of Trustees	December 31
Saskatchewan Power Corporation	December 31
Saskatchewan Sheep Development Board	December 31
Saskatchewan Telecommunications	December 31
Saskatchewan Telecommunications Holding Corporation	December 31
Saskatchewan Telecommunications International, Inc.	December 31

Appendix II

Crown Agencies (continued):

Year End

Saskatchewan Telecommunications Superannuation Board	December 31
Saskatchewan Transportation Company	December 31
Saskatchewan Turkey Producers' Marketing Board	December 31
Saskatchewan Water Corporation	December 31
SaskEnergy Incorporated	December 31
SaskPen Properties Ltd.	December 31
SaskPower Commercial Inc.	December 31
SaskTel UK Holdings Inc.	December 31
SGI CANADA Insurance Services Ltd.	December 31
South Saskatchewan River Irrigation District No. 1	December 31
SPI Marketing Group	December 31
TransGas Limited	December 31
Workers' Compensation Board	December 31
Workers' Compensation Superannuation Board	December 31
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Assiniboine Valley District Health Board	March 31
Battlefords District Health Board	March 31
Board of Governors, Uranium City Hospital	March 31
Central Plains District Health Board	March 31
East Central District Health Board	March 31
Gabriel Springs District Health Board	March 31
Greenhead District Health Board	March 31
Health Services Utilization and Research Commission	March 31
La Ronge Hospital Board	March 31
Law Reform Commission of Saskatchewan	March 31
Living Sky District Health Board	March 31
Lloydminster District Health Board	March 31
Midwest District Health Board	March 31
Moose Jaw-Thunder Creek District Health Board	March 31
Moose Mountain District Health Board	March 31
New Careers Corporation	March 31
North Central District Health Board	March 31
North-East District Health Board	March 31
North Valley District Health Board	March 31
Northwest District Health Board	March 31
Parkland District Health Board	March 31
Pasquia District Health Board	March 31
Pipestone District Health Board	March 31
Prairie Agricultural Machinery Institute	March 31
Prairie West District Health Board	March 31
Prince Albert District Health Board	March 31

Appendix II

Crown Agencies (continued):	Year End
Public Employees (Government Contributory) Superannuation Plan	
Supervisory Board	March 31
Public Service Commission, The	March 31
Public Service Superannuation Board	March 31
Regina District Health Board	March 31
Rolling Hills District Health Board	March 31
Saskatchewan Arts Board, The	March 31
Saskatchewan Cancer Foundation	March 31
Saskatchewan Centre of the Arts	March 31
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Crop Insurance Corporation	March 31
Saskatchewan Energy Conservation and Development Authority	March 31
Saskatchewan Gaming Corporation	March 31
Saskatchewan Legal Aid Commission	March 31
Saskatchewan Liquor and Gaming Authority	March 31
Saskatchewan Lotteries Trust Fund for Sports, Recreation and Culture	March 31
Saskatchewan Municipal Board	March 31
Saskatchewan Property Management Corporation	March 31
Saskatchewan Research Council, The	March 31
Saskatchewan Wetland Conservation Corporation	March 31
Saskatoon District Health Board	March 31
South Central District Health Board	March 31
South Country District Health Board	March 31
South East District Health Board	March 31
Southwest District Health Board	March 31
SP Two Properties Ltd.	March 31
St. Louis Alcoholism Rehabilitation Centre	March 31
Swift Current District Health Board	March 31
Touchwood Qu'Appelle District Health Board	March 31
Transportation Partnerships Corporation	March 31
Tripartite Beef Administration Board	March 31
Twin Rivers District Health Board	March 31
Wanuskewin Heritage Park Corporation	March 31
Water Appeal Board	March 31
Western Development Museum	March 31

Special Purpose and Trust Funds:

Doukhobors of Canada C.C.U.B. Trust Fund	May 31
Capital Pension Plan	December 31
Northern Revenue Sharing Trust Account	December 31
Public Employees Deferred Salary Leave Fund	December 31
Public Employees Dental Fund	December 31

