



SASKATCHEWAN

# **Report of the Provincial Auditor**

to the Legislative Assembly  
of Saskatchewan

**1999 Fall Report  
Volume 2**





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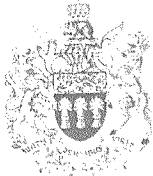
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### **Vision**

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

### **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.



SASKATCHEWAN

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December 14, 1999

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

Dear Sir:

I have the honour of submitting my *1999 Fall Report - Volume 2*, 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

/dd

## Foreword

I am pleased to present my *1999 Fall Report - Volume 2* to the Legislative Assembly. This Report focuses on the results of our work at government organizations with years ended March 31, 1999.

I wish to thank all 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.

Regina, Saskatchewan  
December 14, 1999

A handwritten signature in black ink, reading "Wayne Streliaff". The signature is written in a cursive, flowing style.

Wayne Streliaff, CA  
Provincial Auditor



# Table of Contents

Chapter	Topic	Page
	Observations .....	i
1	Health .....	1
	Health Overview .....	3
	Part A - Health .....	17
	Part B - District Health Boards .....	39
	Part C - Toward 2000 (also referred to as Project '98) .....	53
	Part D- Board Development - A Health District Case Study .....	81
	Part E- Department of Health: Resource Allocation Among Based on Health Needs .....	93
2	Education .....	115
3	Social Services .....	143
4	Justice .....	155
5	Liquor and Gaming Authority .....	171
6	Municipal Affairs, Culture and Housing .....	177
	Executive summary .....	178
	Part A - Financial Management Systems .....	179
	Part B - Canada-Saskatchewan Infrastructure Works Program - Phase II .....	193
7	Agriculture and Food .....	211
8	Finance .....	223
9	Environment and Resource Management .....	241
10	Energy and Mines .....	255
11	Saskatchewan Government Insurance .....	263

## Table of Contents

Chapter	Topic	Page
12	Workers' Compensation Board .....	269
13	Board of Internal Economy .....	281
14	Highways and Transportation .....	293
15	Executive Council .....	299
16	Working together to gather information for public reports .....	311
17	Preparing for Year 2000 .....	325
18	Information Technology Security .....	343
<hr/>		
Appendix 1	<i>The Provincial Auditor Act</i> .....	1-1
Appendix 2	List of organizations subject to an examination under <i>The Provincial Auditor Act</i> .....	2-1
Appendix 3	Audits not completed at November 15, 1999 .....	3-1
Appendix 4	Organizations where we found no significant matters to report to the Legislative Assembly .....	4-1
Appendix 5	Examples of opinions we form on departments, Crown agencies and Crown-controlled corporations .....	5-1
Appendix 6	Reports of appointed auditors .....	6-1

**Observations**

**Introduction ..... iii**

**Risk management ..... iii**

**Health ..... v**

**Other progress and concerns ..... vii**

## Introduction

In this 1999 Fall Report to the Legislative Assembly, I set out my conclusions, findings and recommendations pertaining primarily to my audits of government organizations with fiscal years ended March 31, 1999. These organizations include government departments, special purpose funds, health and educational institutions as well as many boards and commissions.

In October, I issued my 1999 Fall Report – Volume 1. In that Report, I describe the state of the Government's finances. I state the Government's finances are improving but remain fragile. The Government's finances are improving because the economy of Saskatchewan has grown and because, during each of the past five years, the Government has spent less than it raised in revenues. However, the pace of improvement has slowed.

The Government's finances remain fragile because its accumulated deficit and revenue demands are large when compared to the size of Saskatchewan's economy. In addition, the economy of Saskatchewan is particularly vulnerable to changes in factors such as commodity prices, interest rates, foreign exchange rates, and the weather.

My Reports can be found at the website – [www.auditor.sk.ca](http://www.auditor.sk.ca).

## Risk management

For several years, I have encouraged government organizations to identify and make public the key risks (or issues) they face as they work to achieve their objectives. I have encouraged legislators to question the Government on its objectives and on how it manages its key risks. In addition, I have examined how the Government manages several of its key risks.

I think such encouragement and examinations will strengthen how the Government manages the public resources and responsibilities entrusted to it. Well-managed organizations are those that set out their purpose in terms of clear and measurable objectives. Well-managed organizations are those that establish adequate control to manage the key risks they face as they work to achieve their objectives.

In this Report, I describe key risks faced by several government organizations. I also set out the results of our examinations of how the Government manages several of its key risks.

For example, in Chapter 1, **Health**, I report on the processes used by the Department of Health to allocate resources among health districts based on provincial health needs. A key risk faced by the Department relates to ensuring resources are allocated to those services and activities that contribute the most toward meeting the priority health needs.

In the past, resources were allocated based on the volume of services provided in previous years. Areas that provided more services continued to get more resources. There was less incentive to fully consider whether the procedures would be effective in improving people's health.

In 1994, the Department began to integrate consideration of health needs into its resource allocation system. The evolving resource allocation system is intended to support the ultimate goal of the Department - - to improve the health of the people of Saskatchewan.

After six years, there is still a strong pull towards resource allocation that focuses on sustaining historical service volumes. The Department needs to improve how it prioritizes health needs for the province, and how it monitors resource allocation to achieve provincial objectives for both service delivery and health status.

In Chapter 2, **Education**, I report on how the Department addresses the diverse needs of children and youth at risk of doing poorly in school.

Children who do not attend school regularly are less likely to complete Grade 12. Without achieving Grade 12, children face lifelong challenges in finding satisfying work and avoiding poverty.

Province-wide, more children are vulnerable to doing poorly in school. Vulnerable or at-risk children are those living in poverty, in fragile or mobile families and those with disabilities. These economic, social and physical circumstances can make children vulnerable to irregular school attendance, frequent school changes and interrupted schooling.

The Department does not know how many children do not attend school regularly and cannot monitor the progress of the most vulnerable children.

The Department needs to take a leadership and co-ordinating role to improve the monitoring of the movement of vulnerable children between schools and education systems.

In Chapter 11, **Saskatchewan Government Insurance**, I report on the good progress made by SGI to improve its management of the risk of losses due to fraudulent claims.

In Chapter 17, **Preparing for the Year 2000**, I report on the steps taken by the Government to prepare for Year 2000 - - a government-wide risk.

The Government has spent over \$100 million updating, replacing and testing systems and preparing contingency plans. Reports prepared by the Government indicate most mission critical government systems are Year 2000 ready and most government agencies have a contingency plan.

In Chapter 18, **Information Technology Security**, I report on the measures adopted by the Government to manage information technology (IT) security - - another government-wide risk. This risk relates to ensuring information is adequately protected from unauthorized disclosure, and from accidental or deliberate changes and destruction.

A number of trends indicate that IT security will be even more important to the Government. Those trends include the increased use of information technology; the use of the Internet and Intranets; the use of e-commerce to conduct business; the increased sharing of information electronically with other organizations; and the increased use of networks.

Senior managers in government need to become more aware of the risks their organizations are assuming in protecting the confidentiality, integrity, and availability of one of their most valuable assets, their IT systems and data.

In future years and in future Reports to the Assembly, I plan to continue to encourage the Government to identify and explain the key risks to the successful achievement of its objectives. I also plan to increase the extent to which my Office examines how the Government manages those risks.

For example, I plan to examine risks related to managing large infrastructure projects, aligning programs and services to respond to demographic changes, and dealing with technology. I also plan to continue pointing out risks related to making decisions based on the incomplete

financial planning and management framework now used by the Government.

## Health

During the year ended March 31, 1999, the Department of Health spent nearly \$2 billion. Health districts spent seventy percent of that money to deliver health programs and services.

In Chapter 1, **Health**, I set out the results of our work at the Department and at its five Crown agencies and 32 health districts. Also, I provide an overview of our work in the health sector since 1993. I provide this overview to help legislators consider the work we have done in the health sector and assist my Office to shape our work in the health sector in the coming years.

In Part A of Chapter 1, I describe five key risks facing the Department of Health and several financial indicators that legislators could use in monitoring the financial sustainability of the health system. I point out that the Department should approve the annual health plans of health districts before their fiscal year begins.

In Part B, I provide a summary of the financial results of health districts and note the important work done by districts toward developing performance information. Performance information on the effectiveness of programs contributing to improved health will help demonstrate whether resources are allocated to programs that meet the health needs of residents.

In Part C, I set out the results of our review of Toward 2000 (often referred to as Project '98). Toward 2000 was a five-year construction project within the Regina Health District.

I state that the actual cost of Toward 2000 was \$133.4 million compared to the original planned cost of \$83.2 million.

I note that the District did receive prior approval from the Department of Health for the planned and actual costs of Toward 2000 except for two months in 1997. During those two months, the District signed contracts for construction totalling \$8 million before it obtained a decision from the

Department on how construction should be financed, (i.e., by a grant from the General Revenue Fund or by incurring debt).

I also note that the District's Board of Directors, the Department and the public did not receive adequate and timely performance information on Toward 2000.

In Part D, I set out the results of a case study of one health district's board of directors. Through this case study, I identify best practices for developing boards of directors. Effective board development assists boards to successfully carry out their responsibilities. I encourage all boards of directors to compare their practices to the best practices identified.

In Part E of Chapter 1, as noted earlier, I set out my assessment of the Department's processes for allocating resources among health districts. I make two recommendations to help direct health resources toward areas of greatest health need and to encourage cost-effective health services.

## Other progress and concerns

In this Report, I highlight where progress has been made to strengthen management and accountability practices. I also note examples where more work is required.

In Chapter 2, **Education**, I provide an update of my continuing concern with the financial and performance reports of school divisions. The accountability reports of school divisions are poor and need to improve.

In Chapter 3, **Social Services**, I describe the key risks faced by the Department and point out several areas that require strengthening. For example, I recommend that its internal audit function should be independent from program managers and that established rules should be followed to ensure custodial parents receive child support.

In Chapter 4, **Justice**, I describe the key risks faced by the Department and review its progress in selecting sound performance indicators.

In Chapter 6, **Municipal Affairs, Culture and Housing**, I point out that the Department has not yet required local governments to adopt sound



accounting principles and that I have not yet been allowed to audit the accounts of the First Nations Fund.

Also in Chapter 6, I describe our audit of Phase II of the Canada-Saskatchewan Infrastructure Works Program. I do not know whether the projects approved and undertaken in Phase II met the conditions of the Program. The Department did not gather sufficient information to ensure municipal declarations were correct before approving or paying for projects. My audit was done jointly with the Auditor General of Canada.

In Chapter 12, **Workers' Compensation Board**, I note the status of our concerns with the Board's 1998 financial statements and with the breakdown in management/auditor protocols.

In my Spring Report to the Assembly, I state the WCB's 1998 financial statements are not reliable. At that time, the evidence examined by my Office indicated the WCB overstated its net income by \$61 million. The overstatement relates to three rebates provided by the WCB to employers.

Since my Spring Report, the WCB clarified that the amount of one of those rebates depends on an annual assessment of its financial condition. The WCB has also informed my Office there is an amount owed by certain employers that is not reported in the WCB's 1998 financial statements. We are working with the WCB to determine what should be reported as the net income of the WCB in 1998.

We also note that the protocols established to ensure sound management and auditor relationships were not followed in the 1998 audit of the WCB. The WCB has advised us that those protocols will be followed in the 1999 audit. One part of those protocols that was not followed is to ensure that Treasury Board approves the WCB's audited financial statements before those statements are submitted to the Assembly.

In Chapter 13, **Board of Internal Economy**, I note that the Board has made progress in strengthening its management. I provide examples of where more work is required. I also describe the key risks faced by the Board.

\* \* \*

On December 6, 1999, the Government announced it plans to propose changes to *The Provincial Auditor Act*. This was announced in the *SPEECH FROM THE THRONE*.

I have not asked for changes to this Act and the Government has not yet consulted with me on possible changes. However, I view this announcement as an opportunity to help strengthen our system of public accountability. I think one change that might be contemplated by the Government is for my Office to examine the annual performance reports that are part of the “comprehensive government accountability project”. This project was also announced in the *SPEECH FROM THE THRONE*.

*The Provincial Auditor Act* is an integral part of our system of public accountability. Provisions in this Act relate to many government organizations and other pieces of legislation. Since my Office administers this Act, I expect that the Minister of Finance will consult with me on possible changes and will ask my Office to draft the necessary changes as was done in the past.

When I discuss possible changes with the Minister of Finance, my purpose will be to ensure the changes work to strengthen the accountability of the Government to the Legislative Assembly, and maintain the independence of my Office.

As consultations and drafting take place, I will seek the advice of the Standing Committee on Public Accounts (Committee). The mandate of this Committee is to “work with the Provincial Auditor to achieve maximum accountability to the Legislature”. One particularly important step will be to discuss possible changes with this Committee before the Minister of Finance introduces specific legislative changes. I will keep the Legislative Assembly informed.

In 1999, my Office has issued the following Reports to the Legislative Assembly:

- ◆ *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on the 1998 Financial Statements of CIC Subsidiary Crown Corporations* issued in April 1999;
- ◆ *Report of the Provincial Auditor to the Legislative Assembly of Saskatchewan on the Financial Statements of Crown Agencies for*

*Years Ending in the Fiscal Year Ended March 31, 1998* issued in April 1999;

- ◆ *Provincial Auditor Saskatchewan: 1999 Spring Report* issued in May 1999.
- ◆ *Annual Report on Operations for the Year Ended March 31, 1999* issued in June 1999; and
- ◆ *Provincial Auditor Saskatchewan: Understanding the Finances of Government: 1999 Fall Report – Volume 1* issued in October 1999.

If you wish to obtain copies of these reports, or wish to discuss or receive presentations about any of these reports, please:

- visit our website at:

[www.auditor.sk.ca](http://www.auditor.sk.ca)

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Health Overview .....	3
Part A - Health .....	17
Part B - District Health Boards .....	39
Part C - Toward 2000 (also referred to as Project '98) .....	53
Part D - Board Development: A Health District Case Study .....	81
Part E - Department of Health: Resource Allocation Among Districts Based on Health Needs .....	93

# Health Overview

# 1

<b>Introduction .....</b>	<b>5</b>
<b>Work in health sector .....</b>	<b>5</b>
Integrated audit work .....	6
Integrated audit work at the Department .....	6
Integrated audit work at the districts .....	9
Performance work .....	10
Performance work in the districts .....	11
Performance work at the Department .....	12
<b>Summary and conclusion .....</b>	<b>14</b>

## Introduction

The Department of Health is a significant government organization. The Department is responsible for five Crown agencies and 32 district health boards (districts). The Department's decisions affect all of Saskatchewan people and account for about 20 per cent of the Government's total spending.

The Department's mandate is to protect and improve the health of Saskatchewan people. To carry out its mandate, the Department spent \$2 billion for the 1999 fiscal year. About 70 per cent of this money was spent by the districts to deliver health programs and services for the Department.

This Chapter provides an overview of our integrated audit work and performance work in the health sector since 1993. We invite the Legislative Assembly and the public to consider the work we have done in the health sector. We will use the discussion of our work to help shape what we do in the health sector in the coming years.

## Work in health sector

Members of the Legislative Assembly and the public ask our Office to tell them whether the Department, its Crown agencies and the districts are managing public money well. To meet this expectation, we assess their management and accountability processes.

Our work consists of four related parts.

1. We audit management's controls related to financial reporting, compliance with authorities, and safeguarding and controlling public resources.
2. We audit management's compliance with legislative and related authorities, including key agreements.
3. We audit the financial statements of the districts and the Department's Crown agencies.
4. We identify and examine issues that influence whether public resources are managed well.

We describe the first three parts listed above as our integrated audit work and the fourth part as our performance work.

## **Integrated audit work**

Each year, we do integrated audits at the Department, its Crown agencies and at about one-third of the districts. The districts we audit annually account for about 70 percent of the total spending in the districts. In Part B of this Chapter, we discuss our audit rotation for the districts.

Our integrated audits have three related objectives. First, we want to know that management has safeguarded and controlled public money. Second, we want to know that management has complied with legislative and related authorities. Third, we want to know that management's public financial statements are reliable. We report our findings, advice and recommendations to the Legislative Assembly, the Government and its managers.

The following paragraphs set out some of our work, findings and recommendations related to these audits. We group this information according to work done at the Department and work done at the districts.

### **Integrated audit work at the Department**

In 1995, the Department and the Saskatchewan Association of Health Organizations (SAHO) prepared an accountability framework called *A Framework of Accountability: The Minister of Health and District Health Boards*. This document helped to clarify the Department's and the districts' roles and responsibilities.

Briefly, the *Framework* says the Minister and the Department are responsible for setting provincial health objectives, program and service standards, and for ensuring that these are achieved and maintained. The districts' responsibilities and authorities include: assessing health needs of residents; planning, managing, delivering and integrating the provision of health services; and promoting health and wellness.

In 1993, we began to work with the Department and the districts to assist with the transition to health districts. This work was important because it provided guidance to the districts and their auditors in meeting the Department's accountability and audit requirements.



For example, we helped the Department prepare a *Financial Reporting Guide* to help the districts meet their accountability requirements. Also, we worked with the Department to prepare an *Audit Guide* and an *Audit Package* to help public accounting firms meet the Department's audit requirements. We also helped the Department with a seminar for districts and public accounting firms to orient them to these requirements.

To carry out our work effectively, we need to understand the key issues and risks facing an organization. We identified the **five key issues facing the Department**. To successfully protect and improve the public's health, the Department should:

- ◆ identify the public's health needs;
- ◆ decide the services required to meet the public's health needs, allocate resources to make those services available, and monitor how those services are delivered and their impact on the health status of Saskatchewan people;
- ◆ influence public policy decisions and public attitudes on health to improve the public's health and to help control the cost of the health system;
- ◆ have sufficient resources to deliver the required health services; and
- ◆ ensure the Legislative Assembly and the public know whether the Department is doing the right things well.

To help understand and assess the Department's performance, legislators and the public also need to know the key issues facing the Department. The **Department's annual report** is the key accountability document the Department uses to communicate publicly its performance.

We reviewed three of the Department's annual reports beginning in 1996. Over this time, the Department significantly improved the quality of its annual report. We found that more improvement was needed. The Department's annual report should describe how the Department manages the key risks it faces; show what the Department owns and controls; and show the Department's performance targets and actual results compared to plans.

The Department carries out many of its responsibilities through the districts. To fulfil its mandate, the Department and the districts must have a common understanding of their objectives and priorities. Also, the Department must have adequate information about the districts' financial and operational performance. In addition, the Department should share with the districts its information about services used and residents' health status.

For a number of years, we reported that the Department should approve the **districts' health plans** before the start of their fiscal year. This is related to a larger issue. We have also reported that the Government does not present overall planning and performance information for the entire government to the Legislative Assembly. The lack of overall planning information impacts the Department's ability to approve the districts' health plans. Without a common understanding of annual and longer-term financial and operational objectives, the ability of individual organizations to plan effectively is impaired.

**District health board service agreements** are a key element in the Department's control of health care delivered by the districts. They help ensure that the delivery of health care by districts contributes to the Department's objectives. Beginning in 1995, the Department signed service agreements with all the districts. We examined the service agreements. We concluded that the service agreements were adequate, except they did not require the districts to report periodically on the systems and practices that they used to achieve the Department's financial, operational and compliance objectives. To meet its responsibilities, the Department must know that the districts have systems to ensure the proper use of public money entrusted to the districts.

**Timely and complete performance reports** are essential for the Department to ensure the proper use of the public money entrusted to the districts. The Department issued guidelines to help districts prepare their annual reports. The Department requires districts to report quarterly on their financial results compared to their plan. However, not all districts prepare the required financial reports on time.

The Department also requires districts to report in their annual reports on their operational performance compared to their plan. This includes reporting on the health status of district residents and the effectiveness of

district programs. The districts' annual reports do not adequately report on this type of performance compared to plan.

Finally, a sound understanding of the health system's finances is important to an informed debate about the issues facing the health system. In Part A of this Chapter of this Report, we set out **financial indicators** the Department could use to measure the financial sustainability of the health system.

### **Integrated audit work at the districts**

As stated in the previous section, the districts' responsibilities and authorities include: assessing health needs of residents; planning, managing, delivering and integrating the provision of health services; and promoting health and wellness.

For most districts, we do our integrated audits by working with other auditors engaged by the districts. We follow the framework recommended in the *Report of the Task Force on Roles, Responsibilities, and Duties of Auditors*.

In 1993, we started auditing the districts. By 1997, we found that the districts had their basic financial management issues under control. As a result, we decided that for 1998 and subsequent years we would audit about one-third of the districts each year.

Since 1993, we have reported on the reliability of the districts' financial statements. We have also reported on the management systems and practices at the districts and their compliance with the law and other authorities. Our findings, advice and recommendations vary depending on the districts audited. Overall, the districts have made considerable progress. However, the districts should address some important issues. In this Chapter, we describe our findings and recommendations in three groups: setting direction and monitoring performance; safeguarding and controlling assets; and complying with authorities.

We find that many districts should improve how they **set direction and monitor performance**. Districts that do not have a clear sense of purpose and do not monitor their progress have less chance of achieving their goals and objectives. Boards should tell management what outcomes they expect. Also, boards should use proper targets and

indicators to monitor financial and operational activities and the districts' progress towards the expected outcomes.

All districts require written rules and procedures to **safeguard and control the districts' assets**. Some districts still need to document these rules and procedures. The districts' assets include cash, inventories and physical assets such as buildings, equipment and information systems. In the public sector, safeguarding and controlling assets is particularly important. The Government administers public resources in a trust relationship with the public. Written rules and procedures decrease the risk of inappropriate actions that can result in errors, fraud, and unauthorized transactions. We note that the Department has worked with the districts to prepare a model of acceptable rules and procedures for districts.

We find that most districts should improve the information they submit to the Minister and the public to fully **comply with *The Health Districts Act***. Districts should improve the information on the health status of residents and effectiveness of district programs. This is a difficult and complex task.

The Department and the districts prepared a framework to guide districts in measuring and reporting on health status and the effectiveness of district programs. We encourage the Department and the districts to continue their work on developing principles for these performance reports. In Part B of this Chapter of this Report, we suggest broad principles for performance reports.

## Performance work

In addition to our integrated audits, we also do more in-depth examinations and studies of key issues that are critical to ensure public resources are managed well. The five key issues facing the Department described previously influenced the focus of our more in-depth examinations. We call these more in-depth examinations our performance work. To ensure our performance work in the districts is relevant, we created an Advisory Group. The Advisory Group is composed of senior representatives for the districts, the Department, the Saskatchewan Association of Health Organizations (SAHO), the Health Services Utilization and Research Commission, a public accounting firm and our Office.

The health system reorganization in Saskatchewan has involved changes to how programs are funded and delivered. Appropriate resource

allocation is a critical element. To improve people's health with finite resources, resources must be allocated to activities that are most effective in achieving this goal.

Our performance work in the districts and at the Department reflects the importance of appropriate resource allocation. In the districts, it included auditing the health needs assessment process, the resource allocation process, and the accountability information contained in the districts' annual reports. Our performance work also included a study of the best practices for effective district board development and an audit of a large capital construction project.

At the Department, our performance work included auditing the strategic planning processes for a Crown agency, the partner selection and project management processes for a large information system, and the process for allocating resources among health districts based on provincial health needs. Our performance work also included a study of the Department's framework for selecting performance indicators.

The following paragraphs set out the objectives, findings and recommendations for these audits and studies. We group this information according to work done at the districts and work done at the Department.

## **Performance work in the districts**

**District health needs assessment process. (1996 Spring)** The needs assessment process is important because it provides districts with the necessary information to allocate resources and to modify programs and services. Our audit determined whether eight districts had adequate processes to assess the health needs of district residents from the formation of the districts (February 1992 or later) to June 1995.

We found that the eight districts had adequate processes to assess the health needs of residents from 1992 to 1995, except for three key areas. Districts had difficulty with long-term planning for needs assessment, combining the collected information, and analyzing it. As a result, few districts adequately analyzed their data to identify important areas for action and set priorities.

We followed up our work on the district needs assessment process in 1997. We found that the Department continued to help the districts with

their needs assessment processes. We also found that the districts' needs assessment processes are improving.

**District health boards annual reports. (1996 Spring)** The districts' annual reports are key accountability documents used by the Minister of Health and the public to understand and assess the performance of the districts. Our audit examined how well seven districts fulfilled their reporting requirements under *The Health Districts Act* and the Department of Health guidelines for annual reports for the year ended March 31, 1995.

We found all seven districts needed to improve their annual reports. The annual reports we examined did not provide the Minister and the public with all the information required to assess the performance of the districts.

**District resource allocation. (1997 Fall)** Resource allocation decisions determine the availability of health services and impact people's health. We examined how five districts allocated resources in 1995-96.

Overall, we concluded the five districts had adequate processes to allocate resources based on health needs with two major exceptions. Districts used weak processes to decide which health needs were most important. Also, districts used weak processes to set direction based on those needs.

Districts should decide which health needs are most important for action in the short, intermediate and long term. Also, districts should set clear direction based on priority health needs. The direction set should include goals, specific objectives and performance targets for short and long-term improvements in population health as well as health service needs.

**Board development - a health district case study. (1999 Fall)** Effective board development helps boards to successfully carry out their responsibilities. In Part D of this Chapter of this Report, we set out best practices for developing a board to govern in all its key responsibility areas.

## **Performance work at the Department**

**Strategic planning at Saskatchewan Cancer Foundation. (1996 Spring)** Strategic planning plays an integral role in assisting organizations to achieve their goals and objectives. The objective of our audit was to determine if the Foundation had adequate processes to develop a complete

strategic plan. Our audit covered the Foundation's strategic planning process from October 1988 to December 1994.

We found the Foundation had some elements of a strategic planning system. However, the Foundation's systems and practices were not adequate to develop a complete strategic plan.

**Saskatchewan Health Information Network. (SHIN)** When the Department began its restructuring of the health system, it concluded that new information systems were necessary to support the effective delivery of health services under its new model. The SHIN system is one of the largest information system development projects initiated by the Government. Strong control over these projects is essential because a high percentage of large information system development projects is cancelled, late or over budget. We did two performance audits related to SHIN: an audit of the project partner selection process; and an audit of the project management processes.

**Saskatchewan Health Information Network Phase 1. (1997 Spring)** Our audit objective was to determine whether the Department had an adequate project control environment to select the best outside proposal for the development of the project. A project control environment is the systems and practices the Department uses to manage the risks of the project. We reviewed the Department's project control environment for the project for the period January 1993 to December 1996.

Overall, the Department had an adequate project control environment to select the best outside proposal for the development of the project. But, the Department's senior management needed to better demonstrate its commitment to the project and improve the long-term plan for the project.

**Saskatchewan Health Information Network. (1998 Fall)** Strong management processes reduce the risk of a project failing to meet its objectives. Our audit objective was to determine whether SHIN had adequate processes to manage the project. We focused on SHIN's project management controls in place between August and September 1998.

SHIN had many strong project management processes to manage the project. SHIN needed to strengthen its development planning

processes to show, for each phase, what would be achieved for the money spent. Also, SHIN needed to strengthen its monitoring and control processes by learning more about its development partner's quality management practices and the project's technical risks.

**Selecting performance indicators. (1998 Fall)** Appropriate performance indicators are necessary to understand and assess an organization's performance. We did a study to compare the Department's framework and selection criteria to best practices for selecting performance indicators.

The Department developed a framework for performance reporting information and for defining performance indicators. Our concerns were that the Department did not set out long-term objectives. Rather, the Department identified very high-level goals, e.g., improving health. Until the Department sets more specific objectives for improving health, it will be difficult to know which indicators will provide the most useful information.

**Toward 2000 (also referred to as Project '98). (1999 Fall)** In Part C of this Chapter of this Report, we describe our audit findings. Our audit objectives were to determine the planned and actual costs of the project, whether the District complied with governing laws and related authorities including prior approval for planned project costs; and whether stakeholders received adequate performance information on the project.

**Resource allocation among districts based on health needs. (1999 Fall)** In Part E of this Chapter of this Report, we describe our audit findings. Our audit objective was to assess whether the Department had adequate processes, during the 1998-99 planning cycle, to allocate resources among health districts based on provincial health needs.

## Summary and conclusion

The objective of our work is to encourage excellence in public sector management and accountability practices. In the last six years, our work in the health sector has focused on some of its most important and complex challenges. For example, our performance audit work on resource allocation at the Department and at the districts was particularly important.



In this time, we have brought a number of important issues to the attention of the Legislative Assembly, the Government and its managers. These governance and control issues include setting clear objectives; identifying and managing risks; having good internal and external communication processes; and monitoring progress.

To help achieve their goals for the province's health system, the Government and its managers should continue to address the issues we have reported. They should also continue to demonstrate leadership and commitment.

We plan to continue our work on these important issues. We look forward to a discussion of our work in the health sector to help shape our future work plans.

<b>Introduction .....</b>	<b>19</b>
<b>Government spending on health .....</b>	<b>19</b>
<b>Crown agencies .....</b>	<b>19</b>
<b>Key risks the Department faces .....</b>	<b>21</b>
<b>Our audit conclusions and findings .....</b>	<b>24</b>
Annual report needs improvement.....	25
Financial indicators for our health system .....	26
Total health spending as a percentage of the Province's GDP .....	27
Total Government health spending as a percentage of the Government's total spending .....	28
Changes in health spending compared to changes in the Consumer Price Index (CPI) and the Province's GDP .....	29
Districts' operating surpluses and deficits as a percentage of total district spending .....	30
Districts' working capital ratio .....	31
Change in the districts' capital assets .....	32
Conclusion on financial indicators .....	33
Service agreements need improvement .....	33
Department needs to approve district plans on time .....	34
Department needs better reports from Districts .....	35
Policies needed for the Department's internal financial reporting .....	35
Special-care home resident fees not authorized .....	36
Payee list required .....	37

## Introduction

The Department of Health's mandate is to protect and improve the health of Saskatchewan people. To do this, the Department provides policy direction, direct services and funding to health providers and health agencies.

For the year ended March 31, 1999, the Department received \$1.8 billion from the General Revenue Fund and spent this money on its programs. The Department also raised revenue of \$12 million. The Department's annual report contains information about the Department's revenues and expenses.

## Government spending on health

Table 1 shows total health costs of \$1.979 billion by program. Table 2 shows total health revenues of \$2.003 billion by source. We obtained the information from the *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure* (1998-97 Public Accounts – Volume 2) and the March 31, 1999 financial statements of the District Health Boards and other government health agencies. The costs in Table 1 do not include "Federal Government - Indian and northern health services" costs or what individuals and private sector organizations pay for private health services.

## Crown agencies

The Department was responsible for the following Crown agencies with March year ends:

Board of Governors, Uranium City Hospital  
 Health Services Utilization and Research Commission  
 Saskatchewan Cancer Foundation  
 St. Louis Alcoholism Rehabilitation Centre  
 Saskatchewan Health Information Network  
 Thirty-two district health boards (see Chapter 1B-District Health Boards).

**Table 1**

**Health Costs by Program**  
(in millions of dollars)

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996*</u>
Acute services	\$ 651	\$ 600	\$ 581	\$ 524
Physician services	374	367	337	330
Supportive care services	352	332	336	371
Home based services	94	92	84	75
Health improvement initiatives	25	29	26	79
Emergency response services	22	21	21	22
Alcohol and drug services	87	74	68	69
Community health services	50	44	48	38
Mental health services	51	46	42	40
Rehabilitation services	39	37	38	36
Other	<u>234</u>	<u>198</u>	<u>193</u>	<u>153</u>
Total expenses	<u>\$ 1,979</u>	<u>\$ 1,840</u>	<u>\$ 1,774</u>	<u>\$ 1,737</u>

**Table 2**

**Health Revenues by Source**  
(in millions of dollars)

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
General Revenue Fund (GRF)	\$ 1,789**	\$ 1,677	\$ 1,608	\$ 1,555
Patient and agency charges	97	99	95	94
Ancillary and dietary revenue	16	15	15	15
Donations	16	15	9	12
Investment income	9	9	10	11
Other	<u>76</u>	<u>47</u>	<u>59</u>	<u>50</u>
Total revenues	<u>\$ 2,003</u>	<u>\$ 1,862</u>	<u>\$ 1,796</u>	<u>\$ 1,737</u>

\* Prior to 1996, reliable comparable amounts are not available due to significant changes in the health system such as the formation of 30 health districts.

\*\* includes \$13.6 million for retroactive salaries recorded as revenue by districts, but not recorded as an expense in the GRF.

## Key risks the Department faces

To assess the performance of the Department, it is important for legislators and the public to understand the Department's key risks and how it manages these risks.

We identify five key risks facing the Department. The Department needs to:

- ◆ identify the public's health needs;
- ◆ decide the services required to meet the public's health needs, allocate resources to make those services available, and monitor how those services are delivered and their impact on the health status of Saskatchewan people;
- ◆ influence public policy decisions and public attitudes on health to improve the public's health and to help control the cost of the health system;
- ◆ have sufficient resources to deliver the required health services; and
- ◆ ensure the Legislative Assembly and the public know whether the Department is doing the right things well.

### The Department must identify the public's health needs

To know what services to provide, the Department must know the public's health needs. A long-term view would help the Department to examine trends in health needs and to set priorities for those trends it wants to influence. 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 small population makes data difficult to draw conclusions.

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. For example, some people feel that elective surgery is a need and they should not have to wait to receive it. As a result, the Department should have 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 carries out educational programs to inform the public about health issues.

The Department has taken several actions to identify the public's health needs. We describe these actions in Chapter 23, Part D, **District Needs Assessment - Follow-up** in our 1997 Fall Report – Volume 2.

**The Department must decide the services required to meet the public's health needs, allocate resources to make those services available, and monitor how those services are delivered and their impact on the health status of Saskatchewan people**

Health districts, physicians and other health providers deliver most health care services in Saskatchewan. To meet our population's health needs, the Department must set direction for health care providers. The Department must identify the most important long-term health needs for the province in terms of improving people's health and controlling future costs. The Department must then set objectives for both service delivery and health status for those priorities.

To achieve its objectives, the Department, in consultation with health providers and the public, must select services and other approaches to health care and provide the necessary resources. The Department needs information systems to monitor the progress of the health system and to take corrective action when required. The Department is working with health districts to select indicators that will help districts to measure and report the health status of their residents and the effectiveness of districts' services. In Part E of this Chapter, **Resource Allocation**, we describe our conclusions and recommendations regarding the Department's processes to allocate resources among districts based on provincial health needs.

**The Department must 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 levels, 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 the regulation 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 wisely, exercise regularly and avoid smoking.

**The Department must have sufficient resources to deliver the required services**

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 requires 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 these challenges with health districts. Health reform (including the transfer of Department employees and the employees of 400 health institutions to 32 districts) has resulted in complex 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 physicians.

Our public health system has over \$900 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 competitive prices, 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.

In Part C of this Chapter, **Toward 2000 (also referred to as Project '98)**, we report on our examination of Toward 2000 at the Regina District Health Board.

**The Department must 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 should have a communications strategy. This strategy could include publishing a business and financial plan. Such a 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 achieve, 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.

We have not audited all the systems and practices the Department uses to manage its key risks.

## **Our audit conclusions and findings**

We have not completed our audit work of the Health Services Utilization Commission, the St. Louis Alcoholism Rehabilitation Centre, and the Uranium City Hospital. We will report the results in a future report.

In our opinion, for the Department, and agencies where we have completed our work, the year ended March 31, 1999:

- ◆ the financial statements for the agencies listed on page 19 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 its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing, except where we report otherwise in this Chapter.

We also include our assessment of the Department's annual report.

We report the results of our audits of District Health Boards in Part B of this Chapter.

## Annual report needs improvement

We reviewed the Department's annual report for the year ended March 31, 1998. The Department has not issued its annual report for the year ended March 31, 1999 at the date of this report. The report should explain the key risks the Department must 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 risks. We have set out what we think are the Department's key risks on pages 21 to 24.

The Department's annual report does not specifically address the its key risks or explain the systems and practices it uses to manage these risks.

The annual report should describe the Department's financial plan including indicators and targets the Department uses to assess the financial performance of the health system. The report shows the Department's annual budget for revenues and expenses, but does not show financial indicators and targets to assess the Department's financial performance. To encourage the Department to develop financial indicators and targets, we set out on pages 26 to 33 some examples of indicators the Department might use.

The report sets out the Department's operating goals, objectives, and activities to achieve them. It does not state whether the Department achieved its goals and objectives. It does not set out the Department's performance indicators and targets. The Department is working with districts and other health providers to develop indicators to measure the health status of Saskatchewan residents and the effectiveness of health programs. Also, the report does not disclose whether the Department complied with all governing authorities.

The annual report was tabled within the time frame required by law. However, it was tabled 12 months after the Department's year end. In 1994, the Standing Committee on Public Accounts (PAC) recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with PAC's recommendation.

Public confidence in the health system is important to the Department's success. While many factors are involved, public confidence will improve if the Department improves the contents and timing of its annual report.

We also reported this matter in previous reports. We recognize that the Department has significantly improved the quality of its annual report. In January 1999, PAC agreed with our recommendations.

1. **We recommend that the Department's annual report describe:**
  - ◆ **how the Department manages the key risks it faces;**
  - ◆ **the Department's performance indicators, targets and actual results compared to plans; and**
  - ◆ **what the Department owns and controls.**

To encourage the Department to develop financial indicators and targets, we set out below examples of financial indicators the Department might use to measure its financial performance.

## **Financial indicators for our health system**

The Assembly and the public often ask about the state of the Health System's finances. They want to know whether public finances are gaining strength or weakening in the Health System, and why. Also, many want to know where they can obtain the information required to help them make their own assessment.

A sound understanding of the health system's finances is important to an informed debate about the issues facing the Health System. Those issues pertain to the affordability of programs and services and the maintenance of Saskatchewan's health care infrastructure of buildings and equipment.

We derived information on indicators from the Government's statistical reports, the Public Accounts and the annual financial statements of health districts and other government health agencies. The information is not adjusted for inflation.

We focus on several financial and economic indicators for the years ended March 31, 1995 to March 31, 1999. The indicators are modelled after the 1997 Research Report, *Indicators of Government Financial Condition*, published by The Canadian Institute of Chartered Accountants. Each indicator can and should be analyzed in detail, combined with other information, and monitored over time.

The health costs used in these indicators do not include Federal Government spending for "Indian and northern health services" or what individuals and private sector organizations pay for private health services.

Finally, the indicators set out below will not provide the reader with information on trends in the health status of the province's residents or in the effectiveness of health services. The indicators pertain only to the financial sustainability of the Health System.

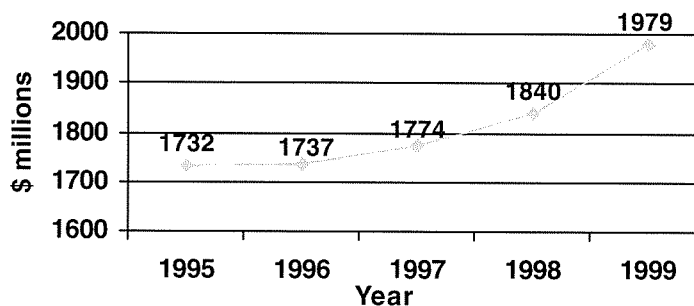
## **Total health spending as a percentage of the Province's GDP**

The first indicator for measuring sustainability involves analyzing the **total health spending as a percentage of the Province's gross domestic product (GDP)**.

The province's GDP is a measure of the value of goods and services produced in Saskatchewan in one year. The GDP reflects the size of the provincial economy. If health spending grows faster than the GDP, the economy may not be able to support that level of health care spending in the long run.

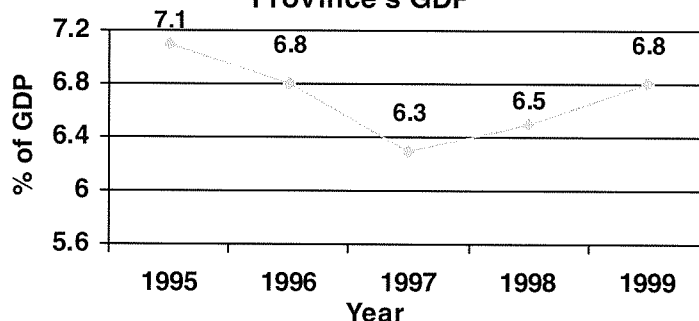
During the past five years, health spending has increased by 14 percent from \$1.732 billion in 1995 to \$1.979 billion in 1999 (see graph below). Over the last five years, the Province's GDP increased by 19 percent from \$24.5 billion in 1995 to \$29.2 billion in 1999 (see our 1999 Fall Report – Volume 1).

### The Government's Total Health Spending



The following graph shows the trend in the total health spending as a percentage of the provincial GDP from 1995 to 1999. By comparing the total health spending to the Province's GDP, the financial demands placed on the economy by health spending can be assessed.

### Total Health Spending as a Percentage of Province's GDP



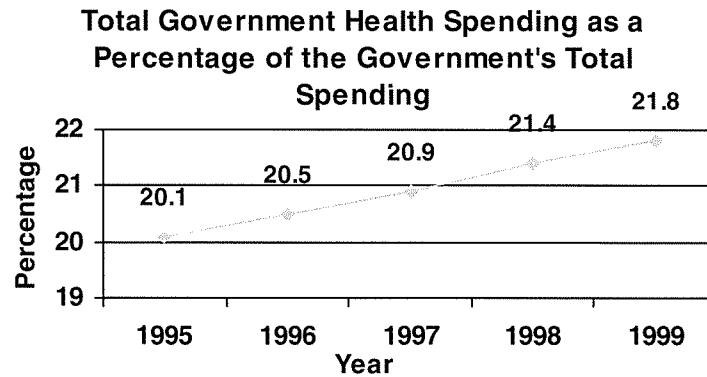
This comparison shows that from 1995 to 1997, health spending declined as a percentage of GDP, but since 1998, health spending is increasing as a percentage of GDP. If the upward trend since 1998 continues into the future, this would suggest a decrease in sustainability because health care spending will be placing more demand on the economy.

### Total Government health spending as a percentage of the Government's total spending

The second indicator for measuring sustainability involves analyzing the **total Government health spending as a percentage of the Government's total spending**.

Health spending is a significant portion the Government's total spending. If health spending grows faster than spending on other Government programs, the Government may not be able to sustain the level of health spending because other programs must receive needed funding.

The following graph shows the trend in Government health spending as a percentage of the Government's total spending from 1995 to 1999. By comparing health spending to the Government's total spending, the financial demands placed on the Government by health spending can be assessed.



This comparison shows that from 1995 to 1999, health spending has increased slightly from 20.1 to 21.8 as a percentage of the Government's total spending. The upward trend in this graph suggests a small decrease in sustainability due to more demands for health care spending being placed on the Government's total spending.

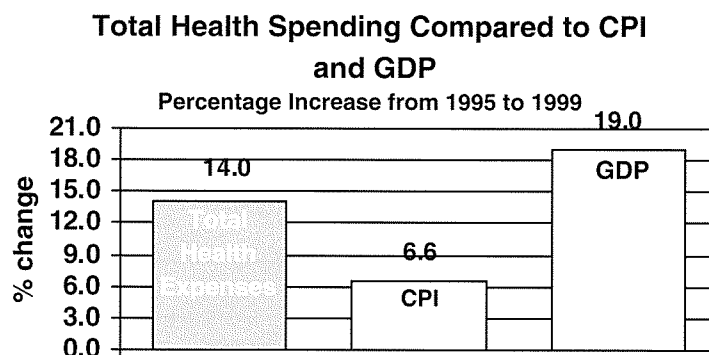
### **Changes in health spending compared to changes in the Consumer Price Index (CPI) and the Province's GDP**

A third indicator for measuring sustainability involves analyzing the **changes in health spending compared to changes in the Consumer Price Index (CPI) and the GDP.**

Comparing changes in health spending to changes in the CPI indicates whether health spending has kept pace with inflation. If spending increases are similar to increases in the CPI, the health system is better able to continue providing programs and services. If health spending increases are significantly lower than increases in CPI, current health programs may be at risk. If health spending increases are higher than CPI, this could indicate an unsustainable trend.

Comparing changes in health spending to changes in GDP shows the rate that health spending changed to the rate that the provincial economy changed. If health spending increases are higher than the growth of the provincial economy, this could indicate an unsustainable trend.

The following graph shows total health spending grew faster than the CPI but slower than the rate our provincial economy grew. This means more funds may be available for health services and programs. It also means the Government's ability to meet program and service commitments appears to be strengthened.

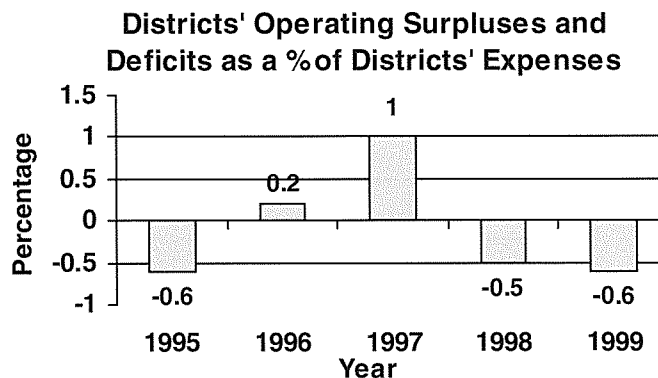


### Districts' operating surpluses and deficits as a percentage of total district spending

A fourth indicator for measuring sustainability involves **analyzing the districts' annual operating surplus (deficit) as a percentage of total district spending.**

The annual operating surplus (deficit) shows the extent to which the districts have more revenue than expenses in a fiscal year. Districts that are able to break even or run operating surpluses are better able to sustain their programs over the long term.

The following graph does not show a clear trend in operating surpluses/deficits from 1995 to 1999 as a percentage of total district spending. At March 31, 1995 the districts had total operating deficits of \$5.8 million or 0.6% of total spending. By 1997 the districts had a total surplus of \$12 million (1.0% of total spending), but returned to a deficit of \$6.2 million (0.6% of spending) in 1999. While it would be preferable if the districts were in a surplus position, a deficit of \$6.2 million is not significant given that Districts spend over \$1 billion each year.



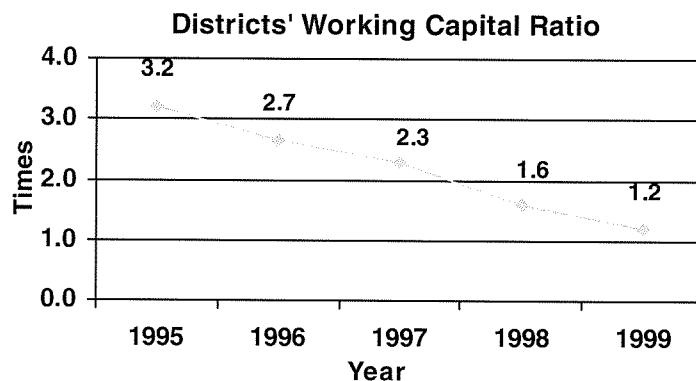
### Districts' working capital ratio

The fifth indicator for measuring sustainability involves **analyzing the districts' working capital ratio**.

Working capital ratio is calculated by dividing current assets by current liabilities. This ratio represents the districts' ability to use current assets to cover current liabilities. Declines in current assets compared to current liabilities may impair a district's ability to pay current liabilities such as salaries, and to maintain programs and services.

We have adjusted district current assets and liabilities for items where the current assets are not readily available (restricted funds) or where the assets and liabilities stay much the same year after year (e.g., prepaid expenses and vacation payable).

The following graph shows a trend in the districts' working capital ratio from 1995 to 1999. The ratio reflects the number of times that current assets exceed current liabilities. At March 31, 1995 the districts had an average adjusted working capital ratio of 3.2 (i.e., districts had 3.2 times more current assets than current liabilities). In 1999, the average working capital ratio fell to 1.2. In the early years, districts had a relatively large amount of working capital, and there may be sound operating reasons for reducing working capital. However, if the downward trend continues, districts may have difficulty meeting their current financial obligations and may not be able to maintain existing programs and services.



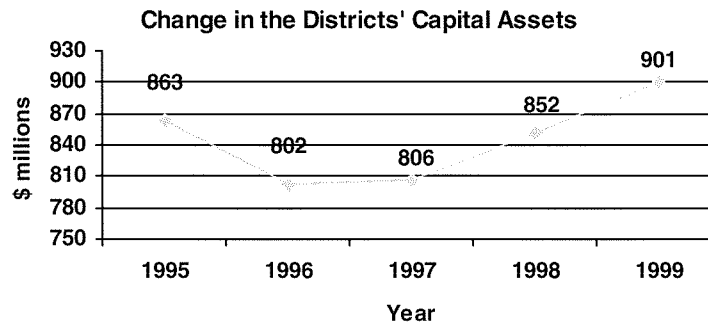
### Change in the districts' capital assets

The final indicator for measuring sustainability involves analyzing the **changes in capital assets owned by districts.**

Districts own most of the capital assets in the health system. Capital assets are resources such as property, buildings, and equipment that are used to deliver health services. Capital assets must be properly maintained or replaced, otherwise they lose their productive capacity. For example, if necessary building repairs, renovations, or replacement are delayed, the ultimate costs may be unsustainable. Districts, like other organizations, must maintain and replace their capital assets. Otherwise they face potential future costs to repair, renovate or replace these assets that may impair their ability to deliver needed services.

The following graph shows a trend in the changes in capital assets owned by districts. During 1995 to 1996, capital assets declined from \$863 million to \$802 million and then increased to \$901 million by 1999. The recent upward trend could indicate improvement in the Department's ability to deliver needed services. Alternatively, the relatively small increase in capital assets since 1995 could mean that the Department and districts think there are sufficient capital assets to deliver needed health services. Both the Department and districts support the view that health services can often be delivered more effectively and at reduced cost in the home or community than in institutions.





## Conclusion on financial indicators

We hope the above analysis will promote discussion and debate on the state of our Health System's finances. We also hope this analysis will encourage the Department to begin reporting on the financial indicators it uses to assess its financial performance.

## Service agreements need improvement

The Department needs to improve its service agreements with district health boards.

The Department carries out many of its responsibilities through districts. Therefore, the Department needs service agreements with districts to ensure that the delivery of health care by districts achieves the Department's objectives.

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. To meet its responsibilities, the Department must know that the districts have systems to ensure the proper use of public money entrusted to the districts.

We also reported this matter in previous reports. In January 1999, the Standing Committee on Public Accounts (PAC) agreed with the following recommendation.

2. We recommend that the Department work with health districts to ensure service agreements require districts to

report periodically on the systems and practices they use to achieve the Department's financial, operational and compliance with authority objectives.

## Department needs to approve district plans on time

The Department should approve the districts' annual health plans before their fiscal year begins (April 1).

Each year, the Department requires districts to prepare health plans outlining their financial and operational plans. The districts prepare these plans in consultation with the Department. The Department uses these plans to evaluate the districts' performance.

*The Health Districts Act* requires the districts to submit their annual budgets to the Department for approval. The Department asked the districts to submit their health plans for the year April 1, 1998 to March 31, 1999 by April 30, 1998. We think the Department should receive and approve the health plans before the year begins. The Department approved the plans after April 30, 1998.

While the Department regularly discusses health plans with the districts, timely approval of the plans is important to ensure that the Department and the districts have a common understanding of annual and long-term priorities and goals. Making decisions without a common understanding of priorities and goals may result in the Department and the districts making inappropriate decisions.

We also reported this matter in previous reports. In January 1999, PAC agreed with our recommendation and recommended that the Department should, to the best of its ability, provide the districts with an indication of their funding levels for the next two or three years.

3. **We recommend that the Department approve the health districts' annual health plans before their fiscal year begins (April 1).**

Districts are starting to prepare long-term strategic plans. During 1998-99, almost all districts prepared long-term strategic plans for the three years ending March 31, 2002. These plans set out the districts' long-term financial and operational objectives. Three-year plans should help the

Department to approve the Districts' annual plans before the beginning of each year.

## **Department needs better reports from Districts**

The Department needs complete and timely information to ensure the proper use of public money entrusted to the districts.

Several districts did not submit their quarterly financial reports to the Department on time. In addition, district annual reports do not adequately show program performance compared to plan.

The Department requires districts to report quarterly on their financial results compared to their plans. The Department also requires districts to report on their program performance compared to their plans in their annual reports. The Department has issued guidelines to help districts prepare their annual reports.

Several districts did not prepare the required quarterly financial reports on time. We note, however, that the districts have significantly improved the timing and quality of their financial reports.

In addition, the districts' annual reports do not adequately report on program performance compared to planned performance. The reports do not set targets for desired program and service outcomes, and do not show actual outcomes. As a result, the annual reports are not as effective as they could be in enabling the Department to assess the effectiveness of the districts' services on the health status of residents.

We also reported this matter in previous reports. In January 1999, PAC agreed with the following recommendation.

4. **We recommend that the Department work with health districts to ensure they submit complete and timely performance reports.**

## **Policies needed for the Department's internal financial reporting**

The Department needs clear written policies and procedures for preparing sound internal financial reports.

The Department needs timely, complete and accurate financial reports throughout the year to help it make sound decisions. Adequate guidance would increase the likelihood of reliable internal reports. Reliable reports should result in better management decisions.

The Deputy Minister should approve the internal financial reporting policies and procedures to ensure senior management receives the information they need to manage the Department.

We reported this matter in previous reports. In January 1999, PAC agreed with the following recommendation.

5. We recommend that:

- ◆ the Department document policies and procedures to prepare sound internal financial reports; and
- ◆ the Deputy Minister approve the Department's internal reporting policies and procedures.

Management is drafting an Expenditure Forecast Policy and Procedure Manual. The manual is not yet complete.

## Special-care home resident fees not authorized

The Department should ensure that health districts charge residents of special-care homes for only those services authorized by *The Housing and Special-care Homes Act* (The Act) and *The Housing and Special-care Homes Care and Rate Regulations* (Regulations).

The Act allows the Minister to make regulations authorizing special care homes to charge residents for accommodation or care. The Minister has made regulations authorizing special-care homes to charge a monthly residency fee. The regulations do not authorize special-care homes to charge their residents for any other services.

However, districts are charging other fees to special care home residents. These other fees are for certain items such as disposable incontinence supplies or upgrades in other personal supplies (e.g., providing a brand name instead of generic products).

As a result, districts are collecting unauthorized revenue from special-care home residents.

6. We recommend that the Department either:

- ◆ direct health districts to stop charging residents of special-care homes any fees beyond the monthly residency fee, or
- ◆ make regulations to permit the districts to charge special-care homes' residents for certain services and supplies.

### **Payee list required**

The Department of Health did not identify the persons who received payments made through the Saskatchewan Prescription Drug Plan, and the amounts received, as recommended by the PAC.

The Department made payments to pharmacies of \$75.8 million on behalf of eligible recipients and \$94,000 directly to eligible recipients.

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."

The Department thinks it should not have to disclose this information because it thinks the information should be confidential. The Assembly has allowed some exceptions to disclosing payees such as payments to doctors. Chapter 13, Executive Council provides further discussion of this important issue.

We also reported this matter in previous years. In its Second Report to the 2<sup>nd</sup> Session of the 23<sup>rd</sup> Legislature, PAC recommended that the Department further review the issue of disclosure of persons who receive money from the Saskatchewan Prescription Drug Plan and report back to PAC on the implication of adopting the Provincial Auditor's recommendation.

7. We recommend that the Department provide the Legislative Assembly with a list of persons who received money from the Saskatchewan Prescription Drug Plan and the amounts.

Glossary ..... 40

Introduction ..... 41

Financial summary ..... 41

District challenges ..... 42

Our audit conclusions and findings ..... 42

    Setting direction and monitoring performance ..... 45

        Financial results ..... 45

        Operating results ..... 46

    Safeguarding assets ..... 47

        Written and approved rules and procedures needed ..... 47

        Written operating agreements need improvement ..... 48

    Complying with authorities and ensuring adequate accountability to district residents and the Minister ..... 49

        Complying with authorities ..... 49

            Reporting required by *The Health Districts Act* ..... 50

## Glossary

**Goals** are general statements of desired results, e.g., improve health of the public.

**Health need** is the capacity to benefit from health care interventions whether to protect, improve or restore health status.

**Objectives** are specific statements of results to be achieved over a specified period of time, e.g., reduce the population's injuries by 30% in ten years.

**Outcomes** means the result or consequence of the activities, e.g., bicycle related head injuries of children and youth reduced by 50%.

**Outputs** are the goods and services actually delivered in order to achieve desired outcomes, e.g., number of gall bladder surgeries.

**Performance indicators** a factor chosen to monitor success in achieving objectives.

**Performance Measure** is a clear, unambiguous expression of performance that can readily be expressed in relation to targets set, e.g., incidence of disease, cancer rates per 1000.

**Restricted Funds** reflects community generated assets transferred to the Board in accordance with the pre-amalgamation agreements signed with the amalgamating health corporations. The assets include cash and investments initially accumulated by the health corporations in the District from donations or municipal tax levies. These assets are accounted for separately and use of the assets is subject to restrictions set out in pre-amalgamation agreements between the Board and the health corporations.

**Results** are impacts or effects (consequences) of a policy, program or initiative. Results can reflect a broad spectrum of performance and include outcomes, outputs, or changes to inputs (e.g., resource re-allocations or reductions).

## Introduction

For the year ended March 31, 1999, the expenses of all 32 district health boards were \$1.373 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;
- ◆ promoting health and wellness; and
- ◆ reporting publicly on the health status of the districts' residents and the effectiveness of the districts' programs.

## Financial summary

We obtained the following financial information from the audited financial statements of the 32 districts. The combined revenue and expenses of the districts for the years ended March 31, 1999 and 1998 are:

	Operating Fund	Capital Fund	Restricted Fund	Total 1999	Total 1998
	(in thousands of dollars)				
Revenue	\$ 1,282,335	\$ 80,231	\$ 2,877	\$ 1,365,443	\$ 1,275,982
Expense	1,288,566	84,272	472	1,373,310	1,286,246
Surplus (Deficit)	(6,231)	(4,041)	2,405	(7,867)	(10,264)

The total assets and liabilities of the 32 districts at March 31, 1999 and 1998 are:

	1999	1998
	(in thousands of dollars)	
Assets	\$ 1,127,712	\$ 1,079,712
Liabilities	298,305	242,870
Equity:		
Operating funds	(3,368)	12,726
Capital funds	806,102	795,053
Restricted funds	26,673	29,063
Total Equity	\$ 829,407	\$ 836,842



## District challenges

In carrying out their important and complex mandates, districts face many challenges. In this Chapter, we discuss one of those challenges and identify issues districts need to address. We have discussed other challenges in previous reports to the Legislative Assembly.

One challenge districts must meet is their legal responsibility to report to the Minister of Health and the public on the health status of their residents and the effectiveness of their programs.

Districts are working to prepare reports on the health needs and health status of their residents. Districts are making progress in selecting outcome performance indicators and targets for measuring and reporting on improvements to their residents' health. We commend the districts for these efforts and encourage them to continue.

The Department of Health and districts have prepared a framework to guide the districts and other health providers to set performance indicators. We have studied this framework and report the results in Part C of Chapter 5 of our 1998 Fall Report – Volume 2. Also, the Department has issued guidelines for the preparation of the districts' annual reports and guidelines for the preparation of three-year strategic plans for districts. Almost all districts have prepared strategic plans for the period April 1, 1999 to March 31, 2002.

## Our audit conclusions and findings

We audited 10 of the 32 district health boards. For eight of those districts, we carried out our audit responsibilities by working with the auditors engaged by the districts. We directly audited the Regina and Mamawetan Churchill River district health boards.

We followed the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. Together with the accounting firms engaged, we formed the opinions referred to later.

Exhibit 1 describes our reasons for moving to rotational audits of districts. It lists the 10 districts we audited in 1998-99, and the basis for our selection of those districts. Exhibit 1 also shows the districts we plan to

audit for the year ending March 31, 2000, how we selected those districts and the basis for our selection of districts in future years.

**In our opinion for the ten districts we examined, for the year ended March 31, 1999:**

- ◆ the districts' financial statements are reliable;
- ◆ the districts had adequate rules and procedures to safeguard and control their assets, except where we report otherwise in this Chapter; and
- ◆ the districts 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.

The districts' appointed auditors and our Office formed the opinions referred to above with one exception. We disagree with the reports of the appointed auditor of the Saskatoon Health District who did not report the matters on pages 46 and 50. In the appointed auditor's opinion, the district's internal and external reports are adequate.

*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 District's internal financial reports and other accountability reports, and discussing areas of concern with management.

## Exhibit 1

### **Audit rotation for health districts**

#### **Reason for moving to rotation of district audits**

For the year ended March 31, 1998, we performed financial audits on 10 of the 32 districts. We started to do rotational financial audits of Districts last year because most districts have adequate financial management.

#### **Districts selected for the year ended March 31, 1999**

We selected ten districts based on significance and risk. We audited Regina and Saskatoon; two of the four mid-sized districts (Moose Jaw-Thunder Creek and Prince Albert); and six smaller districts (Keewatin Yathe, Mamawetan Churchill River, Gabriel Springs, Greenhead, Northwest, and Prairie West).

#### **Districts selected for the year ending March 31, 2000**

We plan to audit Regina and Saskatoon; two of the four mid-sized districts (Battlefords and East Central); and six smaller districts (Keewatin Yathe, Mamawetan Churchill River, North East, Central Plains, Moose Mountain, and Southwest).

Districts selected for audit in 2000-01 and future years

We plan, each year, to audit the two largest districts, two of the four mid-sized districts; and six smaller districts.

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

- ◆ setting direction and monitoring performance;
- ◆ safeguarding assets; and
- ◆ complying with authorities and ensuring adequate accountability to district residents and the Minister.

## Setting direction and monitoring performance

The boards of directors of all the districts we examined, except Regina, Prince Albert and Saskatoon, need to improve how they set direction. All districts need to improve how they monitor their districts' performances. To set direction and monitor performance, the boards need to tell management what health outcomes the boards expect and the measures and targets needed to monitor progress in achieving the outcomes.

### Financial results

Keewatin Yatthe Health District and Mamawetan Churchill River Health District need better financial information to monitor their performances.

Mamawetan Churchill River Health District has formally defined and documented its financial information needs and it has formally delegated authority to senior management by approving policies that govern administrative matters.

The Keewatin Yatthe Health District has not formally defined and documented its financial information needs, nor has it formally delegated authority to senior management in written rules and procedures. The Board needs to do both to ensure it receives the information necessary to monitor the districts' financial performance.

The interim financial reports their boards receive need improvement. The interim reports:

- ◆ are not prepared in accordance with generally accepted accounting principles;
- ◆ do not show the districts' assets and liabilities;
- ◆ do not compare planned results for the period and year-to-date with actual results for the period and year-to-date;
- ◆ do not show a forecast of expected results to the year end based on current information; and
- ◆ are not provided to the boards on a timely basis.

1. **For each of the districts named in parenthesis, we recommend that:**
  - ◆ **health districts formally define and document their financial information needs and the delegation of authority to senior management (Keewatin Yathe).**
  - ◆ **boards receive better financial reports to enable them to assess the financial performance of their districts (Keewatin Yathe and Mamawetan Churchill River).**

## **Operating results**

To monitor performance, the boards of all districts we examined need to establish desired outcome measures and targets. To do this, districts need to continue to work on determining the health needs and health status of residents. Once the boards have set desired outcome measures and targets, the boards will have to consider the effect this will have on the types, costs and volumes of district services.

Boards need written governing policies setting out what services the districts should deliver, for whom, and at what cost. The boards then need to receive reports showing what management did compared to what the boards expected.

As yet, the reports that the boards received do not contain all of the information listed above. The reports show the cost and volume of services the districts provide compared to their plans. However, the reports do not show the expected long-term health outcomes and the districts' progress in meeting outcome targets. As a result, boards are unable to fully assess the effectiveness of their services in improving the health status of residents. We recognize measuring and reporting on the health status of residents will take time and resources.

Preparing good internal reports for the boards will help the boards to govern better, and also will provide a sound basis for reporting to the Minister and the public. The districts' internal reports would provide a sound basis for external reporting (see page 50) to the Minister of Health and the public.

We also reported this matter in previous years. In January 1999, the Standing Committee on Public Accounts (PAC) agreed with our recommendations.

2. We recommend that:

- ◆ boards of directors formally define and document the health outcomes the boards expect and the measures and targets needed to monitor progress in achieving desired outcomes; and
- ◆ districts' internal reports compare actual performance for services delivered to planned performance.

## Safeguarding assets

### Written and approved rules and procedures needed

Five of the ten districts we examined (Gabriel Springs, Greenhead, Keewatin Yathe, Mamawetan Churchill River and Prairie West) need better written rules and procedures to help safeguard their assets.

Each board of directors must ensure management has established adequate written rules and procedures to safeguard and control the districts' assets. The boards should then approve the rules and procedures.

Written rules and procedures provide for the orderly and efficient conduct of business. They also reinforce the boards' delegation of authority and the responsibilities of all employees. Adequate written rules and procedures help reduce the risk of errors, fraud, breakdowns in control and unauthorized transactions.

The Department and districts have prepared a model set of rules and procedures that districts can adapt to their own circumstances.

We also reported these matters in more detail in Chapter 4 of our 1997 Spring Report. In January 1999, PAC agreed with the following recommendation.

3. For each of the districts named in parenthesis, we recommend that management establish, and boards approve, written rules and procedures to safeguard and control health districts' assets to ensure the:

- ◆ proper recording of transactions and preparation of monthly financial reports (Greenhead);
- ◆ control of bank accounts (Greenhead);
- ◆ preparation of written and tested contingency plans (Gabriel Spring, Greenhead, Keewatin Yathe and Prairie West);
- ◆ control of payroll records to ensure they are accurate and authorized (Gabriel Spring, Greenhead, Mamawetan Churchill River and Prairie West);
- ◆ control over donations (Greenhead);
- ◆ compliance with restricted funds contracts (Greenhead);
- ◆ control over handling and recording of cash (Greenhead); and
- ◆ control of capital assets (Prairie West).

### **Written operating agreements need improvement**

The Regina Health District needs to improve its operating agreements with special-care homes (affiliates) that provide services for the District.

The District has agreements with many affiliates that provide services for the District. The District provided \$34 million to these affiliates in 1998-99.

The District is responsible for providing necessary health services for its residents. To meet its responsibility in a cost-effective manner, the District must coordinate the services it provides directly with the services the affiliates provide. Written agreements help to ensure the affiliates effectively deliver health services to achieve the District's objectives.

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

The District's agreements with its affiliates need improvement. The District should change the agreements to require the affiliates to establish and report on their systems to achieve the District's financial, operational and compliance objectives needed to manage the delivery of health care successfully.

To meet its responsibilities, the District needs complete and timely information to ensure the proper use of public money entrusted to the affiliates.

Other health districts that have affiliates follow the November 1996 model operating agreement issued by the Department of Health. The model agreement provides for the affiliates' auditors to report to the district on the affiliates' financial controls and compliance with authorities. The model agreement also states that the district and affiliates will jointly "assess the effectiveness and quality of services provided by the affiliates".

We also reported this matter in previous reports to the Legislative Assembly. In January 1999, PAC considered this matter and agreed with our recommendation for improvement.

4. We recommend the Regina Health District's agreements with affiliated organizations require the affiliates to establish and report on their systems to achieve the district's financial, operational and compliance objectives.

## **Complying with authorities and ensuring adequate accountability to district residents and the Minister**

### **Complying with authorities**

Keewatin Yathe, Mamawetan Churchill River and Prairie West need to improve their compliance with the laws and regulations we describe below in our recommendations. We also reported this matter in more detail in Chapter 4 of our 1997 Spring Report. In January 1999, PAC considered this matter and agreed with our recommendation for improvement.



5. For each of the districts named in parenthesis, we recommend that health districts:
- ◆ obtain the Minister's prior approval before purchasing hospital equipment costing more than the limits set out in the Hospital Standards Regulations (Prairie West).
  - ◆ submit their budgets to the Minister on time as required by *The Health District Act* (Keewatin Yathe, Mamawetan Churchill River).

### **Reporting required by *The Health Districts Act***

All ten districts need to continue to improve the information they submit to the Minister and the public to fully comply with *The Health Districts Act* (The Act).

Section 35(2) of the Act requires districts to report annually to the Minister on:

- ◆ their services and activities;
- ◆ the costs of their services and activities;
- ◆ the health status of their residents; and
- ◆ the effectiveness of their programs.

As stated earlier, districts have started to give more information to the Minister and the public. Districts' annual reports, three-year strategic plans and annual operating and financial plans now provide information about the cost of services and activities, and some information on the health status of residents and the effectiveness of district programs.

However, these reports do not fully meet the requirements of the Act. To fully report on the health status of residents and the effectiveness of programs, districts need to set outcome performance measures and targets. Once they set measures and targets, districts will need to design information and reporting systems to compare actual results to targets. We recognize this will take time and resources. Many publicly funded organizations face this challenge.

As we noted earlier, districts also need to improve their internal reports. These internal reports would provide a sound basis for the preparation of the external reports to the Minister and the public required by the Act.

We also reported this matter in previous years. In January 1999, PAC agreed with our recommendation.

6. **We recommend that health districts continue to work with the Department to ensure they can provide the Minister and the public with the full range of information required by *The Health Districts Act*.**

The Department of Health and districts have prepared a framework to guide districts in measuring and reporting the health status of residents and the effectiveness of district programs. In addition, the Department has issued guidelines for the preparation of health district annual reports and guidelines for the preparation of three-year strategic plans for districts. These guidelines should help the District to meet the reporting requirements of section 35(2) of the Act.

We encourage the Department and Districts to work together to develop principles for performance reporting (reporting planned and actual results). Reporting principles would provide a frame of reference to guide report preparation and would enhance the comparability of district reports. To stimulate dialog and experimentation in performance reporting, Exhibit 2 suggests broad principles for performance reports.

## Exhibit 2

### Principles for district performance reports

Much work has been done nationally and internationally on principles for performance reports. The following suggested principles have been gleaned from work done by the legislative audit community in Canada and contributed to the CCAF-FCVI long term performance reporting program. (The "CCAF-FCVI is a Canadian research and educational Foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit.")

**1. PERFORMANCE INFORMATION SHOULD BE *RELEVANT***

- it relates to the stated objectives of the organization and its strategies and programs, and enables an assessment of the extent to which the objectives are being achieved;
- it is reported in sufficient time to influence decisions;
- it measures something that is significant in that it is used in forming assessments and judgements; and
- it is aggregated at an appropriate and meaningful level.

**2. PERFORMANCE INFORMATION SHOULD BE *RELIABLE***

- it is neutral and fair, in that judgements made on performance by users are not influenced by the way information is provided;
- it is reasonably accurate and complete—that is, free from material error or omissions; and
- it is capable of being replicated or verified by independent and knowledgeable observers.

**3. PERFORMANCE INFORMATION SHOULD BE *UNDERSTANDABLE***

- it provides the minimum level of detail needed to enable users to gain a proper understanding of the activities and performance;
- it focuses on a small set of key performance measures;
- it explains the context as to what happened and why it happened, to enable users to judge whether performance is improving or declining; and
- it includes comparative information from similar organizations and information regarding best practice, to provide users with a frame of reference for assessing performance.

**Additional attributes: Performance reports should:**

- include an assessment of the effectiveness of the *control* established to help achieve objectives
- be *focused on results and achievements*
- report in the *context of expectations* (plans)
- be *complete and unbiased* (i.e., cover both successes and shortcomings)
- *attribute achievements to activities* (how activities contribute to results)
- *relate costs to results*
- explain *strategies, risks and context*

**Executive summary ..... 54**

**Introduction ..... 57**

**Toward 2000 began in 1993 ..... 58**

**Our audit objectives and criteria ..... 62**

**Our conclusions and recommendations ..... 62**

**Our findings ..... 64**

**Objective 1 - actual costs ..... 64**

**Objective 2 - appropriate approvals ..... 67**

**Objective 3 - adequate performance information ..... 70**

## Executive summary

Toward 2000 (also referred to as Project '98) was a five-year construction project in the Regina Health District. The Government (i.e., through the Department of Health and the Regina District Health Board) initiated Toward 2000 to help improve health care and to help control health care costs. Begun in 1993, Toward 2000 had three general objectives:

- ♦ to close the Plains Health Centre;
- ♦ to maintain and improve services at the Regina General Hospital and the Pasqua Hospital while reducing hospital beds in Regina; and
- ♦ to attract health care professionals.

Originally, the Department and the District expected the cost of Toward 2000 to be \$83.2 million. The Department planned to finance the construction through grants of \$83.2 million from the General Revenue Fund. At June 30, 1999 Toward 2000 was nearly complete. The actual cost was \$133.4 million. This cost was financed through grants of \$91.8 million from the General Revenue Fund (GRF) and through debt. In its Summary Financial Statements, the Government has recorded the \$133.4 million as health costs and has recorded the related debt.

For some time, legislators and the public have expressed uncertainty about the actual costs of Toward 2000 compared to the original planned costs. As a result, we decided to examine this complex project.

We found, once again, confusion about costs and approvals for costs. This confusion stems from government managers focusing on the costs recorded in the GRF. The Government has not recorded the full cost of \$133.4 million for Toward 2000 in the GRF. In addition, the Government has not recorded the related debt in the GRF. In the GRF, the Government has recorded only \$91.8 million of the cost of Toward 2000 and has recorded none of the related debt.

We are disappointed that the Government continues to encourage managers to make decisions based on the incomplete cost and debt information contained in the GRF. Making decisions based on incomplete information lead to confusion about planned costs, actual costs, and what

costs have been approved. Decisions should be based on the more complete information contained in the Government's Summary Financial Statements.

Our examination addressed three objectives. First, we determined the actual cost of Toward 2000 compared to the original planned cost. Second, we determined whether the District received prior approval for the planned and actual construction performance and the financing for Toward 2000, and whether the District complied with governing laws and related authorities. Third, we determined whether the District's Board, the Department and the public received adequate and timely performance information on Toward 2000.

In our opinion:

- ◆ The actual cost of Toward 2000 was \$133.4 million compared to the original planned cost of \$83.2 million.
- ◆ The Regina Health District **did receive** prior approval from the Department of Health for the construction and financing of Toward 2000 and complied with governing laws and related authorities except for two months in 1997. During those two months, the District signed contracts for construction totalling \$8 million before it obtained a decision from the Department on how the construction should be financed, i.e., from the GRF or through debt.
- ◆ The District's Board, the Department and the public **did not receive** adequate and timely performance information on Toward 2000.

In this Chapter, we recommend:

- ◆ The Department of Health should make public information setting out, in detail, the planned and actual costs of Toward 2000 and the reasons for differences.
- ◆ The Department should make public timely and complete performance information on all future major capital construction projects.

- ♦ The Department and the Regina Health District should ensure timely and complete performance information is prepared for internal project management purposes.

In our examination, we did not assess whether Toward 2000 met its objectives or whether sound project management practices were used by the Department and the Health District. In the future, we plan to determine what we can do to make these assessments to help to improve management and accountability practices related to future infrastructure projects. In particular, we plan to examine the project management practices used by the Government when it initiates large, multi-year infrastructure projects.

\* \* \*

In early 1999, the Department of Health and the Regina Health District stated that the planned cost of "Project '98" was \$83.2 million and that the actual cost was \$96 million.

Officials view the planned cost of \$83.2 million as only one component of Toward 2000. That component (referred to as Project '98) was the closing of the Plains Health Centre and the consolidating of acute care services in the two other Regina hospitals. They think that the initial planned cost of \$83.2 million was not for the entire project described as Toward 2000.

We found that Toward 2000 was designed and managed as one integrated construction project. The planned cost of Toward 2000 was \$83.2 million. The actual cost was \$133.4 million. The change in the name of this construction project was a change in name only.

## Introduction

From time to time, governments undertake large capital construction projects to deliver needed services and to fulfil particular public policy objectives. Such projects are complex, challenging, and difficult to complete successfully. They require good project management practices to meet user needs, cost estimates and deadlines.

Our public health system has capital assets of more than \$900 million. The Department of Health must decide how best to maintain or replace those assets. They do this by working with health districts.

Toward 2000 (also referred to as Project '98) was a five-year construction project in the Regina Health District. The Government (i.e., through the Department and the District) initiated Toward 2000 to help improve health care and to help control health care costs. Begun in 1993, Toward 2000 had three general objectives:

- ◆ to close the Plains Health Centre;
- ◆ to maintain and improve services at the Regina General Hospital and the Pasqua Hospital while reducing hospital beds in Regina; and
- ◆ to attract health care professionals.

Originally, the Department and the District expected the cost of Toward 2000 to be \$83.2 million, and planned to finance the construction through grants of \$83.2 million from the General Revenue Fund. At June 30, 1999 Toward 2000 was nearly complete. The actual cost was \$133.4 million. This cost was financed through grants of \$91.8 million from the General Revenue Fund and through debt. The Government has recorded the \$133.4 million as health costs and has recorded the debt in its Summary Financial Statements.

For some time, legislators and the public have expressed uncertainty about the actual costs of Toward 2000 compared to the original planned costs. As a result, we decided to examine this complex project.

We found, once again, confusion about costs and approvals for costs. This confusion stems from government managers focusing on the costs



recorded in the GRF. The Government has not recorded the full cost of \$133.4 million for Toward 2000 in the GRF. In addition, the Government has not recorded the related debt in the GRF. In the GRF, the Government has recorded only \$91.8 million of the cost of Toward 2000 and has recorded none of the related debt

We are disappointed that the Government continues to encourage managers to make decisions based on the incomplete cost and debt information contained in the GRF. Making decisions based on incomplete information lead to confusion about planned costs, actual costs, and what costs have been approved. Decisions should be based on the more complete information contained in the Government's Summary Financial Statements.

Health districts have only one significant source of revenue, the GRF. If the Department and the districts borrow money to finance construction, the GRF will eventually have to repay the borrowing.

Our examination had three objectives. First, we wanted to determine the actual cost of Toward 2000 compared to the original planned cost. Second, we wanted to determine whether the District received prior approval for the planned and actual construction performance and the financing, and whether the District complied with governing laws and related authorities. Third, we wanted to determine whether the District's Board, the Department and the public received adequate and timely performance information on Toward 2000.

Our first step was to ask the Department to prepare financial information on the planned and actual costs of Toward 2000 for the five years ended June 30, 1999. The Department considered our request and advised us that it did not have all of the necessary information. This concerns us because we think the Department would require such information to oversee and fund this major construction project.

We then asked the Health District to provide us the necessary information. It did so.

In the future, we plan to determine what we can do to help to improve management and accountability practices related to future infrastructure projects. In particular, we plan to examine the project management practices used by the Government when it initiates large, multi-year infrastructure projects.

## Toward 2000 began in 1993

On August 6, 1993, the District announced its final plan for *Toward 2000 - A Vision for the Consolidation of Clinical Services in Regina*. In this plan, the District said it would consolidate acute care at the Regina General Hospital and the Pasqua Hospital, close the Plains Health Centre, and reduce hospital beds. The District also said this initiative would:

- ◆ ensure continued improvement in the quality and utilization of existing services;
- ◆ increase the scope of and access to services;
- ◆ achieve optimal utilization of human and economic resources;
- ◆ position the District to respond quickly to changing trends and emerging technologies; and
- ◆ create an environment that supports the recruitment and retention of medical specialists and other health professionals.

The Toward 2000 construction project was based on the Government's health reform initiative to improve health care and reduce costs. In 1992, Saskatchewan had the most hospital beds per person in Canada (Saskatchewan Health, 1992, *A Saskatchewan Vision for Health*, p. 8). A study of Saskatchewan's largest hospitals found that, in 1991-92, hospitals were frequently used to treat people who did not need acute care services throughout their stay (The Health Services Utilization and Research Commission, 1994, *Barriers to Community Care*). People were hospitalized because access to alternative services was limited. Acute care is expensive. Nearly 60% of the Regina Health District costs relate to acute care.

During the past two decades, health service methods and standards have evolved significantly to reduce the need for hospital beds and to improve health outcomes. Out-patient surgery is now used more often to reduce the length of hospital stays. Modern hospital design improves infection control. New diagnostic equipment, such as MRI's and CT Scanners, permit better diagnosis using procedures that are less risky to patients. New forms of care allow people to visit a hospital for treatment without

staying overnight. These advances in diagnosis and treatment methods require changes to hospital design.

Toward 2000 included changes to hospital design to lower overall costs and to improve the outcomes of health services with fewer hospital beds. The design changes provide, for example, increased access to outpatient services, reduced response times for urgent care needs, and reduced costs through consolidation of services. In Exhibit 4, we describe several of those design changes completed by the District. In 1989, the Regina Health District had 1182 hospital beds, in 1993, it had 814 beds, and in 1998, it had 675 beds.

The original planned cost for Toward 2000's budget was \$89.2 million. Later, this planned cost was changed to \$83.2 million. The change was due to a decision to transfer the costs of renovations and additions to the Allan Blair Memorial Clinic (\$6 million) to the budget of the Saskatchewan Cancer Foundation.

In November 1993, the Regina Health District's Professional Services Selection Committee recommended a process for the selection of architects for Toward 2000. One of the issues the Committee considered was whether to split the construction into several small projects and then distribute the design work to several architectural firms. The Committee rejected this option prior to advertising for a primary architectural consultant because the Committee concluded that Toward 2000:

- ◆ was a one hospital project on two sites;
- ◆ required a single design philosophy;
- ◆ involved several inter-related design/construction phases, i.e., it was not a collection of independent projects; and
- ◆ required singular responsibility and design accountability due to management complexity.

As described previously, the Department and the District expected the cost of Toward 2000 to be \$83.2 million, and planned to finance the construction through grants of \$83.2 million from the General Revenue Fund. The Department of Health used several agreements over the period 1995 to 1998 to approve the construction and the financing needed by the District to carry out the required construction (see Exhibit 1 for a

description of three key agreements). Each of the key agreements approved the construction objectives set out in the original plan for Toward 2000, and approved total funding of \$83.2 million.

When actual costs started to exceed the planned cost of \$83.2 million in 1997, the Department authorized the District to finance the construction by borrowing additional money to complete the project (see Exhibit 2 for an excerpt of the Department's written approval to borrow).

The District advised us that the project was difficult to plan because the original budget of \$83.2 million was inadequate. In 1992, the Atkinson Report estimated that \$120 million would be required to close the Plains Health Centre and to consolidate acute care in the Regina General Hospital and the Pasqua Hospital (*More Effective Hospital Care for Regina: A concept for Rationalization of Acute Care Services, April 1992*). Also, Department and District officials told us that the original budget of \$83.2 million did not allow for the costs of planning and inflation, or for the costs of contingencies such as labour shortages, unforeseen design changes, and changes to the price of construction materials.

The difficulty in planning Toward 2000 led to the construction being a year behind schedule by mid 1995. In 1996, the Department and the District decided to speed up the construction so that the Plains Health Centre would be closed as originally planned, i.e., in October 1998. The name of the project was changed to Project '98 to focus efforts on completing the construction by 1998.

According to the Department of Health, the purpose of Project '98 was limited to the construction required to close the Plains Health Centre and did not include designing the remaining hospitals to maintain services in Regina with fewer beds. The Department advised us that the original budget of \$83.2 million for Toward 2000 was considered as the budget for Project '98. Any additional costs incurred were to be budgeted for and funded separately (see Exhibit 6 for Department's explanation of its process to determine the cost of Project '98).

After 1996, the construction project envisioned by Toward 2000 continued. The District did not and could not change the overall design and the reconstruction of the remaining hospitals and still ensure the District could meet the public's health care needs with fewer beds. Accordingly, all construction (\$133.4 million) carried out by the District for the five years

ended June 30, 1999 was for Toward 2000. The change in name was a name change only.

## **Our audit objectives and criteria**

In our examination of Toward 2000, we had three audit objectives:

Objective 1 – To determine the actual cost of Toward 2000 compared to the original planned cost.

Objective 2 – To determine whether the District received prior approval for the planned and actual construction performance and the financing for Toward 2000 and whether the District complied with governing laws and related authorities.

Objective 3 – To assess whether the District's Board, the Department, and the public received adequate and timely performance information on Toward 2000 over the five years ended June 30, 1999.

In our examination, we did not assess whether Toward 2000 met its objectives or whether sound project management practices were used by the Department and the Health District.

We followed *The Standards for Assurance Engagements* established by The Canadian Institute of Chartered Accountants (CICA) to conduct our examination. Those standards require us to use reasonable and attainable criteria. Auditors need criteria to evaluate the matters they audit. To select the criteria, we reviewed the CICA Handbook, governing laws and authorities, relevant literature and previous work done by our Office. The Department and the District agreed that our criteria are reasonable. In Exhibit 3, we set out a summary of our criteria.

## **Our conclusions and recommendations**

### **Objective 1**

We determined that the actual cost of Toward 2000 at June 30, 1999 was \$133.4 million compared to the original planned cost of \$83.2 million.

## Objective 2

We determined that the Regina Health District received prior approval from the Department of Health for the construction and financing of Toward 2000 and complied with governing laws and related authorities except for two months in 1997. During those two months, the District signed contracts for construction totalling \$8 million before it obtained a decision from the Department on how the construction should be financed, i.e., funding from the GRF or through debt.

## Objective 3

We determined that the District's Board and the Department did not receive adequate and timely performance information on Toward 2000.

In addition, we noted that the Department and the District, in their public reports and communications, provided inadequate and confusing information on the costs of Toward 2000 (also called Project '98).

We make the following recommendations.

1. We recommend that the Department of Health and health districts make public timely performance information on major capital construction projects including:
  - ◆ the full cost of construction projects compared to the original planned cost;
  - ◆ the nature of any significant changes to such projects; and
  - ◆ the extent that the expected project benefits are achieved (e.g., reduced service costs and improved service outcomes).
2. We recommend that the Department of Health:
  - ◆ ensure its capital project agreements with health districts describe the process of verifying expected performance;

- ◆ ensure it requests and receives adequate and timely performance information on capital construction projects; and
- ◆ ensure it determines whether such performance information is reliable.

## Our findings

In this section, we describe our more specific findings related to each of our three audit objectives.

### Objective 1 – actual costs

Our first audit objective was to determine the actual cost of Toward 2000 compared to the original planned cost.

*We expected that the actual cost of Toward 2000 would be determined in accordance with generally accepted accounting principles; that is, the actual cost should:*

- ◆ *be complete: there are no unrecorded transactions relating to Toward 2000 for the five years ended June 30, 1999;*
- ◆ *have occurred: recorded transactions actually took place and pertained to Toward 2000; and*
- ◆ *be properly measured: the transactions are recorded in the proper amounts and are allocated to the proper project.*

*We expected that the planned cost would be approved by the Department and the District.*

We determined that the actual cost of Toward 2000 was \$133.4 million compared to the planned cost of \$83.2 million.

\* \* \*

Officials of the Department of Health and the Regina Health District think that Project '98 is only one component of Toward 2000. In their view, Project '98 relates only to closing the Plains Health Centre and transferring its services to the Regina General Hospital and the Pasqua Hospital. They told us that Project '98 does not include the construction originally planned

in Toward 2000 that was to enable the District to maintain or improve required services while reducing hospital beds (see Exhibit 6 for the Department's description of the process to determine the cost of Project '98).

We cannot support this view for the following reasons.

**1. The Department and the District completed the construction to maintain and improve required services while reducing hospital beds.**

From 1995 to 1999, the District completed the Toward 2000 construction requirements to improve services and to attract health professionals. The Department and the District expected the cost of Toward 2000 to be \$83.2 million, and planned to finance the construction through grants of \$83.2 million from the General Revenue Fund. The Department of Health used several agreements over the period 1995 to 1998 to approve the construction and the financing the District needed to carry out the required construction (see Exhibit 1 for a description of three key agreements). Each of the key agreements approved the construction objectives set out in the original plan for Toward 2000, and approved total funding of \$83.2 million.

When actual costs started to exceed the planned cost of \$83.2 million in 1997, the Department authorized the District to finance the construction by borrowing additional money to complete the project (see Exhibit 2 for an excerpt of the Department's written approval to borrow).

**2. The construction to maintain required services while reducing hospital beds had to be done.**

Maintaining required services while reducing hospital beds meant that the District had to change the way it provided services. To maintain required services, the District needed more efficient and effective services such as more day surgery or new forms of care that allow people to visit a hospital for treatment without staying overnight.

Such improvements call for special construction design. Accordingly, the construction objective to close the Plains Health



Centre could not be separated from the construction objectives to improve services at the remaining hospitals if the District was to continue to provide required services while reducing beds.

We point out that the District's Professional Services Selection Committee recommended that the District hire a primary architectural consultant for Toward 2000 because it "was not a collection of independent projects...it was a one-hospital project on two sites."

**3. It was too late to stop the construction designed to maintain required services while reducing hospital beds.**

By the time the Department and the District changed the name of Toward 2000 to Project '98 in September 1996, the District had spent and committed \$40 million on the project. A significant portion of that cost related to construction designed to improve services. Once concrete is poured to reflect a certain design, the design cannot be changed without enormous cost. Accordingly, the Department and the District were committed to finishing the construction to improve services.

**4. Changes to a multi-year construction project are not unusual.**

As would be expected from a large long-term plan involving complex construction in two hospitals, the Department and the District made significant changes to the original plan. For example, the District put significantly more tertiary care services in the Regina General Hospital (RGH) than was originally planned in 1993. Tertiary care, provided mainly in Regina and Saskatoon, involves medical specialists in areas such as heart surgery, burns, and internal medicine and involves special diagnostic equipment such as CT Scanners and MRIs. The District spent over \$20 million on construction for tertiary care in RGH. Having most tertiary care at RGH required the construction of a medical office wing (cost: \$4.6 million) to enable specialists to be near patients in case of emergencies, to improve the quality of care, and to attract and retain specialists. The Department and District included the construction costs for tertiary care in Project '98, but excluded the construction of the medical office wing and called it an "Other Construction Project" (see Exhibit 4).

Officials explained that the reason construction costs were not included in Project '98 was because the original plan did not foresee a need that arose during construction. Unforeseen needs are not part of a new project; they are revisions to the original project. Since the construction that took place at the Regina Health District met the objectives of the original plan set out in Toward 2000, (e.g., to reduce hospital beds in Regina while maintaining required services and attracting medical specialists), that construction should be considered as part of Toward 2000.

In Exhibit 5, we set out practices for strong capital construction project management.

## Objective 2 – appropriate approvals

Our second audit objective was to determine whether the appropriate approvals were obtained for Toward 2000 and whether the District complied with governing laws and related authorities. For this objective we developed two general criteria. In the following paragraphs, we describe what we expected and what we found for each criterion.

### **Criterion 1: The planned and actual performance should be approved by the District's Board and the Department**

*We expected the Board and the Department to approve the construction project's planned requirements, costs, deadlines, expected benefits and major risks before contracts were signed. We also expected the Board and the Department to approve any significant changes to planned requirements, costs, deadlines, expected benefits, or major risks before contracts are signed.*

*We anticipated the Department would enter into agreements with the District to authorize the District's planned construction and the financing. Well-managed projects achieve expected benefits and are completed in accordance with planned requirements, costs, and deadlines. The agreements should:*

- ♦ *describe the authority and responsibility of the Department and the District;*
- ♦ *describe the construction project's requirements and expected benefits;*

- ◆ *set out the planned costs and deadlines;*
- ◆ *describe the process to obtain the Department's approval for changes to planned costs, requirements, or deadlines;*
- ◆ *describe the periodic performance reports required by the Department, and the Department's process to verify the reports;*
- ◆ *describe the laws and other authorities governing the project; and*
- ◆ *describe the basis of funding the Department will provide the District.*

The Board managed the construction project through a steering committee consisting of Board members, senior officials, physicians and a Department official.

The Board approved the construction project's planned requirements, costs, deadlines, and changes to these plans before contracts were signed. The Department also provided these approvals and the authority for financing before the District signed contracts for construction except for two months in 1997. During those months, the District signed contracts for construction totalling \$8 million before it obtained a decision from the Department on how the construction would be financed, i.e., from the GRF or through debt.

Originally, the Department and the District expected the cost of Toward 2000 to be \$83.2 million, and planned to finance the construction through grants of \$83.2 million from the General Revenue Fund. In August 1997, the District started to exceed the financing of \$83.2 million and asked the Department for additional financing. In response to this request, the Deputy Minister of Health wrote to the District's chair on September 18, 1997 stating:

We are aware that the District will be required to borrow funds to finance construction in this fiscal year and the next. A multi-year strategy for the repayment of debt will be developed with you, the scope and timing of which will depend on the availability of capital and operating funding in 1998-99 and future years

At the date of this letter (see Exhibit 2), the actual and committed construction costs exceeded the planned construction costs of \$83.2 million by \$8 million.

The Board and the Department approved the expected benefits (e.g., overall annual cost savings and improvements for each service). We found no written evidence that the Department and the Board approved

the key risks or changes to expected benefits or risks (key risks could include unexpected cost increases, labour shortages and design problems).

We expected the Department to enter into agreements with the District to enable the Department to approve the District's construction performance. The capital project agreements between the Department and the District describe their authorities and responsibilities, the project's requirements, and the expected benefits. The agreements include the planned costs, requirements and deadline dates, and describe the process to obtain the Department's approval for changes to planned results.

The agreements describe the periodic performance reports required by the Department, but do not set out the Department's process to verify the reports. The agreements describe the relevant laws and other authorities and the basis of funding the Department will provide the District.

In summary, the Board approved the construction project's planned requirements, costs, deadlines, and changes to these plans before contracts were signed. The Department also provided these approvals and the authority for financing before the District signed contracts for construction except for two months in 1997. During those months, the District signed contracts for construction totalling \$8 million before it obtained a decision from the Department on how the construction would be financed, i.e., from the GRF or through debt. We found no evidence that the Department and the Board approved the key risks or changes to the expected benefits.

**Criterion 2: Toward 2000 should comply with governing laws and related authorities**

*We expected that Toward 2000 would comply with the following authorities: The Capital Project Agreements between the District and the Department; The Health Districts Act and Regulations; The Hospital Standards Regulations; and the District's Project '98 Capital Expense Authorization Policy approved by the Board.*

The District complied with those authorities except for two months in 1997 when it signed contracts for construction totalling \$8 million before it

obtained a decision from the Department on how the construction would be financed, i.e., from the GRF or through debt.

### Objective 3 – adequate performance information

Our third audit objective was to determine whether the District's Board of Directors, the Department of Health and the public received adequate and timely performance information on Toward 2000 over the five years ended June 30, 1999.

*We expected the District's Board to receive timely reliable information on the construction project's performance. We anticipated that the Department and the public would receive similar information. (We recognize that the extent and timing of reporting needs of the public would differ from the Board's reporting needs.) We expected that the financial information would be prepared in accordance with generally accepted accounting principles. We expected the information to describe:*

- ♦ *where the construction project is at the date of the report (actual compared to plan for requirements, cost, work completed; and explanations of differences between planned and actual results);*
- ♦ *what has been accomplished since the last reporting period (actual compared to plan for cost and work completed, and explanations of differences between planned and actual results);*
- ♦ *the estimated time and cost to complete the construction project;*
- ♦ *the status of the expected benefits, whether the benefits are still achievable, and if not, the effects, if any, on the project plan; and*
- ♦ *the status of the construction project's risks, new risks, and how the risks are being managed. Reports would include explanations of any change in the status of key risks from the last reporting period and the reasons for the change in status.*

As noted previously, the Board managed Toward 2000 through a steering committee. This Committee consisted of Board members, senior officials, physicians and a Department official.

We found that District management provided regular reports to the steering committee on the construction project's progress and provided

the same reports to the Department. The reports were not adequate for the following reasons.

The reports did not show a comparison of actual costs to the original planned costs because, as time went by, management changed the original planned costs in the reports to recognize the Board's approval for increases to the planned costs. This made it difficult for the Steering Committee to compare actual costs to the original planned costs. Management told us that because the Committee approved all changes to costs, it should have been aware of the changes to the original planned costs. We think it is necessary to report the original planned costs in order to give the Committee a clear comparison of planned and actual costs.

It is essential that reports to the Steering Committee explain reasons for differences between planned costs and actual costs and recommend options when plans are not being met. The reports did not explain reasons for differences between planned and actual costs.

The reports described the dates work was started and completed, the percentage of work completed, and the estimated time to complete the work. In the first half of the Project, reports provided detailed information on work completed over the previous three months and a detailed forecast of work to be completed over the next three months. Later, the Steering Committee received less detailed written information.

The reports did not provide a regular analysis of the status of the project's expected benefits, or whether the benefits were still achievable. The reports did not describe the status of the project risks, new risks, and how the risks were being managed.

Committee members told us that in addition to the written reports, described above, they received verbal reports on work progress, on differences between planned and actual results and on the status of expected benefits and risks. While it is not necessary or possible to document everything, we think key performance information should be provided in writing. Verbal information is not sufficient for complex long-term capital projects. Verbal reports likely reduced the Committee members' ability to prepare for meetings, e.g., to compare current information with previous reports and to consider options. The lack of written reports made it hard for the Committee's to use due diligence to question and challenge actual performance and to take remedial action when required.

We found the Department's and the District's reporting to the public on Toward 2000 to be inadequate and confusing.

The Department and the District have informed the public about the purpose and expected benefits of Toward 2000. In addition, they undertook considerable public consultation during the planning phase of the construction in 1993. The District's annual reports show the total cost of construction. However, the annual reports start to provide inadequate and confusing information on the cost of Toward 2000 after it was renamed Project '98.

The annual reports do not clearly show the planned and actual cost of Toward 2000. Officials think that Project '98 is only a component of Toward 2000 (see Exhibit 6). We found that Toward 2000 was designed and managed as one integrated construction project. The planned cost of Toward 2000 was \$83.2 million. The actual cost was \$133.4 million. The change in the name of this construction project was a change in name only.

In addition, we think the Department and the District provided inadequate performance information to the public in response to a request for information on Project '98 under *The Freedom of Information Act*. In responding to this request, the Department and the District prepared and made public information on the cost of Project '98 at November 25, 1998. The information showed the estimated costs to complete Project '98 and provided general explanations for cost increases. However, the information did not show the amount of the cost increases. In addition, the information did not show the original budget for Project '98.

We also think the information provided to the public as a result of this request for information was confusing. We think the construction carried out by the District was that set out in the plan for Toward 2000. We think the District and the Department should have provided the public with information about the overall costs of the project (whether called Project '98 or Toward 2000).

As stated earlier, we are concerned that the Government continues to encourage managers to make decisions based on costs recorded in the GRF and not on the full cost of projects recorded in the Government's Summary Financial Statements. Making decisions based on the GRF

leads to confusion about planned costs, actual costs and what costs have been approved.

In summary, the Board and the Department received inadequate information to assess and manage the Project's performance. The Department and the District provided inadequate and confusing information to the public. Accordingly, the public did not have the necessary information to assess the Project's performance.

## **Department's response**

The Department of Health acknowledges and appreciates the efforts of the Provincial Auditor to provide clarity with respect to the public's understanding of Project '98.

The Department has already begun to implement the Auditor's recommendations relating to improved construction agreement, review processes, and the establishment of performance expectations and adequate reporting requirements.

This report recognizes the capital construction in the Regina Health District was for the purposes of improving healthcare. The residents of Regina and all of southern Saskatchewan will benefit from these projects for many years.

The Department agrees with the Provincial Auditor that the total level of capital spending in the Regina Health District for the five-years ended June 30, 1999 was \$133.4 million. The Department's opinion differs with the Provincial Auditor only with respect to the classification of the capital spending.

The Department operated on the basis that there were several distinct capital projects. The Regina Health District, in materials distributed to the media on February 12, 1999 described Project '98 as "Capital construction costs to enable transfer of programs and services from the Plains Health Centre." Other capital construction projects were described as "costs to enhance programs and services and provide new and better space." The view that there were a number of projects is consistent with the District's reporting on capital spending in the notes to its published Financial Statements over a number of years, and with its reporting to the Department.

According to the Department's understanding of Project '98, the cost was \$96.0 million compared to a planned expenditure of \$83.2 million, and in addition there were a number of other capital construction projects that required separate project or financing approval.



## **Exhibit 1 – Capital Project Agreements between the Department and the District to approve construction**

The following agreements between the Department and the District approve the Toward 2000 construction. All agreements confirm that the Toward 2000 construction objectives remained the same and the planned cost was \$83.2 million.

### **Agreement #3: October 26, 1995**

"Toward 2000" is a multi-phased construction project directed at consolidating all acute care clinical services on the Pasqua and Regina General sites. Total cost of "Toward 2000" is \$83.2M to be spent between 1993/94 and 1998/99."

"Toward 2000" objectives include:

- To transfer all existing services at the Plains Health Centre to the Pasqua and Regina General sites on or before October 31, 1998 and complete the total project on or before March 31, 1999.
- To redevelop Regina General and Pasqua facilities to accommodate the transfer of Plains Health Centre programs and also meet health care delivery standards to the year 2000 and beyond.
- To achieve operational efficiencies and operational costs savings of at least \$10M per year which may be redirected to other District programs.

With expansion of community programming and new technology, the anticipated bed need for Regina will not exceed 765 beds by October 1998.

### **Agreement #5: March 21, 1997**

"Project '98" (formerly Toward 2000) is a multi-phased construction project directed at consolidating all acute care clinical services on the Pasqua and Regina General sites. The Department of Health's contribution toward the cost of Project '98 is \$83.2M to be spent between 1993/94 and 1998/99.

Toward 2000 was renamed Project '98 in September 1996. Project '98 objectives include:

- To transfer all existing services at the Plains Health Centre to the Pasqua and Regina General sites on or before October 31, 1998 and complete the total project on or before March 31, 1999.
- To redevelop Regina General and Pasqua facilities to accommodate the transfer of Plains Health Centre programs.
- To achieve operational efficiencies and operational costs savings which may be redirected to other district programs.

With expansion of community programming and new technology, the anticipated bed need for Regina will not exceed 675 beds by October 1998.

**Agreement #9:** June 19, 1998

*Objectives: same as Agreement # 5 with the following amendment:*

In previous Capital Funding Agreements for Project C.02.01, Schedule "A" Description was identified as Project '98. However, work identified below details all work associated with the health district's Vision for Acute Care consolidation in Regina, which in part not only include Project '98 but also includes other district initiated service enhancements required to complete the consolidation. As a result, Schedule "A" as presented herein is intended to correct and amend all previous agreements associated with this Project Number C.02.01.

**Exhibit 2 – Approval for District to borrow to finish construction (excerpt from September 18, 1997 letter from the Deputy Minister of Health to the Chair of the Regina District Health Board)**

*I am writing further to recent correspondence and meetings with department officials concerning the capital requirements for Project '98 and costs associated with consolidation of services at the Regina General Hospital and Pasqua Hospital.*

*First of all, I would like to commend the district for the significant progress you have made in health renewal which was recently confirmed in the excellent survey report completed by the Canadian Council on Health Services Accreditation. In addition, you have successfully managed a 40% reduction in acute care beds and maintained your operating expenses at a reasonable level despite substantial pressures. I know this has not been easy and will require continued diligence and careful management.*

*The department is committed to the consolidation of services at the two hospitals, and will work with you to ensure capital construction costs associated with the consolidation can be managed within the district's budget over the next several years. We are aware the district will be required to borrow funds to finance construction in this fiscal year and next. A multi-year strategy for repayment of the debt will be developed with you, the scope and timing of which will depend on the availability of capital and operating funding in 1998-99 and future years.*

*We will continue to work in partnership with you, and look forward to the completion of this work which will provide residents of Regina and southern Saskatchewan with state-of-the-art facilities well into the twenty-first century.*

### Exhibit 3 – Our audit criteria

#### Criteria for objective 1

1. The actual cost of Toward 2000 should be determined in accordance with generally accepted accounting principles; that is, the actual cost should:
  - ♦ **be complete:** there are no unrecorded transactions relating to Toward 2000 for the five years ended June 30, 1999;
  - ♦ **have occurred:** recorded transactions actually took place and pertained to Toward 2000; and
  - ♦ **be properly measured:** the transactions are recorded in the proper amounts and are allocated to the proper project.
2. The planned cost should be approved by the Districts' Board and the Department.

#### Criteria for objective 2 – The planned and actual results for Toward 2000:

- ♦ should be approved by the Department and the District's Board; and
- ♦ should comply with governing laws and related authorities.

Criteria for objective 3 – To manage Toward 2000, the District's Board, the Department, and the public need timely information on the projects' performance. Financial information should be prepared in accordance with generally accepted accounting principles. The information should describe:

- ♦ where the project is at the date of the report (actual compared to plan for both costs and work completed, and explanations of differences between planned and actual results);
- ♦ what has been accomplished since the last reporting period (actual compared to plan for costs and work completed, and explanations of differences between planned and actual results);
- ♦ the estimated time and cost to complete the project;
- ♦ the status of expected benefits; and
- ♦ the status of risks, new risks, and how the risks are being managed.