Appendix II

Special Purpose and Trust Funds (continued):	Year End
Public Employees Disability Income Fund	December 31
Public Employees Group Life Insurance Fund	December 31
Saskatchewan Development Fund	December 31
Saskatchewan Government Insurance Superannuation Plan	December 31
Saskatchewan Research Council Employees' Pension Plan	December 31
Agri-Food Innovation Fund	March 31
Beef Development Board	March 31
Cattle Marketing Deductions Fund	March 31
Commercial Revolving Fund	March 31
Conservation and Development Revolving Fund	March 31
Correctional Facilities Industries Revolving Fund	March 31
Correspondence School Revolving Fund	March 31
Crop Reinsurance Fund of Saskatchewan	March 31
First Nations Fund	March 31
Fish and Wildlife Development Fund	March 31
General Revenue Fund	March 31
Highways Revolving Fund	March 31
Horned Cattle Fund	March 31
Judges of the Provincial Court Superannuation Fund	March 31
Members of the Legislative Assembly Superannuation Fund	March 31
Oil and Gas Environmental Fund	March 31
Prepaid Funeral Services Assurance Fund	March 31
Private Vocational Schools Training Completion Fund	March 31
Provincial Mediation Board Trust Account	March 31
Provincial Mediation Board - Office of the Rentalsman Trust Account	March 31
Public Employees Benefit Agency Revolving Fund	March 31
Public Trustee for Saskatchewan	March 31
Queen's Printer Revolving Fund	March 31
Resource Protection and Development Revolving Fund	March 31
Saskatchewan Book Bureau Revolving Fund	March 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Student Aid Fund	March 31
School Division Tax Loss Compensation Fund	March 31
Sinking Fund	March 31
Social Services Central Trust Account	March 31
Trust Funds at Court House, Local Registrars and Sheriff's Offices	March 31
Victims' Fund	March 31

Other organizations subject to examination under *The Provincial Auditor Act*:

Legislative Assembly Office	March 31
Ombudsman and Children's Advocate, Office of the	March 31
Provincial Auditor, Office of the	March 31

Appendix II

Other organizations subject to examination under *The Provincial Auditor Act* (continued):

Saskatchewan Archives Board, The	March 31
Saskatchewan Legal Aid Commission Client Trust Accounts	March 31
University of Regina, The	April 30
University of Regina Crown Foundation	April 30
University of Regina Academic and Administrative Employees Pension Plan	December 31
University of Regina Eligible Part-Time Employees Pension Plan	December 31
University of Regina Non-Academic Pension Plan	December 31
University of Saskatchewan, The	April 30
University of Saskatchewan Crown Foundation	April 30
University of Saskatchewan Long Term Disability Fund	April 30
University of Saskatchewan Academic Employees' Pension Plan	December 31
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31

Appendix III

Audits not completed at March 21, 1997

The Standing Committee on Public Accounts recommends an audit of every government agency every year.

This Report includes all audits completed at March 21, 1997 for fiscal periods ended March 31, 1996 or earlier. Since 1988, we have prepared our Reports without completing all audits. This practice is necessary to improve the timeliness of the information given to the Members of the Legislative Assembly.

We will report audits completed after March 21, 1997 for fiscal periods ended March 31, 1996 or earlier to the Legislative Assembly in a future Report.

We have not completed the audit of the following organizations at March 21, 1997, and we will report our findings in a future Report to the Legislative Assembly.

- Conservation and Development Revolving Fund
- Executive Council
- Greystone Capital Management Inc.
- Municipal Employees' Pension Commission
- Saskatchewan Broiler Hatching Egg Producers' Marketing Board
- Saskatchewan Chicken Marketing Board
- Saskatchewan Commercial Egg Producers' Marketing Board
- Saskatchewan Indian Regional College
- Saskatchewan Pulse Crop Development Board
- Saskatchewan Sheep Development Board
- Saskatchewan Turkey Producers' Marketing Board
- Saskatchewan Vegetable Marketing and Development Board
- SaskPen Properties Ltd.
- Sinking Fund
- SP Two Properties Ltd.
- Swift Current District Health Board
- University of Regina Academic and Administrative Employees Pension Plan
- University of Regina Eligible Part-Time Employees Pension Plan
- University of Regina Non-Academic Pension Plan
- University of Saskatchewan Academic Employees' Pension Plan
- University of Saskatchewan Clinicians Service-Side Pension Plan
- University of Saskatchewan and Federated Colleges Non-Academic Pension Plan

Appendix IV

Organizations where we found no significant matters to report to the Legislative Assembly

Appendix IV lists government organizations with fiscal periods ended March 31, 1996 or earlier that, in our and the organization's appointed auditor's opinion, had:

- reliable financial statements;
- adequate rules and procedures to safeguard and control their assets;
- complied with the authorities governing their activities relating to financial reporting, safeguarding of assets, revenue raising, spending, borrowing, and investing; and
- no other matters requiring the attention of the Legislative Assembly.