#### **Exhibit 4 – Construction in the Regina Health District's hospitals to improve service outcomes and reduce cost of services**

**New Space for Dialysis patients** (Cost: \$4,251,000) For more appropriate and economical care to patients suffering from various stages of kidney failure, and to handle the increasing volume of patients receiving dialysis.

**Medical Office Wing** (Cost: \$4,554,000) To provide offices for medical specialists at the Regina General Hospital for services such as Cardiac surgery, neuro surgery and trauma services. Enables immediate specialist response in emergencies, reduces risks to patients, and enhances the quality of care for patients.

**Community Services Consolidation** (Cost: \$1,112,000) Renovation of Canadian Place to consolidate community services to reduce costs of renting out several locations to provide these services. Over the past decade, the health industry has been shifting the emphasis from acute activity to community services to support either earlier acute care discharges or avoidance of admission to hospital.

**MRI Housing:** (Cost: \$2,300,000) To house the new MRI to improve diagnosis and treatment.

**Mental Health Consolidation** (Cost: \$9,553,000) To improve services and reduce costs through consolidation and integration of the Inpatient Mental Health Services and the Mental Health Day Program.

**Women's and Children's Health** (Cost: \$2,238,000) To prepare an environment that will support client and family centred care. The addition of this infrastructure during initial construction will mean less disruption to the adjacent existing programs when final construction work is undertaken. This construction will also reduce future costs by including the work now as opposed to retrofitting at a later date.

**Burn Unit** (Cost: \$1,358,000) To move the Burn Unit close to the Nursing Unit responsible for burns to achieve operational efficiencies.

**Cardiac Catheterization Laboratory** (Estimated Cost: \$756,000) To ensure continuous service to the residents of southern Saskatchewan during the transfer of services and equipment from the Plains Hospital.

**Laboratory Consolidation** (Cost: \$3,771,000) To provide consolidated services to District residents and to residents from across southern Saskatchewan and to allow recently devolved laboratory services to be integrated with District systems and processes.

**Energy Management Upgrade:** (Cost: \$1,760,000) To achieve operational efficiencies through reduced use of natural gas, electricity, chemicals and water.

**Other:** (Total cost: \$2,534,000). Construction of Satellite laboratories, Therapy satellites, New entrances and retail space, and Aboriginal healing centres. These projects improve health care and reduce cost.

(Information derived from the Regina Health District's documents)

## **Exhibit 5 – Practices for strong capital construction project management**

Successful construction projects require a strong project management climate. The three cornerstones of a strong project management climate are 1) management commitment to the project; 2) that the project is based on business needs; and 3) project management systems and practices.

The criteria are eight project management processes set out in the publication: *A Guide to the Project Management Body of Knowledge*. These processes provide the management framework needed to support the three cornerstones of a strong project management climate. The eight processes are:

*Scope management* - the processes involved in determining what the users need, how the needs will be met and verifying if they are met.

*Time management* - the processes of planning, scheduling and controlling the project's activities to help get the project done on time.

*Cost management* - the processes of planning, estimating and controlling the project costs.

*Quality management* - the processes needed to ensure the project is well managed and satisfies the stakeholders' needs.

*Human resource management* – the processes required to make the most effective use of people involved in the project, including stakeholders.

*Communication management* – the processes, including organizational structure, to ensure the timely and complete creation, movement and storage of information, including public reporting.

*Risk management* – the processes to identify, evaluate, plan, and respond to risks.

*Procurement management* - the processes to decide what to contract for, i.e., tendering and selecting the best contractor; and negotiating, managing and closing the contract.

## **Exhibit 6 – The Department of Health's description of the process to determine Project '98 costs**

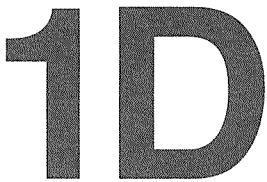
The Department of Health has always held the position that over the period 1993 to 1998 a number of discrete capital projects, with discrete approval processes and budgets were carried out by the Regina Health District.

Project '98 is one of those projects. Project '98 refers to the project to integrate all services originally located at the Plains Health Centre (PHC) into the General and Pasqua Hospitals.

The cost of Project '98 was determined through several steps. First, each service previously provided at the PHC was identified. Then, each of those services was matched to the actual space it occupied at the General and Pasqua Hospitals after the move. Next, the construction cost for the newly occupied space was determined. And finally, professional fees, demolition costs, a proportionate share of the energy centre and GST costs were added into the construction costs. On this basis, it was reported that the final cost of Project '98 was \$96.0 million compared to a budget of \$83.2 million.

In addition to Project '98, a number of additional construction projects were undertaken by the District. For the five years ending June 30, 1999 a total of \$37 million in additional capital spending was undertaken. Project approval of \$20 million was provided for laboratory consolidation, a medical office wing, MRI housing and a mental health consolidation project. A number of additional projects were undertaken at a cost of \$17 million that did not receive prior approval from the Department. Borrowing approval was subsequently provided allowing the District to finance this construction.

**Board Development - A Health District Case Study**



**Introduction ..... 83**

**Board development for all key responsibilities ..... 83**

**Best practices ..... 84**

    Promote understanding of the board’s purpose ..... 86

    Foster board commitment to govern in all key responsibility areas ..... 87

    Increase board capability to govern in all key responsibility areas ..... 88

    Monitor board development ..... 89

**Summary ..... 90**

**Selected References ..... 91**



## Introduction

Boards of directors govern many public organizations in Saskatchewan. These include Crown corporations and the province's health districts. In Saskatchewan, boards control a large proportion of public money. The ability of these boards to carry out their responsibilities and to achieve their objectives has an impact on many services in the province.

Effective board development assists boards to successfully carry out their responsibilities. In this Report, we set out best practices for developing a board to govern in all its key responsibility areas. We developed these best practices after discussion with experts, searching current literature and interviewing board members. Examples drawn from our case study of a health district board illustrate these best practices for developing boards of directors.

## Board development for all key responsibilities

All boards of directors face the challenge of governing in all the important areas under their charge. Neglect of even a single key responsibility can mean a board does not carry out its mandate. Health districts have a broad mandate and thus provide a useful context for describing best practices for board development.<sup>1</sup>

The introduction of health districts in Saskatchewan changed the focus for Saskatchewan's health boards. Health reform emphasized wellness and the health of the community while continuing the traditional acute care role of the health system. The boards that governed the new health districts were faced with new responsibilities. The health district boards needed to ensure that they governed in all their key responsibility areas.

The key responsibilities of health districts are set out in public documents and legislation as follows<sup>2</sup>:

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<sup>1</sup> In this study when we use the word "board" we are referring to the board of directors of a health district. When we use the words "health district" we mean the entire organization headed by the board.

<sup>2</sup> Saskatchewan Health, Saskatchewan Association of Health Organizations, *A Framework of Accountability—The Minister of Health and District Health Boards* (1995), p.6; Saskatchewan Health, "1998-99 Service Agreement between District Health Board and The Saskatchewan Minister of Health." *The Health Districts Act*, s.26.

- ◆ to provide health services to district residents—including planning, managing, delivering and integrating the provision of health services;
- ◆ to periodically assess the health needs of residents;
- ◆ to periodically evaluate the services provided;
- ◆ to promote health and wellness; and
- ◆ to cooperate with and/or enter into agreements with Governments of Canada or Saskatchewan, district health boards, Indian bands, the Métis Nation of Saskatchewan, or any other person or group for the provision of health services.

Health district boards must govern in all these areas of responsibility. Moreover, the board members that collectively face this task come from varying backgrounds, with varying skills and knowledge. Using one health district board as a case study, this Report examines how board development assists health district boards in meeting this challenge.

## Best practices

During our study we set out best practices for board development (see Exhibit 1). To confirm these best practices we consulted with organizations involved in board development in Saskatchewan. We asked for comments from the Saskatchewan Association of Health Organizations (SAHO) and the Department of Health and incorporated their feedback. We also talked to university faculty and the Crown Investments Corporation unit responsible for developing the boards of some of Saskatchewan's Crown corporations.

To determine that the best practices are reasonable and attainable, we assessed how they are used in a health district. We examined the development processes used by the Board of Moose Jaw-Thunder Creek Health District between October 1995 and June 1999. We wish to thank the Board, the Chief Executive Officer (CEO), and the Board Secretary for making this possible.

Our purpose in examining board development at the Moose Jaw-Thunder Creek Health District was to assess and revise the best practices, as well as obtain examples to illustrate the best practices. We did not carry out an

audit for the purpose of identifying deficiencies. We anticipate that the examples that we use from the Moose Jaw-Thunder Creek Health District may also be found in the board development practices of other districts and public organizations.

### Exhibit 1

#### **Best practices for board development<sup>3</sup>**

A board using best practices for board development will:

1. Promote understanding of the board's purpose
  - 1.1 Consider all areas where the board is responsible to govern
  - 1.2 Examine implications of all responsibility areas
  - 1.3 Link board's strategic direction to all key responsibility areas
2. Foster board commitment to govern in all key responsibility areas
  - 2.1 Describe accountability relationships in all key responsibility areas
  - 2.2 Endorse a mission and vision that board members support
  - 2.3 Adopt values consistent with the mission and vision
3. Increase board capability to govern in all key responsibility areas
  - 3.1 Foster culture of continuous board learning and development
  - 3.2 Allocate resources to board development
  - 3.3 Identify gaps between existing capability and desired capability
  - 3.4 Develop board to fill gaps between existing capability and desired capability
4. Monitor board development
  - 4.1 Regularly set objectives for board development considering key responsibility areas
  - 4.2 Evaluate progress in meeting objectives for board development
  - 4.3 Modify board development to better achieve objectives

<sup>3</sup> A more extensive list of these best practices is available from our Office. Please see contact information at the front of the volume.

## Promote understanding of the board's purpose

A board must understand its purpose in order to carry it out. Effective board development assists a board to understand its role in the context of the organization's total mandate. Board development should help a board to understand its purpose in all its key responsibility areas. As understanding grows, an effective board considers the implications of those responsibilities and what they mean for the future of the organization. An effective board can then translate key responsibilities into action by linking its strategic direction to its key responsibility areas.

The Board of the Moose Jaw-Thunder Creek Health District uses learning opportunities offered by the Department of Health and SAHO to promote understanding of all the Board's areas of responsibility. Board members receive personal copies of documents that outline key responsibilities (e.g., legislation, *A Framework of Accountability—The Minister of Health and District Health Boards*, and manuals of various kinds). This allows for personal study and reflection on the Board's purpose.

The Board's practices increase its understanding of the implications for governance of various issues and risks. A Board policy encourages the Board to focus on the long-term impact of its actions. We found that the Board is increasingly using committees to explore the implications of issues related to its responsibility areas. The Board also invites presentations and seeks advice on issues to help identify opportunities and risks within responsibility areas. For example, the Board seeks legal advice on changes to legislation, asks consultant's to advise on risk management and invites Board member to report on seminars and meetings.

To translate key responsibilities into action, the effective board must link its strategic direction to its responsibility areas. The board's involvement in making those links increases the board's understanding of its purpose. The Moose Jaw-Thunder Creek Health District involves the Board in creating health plans and long-term strategic plans that reflect the District's key responsibility areas.

## **Foster board commitment to govern in all key responsibility areas**

Even when a board understands its purpose, it requires board commitment to carry it out. Best practices for fostering board commitment include involving the board in creating and communicating the health district's mission and vision. An effective board adopts and uses values that are consistent with its mission and vision. Stating its values helps the board evaluate its actions. Effective board development also helps the board to understand what they are accountable for, and to whom. Commitment increases when accountability is clear.

The Moose Jaw-Thunder Creek Health District fosters Board commitment by setting out who is accountable and for what. Board policies describe internal accountability relationships for the Board, its Chairperson and its CEO. Bylaws and a detailed position description govern the role of the CEO and make clear what the Board expects. The Board's external accountability relationships with the Minister and the public are set out in Department and SAHO materials and explained in information from Department consultants.

The Board expresses strong ownership of its mission and vision. Board members were integrally involved in the creation of the mission and vision. The Board communicates its mission and vision to staff and stakeholders in some of its reports to the community.

We found that the Board has adopted values that play an important part in its governance of the District. The Board articulates its values in a Board policy. The Board's use of committees, such as an Ethics Committee and Healthy Public Policy Committee, demonstrates the underlying values, such as the dignity and rights of individuals, and respect for diversity.

The Board's values also promote an environment of respect among Board members. These values include trust and honesty, integrity, the consultative team approach, and open communications. Board members told us how crucial that respect was to their commitment to govern effectively.

## **Increase board capability to govern in all key responsibility areas**

Effective board development moves a board forward in terms of its capability to govern in its key responsibility areas. Best practices to increase a board's capability include fostering a culture of continuous learning and then supporting that culture with necessary resources. Improving the board's capability requires identifying gaps between existing and desired board capability and taking steps to fill those gaps.

We found that the Board of the Moose Jaw-Thunder Creek Health District is enthusiastic about board development. The Board states its strong collective commitment to learning and development in Board policies and plans. It is also evident in its actions. Board policies and the Board's Code of Conduct reinforce the expectation that individual Board members will continually update their awareness of issues and governance skills.

The Board encourages its members to pursue development opportunities related to their diverse interests when these interests also support the District's mission and vision. This responsiveness to Board member interests encourages individual commitment to develop their capability to govern. The overall capability of the Board to govern in all their responsibility areas is enhanced when Board members report to the Board on what they have learned.

The Board sets aside both time and money for development. The Board allocates time for development at every Board meeting. It uses this time to receive reports from conferences, presentations on specific issues or to tour local health facilities. The Board budgets for the development of the whole Board but also sets aside some money for development opportunities initiated by individual Board members.

Identifying gaps between existing and desired board capability is done at several levels: by the individual Board member, by the CEO and the Chair, and by the whole Board collectively. A Board policy requires individual Board members to evaluate their own development needs and prepare an annual action plan for development. Board policy directs the CEO to identify gaps in the capability of the whole Board and to keep the Board informed and aware of relevant trends, public events or changes in assumptions. The Board has used the District's health-needs assessment to identify capability gaps. Informal assessments by the

Chair and more formal Board self-evaluation exercises also identify gaps in the capability of the whole Board.

Just as the responsibility for identifying gaps is shared, responsibility for developing the Board to fill the gaps is also shared. Individual Board members, the Board's Chair and the CEO, and the whole Board collectively use a wide variety of development and educational activities to increase the Board's capability to govern and the ability of individual Board members to contribute. These activities include orientations, presentations, seminars, retreats, facility tours and regular sharing of reading materials.

Individual Board members initiate opportunities for development. We found that Board members ask questions, request information, undertake personal study, and share experiences and expertise. In addition, the Board assigns a development role to the CEO. The Board directs the CEO, through policies and through the CEO's position description, to ensure the Board is informed of important events and trends. The CEO identifies specific development opportunities for the Board.

The Board as a whole seeks to develop itself. The Board seeks information (from experts, committees, task forces), assigns Board members to learn in specific areas, and makes it a priority to share information and new ideas gained. Board policies make it clear that the Board expects active and continuous development toward greater governance capability. The Board increases its capability to govern by urging all those involved to actively promote and initiate Board development, whether acting as an individual Board member, the Chair, the CEO, or the Board as a whole.

## **Monitor board development**

The effective board regularly sets objectives for board development considering the board's key responsibility areas. The effective board will evaluate its progress in meeting these objectives and then modify board development to better meet its objectives.

Board policies for the Moose Jaw-Thunder Creek Health District stress the importance of self-evaluation. Board policy requires the Board to monitor its own processes and performance. In 1998, the Board self-appraised its effectiveness with the assistance of the Chairperson. The Board plans to use a CEO/Board Evaluation Committee to undertake an evaluation of

Board performance in late 1999. One possible outcome of this self-evaluation is new objectives for overall board development.

Informal evaluation of the Board's developmental progress occurs during private gatherings held prior to Board meetings. At this time, Board members discuss achievements and concerns, and often consider actions that are later raised as formal proposals during official Board meetings. The Board also creates opportunities for dialogue with the community and stakeholders. In addition to public meetings in various locations, the Board shares its plans and invites feedback in a newsletter distributed to the public.

The Board uses what it learns in its evaluations to change its development activities. The Board has increased its use of committees to improve the Board's capability in certain areas. For example, the Board introduced the CEO/Board Evaluation Committee noted above. The Board has called for new and different information relating to key responsibility areas. It has introduced new processes for encouraging and funding development of individual Board members.

We found that Board policy requires individual Board members to create action plans for their individual development objectives. When Board members request financial support to attend development opportunities, Board policies require that they explain how the learning opportunity relates to the Board's mission, vision and values and strategic plan.

## **Summary**

Given the vital role that public organizations play in Saskatchewan, their governing boards need to ensure that board development assists them in achieving their objectives and carrying out all their responsibilities. The best practices we have described will assist boards to govern in all of their key responsibility areas.

We encourage all board members to use this Report to discuss how they prepare themselves to govern. We hope this Report will assist in improving the capability of boards to govern the affairs of public organizations in Saskatchewan.



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# Department of Health: Resource Allocation Among Districts Based On Health Needs

# 1E

<b>Executive summary .....</b>	<b>95</b>
<b>Glossary .....</b>	<b>96</b>
<b>Introduction .....</b>	<b>97</b>
<b>The resource allocation challenge .....</b>	<b>97</b>
<b>Our objective and findings .....</b>	<b>99</b>
Criterion 1: Prioritize health needs for the province .....	101
Criterion 2: Set direction for priority provincial health needs .....	103
Criterion 3: Select approaches to achieve provincial objectives .....	105
Criterion 4: Assign resources among health districts to achieve provincial objectives .....	107
Criterion 5: Monitor resource allocation to achieve provincial objectives .....	109
<b>Conclusion and recommendations .....</b>	<b>111</b>
<b>Selected References .....</b>	<b>113</b>

## Executive summary

The objective of this audit was to assess whether the Department of Health had adequate processes, during the planning cycle for 1998-99, to allocate resources among health districts based on provincial health needs. We also considered processes having a long-term impact on resource allocation among health districts up to June 1999.

Spending on health is an issue of concern to legislators, officials and the public. In the past, resources were allocated based on the volume of services provided in previous years. Areas that provided more services continued to get more resources. There was incentive to do more procedures but not to consider whether the procedures would be effective in improving people's health. Since 1993, the Department has worked toward a resource allocation system that considers health needs. The evolving resource allocation system is intended to support the ultimate goal of the Department ... to improve the health of the people of Saskatchewan.

We found the Department is continuing the transition that will integrate health needs into the Department's processes to allocate resources among districts. This integration process began in 1993 with the introduction of health districts. Since that time, the Department has showed innovative leadership and continues to try to improve its many processes for resource allocation among health districts. However, after six years, there is still a strong pull towards resource allocation that focuses on sustaining facilities and service providers.

We found the Department needs to improve its processes to prioritize health needs for the province, and to monitor resource allocation to achieve provincial objectives for both service delivery and health status. We made two recommendations to help the Department to continue improving the effectiveness of its many processes to allocate resources among districts based on health needs. These recommendations will help direct health resources toward areas of greatest health need and will encourage costs-effective health services.

## Glossary

**Health need** – the capacity to benefit from health care interventions whether to protect, improve, maintain or restore health status<sup>1</sup>

**Performance indicator** – measurable evidence of accomplishment

**Population health** – an approach to better health for entire populations that acknowledges many factors determine health (e.g., education, employment, social networks, genetics, health care) and works in partnership with other sectors to influence the health of large groups of people

**Provincial health needs** – highest priority health needs for the province as determined by the Department of Health on the basis of analysis of the significance of various health needs (i.e., magnitude, impact, sensitivity)

**Provincial objective** – a specific and measurable statement of what the Department and its partners intend to achieve in terms of improved provincial health status or improved provincial systems for delivering care to address health needs

**Partner** – an organization inside or outside of Government which has agreed to work together with others to achieve a common objective (e.g., health district, municipality, other Government organization)

**Resource** – supply of money or time assigned to accomplish a goal (e.g., money for service delivery or research, time for policy development)

**Objective** – a specific statement of results to be achieved

**Stakeholders** – organizations or individuals who will feel the results of actions toward achieving stated provincial objectives

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<sup>1</sup> Mustard, C. and Derksen, S. (1997). *A needs-based funding methodology for regional health authorities: A proposed framework*. Winnipeg: Manitoba Centre for Health Policy and Evaluation.

## Introduction

The Government of Saskatchewan spends over \$1.98 billion on health. The Department of Health (Department) distributes about 60% of the \$1.98 billion among health districts. Our Office continues to monitor decision-making processes that influence how this money is spent. In 1996, we reported how districts assessed health needs. In 1997, we reported how districts allocated resources based on health needs. The districts told us they relied heavily on the Department to set provincial priorities and allocate resources to help districts improve health in priority areas. This Chapter describes our examination of how the Department accomplished this difficult task as it prepared for the 1998-99 budget year and any changes in its processes up to June 1999.

## The resource allocation challenge

Resource allocation is a long-term process. Decisions made by the Department change public spending on health in the immediate future and may influence the distribution of resources over several years both in the health sector and elsewhere in the Government. In Saskatchewan, health spending consumes a large proportion of provincial revenues. If Government spending on health care grows faster than provincial revenues, the Government will have fewer resources for other programs like education and will have an increased risk of higher provincial debt.

In 1993, the Federal Government established a task force to listen to the public and experts and to make recommendations about the health system. The task force was called the National Forum on Health. The Forum recognized the complexity of allocating finite resources to improve health and to provide health care. The Forum highlighted the value judgements inherent in resource allocation and suggested the limits set should be able to meet the health needs of the population as well as being reasonable, affordable and ethical (*National Forum on Health*, 1995, p.10).

More than ever before, decision-makers now try to direct health funding and other resources in ways that improve the health of the population. This is a challenging task for the Department and for the whole Government. It requires balancing the health needs of various groups within the population. It also requires tremendous coordination inside the health system and with many partners outside the health system.

Saskatchewan has shown national leadership by grappling with this challenge (see Exhibit 1). In 1992, the Government changed the structure of the health system to increase community involvement through health districts. The Government guided health reform with principles such as increased integration; an improved balance between institutional and community-based services; and emphasis on disease and injury prevention and population health (*Saskatchewan Vision for Health*, 1992). In 1994, the Department began to use a needs-based funding formula to help allocate resources among health districts (see Exhibit 2). The formula allocates resources based primarily on the size and age of a district's population, with adjustments for other health-related characteristics.

These changes set the stage for new ways to make decisions and allocate resources among districts. In 1994, the Department set out three goals for its processes to allocate resources among health districts based on health needs (Saskatchewan Health, 1994, p.6):

- ◆ shifting attention to population health;
- ◆ directing health resources toward areas of greatest health need; and
- ◆ encouraging cost-effective health services.

The Department's processes aim to allocate available resources relative to health need among health districts. The Department's ability to guide resource allocation among districts based on health needs is important for improved health and long-term control of health spending. Weak resource allocation processes increase the risk of wasted public funds, inadequate access to needed health services, and deteriorating health.

This Chapter explains the challenges of resource allocation and discusses the Department's processes during 1997-99 to allocate resources among districts based on health need, particularly for the 1998-99 budget year. We hope this Chapter also will stimulate discussion among legislators, officials and the public about the role of the Department of Health. Does the Department serve as a source of information about priority health needs of Saskatchewan people? Does the Department provide provincial leadership by setting direction for urgent and long-term improvements in health and in access to effective health services? What role do legislators and health district boards play and what do they expect

of the Department? What support does the Department need to meet these expectations?

**Exhibit 1:**

**Evolving Processes for Planning, Reporting and Allocating Resources**

The Department of Health continuously revises its planning and reporting processes. The items listed here help support resource allocation among districts by clarifying who is responsible for information or planning and what reports are expected.

1994 – The Department published *Introduction of Needs-based Allocation of Resources to Saskatchewan District Health Boards for 1994-95* to explain its new system for allocating resources to health districts.

1995 – T The Department published an accountability framework showing that: (a) districts are accountable to report to the Minister and the public; and (b) the Minister (assisted by the Department) is responsible to provide information and support to enable districts to meet the Minister's expectations.

1996 – The Department's Health District Advisory Committee established the Information Needs Working Group. Their goal was to consider the information needed for districts to better manage their organizations and for public reports.

1997 – January - The Department published *A Guide to Health District Annual Reports* that encourages districts to report progress toward goals and explain future priorities.

1997 – September – The Department published a *Framework and Selection Criteria* for reporting management and accountability information. The Information Needs Working Group established expert sub-committees to choose performance indicators to enable provincial reporting in four population areas: maternal/infant, child/youth, adult, and senior.

1997 – November – The Department's senior management established an internal working group to study and make recommendations about linking internal planning and reporting structures and processes.

1998 – March – The Department and SAHO jointly developed and published *Directions for the Health System Part I*. This document reiterated health reform principles and values and set out the challenges to be faced (ageing population, rural to urban shift, growth in Aboriginal population). *Directions for the Health System Part I* confirmed the primary goal of the health sector is "to improve the health of Saskatchewan people."

1998 – April – The Department published *Guidelines for a Three Year Strategic Plan for District Health Boards*. The Department expects districts to set goals (desired end results), objectives (means to achieve goals) and performance measures (indicators to help show if objectives are met).

1998 – July - The Department independently developed *Directions for the Health System Part II*. Drafts were discussed with key stakeholders (SAHO, districts, service providers through the Health Services Committee). *Directions for the Health System Part II* sets out seven service delivery objectives.

1999 – March – The Department published *Health System Directions: Progress Report* based on seven service delivery objectives.

## Our objective and findings

The objective of this audit is to assess whether the Department had adequate processes during the planning cycle for 1998-99, to allocate resources among health districts based on provincial health needs. We



focused on systems and practices the Department used from April 1, 1997 to July 31, 1998. Our examination included relevant legislation and policies, the needs-based funding formula, and other resource allocation processes except capital funding. In recognition of the long-term impact of some resource allocation decisions, we also examined selected material from earlier years. We updated our assessment to June 1999 based on information the Department provided to us.

Resource allocation among districts reflects the values, judgements and strategic responses used by the Department to carry out its mandate. We did not assess the resource allocation judgements made or the values they reflect. We did not evaluate whether the Department selected the “best” priority health needs, approaches, services, timing or resources. Rather, our audit included whether the Department had processes to provide information and analysis to decision-makers that would help them choose provincial health-need priorities and guide their selection of objectives, approaches and resources to act on those priorities.

In a democracy, many factors influence the resource allocation process. Government policy and planning processes, public opinion, research findings, current infrastructure and the comments of stakeholders. All these factors influenced the Department’s resource allocation decisions. Our audit included the processes the Department used to consider its choices and weigh these influences to determine how to allocate resources among health districts, based on health needs.

Throughout this audit, we followed *The Standards for Assurance Engagements* established by the Canadian Institute of Chartered Accountants. These standards require us to use reasonable and attainable criteria. To develop the criteria, we studied current Saskatchewan legislation, Department publications and other relevant literature about health planning and resource allocation elsewhere. We also consulted an external advisor and reviewed our earlier work in the area of resource allocation.

The Department accepted very similar criteria for our audit of districts’ resource allocation processes based on health needs (see Chapter 23B of the Provincial Auditor’s 1997 Fall Report – Volume 2). Department officials told us they “think that the criteria, as applied to the audit, establish a standard that does not exist in other health authorities.” We proceeded with the audit because we believe the criteria are reasonable and attainable and should support the Department in its resource

allocation decisions as guided by Saskatchewan legislation. Officials agreed to proceed with the audit.

**Criteria:** To allocate resources among health districts based on health need, we anticipated the Department would have processes to:

1. prioritize health needs for the province,
2. set direction for priority health needs,
3. select approaches to achieve provincial objectives,
4. assign resources among health districts to achieve provincial objectives, and
5. monitor resource allocation to achieve provincial objectives.

We used these criteria to guide us as we gathered sufficient and appropriate audit evidence to analyze the Department's practices. We compared the Department's practices to these criteria. Interviews, reports, minutes, policies, directives and work-plans helped demonstrate the Department's processes to allocate resources among districts based on health needs.

This Chapter explains our findings. For each criterion, we describe what we expected in italics. Then we set out key points from our findings for that criterion and make a general statement about what we found.

## Criterion 1: Prioritize health needs for the province

*We expected the Department to identify the most important health needs for the province. We anticipated that the Department would analyze the health needs most important to the Government in terms of improving people's health and controlling future costs. To do this, we expected the Department would use its wealth of information from statistics and from the comments of stakeholders (e.g., citizens, service providers, legislators, other Government organizations). We anticipated the Department would then validate with stakeholders the importance it placed on recommended health need priorities.*

*The Department of Health Act (section 6) states the Minister of Health has a duty "with the assistance of the department" ... "for promoting the health of the people of the province and for preventing injuries...." Among other responsibilities, the Minister and the Department are asked to:*

- ♦ investigate ... “the causes of disease, ill health, and death of the people in the province, and the causes of injury to such people and the steps that may be taken to reduce the causes of disease, ill health, death and such injuries;” and
- ♦ “recommend to the Government the programs by which the health needs of the people of the province can be met.”

The Department must help the Minister accomplish this mandate in the context of pressures from fiscal restraint, a rapidly changing environment, lobby groups and critical public interest. In addition, *The Health District Act* presumes that the Department will allocate resources in a way that allows district services to improve health (section 26 & 35-2d). In its service agreements with the districts, the Department commits itself to “allocating provincial health financial resources equitably among the health districts based upon health needs.” To carry out its mandate and meet its commitments, the Department must know the most important health needs for the province and for each district.

Department officials selected service delivery priorities within the Department’s branches for their own program. Program branches (e.g., Acute and Emergency Care Branch, Population Health Branch) usually involved district officials in setting service priorities for resource allocation among districts taking into consideration factors such as age, gender and distance from health services. However, the discussions tended to prioritize approaches to service delivery rather than analyzing the relative priority of various health needs. Program branches did not routinely consider the impact of their priorities on other health needs or on provincial health status or on future health system costs.

During 1997-99, health needs generally gained the Department’s attention as a result of information from districts and/or complaints from service providers and the public. We found no regular analysis and reporting on provincial health need priorities to management, the Minister, health districts or other partners. We did not find evidence that Department senior managers received regular reports to help them predict serious risks or prioritize provincial health needs.

In 1997-99, the Department did not yet regularly compare the health status of the Saskatchewan population to health status trends over time. Comparisons like these would help senior managers assess which health needs are most serious over the long term. The Department did not yet

regularly compare the population's health status to the current health status in similar provinces or nationally. These comparisons would show whether the health of Saskatchewan people is keeping pace with people's health in other provinces overall. Knowing the national average or the range of health status across the provinces would help the Department and districts assess whether improvement could be expected.

In summary, we found the Department needs to improve its process to prioritize health needs for the province. During 1997-99, the Department considered community concerns about health needs from the public, service providers and legislators. We found no evidence to show regular analysis and reporting to senior management or the Minister of the relative priority of various provincial health needs. During the 1997-99 time period, the Department experienced changes in committee structures, senior managers and processes that would usually contribute to balancing priorities across program branches and province-wide among districts.

## **Criterion 2: Set direction for priority provincial health needs**

*We expected the Department to set direction for priority provincial health needs by setting goals and objectives. We expected the Department to set at least two types of objectives to help it achieve its goal "to improve the health of Saskatchewan people:"*

- (1) health status objectives that explain what level of health status would be reasonable and acceptable for Saskatchewan's highest priority health needs; and*
- (2) service delivery objectives that set out how Saskatchewan should address health needs to achieve its goals.*

*Most serious health needs require a unified effort to gain improved health. As a result, we also expected the Department to obtain comments from stakeholders (e.g., legislators, service providers and those who use health services), and then communicate the confirmed objectives to districts, other Government departments and other service providers.*

Saskatchewan law requires the Minister of Health, in co-operation with the Department, to set "goals and priorities" (*The Health Districts Act*, section 26-3b). The Department also agrees to set objectives in its service agreements with districts.

We found the Department set service delivery objectives. As yet, the Department does not set health status objectives. The Department communicated its service delivery objectives in March and July 1998, after consultation with districts and the Saskatchewan Association of Health Organizations. The Department published *Health System Directions Parts I and II* and distributed these booklets widely among districts, service providers, selected other departments, educators of health professionals and other stakeholders.

*Health System Directions Part I* states: "The overall goal for the province's health system continues to be to improve the health of the people of Saskatchewan." The booklet does not state the current health status of Saskatchewan people, nor health status objectives for the future. We did not find evidence that the Department has identified or communicated what health needs should be addressed, either urgently or in the long term. The Department has not published specific, measurable, health status objectives for the province's highest priority health needs.

*Health System Directions Part II* contains objectives for how services should be delivered. Department officials told us that the Department's program branch officials suggested the service delivery objectives published in the *Health System Directions* booklets. The Department's program branches had processes to set direction within their program or service delivery areas (e.g., acute and emergency care, home-based care). Program branches frequently established groups of service providers, experts and other stakeholders to study service delivery issues within their program area. Terms of reference guided these advisory and working groups to recommend service delivery approaches and solutions to resolve service issues.

The health system requires at least two kinds of objectives: service delivery objectives and health status objectives. Service delivery objectives are important. They ensure the people of Saskatchewan have access to similar programs no matter where they live. However, service delivery objectives alone will have limited impact on the stated overall goal of "improved health." Many factors determine health and interact in complex ways. Improving a population's health is difficult, especially in an ageing population, with increasing child poverty. As a result, it is important for various parts of the health sector to join together with communities and non-health service providers to focus attention on objectives to improve health in the areas of the province's highest priority health needs.

We found the Department has access to the information required to evaluate various provincial health needs, consider options and set realistic and attainable objectives for the health of Saskatchewan people. Other stakeholders need help to assess the severity of health risks and related health needs. Saskatchewan is a small province where decisions in each district impact neighbouring districts and decisions in the health sector affect other sectors like justice, social services and education. Provincial leadership is important to set reasonable and sustainable provincial objectives for the health sector in the context of available provincial resources.

In summary, we found the Department has set direction primarily with service delivery objectives. The Department has not yet established health status objectives. The Department's processes are evolving in ways that increase their capacity to set direction using specific objectives for service delivery and for health status. In 1998, the Department set out provincial service delivery objectives and also confirmed it intended to continue the broad direction of the health system (*Health System Directions Parts I and II*). These were important steps in setting direction. The Department is also increasing its capacity to produce performance information (see our 1998 Fall Report – Volume 2, page 106). When officials receive reports on all selected performance indicators, the Department will have better information to set reasonable objectives.

We encourage the Department to show further leadership by setting health status objectives for priority provincial health needs. Health status objectives will help to guide the Department's needs-based resource allocation decisions among health districts. Health status objectives for the highest priority health needs will also help decision-makers within health districts and outside the health sector to work together to address serious health needs.

### **Criterion 3: Select approaches to achieve provincial objectives**

*We expected the Department to identify optional approaches and analyze the most feasible approaches to achieve provincial objectives. We anticipated the Department would get comments about the most acceptable and effective approaches from all stakeholders (e.g., service providers, citizens, legislators, partner agencies).*

*We expected the Department's processes would ensure that some of the optional approaches would be based on research evidence showing effectiveness in improving health. In addition, we anticipated the Department would consider citizen requests and the Department's strategic direction. We expected the analysis would examine what works, what it costs and the service providers or expert personnel required. In addition, we expected the Department to analyze whether the approach would be acceptable to stakeholders such as legislators and the users of the planned service or policy.*

To achieve provincial objectives, the Department could choose from approaches such as the following:

- ◆ set policy (e.g., legislation, standards, agreements, contracts);
- ◆ communicate direction (e.g., goals, objectives, performance indicators, priorities) to encourage action by others;
- ◆ fund research or encourage sharing of research findings to promote informed decision-making; and
- ◆ provide resources (e.g., grants, pilot projects, block funding, needs-based funding, consultation services, information).

The Department used its Corporate Work Plan to guide staff in identifying appropriate alternative approaches to meet its service delivery objectives. Program branches used this top-down direction along with bottom-up information from districts. We found program branches consulted with various stakeholder groups including the health district Chief Executive Officer Forum. Stakeholders discussed the acceptability and feasibility of service delivery approaches.

The Department frequently used pilot projects and expert working groups to identify alternatives and select approaches. Pilot projects in partnership with districts were most often used to analyze capacity to carry out approaches, particularly with respect to assessment of the volume and expertise of human resources required. Working group members included Department staff, service providers or experts, and sometimes district board members or external client organizations. Working group minutes did not show whether these groups based their decisions on research evidence, cost, feasibility or other factors.

The Department assessed financial capacity to carry out approaches through the budget development process. The Department did not routinely do cost-benefit evaluations. Senior managers said they often considered principles of health reform and the long-term sustainability of the health system. However, there was no clear system to ensure these questions were routinely asked.

In summary, we found the Department had an adequate process that regularly involved expert stakeholders to identify, analyze and select approaches to achieve provincial objectives. The Department selected a range of approaches (e.g., policy, research, funding) with broad input from districts and other stakeholders. Department officials used the Corporate Work Plan to guide the selection of appropriate approaches.

#### **Criterion 4: Assign resources among health districts to achieve provincial objectives**

*We expected the Department to identify partner districts to help them achieve provincial objectives. We expected the Department to find partner districts with priority health needs and with the capacity to support the planned approaches.*

*We expected the Department to assess the financial and human resources required for approaches to be effective. We anticipated the Department's routine decision-making processes would allot resources among partner districts with respect to their role in supporting the chosen approaches and with respect to the needs-based funding formula.*

The most frequent way the Department identified partner districts was through district requests to program branches for help with specific health needs. In addition, the Department analyzed leading causes of hospitalization (1996) and death from chronic disease (1997) in all districts and published graphs showing highest rates of hospitalization and early death related to specific conditions. The Department's internal task groups also identified partners to help address policy issues to be explored before action on health needs would be possible (e.g., Aboriginal Strategy).

The Department assessed districts' interests and capacity when assigning resources for pilot projects or special roles. To identify the financial and human resources required for districts to meet provincial objectives, the Department sometimes used comparisons with other



provinces. For example, in 1997, Department officials discussed with the district Chief Executive Officer Forum a comparison of the ratio of hospital beds per population in Ontario and Saskatchewan. In 1997-99, we saw no evidence that the Department regularly made comparisons to similar provinces such as Manitoba when assigning resources to achieve their service delivery objectives.

Department documents and minutes showed many examples of the group discussion process used to allocate resources among the districts and build capacity for the future. These groups routinely considered the specialists and other resources required for service delivery. For example, in planning for 1998-99, the Department considered rural area needs (e.g., distance influences access to services) and city needs (e.g., provincial consulting and referral roles). Key decision-making groups like the Health Delivery Working Group also examined the overall financial capacity of districts to support the chosen approach without additional funding.

## Exhibit 2

### Saskatchewan's Needs-based Funding Formula

In most Canadian provinces, funding for health services is allocated on the basis of previous service volumes in specific facilities or agencies. The more services provided, the more funding received, regardless of the relative health of the population. The Saskatchewan Department of Health introduced a "population needs-based approach to health funding" in 1994-95 and continues to implement it gradually. This funding approach is intended to "direct funding to populations with the greatest relative health needs."

The formula allocates funding in four broad service pools rather than to specific facilities. The service pools are: acute/emergency care, long-term or supportive care, home care, and health initiatives.

The needs-based funding formula allocates basic funding among the districts on the basis of:

- the size of the district's population, its age and gender;
- a migration or service flow factor to recognize that people may seek health services outside their home district or may require health services outside the province
- broad variations in known service delivery costs such as travel costs for home care.

Social and economic characteristics of the population are not part of the calculation. For example, the formula does not consider the impact on health needs arising from family structures such as single parents or the impact on health of poverty.

The funding formula then makes the following adjustments related to the need for health care:

- a) To predict the need for acute care, the formula makes adjustments for the fertility rate, the standardized premature death rate, and the ratio of low birth weight babies to all live births.
- b) To predict the need for home-based care and long-term supportive care, the formula makes an adjustment for living arrangements. For example, the formula considers the proportion of seniors living alone, with an elderly spouse or with relatives because these living arrangements change the type and amount of care required.

Saskatchewan Health Sources: *Introduction of Needs-based Allocation of Resources to Saskatchewan District Health Boards for 1994-95*; communication from Acute & Emergency Services Branch; *District Health Board Orientation*, January 1998.

The Department's needs-based funding formula (see Exhibit 2) determined base funding for districts. The formula determined about 80% of all funds allocated to districts for 1998-99 (up from 60% in 1994). The Department had processes to adjust its funding formula over time. These funding formula changes could be made on the technical advice of experts or after recommendations from the Funding User Group that represents health districts. If needed, the Department had a process to re-shape the application of the needs-based funding formula, using an advisory panel.

In summary, we found the Department used adequate processes to assign resources among districts to achieve its service delivery objectives for the 1998-99 budget year. The needs-based funding formula allocated nearly 80% of districts' base or foundation funds. To assign resources among districts, the Department also routinely considered specific issues of access to care, district capacity to provide special services and whether districts also provided provincial or regional health care services. Information about health status within districts was less often used to assign resources among health districts, except to the extent that the funding formula considers population characteristics. Pilot projects helped assess realistic resource assignment among health districts for new service delivery approaches.

### **Criterion 5: Monitor resource allocation to achieve provincial objectives**

*We expected the Department to set up a process to monitor whether it allocated resources to achieve its provincial objectives. We expected the Department to make choices about:*

- ◆ *what information to collect;*
- ◆ *how to analyze information to assess the impact of assigned resources; and*
- ◆ *how to report the impact of its resource allocation on provincial objectives.*

*We also expected the Department to consider who should receive reports to allow them to make more informed decisions. For example, Department managers, the Minister, health districts and the public all have an interest in resource allocation among districts and how it contributes to achieving provincial objectives.*

During 1997-99, the Department's formal reporting systems were primarily financial. The Department systematically assessed the financial impact of resource allocation on districts. Department decision-makers had less non-financial information about health needs and progress toward objectives. In the long term, the Department plans to survey and report provincial health status using a population health survey.

In mid 1997, the Department developed a framework for health system indicators (see pp. 99-110 in our 1998 Fall Report - Volume 2). In the future, the Department plans to collect and monitor indicators of service quality, client satisfaction and health status outcome. Department officials plan that this framework will become part of a comprehensive planning and reporting system. In late 1997, senior management directed an internal Planning and Reporting Support Team to design a new reporting system for financial and non-financial information for the Department.

In June 1999, the Department was at an early stage in developing a comprehensive monitoring system. The present system is ad hoc. The Department does not appear to evaluate the information collected and regularly report this evaluation to senior officials. We did not find evidence of a process to decide what information senior officials or the Minister should receive routinely to assess the risks the Department faces and the impact of resource allocation among districts on provincial objectives. Program managers receive reports of the volumes of services used. We found no evidence of regular analysis and reporting to the Minister about progress toward achieving service delivery objectives. The Department updates activities toward its branch work-plans monthly and creates other reports on a "need to know" basis.

In summary, during 1997-99, we found the Department monitored and reported resource allocation based on health needs in an ad hoc way with emphasis on financial reporting. The Department's monitoring system is evolving but requires improvement to ensure senior officials and the Minister have adequate information to make informed decisions about needs-based resource allocation among districts.

When the Department develops more specific provincial objectives, it will be better able to report the impact of resource allocation among health districts in achieving these objectives. When the Department sets health status objectives, it will be better able to report its progress toward accomplishing the goal of "improved health for the people of Saskatchewan."

## Conclusion and recommendations

We found the Department is continuing the transition that will integrate health needs into the Department's processes to allocate resources among health districts. The Department and the Government face many challenges to allocate resources among districts in ways that address the priority health needs of Saskatchewan people. It is both difficult and complex to decide which important health needs may be effectively addressed and how to do it within available resources. A further complication for the Department is the changing expectations of legislators and citizens.

Prior to 1993, resource allocation decisions were made behind closed doors and health issues or problems were not highlighted for stakeholders or the public. In 1999, there are more stakeholders with a "need to know" about priority provincial health needs and the intended approaches for managing these health need priorities. Since 1993, legislation has demanded greater community involvement. As a result, both district health boards and citizens increasingly expect full access to information about the province's priority health needs. Boards and communities require this information to make their own resource allocation decisions.

Since 1993, the Department has published various documents in which it commits to move toward optimal processes to allocate resources among districts based on health needs. Resource allocation 'based on health needs' requires new skills and new ways of working with stakeholders. It also requires a new way of looking at resource allocation processes. In particular, this approach to resource allocation requires a longer-term perspective.

We examined how the Department met the challenge of allocating resources among health districts based on health needs as it prepared for the 1998-99 budget year over the time period April 1997 to July 1998. We updated our assessment to June 1999 based on information the Department provided to us about its resource allocation activities.

We found the Department's resource allocation processes are continuing to change gradually. Two elements of the process require improvement. During 1997 to 1999, the Department needed to improve its processes to prioritize health needs for the province, and to monitor resource allocation to achieve provincial objectives for service delivery and health status.

We encourage the Department to continue improving its processes for allocating resources among health districts based on health needs. In addition, we hope that legislators will consider the requirements of a revised system of resource allocation. Legislators could help by asking the Department for information that would assist all stakeholders to better manage their resource allocation decisions in light of health needs.

1. **We recommend the Department develop processes that involve stakeholders and experts to identify and communicate priority health needs for the province, and health status objectives for the long term (e.g., 10 years or more) for the highest priority provincial health needs.**
2. **We recommend the Department monitor and report the impact of resource allocation on the achievement of provincial objectives for service delivery and for health status.**

These recommendations will increase the Department's capacity to predict priority health issues and risks and make them the focus of reports for managers, senior officials, the Minister and legislators who must make decisions to allocate resources. We recognize this is a long-term project. We will continue to monitor the Department's processes to allocate resources among districts based on provincial health needs.

#### **Department's Response:**

The Department of Health would like to thank the Provincial Audit staff for the work done on this audit.

Each year Health is responsible for ensuring that over \$1.2 billion of funding is optimally allocated between many distinct health services within 32 different Health Districts. Experience has shown that several complimentary models of resource allocation are more suitable than one single approach. The Department of Health currently applies the following methodologies; the population needs-based funding model, the tracking of health cost-drivers, dialogue with the Health Districts on resource needs/financial capacity, and the balancing of health needs and the concerns of our citizens. Other Provinces have visited Saskatchewan to analyze and incorporate into their health policy our approach to resource allocation.

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<b>Executive summary .....</b>	<b>117</b>
<b>Glossary .....</b>	<b>118</b>
<b>Introduction .....</b>	<b>119</b>
<b>Understanding the Department .....</b>	<b>119</b>
Role of the Department and its goals .....	119
Risks the Department faces .....	120
Key risk: Monitoring vulnerable students .....	121
Growing number of vulnerable children increases risk .....	122
Complexity of the education system impacts monitoring .....	124
Monitoring practices in Saskatchewan .....	125
Monitoring systems across Canada .....	129
Summary – improved monitoring needed .....	130
Special purpose fund and agencies .....	133
Overview of Department spending .....	133
<b>Audit conclusions and findings .....</b>	<b>134</b>
Status of previous recommendations .....	135
Better reporting on performance by school divisions needed .....	136
Proper financial statements for school divisions needed .....	137
1997-98 Annual Report improved .....	138
<b>Teachers' Superannuation Commission .....</b>	<b>139</b>
Update on status of reporting of pensionable earnings .....	139
<b>Selected References .....</b>	<b>141</b>



## Executive summary

The environment in which the education system operates is changing. Enrolment in rural school divisions is declining. Diversity in the student population is increasing. For example, the number of aboriginal students is growing and special needs students are now integrated into regular classrooms. In this changing environment, the Department works with its partners to fulfil its responsibility for the overall quality of the Kindergarten to Grade 12 education system in Saskatchewan.

In this Chapter, we briefly set out the role of the Department and highlight four areas the Department must manage well to succeed. We discuss the higher proportion of children and youth at risk of doing poorly in school. These students need to be monitored as they move between schools and among education systems.

Currently, the education system in Saskatchewan does not have a way to monitor whether vulnerable children attend school regularly, which school they attend and how they are progressing. In this Chapter, we encourage the Department to take a leadership and coordinating role to ensure vulnerable children attend school regularly.

We also provide an update on continuing concerns about the financial and performance reports of schools divisions. Divisions' reporting to the Department is poor and needs to improve.

Finally, we note that the 1998 financial statements of the Teachers' Superannuation Commission are reliable, the Department complied with key financial authorities governing its activities, and its 1998 Annual Report is improving. We report the Commission is in the process of determining the extent of overpayment of pension to retired teachers. We plan to continue our monitoring of the Commission's work.

## Glossary

**Aboriginal** – Indian (also First Nation), Métis and Inuit people (Department of Education – *Policy Framework: Working Together to Address Barriers to Learning - Integrated School-linked Services for Children and Youth at Risk*, p.65)

**Coordination** – deliberate, joint relations for achieving shared or compatible goals. Coordination is based on a common understanding of the services to be provided by each agency and the agency's accountability to specific groups. It also identifies and eliminates unnecessary duplication. (Department of Education – *Policy Framework: Working Together to Address Barriers to Learning - Integrated School-linked Services for Children and Youth at Risk*, p.66)

**Culturally affirming** – policies and practices that promote cross-cultural understanding including access to teachers of various cultures, in-depth studies of specific cultures and school textbooks that picture children from many cultural backgrounds.

**Integrated services** – to integrate or link various service providers to address the complex needs of at-risk students and their families because all facets of a child's well-being—safety, nutrition, physical and mental health—are strongly related to achievement in school (Department of Education – *Policy Framework: Working Together to Address Barriers to Learning - Integrated School-linked Services for Children and Youth at Risk*, p.71)

**Mobile families** – families that move two or more times during a school year.

**Poverty** – the after-tax low-income cut-off is the point at which poor families devote an above average proportion (56%) of their limited income to the basic necessities of food, clothing and shelter (Statistics Canada per the Department of Education - *Policy Framework: Working Together to Address Barriers to Learning - Integrated School-linked Services for Children and Youth at Risk*, p.73)

## Introduction

In this Chapter, we:

- ◆ provide a brief overview of the Department's role, goals and the key risks it faces;
- ◆ highlight the risks associated with the increasing vulnerability of students; and
- ◆ set out the results of our 1999 audit of the Department and its agencies and the results of our assessment of the *Department of Education's Annual Report 1997-98* (Annual Report).

## Understanding the Department

It is important that legislators and the public understand the role of the Department and the risks it faces. This helps them to assess better the Department's performance.

### Role of the Department and its goals

Under *The Education Act, 1995* (Act), the Department is responsible for the overall quality of the Kindergarten to Grade 12 (K to 12) education system in Saskatchewan. Also under the Act, locally-elected boards of education and *conseils scolaires* are responsible for the administration and management of school divisions.

Specific responsibilities of the Department include:

- ◆ developing policies and provincial curriculum;
- ◆ working with school divisions to acquire and utilize resources to deliver the curriculum;
- ◆ regulating independent schools and home-based education; and
- ◆ certifying and classifying teachers.

*Directions*, published in 1984, and various Saskatchewan Education Indicators reports set out the Saskatchewan goals of education.

For further information on these goals and indicators, see *Saskatchewan Education Indicators 1998 – Kindergarten to Grade 12*.

## Risks the Department faces

The environment in which the Department operates is changing. These changes present the Department with risks and pressures. Through this Chapter, we hope to increase understanding among legislators and the public about some of the risks faced by the education sector and how the Department must work with others to reduce those risks.

As set out in Display 1, the Department has identified four areas of focus to help it reduce its risks. During 1999, we looked at the fourth area - - developing and implementing measures to address the diverse needs of children and youth at risk of doing poorly in school. In this section, we highlight the increasing vulnerability of Saskatchewan students and the need to monitor vulnerable students as they move between schools and among education systems.

### Display 1

#### Key Risks in the Education Sector

In our 1998 Fall Report – Volume 2, p.30, we report the risks faced by the Department of Education in a changing, demanding environment. Our Chapter outlines four key areas where ineffective action could limit the Department's ability to successfully carry out its mandate:

1. Ensuring the provincial curriculum reflects the knowledge and skills people need;
2. Providing leadership to ensure that expectations of a quality education system, delivered at a reasonable cost, are clear and understood;
3. Ensuring schools have equitable access to appropriate funding; and
4. Developing and implementing measures to address the diverse needs of children and youth at risk of doing poorly in school.

In particular, we looked at the leadership role of the Department as it relates to vulnerable children and youth. The Department must work with others to ensure the education system addresses the diverse needs of children who may do poorly in school or who may leave school before completing grade 12.

## Key risk: Monitoring vulnerable students

Doing poorly in school may be caused by many factors but failure to attend school regularly is an important factor. For vulnerable children and youth, attending school regularly is a particular challenge and may interfere with their ability to benefit from continuous and cumulative learning.

Children who do not attend school regularly are more likely to eventually drop out of school.<sup>1</sup> In Saskatchewan in 1996, 28.2% of people 20-24 years old had not completed grade 12.<sup>2</sup> In Saskatchewan's provincially funded schools in 1997-98, of the students who described themselves as having aboriginal ancestry, about 20% withdrew from school before completing grade 5 and about 60% withdrew from school before completing grade 9.<sup>3</sup> The proportion of these students who returned to school later on in life is not known.

Vulnerable children and youth often find it hard to attend school regularly and are less likely to complete grade 12. Without achieving grade 12, they face lifelong challenges in finding satisfying work and avoiding poverty. For example, 72% of Saskatchewan people on social assistance have not completed grade 12.<sup>4</sup> Projections show the labour market will require most workers to possess some form of post-secondary education and training. Grade 12 education is usually a prerequisite to post-secondary education and training.

Unless vulnerable children are identified and helped, they will eventually require more public services including health and justice services, social assistance, housing and adult education. We think it is important to

<sup>1</sup> pp.5-10, Lawton, S.B. *Dropping Out: A Literature Review, 1988-1994*. Toronto: Ontario Institute for Studies in Education, 1994.

<sup>2</sup> p.45, *Saskatchewan Education Indicators 1998*.

<sup>3</sup> pp.6, 17 - Saskatchewan Educational Leadership Unit, Department of Educational Administration. (1999). *Monitoring School Attendance in Saskatchewan Schools: A Research Project Conducted for Saskatchewan Education*. Saskatoon: University of Saskatchewan.

<sup>4</sup> Department of Social Services records as of March 1999.

prevent these outcomes, both to reduce the demand on public resources and to offer a good quality of life to all Saskatchewan citizens.

By monitoring children's attendance and progress through the school system, the education system can:

- ◆ ensure all children are in school;
- ◆ identify those children whose education is frequently interrupted in ways that reduce educational continuity;
- ◆ ensure timely interventions when children have frequent interruptions in their schooling that jeopardize their ability to progress through the school system; and
- ◆ locate vulnerable children and work with education system partners to obtain appropriate support services and funding for their schools.

### **Growing number of vulnerable children increases risk**

The number of school-aged children increased through the 1990's. Statistics Canada<sup>5</sup> shows the number of school-aged children in Saskatchewan increased almost two percent overall from 1990-1996. Children may attend either of two major education systems in Saskatchewan. About 90% of children attend schools within the provincially-funded education system, while the remaining 10% attend schools within the federally-funded education system. The federally-funded education system is comprised of schools on Indian reserves (band schools).

Students move between these education systems. Between 1990 and 1996, the number of students attending the provincially-funded system decreased by about two percent, while the number attending band schools increased over 18%.<sup>6</sup>

Province-wide, more children are vulnerable to doing poorly in school. Vulnerable or at-risk children are those living in poverty, in fragile or mobile families and those with disabilities. These economic, social and physical

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<sup>5</sup> p.80, Catalogue # 91-213, Statistics Canada, Annual Demographic Statistics 1998.

<sup>6</sup> pp.4-17, *Saskatchewan Education Indicators 1998*.

circumstances can make children vulnerable to irregular school attendance, frequent school changes and interrupted schooling.

These circumstances also influence how children learn. Hungry or troubled children may be unable to concentrate on their lessons. Some children may not get to school at all. Many Saskatchewan children are vulnerable to these economic, social and physical circumstances beyond their control.

In 1998, 26% of all Saskatchewan children lived below the Statistics Canada “low income cut-off” including 17% or 39,000 children who lived in severely poverty stricken circumstances.<sup>7</sup> Families living in poverty frequently move their children from one school to another as the family searches for employment or a more secure environment.

In addition, many children in today’s society experience disruption in their personal or family circumstances. More than 16% of children under age 12 have parents who are separated or divorced.<sup>8</sup> In addition to emotional turbulence, divorce often results in moving, changing schools, more frequent school absences, and other disruptions to children’s ability to learn. Another 18% live in families where alcohol is a source of tension or where physical violence occurs.<sup>9</sup> A further 8.5% of children under age 15 are disabled.<sup>10</sup> The children in these challenged, fragile and often mobile families may have their education disrupted and are vulnerable to educational failure.

Overall, the Department estimates that up to 40% of Saskatchewan’s school-age children are at risk of doing poorly in school due to circumstances that threaten their ability to learn and develop into contributing adults.<sup>11</sup> Thus, in 1998, up to 91,000 Saskatchewan children were at risk (i.e., 40% of the 227,605 children under age 15 in 1998).<sup>12</sup>

<sup>7</sup> pp.18-19, Centre for International Statistics. (1997). *A Profile of Children in Saskatchewan*. Ottawa: Canadian Council on Social Development.

<sup>8</sup> p.14, Canadian Council on Social Development. (1998). *The Progress of Canada’s Children*. Ottawa.

<sup>9</sup> pp.24, 54, Centre for International Statistics. (1997). *A Profile of Children in Saskatchewan*. Ottawa: Canadian Council on Social Development.

<sup>10</sup> p.16, Saskatchewan Council on Children. (1998). *Second Report*.

<sup>11</sup> p.8, Saskatchewan Education. (1994). *Policy Framework: Working Together to Address Barriers to Learning – Integrated School-Linked Services For Children And Youth At Risk*. Regina: Government of Saskatchewan.

<sup>12</sup> Statistics Canada 1998 *Population by age group: Canada, provinces and territories* (CANSIM Matrices 6367-6379).

As more children become vulnerable, the education system is at greater risk of becoming less relevant and responsive to the needs of children and society. This growing risk increases the need for the education system to monitor children's movement among schools and between school systems. Monitoring is necessary so the Department can be sure vulnerable children get the help they need when they need it.

### **Complexity of the education system impacts monitoring**

As described in Chapter 3 of our 1998 Fall Report – Volume 2, the system of accountability of the K to 12 education system is complex. The Department is responsible for the overall quality of the K to 12 education system in Saskatchewan. It shares responsibility for administration and management of this system with partners in the education system such as school boards, the Federal Government and First Nations bands.

The Federal Government and First Nations bands are responsible for the education of children and youth living on reserves. One hundred locally-elected school boards are responsible to administer and manage provincially-funded school divisions. Principals and teachers are responsible to deliver the provincial curriculum developed by the Department.

When children are enrolled in a school, these partners also track their attendance. Only through full co-operation among all school boards, on-reserve schools and the Department would it be possible to know whether all children are enrolled in school.

In Saskatchewan, children between age six and sixteen must attend school by law.<sup>13</sup> The law makes parents or guardians responsible to ensure children attend school. Parents may choose to enrol their children in:

- ◆ provincially-funded public, separate, or francophone schools; or
- ◆ federally-funded First Nations band schools; or
- ◆ privately-funded independent schools or home schooling.

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<sup>13</sup> Section 156 of *The Education Act, 1995* and Sections 116 and 122 of *The Indian Act*.



Parents are also responsible to work with local school personnel to obtain appropriate programming for each child. Without this commitment from parents or guardians, children may fail to benefit from the time they spend in school. The families of vulnerable children often require support or special opportunities to advocate on behalf of their children.

Thus accountability for the education of Saskatchewan children is shared among parents, educators, the Department and other education system partners. The complex responsibilities and relationships within the K to 12 education system increase the importance of Department leadership and coordination. The Department's ability to coordinate and collaborate with its many education partners is particularly critical for vulnerable children. These children often require special services from educators and from various sources in the health, social services, and justice sectors.

### **Monitoring practices in Saskatchewan**

Early identification and monitoring of vulnerable children is important for their future success. The Department and its education partners cannot reduce barriers to learning if the children are not in school regularly or if programs are not available in the right locations. The Department has a central role to ensure appropriate monitoring systems are in place.

At present, the Department does not have a formal way to identify all vulnerable children in grades K to 12. The education system does not yet have a system to track the movement of children from one school to another, from one school division to another or from one education system to another. As a result, the Department does not know how many children do not attend school regularly and cannot monitor the progress of the most vulnerable children.

The Department does have a way to determine the number of children enrolled in provincially-funded schools. The Department annually collects this information from school divisions. Each September 30, the Department requires all school divisions to count the number of children enrolled and provide that information to the Department.

The Department bases most of its funding to school divisions on these counts (i.e., operating grants). Operating grants include funds for programs and services to vulnerable children.<sup>14</sup> In addition, the

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<sup>14</sup> p.4 – *Saskatchewan Education Annual Report 1997-98*. Regina: Government of Saskatchewan.

Department periodically does research to assess student movement and dropout rates in publicly-funded schools.

The Department also has ways to monitor the progress of grade 9 to 12 students. These students receive a unique identifier number to track their credits for grade 12 graduation. The unique number follows the child whether they move between school divisions, change their name, or return to school after an absence. This system is available to school divisions for use in other grades on a voluntary basis. However, school divisions generally do not use it.

A few school divisions assign a unique number to children who need special assistance. For example, the Regina Public School Board uses such a system. Many school divisions do not, and the Department therefore cannot accurately assess the total number of vulnerable children in the province. This assessment would help ensure school divisions receive appropriate resources to address the needs of these children.

School divisions are responsible to monitor the attendance of enrolled students and follow-up absenteeism. However, we were told that schools sometimes presume that absent students have moved.

Students may move back and forth between a provincially-funded school and a neighbouring federally-funded First Nations band school. Some local officials take the initiative to communicate regularly about the school attendance of vulnerable children who move back and forth in this way. Others do not. Co-operative relationships are important for the ultimate school success of vulnerable children.

School divisions also monitor the progress of K to 12 students using a "cumulative file" that shows the student's achievements and progress. When a child enrolls in a new school, some school divisions request these cumulative files from the child's former school. However, this practice is not uniform. As a result, school divisions may be left with the cumulative files of many students who no longer attend their schools.

At-risk children and their families move frequently. Such children may have moved again before the school receives the child's cumulative file. We were told that some educators think it is fair to allow students to begin with a clean slate when they change schools. Therefore, they do not request the cumulative file for new students. Vulnerable children have complex

needs. The cumulative file can help teachers to ensure these vulnerable children promptly receive the special services they require.

The Department and its education system partners provide services and programs to respond to the needs of some vulnerable children. At present, the education system emphasizes three major initiatives: Special Education, Integrated School-Linked Services, and Community Education (see Display 2). In addition, the Department works with its education system partners to develop relevant policies and curricula that improve the quality of education for First Nations and Métis students in the publicly-funded education system. One example is the Indian and Métis Education Development Program.

## Display 2

### Programming for vulnerable and at-risk children

Through **Special Education** funding, the Department requires school divisions to provide services for children and youth with exceptional learning and behavioural problems so that they can access the core curriculum. The grant system to school divisions recognizes that special education support and services are needed for those students who have physical disabilities, chronic health impairment, intellectual disabilities, and vision or hearing impairment. In the September 1998, 3,387 students were recognized as having severe disabilities. These students require teachers with special education qualification, teacher aides, sign language interpreters, etc.

The **Integrated School-Linked Services** program focuses on certain services to help the growing numbers of vulnerable children who come to school with complex social, emotional, health and development problems. Under this program, the Department collaborates with other provincial government departments that work with vulnerable children and their local community organizations. The Department thinks the needs of vulnerable children and their families are better met when a variety of service providers work together with communities. The coordinated projects under this program vary. For example, they may focus on keeping potential dropouts in school or improving students' reading, writing, and mathematics skills.

In addition, under this program, the Department publishes various documents to assist educators by describing coordinated and integrated ways to support vulnerable children. Two examples are *Integrated School-Linked Services for Children and Youth at Risk* and *A Policy Framework: Working Together to Address Barriers to Learning*.

Through the **Community Education Program**, the Department provides special funds to help schools and communities address the needs of vulnerable children. In this program, the education system identifies certain schools as community schools. These schools offer a more comprehensive, community-based, culturally-affirming program to meet the needs of these children and prevent future problems if possible.

The Community Education Program has four components:

1. Special funding for community schools. In 1999, the Department funded 31 schools (3.8% of 807 provincially-funded schools) to function as Community Schools. These schools serve about 10,000 students compared to about 9,000 students served in 1998.
2. Special funding for the unique needs of northern students and their communities through the Northern Community Schools Program. In 1999, the Department funded ten northern community schools and special projects within them as part of a 1997-99 pilot project.
3. Special funding for Pre-kindergarten Programs in community schools to promote success in school and in life for three- and four-year-old children and their parents. In 1999, the Department provided pre-kindergarten programming to 26 schools (no change from 1998).
4. Special funding to help all school divisions provide innovative, culturally-affirming support to Indian and Métis students. In 1999, the Department supported 50 projects in 28 school divisions that also attracted funding and in-kind services from education system partners, from communities and from First Nations and Tribal Councils. This compares to 58 projects in 32 schools in 1998.

Both the Community Education Program and the Integrated School-linked Services initiative aim to increase participation in the planning, management and delivery of education and other human services. This partnership is essential to effectively meet the complex and diverse needs of vulnerable children. These programs help address some of the needs of some of these vulnerable children.

## Monitoring systems across Canada

Across Canada, there is concern about the growing number of children vulnerable to doing poorly in school and to dropping out.<sup>15</sup> Several provinces use formal systems to monitor school attendance, movement, and progress. Other provinces advised us they plan to install systems using unique identifier numbers. These provinces have found ways to ensure the privacy and anonymity of each student is protected while monitoring student movement and progress.

Two types of student identification systems seem prevalent in Canada at the present time. Some provinces primarily use the provincial health number to identify students. These include Nova Scotia, Newfoundland and Prince Edward Island. Other provinces create numbers similar to a social insurance number. They use these numbers to monitor demographics and special programs used by each child with a link to student progress information. These provinces include British Columbia and Manitoba.

In 1999, Nova Scotia is implementing a “student data system.” This data system will help the department monitor school attendance and success. It will be capable of linking information on a province-wide basis to location and demographic information.

Newfoundland uses a similar system. It also gathers information about the special services that vulnerable children need. Newfoundland’s First Nations Band Schools submit student information in the same way as other school divisions.

Prince Edward Island assigns a unique number randomly to students on school entry. In Prince Edward Island, federally-funded schools monitor students separately from the provincially-funded system.

British Columbia creates a “personal education number” and Manitoba assigns a “Manitoba education and training number.” At present, this information is used primarily for funding and research. These provinces do not specifically monitor highly mobile students, other vulnerable children, or those in federally-funded schools.

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<sup>15</sup> p.47 – Canadian Council on Social Development. (1998). *The Progress of Canada’s Children ’98*. Ottawa.

## Summary – improved monitoring needed

Currently, the education system in Saskatchewan does not have a way to monitor whether vulnerable children attend school regularly, which schools they attend, and how they are progressing. As a result, the Department, along with its education system partners, faces a high risk that they are not adequately addressing the diverse needs of children and youth who are vulnerable to doing poorly in school.

Children who frequently change school divisions or systems may be effectively “lost” to the education system unless a parent or guardian takes the initiative to maintain the continuity of the child’s education. The parent or guardian must also ensure maintenance of the services that support their child’s progress. The current system relies heavily on parents and guardians to ensure their children attend school.

The Department’s 1999 research states there is “substantial mobility between systems” (i.e., provincially and federally funded systems) throughout the province.<sup>16</sup> Mobile families tend to move their children among various provincially-funded schools and federally-funded band schools ... and back again. Highly mobile families register their children in several schools during a single school year. Some children may not be continuously enrolled in school at all.

We recognize that the Department is aware of this risk. Its regular research explores the issues and the nature of the problem. The research confirms there is reason to be concerned.

For example, the Department’s research noted fluctuating student attendance patterns and a great deal of mobility among school divisions, and between provincially and federally-funded schools. In its May 1999 case study of a Saskatchewan school, the usual attendance was only 77% of enrolled students.<sup>17</sup> The same case study reported that the school records for some children are incomplete and there are “long spans of time when the student has not been in any school.” In other research, the

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<sup>16</sup> p.46 – Saskatchewan Educational Leadership Unit, Department of Educational Administration. (1999). *Monitoring School Attendance in Saskatchewan Schools: A Research Project Conducted for Saskatchewan Education*. Saskatoon: University of Saskatchewan.

<sup>17</sup> p.9 - Saskatchewan Educational Leadership Unit, Department of Educational Administration. (1999). *Monitoring School Attendance in Saskatchewan Schools: Case Study of an Inner City School ... Conducted for Saskatchewan Education*. Saskatoon: University of Saskatchewan.

Department notes the majority of highly mobile students tend to have below average levels of achievement.

In May 1999, the Government launched the Role of Schools Committee (Committee). One objective of the Committee is to raise awareness about the “extent to which the personal and social circumstances of children and youth impact on the quality of their education.”<sup>18</sup> The Committee plans to report in June and December 2000.

The Department will use the work of this Committee to stimulate discussion with its education system partners of these issues. It expects to discuss how the Department and its partners can help teachers and other service providers in supporting vulnerable children who are at risk of school failure or dropping out. Some services may be provided in or through schools. The Department will also examine these important issues with its Evaluation and Monitoring Committee and its Curriculum and Instruction Advisory Committee.

The Department explored the feasibility of setting up a comprehensive monitoring system to track student movement through the various schools and school systems. It identified the following challenges:

- ◆ lack of compatible computer equipment in schools,
- ◆ lack of common software at school divisions, and
- ◆ insufficient time in the schools to administer such a system.

While these challenges are valid, we note that the risk increases as the number of vulnerable children increases. Without a monitoring process, it is difficult to know the proportion of children who do not regularly attend school and who do not successfully progress through the system.

Studies show the number of vulnerable children is increasing faster than the number of school-aged children.<sup>19</sup> Thus, the Department has a growing need to ensure it has accurate and timely information about vulnerable children. The Department and its education system partners require this information to ensure that the education system achieves its

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<sup>18</sup> p.1 – Terms of Reference, Role of Schools Committee, Department of Education.

<sup>19</sup> p.18 – *Centre for International Statistics. (1997). A profile of Saskatchewan children.* Ottawa. p.14 – Canadian Council on Social Development. (1998). *The Progress of Canada's Children (1998).* Ottawa. Saskatchewan Children's Advocate. (1999). *Children in care review: Listening to their voices.* Saskatoon.

goals. They also need this information to fulfill their responsibility to minimize the risk of school failure for all children.

**We encourage the Department to take a leadership and coordinating role to improve the monitoring of the movement of vulnerable children between schools and education systems.**

As previously noted, other provinces use or are adopting new ways to monitor. Other Government departments have information systems that may help. Their experiences may help the Department. Also, technology such as the Internet is rapidly changing the costs associated with monitoring systems. Virtually all schools now have access to the Internet. It may provide a cost-effective solution to monitoring student movement between education systems.

Vulnerable children and youth require the support of schools as well as their families. Can the education system ensure that programs for at-risk children are offered in the right place at the right time? Do vulnerable children receive the services they need? Can the Department ensure that all children benefit from an education that helps to prepare them for life as an adult?

While this Chapter does not answer these questions, we hope it will encourage discussion. Also, we hope it will stimulate further interest in and understanding of the challenges facing the education system. In particular, we hope legislators will ask questions about the increasing number of vulnerable children and how the Department ensures that each child attends school with sufficient regularity to benefit from a relevant education.

The success of the education system will contribute to the province's ability to limit the demand for public services and resources in the future. We intend to monitor how the education system responds to the needs of vulnerable children whose future depends on their experience in school.



## Special purpose fund and agencies

The Department is responsible for the following special purpose funds and agencies:

	<u>Year end</u>
Correspondence School Revolving Fund	March 31
Saskatchewan Learning Resources Distribution Centre Revolving Fund	March 31
School Division Tax Loss Compensation Fund	March 31
Teachers' Superannuation Commission (which administers the Teachers' Superannuation Plan)	June 30

## Overview of Department spending

The following is a list of major programs and spending reported by the Department in the *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure* (1998-99 Public Accounts – Volume 2) except for the Teachers' pension and benefits.

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration & shared services	\$ 3.2	\$ 4.3
Accommodation & central services	2.3	2.5
Teachers' pension & benefits <sup>20</sup>	128.9	153.2
School division grants (operating and capital)	416.6	416.7
Education programs	16.1	16.4
	<u>\$ 567.1</u>	<u>\$ 593.1</u>

For a number of years, our Office has raised concerns about how the Government budgets for and accounts for pension costs. This includes costs relating to teachers' pensions. See Chapter 8 – Finance for further details.

In our 1997 Fall Report – Volume 2, we discussed two matters the Teachers' Superannuation Commission (Commission) was trying to

<sup>20</sup> Teachers' pensions and benefits expenses for 1998-99 are \$153.2 million. The Department's expenses of \$119.5, reported in *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure*, for teachers' pensions and benefits accounts for 78% of this amount. In addition, teachers' pensions and benefits account for 59% (i.e., \$153.2 million of \$260.1 million) of the Government's total pension-related expenditure for defined benefit plans reported in the *Public Accounts 1998-99: Volume 1; Main Financial Statements*.

resolve. The first matter related to incorrect pensionable earnings reported by the school boards, and the second matter related to inadequate reporting by the school boards on the number of days retired teachers taught in a year.

The Commission has not yet fully resolved these matters. In this Chapter, we provide an update on the Commission's work on these matters. When the Commission has fully resolved these matters, we will review the Commission's work and conclusions and provide our observations to the Legislative Assembly in a future report.

## **Audit conclusions and findings**

We have not yet completed the audits of the following special purpose funds for the year ended March 31, 1999:

- ◆ Correspondence School Revolving Fund; and
- ◆ Saskatchewan Learning Resources Distribution Centre Revolving Fund.

In addition, we have not completed our audit of the Teachers' Superannuation Commission for the year ended June 30, 1999. We will report our results in a future report.

This Chapter contains our audit conclusions and findings for the Department for the fiscal year ending March 31, 1999 and for the Commission for the fiscal year ending June 30, 1998.

### **In our opinion:**

- ◆ the financial statements of the Teachers' Superannuation Plan for the year ended June 30, 1998 and the School Division Tax Loss Compensation Fund for the year ended March 31, 1999 are reliable;
- ◆ the Department and its agencies had adequate rules and procedures to safeguard and control their assets except for matters reported 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; and
- ◆ the Department's 1997-98 Annual Report has improved from its 1996-97 Report.

## Status of previous recommendations

In Chapter 3 of our 1998 Fall Report – Volume 2, we made three recommendations.

The Department has not yet complied with our first two recommendations and The Standing Committee on Public Account's (Committee) similar recommendations (see below). The Department shows progress with respect to the third recommendation.

**We continue to recommend:**

1. the Department, working with school divisions and other stakeholders, should set public reporting requirements for school divisions for reporting on divisions' performance in achieving the Saskatchewan Goals of Education;
2. the Department, working with the school divisions, should set financial reporting requirements for school divisions consistent with those recommended by The Canadian Institute of Chartered Accountants (CICA) for the public sector; and
3. the Department should continue to improve the contents of its annual reports.

The Committee met with the Department and discussed the above recommendations. In its March 1999 report, the Committee recommends that the Department should continue to work with the school divisions and stakeholders to improve public accountability of school divisions with respect to the goals of education. In addition, it recommends the Department require school divisions to prepare financial statements following the CICA standards.

This section briefly discusses each area and identifies key activities the Department has undertaken to move towards compliance with the above recommendations.

### **Better reporting on performance by school divisions needed**

As described in Chapter 3 of our 1998 Fall Report – Volume 2, the Department needs to ask school divisions to report more fully on their performance. Display 3 sets out the purposes and content of good performance reports.

#### **Display 3**

Good performance reports give readers an understanding of what is happening concerning finances, program operations and legislation.

Good reports are written clearly and available in a timely manner.

Good performance reports contain:

- ◆ an overview of the current status of the entity's broad goals (e.g., achieved, delayed or changed),
- ◆ a review of its objectives and performance indicators showing progress towards targets (i.e., how it will measure the achievement of its plans and the extent to which its plans are attained),
- ◆ a financial summary and analysis, and
- ◆ a summary of its outlook or plans.

The Department continues to collect various data from school divisions and works with various stakeholder groups to publicly report on progress in achieving the Goals of Education (i.e., *Saskatchewan Education Indicators 1998 – Kindergarten to Grade 12*). These reports do not address the performance of individual school divisions but rather the K to 12 education system as a whole.

The Department has not yet set guidance for school divisions to prepare performance reports. Most school divisions continue to prepare only

annual financial statements. Financial statements do not show progress to goal attainment. More comprehensive performance information continues to be needed.

In 1998, the Department set up a working group to look at an accountability framework for education. The framework will include its public reporting expectations. This group had not completed its work at the time of this report.

### **Proper financial statements for school divisions needed**

As described in Chapter 3 of our 1998 Fall Report – Volume 2, the Department needs to set proper financial statement accounting principles (standards) for school divisions. Display 4 sets out the benefits of good financial statements.

#### **Display 4**

Good financial statements:

- ◆ help users understand and assess how well an organization manages its financial affairs;
- ◆ describe assets and liabilities at the end of an accounting period;
- ◆ provide a summary of sources, allocation and use of financial resources an organization administered in the period;
- ◆ provide information about how the organization finances its activities and meets its cash requirements; and
- ◆ ease comparisons of financial information between organizations.

The Canadian Institute of Chartered Accountants (CICA) sets out standards for good financial statements.

The Department has not yet changed its reporting standards to make them consistent with those of the CICA. Use of these out-dated standards

by school divisions causes them to account for their activities differently from that of other educational institutions. For example, school divisions record the following as expenses in the current year while other institutions do not: debt repayments, costs they may incur in the future (reserves). Also unlike most institutions, school divisions do not show their investment in capital assets.

These practices make it difficult to assess the management of financial resources managed by the school divisions and to compare the financial results of one division to another and from one educational institution to another.

Management told us they continue to work with the Saskatchewan Association of School Business Officials and a provincial accounting institute on this matter.

### **1997-98 Annual Report improved**

The *Department of Education's Annual Report 1997-98* (Annual Report) improved from its 1996-97 Report, but further improvements are needed. The 1998-99 Annual Report was not available at the time of this Report.

The Department's Annual Report is an important performance report. (See Display 3 for suggested content of performance reports.)

The Department's 1997-98 Annual Report continues to describe the Department, its major activities and accomplishments. The Report better describes the Department's future strategic goals. It also better links the Department's goals to the activities of its branches and units.

The Report continues to refer to two other publications entitled *Directions*<sup>21</sup> and *Saskatchewan Education Indicators 1998 – Kindergarten to Grade 12*<sup>22</sup>. These publications are important to understand the Department, its performance and accountability to the public.

Future reports could include a discussion of what the Department views as its measure of successful achievement of its goals. This would help the readers assess where the department is in achieving its goals.

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<sup>21</sup> *Directions* set out the Goals of Education. These goals describe what it means to be an educated person.

<sup>22</sup> *Saskatchewan Education Indicators 1998 - Kindergarten to Grade 12* describes progress in working towards education goals and indicators related to the development of students and related to the overall performance of the education system.

Future reports could also include a discussion and analysis of the results of activities compared to the Department's budget and/or targets and the total cost to deliver the K to 12 education system. This would help the readers of the reports to assess how efficient and effective the Department is in achieving its goals.

The Department's Annual Report for the year ended March 31, 1998 became available to legislators and the public in April 1999. We encourage the Department to support efforts to make the release of the report more timely.

## Teachers' Superannuation Commission

The Teachers' Superannuation Commission (Commission) operates under the authority of *The Teachers Superannuation and Disability Benefits Act*. The Commission's primary roles are to:

- ◆ pay pensions, group life insurance and dental benefits to teachers; and
- ◆ invest the money set aside for paying future pensions.

The Commission manages the Teachers' Superannuation Plan (Plan) which consists of the Teachers' Superannuation Fund, a defined benefit final average pension plan, and the Voluntary Contributions Fund, a defined contribution plan.

For the year ended June 30, 1998, the Plan received contributions of \$25 million from teachers and \$103 million from the Minister of Finance. On June 30, 1998, the Plan held assets of \$1.8 billion and had liabilities of \$3.5 billion.

## Update on status of reporting of pensionable earnings

In 1997, the Commission became aware that some school boards incorrectly reported pensionable earnings or days taught by retired teachers receiving a pension.

Incorrect reporting of pensionable earnings results in incorrect pension payments. The Commission received new reports from all school boards and compared the reports to past reports to determine if any incorrect

reporting of pensionable earnings occurred. It also reviewed pensionable earning calculations to ensure the school boards calculated them in accordance with *The Teachers Superannuation and Disability Benefits Act*.

The Commission found 13 cases where school boards had, in the past, incorrectly reported members' pensionable earnings. The Commission overpaid these members' approximately \$59,000 in total. The Commission has corrected these pensions and is collecting the amount overpaid. The Commission also found 14 cases where school boards had, in the past, incorrectly reported active members' pensionable earnings. The Commission's records overstated these members pensionable earnings by approximately \$118,000. These members overpaid their contributions by approximately \$9,000. The Commission corrected its records to prevent an overpayment to these members when they retire and has returned the amount of overpaid contributions to members.

The Commission requested all school boards to provide new information about the number of days that each retired teacher taught during the past 7 years. The Commission has received this information. The Commission, is in the process of determining the extent of overpayments, if any, to retired teachers. Under the law, retired teachers receiving pensions who teach more than 120 days in a year receive reduced pensions.

The Commission told us it continues to work with school boards to ensure pensionable earnings and the number of days taught by retired teachers are reported accurately. We will continue to monitor the Commission's work and report our findings to the Assembly in a future report.



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**Introduction ..... 145**

**Key risks the Department faces ..... 146**

**Our audit conclusions and findings ..... 147**

    Internal audit function needs independence from program managers ..... 147

    Audit of the Saskatchewan Employment Supplement needs improvement ..... 148

    Information technology development practices need strengthening ..... 149

    Maintenance (child support) enforcement needs improvement ..... 151

    Systems to collect revenue from the Federal Government need improvement ..... 152

    Reports from Community-Based Organizations need improvement ..... 152

    Annual report needs improvement..... 153

## Introduction

The Government's summary financial statements show "social services and assistance expenses" of \$718 million for the year ended March 31, 1999 (March 31, 1998 – \$688 million).

The following table shows the social services expenses of various Government agencies.

	(in millions of dollars)	
	1999	1998
Social Services	\$ 569	\$ 536
Municipal Affairs, Culture & Housing	111	119
Other Government agencies	38	33
	<u>\$ 718</u>	<u>\$ 688</u>

The Department of Social Services' mandate is to:

- ◆ help families care for and support their members;
- ◆ provide basic income support to people 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 daycare; and
- ◆ support independent community-based services for people with mental and physical disabilities.

The Department received \$569 million from the General Revenue Fund to deliver its programs. The Department also earned revenues of \$17 million consisting mainly of Federal Government transfers. Information about the Department's revenues and expenses appear in the *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure* (1998-99 Public Accounts – Volume 2).

The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Income Support	\$ 334	\$ 349
Family and Youth Services	69	76
Community Living	55	56
Regional Service Centres	40	44
Child Care	18	17
Accommodation and Central Services	15	16
Other	10	11
Total	<u>\$ 541</u>	<u>\$ 569</u>

## Key risks the Department faces

It is important that legislators and the public understand the key risks facing government organizations and how those risks are managed. Sharing our understanding with legislators and the public will help them better understand and assess government organizations' performance.

We identify five key risks facing the Department. To be successful, the Department needs to:

- ◆ identify the long-term social service needs of Saskatchewan residents that fall within its mandate;
- ◆ decide the types, volumes and standards of essential social services the Department needs to provide to meet those long-term needs, make those services available, and monitor service delivery;
- ◆ contribute to public policy decisions and influence public attitudes on people's social well-being;
- ◆ obtain sufficient resources to deliver its services; and
- ◆ ensure the Legislative Assembly and the public know whether the Department is doing the right things well.

In Chapter 22 of our 1997 Fall Report – Volume 2, we describe more fully these risks and the Department's systems and practices to manage these risks.

## **Our audit conclusions and findings**

In our opinion, for the year ended March 31, 1999:

- ◆ the Department had adequate rules and procedures to safeguard and control its assets except as described in this Chapter; and
- ◆ the Department complied with the authorities governing its financial reporting, safeguarding assets, revenue raising, and spending except as described in this Chapter.

We also report our assessment of the Department's 1997-98 annual report.

### **Internal audit function needs independence from program managers**

The Department's internal audit function needs to be independent from program managers. Also, internal audit needs to improve the timeliness of its reports.

Internal audit's role is to provide senior management with assurance that the Department's internal controls over its Income Security Programs (e.g., Social Assistance and the Saskatchewan Employment Supplement) are adequate to safeguard public money and that the Department complies with governing authorities.

The Department needs to ensure that internal audit has the necessary independence from program managers so that internal audit can report with confidence to senior management. Currently, internal audit reports to the Executive Director of the Income Security Programs. To enhance the objectivity and reliability of internal audit's reports, it should report to a committee of senior Department officials (e.g., an audit committee).

Also, to increase the usefulness of internal audit's findings and recommendations, its reports should be issued sooner. For example,

internal audit's report on its annual audit of the Saskatchewan Assistance Plan for the year ending March 31, 1998 was not issued until March 1999.

1. **We recommend that the internal audit function report directly to a committee of senior Department officials (e.g., an audit committee).**
2. **We recommend that internal audit's reports be issued on a timely basis.**

### **Audit of the Saskatchewan Employment Supplement needs improvement**

The Department needs to ensure it follows its established procedures to perform monthly audits on the amount of benefits paid under the Saskatchewan Employment Supplement program (SES).

SES is a new program that started in July 1998. SES provides incentives to low income parents to increase their employment income and child maintenance support, and helps with child-related costs of working.

Internal audit examines SES payments to determine whether the Department's controls are adequate to ensure that only eligible recipients receive the correct amount of SES benefits. Internal audit examined SES payments for the months of July, August and September 1998 before March 31, 1999. However, internal audit did not complete the audits of the SES payments for the months of October 1998 to March 1999 until September 1999.

Accordingly, the Department did not have reasonable assurance on a timely basis that only eligible recipients received SES benefits in the correct amounts.

3. **We recommend that the Department follow its established procedures to perform timely audits of Saskatchewan Employment Supplement payments to ensure that only eligible recipients receive the correct amount of benefits.**

## Information technology development practices need strengthening

The Department needs to strengthen its policies and procedures for developing and implementing new Information Technology (IT) systems.

During the year, the Department implemented the Saskatchewan Employment Supplement (SES) system and the Saskatchewan Child Benefit (SCB) system. It also continued to implement the Family and Youth Automated Payment (FYAP) system.

Developing and implementing IT systems is a challenging and difficult task. It requires good project management practices. IT industry experience shows that most new systems do not meet user requirements, costs are exceeded and the systems are late. To reduce these risks, organizations need policies and procedures to inform, train, and guide staff on good project management practices. Also, to ensure project teams follow approved policies and procedures, an effective project management structure needs to be set up to oversee projects.

Organizations need project management policies and procedures to ensure:

- ◆ projects are approved based on reliable estimates (e.g., project benefits, cost, time required to complete the project, and project risks);
- ◆ project products (i.e., system requirements) are clearly identified and their development assessed to ensure quality standards are met;
- ◆ projects are effectively tracked (e.g., comparisons to budget of actual time, cost, and work completed to date) and the results consistently reported to management;
- ◆ project risks are identified and managed;
- ◆ project teams have appropriate skills and training;
- ◆ user groups are kept informed of progress and receive effective training in using the delivered products; and



- ◆ project plans incorporate the lessons learned from previous projects.

An effective way of strengthening project management practices is to conduct a lessons learned exercise. A lessons learned exercise involves using good project management practices to analyze the successes and problems encountered in developing and implementing systems. The objective is to identify the processes and skills needed to ensure future projects are successful.

The Department did a lessons learned exercise on the SES, SCB and FYAP systems in 1996-97. At that time, the Department realized that the FYAP implementation and the early development stages of SES and SCB were not proceeding as planned. As a result, it initiated an exercise to identify the problems and their cause. The Department then took corrective action.

The SES and SCB projects benefited from the lessons learned exercise. For example, the main components of the SES and SCB systems were implemented on time.

The FYAP project also benefited from the lessons learned exercise, but many of the difficulties the Department had in developing and implementing this system stem from the project management practices in place before the 1996/97 lessons learned exercise. A budget was not approved for the project thereby impairing management's oversight. The full implementation of the FYAP system in the fall of 1999 is two years later than originally planned. The Department may not, without considerable expense, be able to upgrade or amend the FYAP system to take advantage of advances in computer technology.

The FYAP project illustrates the importance of having good project management practices in place from the start of a project to its completion. The later corrective action is taken in a project's development, the greater the effort and cost to fix problems.

To date, the Department has not incorporated the lessons it learned from the SES, SCB and FYAP projects into documented and approved project management policies and procedures. Without incorporating the lessons it learned into approved policies and procedures, the Department can not ensure the lessons learned will be applied to future projects. They may be

forgotten, lost when staff leaves, and/or simply not followed. As a result, past mistakes could be repeated on future projects.

4. **We recommend that the Department strengthen its project management practices by incorporating the lessons it learned from its recent IT projects into approved project management policies and procedures.**

The Department told us it is continuing to use the lessons it learned from the SES, SCB and FYAP projects to manage new projects. Also, it is establishing a project control function and a project delivery management function to ensure good project management practices are set up and followed.

### **Maintenance (child support) enforcement needs improvement**

The Department needs to follow established regulations, policies and procedures to ensure custodial parents receiving social assistance pursue child support.

The Department requires recipients of social assistance to pursue other means of support before being eligible for assistance. A custodial parent receiving assistance is required to pursue child support from the other parent, if obtaining such support is possible. The Department reduces the amount of assistance provided to the custodial parent through the Saskatchewan Assistance Program by the amount of child support received except for the new SES Program. The SES program provides income support to eligible custodial parents who receive child support.

We found there was insufficient evidence that case workers ensured custodial parents made a reasonable effort to pursue child support from the other parent. The Department needs to document the results of its follow-up of procedures to ensure custodial parents are pursuing child support. Also, without evidence that case workers ensured custodial parents pursued child support, we are unable to determine whether custodial parents received the correct amount of social assistance.

We also reported this matter in our 1998 Fall Report – Volume 2. At its January 1999 meetings, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

5. We recommend that the Department follow established regulations, policies and procedures to ensure custodial parents receiving social assistance pursue child support.

### **Systems to collect revenue from the Federal Government need improvement**

The Department needs to follow its established rules and procedures to ensure it collects all of its earned revenue from the Federal Government for providing foster parent and young offender services.

The Department receives the "Child Special Allowance" from the Federal Government when a child is in the care of the Department (through the foster parents' program and young offender facilities). To receive this money, the Department must inform the Federal Government when a child is in the Department's care.

The Department did not adequately follow its established rules and procedures for compiling and reporting the number of children in care and collecting earned revenue from the Federal Government. As a result, the Department is unable to determine if it is receiving the Federal Government allowance for all children in care. Also, as a result, we are unable to determine whether the Department has collected all earned revenue from the Federal Government.

6. We recommend that the Department follow its established systems to ensure it collects all of its earned revenues from the Federal Government.

### **Reports from Community-Based Organizations need improvement**

The Department needs to ensure that Community-Based Organizations (CBOs) submit required reports to the Federal Government.

The Department paid \$54 million to over 200 CBOs that provide social services for the Department. CBOs are non-profit organizations that provide a wide range of programs to local communities for the Department. These programs include group homes, services to enable people to live in their own homes (who otherwise could not), early childhood intervention, and foster care.

Service agreements require the CBOs to provide the Department with the following reports:

- ◆ regular financial reports including a comparison of actual to budget and an explanation of differences;
- ◆ a report on internal control to ensure that CBOs achieve the Department's financial, operational, and compliance objectives; and
- ◆ a report on compliance with legislative authorities and Department policy.

The Department is making good progress in obtaining and verifying these reports, but more progress is needed. We examined the reports of 18 CBO's. Two of the 18 CBO's did not submit the financial reports. Four of the 18 CBOs did not submit the reports on internal controls and compliance with authorities. We commend the Department for its ongoing efforts to obtain the required reports.

However, because of the late or missing reports, the Department does not know if all CBOs are achieving the Department's financial, operational, and compliance objectives. Also, without the reports on internal control and compliance with legislative authorities, we are unable to determine whether the Department complied with the authorities governing the payments to CBOs.

We also reported this matter in our 1997 and 1998 Fall Reports – Volume 2. At its January 1999 meetings, the Standing Committee on Public Accounts agreed with our recommendation.

7. **We recommend that the Department ensure that Community-Based Organizations submit the performance reports required by agreements.**

## **Annual report needs improvement**

At the date of this report, the Department's 1998-99 report is not published. We reviewed the annual report for the year ended March 31, 1998. We think the report should explain the Department's key risks in achieving its objectives and the controls in place to manage those risks. To assess the Department's performance, the Assembly and the public

need to know how the Department is managing its key risks. We have set out what we think are the Department's key risks on page 146. The Assembly and the public also need to know the Department's planned and actual results.

The Department's annual report does not specifically address its key risks or explain the systems and practices the Department uses to manage these risks.

The report 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. Also, the report does not show the Department's performance measures and targets.

The report shows the Department's financial operating results. It also shows the Department's investment in capital assets, but it does not show what else it owns and owes. For example, the report does not disclose the Department's accounts receivable or financial commitments.

Public confidence in the Department's policies and procedures is important to the Department's success. We think public confidence will strengthen if the Department improves its annual report.

We also reported this matter in our 1997 and 1998 Fall Reports – Volume 2, regarding previous annual reports. At its January 1999 meetings, PAC agreed with our recommendation, while recognizing the difficulty of setting measurable performance target indicators in a single year.

8. **We recommend, that in its annual report to the Legislative Assembly, the Department describe how it manages the key risks it faces.**
9. **We recommend that the annual report provide a summary of the Department's financial and operational plans, performance targets and actual results.**

<b>Executive summary .....</b>	<b>156</b>
<b>Introduction .....</b>	<b>157</b>
<b>Key risks the Department faces .....</b>	<b>158</b>
<b>Our audit conclusions and findings .....</b>	<b>159</b>
Court information system needs improvement .....	160
Fine collection procedures should be reviewed .....	161
Security policies and procedures need strengthening .....	163
Contingency plans required .....	164
<b>Study of the key attributes of performance indicators .....</b>	<b>165</b>
Purpose of the study .....	165
Key attributes .....	166
Moving forward .....	167
<b>Glossary .....</b>	<b>168</b>
<b>Selected References .....</b>	<b>169</b>

## Executive summary

The mandate of the Department of Justice is to promote safe communities, social and economic order and fair and just relations through the operation of an independent, impartial and effective justice system which upholds the rule of law and defines the basic legal rights of citizens.

In this Chapter, we highlight five areas the Department must manage well to ensure its success. For additional discussion of these key issues and the Department's strategies to manage them, see our 1998 Fall Report – Volume 2.

One of our Office's goals is to foster better planning throughout government and improved performance reporting on results compared to plan. Therefore, we initiated a study that focuses on the Department's efforts to select performance indicators.

We are conducting this study at the Department in two phases. Phase 1, reported in this chapter, describes the key attributes of sound performance indicators. Phase 2, to be reported in our 2000 Fall Report, will examine whether the Department's indicators are consistent with the key attributes of sound performance indicators.

We are encouraged by the Department's willingness to select performance indicators. We hope this Chapter will promote discussion and increased use of carefully selected indicators for performance reporting by Saskatchewan's government agencies.

Our audit conclusions and findings result in a series of recommendations for the Department.

We note some concerns with the management of court-ordered fines. We recommend that the Department should:

- ◆ improve its procedures for ensuring the accuracy and integrity of its court information system; and
- ◆ review its procedures for collecting fines.

## Introduction

The mandate of the Department of Justice is to promote safe communities, social and economic order and fair and just relations through the operation of an independent, impartial and effective justice system which upholds the rule of law and defines the basic legal rights of citizens.

The Department administers justice services, 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.

For the year ended March 31, 1999, the Government's summary financial statements show protection of person and property expenses of \$230 million. The following table shows the expenses of Government agencies for the protection of persons and property.

(in millions of dollars)

Department of Justice	\$ 221
Less payments by Justice for purposes other than the protection of persons and property	(13)
Department of Labour	11
Department of Municipal Affairs, Culture and Housing	6
Other Government agencies	5
	<u>\$ 230</u>

The Department received \$221 million from the General Revenue Fund and spent this money on its programs. Also, the Department raised \$70 million of revenue. Information about the Department's revenues and expenses appear in the *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure* (1998-99 Public Accounts Volume 2) and in the Department's 1998-99 annual report. The revenues and expenses of the Department's special purpose funds and Crown agencies are reported in the *Financial Statements – Compendium*. The Department of Finance has not yet issued the Financial Statements – Compendium for 1998-99.

The following is a list of major programs and spending as reported in the *Public Accounts 1998-99 – Volume 2: Details of Revenue and Expenditures* (1998-99 Public Accounts – Volume 2).



	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Community justice	\$ 70	\$ 69
Adult corrections	44	49
Court services	23	29
Registry and regulatory services	16	17
Accommodation and central services	14	15
Legal services	14	15
Administration	5	6
Boards and commissions	15	15
Milgaard compensation	—	6
	<u>\$ 201</u>	<u>\$ 221</u>

The Department is also responsible for the operations of several trust and special purpose funds and Crown agencies with years ending March 31. 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

## Key risks the Department faces

To assess the performance of the Department, it is important for legislators and the public to understand the Department's key risks and how it manages them.

We identify five key risks facing the Department. The Department needs to:

- ◆ deal seriously with crime;
- ◆ contribute to Aboriginal justice reform;

- ◆ promote social justice;
- ◆ resolve disputes appropriately and effectively; and
- ◆ provide effective and efficient services and support economic development.

For additional discussion of these key risks and the Department's strategies to manage them, see our 1998 Fall Report – Volume 2.

## **Our audit conclusions and findings**

We have not completed our audits of the Correctional Facilities Industries Revolving Fund; Office of the Rentalsman Trust Account; Provincial Mediation Board Trust Account; Public Trustee for Saskatchewan; Queen's Printer Revolving Fund; and Victims' Fund due to established priorities. We will report the results of these audits in a future report.

We have completed our audits of the Department of Justice; Agricultural Implements Board; Judges of the Provincial Courts Superannuation Plan; Saskatchewan Legal Aid Commission; the Law Reform Commission of Saskatchewan; and the Trust accounts for the courts, local registrars, and sheriffs. We report the results of these audits in this Chapter.

**In our opinion, for the agencies in the previous paragraph, for the year ended March 31, 1999:**

- ◆ **the financial statements for the funds and agencies 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.**

## Court information system needs improvement

The Department needs to improve its court information system to ensure court decisions are carried out.

Court decisions are made for numerous offences under various provincial and federal laws.

The Department records court decisions, including fines assessed, for each offender in the Justice Automated Information Network (JAIN). The Department also records monetary and non-monetary fine “payments” in JAIN. Non-monetary payments can occur when persons elect the fine option program alternative to payment (i.e., community services) or when they serve in jail time rather than pay their fines.

The Department must ensure the accuracy and integrity of the JAIN system to ensure court decisions are carried out. To do this, the Department must ensure what is supposed to get recorded in the JAIN system is recorded, changes to the information in the system are authorized and properly made, and the information stays in the system until the court order is carried out.

The Department does not ensure every change to information in the JAIN system is properly authorized. Also, the Department does not know if all authorized changes are made and made properly. For example, the Department does not reconcile monthly revenue, receipts, adjustments and uncollected fines recorded in the JAIN system to the Department’s financial records.

Also, the Department does not ensure adequate segregation of duties in court offices. Staff who receive and record cash for fines also have access to the records of fines owed to the Department. As a result, staff can mishandle money without timely detection.

We think, all court decisions may not be carried out because the Department does not ensure the accuracy and integrity of the JAIN system.

We also reported this matter in our 1998 Fall Report – Volume 2. On January 4, 1999, the Standing Committee on Public Accounts (PAC) considered this matter and agreed with our recommendation.

1. We recommend the Department should improve its procedures for ensuring the accuracy and integrity of its court information system.

Management told us they are currently working on improving their procedures for ensuring the accuracy and integrity of the court information system.

## **Fine collection procedures should be reviewed**

The Department should review its procedures for monitoring and collecting court-ordered fines.

During the year ended March 31, 1999, the Department recorded revenue of \$7.8 million for court-ordered fines and \$3.8 million for voluntary payments (i.e., payments made without going to court). Court-ordered fines have increased by 7% and voluntary payments have increased by 10% since the year ended March 31, 1996.

From March 31, 1996 to March 31, 1999, the amount of revenue not collected from court-ordered fines has averaged \$2.4 million per year. The total uncollected court-ordered fines increased from \$5.3 million at March 31, 1996 to \$12.4 at March 31, 1999.

Offenders can pay their court ordered fines with money, fine options (community service), and time served in jail. From March 31, 1996 to March 31, 1999, the "payment" of fines by non-monetary means such as fine options and time served has decreased by almost 60%. For the year ended March 31, 1996, the Department recorded \$2.4 million for fine options and time served. For the year ended March 31, 1999, the Department recorded \$1.0 million for fine options and time served.

The Department uses the following collection procedures to collect unpaid fines. When a court orders a fine, the court usually states when the fine is to be paid. If the fine is not paid by the date on the court order, the Department sends a letter requesting payment. If the fine is still unpaid, the Department, depending on the type of fine, uses driver license non-renewal and collection agencies to collect unpaid fines.

The driver licence non-renewal program is operated with the assistance of Saskatchewan Government Insurance (SGI). SGI does not charge the Departments for this assistance.

The main cost of operating the collection agency program is the agents' commissions of up to 23% of fines collected. For the period March 31, 1997, when the collection agency program began, to March 31, 1999, agents' commissions totalled \$304,000. The agencies collected \$1.437 million during this period. The collection rate for fines placed with agencies is 16%.

The Department has not determined the costs and benefits of taking further internal collection activities before sending unpaid fines to collection agencies. As a result, the Department does not know if its current policy for using collection agencies is cost effective.

In 1993, the Department established the Fine Collection Review Committee to review its fine collection program. The Committee made sixteen recommendations in August 1995.

Since 1995, the Department has acted on some of these recommendations. For example, it has allowed offenders to pay fines by credit and debit cards and it has assigned unpaid fines to collections agencies.

However, the Department pursued but has not implemented a number of significant recommendations. These include:

- ◆ developing a comprehensive set of management reports so that management can compare actual collection with expected collections;
- ◆ entering into agreements with other provinces to use the driver licence renewal process for out-of-province persons who have not paid Saskatchewan fines; and
- ◆ proposing to amend laws to refuse vehicle registration at Saskatchewan Government Insurance for persons with unpaid fines. This method of encouraging fine payments is used in other provinces.

The purpose of a fine is to deter the public from violating laws. If collection is not vigorously pursued, fines will not serve as an effective deterrent. This will jeopardize the safety of society.

We also reported this matter in our 1998 Fall Report – Volume 2. On January 4, 1999, the PAC considered this matter and agreed with our recommendation and added:

“Further where possible that procedures be developed to ensure that when repeat offenders appear in the court, the sentencing judge will be informed if previous fines are unpaid”.

2. We recommend the Department should review its procedures for collecting fines including:
  - ◆ determining the cost effectiveness of taking further internal collection activities before sending unpaid fines to collection agencies;
  - ◆ reconsidering the recommendations of the Fine Collections Review Committee; and
  - ◆ ensuring that when repeat offenders appear in the court, the Department informs the sentencing judge of any unpaid fines.

Management told us,

the Fine Collection Review Committee was resurrected in the spring of 1999 to once again review the previous recommendations and to identify new initiatives that may improve its fine collection program. The Committee prepared a new report in June 1999 and presented it to the Department Executive Committee for consideration. The Executive Committee gave approval to proceed with all the recommendations in the report.

## **Security policies and procedures need strengthening**

The Department needs to continue strengthening its Information Technology (IT) security policies and procedures.

Organizations need clearly defined security policies and procedures. When organizations do not have clearly defined security policies and procedures, their security needs may not be met. Organizations may be oversecured, leading to increased costs, or undersecured, thus placing their goals and objectives at risk.