This list does not include organizations with fiscal periods ended December 31, 1995 or earlier that we listed in Appendix IV of our *Report of the Provincial Auditor: 1996 Fall*.

We report elsewhere in this Report on those government organizations where we found matters or issues requiring the attention of the Legislative Assembly.

We report in Appendix III those government organizations where we did not complete our audit for this Report.

Departments and Secretariats:

Indian and Metis Affairs Secretariat
Women's Secretariat

Crown Agencies:

582099 Saskatchewan Ltd.
Agricultural Credit Corporation of Saskatchewan
Agricultural Implements Board
Health Services Utilization and Research Commission
Law Reform Commission
Saskatchewan Cancer Foundation
Saskatchewan Communications Network Corporation
Saskatchewan Legal Aid Commission
Saskatchewan Municipal Board
Saskatchewan Wetland Conservation Corporation
St. Louis Alcoholism Rehabilitation Centre
Western Development Museum

Appendix IV

Special Purpose and Trust Funds:

Judges of the Provincial Court Superannuation Fund
Office of the Rentalsman Trust Account
Provincial Mediation Board Trust Account
Public Employees' Benefits Agency Revolving Fund
Public Employees Deferred Salary Leave Fund (1994 and 1995)
Public Employees (Government Contributory) Superannuation Plan Supervisory Board
Public Service Superannuation Board
Social Services Central Trust Account

Other organizations subject to examination under *The Provincial Auditor Act*:

Ombudsman and Children's Advocate, Office of the
Saskatchewan Legal Aid Commission Client Trust Accounts

Appendix V

Examples of opinions we form on departments, Crown agencies and Crown-controlled corporations

Our mission states "We encourage accountability and effective management in government operations". We do this by examining and reporting on:

- the reliability of financial information;
- compliance with authorities;
- the adequacy of management systems and practices related to financial reporting, compliance with authorities and safeguarding assets; and
- the adequacy of management systems and practices related to due regard to economy, efficiency and effectiveness.

Our examinations and reports focus on the Government as a whole, sectors or programs of government, and individual government organizations. This Appendix contains examples of the audit opinions we form to provide our assurances on financial statements, compliance with authorities, and management practices in this Report. We use the auditing standards recommended by the Canadian Institute of Chartered Accountants for the public sector to form our opinions.

1. Following is an example of the opinion we form on the adequacy of the control systems used by an agency to safeguard and control public money.

I have examined the system of internal control of [Crown Agency X] in effect as at [date]. I did not examine certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in the Canadian Institute of Chartered Accountants Handbook.

My examination was conducted in accordance with generally accepted auditing standards. Those standards require that I plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of internal control and performing tests of controls to determine whether the internal controls exist and operate effectively.

The management of [Crown Agency X] is responsible for establishing and maintaining a system of internal control to achieve the control objectives noted in (a) to (d) below. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits

Appendix V

and related costs of control procedures. Pursuant to my responsibilities under Section 11(1) of *The Provincial Auditor Act*, I am required to determine that there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that:

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In my opinion, based upon the above criteria, the system of internal control of [Crown Agency X] in effect as at [date], taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to [Crown Agency X].

Or if the examination disclosed conditions that, individually or in combination result in one or more material weaknesses, the opinion paragraph should be modified as follows:

My examination disclosed the following conditions in the system of internal control of [Crown Agency X] as at [date] which in my opinion, based upon the above criteria, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to [Crown Agency X] may occur and not be detected within a timely period.

The report should go on to describe all material weaknesses, state whether they resulted from the absence of control procedures or the degree of compliance with them, and describe the general nature of the potential errors or fraud that may occur as a result of the weaknesses.

City
Date

Chartered Accountant

Appendix V

2. Following is an example of the opinion we form on an agency's compliance with the law regarding its spending, revenue raising, borrowing and lending activities.