In Chapter 7 of our 1998 Fall Report - Volume 2, and in previous reports, we recommend the Department should:

- ◆ prepare security policies and procedures and senior management should approve them; and
- ◆ set password standards for all its IT systems and applications.

On October 8, 1998, the PAC considered this matter and agreed with our recommendation.

The Department is implementing these recommendations. It assigned responsibility for security to a senior official; approved and implemented several security policies including password standards; and drafted a computer information security plan for the Department.

We will monitor the Department's progress in approving and implementing its computer information security plan. We will report on the results of our work in a future report.

## Contingency plans required

The Department needs a written, tested and approved contingency plan for its Information Technology (IT) systems.

The Department depends on its IT systems (e.g., JAIN) 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 also reported this matter in our 1997 Spring Report and 1997 Fall Report - Volume 2 and in previous reports. We recommend that the Department needs to prepare a written, tested and approved contingency plan for its IT systems.

On October 8, 1998, the PAC considered this matter and agreed with our recommendation.

The Department is currently developing contingency plans for its IT systems. It has developed and tested a contingency plan for one of its systems.

We will monitor the Department's progress in developing contingency plans. We will report on the results of our work in a future report.

## Study of the key attributes of performance indicators

Our Office encourages performance reporting to help the Government improve its information for decision making and to help others assess the Government's performance. Reporting how an agency performs is an important element of accountability. Performance reporting also helps an agency monitor and continually improve its performance.

To measure and report performance, an agency selects "performance indicators". Performance indicators help explain performance. Agencies select indicators to monitor what gets done, the way things get done, the amount that gets done, and most importantly, the results or outcomes of actions taken.

It is important that governments work toward defining the key attributes of performance indicators with emphasis on measuring and reporting on results. For example, is an indicator *understandable* to legislators and the public? Will the indicator be *relevant* (useful) to what the agency is trying to measure?

We encourage public agencies to select, monitor and report performance indicators. In particular, we encourage the use of performance indicators that show progress toward the Government's objectives.

### Purpose of the study

The purpose of this study is to contribute to the work being done in the Department of Justice in this area and to encourage other government agencies to carefully select indicators that have appropriate attributes.



We are conducting this study at the Department in two phases. Phase 1, reported in this Chapter, describes the key attributes of sound performance indicators. Phase 2, to be reported in our 2000 Fall Report, will examine whether the Department's indicators are consistent with the key attributes of sound performance indicators.

We hope this Chapter will promote discussion and increased use of carefully selected indicators for performance reporting by Saskatchewan's government agencies.

## Key attributes

Key attributes of performance indicators are characteristics we expect to find in useful information. To develop the key attributes, we studied relevant literature, reviewed our earlier work and held discussions with Department officials. The Department accepted the attributes set out in Exhibit 1.

### Exhibit 1:

#### Key Attributes Of Performance Indicators

##### Performance indicators should be:

##### 1. Relevant

- ◆ related to the stated objectives and expected outcomes of the organization, and enable an assessment of the extent to which the objectives and expected outcomes are being achieved;
- ◆ able to measure something that is significant and useful in forming assessments and judgements;
- ◆ capable of being aggregated at an appropriate and meaningful level; and
- ◆ able to show how services and activities contribute to outcomes or results.

##### 2. Reliable

- ◆ based on data that are fair and neutral or unbiased;
- ◆ based on data that are accurate;
- ◆ based on data that are available over a long period of time and at a reasonable cost (\$, time); and
- ◆ based on data that are capable of being replicated or verified by independent and knowledgeable observers.

##### 3. Understandable

- ◆ complete, e.g., provide the level of detail needed to enable a proper understanding of performance;
- ◆ focused on a small set of key performance measures; and
- ◆ able to show comparisons over time and with other jurisdictions.

## Moving forward

We are encouraged by the Department's willingness to select performance indicators. Selecting indicators is challenging, both in getting started and in keeping the necessary momentum year after year.

Jurisdictions in Canada and other countries that have selected and worked with indicators have learned lessons that would be valuable for Saskatchewan. The requirements for success in selecting and employing indicators include:

- ◆ recognition that an organization's choice of what indicators to report influences the behaviour of people in the organization — what gets measured gets done;
- ◆ stakeholder and public consultation;
- ◆ top level political leadership;
- ◆ systems that focus on outcomes;
- ◆ indicators developed by program officials and employees to promote employee acceptance;
- ◆ indicators that are not merely reflective of program data that are currently collected, but rather are developed with consideration to what is most useful and relevant to the program goals and objectives;
- ◆ consideration of the cost/benefit of collecting information and reporting on indicators; and
- ◆ indicators reviewed annually for continued relevance and to guard against unintended negative incentives.

As noted previously, we plan to continue to follow the Department's progress in selecting indicators. In our 2000 Fall Report, we will compare the Department's indicators to the key attributes of performance indicators.

## Glossary

**Goals** – are general statements of desired results to be achieved.

**Inputs** – are the human, financial, and physical resources consumed in carrying out activities, producing outputs and accomplishing results.

**Objectives** – are specific statements of results to be achieved over a specified period of time.

**Outcomes** – are the measurable consequences (benefits to people) of a policy, program, or initiative that can be plausibly attributed to the policy, program or initiative. Outcomes can be distinguished in many ways: intermediate or ultimate, short or long, expected or unexpected, direct or indirect, and intended or unintended.

**Outputs** – are the goods and services actually delivered in order to achieve desired outcomes.

**Performance Indicators** – provide indirect information on the achievement of an objective, while performance measures provide direct information. Performance indicators are sometimes used as a synonym for performance measures, but strictly speaking, indicators are indirect evidence used when direct measures are not available or are difficult to obtain.

**Results** – are impacts or effects (consequences) of a policy, program or initiative. Results can reflect a broad spectrum of performance and include outcomes, outputs, or changes to inputs (e.g., resource re-allocations or reductions).

**Stakeholders** – are those who have an interest in an organization's decisions.

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## Liquor and Gaming Authority

<b>Introduction .....</b>	<b>173</b>
<b>Key areas of risk the Authority faces .....</b>	<b>173</b>
<b>Our audit conclusions and findings .....</b>	<b>174</b>
Current contingency plan needed .....	174
Documented rules and procedures for computer system operations needed .....	174
Annual report needs improvement.....	175

## Introduction

The Liquor and Gaming Authority (Authority) regulates liquor and gaming activities in the Province. It operates retail liquor stores, the video lottery terminal program, and slot machines in First Nations Casinos.

For 1998-99, the Authority had revenues of \$549.2 million and net income of \$298.9 million. The Authority held assets of \$416 million (including \$318 million on deposit with the General Revenue Fund) at March 31, 1999. The Authority plans to include its financial statements in its annual report.

## Key areas of risk the Authority faces

To carry out our work, we must understand the key areas of risk facing an organization. We think sharing our understanding with legislators and the public will help them better understand and assess the organization.

In our 1998 Fall Report – Volume 2, we described the key areas of risk the Authority faces. We discussed these key areas of risk with the Authority in 1998.

The following are the key areas of risk that the Authority faces:

- ◆ The Authority needs to ensure the responsible use of liquor and gaming products while optimizing net income from these products.
- ◆ The Authority needs to ensure there is a balance between equitable licensing and revenue opportunities for charities and business.
- ◆ The Authority needs to ensure the integrity of the liquor and gaming industries.
- ◆ The Authority must develop and maintain policies and operating agreements that are fair, clear and contemporary. The Authority must also ensure compliance with legislation and operating agreements.

We plan to update and describe the key areas of risk the Authority faces in a future report.

## Our audit conclusions and findings

In our opinion, for the year ended March 31, 1999:

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

We also report on the adequacy of the Authority's *Annual Report: Saskatchewan Liquor & Gaming Authority: 1997-1998*. At the date of our Report, the Authority has not issued its 1998-99 Annual Report.

### Current contingency plan needed

The Authority needs a written and tested contingency plan to ensure continuous operations if computer processing is interrupted.

We reported this matter in our 1998 Fall Report - Volume 2 and previous reports. The Standing Committee on Public Accounts (PAC) considered this matter in January 1999 and concurred with our recommendation.

- ◆ We continue to recommend the Authority should update and test its written contingency plan.

Management told us it continues to develop a contingency plan for computer processing and information system activities.

### Documented rules and procedures for computer system operations needed

The Authority needs to fully document its rules and procedures for computer system operations, including security, and ensure staff understands those rules and procedures.

We reported this matter in our 1998 Fall Report - Volume 2 and previous reports. PAC considered this matter in January 1999 and concurred with our recommendation.

- ◆ We continue to recommend the Authority should fully document its rules and procedures for its computer system operations and ensure staff understand those rules and procedures.

Management told us it continues to improve and refine the Authority's computer operating rules and procedures.

## Annual report needs improvement

The Authority's Annual Report has improved over the last few years. However, further improvements are needed to make it a better report on the Authority's performance.

To assess the performance of a public sector agency, Members of the Legislative Assembly and the public need to know how the agency is managing its key risks. They also need information about the agency's goals and objectives and how successful the agency has been in achieving those goals and objectives. Good annual reports should provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, how it manages its key risks, what it has done, where it is now and what it plans to do. In addition, to ensuring that the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year end.

The Authority's 1997-98 Annual Report provides limited information on how the Authority measures its performance. Future reports should include a summary of its key performance indicators and targets compared to actual results. A discussion and analysis of the Authority's plans and the actual results would help readers assess the Authority's performance in achieving its goals. The Authority's 1997-98 Annual Report does not provide the intentions or outlook of the Authority. Future reports should include a discussion of the Authority's future directions. Such a discussion would help readers understand how the Authority intends to achieve its goals. The 1997-98 Annual Report does not explain the key risks the Authority needs to manage well to be successful. Future reports should describe the key risks the Authority faces and how it manages



those risks. We think this information will help readers better understand and assess the Authority's performance.

The 1997-98 Annual Report is written clearly. The 1997-98 Annual Report was tabled within the time frames required by law. However, it was tabled twelve months after the Authority's year end.

In 1994, the Standing Committee on Public Accounts (PAC) recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with PAC's recommendation.

1. **We recommend that the Authority should continue to improve its annual report.**

The Authority told us it would consider our suggestions when preparing future annual reports.

Executive summary ..... 178

Part A - Financial Management Systems ..... 179

Part B - Canada-Saskatchewan Infrastructure Works Program - Phase II ..... 193

## Executive summary

This Chapter discusses how the Department should improve its financial management practices.

In Part A, we report the Department has made good progress in ensuring the money it gives to libraries is used for the Department's intended purposes. However, the Department has not yet acted on a recommendation of the Standing Committee on Public Accounts to require local governments to prepare their financial statements following standards for local governments recommended by The Canadian Institute of Chartered Accountants.

In Part A, we also report several areas where the Saskatchewan Archives Board could improve its practices and how the Department could improve its annual report by including its goals and objectives; and performance targets and actual results. We also think the report should include the Department's key risks and how the Department manages these risks.

In addition, the First Nations Fund's Trustees continue to restrict our ability to obtain the information and explanations we require to properly carry out our duties to the Legislative Assembly. Accordingly, we have not yet audited the Fund's accounts for the years ended March 31, 1997, 1998 and 1999. We also report the Department is paying more money to the Fund than required by the 1995 agreement between the Government and the Federation of Saskatchewan Indian Nations.

In Part B of this Chapter, we report on our audit of Phase II of the Canada-Saskatchewan Infrastructure Works Program. The Department shares responsibility for this Program with the Federal Government. Under this Program, municipalities apply for funding for various infrastructure projects. To qualify for funding, the projects must meet certain criteria. In 1998-99, the Department paid municipalities over \$20 million for roads, streets, water and sewer systems, buildings, bridges and sidewalks.

Given the shared federal/provincial responsibilities, we worked with the Auditor General of Canada in this audit. We note the program officials relied heavily on the municipalities' declarations that they met the conditions of the Program. They did not gather sufficient information to ensure the municipal declarations were correct before approving the project or paying the municipalities. As a result, we were unable to determine if the projects approved and undertaken in Phase II met the conditions of the Program. We also report that projects undertaken in Phase II of the Program complied with relevant environmental laws.

**Introduction ..... 181**

    Financial background ..... 181

    Special purpose funds and Crown agencies ..... 182

**Our audit conclusions and findings ..... 183**

    Assurance needed for conditional grants ..... 184

    Proper financial statement standards required ..... 185

    The Saskatchewan Archives Board ..... 185

        Board of Directors needs improved financial reporting ..... 186

        Written and tested contingency plan needed ..... 186

        Written contracts needed ..... 187

    Annual report needs improvement..... 188

**First Nations Fund ..... 189**

    Inability to discharge our duties ..... 190

## Introduction

The Department of Municipal Affairs, Culture and Housing (Department) is responsible for supporting and maintaining a viable system of municipal government in Saskatchewan.

The Department helps enable communities to provide local governance, public protection, social housing, and access to sport, recreation, culture and information. The Department also works in partnership with communities by providing financial support, technical support, and by developing legislation, regulations and other policies to meet the changing needs of Saskatchewan people.

In 1999, the Department reported expenditures of \$168 million and revenues of \$21 million in *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure* (Public Accounts 1998-99 – Volume 2). The Department plans to include the financial statements of its special purpose funds and Crown agencies in the *Financial Statements – Compendium 1998-99*.

The following is a list of major programs and spending reported by the Department in the Public Accounts 1998-99 – Volume 2:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Municipal support	\$ 75	\$ 74
Housing	35	35
Culture and recreation support	18	18
Gaming funds	17	18
Infrastructure assistance	7	9
Public safety	4	5
Cultural tourism facilities	4	4
Other	5	5
	<u>\$ 165</u>	<u>\$ 168</u>

## Financial background

For 1998-99, the Government's summary financial statements show community development expenditure of \$168 million. Table 1 sets out community development expenditure as shown in the Government's

financial statements reconciled to community development spending by the Department.

		Table 1
		(in millions of dollars)
Department of Municipal Affairs, Culture and Housing expenditure (Public Accounts 1998-99 – Volume 2)	\$	168
Deduct expenditure shown as:		
Transportation – Municipal financial and infrastructure assistance		(24)
Social services and assistance – Housing and municipal financial assistance		(37)
Others		(6)
Add expenditure funded by:		
Saskatchewan Lotteries Trust Fund		28
Indian and Métis Affairs Secretariat – Treaty land entitlement		24
Others		15
Community Development expenditure per the Government's summary financial statements	\$	168

## Special purpose funds and Crown agencies

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

	<u>Year End</u>
Associated Entities Fund	March 31
First Nations Fund	March 31
Municipal Potash Tax Sharing Administration Board	December 31
Northern Revenue Sharing Trust Account	December 31
Saskatchewan Archives Board	March 31
Saskatchewan Arts Board	March 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Housing Corporation	December 31
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation	March 31
Western Development Museum	March 31

## Our audit conclusions and findings

We reported our audit conclusions and findings in our 1999 Spring Report for the following special purpose fund and Crown agencies for their years ended December 31, 1998:

Northern Revenue Sharing Trust Account  
Municipal Potash Tax Sharing Administration Board  
Saskatchewan Housing Corporation

We have not completed our work on the Saskatchewan Arts Board and the First Nations Fund. We will include our findings in a future report to the Legislative Assembly.

Accordingly, this Chapter includes our audit conclusions and findings for the Department and the following special purpose funds and Crown Agencies for their years ended March 31, 1999:

Associated Entities Fund  
Saskatchewan Archives Board  
Saskatchewan Heritage Foundation  
Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation  
Western Development Museum

A separate section in this Chapter explains our inability to discharge our duties relating to the First Nations Fund.

We report the results of our audit of Phase II of the Canada-Saskatchewan Infrastructure Works Program separately in Part B of this Chapter.

**In our opinion, for the funds and agencies where we have completed our work for the year ended March 31, 1999:**

- ◆ **the financial statements of the funds and agencies are reliable;**
- ◆ **the Department and its agencies had adequate rules and procedures to safeguard and control their assets, except for the matters reported in this Chapter; and**

- ◆ the Department and its agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

Also, we recently completed an assessment of the Department of Municipal Affairs, Culture and Housing's 1997-98 annual report. The Department has not yet released its 1998-99 annual report. This assessment was done to determine whether the annual report gives the Members of the Legislative Assembly and the public the information they need to adequately assess the Department's performance. We include our conclusions in this Chapter.

## **Assurance needed for conditional grants**

The Department needs assurance that the money it gives to libraries is used for the intended purposes.

In our 1998 Fall Report – Volume 2 and previous reports, we made the following recommendations.

The Department should:

- ◆ obtain assurance that libraries' rules and procedures are adequate to safeguard and control their assets, comply with authorities, and meet the Department's objectives;
- ◆ require the libraries to use standards for financial statements recommended by The Canadian Institute of Chartered Accountants (CICA); and
- ◆ tell libraries what performance it expects from the libraries to meet the Department's objectives.

The Standing Committee on Public Accounts (PAC) considered this matter in October 1998 and agreed with our recommendations.

During the year, the Department took steps towards obtaining additional assurance that conditional library grants are used for the purposes intended. The steps taken include requiring the libraries to provide audit assurance that their rules and procedures are adequate: to safeguard and



control their assets; to comply with authorities; and that the grants are used for the purposes intended.

Management also told us library directors have agreed to adopt the CICA standards for the preparation of their financial statements in 2000-2001. We commend the Department for its efforts in strengthening its rules and procedures for conditional grants to libraries. We also look forward to reviewing the results of the steps taken by the Department.

## **Proper financial statement standards required**

The Department needs to set proper financial statement accounting principles (standards) for local governments.

Financial statements should show a local government's proper financial position, results of operations and changes in financial position. This helps users understand and assess a local government's management of the public resources entrusted to it. We think following the CICA local government financial reporting standards would show a local government's proper financial position, results of operations and changes in financial position.

We continue to recommend the Department should require local governments to prepare their financial statements following standards for local governments recommended by the CICA.

We reported this matter in our 1998 Fall Report – Volume 2 and previous reports. PAC considered this matter in October 1998 and agreed with our recommendation.

In 1998, Cabinet formed a Task Force on Municipal Legislative Renewal. Management told us the Department would assess what changes are needed to local government financial reporting standards upon reviewing the task force's final report.

## **The Saskatchewan Archives Board**

The Saskatchewan Archives Board (SAB) is responsible for acquiring and preserving documents relating to the history of Saskatchewan. SAB also provides public access to these documents.

SAB had revenue of \$2.25 million in 1999 and held tangible capital assets of \$0.12 million at March 31, 1999. SAB's annual report includes its financial statements.

### **Board of Directors needs improved financial reporting**

The Board of Directors needs to approve a budget and to improve their review of the interim financial reports of the Saskatchewan Archives Board.

The Directors need an approved budget to compare and review planned and actual financial results. Budgets are key documents because they approve a whole year's activities in advance. Also, budgets set goals for expected results such as expected revenue. The budget for 1999-00 was not approved before the March 31, 1999 year end. The Directors need to approve the budget before the year begins to provide adequate financial direction to management.

The interim financial reports reviewed by the Board of Directors are not timely. During the year, the Directors met four times. However, the Directors received an interim financial report at just one of their meetings. Directors need reports comparing planned results with actual results to assess performance and make informed decisions. The reports should also highlight and explain differences between planned and actual results. The Board of Directors should use the reports to monitor SAB's operations.

1. **We recommend the Directors of the Saskatchewan Archives Board should review interim financial reports quarterly. The Directors should also approve the annual budget before the year begins.**

### **Written and tested contingency plan needed**

SAB needs a written and tested contingency plan to ensure it can operate effectively in case of a major loss or destruction of its computer systems.

SAB is dependent on its computer systems. To provide continuous services, SAB must ensure its systems and data are available when needed. If they are not, SAB may miss commitments, delay decisions and lose essential data.

A contingency plan should include:

- ◆ the procedures for making electronic copies (backups) of system programs, applications, data and recovery procedures;
- ◆ the procedures for the safe storage of the backups and the contingency plan;
- ◆ the recovery time for systems, applications, and data;
- ◆ the arrangements made to replace or rent essential information technology equipment;
- ◆ the requirement for senior management to approve the plan;
- ◆ the procedures for periodically testing the contingency plan; and
- ◆ the plan to deal with the Year 2000 problems.

Senior management should review and approve the contingency plan. Management needs to ensure the recovery time will meet the needs of the organization and that the plan works.

2. **We recommend the Saskatchewan Archives Board should prepare, test, and approve a written contingency plan.**

### **Written contracts needed**

SAB needs written contracts with The University of Saskatchewan (U of S) and Saskatchewan Property Management Corporation (SPMC).

The U of S provides SAB office space and administrative and accounting services. SPMC rents office space to SAB.

SAB needs written contracts to set out the responsibilities and legal obligations of each party for the services provided. The contract with the U of S should set out SAB's right to access accounting records, confidentiality needs, and the rules and procedures needed to safeguard and control SAB's assets. The contract with SPMC should set out rental costs, maintenance duties, the lease period and cancellation terms.

We reported this matter in our 1999 Spring Report and previous reports.

In October 1998, the Standing Committee on Public Accounts considered this matter and agreed with our recommendation.

3. **We continue to recommend Saskatchewan Archives Board should have written contracts with the University of Saskatchewan and Saskatchewan Property Management Corporation.**

## **Annual report needs improvement**

We have reviewed the Department's 1997-98 annual report. The Department has not yet issued its 1998-99 annual report. We assessed the adequacy of the information in the report against the following criteria.

To help Members of the Legislative Assembly (MLAs) and the public assess the performance of public sector agencies they need adequate summary information about public agencies' plans and about the achievement of those plans. These plans should identify the key risks faced by the public sector agency. Annual reports can and should provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, what it has done, where it is now, and what it plans to do. Annual reports should also outline the key risks and how the organization manages these risks. In addition, to ensure annual reports contain information that is relevant and understandable, the annual reports should be written clearly and be available promptly after the public agency's year end.

The Department's 1997-98 annual report provides MLAs and the public with useful information about its programs. However, the report does not set out the overall goals and objectives of the Department. The Department does set out some information on its goals which are more than a general statement of desired results but they do not contain the specific results to be obtained.

The Department's 1997-98 annual report provides no information on key risks. Future reports should outline the key risks faced by the Department and outline how these risks are managed.

Also, the 1997-98 annual report provides limited information on how the Department measures its performance. Future reports should include a summary of its key performance indicators and targets compared to actual results. A discussion and analysis of this comparison would help

the readers assess the Department's success in achieving its goals and objectives.

The annual report is written clearly and was tabled within the time frame required by law. However, it was tabled in the Legislative Assembly almost twelve months after the Department's year end. In 1994, PAC recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with PAC's recommendation.

4. **We recommend that the Department of Municipal Affairs, Culture and Housing should continue to improve its annual report.**

## **First Nations Fund**

*The Saskatchewan Gaming Corporation Act* established the First Nations Fund (Fund). Cabinet appointed the board of Trustees for the Fund (Order in Council 141/98). The Fund is responsible for carrying out economic development, social development, justice, health, and other initiatives related to Indian Bands. The Fund is a Crown agency accountable for how it carries out its responsibilities to the Minister of Municipal Affairs, Culture and Housing.

The Assembly makes money available to the Department for the Fund.

For the year ended March 31, 1999, the Department paid \$10.2 million (1998 - \$9.5 million) to the Fund. The Department made these payments under section 3 of *The Culture and Recreation Act, 1993*, and section 18 of *The Government Organization Act*.

Under section 17 of *The Saskatchewan Gaming Corporation Act*, the Fund is entitled to receive 25% of Casino Regina's net profits. Under an agreement between the Federation of Saskatchewan Indian Nations (FSIN) and the Province, the Fund is also entitled to receive 25% of the net profits of the Saskatchewan Indian Gaming Authority Inc.'s (SIGA) casinos not located on reserves and 50% of the net profits of casinos located on reserves.

The Minister responsible for the Saskatchewan Liquor and Gaming Authority (SLGA) negotiated an agreement dated February 1995 with the FSIN on behalf of the Province. This agreement established the distribution rates for the net profits of SIGA run casinos.

The Department is responsible for calculating the amounts required pursuant to the agreement and requesting the amount from the Assembly.

The Department told us SLGA is currently re-negotiating the agreement of February 1995 with FSIN and that it would be retroactive to April 1, 1998. Distributions to the Fund during fiscal 1999 were based on 37.5% of the net profits of SIGA's casinos not located on reserves and 62.5% of the net profits of casinos located on reserves; and 25% of the net profits of Casino Regina.

At the time of this Chapter, we have not seen a revised agreement or letter of understanding confirming the revised distribution rates.

## Inability to discharge our duties

The Fund's Trustees continue to restrict our ability to obtain the information and explanations we require to properly carry out our duties to the Legislative Assembly. Accordingly, we are unable to report to the Assembly whether:

- ◆ the Fund's financial statements are reliable;
- ◆ the Trustees had adequate rules and procedures to safeguard and control public money;
- ◆ the Trustees complied with the authorities governing the Fund's activities related to financial reporting, safeguarding assets, spending, borrowing, and investing;
- ◆ the Fund lost any public money from fraud, default, or mistake of any person;
- ◆ any officer or employee of the Fund has wilfully or negligently omitted to collect or receive public money; and
- ◆ the Trustees made an expenditure from the Fund that was not properly vouchered or certified.

Order in Council 238/99 appointed KPMG as the auditor for the Fund. When the Government appoints private sector auditors to audit the accounts of special purpose funds and Crown agencies, we work with the appointed auditors using the process recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. This process requires us to have access to the appointed auditor's files.

KPMG told us the Trustees have refused to allow us access to KPMG's files. Accordingly, we have not yet audited the Fund's accounts for the years ended March 31, 1997, 1998, and 1999.

We reported this matter in our 1999 Spring Report and previous reports.

PAC considered this matter in October 1998 and agreed with our recommendation. PAC again considered this matter in January 1999 and further recommended that the legislation be amended to clarify the responsibilities of the Trustees of the First Nations Fund to have the Fund audited in accordance with the requirements of *The Provincial Auditor Act*.

5. **We continue to recommend the Department should work with the Trustees to allow our Office to carry out our responsibilities to the Legislative Assembly following the recommendations of the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.**

The Department told us it is working with the Trustees and other government agencies to clarify accountability relationships.

# Canada-Saskatchewan Infrastructure Works Program - Phase II

# 6B

<b>Glossary .....</b>	<b>194</b>
<b>Introduction .....</b>	<b>195</b>
Understanding the Canada-Saskatchewan Infrastructure Works Program .....	195
<b>Audit objectives .....</b>	<b>198</b>
Audit criteria .....	198
Audit conclusions and recommendations .....	199
<b>Audit findings .....</b>	<b>200</b>
Project targeting and selection requirements .....	201
Financial and management controls .....	205
Environmental requirements .....	208
<b>Update of the status of post-verification work .....</b>	<b>209</b>



## Glossary

**Acceleration** – means investing in a project sooner than previously planned (at least one year sooner)

**Incrementality** – means investing in a project for which no funding was previously available or investing in a project in which one did not previously plan to invest

**Infrastructure** – means physical capital assets used to provide public services

**Project selection** – to select projects that met the broad objectives of the Program. That is select projects that renew and enhance the quality of Saskatchewan's infrastructure that is used to provide public service and create timely and effective employment

## Introduction

In this Chapter, we describe briefly the Canada-Saskatchewan Infrastructure Works Program and set out the results of our audit of Phase II of this Program.

### Understanding the Canada-Saskatchewan Infrastructure Works Program

Infrastructure includes roads, bridges, water and sewer systems. The state of repair and amount of infrastructure is important.

On January 14, 1994, Saskatchewan and Canada agreed to deliver the Canada-Saskatchewan Infrastructure Works Program. The purpose of the Program was to provide funds that enable Canada, Saskatchewan and primarily municipalities to make additional investments that:

- ◆ Renew and enhance the quality of infrastructure which is needed to provide public services, notably in local communities; and
- ◆ Provide for timely and effective employment creation.

The Governments of Saskatchewan and Canada have signed various agreements for this Program. These Agreements set out the Program's purpose, broad criteria used to select projects, key deadlines, and the financial and operational responsibilities of each party involved. In general, the Agreements provided for the sharing of the additional investments. They provided for the reimbursement of eligible costs by the federal and provincial governments to certain maximum limits.

The Agreements also called for shared administration and management between the federal and provincial governments. They required the set up of a joint Canada-Saskatchewan Management Committee to administer and manage the Canada-Saskatchewan Infrastructure Works Agreements. The Committee consisted of four members — two federal appointees and two provincial appointees. It was led by two co-chairs — one federal from the Department of Western Economic Diversification and one provincial from the Department of Municipal Affairs, Culture and Housing (Department).

The Agreements required the provincial government to consult with municipalities on developing program guidelines, and on identifying potential municipal projects. So the Department formed a Provincial-Municipal Committee. This Committee helped the Department review and rank municipal project applications and provided advice. This Committee included representatives from the Department, Saskatchewan Association of Rural Municipalities and Saskatchewan Urban Municipalities Association.

Exhibit 1 sets out the key responsibilities of each party involved in the Program.

### Exhibit 1 – Summary of key responsibilities

Government of Canada  (Department of Western Economic Diversification of Canada)	Federal/Provincial Management Committee	Government of Saskatchewan  (Department of Municipal Affairs, Culture and Housing)	Provincial/Municipal Committee	Municipalities
<ul style="list-style-type: none"> <li>- arrange for federal environmental assessment</li> <li>- approve and pay provincial claims</li> <li>- obtain the Infrastructure Minister's approval for projects nominated by the Province and by federal co-chair</li> <li>- maintain accounts and records of approved projects</li> </ul>	<ul style="list-style-type: none"> <li>- allocate the funds</li> <li>- establish guidelines for the eligibility, assessment, and approval of nominated projects</li> <li>- approve nominated projects for funding and for payment</li> <li>- coordinate verification of eligibility and program evaluation</li> <li>- report on the status and results of the program to the federal and provincial governments</li> </ul>	<ul style="list-style-type: none"> <li>- receive project applications and consult with Provincial/Municipal committee and environmental officials</li> <li>- nominate eligible projects to Federal/Provincial Management Committee</li> <li>- enter into agreements with municipalities for approved projects</li> <li>- approve municipal project claims and pay for eligible costs incurred</li> <li>- follow up on status of approved projects</li> <li>- maintain detailed accounts and records of approved projects</li> </ul>	<ul style="list-style-type: none"> <li>- provide advice to Federal/Provincial Management Committee on program</li> <li>- review and prioritize municipal project applications</li> </ul>	<ul style="list-style-type: none"> <li>- consult with the Province</li> <li>- apply for funding for eligible projects identified</li> <li>- comply with agreements</li> <li>- submit claim for eligible costs incurred up to agreed maximum</li> <li>- maintain project accounts along with supporting documents for audit purposes until 2001</li> <li>- complete approved project</li> </ul>

On March 27, 1997, the Governments of Saskatchewan and Canada extended the Program to fund eligible projects approved on or before October 31, 1998. This extension is called Phase II. Unlike the first phase, only municipalities were eligible for funding. Under Phase II, each federal dollar of funding was matched with one provincial dollar and one municipal dollar. Saskatchewan expected its share of payments for eligible projects would be a maximum of about \$11.5 million.

As of January 1999, the Management Committee approved over 800 projects under Phase II totalling about \$60 million (comprised of \$11.5 million federal, \$11.5 million provincial and \$37 million municipal funding). Many municipalities decided to invest more than the maximum amount allocated to their municipality under the Program. At January 1999, the Department of Municipal Affairs, Culture and Housing paid municipalities about \$20 million (including both the federal and provincial funding) for projects approved under Phase II. Most of the projects were for construction or repair of streets, roads and water systems. Exhibit 2 provides a summary of types of projects approved under Phase II of the Program.

#### **Exhibit 2 – Summary of projects approved under Phase II**

<b>Type of project approved</b>	<b>Provincial share of funding (\$ in thousands)</b>	<b>% of Total</b>
Streets	\$ 4,306	37.6
Water treatment systems	2,093	18.3
Rural roads	1,761	15.4
Buildings	1,279	11.1
Sewer systems	959	8.4
Bridges	733	6.4
Sidewalks	231	2.0
Other	89	0.8
<b>TOTAL</b>	<b>\$ 11,451</b>	<b>100.0</b>

## Audit objectives

The objectives of our audit were to determine:

- ◆ whether the projects undertaken in Phase II conform with the targeting and project selection requirements of the relevant Infrastructure Works Agreements;
- ◆ the adequacy of the financial and management controls in Phase II; and
- ◆ the extent to which Phase II meets the requirements of relevant environmental laws.

We looked at the systems and practices in effect at January 1999. The Department and Management Committee used these systems and practices to deliver Phase II of the Program.

We did our audit in accordance with the assurance standards established by the Canadian Institute of Chartered Accountants. We did the work necessary to meet these standards.

We did most of our audit work jointly with the Office of the Auditor General of Canada. As described above, the federal and provincial governments share responsibility for this Program. Given this, the audit offices thought a joint approach will better serve the interests of all Canadian legislators and taxpayers. It will provide them with a more complete picture of the audit of programs carried out in partnership with other levels of government.

## Audit criteria

Audit criteria are reasonable and attainable standards of performance and control used to assess management's performance, and its systems and practices. In collaboration with the Office of the Auditor General of Canada and the Office of the Auditor General of Nova Scotia, we developed the criteria for each audit objective. (See Exhibit 3.) The representatives of the Federal/Provincial Management Committee agreed to these criteria.

### Exhibit 3 – Audit criteria by objective

**Objective: To determine whether the projects undertaken in Phase II conform with the targeting and project selection requirements of the relevant Infrastructure Works Agreements.**

Criteria

Program management should set out clear operational objectives that define “success” and provide the basis for program implementation.

Program processes and procedures and their implementation should further the achievement of program objectives and comply with the terms of the Agreements, while controlling costs.

**Objective: To determine the adequacy of the financial and management controls in Phase II of the Program.**

Criteria

Financial and management control of program expenditures should comply with relevant federal/provincial policies and practices.

Program management should ensure that a program accountability framework is developed and clearly communicated, including assignment of responsibility for the achievement of program results.

Program management should set out clear operational objectives that define “success” and provide the basis for program implementation.

Program management should measure, monitor and clearly report on, results achieved to Legislators and within and among federal or provincial partners.

Program management should be supported by program information that is reliable, relevant and timely, dealing with program needs, program operations and program performance.

Program processes and procedures and their implementation should further the achievement of program objectives and comply with the terms of the Agreements, while controlling costs.

**Objective: To determine the extent to which Phase II of the Program conforms with the requirements of relevant environmental law.**

Criteria

Program management should ensure that each project has been assessed for potential environmental concerns.

The Program should be implemented in conformity with the requirements of *The Canadian Environmental Assessment Act*, where applicable.

The Program should be implemented in conformity with the requirements of relevant provincial environmental legislation, where applicable.

## Audit conclusions and recommendations

In our opinion,

- ◆ We are unable to determine if projects approved and undertaken in Phase II up to January 1999 conformed with

the targeting and project selection requirements of the relevant Infrastructure Works Agreements because the Department did not have sufficient information in January 1999;

- ◆ Financial and management controls for Phase II were adequate except for matters described elsewhere in this Chapter; and
- ◆ Phase II of the Program conformed to the requirements of relevant environmental law.

The following recommendations are intended to help the Department better meet its obligations under the federal-provincial infrastructure Agreements.

1. We recommend the Department work with the Federal Government to clearly define the Infrastructure Program's objectives in measurable terms, and set clear targets to enable monitoring of progress and of the achievement of the Program's purposes.
2. We recommend the Department work with the Federal Government to carry out an adequate review of supporting information that ensures nominated projects and costs incurred meet Program requirements. This review should focus on larger and/or more risky projects.
3. We recommend the Government of Saskatchewan ensure its agreements contain provisions that clearly assign responsibilities among partners and provide sufficient resources to carry out administrative and other program requirements (including timely monitoring and reporting on achievement of results).

## Audit findings

The following is a summary of our audit findings. We set out these findings under three main headings:

- ◆ Project target and selection requirements;

- ◆ Financial and management controls; and
- ◆ Environmental requirements.

These three headings correspond to our three audit objectives described earlier.

## Project targeting and selection requirements

Project targeting means selecting projects that are in line with the Program's requirements and purpose. (See earlier discussion of Program's purpose.) As set out in Exhibit 4, the Infrastructure Works Agreements set criteria for eligible projects. However, the Agreements do not set out these criteria or its purpose in measurable terms and do not define what constitutes success.

### Exhibit 4 – Project selection requirements

**The following reflects the project selection requirements set out in section 3.5 of the Canada-Saskatchewan Agreements.**

The Management Committee shall:

- Develop guidelines for eligibility assessment and approvals of nominated projects with due regard to the following criteria. Investments:
  - Must be incremental or accelerated (S3.5)
  - Create short- or long-term employment
  - Enhance Canada's or Saskatchewan's economic competitiveness
  - Use innovative technologies
  - Bring infrastructure up to community standards, codes, and by-laws
  - Enhance long-term skills in the workforce
  - Enhance environmental quality and sustainability
  - Use innovative financing techniques
  - Distribute program benefits within Saskatchewan.
- Ensure project is consistent with Saskatchewan's capital planning practices, guidelines and overall infrastructure development plan(s) affecting the particular region or area of the Province & is structured so that ongoing additional operational costs are borne by the municipality.

We expected program officials to further define the Program's purpose and criteria in measurable terms (e.g., expected number of jobs). Neither the Management Committee nor other program officials did this. Without measurable objectives, it is difficult to decide what information to gather, and to determine if the Program achieved its desired results.

As set out in Exhibit 4, the requirements of the Program are relatively complex. A common understanding of what is meant by infrastructure,



and accelerated or incremental investments between all partners was essential to the Program's success. We expected the partners to develop a common understanding of these key terms and of the requirements of the Program.

The Management Committee developed guidelines to explain the Program's requirements to municipalities. These guidelines address the key aspects of the Program. They set out:

- ◆ the Program's critical criteria of incrementality or acceleration of investment, of short- and long-term job creation, and of bringing infrastructure up to community standards, codes and by-laws,
- ◆ the nature of eligible projects (e.g., building or repairing roads, bridges, buildings, sewers and water-treatment plants),
- ◆ the eligible costs (e.g., direct costs incurred and paid on construction and salaries) and ineligible costs (e.g., cost overruns),
- ◆ the applicant's responsibility (See Exhibit 1),
- ◆ employment equity considerations (e.g., hiring persons with physical and mental disabilities or members of visible minorities),
- ◆ expected contracting procedures (e.g., normal municipal construction contracting practices),
- ◆ environmental screening requirements (e.g., providing information on the location, nature and size of project),
- ◆ promotional aspects (e.g., signage, official openings),
- ◆ the approval and payment process, and
- ◆ deadline dates.

These guidelines accompanied the application forms. In addition, the Committee developed a policy and procedures manual to assist in the day-to-day administration of the Program. The guidelines and manual clearly reflect the purposes of the Program as set out in the Agreements.

Although, the guidelines defined “incrementality”, “acceleration”, “short-term job creation”, “long-term job creation” and “infrastructure”, program officials noted difficulties in ensuring municipalities clearly understood these terms. Federal officials also noted differences in interpreting the meaning of these terms.

The Program was meant to encourage additional investments in infrastructure by all partners (i.e., federal, provincial and municipal). That is, the Program expected these partners would spend money that they did not expect to spend if the Program did not exist (i.e., incremental) or spend money sooner than previously planned (i.e., accelerated).

As previously mentioned, in Saskatchewan Phase II of the Program was limited to federal, provincial and municipal partners. The first phase included the private sector as partners. We expected the provincial officials to show how provincial funding met the conditions of the Program. We also expected the program officials to take steps to ensure that the municipal projects they approved and funded met the conditions of the Program.

**Incrementality / acceleration of provincial investments:** In March 1997, when Phase II of the Program started, the Government was still in a time of fiscal restraint. Provincial funding for municipal infrastructure was reduced by half from over \$120 million in 1991 to about \$60 million in 1998. Under Phase II, the governments provided additional funds for municipal infrastructure. We think the Provincial Government undertook reasonable steps to ensure its funding was either incremental or accelerated.

**Incrementality / acceleration of municipal investments & short- and long-term job creation:** The Department did not gather sufficient information to ensure municipal investments for projects were incremental, accelerated, or created jobs. It relied heavily on the municipality’s declarations.

At the application approval stage, the Program required each municipality to declare on the application that its project was incremental or accelerated. It also required each municipality to estimate the number of jobs it expected to create as a result of the project.

At the payment approval stage, the Program followed a similar process. The municipality was required to provide a breakdown of the project’s

actual costs and of actual jobs created (i.e., short- or long-term), and the stage of completion of the project. The Program required the municipality to state, in writing, that the project met the conditions of the Canada-Saskatchewan Infrastructure Program and that the information provided was correct. All forty projects we examined followed this process.

The Program did not ask municipalities to submit supporting documentation (e.g., capital plans, contracts, and invoices) at either the application or payment stage. The Department did not ask for additional information. It did not carry out any other steps at this time to ensure the municipality's information was complete and accurate.

Other possible steps could include:

- ◆ comparing municipal information to information collected elsewhere in the Department such as the five-year capital plans, or
- ◆ examining supporting information on projects identified as more significant or risky.

These steps would have ensured the project met the eligibility requirements of the Program before the Department recommended its approval or paid for its portion of costs.

Department officials noted that they planned to rely on checks that the Federal/Provincial Management Committee planned to do later. The Committee planned to check a sample of projects in the summer of 1999. The Committee planned to focus its work on ensuring costs claimed by municipalities agreed to actual invoices and met eligibility requirements. The timing of this work is about two years after the start of Phase II and after the Department paid municipalities about \$11 million for projects under this Phase.

The Department did not have the results of the Committee's verification work when it nominated the project for final approval, when it paid municipalities or when it requested reimbursement from the Federal Government. As a result, the Department did not have the necessary information to know if approved municipal projects met the targeting and project selection requirements of the Agreements. As such it did not know if the project costs were eligible for reimbursement by the federal and provincial governments.

## Financial and management controls

As discussed earlier, the eligible costs incurred under Phase II of this Program are shared equally between the federal, provincial and municipal governments. The projects are construction work on infrastructure such as roads, streets and water systems. This work is done at the municipal level. The federal and provincial governments reimburse the municipality for eligible costs to agreed upon maximum amounts. Cost overruns are the sole responsibility of the municipality.

Given these factors, we expected:

- ◆ Program officials to develop and use adequate controls to ensure program expenditures complied with relevant federal and provincial policies and practices;
- ◆ The processes and procedures and their use would further the achievement of the program's objectives and compliance with Agreements, while controlling costs;
- ◆ The Federal/Provincial Management Committee to clearly communicate who is responsible for what, by when and with what resources;
- ◆ Program officials to keep reliable, relevant and timely information that dealt with program needs, operations and performance; and
- ◆ Program officials to measure, monitor and clearly report on results to key federal and provincial officials and to legislators.

Similar to the first Phase, the deadlines for the Program were tight. Initially, construction activities had to be completed within a year. Later, this was extended to two years. As shown in Exhibit 1, all municipal project applications were subject to four separate levels of approvals (i.e., provincial/municipal, provincial, federal/provincial, and federal). Federal approval was not given until the federal environmental assessment was complete. (See section on environmental requirements for further details.) For all forty projects we examined, the project was signed off in the order expected by the administrative process.

The tight deadlines, combined with a rather lengthy approval process, resulted in projects being started before receiving final approval. Program

officials told municipalities that the federal and provincial governments would not pay for projects that did not receive final approval. We did not note any exceptions.

As discussed under the heading of “Project targeting and selection requirements”, the Department relied heavily on each municipality’s declarations. Neither the Management Committee nor the Department required the steps necessary to ensure compliance with all key aspects of the Agreements (e.g., incrementality, job creation, use of competitive tendering, eligibility of costs claimed and cost-effectiveness of project). Checking the accuracy of the municipal information would have reduced the risk of non-compliance with the Agreements and with relevant federal/provincial policies and practices prior to project approval and payments. These checks may have focused on projects with higher levels of expenditures or projects assessed as being higher risk.

Except for highway construction standards, the Committee did not ask for information to ensure projects met applicable codes and standards. About 15% of the Phase II projects were for highway construction. For these projects, the Committee required municipalities to obtain inspection reports completed by the Department of Highways and Transportation’s engineers. Inspection reports provided the Committee with assurance that these standards were met.

The Department did not hold back a certain portion of its funding to the municipalities. Holding back a portion of funds reduces the risk of making overpayments. Because it is often difficult and time-consuming to recover funds paid out, organizations hold back funds where payments are based on meeting certain conditions. Organizations pay out the funds only when they know the claim is accurate and eligible.

As described earlier, the Department paid municipalities amounts based on the claim, with little challenge to the information provided. For all forty projects we examined, the amount paid was consistent with the approved level of funding and did not exceed the maximum set by Cabinet. The Department also ensured it did not exceed the funding limit set out in the Agreements.

The Committee did not monitor its program processes and procedures and their implementation to ensure the further achievement of program objectives and compliance with the terms of the Agreements, while controlling costs.

As previously discussed, the responsibility for the administration and delivery of this Program is shared. Given this, we expected program officials to clearly document who was responsible for what, by when and with what resources. This included responsibility for the achievement of results.

As we previously mentioned, the program officials jointly developed guidelines and an administrative manual. These reflected their understanding of the Agreements. The guidelines and the manual clearly set out who was responsible for the various aspects of administering the Program and when they were expected to carry out these responsibilities. The guidelines and manual did not address the responsibility to evaluate and report the results of the program (e.g., whether it met its purpose). All forty projects we examined followed the administrative procedures set out in the manual.

The Agreements expect the Committee to check to ensure project costs incurred were eligible, and to evaluate the results of the Program. The Agreements indicate the federal and provincial governments are to share the costs related to these activities equally. The Agreements do not set out the expected extent of these activities. It requires the Committee to report the results of the evaluation to the federal and provincial ministers. It does not indicate to whom the Committee should report the results of its check of the project costs. In addition, the Agreements do not set out when the Committee is to complete this work. (See earlier comments on lack of timeliness of this work.)

We expected program officials to maintain information that was reliable, relevant and timely. We expected this information to deal with program needs, program operations and program performance.

The Department maintained a database. It used the information from this database to monitor and provide various reports to senior Department officials and to the Committee. The database contained project information taken from each application and actual payments made. Information on the database was recorded accurately and promptly. The Department properly recorded the related amounts received and paid in the Department's financial records.

We also expected program officials to measure, monitor and clearly report on results achieved to the provincial and federal ministers and to legislators.

As previously stated, program officials did not measure all aspects of program results (e.g., actual employment, and enhancement of the quality of infrastructure). Rather, program officials stated that they planned to evaluate what the Program achieved at a later date. The timing of the evaluation was not set at the time of the audit.

Program officials provided regular reports to senior Department officials and to the Federal/Provincial Management Committee. These reports contained summary information on the program expenditures to date, number of approved projects and the total funding committed by each Program phase.

The Committee focused its public reporting on the number of approved projects, total program funding under each Phase and expected job creation. It published this information through regular news releases issued jointly by the federal and provincial ministers.

To determine the publicly-reported number of jobs expected, the Committee used the method requested by federal officials.<sup>1</sup> This was not the same method the Committee expected municipalities to use when applying for project funding.

Also, the Department's 1998 Annual Report<sup>2</sup> briefly discussed the Program. It set out the total dollars of approved projects by type of infrastructure (e.g., road, and sewer) and by nature of recipient (e.g., city, and town). The Department's Report stated an evaluation of the Program (e.g., the achievement of results) would be done at a later date.

## Environmental requirements

The Federal/Provincial Management Committee set up a system to ensure projects were assessed for potential environmental concerns and signed off by appropriate environmental federal and provincial officials. It relied on the work of these environmental officials to carry out the assessment and to keep documentation related to each assessment.

All forty projects we examined complied with the requirements of *The Environmental Assessment Act (Saskatchewan)*.

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<sup>1</sup> Federal formula was to divide the total dollar value of the projects approved to date by \$60,000 to get an expected number of jobs created.

<sup>2</sup> The Department's 1999 Annual Report was not available at the time of this Report.

*The Canadian Environmental Assessment Act (Canada)* requires environmental assessments to identify potential environmental concerns. The Committee required municipalities to undertake environmental assessments prior to giving federal approval of the project.

Due to the lengthy approval process, the Committee allowed the municipalities to start construction before receiving project approval. Starting construction before completing the federal environmental assessment does not breach the requirements of *The Canadian Environmental Assessment Act (Canada)*. Program officials told municipalities that if they proceeded, but did not receive project approval they would be solely responsible for all costs including those for possible environmental clean-up. In ten of the forty projects we examined, the municipality started construction before receiving project approval.

For two projects we examined, we noted the federal environmental assessment was not completed before the Department paid the municipality its final amount. In these two cases, the federal officials did not inform the Department that initial assessment identified environmental risks and required the municipality to take steps to reduce the risks (i.e., mitigation measures). Both municipalities later told program officials, in writing, that they had carried out the necessary steps. The Committee relied on the municipality's declaration and did not take additional steps to check its accuracy. The Department needs a better way to ensure it knows the municipality has taken necessary steps before it makes final payments on projects.

## **Update of the status of post-verification work**

In June 1999, the Federal/Provincial Management Committee approved a plan to check a sample of forty projects funded under Phase II. It planned to check the eligibility of the project and costs claimed, and to ensure the project selected in the sample met the requirements of the Agreements. It did not expect this work to address processes used for project approval, project amendments or evaluation of the results of the program.

This work was carried out in the summer and fall of 1999. The results of this work were not available at the time of this Report.



<b>Introduction .....</b>	<b>213</b>
Financial overview .....	213
Special purpose funds and Crown agencies .....	214
Agencies under the Agricultural and Food Products Development and Marketing Council .....	214
<b>Our audit conclusions and findings .....</b>	<b>215</b>
<b>The Agricultural and Food Products Development and Marketing Council .....</b>	<b>216</b>
Joint recommendations .....	216
<b>Saskatchewan Canola Development Commission .....</b>	<b>217</b>
Subsidiary created without authority .....	218
<b>Sask Pork .....</b>	<b>219</b>
Transfer of net assets to hog producers requires authority .....	219
Auditors' report on financial statements .....	220
Written governance policies required .....	221

## Introduction

The Department of Agriculture and Food's mandate is to add value to agriculture by fostering a commercially viable, self-sufficient and sustainable agriculture and food industry; in partnership with industry. The Department's revenues and expenses are reported in Volume 2 of the 1999 Public Accounts. The revenues and expenses of the Department's special purpose funds and Crown agencies are reported in the Public Accounts Compendium, except for agencies under the Agricultural and Food Products Development and Marketing Council, which are reported in the Council's Annual Report.

## Financial overview

The following table sets out the Government's total expenditure and total revenue related to the agricultural programs it administers through the Department and other organizations that the Government owns or controls. This information is reflected in the Government's summary financial statements for the year ended March 31, 1999.

1999

(in millions of dollars)

### Agricultural expenditure by program:

◆ crop insurance	\$ 137
◆ Agricultural Income Disaster Assistance (AIDA)	70
◆ farm income stability (NISA*)	40
◆ other	76
	<u>\$ 323</u>

### Agricultural revenue by source:

◆ Federal Government	\$ 91
◆ producers' crop insurance premiums	76
◆ interest on loans and investments	35
◆ sales, services, fees and permits	33
	<u>\$ 235</u>

\* Net Income Stabilization Account

## Special purpose funds and Crown agencies

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

	<u>Year End</u>
Agricultural Credit Corporation of Saskatchewan	March 31
Agri-Food Equity Fund	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
Horned Cattle Fund	March 31
Livestock Services Revolving Fund	March 31
Milk Control Board	December 31
Prairie Agricultural Machinery Institute	March 31
Saskatchewan Agricultural Stabilization Fund	March 31
Saskatchewan Crop Insurance Corporation	March 31
Crop Reinsurance Fund of Saskatchewan	March 31

### **Agencies under the Agricultural and Food Products Development and Marketing Council**

Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Canola Development Commission	July 31
- Canodev Research Inc. (Canodev)	July 31
Saskatchewan Chicken Marketing Board	December 31
Saskatchewan Commercial Egg Producers' Marketing Board	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Turkey Producers' Marketing Board	December 31
Sask Pork (formerly known as SPI Marketing Group)	December 31

## Our audit conclusions and findings

This Chapter contains our audit conclusions and findings for the fiscal years ending on or during the year to March 31, 1999, except for:

- ◆ Agri-Food Equity Fund, Agri-Food Innovation Fund, Cattle Marketing Deductions Fund, Conservation and Development Revolving Fund, Livestock Services Revolving Fund and the Saskatchewan Agricultural Stabilization Fund. Our audits of these funds and agencies are not complete. We will report the results of these audits in a future report.
- ◆ Saskatchewan Canola Development Commission and Canodev for the year ended July 31, 1999 are included in this Chapter.

Our Office worked with the following appointed auditors:

### KPMG

- ◆ Sask Pork
- ◆ Saskatchewan Crop Insurance Corporation
- ◆ Saskatchewan Crop Re-insurance Fund

### PricewaterhouseCoopers

- ◆ Agricultural Credit Corporation of Saskatchewan

We used the framework recommended by the *Report of the Task Force on the Roles, Responsibilities and Duties of Auditors*. Our Office and the appointed auditors formed the opinions set out below.

**In our opinion, for the audits we have completed:**

- ◆ the financial statements of the Department's special purpose funds and Crown agencies are reliable. KPMG formed a different opinion on the financial statements of Sask Pork as explained later in this Chapter;
- ◆ the Department and its special purpose funds and Crown 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 special purpose funds and Crown agencies complied with the authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except where we report regarding Sask Pork. KPMG did not form an opinion regarding Sask Pork's transfer of net assets to hog producers as explained later in this Chapter.

We also note other matters related to public accountability for the Legislative Assembly's attention.

## **The Agricultural and Food Products Development and Marketing Council**

### **Joint recommendations**

The Department, through the Agricultural and Food Products Development and Marketing Council (Council), is responsible for supervising various agricultural marketing and development agencies.

In our 1998 Spring Report, we reported the following joint recommendations, developed by the Department and our Office, to improve accountability and reporting practices for these agencies:

- ◆ The Council should require its marketing and development agencies to provide producers with annual reports containing audit reports on each agency's:
  - a) financial statements;
  - b) rules and procedures to safeguard and control its assets; and
  - c) compliance with authorities.
- ◆ The Council should require its marketing and development agencies to provide a comparison of actual results to planned results in each agency's audited financial statements; and to include as a supplement to each agency's annual report a list of persons who received money from the agency and the amounts. This list would be available to producers upon request.
- ◆ The Council after consultation with each marketing and development agency should decide what categories of persons

should be disclosed and the threshold amounts that require disclosure to ensure appropriate accountability.

- ◆ On receiving these annual reports and supplementary reports, the Council should review the reports to ensure they include all required information and follow up on areas requiring the Council's attention.
- ◆ The Council's annual report to the Assembly should include summary financial information to show the total activities of the agencies under the supervision of the Council and that the content of the summary financial information be determined in consultation with the Department and the Provincial Auditor.

The Department told us that most of the marketing and development agencies have fully complied or are making good progress towards complying with the first three joint recommendations. The Council is working with the remaining agencies to meet these recommendations.

Regarding the final two joint recommendations, the Council has begun to review the agencies' reports to ensure they include all the required information and follow up on areas requiring the Council's attention. The Council has also included summary financial information on each agency in the Council's 1998 Annual Report.

We are pleased with the Department's progress to date in addressing these joint recommendations. We will continue to monitor their implementation.

## **Saskatchewan Canola Development Commission**

The purpose of the Saskatchewan Canola Development Commission (Commission) is to develop and implement production and development projects and programs to improve and develop the market opportunities for canola.

The Commission had total revenue of \$1.5 million and held assets of \$1.5 million at July 31, 1999. The Commission plans to include its financial statements in its annual report.

Canodev Research Inc. (Canodev) is a wholly-owned subsidiary of the Commission. Canodev was incorporated under *The Business Corporations Act* (Saskatchewan) to administer research and development projects.

Canodev had revenues of \$12 thousand and held assets of \$158 thousand at July 31, 1999.

## **Subsidiary created without authority**

The Commission created a subsidiary without Lieutenant Governor in Council approval.

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.

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.

We reported this matter in our previous Reports. In November 1998, the Standing Committee on Public Accounts (PAC) concurred with our recommendation.

- 1. We continue to recommend the Commission should obtain Lieutenant Governor in Council approval before creating subsidiaries.**

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. Management also told us it had its lawyer write to the Minister requesting a change in the Saskatchewan Canola Development Plan regulations specifically allowing the Commission to create a subsidiary. In addition, management told us that in 1999-2000, the Department will prepare amendments to the Saskatchewan Canola Development Plan

regulations to provide clear authority for the Commission to create subsidiaries.

## Sask Pork

On April 6, 1998, SPI Marketing Group lost its monopoly to sell hogs produced in Saskatchewan and was continued as a development board, known as Sask Pork. A producer-elected Board administers Sask Pork. Sask Pork's powers are set out in *The Pork Industry Development Plan Regulations* under *The Agri-Food Act*. The Government controls Sask Pork through the Agriculture and Food Products Development and Marketing Council (Council).

For the year ended December 31, 1998, Sask Pork had revenues of \$1.2 million and a net loss of \$3 million. At December 31, 1998, it held assets of \$1.3 million. Sask Pork's annual report includes its financial statements.

### Transfer of net assets to hog producers requires authority

On April 6, 1998, Order in Council 210/98 repealed *The SPI Marketing Group Regulations* and issued *The Pork Industry Development Plan Regulations*. Under subsection 4(2) of the Regulations, all assets and liabilities of SPI Marketing Group became assets and liabilities of Sask Pork.

On April 8, 1998, Sask Pork transferred net assets totalling approximately \$3 million to a new organization called SPI Marketing Group Inc. (SPI Inc.) for no compensation. SPI Inc. is owned by hog producers. As a result, Sask Pork transferred substantially all of its assets to hog producers for no compensation. In our opinion, Sask Pork did not have authority to make this transfer. The Order creating Sask Pork gave it specific powers. The Order did not give Sask Pork the authority to transfer its assets to hog producers for no compensation.

KPMG did not form an opinion regarding whether or not Sask Pork had the authority to transfer the assets to SPI Marketing Group Inc. (i.e., the hog producers).



2. **We recommend Sask Pork should obtain Lieutenant Governor in Council approval to transfer Sask Pork's assets to hog producers for no compensation.**

Sask Pork's management told us it had discussed the transfer with the Council and the Department, and Sask Pork's management believes it had the authority under the regulations to transfer the assets to SPI Marketing Group Inc. (i.e., the hog producers).

## **Auditors' report on financial statements**

KPMG and our Office formed different opinions on Sask Pork's financial statements for the year ended December 31, 1998. *The Provincial Auditor Act* requires us to do additional work when we do not rely on the report of an appointed auditor. Our additional work consisted of studying the transfer of assets to hog producers and discussion with Sask Pork's management.

KPMG's report on Sask Pork's consolidated financial statements contains the following reservation:

Note 11 to the consolidated financial statements describes the discontinued operations and transfer of net assets of the marketing operations and related investments. The transfer of net assets of \$2,998,734 has been included in the consolidated statement of operations in arriving at the net loss for the year. In our opinion, generally accepted accounting principles require that the transfer of net assets be recorded as a capital transaction in the statement of net assets. If this transfer of net assets had been recorded in the statement of net assets, the statement of operations would have reflected earnings of \$23,846 rather than a net loss for the year of \$2,974,888.

Sask Pork transferred substantially all of its net assets to hog producers for no compensation. KPMG views this transfer of net assets to hog producers as a transfer to owners resulting from the restructuring of Sask Pork.

Under Order in Council 210/98, Sask Pork is a government-controlled agency. The net assets of Sask Pork are not the hog producers' net assets and can only be used for the purposes set out in the Order. While Sask Pork should not have given the net assets to the hog producers without the approval of the Lieutenant Governor in Council, it did so. As a result, we think Sask Pork correctly recorded the transfer of approximately

\$3 million to hog producers as an expense of Sask Pork for the year ended December 31, 1998.

Accordingly, in our opinion, Sask Pork's consolidated financial statements for the year ended December 31, 1998 are reliable.

## Written governance policies required

Sask Pork's Board needs to document its governance policies setting out what it expects from management.

Policies should prescribe how activities should be managed and should prohibit inappropriate action. Written policies also reinforce the directors' delegation of authority and employees' responsibilities.

We reported this matter in our 1998 Fall Report - Volume 2 and previous reports. In February 1998 and January 1999, PAC concurred with our recommendation.

- ◆ We continue to recommend that Sask Pork's directors should document their governance policies.

Management has not yet fully documented the directors' governance policies. Management told us the directors continue to move forward in refining and documenting their governance policies.

<b>Introduction .....</b>	<b>225</b>
Special purpose funds and Crown agencies .....	225
Financial overview .....	226
<b>Key issues .....</b>	<b>227</b>
Giving Treasury Board accurate and useful information to enable it to develop, manage and evaluate the Government's fiscal plan .....	228
Managing the Government's debt .....	228
Managing investments .....	229
Collecting revenues due to the Department .....	229
Publishing useful planning and performance reports .....	230
Managing several government pension and benefit plans .....	230
Ensuring designated government entities comply with Treasury Board's directives .....	231
<b>Our audit conclusions and findings .....</b>	<b>231</b>
Our auditor's report on the GRF financial statements .....	232
Special warrants .....	234
Prior years' recommendations .....	234
Annual pension costs not included in Estimates .....	234
Essential accountability information needed .....	235
Department needs to provide accountability information .....	235
SaskPen and SP Two .....	236
Greystone Capital Management Inc. ....	237
<b>Municipal Employees' Pension Commission .....</b>	<b>238</b>
PAC recommendation not yet complied with .....	238
<b>Members of the Legislative Assembly Superannuation Plan .....</b>	<b>239</b>
Spousal payments require authority .....	239
Act needs to provide direction .....	240

## Introduction

The Department of Finance (Department) helps the Government and the Legislative Assembly manage and account for public money. It controls spending from the General Revenue Fund (GRF) and ensures the GRF receives all revenue due to it. In addition, the Department prepares the Government's Summary Financial Statements.

The Department of Finance:

- ◆ administers various tax, grant and refund programs;
- ◆ arranges government financing, banking, investing and borrowing;
- ◆ provides policy and financial analysis to Treasury Board and Executive Council;
- ◆ develops tax policy alternatives;
- ◆ provides economic forecasting and economic, social and statistical data;
- ◆ prepares the annual Budget Address, Estimates and Public Accounts; and
- ◆ administers public sector pension and benefit plans.

In 1999, the Department spent \$1.35 billion and collected revenue of \$5.1 billion. Revenue includes \$424 million of debt costs recovered from Crown agencies. Information about the Department's revenues and expenses is in the *Public Accounts 1998-99 Volume 2*. Additional information is in the *Public Accounts 1998-99 Volume 1* on page 13.

## Special purpose funds and Crown agencies

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

Year end December 31

Extended Health Care Plan  
 Extended Health Care Plan for Certain Other Employees  
 Municipal Employees' Pension Commission  
 Public Employees Deferred Salary Leave Fund  
 Public Employees Disability Income Fund  
 Public Employees Dental Fund  
 Public Employees Group Life Insurance Fund  
 Saskatchewan Pension Plan  
 SaskPen Properties Ltd.

Year end March 31

General Revenue Fund  
 Members of the Legislative Assembly Superannuation Plan  
 Public Employees Benefits Agency Revolving Fund  
 Public Employees Pension Plan  
 Public Service Superannuation Plan  
 Saskatchewan Pension Annuity Fund  
 SP Two Properties Ltd.

In addition, the Department administered The Liquor Board  
 Superannuation Commission and the Workers' Compensation Board  
 Superannuation Plan for the fiscal year ended December 31, 1998.

## Financial overview

The following is a list of the Department's major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Interest-GRF Debt	\$ 725	\$ 745
Interest-Crown corporation debt	<u>418</u>	<u>424</u>
Total interest on debt	1,143	1,169
Pensions and benefits	150	155
Administration	<u>24</u>	<u>25</u>
	<u>\$ 1,317</u>	<u>\$ 1,349</u>

The following is a list of the Department's major revenue sources:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Individual income tax	\$ 1,263	\$ 1,448
Interest recovered from Crown corporations	418	424
Sales tax	769	743
Transfers from Government of Canada	732	870
Fuel taxes	375	355
Corporation capital and income taxes	439	433
Tobacco taxes	122	123
Transfers from government entities	591	552
Motor vehicle fees	99	108
Other	172	92
	<u>\$ 4,980</u>	<u>\$ 5,148</u>

## Key issues

It is important that Members of the Legislative Assembly (MLAs) and the public know the key issues facing a department. Also, they should receive information on these issues to understand and assess a department's performance. We think sharing our understanding with MLAs and the public will help them better understand and assess the Department's performance.

Information on how a department is managing its key issues can increase public confidence. Annual reports are often used to provide this information to MLAs and the public.

We identified the following key issues the Department must manage well to be successful. It must:

- ◆ give Treasury Board accurate and useful information to enable it to develop, manage and evaluate the Government's fiscal plan;
- ◆ manage the Government's debt;
- ◆ manage investments;
- ◆ collect revenues due to the Department;

- ◆ publish useful planning and performance reports;
- ◆ manage several government pension and benefit plans; and
- ◆ ensure designated government entities comply with Treasury Board's directives.

To identify these key issues, we reviewed *The Financial Administration Act, 1993* and other legislative authorities. We also reviewed the Estimates, the Public Accounts, the Budget Address and Prospectus documents. In addition, we discussed these issues with key Department officials.

### **Giving Treasury Board accurate and useful information to enable it to develop, manage and evaluate the Government's fiscal plan**

The Department provides financial and policy analysis to Treasury Board (the Board). To provide this analysis it seeks input from various sources inside and outside of the Government. It does this by studying the budget requests of government entities and assessing alternatives. The Board uses this information when preparing the Estimates and in managing and evaluating its plan.

Information given to the Board should be timely and useful for making key decisions. Also, the information provided should be as complete and accurate as possible. One of the Department's main goals is to enhance the fiscal strength of the Government. Inadequate information could cause the Board to make poor decisions. In turn, this could prevent the Government from meeting its financial goals.

### **Managing the Government's debt**

The Department manages the Government's debt and loan guarantees. Managing the debt is critical because debt costs make up a large part of the Government's costs. Managing the debt well will minimize these costs. This in turn will help the Department improve the fiscal strength of the Government. Managing the debt includes:

- ◆ meeting the terms of existing debt;

- ◆ refinancing debt when cost-effective to do so;
- ◆ minimizing the cost of new debt;
- ◆ managing currency and interest rate risks; and
- ◆ ensuring cash is available when needed.

## Managing investments

The Department provides investment management services for many government entities. These services include initiating investment transactions, providing custodial services and offering investment advice. To do these well, it must maximize return on investments given the risk the Government is willing to accept. Also, it must ensure investments mature or can be sold when the money is needed.

The Department is responsible for investments totalling more than a billion dollars. Therefore, investment income is significant. Maximizing the return on investments will help to enhance the fiscal strength of the Government. Also, ensuring it can sell the investments when it needs money will reduce the need to borrow. This in turn will reduce the Government's costs.

## Collecting revenues due to the Department

The Department receives significant revenues from income taxes, transfers from the Federal Government, consumption taxes and fees. In 1999, these revenues were \$4.3 billion. Collecting all these revenues is critical to help the Government meet its financial goals.

The Federal Government administers income taxes according to provincial legislation and an agreement with the Provincial Government. To ensure collection of all of its income taxes, the Department must know whether the Federal Government has properly assessed Saskatchewan taxes.

Equalization and Canada Health and Social Transfers are the main federal transfers. Each province sends data to the Federal Government. The Federal Government uses the data to calculate the transfers. To calculate transfers properly, all provinces must send accurate and complete data. The Department must know whether the Federal Government has an appropriate system to ensure all provinces have provided accurate data.



In addition, the Department must know whether the Federal Government has properly calculated the transfers.

The Department administers consumption taxes, other taxes and fees according to provincial legislation. The Department must have effective systems and practices to collect all the taxes and fees due to the Department.

## **Publishing useful planning and performance reports**

The Department prepares several of the Government's planning and performance reports. These reports include the Estimates, the annual Budget Address, the Public Accounts and the Mid-Year Financial Report. The public and MLAs need information to evaluate the Government's plans and performance.

Providing useful planning and performance reports will make it possible for MLAs and the public to decide if policy and/or administrative changes are necessary. Therefore, it is important the Department provides planning and performance reports that the MLAs and the public can use to make informed decisions.

## **Managing several government pension and benefit plans**

The Department administers several government pension and benefit plans. If the plans are not well managed, the Government faces several risks. These include risks that:

- ◆ accountability to the public and MLAs may be impaired (e.g., plans may be unable to prepare financial statements);
- ◆ plan members may receive smaller pensions or benefits (e.g., poor investment returns);
- ◆ the costs to the taxpayers for the Government's pension promises may increase (e.g., poor investment returns);
- ◆ plan members and the public may lack confidence in the Government (e.g., plans may be unable to provide information to plan members); and

- ◆ the Government may lack essential cash flow information to manage other activities such as borrowing and taxation policies.

## **Ensuring designated government entities comply with Treasury Board's directives**

The Board's directives exist to ensure sound financial practice and proper administration of public money. If government entities do not follow these directives, public money could be lost or improperly spent. Therefore, ensuring compliance with Board directives is critical.

The Provincial Comptroller is responsible for ensuring compliance with the Board's directives. To do this, the Comptroller directs how entities are to comply with the Board's directives and monitors compliance. The Comptroller's directives are set out in the Financial Administration Manual and in Bulletins.

## **Our audit conclusions and findings**

This Chapter contains our audit conclusions and findings on the Department, its special purpose funds and Crown agencies for the fiscal years ending on or during the year to March 31, 1999, except for the Public Employees Benefits Agency Revolving Fund. We are completing our work on that Fund and will report the results in a future report.

In our 1999 Spring Report, we reported on the funds and Crown agencies with years ending December 31, 1998 except for Municipal Employees' Pension Commission. We have now completed this audit and report the conclusions and findings in this Chapter.

Our Office worked with Ernst & Young, Saskatchewan Pension Plan's appointed auditor, and KPMG, the Worker's Compensation Board Superannuation Plan's and the Public Employees Pension Plan's appointed auditor. We used the framework recommended by the *Report of the Task Force on the Roles, Responsibilities and Duties of Auditors*. Our Office, Ernst & Young and KPMG formed the following opinions.

**In our opinion, where we have completed our work:**

- ◆ the Department, its special purpose funds and Crown agencies had adequate rules and procedures to safeguard

and control their assets except where we report otherwise in this Chapter;

- ◆ the Department, its special purpose funds and Crown agencies complied with authorities governing their activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing except where we report otherwise in this Chapter;
- ◆ the Government's summary financial statements, included in the *Public Accounts 1998-99 Volume 1* are reliable;
- ◆ the financial statements for the special purpose funds and Crown agencies listed on page 226 are reliable except for the GRF; and
- ◆ the GRF financial statements included in the *Public Accounts 1998-99 Volume 1* are reliable except that all pension costs are not recorded and the costs of the Agricultural Income Disaster Assistance program are not properly recorded.

We also note matters on accountability information and special warrants for the Assembly's attention in this Chapter.

## Our auditor's report on the GRF financial statements

Our auditor's report on the 1998-99 GRF financial statements warns readers that they do not include all of the Government's financial activities. Therefore, readers should not use the GRF statements to understand and assess the Government's overall performance. The appropriate financial statements to use for that purpose are the Government's *Summary Financial Statements*.

In addition, our auditor's report on the 1998-99 GRF financial statements includes two reservations. The financial statements are significantly misstated because the GRF's pension costs and the costs of the Agricultural Income Disaster Assistance program are not properly recorded.

## Pension Costs Reservation

The effects of not properly recording pension costs in those financial statements are as follows:

- ◆ the GRF's surplus, for 1998-99 reported as \$27.8 million, is overstated by \$77 million;
- ◆ actual expenditures are understated by \$77 million; and
- ◆ liabilities and accumulated deficit are understated by \$3.75 billion.

### 1. We continue to recommend the Department properly account for pension costs in the GRF financial statements.

In January 1999, The Standing Committee on Public Accounts (PAC) considered this matter. PAC did not concur with this recommendation, noting:

the government fully discloses its unfunded pension liability in the notes to GRF financial statements; and further that the unfunded pension liability is recorded in summary financial statements in accordance with PSAB recommendations and that the government budgets and fully records its annual pension cash requirements in the GRF.

## Agriculture Costs Reservation

In 1999, the Governments of Saskatchewan and Canada agreed to provide agricultural income disaster assistance to Saskatchewan farmers experiencing farm income shortfalls for the 1998 and 1999 calendar years. The estimated cost of the two-year program is \$140 million. The Department has recorded the entire cost of \$140 million of the two-year program, in the GRF financial statements, as an expenditure for the year ended March 31 1999.

In our opinion, the Department should only record the estimated cost of the program for the 1998 calendar year amounting to \$70 million as an expenditure for the year ended March 31, 1999.

The effects of not properly recording the costs of the Agricultural Income Disaster Assistance program in those financial statements is as follows:

- ◆ the GRF's surplus, reported as \$27.8 million is understated by \$70 million;
  - ◆ agricultural and food expenditures are overstated by \$70 million; and
  - ◆ financial assets are understated by \$70 million; and
  - ◆ accumulated deficit is overstated by \$70 million.
2. **We recommend the Department properly account for the cost of the Agricultural Income Disaster Assistance program in the GRF financial statements.**

## Special warrants

The law requires us to report when a special warrant approved the payment of public money. In 1998-99, the Government approved the spending of \$399.3 million by special warrant. It later included these special warrants in an appropriation act.

## Prior years' recommendations

### Annual pension costs not included in Estimates

In our 1998 Fall Report – Volume 2, we reported that the Assembly and the public are unable to properly assess pension costs because the Estimates do not include the GRF's estimated total pension costs for the year. The Estimates only include the amounts the Government expects to pay retired members or contribute to a pension fund that year.

The effects of not including the GRF's total pension costs in the 1998-99 Estimates are as follows:

the GRF's budgeted surplus of \$106 million is overstated by \$62 million;

- ◆ budgeted expenditures are understated by \$62 million; and
- ◆ the budgeted accumulated deficit of \$7.1 billion is understated by \$3.75 billion.

**3. We continue to recommend the Department include the GRF's total pension costs for the year in the Estimates.**

In January 1999, PAC considered this matter and “resolved that the committee note that the information ... is available in the Government summary financial statements and does not concur in this recommendation”.

However, the Government uses the amount of the GRF's budgeted surplus or deficit as one of its key performance indicators. If the budgeted surplus or deficit does not include the total estimated pension costs, it is difficult for the Assembly and the public to assess the Government's performance. As well, the Government makes decisions based on the belief that the “budget” is balanced. It might make different decisions if the budget included the correct amount of costs estimated for the year.

Management indicated that PAC has requested a report as to how the Government plans to address its pension obligations. The Department is currently preparing this report.

**Essential accountability information needed**

***Department needs to provide accountability information***

In our 1998 Fall Report – Volume 2, we reported that the Department needs to provide important accountability information about its activities to the Assembly and the public.

The Department prepares several planning and performance reports that provide important information about the GRF and the Government as a whole. These reports include the Estimates, the Budget Speech, the Mid-Year Financial Report and the Public Accounts. However, the Department does not provide important accountability information about its own activities. Providing information on how the Department manages its key issues is essential for adequate public accountability.

**4. We continue to recommend that the Department report important accountability information about its performance.**

In January 1999, PAC considered this matter and concurred with this recommendation. PAC noted that the Department was making progress towards compliance with this recommendation.

Management told us the Department is preparing its first annual report for the year ended March 31, 1999. We commend the Department for this initiative and look forward to the release of its annual report.

### ***SaskPen and SP Two***

SaskPen Properties Ltd. (SaskPen) and SP Two Properties Ltd. (SP Two) are corporations whose major shareholders are the Minister of Finance for the Teachers' Superannuation Fund, and government appointed boards for certain other pension plans. The purpose of SaskPen and SP Two is to invest in and hold real property on behalf of those pension plans.

The financial statements of SaskPen and SP Two are audited by a national firm of auditors and are provided to each of the pension plans. The pension plans make the financial statements of each company available to the Office of the Provincial Auditor.

The Government has not tabled SaskPen's and SP Two's financial statements in the Legislative Assembly. The Assembly needs the financial statements of all government corporations to hold the Government accountable.

The Standing Committee on Public Accounts of the Twenty-Second Legislature considered the matter of corporations created under *The Business Corporations Act* and recommended "All Government Corporations should table annual financial statements in the Assembly, including those where the Crown owns less than 100% of the issued share capital."

#### **5. We continue to recommend that the Government table SaskPen's and SP Two's financial statements in the Legislative Assembly.**

It is our opinion and our lawyer's opinion that SaskPen and SP Two are Crown agencies and subject to audit under *The Provincial Auditor Act*. This opinion is not shared by the management of the companies or their legal counsel. The objective of *The Provincial Auditor Act* is to create an officer of the Legislative Assembly (Legislative Officer) to help the Assembly hold the Government accountable for the actions of the agencies owned or controlled by the Government. These corporations have not permitted our Office to carry out these audits for several years.

In our past reports to the Assembly, we reported these government corporations did not allow us to carry out our audits.

As stated above, the Minister of Finance and government appointed boards own most of SaskPen's and SP Two's shares. Therefore, it is our opinion, the Government has the ability to control these companies. We think the activities of government appointed boards are subject to audit by our Office whether the activities are carried out directly by the government appointed boards or by companies that government appointed boards have the ability to control.

To argue otherwise defeats the objective of *The Provincial Auditor Act*. To avoid the scrutiny of our Office, a board would simply establish a company under *The Business Corporations Act* to carry out its activities and argue those activities are no longer subject to audit by our Office.

It is the view of SaskPen and SP Two that the boards of the pension plans owe a fiduciary duty to the pension plans and the members of those plans, and therefore the Government does not have the ability to control their actions.

The Standing Committee on Public Accounts of the Twenty-Third Legislature considered this matter and concluded in its Second Report, based on legal opinions from the Deputy Minister of Justice and the Legislative Counsel and Law Clerk for the Assembly, that SaskPen and SP Two are not subject to an audit under *The Provincial Auditor Act* and the Committee considers this matter closed.

When our Office is not able to examine a Crown agency, the Assembly does not receive the advice of its Legislative Officer on that Crown agency.

6. We continue to recommend that SaskPen and SP Two allow us to audit their accounts.

### ***Greystone Capital Management Inc.***

Greystone Capital Management Inc. (Greystone) manages investments for many government agencies and other clients.

For many years, we have reported that the Government has not tabled Greystone's financial statement's in the Assembly. We have also reported that Greystone has not permitted our Office to audit its accounts.



Greystone's financial statements are audited by a national firm of auditors and are provided to the pension plans annually. The pension plans make the audited financial statements available to our Office for inspection and review in the normal course of our annual audit of the agencies which hold the Greystone shares.

From Greystone's incorporation in 1988 until June of 1999, it is our opinion that Greystone was a government corporation, because the Minister of Finance and government appointed boards owned most of Greystone's issued share capital, on behalf of a number of government pension and investment funds.

In June 1999, Greystone repurchased the shares owned by some government appointed boards and the Minister of Finance. At the same time, a group of Greystone employees purchased a majority of the shares of Greystone.

As a result, Greystone is no longer a government corporation subject to audit by our Office.

## **Municipal Employees' Pension Commission**

The Department through the Municipal Employees' Pension Commission (Commission) is responsible for the Municipal Employees Pension Plan (Plan). The Plan consists of a defined benefit pension plan, money accumulation plan, annuity underwriting activities and supplementary benefits activity.

In 1998, the Plan received contributions of \$10.7 million from municipal employees and \$10.3 million from municipal employers. At December 31, 1998 the Plan had assets of \$788.7 million and liabilities of \$676.4 million. The Commission's annual report includes the Plan's financial statements.

## **PAC recommendation not yet complied with**

In January 1999, PAC concurred with the following recommendations:

- ◆ We recommend the Department prepare a complete accounting policies and procedures manual for the Plan.
- ◆ We recommend that the Commission approve the policies and procedures as they are completed.

Management told us an accounting policies and procedures manual is currently being developed.

## Members of the Legislative Assembly Superannuation Plan

The Members of the Legislative Assembly Superannuation Plan (Plan) receives contributions from Members and the GRF. The Department uses the money to pay pensions and administrative costs. In 1999, the Plan paid pensions of \$2.3 million. At March 31, 1999, it held net assts of \$17.9 million.

### Spousal payments require authority

The Department paid more allowances to surviving spouses of deceased members than required by *The Members of the Legislative Assembly Superannuation Act, 1979* (Act).

Section 26.1 of the Act states:

Where a person who was a member and is entitled to or in receipt of a supplementary monthly allowance pursuant to section 25, 25.1 or 26, or

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.

When pensioners die, the Department pays surviving spouses 60% of the supplementary allowances as required by section 26.1 of the Act. 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 60% of these allowances to surviving spouses. We believe the amount paid more than the 60% rule is contrary to the law.

We reported this matter in our 1998 Fall Report – Volume 2 and previous reports.

7. **We continue to recommend the Department should pay allowances to surviving spouses as required by the Act or seek changes to the Act to allow for these payments.**

PAC considered this matter in October 1998 and more recently in January 1999 and concurred with our recommendation.

For the last ten years, government officials have told us they are seeking legislative changes.

## **Act needs to provide direction**

*The Members of the Legislative Assembly Superannuation Act, 1979* needs to set out how the Department should administer profits or losses from underwriting annuities.

The Department underwrites annuities for Members and pays these annuities out of the Plan. When the Department writes annuity contracts, it should ensure it has 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.

The law does not specify the source of funding for any future losses, nor does it direct the use of profits. At March 31, 1999, the accumulated profits from underwriting annuities were \$157,000 (1998 - \$231,900, 1997 - losses of \$55,950).

We reported this matter in our 1998 Fall Report – Volume 2 and previous reports.

8. **We continue to recommend the Department should seek changes to the law to provide direction for the handling of profits or losses from underwriting annuities.**

PAC considered this matter in October 1998 and more recently in January 1999 and concurred with our recommendation.

For the last ten years, government officials have told us they are seeking legislative changes.

# Environment and Resource Management

<b>Introduction .....</b>	<b>243</b>
<b>Key issues the Department faces .....</b>	<b>244</b>
Ensure a clean and healthy environment within the Province of Saskatchewan .....	245
Develop sustainable resource management programs while encouraging a strong economy .....	247
Protect provincial resources using regulatory and non-regulatory controls .....	248
<b>Our audit conclusions and findings .....</b>	<b>249</b>
Internal reporting needs improvement .....	250
Complete capital assets records needed .....	251
Annual report needs improvement.....	251

## Introduction

The Department of Environment and Resource Management (Department) is responsible for managing, enhancing and protecting the Province's natural resources and sustaining them for future generations. Information about the Department's mandate and its organizational structure are available at the Department's website ([www.gov.sk.ca/govt/environ](http://www.gov.sk.ca/govt/environ)).

For the year ended March 31, 1999, the Government's summary financial statements show environment and natural resources expenditure of \$202 million. The following table shows the expenditure of government agencies for environment and natural resources.

	(in millions of dollars)
Department of Environment and Resource Management	
(Public Accounts 1998-99 – Volume 2)	\$ 165
Deduct expenditure shown as:	
Economic development related to forests	(6)
Add expenditure incurred by:	
SaskWater	41
Department of Agriculture and Food	2
Environment and natural resources expenditure per the	
Government's summary financial statements	<u>\$ 202</u>

The Department received \$165 million from the General Revenue Fund for its programs. Also, the Department collected revenue of \$37 million. In addition, the Department collects revenue and incurs expenses through its special purpose funds.

Information about the Department's total revenue and spending is not available in any one document. *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure* (Public Accounts 1998-99 – Volume 2) contains information about some of the Department's revenues and spending. The Department plans to include the financial statements of its special purpose funds in *The Financial Statements Compendium 1998-99*.

The following is a list of major programs and spending reported in the Public Accounts 1998-99 – Volume 2:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Forest Fire Management	\$ 28	\$ 94
Field Operations and Land Management	25	27
Forestry, Fish and Wildlife	13	14
Environmental Protection	11	11
Administration	11	12
Other	7	7
	<u>\$ 95</u>	<u>\$ 165</u>

The Department is also responsible for managing the following special purpose funds:

- ◆ Big Game Damage Compensation Fund;
- ◆ Commercial Revolving Fund;
- ◆ Fish and Wildlife Development Fund; and
- ◆ Resource Protection and Development Revolving Fund.

## Key issues the Department faces

To assess the Department's performance, it is important for legislators and the public to understand the Department's vision and mission, and how it manages key issues (risks). The Department has documented its mandate, guiding principles, organizational philosophy, and strategic principles in its strategic plan and in its annual reports. Its annual report and internet website set out the Department's mandate, guiding principles, organizational philosophy and strategic principles, but do not describe how the Department manages risks. We encourage the Department to describe how it manages its key risks in its annual report and on its website.

To carry out our work, we must understand the risks facing an organization. We think sharing our understanding with legislators and the public will help them better understand and assess the organization's performance. To identify risks, we reviewed various departmental documents and reports. We discussed our understanding of those risks with management and confirmed we have identified the right risks.

To be successful the Department needs to:

- ◆ ensure a clean and healthy environment within the Province of Saskatchewan;
- ◆ develop sustainable resource management programs while encouraging a strong economy; and
- ◆ protect provincial resources using regulatory and non-regulatory controls.

### **Ensure a clean and healthy environment within the Province of Saskatchewan**

The Department needs to ensure a clean and healthy (unpolluted) environment within the Province of Saskatchewan. A clean and healthy environment is essential for healthy inhabitants (human and other species) and a sound and prosperous long-term economy. Human activities affect the environment and in turn the environment affects the inhabitants' health and economic well being.

To ensure a clean and healthy environment, the Department needs to know what pollutants exist in the Province's primary (air, water, and soil) and renewable (e.g., forest, fish, and wildlife) resources; why these pollutants exist; and what are the maximum acceptable levels for those pollutants. The Department also needs to know what damage these pollutants are likely to cause to the environment and needs to establish standards for maximum acceptable levels for pollutants in air, water and soil. If the Department determines that pollutant levels are more than the maximum acceptable levels, it can then develop programs to bring those pollutants to acceptable levels. This will enable the Department to balance between development and preservation of the environment to promote a strong economy and to maintain and enhance a clean and healthy environment today, and for future generations.

In recent decades, scientists have revealed that certain human activities can deteriorate our environment. The Department needs to inform the public how human activities and economic activities affect the environment. The public needs to know how we are using, maintaining and caring for our environment. When the quality of the environment deteriorates, so does the health of the inhabitants, along with our

economies. The Department must inform and educate the members of the public how they can contribute to make the environment clean and healthy.

The Department's mandate is to manage, develop and protect the Province's environment for conservation, economic, recreation and social purposes and to ensure they are sustained for future generations. These resources include air, water, soil, fish, wildlife, natural vegetation (e.g., forest), as well as parks and protected areas.

The Department must continuously review laws relating to the protection of the environment, e.g., *The Clean Air Act*, *The Litter Control Act* and *The Ozone-depleting Substances Control Act*. The Department should recommend changes to those laws when necessary. The Department must also ensure businesses, industries, municipalities, government agencies and citizens comply with those laws.

The Department monitors compliance with environmental protection regulations. Also, the Department's Environment Assessment Branch is responsible to review and evaluate the environmental impacts of proposed projects. Further, the Department has established programs such as the beverage container collection and recycling systems and the collection of recyclable wastes such as used oil, tires and automotive batteries.

As required by *The State of the Environment Report Act*, the Department has also been issuing State of the Environment Reports (SOE Reports) since 1991. The Department issues SOE Reports on a regular basis. SOE Reports are intended to inform citizens about the health of the Province's environment and its resources. These reports provide information about the description of the ecozones (particular natural regions), state of the environment for that area and what the Department is doing to measure and avoid damage to the resources in that area. Most of the information provided in these reports is qualitative as opposed to quantitative.

Management told us it continues to participate in a Canada-wide standards development process so that all Canadians have consistent SOE information. Management told us a shared understanding of Canadian environment standards would help citizens to better understand and assess the quality of their environment.



## **Develop sustainable resource management programs while encouraging a strong economy**

The Department needs to develop sustainable resource management programs while encouraging a strong economy. The Department must carefully balance the need for sustainable resource management with the need to preserve natural habitat (natural home of an animal or plant), recreational facilities, and a clean and healthy environment.

Non-sustainable programs lead to a poor economy in the long-term. Renewable resources impact the provincial economy significantly. Forestry, wildlife and fishery generate over \$1.2 billion and 21,000 direct and indirect jobs in the Province. Accordingly, the Department needs to manage provincial renewable resources in a manner that realizes maximum economic benefits from these resources in a sustainable manner and without compromising a clean and healthy environment. Sustainability is defined as maintaining the current state of the environment and the productive capacity of the resource base while reaping the surplus to provide social and economic benefits to the public.

Resource management programs should ensure integration of decisions, policies, programs and activities so that the long-term benefits to citizens are maximized and conflicts between competing stakeholders are minimized. This approach would ensure sustainability of valuable renewable resources and protection of habitats including fighting forest fires and research in forest management. Resource management programs must also recognize that use of a resource for one purpose can affect the use and management of other resources.

The Department manages over 37 million hectares of Crown resource lands, including 35.5 million hectares of provincial forests. The Department provides provincial forest fire suppression services and, for citizens' recreation, operates 34 provincial parks, 150 recreation sites, 22 protected areas, eight historic sites and three ecological reserves. In addition, the Department manages almost 400 species of wildlife and 70 species of fish in more than 50,000 waterbodies.

The Department has begun to adopt an ecosystem approach in managing the Province's primary and renewable resources. Ecosystem refers to the natural association of plants, human and other species, and other organisms together with the non-living component of their environment.

The ecosystem approach focuses on the integrated management of environmental systems and human activities.

Management told us the Department is also working with the public to develop a new forest fire management policy as well as a new forest insect and disease management policy.

## **Protect provincial resources using regulatory and non-regulatory controls**

As stated earlier, the public's physical and economic well being depends significantly on primary and renewable resources. The Department needs to protect provincial primary and renewable resources using regulatory and non-regulatory controls.

The Department's mandate includes the protection of provincial primary and renewable resources. The Department must ensure protection of provincial resources by using regulatory (laws) and non-regulatory (public consultation and awareness) means. The Department must continuously review laws relating to the management of resources including; forests, public lands, wildlife, fish, air, soil and water. When it considers necessary, the Department should recommend to the Government changes to those laws.

The Department must also establish programs for consulting with citizens to ensure the public plays a positive role in resource protection. The public needs to be aware what pollutes our resources and how they can help in progressing toward sustainable development. Accordingly, the Department must inform the public how certain human activities produce substances that are harmful for our resources and contribute to the depletion of our resources. The Department must ensure the public knows that depletion of natural resources and loss of habitat increase the risk of decreased biodiversity (variety of species) and air, soil, and water pollution increases the risks to health, as well as reducing future economic potential.

The Department's approach to environmental protection focuses on partnership approaches and pollution prevention. For example, the Department consults with the public for land use planning for ecosystems. Also, *The Environmental Assessment Act* provides a framework for reviewing potential impacts of new developments, with an eye to mitigating damage before it occurs. The Department's forest fire management

program provides public awareness and education aimed at preventing, detecting, and suppressing forest fires. The Department has the authority to regulate major industrial developments, waterworks, sewage works and solid waste disposal sites. The Department has also developed environment protection legislation and regulations including forest protection and management policies including protection of endangered species.

## Our audit conclusions and findings

We have not assessed the adequacy of the Department's systems and practices to address its risks. We have audited the Department's financial management practices and provide our audit conclusions and findings below.

**In our opinion for the year ended March 31, 1999:**

- ◆ the Department had adequate rules and procedures to safeguard and control its assets, except for the matters described in this Chapter relating to internal reporting and the Department's capital assets;
- ◆ the Department complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for the matter described in this Chapter relating to the Department's capital assets; and
- ◆ the financial statements of the Big Game Compensation Fund and the Fish and Wildlife Development Fund are reliable.

We have not yet completed our work on the financial statements of the Resource Protection and Development Revolving Fund and Commercial Revolving Fund. We will report our opinions on those financial statements when our work is complete.

Also, we recently completed an assessment of the *Annual Report 1997-1998: Saskatchewan Environment and Resource Management*. The Department has not yet issued its 1998-99 annual report. This assessment was done to determine whether the annual report gives the Members of the Legislative Assembly and the public the information they

need to assess the Department's performance. We include our conclusions in this Chapter.

## Internal reporting needs improvement

The Department needs better internal reports to monitor its activities.

In addition to its regular internal financial reports, the Department should define and document its operational and compliance reporting requirements. Also, the Department should ensure its staff follow established rules and procedures to prepare such reports.

We noted the Department has established rules and procedures to prepare internal financial reports. However, we noted the staff did not always follow the established rules and procedures to prepare internal financial reports including a comparison of planned and actual results for the current period and year to date including an explanation of differences.

Operational reports should show the effectiveness of programs (i.e., what did the Department expect to accomplish and how is it performing toward that expectation). Compliance reports should describe the Department's compliance with its legislative and related authorities (e.g., legislation or policy manuals).

We reported this matter in our 1998 Fall Report – Volume 2 and previous reports. The Standing Committee on Public Accounts (PAC) considered this matter in November 1998 and more recently in January 1999 and concurred with our recommendation.

We continue to recommend:

- ◆ The Department should define and document its operational and compliance reporting requirements.
- ◆ The Department should follow its established rules and procedures for preparing all of its internal financial reports.

The Department told us it continues to work on defining its operational and compliance reporting needs. The Department also told us it is implementing a new financial management system in 1999-2000 that will help it prepare required internal financial reports in accordance with its established rules and procedures.

## Complete capital assets records needed

The Department needs better rules and procedures to safeguard and control its equipment (capital assets).

Section 640 of the Provincial Comptroller's *Financial Administration Manual* provides guidance to departments regarding capital assets. The manual includes guidance on how to maintain complete records of capital assets.

We reported this matter in our 1998 Fall Report – Volume 2 and previous reports. PAC considered this matter in November 1998 and more recently in January 1999 and concurred with our recommendation.

The Department has made progress towards keeping complete capital asset records. We note the Department now reconciles capital asset additions in its capital asset records to its financial records.

We continue to recommend:

- ◆ The Department should keep complete records of its capital assets.
- ◆ The Department should also:
  - periodically reconcile its capital assets records to its financial records; and
  - include information about its capital assets in its annual report.

Management told us the new internal financial management system it is implementing will help the Department in better controlling its capital assets.

## Annual report needs improvement

We have reviewed the Department's 1997-98 Annual Report. The Department has not yet issued its 1998-99 Annual Report. We assessed the adequacy of the information in the report against the following criteria.

To help Members of the Legislative Assembly (MLAs) and the public assess performance of public sector agencies they need to know how the agency is managing its key issues (risks). Annual reports can and should

provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, how it manages key risks, what it has done, where it is now and what it plans to do. They also need information about the agency's goals and objectives and how successful the agency has been in achieving those goals and objectives. In addition, to ensure the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year end.

The Department's 1997-98 Annual Report provides MLAs and the public with useful information about its programs. The Report contains some information on the Department's goals. However, the Report does not set out the objectives related to those goals.

Also, the 1997-98 Annual Report provides limited information on how the Department measures its performance. Future reports should include a summary of its key performance indicators and targets compared to actual results. A discussion and analysis of this comparison would help the readers assess the Department's success in achieving its goals and objectives.

In addition, the Report does not provide the future intentions or outlook of the Department. Future reports should include a discussion of the future direction the Department plans to take. Such a discussion would help readers understand how the Department intends to achieve its goals and objectives.

The Report does not explain the key risks the Department needs to manage well to be successful. Future reports should describe the key risks the Department faces and how it manages those risks. We think this information will help readers better understand and assess the Department's performance.

The Annual Report is written clearly. The Annual Report was tabled within the time frame required by law. However, it was tabled twelve months after the Department's year end. In 1994, PAC recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with PAC's recommendation.

1. **We recommend that the Department of Environment and Resource Management should continue to improve its annual report.**

The Department told us it would consider our suggestions when preparing future annual reports.

Introduction ..... 257

Special purpose fund ..... 257

Audit conclusions and findings ..... 257

    NewGrade payments need authority ..... 258

    Annual report needs improvement ..... 260



## Introduction

The Department of Energy and Mines (Department) is responsible for managing Saskatchewan's energy and mineral resources.

In 1998-99, the Department had expenses of \$17.6 million and collected revenue of \$631.6 million. Information about the Department's revenues and expenses appears in Volume 2 of Public Accounts.

## Special purpose fund

The Department is responsible for the Oil and Gas Environmental Fund (Fund). The purpose of the Fund is to provide a mechanism to clean-up abandoned wells and to respond adequately to environmental problems associated with the exploration, development, production and transportation of oil and gas. In 1998-99, the Fund had revenue of \$0.116 million and assets of \$2.3 million as reported in its annual report.

## Audit conclusions and findings

In our opinion, for the year ended March 31, 1999:

- ◆ the financial statements of the Oil and Gas Environmental Fund are reliable;
- ◆ the Department had adequate rules and procedures to safeguard and control its assets and the assets of the Fund; and
- ◆ the Department complied with the authorities governing its activities and the activities of the Fund relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing activities, except for payments made to NewGrade Energy Inc.

Also, we recently completed an assessment of the Department's 1997-98 annual report. This assessment was done to determine whether the annual report gives the Members of the Legislative Assembly and the public the information they need to adequately assess the Department's performance. We include our conclusions in this Chapter.

## NewGrade payments need authority

Producers of gas for Crown land remit royalties to the Department under *The Crown Oil and Gas Royalty Regulations*. NewGrade Energy Inc. (NewGrade) buys some of this gas from producers to use in its heavy oil upgrader in Regina.

In 1998-99, the Department paid \$3,247,222 to NewGrade. The Department called this payment the "NewGrade Royalty Rebate". The Department used Order in Council 7/89 as its authority for the payment.

The Order imposes the following conditions:

- ◆ Producers of the gas must pay the Department the full amount of royalties due under the law.
- ◆ Producers 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.

The authority to issue this Order is section 24 of *The Financial Administration Act, 1993 (Act)*.

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.

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 can be no forgiveness. The only change is that NewGrade receives the monies collected instead of the Crown. Therefore, the effect of the Order is not a remission to producers, but a grant to NewGrade.

Section 24 of the Act gives Cabinet the power to remit royalties but not the power to make grants. Accordingly, the grant of \$3,247,222 to NewGrade is not authorized under section 9 of *The Department of Energy and Mines Act*.

The Department records this grant as a reduction of revenue. The Legislative Assembly does not specifically approve reductions 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 to provide the money to pay the grant. This is an important parliamentary principle.

We also reported this matter in our 1997 Fall Report – Volume 2 and previous reports to the Assembly. In these Reports, we recommended:

- ◆ The Estimates should present future payments to NewGrade under this agreement as expenditures.
- ◆ The Department should report these payments as an expense of the Department.

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.

The Assembly agreed with the 1992, 1993 and 1994 recommendations of this Committee.

The Standing Committee on Public Accounts for the Twenty-Third Legislature considered this matter again on December 13, 1996. This Committee reported as follows to the Assembly on April 24, 1997:

Your Committee reports that it disagrees with the Provincial Auditor's recommendations made at paragraphs 15.15 and 15.16, concerning the accounting of future payments to NewGrade Energy Inc. and the reporting of the payments of expenses. It is your Committee's view 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.

On November 24, 1998, the Standing Committee on Public Accounts considered this matter again and reaffirmed its decision reported to the Assembly on April 24, 1997.

1. We recommend the Estimates present future grant payments to NewGrade as expenditures.
2. We recommend that the Department should report these payments as an expense of the Department.

## Annual report needs improvement

We reviewed the Department's 1997-98 annual report. We assessed the adequacy of the information in the report against the criteria set out in the following paragraph.

To assess performance of public sector agencies, Members of the Assembly and the public need adequate summary information about public agencies' plans and about the achievement of those plans. These plans should identify the key risks faced by the public sector agency. Annual reports can provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, what it has done, where it is now, and what it plans to do. Annual reports should also outline key risks and how the organization manages these risks. In addition, to ensure the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year-end.

The Department's 1997-98 annual report provides limited information on how the Department measures its performance and no information on key risks. Future reports should include a summary of its key performance indicators and targets compared to actual results. A discussion and analysis of this comparison would help the readers assess the Department's performance in achieving its goals. Future reports should also outline the key risks faced by the department and outline how these risks are managed.

Also, the Department's 1997-98 annual report does not provide the intentions or outlook of the Department. Future reports should include a discussion of the direction the Department plans to take. Such a discussion would help readers understand how the Department intends to achieve its goals.

The annual report is written clearly and was tabled within the time frames required by law. However, it was tabled almost twelve months after the Department's year end. In 1994, the Standing Committee on Public

Accounts (PAC) recommended that the law be changed to allow annual reports to be released when the Legislative Assembly is not in session. To date, the Government has not changed the law to comply with PAC's recommendation.

3. **We recommend that the Department continue to improve its annual report.**

<b>Introduction .....</b>	<b>265</b>
<b>Our audit conclusions and findings .....</b>	<b>265</b>
SGI's fraud management system follow-up .....	266
Progress on recommendations .....	267

## Introduction

Saskatchewan Government Insurance (SGI) is a property and casualty insurance corporation. SGI also manages the Saskatchewan Auto Fund (SAF). SAF receives money from the motoring public and pays claims.

SGI Insurance Services Ltd. (SCISL) is a subsidiary of SGI. SGI and SAF own 53% and 20% of SCISL's issued shares respectively. Crown Investment Corporation of Saskatchewan owns the remaining issued shares. SCISL writes property and casualty insurance outside Saskatchewan.

SGI's annual report includes its consolidated financial statements for the year ended December 31, 1998. Those statements report revenue of \$190 million, net profit of \$31 million, and assets of \$342 million.

SAF's annual report includes its financial statements for the year ended December 31, 1998. Those statements report revenue of \$453 million, net increase to rate stabilization reserve (net profit) of \$36 million, and assets of \$602 million.

SCISL's annual report includes its financial statements for the year ended December 31, 1998. Those statements show revenue of \$4 million, net profit of \$1 million, and assets of \$14 million.

## Our audit conclusions and findings

Our Office worked with KPMG, appointed auditor for SGI, SAF and SCISL, using the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. KPMG and our Office formed the following opinions.

**In our opinion for the year ended December 31, 1998:**

- ◆ **SGI's, SAF's and SCISL's financial statements are reliable;**
- ◆ **SGI had adequate rules and procedures to safeguard and control its assets and SAF's assets. SCISL had adequate rules and procedures to safeguard and control its assets; and**

- ◆ **SGI complied with authorities governing its activities and activities of SAF relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing. SCISL complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing and investing.**

In 1996, we audited SGI's fraud management systems and practices. In our 1997 Fall Report – Volume 2, we conclude that, overall SGI had adequate systems and practices to effectively manage the risk of losses due to fraudulent claims. However, we made four recommendations to help SGI improve its fraud management practices. In our 1997 Fall Report – Volume 2, we say we would monitor SGI's actions to address our recommendations. During 1998, we reviewed SGI's actions to address our recommendations. The section below describes how SGI has addressed our recommendations.

### **SGI's fraud management system follow-up**

In our 1997 Fall Report – Volume 2, we make four recommendations to help SGI continuously improve its fraud management practices. We recommend:

- ◆ SGI's Board should approve management's external communication strategy for informing brokers and the public about fraud ethics and SGI's fraud policies.
- ◆ SGI's management needs to provide better information to the Board to monitor SGI's rules and procedures to manage the risk of fraudulent claims.
- ◆ SGI should improve its rules and procedures to ensure that underwriting staff leave clear evidence of the work it has done to identify and assess the risk of fraudulent claims occurring.
- ◆ SGI should establish written rules and procedures for claim investigations by its Special Investigation Unit.



## Progress on recommendations

### **Board approved external communication strategy**

SGL now has a Board approved external communication strategy for informing brokers and the public about fraud ethics and SGL's fraud policies.

### **Better information for the Board of Directors**

SGL now provides better information to the Board to help them monitor SGL's rules and procedures on the management of the risk of fraudulent claims. The Board now receives regular reports on the statistics concerning fraud claim investigations and the results of those investigations in terms of criminal prosecutions. The Board also received an assurance report from its internal auditor on the adequacy of SGL's policies and practices for managing the risk of fraudulent claims.