I have made an examination to determine whether [Crown Agency X] complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding assets, spending, revenue raising, borrowing and investing activities during the year ended [date]:

(List legislative and related authorities covered by this report. This list must include all governing authorities.)

My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, [Crown Agency X] has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended [date].

(The report should provide adequate explanation with respect to any reservation contained in the opinion together with, if relevant and practicable, the monetary effect.)

City
Date

Chartered Accountant

3. Following is an example of the opinion we form on the financial statements prepared by management of an agency.

I have audited the balance sheet of [Crown Agency X] as at [date] and the statements of income, retained earnings and changes in financial position for the year then ended. The [Crown Agency X]'s management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the [Crown Agency X] as at [date] and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

City
Date

Chartered Accountant

Appendix VI

Reports of appointed auditors

Appendix VI contains the reports of appointed auditors when we have not relied on the appointed auditor and the reports of the appointed auditors indicate a matter or issue that should be reported to the Assembly.

This Appendix does not include organizations with fiscal periods ended December 31, 1995 or earlier that we listed in Appendix VII of our *Report of the Provincial Auditor: 1996 Fall*.

Appendix VI does not contain the reports of appointed auditors that indicate a matter or issue to report to the Assembly when we have not done our work. Appendix III contains a list of work not done.

Crown Agency

	<u>Page</u>
Carlton Trail Regional College	396
Northlands College	397

Appendix VI

CARLTON TRAIL REGIONAL COLLEGE YEAR ENDED JUNE 30, 1996

We have examined the system of internal control of Carlton Trail Regional College in effect as at June 30, 1996. We did not examine certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in the Canadian Institute of Chartered Accounts Handbook.

Our examination was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of internal control and performing tests of controls to determine whether the internal controls exist and operate effectively.

The management of Carlton Trail Regional College is responsible for establishing and maintaining a system of internal control to achieve the control objectives noted in a) to d) below. In fulfilling this responsibility, estimates and judgment by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of The Provincial Auditor Act, you are required to determine if there is a system of internal control in effect which provides management with reasonable, but not absolute assurance that:

- (a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- (b) all public money is fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- (c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and
- (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

In our opinion, based upon the above criteria, the system of internal control of Carlton Trail Regional College in effect as at June 30, 1996, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or

Appendix VI

fraud in amounts that would be material in relation to Carlton Trail Regional College except that it was not readily evident that Variance Analysis of Budget to actual was performed by staff and Board at quarterly intervals as specified by the Regional College Accounts and Reporting Manual.

E.J.C. Dudley & Co., Chartered Accountants
September 12, 1996

NORTHLANDS COLLEGE YEAR ENDED JUNE 30, 1996

I have examined the system of internal control of Northlands College in effect as at June 30, 1996. I did not examine certain aspects of internal control concerning the effectiveness, economy and efficiency of certain management decision making processes. The criteria for the examination of this system of internal control consisted of the control environment and control systems described in the Canadian Institute of Chartered Accountants Handbook.

My examination was conducted in accordance with generally accepted auditing standards. Those standards require that I plan and perform an examination to obtain reasonable assurance whether the system of internal control established and maintained by management is sufficient to meet the control objectives referred to below. Such an examination includes obtaining an understanding of the system of internal control and performing tests of controls to determine whether the internal controls exist and operate effectively.

The management of Northlands College is responsible for establishing and maintaining a system of internal control to achieve the control objectives noted in a) to d) below. In fulfilling this responsibility, estimates and judgement by management are required to assess the expected benefits and related costs of control procedures. Pursuant to your responsibilities under Section 11(1) of the Provincial Auditor Act, you are required to determine whether there is a system of internal control in effect which provides management with reasonable, but not absolute, assurance that;

- a) the accounts are faithfully and properly kept to permit the preparation of financial statements in accordance with the appropriate basis of accounting;
- b) all public money is fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;
- c) transactions are executed in accordance with management's authorization, public money expended is applied to the purpose for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

Appendix VI

- d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money against loss from unauthorized use or disposition.

Because of the inherent limitations in any system of internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

In my opinion, based upon the above criteria, the system of internal control of Northlands College in effect as at June 30, 1996, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or fraud in amounts that would be material in relation to Northlands College.

Elden Moline, Chartered Accountant
September 6, 1996