### **Better rules and procedures established for documenting underwriting**

SGL's underwriting procedures now require its staff to document findings from claim file reviews. SGL's procedures include completing inspection reports; rate calculation and reinsurance calculation forms and obtaining appropriate approvals for certain types of risk. SGL has also established a checklist for fraud management practices by policy type. This checklist provides staff with the nature of possible fraud risks and what they should do to mitigate that risk.

In 1998, SGL joined the Insurers' Advisory Organization Hits program, a central data bank for policy information on personal lines of insurance. This data bank provides a means of sharing claim information with other insurers. SGL has also subscribed to Photoinfo, a data bank of residential and commercial buildings in communities over 2,500 people. This allows underwriters to view a recent photograph of selected buildings. SGL plans to use these data banks to help them reduce the risk of fraudulent claims occurring.

### **Rules and procedures established for special claims investigation**

SGL has established adequate written rules and procedures for claims investigations by its Special Investigation Unit. SGL intends to include these

procedures in its *Claims Adjuster Handbook* and *Personal Injury Protection Plan Handbook*.

### **Board plans to monitor fraud management system**

Management told us SGI's internal auditor plans to provide assurance to the Board with regular reports on SGI's fraud management system. These reports will provide the Board assurance that employees are following established rules and procedures for underwriting and claims investigation.

Executive summary .....	270
Introduction .....	271
What we reported in our 1999 Spring Report .....	271
Development since our 1999 Spring Report .....	272
Working with the WCB .....	273
Our audit conclusions and findings .....	274
Reliability of financial statements .....	275
Disaster recovery plan needed .....	275
Treasury Board directives not followed .....	276
Financial statements approval .....	276
Framework recommended by the <i>Report of the Task Force on Roles,</i> <i>Responsibilities and Duties of Auditors</i> not followed .....	276
Other matters .....	277
Public disclosure of payments required .....	277
Other comments and our additional work .....	278

## Executive summary

In this Chapter, we report the WCB's financial statements for the year ended December 31, 1998 are not reliable, the WCB had adequate rules and procedures to safeguard and control its assets except for the matters described in this Chapter, and the WCB complied with its governing authorities except for the matters described in this Chapter.

In June 1999, when we issued our 1999 Spring Report, we reported the WCB's 1998 financial statements incorrectly report net income of \$52 million. At that time, the evidence we examined indicated the WCB's 1998 financial statements should have reported a \$9 million loss.

In this Chapter, we report the WCB's financial statements should have reported a net income of \$20 million because of the WCB's clarification about one of its rebate programs. Management also advised us that the WCB billed additional premiums to certain employer groups but did not record those premiums in its 1998 financial statements. Management has not provided us evidence to verify these additional premiums. We continue to work with the WCB to verify the amount of the additional premiums that the WCB should report in its 1998 financial statements. Accordingly, at this time we are unable to determine the WCB's 1998 financial results.

For the 1998 audit, the WCB and its appointed auditor did not follow the recommended management/auditor protocols. The recommended management/auditor protocols are designed to ensure the interests of the Legislative Assembly are served. We were concerned that the WCB and its appointed auditor would not follow the recommended management/auditor protocols for our 1999 audit of the WCB. Also, we were concerned that confusion about the WCB's operations may weaken public confidence in this important public agency. We met with the management of the WCB to obtain the WCB's commitment that it would follow the recommended management/auditor protocols for our 1999 audit of the WCB and the WCB would obtain Treasury Board's approval of its 1999 financial statements.

Management provided us those commitments.

## Introduction

The Workers' Compensation Board (WCB) operates under *The Workers' Compensation Act, 1979* (Act). This Act establishes a mandatory no-fault compensation program for Saskatchewan workers. The Board of the WCB administers this program and manages the WCB. It also hears and adjudicates claims on appeal.

The *1998 Annual Report* of the WCB provided to the Legislative Assembly contains the WCB's 1998 financial statements. Those statements report revenues of \$225 million, expenses of \$173 million, net income of \$52 million, and net assets of \$144 million.

In our 1999 Spring Report, we report the WCB's financial statements for the year ended December 31, 1998 are not reliable. In 1998, the WCB decided to provide employers with three rebates for a total of \$84 million. In its financial statements, the WCB accounted for these rebates inconsistently and, in our opinion, incorrectly. As a result, we report in our 1999 Spring Report that the financial statements included in the WCB's 1998 Annual Report overstate revenues and net income by \$61 million, understate liabilities by \$38 million, and overstate overall net assets by \$38 million.

In our 1999 Spring Report, we recommend that the WCB amend its financial statements and then re-issue the amended financial statements.

## What we reported in our 1999 Spring Report

In 1998, the WCB decided to provide employers with three rebates for a total of \$84 million.

- ◆ First, the WCB decided that for the year ended December 31, 1998 certain employers with claims experience better than that of their industry group should receive a rebate of \$14 million.
- ◆ Second, the WCB decided that certain employers should receive a further rebate of \$23 million. This rebate was for those employers who paid the WCB more than the cost of their injury claims for the three-year period ended December 31, 1998.

- ◆ Third, the WCB decided that certain employer groups should receive a rebate of \$47 million. The rebate was for those employer groups who paid the WCB more than the cost of their group's injury claims for period ended December 31, 1996.

The WCB accounted for these rebates inconsistently and incorrectly. The WCB:

- ◆ Recorded the first rebate of \$14 million correctly. The WCB recorded this rebate as a reduction of revenue and net income.
- ◆ Recorded the second rebate of \$23 million incorrectly. The WCB recorded this rebate as a surplus distribution (dividend) to the owners (employers) rather than a reduction of revenue and net income.
- ◆ Recorded the third rebate incorrectly. The WCB only recorded \$9 million of this rebate. The WCB did not record the remaining \$38 million of this rebate. The \$9 million recorded was recorded correctly as a reduction of revenue and net income. In 1998, the WCB decided that employers would receive the third rebate of \$47 million and informed employers that they would receive the rebate over the next five years. The evidence we examined showed that the WCB did not attach any future conditions to the payment of this rebate (i.e., the rebate was not dependent on the financial condition of the WCB). The Canadian Institute of Chartered Accountants (CICA) recommends that organizations record these kinds of transactions as liabilities.

The WCB did not follow the accounting recommendations of the CICA for the second and third rebates.

## **Development since our 1999 Spring Report**

Following our 1999 Spring Report, the WCB worked with the Department of Finance to clarify the Board's intention with respect to the third rebate to employers amounting to \$47 million. In July 1999, the WCB clarified its intention for this rebate. The WCB attached future conditions to the payment of this rebate. The WCB will now annually decide the amount of the third rebate based on the financial condition of the WCB. Also, in the WCB's July 1999 newsletter to the employers, the WCB informed the employers that the third rebate is a discretionary program.

Because the payment of the third rebate is now based on the financial condition of the WCB, it is no longer appropriate to record all of the remaining \$38 million of this rebate as a liability. Instead, the WCB should record a liability for that portion of this rebate (approximately \$9 million) that the WCB decided to pay on December 31, 1998 and paid in the spring of 1999.

In July 1999, we also became aware that in 1998 the WCB decided to levy additional premiums on those employer groups who paid less than their groups' injury claims (deficit) for the period ended December 31, 1996. The WCB determined the total deficit for these groups at December 31, 1996 amounted to \$37 million. The WCB decides annually how much additional premiums it will levy on such groups based on the groups' accumulated injury claim experience. For example, if a particular group's deficit returns to surplus position, then that group would not be assessed any additional premiums.

In 1998, the WCB billed additional premiums to those employer groups. However, the WCB did not record these additional premiums in the WCB's 1998 financial statements.

Management told us, for the year ended December 31, 1998, these additional premiums amount to \$5 million. Management has not provided us any evidence so we can verify the amount of these additional premiums. We continue to work with the WCB to verify the amount of the additional premiums that the WCB should record in its 1998 financial statements. As a result, we are unable to determine the WCB's 1998 financial results.

- 1. We continue to recommend the WCB should amend its 1998 financial statements and obtain Treasury Board's approval for the revised financial statements. The Government should table the revised financial statements in the Legislative Assembly.**

## **Working with the WCB**

In our 1999 Spring Report, we reported the WCB and the WCB's appointed auditor did not follow the management/auditor protocols recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* for the WCB's audit for the year ended December

31, 1998. We were concerned that the WCB and its appointed auditor would continue to ignore management/auditor protocols. If the WCB and its appointed auditor continue to ignore management/auditor protocols, we may not know all significant accounting or audit issues and would not be able to serve effectively the Legislative Assembly. Also, we were concerned that confusion about the WCB's operations may weaken public confidence in this important public agency.

We met with the management of the WCB to obtain their commitment that for the year ending December 31, 1999:

- ♦ all parties would work together to ensure a sound and strong system of management/auditor protocols;
- ♦ the WCB and our Office will ensure there is a clear and rigorous 1999 audit plan. The plan will have a clear timetable and clear expectations;
- ♦ audit planning will be co-ordinated between the appointed auditor, our Office and the WCB's management; and
- ♦ the WCB will make its financial statements public after Treasury Board approves the financial statements.

Management provided us their commitment.

## **Our audit conclusions and findings**

At the time of our 1999 Spring Report, we had not completed all our work relating to the WCB's rules and procedures to safeguard and control its assets and the WCB's compliance with legislative authorities. We have now completed our work.

**In our opinion for the year ended December 31, 1998:**

- ♦ **the WCB's financial statements are not reliable;**
- ♦ **the WCB had adequate rules and procedures to safeguard and control its assets, except for the matters reported in this Chapter; and**



- ◆ the WCB 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 this Chapter.

In this Chapter, we also report other matters for the attention of the Legislative Assembly.

## Reliability of financial statements

As stated earlier in this Chapter, the WCB accounted for its rebate programs inconsistently and inaccurately. Had the WCB accounted for these rebates correctly, its revenue and net income would be reduced by \$32 million, its liabilities would be increased by \$9 million and its overall reserves and injury fund would be reduced by \$9 million.

Also, management told us that in 1998 the WCB billed certain employer groups additional premiums but did not report those additional premiums in its 1998 financial statements. Management has not provided us evidence to verify these additional premiums. We continue to work with the WCB to verify the amount of the additional premiums that the WCB should report in its 1998 financial statements. These additional premiums when reported would increase the WCB's revenue, net income, assets, and overall reserves and injury fund. Accordingly, we are unable to determine the WCB's 1998 financial results.

## Disaster recovery plan needed

The WCB is dependent upon its computer systems. To provide continuous services, the WCB must ensure its systems and data are available when needed.

Sound contingency plans reduce the risk of systems failing, processing data inaccurately and business disruption. The advent of the Year 2000 increases the risk for continuous services and increases the need for a sound contingency plan. Chapter 10 of our 1999 Spring Report sets out necessary steps that should form part of a Year 2000 contingency plan. The WCB needs a written and tested contingency plan to ensure recovery of systems and data in case the WCB's own electronic systems fail or key service providers or suppliers' systems fail.

2. **We recommend the WCB should prepare an adequate contingency plan and test that plan to ensure it works.**

Management told us the WCB now has a contingency plan and all its systems are Year 2000 compliant.

## **Treasury Board directives not followed**

### **Financial statements approval**

Subsection 5(a) of *The Financial Administration Act, 1993* allows Treasury Board to make orders and directives relating to public sector agencies. Subsection 5(d) allows Treasury Board to designate public sector agencies that are subject to its orders and directives. Treasury Board approved a list of agencies that are subject to its orders and directives. The WCB is on that list. The agencies on that list are required to obtain Treasury Board's approval before their financial statements are tabled in the Legislative Assembly. In the past, the WCB has received Treasury Board's approval before the WCB tabled its financial statements in the Legislative Assembly.

For the year ended December 31, 1998, the WCB did not comply with the Treasury Board directive. The WCB tabled its financial statements in the Legislative Assembly on April 7, 1999 without obtaining the Treasury Board's prior approval of the WCB's financial statements. Staff to the Treasury Board received the financial statements for approval on April 8, 1999.

3. **We recommend that the WCB should comply with Treasury Board's directives.**

### **Framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* not followed**

The Task Force on Roles, Responsibilities and Duties of Auditors (Task Force) was formed to establish a better approach to audits when the Government chooses to appoint another auditor. The Task Force recommends an approach that ensures appointed auditors, management, and senior staff of our Office work closely at all stages of the audit to ensure the Assembly and the Government are served effectively. The Standing Committee on Public Accounts and Treasury Board support the

recommendations of the Task Force. In April 1995, Treasury Board decided all Treasury Board Crown corporations and agencies should comply with the Task Force's recommendations. In a letter to Deloitte & Touche dated September 24, 1998, we state we intend to follow the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*. On December 3, 1998, Deloitte & Touche also agreed to follow the framework recommended by the Task Force.

The Task Force recommends a process for finalizing an appointed auditor's report on the reliability of financial statements. Deloitte & Touche signed the auditor's report without going through the process recommended by the Task Force. At the time Deloitte & Touche signed its auditor's report, our Office was still trying to resolve issues reported in our 1999 Spring Report.

4. **We recommend that Treasury Board instruct Deloitte & Touche to follow the framework recommended by the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors*.**

## Other matters

### Public disclosure of payments required

In our 1998 Spring Report, we report the WCB needs to comply with the Standing Committee on Public Account's (PAC) recommendations to provide the Legislative Assembly a list of persons who received money from the WCB and the amount they received (payee information).

PAC has specified the required details of disclosure for government agencies. PAC also recommended different disclosure for certain kinds of payments on an ad hoc basis when PAC thinks different disclosure will not impair achieving its initial objectives for wanting payee information.

We think the Members of the Legislative Assembly (MLAs) have the following three objectives for requiring public disclosure of those persons who receive money from a government organization.

- ◆ MLAs want to monitor who gives money to political parties and who gets money from government organizations;

- ◆ MLAs want to ensure government organizations spend money objectively; and
- ◆ MLAs want to build public confidence by ensuring the use of public money is transparent.

The Legislative Assembly has said that the WCB should not publish a list of the names of individuals receiving compensation. However, the WCB spends a significant amount of money on costs other than compensation such as administration. The WCB has not provided the Assembly with payee information relating to the costs of administration.

On October 6, 1998, PAC considered this matter and recommended that the WCB work co-operatively with the Provincial Auditor to consider alternative public disclosure requirements and report back to PAC at a future meeting.

We met with the WCB's management to discuss alternative public disclosure requirements for the WCB's payee information. The WCB's management told us the WCB does not consider payee information an effective accountability tool. Management also told us the better alternative is for our Office to provide assurance to the Legislative Assembly on the WCB's specific rules and procedures for buying goods and services and setting salary grids for staff and management. While we agree MLAs would find this information useful, we do not think this information alone would be sufficient to meet the MLAs objectives for wanting payee information. See Chapter 15 (Executive Council) for a process for MLAs to decide what payee information the WCB should disclose.

5. **We continue to recommend the WCB should publish a list of persons, other than injured workers, who received money from it and the amounts the person received following PAC's current minimum disclosure amounts. Alternatively, the WCB should discuss with PAC a different public disclosure requirement to meet the MLAs objectives.**

### **Other comments and our additional work**

Our Office and Deloitte & Touche, the WCB's appointed auditor, formed similar opinions on the WCB's rules and procedures to safeguard and control its assets.

Our Office and the WCB's appointed auditor, formed different opinions on the WCB's financial statements for the year ended December 31, 1998, and the WCB's compliance with legislative authorities.

In the opinion of the appointed auditor, the WCB's financial statements for the year ended December 31, 1998 are reliable, and the WCB complied with legislative authorities governing its activities.

The appointed auditor's opinions are included in Appendix 6. We did not rely on the reports of the appointed auditor. However, we used the work of the appointed auditor where possible to form our opinions.

*The Provincial Auditor Act* requires us to do additional work when we are unable to rely on the reports of the appointed auditors. Our additional work consisted of reviewing *The Workers' Compensation Act, 1979*, Treasury Board's directives, and discussion with the WCB's management to understand the nature of transactions and rules and procedures to safeguard and control the WCB's assets.

Introduction ..... 283

Key risks the Board faces ..... 283

    The Board needs to ensure the Legislative Assembly and its committees  
        can function effectively ..... 284

    The Board needs to ensure MLAs can access from the Board appropriate  
        resources, information, and advice to enable them to effectively carry  
        out their responsibilities in the Assembly ..... 285

    The Board needs to ensure MLAs can access from the Board appropriate  
        resources to carry out their activities in their constituencies and are  
        accountable for the use of those resources ..... 286

    The Board needs to ensure the public can assess whether the work of the  
        Assembly and MLAs is relevant and done well ..... 286

Our audit conclusions and findings ..... 287

    Better control over the expenses of caucus offices required ..... 287

    Better internal reports required ..... 289

    List of persons who received public money required ..... 290

    Annual report needed ..... 290

## Introduction

The Board of Internal Economy (Board) assists Members of the Legislative Assembly (MLAs) to perform their responsibilities. It provides funding and support services to MLAs, and to the Legislative Assembly and its committees. It also informs the public of the Legislature's activities. The Board provides administrative services for the Office of the Ombudsman and Children's Advocate; the Information and Privacy Commissioner; and the Conflict of Interest Commissioner.

In 1998-99, the Board received \$15.3 million from the General Revenue Fund and spent this money on its programs. Information about the Board's appropriation appears in the *Public Accounts 1998-99 – Volume 2: Details of Revenue and Expenditures* (1998-99 Public Accounts – Volume 2).

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	\$ 8.8	\$ 8.5
Legislative Assembly Services	3.0	3.5
Administration	1.9	1.8
Caucus Operations	1.0	1.0
Other	0.4	0.5
	<u>\$ 15.1</u>	<u>\$ 15.3</u>

## Key risks the Board faces

The Board plays a key role in helping MLAs perform their important responsibilities. How MLAs carry out their duties influences public confidence in our parliamentary system of government. Responsibilities of MLAs include:

- ◆ making the laws that govern people and the Executive Government;
- ◆ holding the Executive Government accountable for how it carries out its activities; and
- ◆ representing their constituencies in the Assembly.

In assisting MLAs to carry out their important responsibilities, the Board faces many risks. Four key risks the Board needs to manage are:

- ◆ to ensure the Legislative Assembly and its committees can function effectively;
- ◆ to ensure MLAs can access from the Board appropriate resources, information, and advice to enable them to effectively carry out their responsibilities in the Assembly;
- ◆ to ensure MLAs can access from the Board appropriate resources to carry out their activities in their constituencies and are accountable for the use of those resources; and
- ◆ to ensure 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**

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.

To help this happen, the Board provides advisory and staff services to the Legislative Assembly, its committees, and to the Speaker's office. 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 debates and decisions of the Assembly and its committees are properly recorded;
- ◆ the Legislative Assembly building is properly secured, while ensuring public access; and
- ◆ adequate staffing exists in the Assembly to provide sessional services, and staff are properly trained on procedural rules and protocol.



Also, the Board must ensure salaries and benefits of MLAs are set at a level that will attract appropriate people, and are seen as reasonable by taxpayers.

**The Board needs to ensure MLAs can access from the Board appropriate resources, information, and advice to enable them to effectively carry out their responsibilities in the Assembly**

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.

To help MLAs understand the workings of the Assembly and its committees, the Board provides training.

To support the work of MLAs in the Assembly, the Board provides MLAs funding for and access to research and advice. The Board maintains the Legislative library and provides members with legal services for drafting bills, for obtaining legal opinions, and for interpreting legislation and regulations. Also, the Board provides resources to caucus offices for secretarial support, general operating expenses and research.

The Board provides MLAs with administrative and secretarial support and accommodations when working at the Legislative Building.

The Board faces a difficult challenge in determining the amount of resources necessary for MLAs to effectively carry out their work in the Assembly. To determine the amount of resources necessary, the Board needs to obtain the views of MLAs. Also, taxpayers must view the amounts as reasonable. In addition, the Board must ensure the resources are used effectively.

To meet this challenge Cabinet established an Independent Committee on MLA Compensation in 1994 to make recommendations on salaries, allowances, and reimbursement of expenses. The Committee obtained the views of the public and the MLAs in determining its recommendations. Effective July 1, 1996, the Board established new rules and procedures for all expenses based on the Committee's recommendations.

**The Board needs to ensure MLAs can access from the Board appropriate resources to carry out their activities in their constituencies and are accountable for the use of those resources**

To enable MLAs to fulfil their role as representatives of the citizens of Saskatchewan, MLAs need to receive proper expense allowances when working in their constituencies.

The Board must determine what resources are necessary for MLAs to carry out their constituency activities 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.

The Board needs to ensure those resources are used appropriately. The Board makes resources available to MLAs and provides guidance on what the resources can be used for, how to make claims on the resources, and the reporting required. It also monitors all MLAs' expenditures.

As previously discussed, an Independent Committee on MLA compensation made 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**

The Board must ensure the public has the information it needs to understand and assess the performance of the Assembly and MLAs. The public wants to know what the Assembly does and how well it does it.

Helping the public to know what the Assembly does is an important responsibility of the Board. The Board informs the public about debates and decisions through television broadcasts to all constituencies. Its Internet web-site ([www.legassembly.sk.ca](http://www.legassembly.sk.ca)) carries publications of the Assembly's debates and decisions. This site is updated daily. The Board provides verbatim reports, legislative publications, educational material, and visitor services. Also, the Board relies on the Conflict of Interest Commissioner to ensure proper disclosure of MLAs' conflicts of interest.

The public also needs to know what the Board's plans are and what it achieved. The Board needs systems and practices to ensure the public is aware of the Board's goals, objectives, strategies, and action plans.

To enable the public to know how successful the Board is in achieving its goals and objectives, the Board should prepare an annual report.

## Our audit conclusions and findings

In our opinion for the year ended March 31, 1999:

- ◆ the Board had adequate rules and procedures to safeguard and control its assets, except for payments made to caucus offices and the need for better internal reports; and
- ◆ the Board complied with the authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing, except for payments made to caucus offices.

We also note two other matters relating to improving public accountability for the Legislative Assembly's attention.

### Better control over the expenses of caucus offices required

The Board needs to further improve its rules and procedures to know if caucus offices manage public money appropriately. The Board provides public money to caucus offices for research, secretarial, and other general expenses. A caucus office consists of two or more MLAs who belong to the same political party.

The Board paid the following money to caucus offices.

	<u>Original Estimates</u>	<u>Actual</u>
Government Caucus	\$ 402,000	\$ 421,556
Opposition Caucus	317,000	334,145
Third Party Caucus	230,000	232,145
Independent	20,000	17,341
	<u>\$ 969,000</u>	<u>\$ 1,005,187</u>

The Board is accountable to the Assembly for how caucus offices manage public money and must ensure the public money it gives to the caucus offices is spent for the purposes intended by the Board.

The Board has improved its rules and procedures for monitoring how caucus offices manage public money. The Board requires all caucus offices to submit audited financial statements and audited schedules of capital assets to the Board each year. The Board makes the reports available for public viewing and tables the reports in the Legislative Assembly.

However, the Board does not know if caucus offices spend the money for the intended purposes. Audited financial statements and schedules of capital assets do not provide the necessary information to know if the caucus offices spent the money for intended purposes. The Board should require caucus offices to provide reports from their appointed auditors indicating whether the caucus offices:

- ◆ have adequate rules and procedures to safeguard and control public money; and
- ◆ used the money in compliance with the Board's directives.

As described earlier, appointed auditors were not asked to report to the Board on these matters, and we do not audit caucus offices directly. As a result, we are unable to determine whether caucus offices have adequate rules and procedures to safeguard and control public money or whether they used the money in compliance with the Board's directives.

We also reported this matter in previous years.

1. **We recommend the Board should establish rules and procedures to ensure the money provided to caucus offices is spent for the purposes intended by requiring 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 in compliance with the Board's directives.**

## Better internal reports required

The Board needs to continue to improve the performance reports it requires from management.

The Board must have sound performance reports to monitor management's performance to ensure the Board is meeting its goals and objectives, and to provide a sound basis for preparing an annual report (see page 290).

The Board now receives quarterly reports that compare actual financial and compliance with authorities results to planned results with explanations of significant differences. The Chair of the Board also approves the report.

However, the Board does not receive operational reports that show how the Board performed. (i.e., what results the Board expects and how it is performing towards those expectations).

The Board needs to tell management what are its operational goals and objectives. Management should then prepare, for the Boards review and approval, operational reports that show whether operational goals and objectives were met. For example, an operational report could show whether MLA's are satisfied with administration and secretarial support and accommodations provided by the Board.

We also reported this matter in previous years.

### **2. We recommend the Board should:**

- ◆ **define and document its operational goals and objectives;**
- ◆ **define and document the operational reports it expects to receive from management; and**
- ◆ **regularly receive and approve operational reports. These reports should compare actual results to planned results for the year to date and explain significant differences.**

## List of persons who received public money required

The Board did not provide the Assembly with a list of persons who received public money from caucus offices and the amounts received. The Board is responsible for the money spent by caucus offices.

The Standing Committee on Public Accounts (PAC) has specified the required details of disclosure for organizations that spend public money.

Public disclosure is important. First, disclosure serves to remind all officials they are spending money entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures those who spend public money know that their use of that money will be public. Third, public disclosure ensures the public knows who has received its money.

We also reported this matter in previous years.

### 3. We recommend the Board should:

- ◆ publish a list of persons who received money from caucus offices and the amounts the persons received following the PAC's current minimum disclosure amount; or
- ◆ discuss different public disclosure requirements with the PAC.

The Board told us it:

“continues to believe that by fully implementing the recommendations of the Independent Committee on Members' Remuneration (McDowell Report), the Board has achieved a high level of accountability for these expenditures that meets the expectations of the taxpayers.”

## Annual report needed

The Board does not prepare an annual report on its performance.

*The Legislative Assembly and Executive Council Act* does not require the Board to prepare an annual report. However, almost all government organizations provide the Assembly with an annual report. In addition, the

Standing Committee on Public Accounts recommended that all government departments provide timely annual reports on their activities.

To assess performance of public sector agencies, Members of the Legislative Assembly and the public need to know how the agency is managing its key risks. They also need information about the agency's goals and objectives and how successful the agency has been in achieving those goals and objectives. Annual reports can provide this information. To be good accountability documents, annual reports should describe what the public agency is all about, how it manages its key risks, what it has done, where it is now and what it plans to do. In addition, to ensure the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year end.

As we noted earlier, the Board also needs to improve its internal reports. These reports would provide a sound basis for the preparation of an annual report.

The Board plays a key role in fostering public confidence in our parliamentary system of government. An annual report would contribute to public confidence.

We also reported this matter in previous years.

**4. We recommend the Board should prepare an annual report on its performance and provide the report to the Legislative Assembly.**

The Board told us it:

“continues to believe that the best means of enabling the public to assess whether the work of the Assembly and MLAs is relevant and well-done is by ensuring complete and free public and press access to House and Committee proceedings through television, printed Hansard, the internet website and open, public meetings.”

**Introduction ..... 295**

    Government spending on transportation ..... 295

    Significant issues facing the DHT ..... 296

    Department spending ..... 296

**Our audit conclusions and findings ..... 297**

    Current status of prior recommendation ..... 297



## Introduction

The Department of Highways and Transportation (DHT) contributes to the social and economic well-being of the Province by:

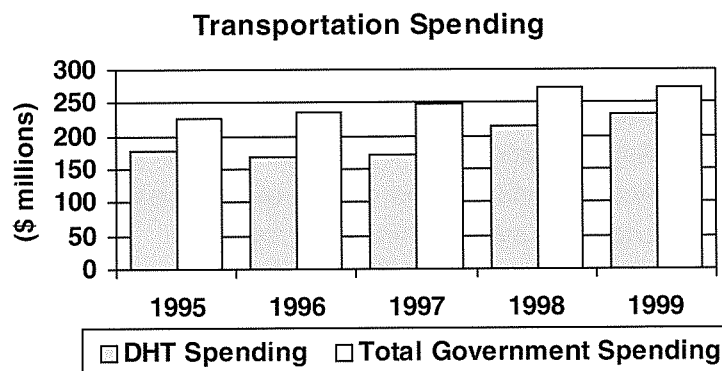
- ◆ developing and administering transportation policies and programs; and
- ◆ building, preserving, and regulating the safe use of the transportation system. This system includes public highways, winter roads, bridges, and provincial airports.

The DHT has two special purpose funds to help manage its business. The DHT uses the Highways Revolving Fund to allocate its costs to programs and custom-work projects. The DHT uses the Transportation Partnerships Fund to generate revenue to be spent on highway improvements. The Fund generates revenue from trucking partnership agreements and through marketing of transportation-related technology and expertise. The DHT is also responsible for the Saskatchewan Grain Car Corporation.

## Government spending on transportation

In 1998/99, the Summary Financial Statements showed the Government spent \$271.7 million on transportation (p. 42 of *Public Accounts 1998-99: Volume 1: Main Financial Statements*). This spending is made up of \$232.3 million by the DHT, \$23.7 million by the Department of Municipal Affairs, Culture and Housing, \$0.2 million by the Department of Intergovernmental and Aboriginal Affairs and \$15.4 million by the Saskatchewan Transportation Company.

The following graph shows the DHT spending and total Government spending on transportation for the last five years.



## Significant issues facing the DHT

In April 1997, the DHT released its long-term transportation strategy entitled *Investing in Transportation - A Transportation Strategy for Saskatchewan People* (Strategy). This Strategy can also be found on the DHT's website – ([www.gov.sk.ca/govt/highways](http://www.gov.sk.ca/govt/highways)).

This Strategy clearly describes the challenges the DHT faces in the transportation sector. In addition, the Strategy sets out specific actions planned to address these challenges.

The DHT's goals and objectives are in line with the Strategy. We look forward to the DHT providing Members of the Legislative Assembly (MLAs) and the public with annual reports on its progress on achieving the Strategy and, in turn, its goals and objectives.

We encourage MLAs and the public to use the information contained in the Strategy, the DHT's website and the DHT's annual report. This information will help them understand the issues that the DHT faces and enable them to assess the DHT's performance.

## Department spending

In 1998/99, the DHT received \$232.3 million from the General Revenue Fund and spent this money on its programs. The DHT also earned revenues of \$11.8 million. Information about the DHT's spending and revenues are in the *Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure*.

The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Construction of transportation system	\$ 68.2	\$ 75.4
Preservation and operation	130.7	137.6
Administration	4.8	5.0
Accommodation and central services payments	6.9	6.5
Logistics, planning and compliance	<u>8.2</u>	<u>7.8</u>
	<u>\$ 218.8</u>	<u>\$ 232.3</u>

## **Our audit conclusions and findings**

This Chapter contains an interim report on our audit findings on the DHT for the year ended March 31, 1999. We have not completed our audits of the DHT, the Highways Revolving Fund and the Transportation Partnerships Fund for the year ended March 31, 1999. We will report our final conclusions and findings on the DHT and its Funds in a future Report.

We reported our audit conclusions and findings for the Saskatchewan Grain Car Corporation (Corporation) for the year ended July 31, 1998 in our 1999 Spring Report. We have not completed our audit of the Corporation for the year ended July 31, 1999. We will report our conclusions and findings on the Corporation in a future Report.

### **Current status of prior recommendation**

In prior Reports to the Assembly, we recommended the DHT should clearly document systems and practices necessary to prepare sound interim financial reports. The Standing Committee on Public Accounts agreed with our recommendation.

Management needs sound financial reports throughout the year to make decisions. To ensure the interim financial reports are timely, complete, and accurate management needs to document its systems and practices for preparing those reports.

During the year, the DHT began implementing a new financial reporting system for all of its operations. Management has not yet documented its systems and practices for preparing sound interim financial reports.

We continue to recommend the DHT document its systems and practices for preparing sound interim financial reports.

Introduction .....	300
Our audit conclusions and findings .....	301
List of persons who receive money from government agencies needed .....	301
<i>The Tabling of Documents Act</i> requires change .....	304
Improved public accountability required .....	305
Exhibit 1 - Government agencies that do not make public a list of persons who receive money from those agencies .....	306
Exhibit 2 - Suggested criteria for MLAs' use for deciding what information government agencies should disclose and to whom .....	308

## Introduction

The purpose of the Office of the Executive Council (Department) is to facilitate and communicate decisions of the Executive Council (Cabinet). The Department:

- ◆ provides research, analysis, and policy advice to Cabinet and its committees;
- ◆ coordinates policy development and government communications; and
- ◆ manages Cabinet records.

The Department provides support to the Premier in his role as: Head of Government; Chair of Cabinet; and Head of the political party with a mandate to govern.

The Department received \$6.9 million from the General Revenue Fund and spent this money on its programs. *The Public Accounts 1998-99: Volume 2: Details of Revenue and Expenditure* contains information about the Department's expenses.

The following is a list of major programs and spending:

	<u>Original Estimates</u>	<u>Actual</u>
	(in millions of dollars)	
Administration	\$ 2.8	\$ 2.8
Communications, Media Services, House Business and Research	1.4	1.6
Cabinet and policy and planning secretariats	1.1	1.0
Accommodation and central services	0.9	0.7
Members of Executive Council	0.7	0.7
	<u>\$ 6.9</u>	<u>\$ 6.8</u>

## Our audit conclusions and findings

In our opinion, for the year ended March 31, 1999:

- ◆ the Department had adequate rules and procedures to safeguard and control its assets; and
- ◆ the Department complied with authorities governing its activities relating to financial reporting, safeguarding assets, revenue raising, spending, borrowing, and investing.

We also report three other matters for the Legislative Assembly's attention.

### List of persons who receive money from government agencies needed

Many government agencies do not make public a list of persons who received money from them.

In past reports to the Assembly, we have recommended all government agencies should provide the Assembly with a list of persons (e.g., employees, suppliers) who received money from those agencies. The Standing Committee on Public Accounts (PAC) has considered the need for this information. PAC has recommended to the Assembly and the Assembly has agreed:

- ◆ on the required details of disclosure for government agencies;
- ◆ all government agencies reporting to Treasury Board should provide a list of persons who have received money; and
- ◆ Crown corporations should have the same public reporting requirements as government departments, unless otherwise stated in the mandate of the corporation.

We are often reminded that public disclosure is important for three reasons. First, public disclosure serves to remind all government officials they are spending money that is entrusted to them by the public. Second, public disclosure adds rigour to decision-making as it ensures those who

spend public money know their use of that money will be public. Third, public disclosure ensures the public knows who has received their money.

We think Members of the Legislative Assembly (MLAs) have the following three objectives for requiring public disclosure of those persons who receive money from a government agency (e.g., department, Crown corporation).

- ◆ MLAs want to monitor who gives money to political parties and who gets money from government agencies;
- ◆ MLAs want to ensure government agencies spend money objectively; and
- ◆ MLAs want to build public confidence by ensuring the use of public money is transparent.

To achieve the MLAs' objectives, the Assembly, through PAC, has specified it wants the following general standard of public disclosure of who received money from government agencies. In addition, the Assembly wants this information tabled in the Assembly:

- ◆ persons who received salaries of more than \$2,500 per year;
- ◆ suppliers of goods and services who received more than \$20,000 per year; and
- ◆ persons who received transfer payments of more than \$5,000 per year.

The Assembly has allowed some exceptions, e.g., payments to social assistance recipients, Workers' Compensation Board payments to injured workers and cases where PAC advised that this information was not necessary to achieve the MLAs' objectives. Also, the Assembly has decided that some payments (e.g., those made to MLAs) should have more disclosure than the general standard.

However, the Assembly has not enacted any laws requiring government agencies to provide a list of persons (e.g., employees, suppliers) who received money from those agencies.

In February 1998, PAC discussed its previous recommendation regarding agencies making public lists of persons who have received money from them. PAC agreed the spirit of accountability is an important fundamental of government. Also, PAC noted that circumstances for every government agency may be unique and may vary, and that broad sweeping recommendations that blanket all agencies are not appropriate.

Exhibit 1 lists those government agencies that do not make public a list of persons (e.g., employees, suppliers) who received money from those agencies. Those agencies represent approximately 40% of all government spending.

In November 1998, PAC recommended that the Provincial Comptroller work co-operatively with the agencies involved, the affected departments and our Office. The following is a progress report on the status of work on the recommendation. The Comptroller's Office began discussions with our Office and in March 1999, we provided them with a process we believe would achieve the desired degree of public disclosure. We met to discuss this process in May 1999. On November 1, 1999, we sent the Comptroller's Office a proposal of how Members of the Legislative Assembly could apply this process to help them make their decisions on public disclosure. This proposal is included in Exhibit 2.

Also, in Chapter 13 of this Report, we state the Board of Internal Economy could improve public accountability if it made public a list of persons who received money from caucus offices.

Some government agencies think they should not have to disclose this information for certain payments because they think the information should be confidential. We think the Legislative Assembly should decide when this information should be confidential as it did for payments to doctors under *The Saskatchewan Medical Insurance Act*.

**1. We recommend:**

- ◆ all government agencies should make public a list of persons (e.g., employees, suppliers) who have received money from them and the amounts the person received following the Assembly's current disclosure standard; or



- ◆ government agencies should discuss alternate disclosure requirements that will achieve legislators' objectives for requiring this information with PAC or, if the Assembly so directs, with the Crown Corporations Committee.

### ***The Tabling of Documents Act requires change***

*The Tabling of Documents Act, 1991* (Act) requires change so government agencies can provide legislators and the public with timely annual reports.

Annual reports are important accountability reports. Legislators and the public use annual reports to assess the performance of government agencies. Annual reports are most valuable when legislators and the public have access to the reports soon after the year to which the reports relate.

The Act sets out the laws that most government agencies must follow for making their reports public. Agencies must table annual reports and other documents in the Assembly to make them public. Annual reports are not available to legislators and the public until they are tabled in the Assembly. This Act applies to nearly all agencies other than Crown Investments Corporation of Saskatchewan and its subsidiaries.

The requirements of the Act results in legislators and the public receiving reports that contain information that has little value because the information is not current. For example, in other Chapters in this report, we report government agencies did not make their annual reports for the year ended March 31, 1998 public until April of 1999.

We think public accountability is improved when legislators and the public have access to annual reports of government agencies on a timely basis.

In our 1994 Fall Report we recommended the Government should present changes to the law to the Assembly that ensure timely public release of annual reports of all government agencies. In 1994, 1996, and 1999, PAC recommended the Government should amend legislation to enable the tabling of reports through the Office of the Clerk when the Assembly is not sitting. The Government has not presented changes to the Act to effect this recommendation.

2. We recommend the Government should present legislation to the Assembly to amend *The Tabling of Documents Act, 1991* to allow the tabling of reports through the Office of the Clerk when the Assembly is not sitting.

## Improved public accountability required

The Department should provide an annual report to the Assembly to improve the Department's public accountability.

*The Government Organization Exemption Regulations* exempt the Department from the requirement to prepare an annual report.

The public could use an annual report to understand and assess the performance of the Department.

The annual report should provide useful and timely information. The annual report should describe:

- ◆ what the Department is all about;
- ◆ what the Department has done (including audited financial statements);
- ◆ where the Department is now; and
- ◆ what the Department plans to do.

We also reported this matter to the Assembly in prior years. The Standing Committee on Public Accounts considered this recommendation and did not agree.

We continue to think an annual report would help the public understand and assess the performance of the Department.

## **Exhibit 1 – Government agencies that do not make public a list of persons who received money from those agencies**

### **Crown Investments Corporation of Saskatchewan and agencies it controls**

(Based on the most recent information available which is as at December 31, 1998)

Crown Investments Corporation of Saskatchewan and its share capital subsidiaries

CIC Industrial Interests Inc.

CIC Pulp Ltd.

Genex Swine Group Inc.

Western Canadian Beef Packers Inc.

Northern Enterprise Fund Inc.

Saskatchewan Development Fund Corporation

Saskatchewan Development Fund

Saskatchewan Government Growth Fund Management Corporation

Saskatchewan Government Growth Fund Ltd.

Saskatchewan Government Growth Fund II Ltd.

Saskatchewan Government Growth Fund III Ltd.

Saskatchewan Government Growth Fund IV Ltd.

Saskatchewan Government Growth Fund V (1997) Ltd.

617275 Saskatchewan Ltd.

Saskatchewan Government Insurance and its subsidiary

SGI CANADA Insurance Services Ltd.

Saskatchewan Opportunities Corporation

Saskatchewan Power Corporation and its subsidiaries

Power Greenhouses Inc.

SaskPower International Inc.

SaskEnergy Incorporated and its subsidiaries

Bayhurst Gas Limited

SaskEnergy International Inc.

Many Islands Pipe Lines (Canada) Limited

TransGas Limited

Saskatchewan Telecommunications Holding Corporation and its subsidiaries

Saskatchewan Telecommunications

Saskatchewan Telecommunications International Inc.

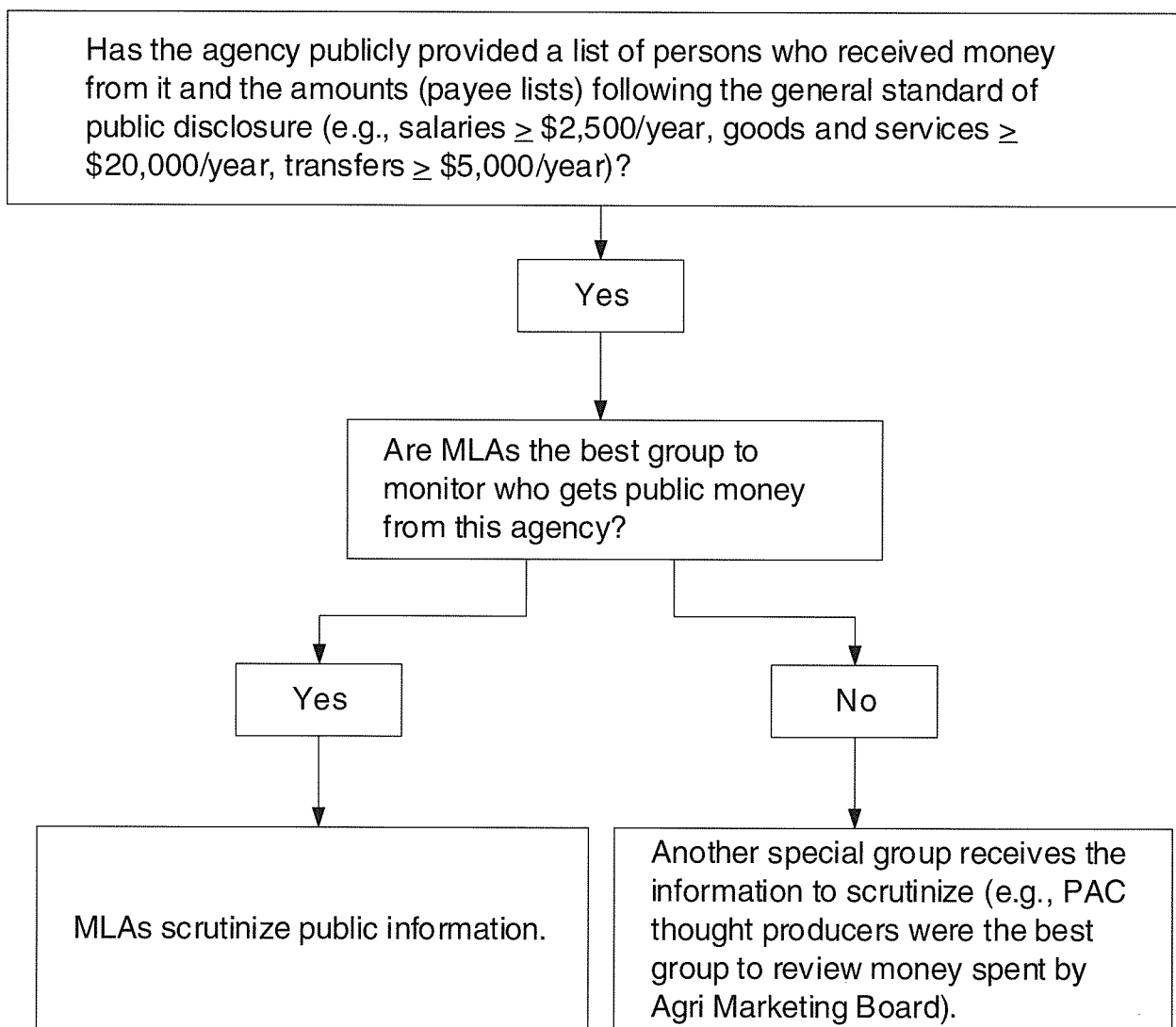
SaskTel Telecommunications Consulting Inc.  
SaskTel U.K. Holdings Inc.  
SaskTel Holding (New Zealand) Inc.  
SaskTel New Media Fund Inc.  
3339807 Canada Ltd.  
3364381 Canada Ltd.  
DirectWest Publishing Partnership  
604408 Saskatchewan Ltd.  
Hollywood at Home Inc.  
Hospitality Network of Canada  
620064 Saskatchewan Ltd.  
SaskTel Data Exchange Inc.  
Information Queries and Analysis Partnership  
Saskatchewan Transportation Company  
Saskatchewan Water Corporation

**Other agencies**

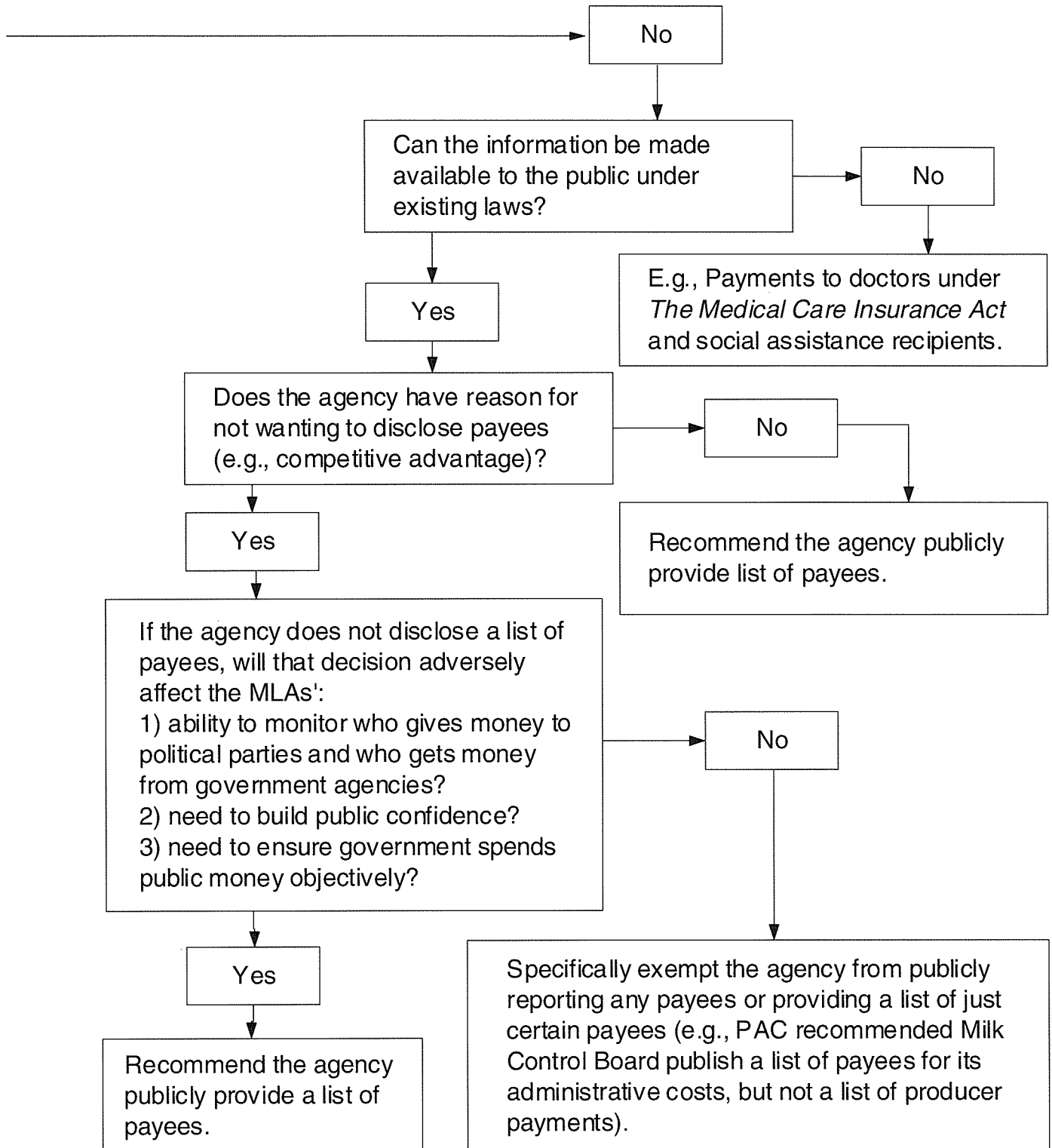
(Based on the most recent information available)

Department of Health – Prescription Drug Plan  
Saskatchewan Auto Fund  
Saskatchewan Indian Regional College  
SaskPen Properties Ltd.  
SP Two Properties Ltd.  
Workers' Compensation Board

## Exhibit 2 - Suggested criteria for MLAs' use for deciding what



## information government agencies should disclose and to whom



**Working together to gather information for  
public reports**

**16**

**Introduction ..... 313**

**Saskatchewan’s Action Plan for Children ..... 313**

**Best practices reflected by the Action Plan for Children..... 314**

    Clarifying purposes for gathering information ..... 315

    Gaining agreement from partner organizations to provide information ..... 317

    Removing barriers to assemble information..... 318

    Gaining agreement from partner organizations to report information publicly ..... 319

**Summary ..... 320**

**Public reports of the Action Plan for Children from 1993 to mid-1999 ..... 321**

**Selected references..... 322**

## Introduction

Challenges facing citizens sometimes do not match the neat organizational divisions of government. In order to better provide services to citizens, some governments are bridging organizational boundaries to coordinate and integrate services and programs.

The delivery of certain government services and programs can therefore involve many different government and, at times, non-government organizations. Since the early 1990s, the Government is using a more formal intersectoral approach to integrate and coordinate some of these programs and services. These approaches bring more than one organization or sector together for common purposes. Recent examples include the Saskatchewan Training Strategy and the Saskatchewan's Action Plan for Children.

In past reports, our Office set out the importance of good public reporting by the Government. We encourage the Government to publicly report on its plans, activities and results. When more than one organization is involved, we recognize additional coordination is necessary to achieve good public reports. One aspect requiring additional attention is how these organizations work together to gather information for public reports.

In Chapter 6 of our 1999 Spring Report to the Legislative Assembly, we highlight best practices that intersectoral groups should use to gather information for public reporting. This Chapter describes how one intersectoral initiative, the Saskatchewan's Action Plan for Children, uses these best practices to gather information to report publicly.

Our Office wants others to will consider these best practices to improve their reporting capacity and in turn to improve the nature and content of their public reports.

## Saskatchewan's Action Plan for Children

The Action Plan for Children is an intersectoral initiative that combines the efforts of nine Government organizations and many communities and agencies across Saskatchewan. It promotes and increases the awareness of issues affecting children, youth and families. It has regularly reported to the public since 1993.



The Action Plan is led by an Interdepartmental Steering Committee, with representatives from each of the above partner organizations. Exhibit 1, sets out the nine partner organizations. Several subcommittees (e.g., Communications, Child Indicators) and working groups (e.g., Early Childhood Development Working Group) report to the Steering Committee.

**Exhibit 1      Partner organizations of the Saskatchewan's Action Plan for Children**

The government organizations (to which we refer in the Chapter as "partner organizations") of the Saskatchewan's Action Plan for Children include:

- Department of Education
- Department of Post-Secondary Education and Skills Training
- Department of Health
- Department of Intergovernmental and Aboriginal Affairs
- Department of Justice
- Department of Municipal Affairs, Culture and Housing
- Department of Social Services
- Office of Northern Affairs
- Women's Secretariat

## **Best practices reflected by the Action Plan for Children**

Our Office worked closely with the Action Plan for Children's Interdepartmental Steering Committee (Steering Committee) to develop the following best practices. These represent best practices for gathering information for public reports in situations when more than one organization or sector is involved:

- ◆ clarify the purposes for gathering information
  - identify purposes for gathering information;
  - accommodate differing purposes;
  - confirm intended purposes with partner organizations; and
  - evaluate whether planned information gathering processes will achieve purposes.

- ◆ gain agreement from partner organizations to provide information
  - agree on responsibilities of partner organizations for gathering and providing information;
  - assess availability of information; and
  - define reasonable information characteristics.
- ◆ remove barriers to assemble information
  - agree on format for organizing information related to purposes;
  - resolve information incompatibilities; and
  - verify that information received will meet purposes.
- ◆ gain agreement to report information publicly
  - analyze and interpret information;
  - obtain consensus on what, how and when to report; and
  - obtain support of partner organizations to report publicly.

We studied how the Action Plan for Children gathered information for its public reports to see how what they did reflected these best practices. We focused on information gathering between January 1997 and June 1999, but we also examined earlier information when necessary to show best practices.

## Clarifying purposes for gathering information

When several organizations work together to report publicly, they must have a clear understanding of why they are reporting. The Action Plan for Children clearly identifies its purposes for gathering and reporting information in its public reports. The Action Plan also clearly identifies its purposes for gathering information in a policy framework and in the terms of reference for the Action Plan's Steering Committee. These provide the Action Plan with structures to enable it to do its work.

The Action Plan's Steering Committee uses the policy framework to guide the nature and type of information the Action Plan reports to the public. Steering Committee members told us they refer often to the policy framework for guidance.

The Steering Committee's terms of reference include the purposes for public reports. The terms of reference suggest that the Action Plan for Children will report for the purpose of profiling positive examples of

initiatives that benefit children. The terms of reference also state that the Action Plan will report to the public for the purpose of accountability.

With many organizations involved, purposes for reporting sometimes differ. To help address this challenge, the Steering Committee and its subcommittees use formal written workplans and communication plans. These plans specify purposes and goals for reports. Through the process of developing and discussing these plans, the Action Plan confirms its purposes for the public reports with the organizations involved.

When many organizations will use one report, it is important to identify intended audiences. The Action Plan for Children identifies audiences through:

- ◆ the active participation of partner organizations;
- ◆ cross-membership of individuals on committees and working groups; and
- ◆ close communication with related organizations such as the Council on Children and the Children's Advocate.

These practices and structures promote liaison among the many organizations. This liaison further assists the Action Plan for Children in making information available to many groups, thus furthering its goal of advancing a province-wide children's agenda of improving the well being of children.

The Action Plan for Children also identifies public accountability as a goal for its public reporting. We heard from the Steering Committee that they are working toward this goal. It is not yet achieved. The Action Plan's current reporting strategy highlights selected projects (e.g., indicating the nature and number of projects and related dollars). The Action Plan's public reports do not yet fully describe how the Action Plan has improved the well-being of children in the province.

The Action Plan for Children is taking steps to build its capacity to report publicly in ways that satisfy accountability. For example, the mandate and work of its Child Indicators Subcommittee should contribute to achieving this goal. The Child Indicators Subcommittee's work is preparing a foundation for future reporting on indicators of child well-being and on the performance of the Action Plan. This shows how the Action Plan

evaluates whether its reporting processes are achieving its purposes and changes its processes to better achieve its goals.

## **Gaining agreement from partner organizations to provide information**

For an intersectoral initiative to report, the partner organizations need to agree on who is responsible for gathering and providing specific information. The terms of reference for the Steering Committee specify a lead organization (i.e., the Department of Social Services) and clearly describe the role of Steering Committee members in gathering information for public reports.

The members of the Steering Committee accept responsibility for identifying where to obtain information. Members consistently gather information for their own organization and in their own sector. They accept responsibility for obtaining the commitment of their organizations to provide key information and resources.

In some cases, information is already public. In other cases, partner organizations require approval for release of information for use in public reports. In these situations, members of the Steering Committee or its Communications Subcommittee formally obtain senior management approval.

The Steering Committee assigns responsibility for the assembly of the information to the Action Plan Coordinator or to an appropriate subcommittee. The partner organizations share the costs of gathering and publishing information. The Steering Committee's practice is to reach consensus on how costs will be shared. Often the largest partner organizations contribute the largest amounts.

We expected that the Steering Committee would have required that information for public reports meet specific characteristics (e.g., reliable, comparable, complete or understandable). Steering Committee members are aware of desirable information characteristics and the Steering Committee relies on this expertise when the members select information for public reports. However, the Steering Committee has not yet formally defined desirable characteristics for information in public reports. This would be a helpful step that would assist the Action Plan, particularly when Steering Committee membership changes.

## Removing barriers to assemble information

Information gathered from many organizations is likely to differ in many respects. Partner organizations each tend to have their own way of doing things: they define concepts differently, collect different information and use different formats. The resulting incompatibilities make public reporting more difficult.

The Action Plan for Children's practices reduce incompatibilities. For example, it establishes in advance the purposes of reports and the formats to be used for gathering information. The Action Plan's policy framework helps it guide the nature and type of information to report.

In some cases, subcommittees that gather information also set the format of information to gather. For example, the Prevention and Support Grants Review Subcommittee sets the format of information to gather on local projects. When local projects receive funding, they sign agreements to report information in this format.

Once information is gathered, it needs to be combined in a way that is useful and acceptable for all sectors. The Steering Committee clearly assigns responsibility for bringing the information together. It primarily assigns this role to the Action Plan Coordinator and the Communications Subcommittee.

The Action Plan Coordinator and the Communications Subcommittee combine the language and formats that come from different sectors. Differences in language between sectors can make this a difficult task. For example, the word "children" often means ages 0-18 to the health sector, 5-18 to the education sector, and 12-18 to the justice sector.

A best practice is to use a glossary or lexicon to help promote a common understanding on what words mean. The first public Action Plan for Children document, *Children First: An Invitation to Work Together*, contains a glossary. A more recent report, *Building on Community Success*, also helps to create a common vocabulary by defining important principles and concepts.

After the information for public reports has been gathered, assembled and formatted, the Communications Subcommittee sends the draft report back to organizations that provided the information. It asks them to confirm the accuracy of the information.

The Steering Committee works through many draft versions of the report with the Communications Subcommittee and partner organizations. When necessary, partner organizations or subcommittees are asked to add further information to fill gaps. These practices help ensure that the information fits within the Action Plan's policy framework and will work in all sectors for the intended purposes.

## **Gaining agreement from partner organizations to report information publicly**

Different organizations looking at the same information may interpret the information differently. This poses a challenge to writing a report acceptable to all of the organizations.

The Action Plan for Children uses discussions at Steering Committee meetings to build consensus on how to interpret the gathered information. Steering Committee members discuss their interpretations and find common ground. When it is difficult to reach a consensus, members of the Steering Committee told us that their practice is to respect and accommodate alternate views.

The Steering Committee is also of central importance in obtaining agreement from the partner organizations to proceed with a public report. The Steering Committee reaches a consensus regarding what should be reported, when and by whom. It does this through considering and agreeing on workplans and communication plans. This practice results in written documents that clearly set out plans for public reports, specify lead responsibility and indicate time frame. Without consensus, the Steering Committee does not proceed.

Before reports are released publicly, they must receive formal approval from the partner organizations. The Action Plan for Children has set up approval procedures to obtain the necessary senior management approvals. These procedures vary among the partner organizations. We were told by Steering Committee members that approval is expedited by members taking draft reports directly to their senior management for approval.

## Summary

When many organizations work together to produce public reports, they face special challenges. The Action Plan for Children has met these challenges in reporting publicly on its activities and results.

The processes used by the Action Plan for Children to gather information for public reports reflect best practices. The processes reveal the complexity involved in coordinating the efforts of multiple organizations and provide an example for other intersectoral initiatives facing similar challenges.

The Action Plan for Children has a goal of improving its reporting to satisfy public accountability. We look forward to future reports from the Action Plan that more fully describe how the Action Plan is improving the well-being of children in the province.

We wish to thank the Interdepartmental Steering Committee of the Action Plan for Children for their close co-operation and assistance during this study. We encourage other intersectoral initiatives to use best practices to enable them to effectively report their plans, activities and results to the public.

## Public reports of the Action Plan for Children from 1993 to mid-1999

- ◆ *Children First: An Invitation to Work Together—Creating Saskatchewan's Action Plan for Children* (1993). This booklet described the need for a coordinated effort on children's issues, proposed a policy framework and invited comment and participation.
- ◆ *Progress Report, Saskatchewan's Action Plan for Children, One Year Later* (Summer 1994). This booklet summarized responses to the first report, confirmed the policy framework and outlined initiatives already underway.
- ◆ *Our Children, Our Future: Saskatchewan's Action Plan for Children—Four Years Later* (November 1997). This booklet profiled Action Plan for Children accomplishments and described future directions.
- ◆ *Building on Community Success—Creating a Long Term Plan for Saskatchewan's Youngest Children and their Families* (April 1999). This booklet sets out a proposed framework to promote early childhood development.
- ◆ Factsheets. These are single page, double-sided documents, printed and updated as required.
  - What is Saskatchewan's Action Plan for Children?
  - Valuing our Children
  - Policy Framework
  - Saskatchewan's Council on Children
  - "Let's Act" - Saskatchewan Justice and the Child Action Plan
  - "Let's Act" - Integrated School-Linked Services
  - "Let's Act" - Sport and Recreation for Youth-at-Risk
- ◆ "Budget Flyers." These fold-out flyers are released annually to coincide with the provincial budget. The budget flyers describe new Action Plan initiatives and provide highlights from past initiatives.



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<b>Executive summary .....</b>	<b>327</b>
<b>Glossary .....</b>	<b>328</b>
<b>Introduction .....</b>	<b>329</b>
<b>Background .....</b>	<b>329</b>
<b>Scope and objective of our work .....</b>	<b>329</b>
<b>Observations .....</b>	<b>330</b>
Year 2000 governance and accountability .....	330
Treasury Board sector .....	332
Steps done by Treasury Board sector .....	332
Status of Treasury Board sector .....	332
Conclusion on the Treasury Board sector steps .....	333
Crown corporation sector .....	333
Steps done by Crown corporation sector .....	333
Status of the Crown corporation sector .....	334
Conclusion on the Crown corporation sector's steps .....	335
District health board sector .....	335
Steps done by the district health board sector .....	335
Status of the district health board sector .....	336
Conclusion on the district health board sector's steps .....	337
Summary .....	338
<b>Exhibit 1 .....</b>	<b>339</b>
Past recommendations .....	339
<b>Exhibit 2 .....</b>	<b>340</b>
Agencies surveyed by the Y2K Office .....	340
Crowns surveyed by CIC .....	341
<b>Exhibit 3 .....</b>	<b>342</b>
Year 2000 Internet Sites .....	342

## Executive summary

In this Chapter, we comment on the reasonableness of the steps that the Government has taken to prepare for the Year 2000. The Government has put in place key offices to monitor and report on the progress of its agencies. This Chapter discusses the work the agencies have done. The reports of the key offices to the Government indicate most mission critical government systems are Year 2000 ready and most government agencies have a contingency plan. The health districts started later and still have some work to do. We are not giving assurance that the Government is Year 2000 ready and performed its Year 2000 work with due diligence. We do not have the resources to independently review all the work done by the Government on its mission critical systems.

The Government has spent over \$100 million dollars updating, replacing and testing systems and preparing contingency plans. The contingency plans help the Government ensure it can provide critical services that impact the health, safety and economic well being of its citizens. The Government's effort now is to ensure all its agencies have prepared or updated their contingency and communication plans in case of an emergency resulting from a Year 2000 issue. The plans prepared now will help the Government deal with disrupted services if an emergency occurs. The communication plans are to ensure citizens receive accurate and balanced information.

## Glossary

**Mission Critical System** – Are one or more automated processes that support an important government function. A system is mission critical when it supports a core business function that if it fails will cause inconvenience to the government or public.

**Year 2000 Issue** – The Year 2000 issue refers to a design flaw in how computer chips and systems treat the Year 2000 and subsequent years. It includes the problems that might be encountered in any level of computer hardware and software that need to correctly interpret year-date data represented in 2-digit-year format.

**Year 2000 Ready** – The capability of a computer systems (hardware and software) or embedded chips when used with associated documentation, to correctly process, provide and/or receive date data within and between the 20<sup>th</sup> and 21<sup>st</sup> centuries.

**Contingency Plan** - A series of procedures for an organization to follow so that it will continue operating if a key business process fails.

**Due Diligence** - To discharge their duties with the care, diligence and skill that a reasonably prudent person would exercise in the circumstances.

## Introduction

Year 2000 issues have received a lot of attention world wide because of the cost and the potential disruption to essential services. The Year 2000 issues have been described in our previous reports and summarized in our Glossary. The Government is working hard to fix its Year 2000 issues and manage its risk.

The Government has spent over \$100 million dollars updating, replacing and testing systems and preparing contingency plans. The contingency plans help the Government ensure it can provide critical services that impact the health, safety and economic well-being of its citizens.

The Year 2000 is a few weeks away. It is important at this time for the Government to provide accurate and balanced information to the public on what it has done and the status of its Year 2000 work. Roger Ferguson, a governor with the Federal Reserve in the United States stated:

Over the past year, the Year 2000 issue has evolved from a technology problem to a senior management concern. It has now become an issue of public confidence. As the public begins to form their opinions about what to expect from the rollover and decide whether to take any particular precautions, it is vital that they have access to accurate and balanced information.

The purpose of this Chapter is to determine if the Government has taken reasonable steps to prepare for the Year 2000 and to summarize the status of its Year 2000 preparations.

## Background

This is our fourth chapter on Year 2000 and much progress has been made by the Government. We have been reporting on the progress of the Government in its work to fix Year 2000 issues. We have made a number of recommendations in prior reports (see Exhibit 1). We have followed up on these recommendations especially the need for approved contingency plans.

## Scope and objective of our work

Our objective was to find out if the Government has taken reasonable steps to monitor the progress of its organizations and to follow up on the recommendations we made in our 1999 Spring Report (see Exhibit 1). We

continued to look at the processes used to monitor progress of the Treasury Board sector, and the Crown Corporation sector. We also reviewed the processes the Department of Health uses to monitor the health districts. We also discussed with Saskatchewan Emergency Planning at the Department of Municipal Affairs, Culture and Housing their plans in case an emergency is declared.

We reviewed progress reports, interviewed the staff in these four offices and reviewed key documents to assess the progress made. We looked to find out if agencies were reporting that they had completed their contingency plans and they knew they would be accountable for those plans. Our work was conducted between September 1, 1999 and October 29, 1999. Because the key offices did not review the processes at post-secondary institutions and the Workers Compensation Board this Chapter does not include observations on these agencies.

We are not giving assurance that the Government is Year 2000 ready and performed the Year 2000 work with due diligence. Both these assurances are outside the scope of our work. We do not have the resources to independently review all the work done by the Government on its mission critical system. The Government, as part of its due diligence, has received independent advice from consulting firms with expertise in Year 2000 issues. Our work does not constitute an audit.

## Observations

### Year 2000 governance and accountability

The Government needs to ensure its critical programs and services are Year 2000 ready and there are plans in place to deal with an emergency. The Government made all its agencies accountable for ensuring their mission critical systems are Year 2000 ready. To monitor and report on its agencies' progress on the Year 2000 issue, the Government set up the following offices:

- ◆ a Year 2000 Co-ordination Office in the Department of Economic and Co-operative Development (Y2K Office) to oversee Year 2000 preparations in the Treasury Board sector (see Exhibit 2 for a list of agencies);

- ◆ an analyst at the Crown Investments Corporation of Saskatchewan (CIC) to monitor and report on the progress of its Crown corporations (see Exhibit 2); and
- ◆ a project team at the Department of Health (PMO) to monitor and report on the progress and to aid the health districts in becoming Year 2000 ready.

In 1998, to help keep the Legislative Assembly informed, Economic and Co-operative Development, Health, Finance and CIC discussed their Year 2000 preparations with the Standing Committee on Public Accounts. Many government agencies are also keeping the public informed with their publications and Internet web sites (see Exhibit 3).

The Government has chosen to have various offices responsible to monitor and report on the progress in each of the three sectors. This means clear lines of accountability need to be in place between these agencies and the Executive Government and the Assembly. Without clear lines of accountability, the risk increases that mission critical systems are missed, documentation is inadequate or contingency planning is not adequately co-ordinated

Emergency planning is also a very important aspect of Year 2000 preparations. Saskatchewan Emergency Planning (SEP) was established by *The Emergency Planning Act* (Act) to prepare a Saskatchewan emergency plan in the event of a disaster. The emergency plan and the related contingencies is the result of the *Provincial Emergency Planning Cabinet Directive*. It sets out the responsibility of departments and Crowns in the event that government resources are required to deal with an emergency. The Act also requires local governments to have an emergency plan. SEP is available to provide advice in the event of an emergency or on developing plans.

SEP also works with Emergency Preparedness Canada to complete the linkage between all three levels of government. We understand that SEP will have the provincial emergency operations centre open with duty officers on hand for the 72-hour transition period around January 1, 2000 in the event of a Year 2000 related emergency. In the event of a provincial emergency, the SEP will ensure the emergency plan is put in action.



## **Treasury Board sector**

### **Steps done by Treasury Board sector**

In 1998, the Year 2000 Co-ordination Office (Y2K Office) was set up at the Department of Economic and Co-operative Development to monitor Year 2000 preparedness of certain agencies in the Treasury Board sector. These agencies are listed in Exhibit 2.

The Y2K Office reports through the Chief Information Officer to a Deputy Ministers' Council on information technology. The Y2K Office has done two surveys of the agencies using a national consulting firm with specialists in Year 2000 issues to write the survey and evaluate the results. The first survey was done in May of 1998. The Y2K Office wrote a report to Cabinet on the survey dated June 30, 1998 and focused on the agencies' progress in completing their Year 2000 assessment, awareness, fixing, testing, and implementation procedures. The consultant also surveyed key issues about budgets, project management processes, third parties, suppliers and contingency plans. In October 1998, the Y2K Office offered a course on testing systems.

The Y2K Office did a second survey in January 1999, which asked agencies about the status of their mission critical systems, including the number of outside systems connected to these systems, and the status of their contingency plans. The survey also gathered information on the status of the agencies' Year 2000 budgets, policies on readiness of third parties, and the agencies project management practices. We reported on these surveys in past reports.

The consultant also recommended an independent review or audit be done of these agencies to determine if they took reasonable steps to find out if their systems were Year 2000 ready and contingency plans were in place. The results of that work are in the next section.

The Y2K Office continues to monitor and report on the progress of its 36 agencies on a regular basis. The Y2K Office sponsored two courses in the spring of 1999 on contingency planning.

### **Status of Treasury Board sector**

The Y2K Office is tracking how complete Year 2000 fixing and testing are on the 36 agencies' 197 mission critical systems. These agencies spent

or planned to spend approximately \$15 million to complete their Year 2000 assessment, awareness, fixing, testing and implementation procedures. As of October 22, 1999, the agencies have reported that their mission critical systems are 97% complete and the contingency plans for these systems are 93% complete. Twenty agencies claim to be 100% complete and 22 have completed their contingency planning.

In the fall of 1999, the Y2K Office had another nationally recognised consulting firm evaluate and report on five of the largest departments in this sector. The consultant advised the Y2K Office on the steps taken at the five agencies and if their contingency planning was done.

The firm issued its final report on October 26, 1999. Three of the five departments assessed were rated as very good. Very good meant they had fixed their mission critical systems and tested them in an environment that can have the date advanced past 2000. The other two were rated good but still had some work to do on critical systems. The firm made a number of recommendations from its review to help the Government complete its work. The recommendations reinforced the importance of the three recommendations we made in our 1999 Spring Report (see Exhibit 1). The firm also encouraged the departments to improve the documentation and storage of their Year 2000 work to show that they performed due diligence.

### **Conclusion on the Treasury Board sector steps**

The Y2K Office appears to have taken reasonable steps in monitoring and reporting on the progress of its agencies. The Y2K Office should ensure senior management approves the contingency plans of its 36 agencies. Also, the recommendations of the independent consultant should be given to all government agencies for their consideration.

## **Crown corporation sector**

### **Steps done by Crown corporation sector**

In 1998, Crown Investments Corporation of Saskatchewan (CIC) started to survey and monitor the progress of CIC Crowns. CIC has surveyed the Crowns several times. The first CIC survey was reported to CIC's Board in the fall of 1998 and it dealt with the status and cost of its Year 2000 work broken down by plant and production, internal systems, and products or

services. The survey also reported on external impacts (suppliers and third parties), governance and project management.

The second CIC survey report was called *CIC Crown Sector Year 2000 Report* (CIC 1999 Survey). It reported the Crowns' progress against their plans, on their Year 2000 contingency plans, and on their Year 2000 communication strategy. We reported on these surveys in past reports.

CIC continues to monitor the progress of the Crowns listed in Exhibit 2. CIC prepares a quarterly report on the readiness of the Crown sector for Year 2000 for their board. The CIC board wants these quarterly reports presented to the Standing Committee on Crown Corporations. CIC plans to prepare a final report by the end of the second quarter of 2000 to assess the effectiveness of the Crowns' Year 2000 programs.

### **Status of the Crown corporation sector**

Our review of the *Crown Sector Year 2000 Readiness - 1999 Third Quarter Report* dated October 1999, showed that the Crowns spent or plan to spend approximately \$36 million on Year 2000 issues. The report shows that six Crowns have completed their Year 2000 work and testing, and the other three are nearly done. CIC made the following observations on Crown corporation contingency planning:

Previous reports have noted the importance of contingency planning as an essential step towards becoming Year 2000 ready. CIC has reported on the contingency planning efforts of the Crown sector in past reports. Investigations undertaken for preparation of this report show that most Crown corporations have in place an approved contingency plan for the Year 2000 transition. For some, such as the three utility Crown corporations, the preparation of a contingency plan involved the updating of plans already in place to accommodate the uniqueness of the Year 2000 situation.

As part of reporting on contingency planning, the Crowns were asked about communications in the event that contingency plans must be invoked, i.e. in the event that unusual operating conditions were encountered. Some report that special crisis communications plans have been developed. These plans are in conjunction with the establishment of emergency communications centres to operate during the transition period. Others report that communications will be handled on an as-needed basis.

Responses regarding Year 2000 readiness received from the Crowns used to prepare the CIC report show that the Crowns will be ready for the Year 2000.

## **Conclusion on the Crown corporation sector's steps**

It appears that the CIC sector has taken reasonable steps to monitor and report on the progress of the Crowns including their contingency and communication plans. CIC should ensure senior management approves all contingency plans. In the event of any emergency, clear communications will be essential to help people manage and to ensure an orderly return of services.

## **District health board sector**

### **Steps done by the district health board sector**

The health industry is lagging behind other sectors in completing its Year 2000 preparations due to additional complications, especially the readiness of key medical equipment. The Department of Health (Department) responded by establishing the Y2K Project Steering Committee and an internal working group called the Year 2000 Project Management Office (PMO). The Steering Committee is made up of senior health stakeholders. The Department established the PMO to provide guidance and assistance to the health districts on Year 2000 related issues.

The Department and the Steering Committee determined that there were four key areas to monitor and provide help where necessary. The four areas are:

- ◆ the readiness of bio-medical equipment;
- ◆ the readiness of information systems that are important in delivering mission critical services;
- ◆ the readiness of the facilities including power, heating and other related equipment (facilities); and
- ◆ the availability of key medical and other critical supplies (supply chain).

The Steering Committee and the Department also helped to identify critical services, set parameters for priorities, monitor progress at the districts, review criteria for funding Year 2000 projects and provide advice on major expenditures.

## Status of the district health board sector

The PMO visited every health district in September 1999 to review their progress and needs. Based on the PMO visits and assessments, the districts had completed a majority of their fixing and testing as of October 15, 1999. Although much work has been done, some work still needs to be completed in specific areas within the health system. The PMO is monitoring these areas to ensure contingency plans are completed in the event that not all Year 2000 problems are fixed in these areas.

The districts have identified that \$60 million is needed to fix their Year 2000 issues and most of this has been spent. The Department of Health in its budget has a \$50 million *Millennium Fund for Medical Equipment and Technology* to address the incremental capital costs related to the year 2000. The Department has made an initial advance to the districts of approximately \$30 million.

The Department hired a number of nationally recognized consultants who are experts in their fields to help the Department evaluate progress and help the districts with issues surrounding supply chain, facilities, information systems and contingency planning.

All districts have counted and recorded their bio-medical equipment. Regina and Saskatoon have finished their tests and have replaced, fixed or ordered new equipment. They also assisted the other districts in ensuring their bio-medical equipment is ready.

Engineering consultants assisted the districts in identifying and fixing Year 2000 issues at their facilities. The consultants have identified potentially non-compliant equipment and are helping ensure it is being tested, fixed or if more practical, developed a way to work around the problem.

A consultant firm with expertise in supply chain issues is working with the districts and the major suppliers to establish guidelines and encourage action. The districts appear to need to do more work to manage the risk of supply shortages. It is not apparent that all districts have completed their supply chain plans to address this risk.

An IT consulting firm assisted the Department in identifying critical information systems within the districts. The PMO is monitoring the completion of this work. The fixing of non critical information systems is being addressed by the districts. The districts report that a majority of the

information systems work is done with Regina and Saskatoon being mostly done.

The Department requested each district to undergo an independent assessment of its Year 2000 project. The primary focus of the assessment is on the project framework, methodology, processes, and documentation. These assessments are to help districts ensure due diligence in fixing their Year 2000 issues. The independent assessments need to be approved by the districts' board and chief executive officer and returned to the PMO. These assessments may help certain districts obtain insurance coverage for liabilities, if any, that result from Year 2000 issues. All districts have told the PMO that the assessments are done. However, a majority of the districts still need to send them to the PMO.

All districts need to ensure they have a tested and approved contingency plan that covers key Year 2000 issues. The PMO is currently gathering the districts' plans but they are slow coming in. The PMO informed us that it has received 12 plans including Saskatoon and Regina, however, the PMO has received assurances from most districts that the plans are ready and will soon be sent to the PMO. The districts need good, tested, and approved contingency plans. The plans are especially important due to the lateness and complexity of the Year 2000 preparations.

The Department is setting up an emergency operations centre to help co-ordinate efforts between districts in the event of an emergency. The PMO needs to ensure all contingency plans are complete so they can be activated in the event of an emergency.

### **Conclusion on the district health board sector's steps**

The health industry got a late start on fixing key Year 2000 issues. In response the Department of Health set up the PMO to monitor and assist the district health boards. The Department hired consultants to help facilitate the districts' effort to get Year 2000 ready and to help ensure due diligence. Given the complexity of the Year 2000 issues in the health sector, the Department appears to be taking reasonable steps to monitor the progress and help the districts prepare for Year 2000. However, it is important that all districts complete their Year 2000 preparations and submit their approved contingency plans to the PMO as soon as possible.

## Summary

The time has run out to make significant changes to how the Government prepared for Year 2000. The sectors mentioned in this Chapter appear to have taken reasonable steps to monitor and report on the progress of the agencies that the Government assigned them. The Year 2000 issues in the health sector are more complex. We are told there are more than 25,000 bio-medical devices in the districts. As a result, progress has been slower than in other sectors. The Department and health districts' continuing efforts are crucial to ensure health districts are Year 2000 ready.

There are risks that the Government will not fix or find all the Year 2000 issues. All agencies understand the importance of this in preparing their contingency plans. It is important that these plans are approved by senior management and that the plans are co-ordinated between all government agencies and the SEP in case of an emergency.

It is very important that there is accurate and balanced communication by the Government in the weeks leading to Year 2000 and the critical weeks following January 1<sup>st</sup>. It is also important to take the lessons learned in managing the Year 2000 issue and ensure it is captured for the benefit of future government projects.

- 1. We continue to recommend that the Y2K Office, CIC and the Department of Health record the lessons learned from the Year 2000 work so that they can be used in future government projects.**

## Exhibit 1

### Past recommendations

In the 1998 Fall Report – Volume 2, we recommended:

1. We recommend that the Government's new Year 2000 Project Co-ordination Office help set priorities, resource needs and contingency plans for the Government.
2. We recommend that the Year 2000 Project Co-ordination Office report regularly to the Standing Committee on Public Accounts on the Government's progress on the Year 2000 issue.
3. We recommend that senior management approve its Year 2000 plans including detailed budgets and Year 2000 assessments and periodically report on progress to the Year 2000 Project Co-ordination Office.
4. We recommend that the Government establishes rules and procedures for ensuring third parties and business partners know their responsibilities to become Year 2000 compliant.
5. We recommend that all Government agencies have a formal, approved and tested Year 2000 contingency plan.

We reviewed the work of the Y2K Office and CIC in the spring of 1999 and made the following recommendations in our 1999 Spring Report:

1. We continue to recommend that the Government takes reasonable steps to ensure its third parties and business partners are Year 2000 ready.
2. We continue to recommend that all Government Crowns and agencies complete a formal, approved and tested Year 2000 contingency plan by the end of the third quarter of 1999.
3. We recommend that the Y2K Office and CIC record the lessons learned from the Year 2000 work so that they can be used in future government projects.



## Exhibit 2

### Agencies surveyed by the Y2K Office

1. Agricultural Credit Corporation of Saskatchewan
2. Department of Agriculture and Food
3. Department of Economic and Co-operative Development
4. Department of Education
5. Department of Energy and Mines
6. Department of Environment and Resource Management
7. Department of Finance
8. Department of Health
9. Department of Highways and Transportation
10. Department of Intergovernmental and Aboriginal Affairs
11. Department of Justice
12. Department of Labour
13. Department of Municipal Affairs, Culture and Housing
14. Department of Northern Affairs
15. Department of Post-Secondary Education and Skills Training
16. Department of Social Services
17. Executive Council
18. Liquor and Gaming Authority
19. Public Employees Pension Plan
20. Public Service Commission, The
21. Saskatchewan Archives Board, The
22. Saskatchewan Arts Board, The
23. Saskatchewan Centre of the Arts
24. Saskatchewan Communications Network Corporation
25. Saskatchewan Crop Insurance Corporation
26. Saskatchewan Gaming Corporation
27. Saskatchewan Human Rights Commission
28. Saskatchewan Legal Aid Commission
29. Saskatchewan Pension Plan
30. Saskatchewan Property Management Corporation
31. Saskatchewan Research Council, The
32. Saskatchewan Securities Commission
33. Saskatchewan Water Corporation
34. Teachers' Superannuation Commission
35. Wascana Centre Authority
36. Women' s Secretariat

## **Crowns surveyed by CIC**

1. Crown Investments Corporation of Saskatchewan
2. Saskatchewan Government Growth Fund
3. Saskatchewan Government Insurance
4. SaskEnergy Incorporated
5. Saskatchewan Opportunities Corporation
6. Saskatchewan Power Corporation
7. Saskatchewan Telecommunications
8. Saskatchewan Transportation Company
9. Saskatchewan Water Corporation

## Exhibit 3

### Year 2000 Internet Sites

Year 2000 Co-ordination Office

<http://www.gov.sk.ca/Y2K/default.htm>

Health

<https://sphinx.health.gov.sk.ca>

NB: This is a secure site is for use by district healthcare professionals.

SaskPower

<http://www.saskpower.com/Year2000/index.html>

SaskTel

<http://www.sasktel.com/year2000/index.html>

SaskEnergy

<http://www.saskenergy.com/year2000/default.htm>

SPMC

<http://www.spmc.sasknet.sk.ca/y2k/y2k.html>

Sask Communications Network

<http://www.scn.sk.ca/nonframes/y2k.html>

Government of Canada

<http://www.info2000.gc.ca>

#### Other reference sites

SHIN

<http://www.shin.sk.ca/SHIN/y2k/y2k.htm>

Saskatchewan Finance

<http://www.gov.sk.ca/finance/year2000/y2000.htm>

<b>Executive summary .....</b>	<b>344</b>
<b>Introduction .....</b>	<b>345</b>
<b>The need for IT security .....</b>	<b>345</b>
<b>Our work .....</b>	<b>347</b>
<b>Detailed results .....</b>	<b>349</b>
Responsibility for security .....	349
Security policies and procedures .....	350
Security awareness .....	352
Protection of IT resources .....	354
Confidentiality and integrity of IT resources .....	355
Availability of IT resources .....	356
<b>Conclusions .....</b>	<b>358</b>
<b>Exhibit 1 – Agencies surveyed by our Office .....</b>	<b>360</b>

## Executive summary

This Chapter is a continuation of our review of IT security from our previous reports. This Chapter compares the results of the current survey with the results of the surveys completed in 1996 and 1997. Our previous survey results can be found in our 1996 Spring Report and our 1997 Spring Report.

Government agencies (agencies) use IT to deliver their programs and services and to provide the information they need to make decisions, manage their resources, and account for what they do. As a result, agencies need to ensure their information is adequately protected from unauthorized disclosure, accidental or deliberate changes, and accidental or deliberate destruction.

There are a number of trends occurring that indicate IT security will become even more important to the Government. This includes increased use of information technology; use of the Internet and Intranets; the use of e-commerce to conduct business; the increased sharing of information electronically with other organizations; and the increased use of networks.

Overall, the results showed an improvement in IT security from the previous survey. Some agencies are strengthening their security policies and procedures to ensure the confidentiality, integrity and availability of their information systems and data. However, more improvement is required. For example:

- ◆ Senior management needs to become aware of the risks agencies are assuming in protecting the confidentiality, integrity, and availability of one of its most valuable assets, its IT systems and data.
- ◆ IT security officials in most agencies are not independent of IT operations and therefore are placed in a conflict of interest position because IT operations objectives are often in direct conflict with IT security objectives.
- ◆ Agencies need to improve their employees' awareness of their responsibility and accountability for the access and use of the agencies' information systems and data.

## Introduction

This Chapter reports the results of our study of information technology (IT) security practices in government agencies (departments, Crown corporations, boards, commissions, and post-secondary institutions). Our study included a review of IT security best practices, a survey of IT security practices, and a review of government agencies' written policies and procedures. This Chapter also reports the results of our follow-up work on our previous recommendations on IT security.

To assess the progress the Government has made in improving IT security, we compared the results of the current survey to the results of past surveys. We found that although there is an overall improvement in IT security for government agencies, the Government needs to do more to improve its IT security.

## The need for IT security

In this Chapter, IT security means the measures agencies use to protect the confidentiality, integrity, and availability of their IT systems and data.

Good security is critical to the successful use of information technology. If security is poor, organizations risk losing the public's confidence by:

- ◆ not meeting the organization's goals;
- ◆ suffering financial losses; or
- ◆ making poor decisions.

Today, government agencies (agencies) use IT to deliver their programs and services and to provide the information they need to make decisions, manage their resources, and account for what they do. As a result, agencies need to ensure their information is adequately protected from unauthorized disclosure, accidental or deliberate changes, and accidental or deliberate destruction.

There are a number of trends occurring that indicate IT security will become even more important to the Government. For example:

1. The use and importance of IT to conduct government business and to interact with other government agencies, other levels of government, private corporations, and the public continues to increase. More computers are being connected together to form networks. As more computers are connected, security is only as strong as its weakest link. Also, networks are becoming more complicated as technologies improve and the demand for more speed and access increases.
2. Agencies are increasing their use of the Internet and of Intranets (i.e., private Internet sites). As more information is transmitted across the Internet and Intranets, the risk of unauthorized access to that information increases.
3. Agencies are increasing their use of electronic-commerce (e-commerce). E-commerce is the use of telecommunications and computer processing to conduct business electronically<sup>1</sup>. Almost 40% of agencies we surveyed indicate that they are currently using some form of e-commerce to conduct business. It is expected that this number will increase rapidly. Poor security over e-commerce introduces the risk of direct financial losses.
4. More people are gaining access to agencies' computer networks from outside the agencies' offices. The survey showed agencies have staff or customers accessing the agencies' systems from outside their offices. This increases the risk of unauthorized access to their networks because agencies cannot restrict access by just using the physical security of their offices. Therefore, good physical security is not as effective in helping to prevent unauthorized access. Agencies need to control access using other means such as password security.
5. Governments are starting to recognize the importance of reporting non-financial indicators in measuring their successes and reporting on their performance. The trend is that agencies are realizing that more of their non-financial systems are mission critical. Agencies are becoming aware that some of these systems are more important than financial systems. This shows the

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<sup>1</sup> Adapted from the Information Technology Control Guidelines published by the Canadian Institute of Chartered Accountants.

agencies' increasing reliance on IT to deliver their products and services.

6. Government agencies surveyed, reported that they spent almost \$250 million last year on information technology. They also estimate they will spend over \$300 million on information technology in this year.

The Canadian Institute of Chartered Accountants (CICA) and the American Institute of Certified Public Accountants (AICPA) also recognize this increasing importance and reliance on information technology. They have drafted two assurance service products called *WebTrust* and *SysTrust* seals. The *WebTrust* seal is designed to give assurance on the reliability (availability, security, integrity, and maintainability) of Internet sites. The *SysTrust* seal is designed to give assurance on the reliability of computer systems. These seals give organizations the ability to show others that the organizations' systems meet a set of security principles and criteria. To obtain these security seals, the organizations would have their systems examined by a public accountant to see if they meet the security principles and criteria.

For example, a government agency that uses its Internet site to conduct business, can hire an auditor to evaluate and test the system to see if it meets a set of principles and criteria. If it does, the agency can then display on its Internet site the *WebTrust* seal to tell users there is a high level of assurance the information on its Internet site is reliable and Internet business transactions will be secure.

Because of the increasing importance of IT security to the Government, we plan to review security practices approximately every three years. The results of our study showed IT security is improving. However, given the increasing importance of IT, the security standards need to increase to keep pace with changes in information technology.

## Our work

Our study involved sending surveys to 32 of the largest government agencies (agencies). The survey questions were based on standards recommended by the Technical Security Branch of the Royal Canadian Mounted Police (<http://www.rcmp-grc.gc.ca/tsb/index.htm>). We asked the



agencies to evaluate themselves as of April 30, 1999. Exhibit 1 contains a listing of the agencies surveyed.

To assess the reasonability of the agencies responses, we followed the CICA's Standards for Assurance Engagements. Our objective was to obtain a reasonable level of assurance that the agencies interpreted the questions as intended, and that the responses were accurate. Because we did not design our procedures to obtain a high level of assurance on the accuracy of the responses, our work does not constitute an audit. Had we conducted an audit, we may have reached a different conclusion and made additional recommendations.

We assessed the reasonability of the responses by selecting a sample of agencies and performing the following procedures:

- ◆ reviewing the agencies' written policies and procedures;
- ◆ discussion with officials at the agencies; and
- ◆ observation.

In carrying out these procedures, we did not find anything to indicate that the agencies misinterpreted the questions or that their responses were not reasonable. Based on our work we are reasonably assured that the agencies' survey responses, taken as a whole, are accurate.

In this Chapter, we also compare the results of the current survey (denoted as *current* on the bar graphs) with the results of the surveys completed in 1996 and 1997 (denoted as *prior* on the bar graphs). Our previous survey results can be found in our 1996 Spring Report and our 1997 Spring Report. These reports also contain further information regarding the importance and significance of IT security.

We assess the Government's security management practices using the following six criteria:

1. responsibility for security
2. security policies and procedures
3. security awareness
4. protection of IT resources
5. confidentiality and integrity of IT resources; and
6. availability of IT resources

The following section elaborates further on our findings.

## Detailed results

### Responsibility for security

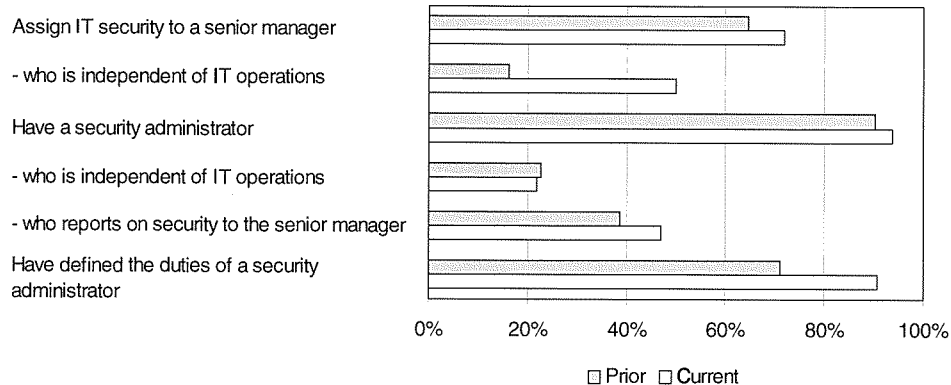
We expected agencies would clearly define the roles and responsibilities for IT security. Agencies would have policies and procedures that:

- ◆ 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.

Given the significant reliance on information technology in today's world, a senior manager should be assigned the responsibility for IT security. This would give IT security the priority it needs. Also, it would be beneficial for the agency if senior management makes a written commitment (i.e., Charter) to have good security.

Agencies need to separate the 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. As well, if the responsibilities are not separated, employees may reduce security to increase the speed at which computer systems process and retrieve data. This is because implementing the required security measures reduces the performance of systems. For example, to protect against computer viruses, agencies have installed special programs to check and eliminate computer viruses. Even though checking for viruses uses processing time and cause systems to run slower, they are necessary.

We note that in smaller agencies, the separation of these functions may be impractical. Agencies would assess this during their analysis of threats and risks. There should be written evidence that senior management has approved taking this risk.

**Figure 1****Percentage of Agencies Reporting That They:**

Our survey results indicate that only 50% of agencies assign IT security to a senior manager who is independent of IT operations. Although, this has increased from 16% in the prior surveys, there is still room for improvement. Only 22% of agencies have security administrators that are independent of IT operations. There has been no significant change in this number from the previous surveys. Agencies need to improve the reporting process between the security administrator and the senior manager who has the overall responsibility for security. Forty seven percent of the agencies surveyed indicate that the security administrator reports directly to the senior manager responsible for IT security and security matters. This is a small increase from the previous surveys.

1. **We recommend agencies assign the responsibility of IT security to a senior manager who is independent of IT operations.**
2. **We recommend the security administrator(s) report directly to the senior manager responsible for IT security.**

## Security policies and procedures

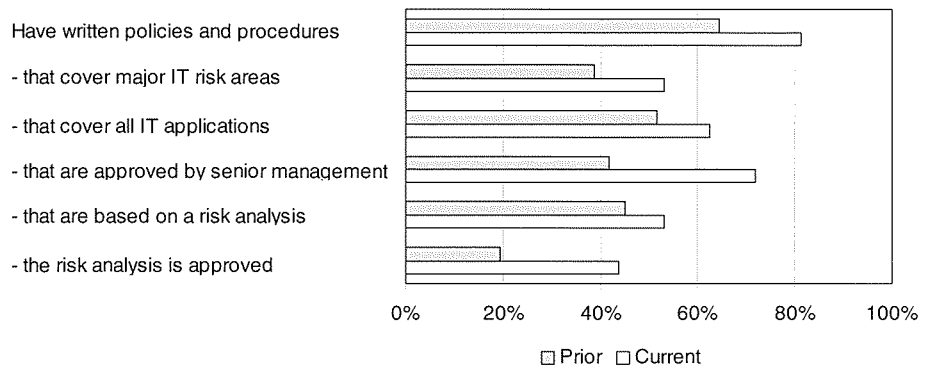
We expected agencies would have written and approved security policies and procedures that are based on a sound threat and risk analysis.

Without written and approved security policies and procedures, agencies may not have adequate safeguards to ensure the confidentiality, integrity, and availability of information systems and data. Also, employees may not know the rules to be followed to ensure good security.

A threat and risk analysis is key to developing adequate security policies and procedures. This analysis is essential for good IT security management. Senior management must ensure the threats and risks to IT security are addressed. To address the risks and threats, agencies need to do a threat and risk analysis to determine the appropriate security policies and procedures. The analysis should compare the costs of the security measures to the benefits of reducing the threats and risks. Senior management should review and approve the analysis to ensure they are aware of the threats and risks facing the agency and the cost-benefit trade-offs.

**Figure 2**

**Percentage of Agencies Reported That They:**



The above graph indicates there has been some improvement over prior surveys, however, there are still a significant number of agencies without adequate written policies and procedures. The survey results indicate that 19% of agencies do not have written policies and procedures. Only 38% of agencies responded that their written security policies and procedures are up to date and include all of the following:

- ◆ cover all major risk areas;
- ◆ cover all applications; and
- ◆ are approved by senior management.

Given the reliance on IT, it is essential that all agencies have written and approved security policies and procedures.

The current results show that only 44% of agencies do a risk analysis and have it approved by senior management. Policies and procedures need regular monitoring to ensure they continue to meet the needs of the

agency. This monitoring includes ensuring policies and procedures meet a minimum standard and agencies operate within the standard.

While the surveys showed 81% of agencies had written policies and procedures, our review of those policies and procedures showed that the level of detail varied from agency to agency. For example, password standards range from a statement that passwords are mandatory to a complete set of rules specifying the password's minimum length and composition guidelines. Agencies need clear and concise standards to ensure that users select a password that has a low probability of being disclosed or guessed.

In our 1999 Spring Report, we recommend that the Government establish a government-wide general security policy for its IT systems. The general security policy would set out the security performance standard that the agencies must meet.

3. **We recommend that all agencies establish general security policies and procedures for their significant IT systems.**
4. **We recommend that agencies set and approve security policies and procedures that meet the government-wide general security policy and the security needs of the agency based on an appropriate threat and risk analysis.**
5. **We recommend that agencies continue to monitor their security policies and procedures to ensure that they meet the needs of the agency and meet or exceed minimum standards.**

## **Security awareness**

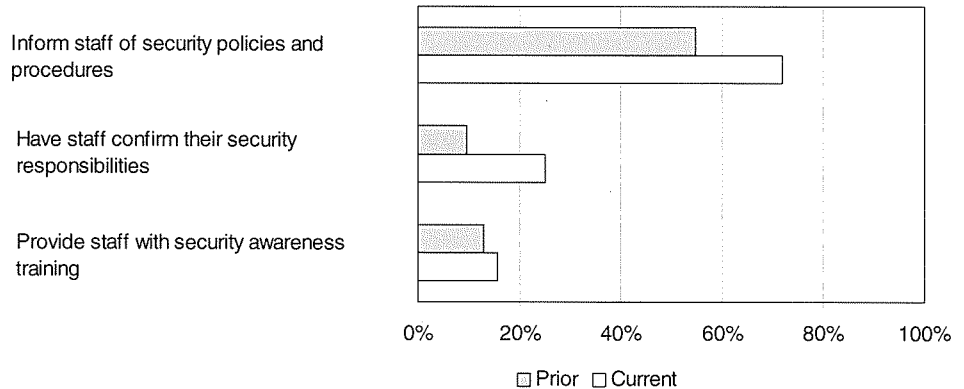
We expected agencies would make employees aware of security by informing and training them in their IT security responsibilities.

Agencies need to ensure employees are aware of the security policies and procedures. Generally, this is one of the best uses of money to improve security. A majority of the security breaches or incidents originate from within the organization. Employees not aware of the policies or the consequences of their actions account for a large portion of the security breaches. Most security breaches can be prevented if employees are informed of their security responsibilities and are properly trained.

Employees need to periodically confirm that they are aware of the policies. This promotes accountability and helps ensure employees are kept aware of the agency's policies.

**Figure 3**

**Percentage of Agencies Reported That They:**



The survey results indicate there is very little improvement in this area. Only 25% of the agencies surveyed say they have employees confirm their security responsibilities.

Agencies need to provide more security awareness training. Only 16% of agencies provide their employees with regular security awareness training. Without this, employees may not be aware of the measures that are needed to ensure the security of their agencies' information systems and data. Regular security awareness training helps remind employees of their responsibilities for security.

Agencies need to improve their procedures for revoking employee's access to information when they quit or change responsibilities. Forty percent of the agencies surveyed do not have written rules and procedures for revoking employees' access. Written rules and procedures ensure employees are aware of the procedures they need to follow.

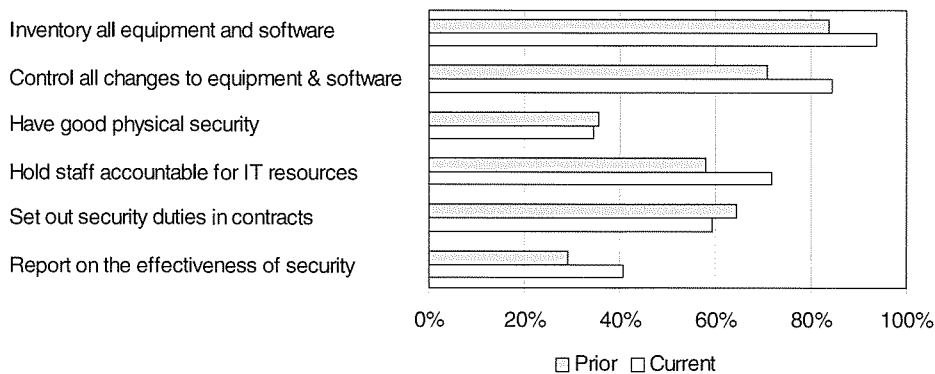
6. **We recommend that agencies inform employees of IT security policies and procedures and confidentiality requirements.**
7. **We recommend that agencies provide security awareness training.**
8. **We recommend that agencies have employees agree periodically in writing with their security responsibilities.**

9. We recommend that agencies ensure they have written policies and procedures for revoking employee access to information when their employment ends.

Protection of IT resources

We expected agencies would have strong physical security, control all changes to computer equipment and software, specify security requirements in service contracts, and monitor and report on the effectiveness of their security measures.

Figure 4  
Percentage of Agencies Reported That They:



The survey results indicate that there is little improvement in physical security. Only 35% of agencies surveyed indicate that they have good physical security. Physical security is an essential part of good IT security. It can be considered the first layer of security. If agencies have their IT systems and data physically secure, then password security is less of an issue. Forty percent of agencies thought they should improve physical security.

Fifty-nine percent of agencies indicated that they do not report on the effectiveness of their security policies. Senior management needs to know whether employees comply with their agencies' policies. Also, senior management needs to know if their security policies and procedures are effective in ensuring the confidentiality, integrity and availability of information resources.

Sixty percent of agencies report that they set out security requirements in service contracts. If agencies do not specify security requirements in contracts, they are at risk of the contractor disclosing information.

10. We recommend that agencies determine their physical security needs and assess the adequacy of their security measures.
11. We recommend that agencies periodically report on the effectiveness of their security policies and procedures. Senior management should review these reports and take corrective action if necessary.
12. We recommend that agencies ensure their service contracts include requirements for security and confidentiality.

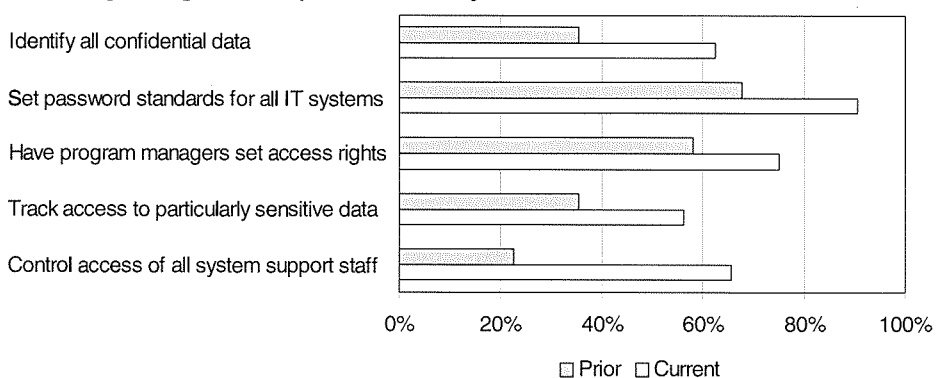
## Confidentiality and integrity of IT resources

We expected agencies would protect the confidentiality and integrity of IT systems. To do this, agencies need to:

- ◆ identify all confidential data kept on IT systems;
- ◆ set standards for the composition and changing of passwords that permit access to confidential data;
- ◆ have owners of data (program managers) define and authorize who can access or change their data; and
- ◆ track who accesses very sensitive data.

**Figure 5**

**Percentage of Agencies Reported That They:**



The results of the survey show that there has been significant improvement in password standards. Ninety percent of the agencies report that they have password standards for their IT systems. However, the standards vary for each agency. It would be beneficial to have



password standards included as part of a government-wide policy. More agencies are sharing information through the interconnection of their computer systems. They need to be certain that the information that is shared is kept confidential. Standards, such as password policies, will help ensure agencies that share confidential information maintain the confidentiality, integrity, and availability of the data.

Agencies still need to improve the way they classify confidential data and track access to sensitive data. This includes defining who can access data. Classifying and tracking confidential and sensitive data will help to control access to the data. Figure 5 shows that only 63% of agencies identify confidential data, only 56% of agencies track access to sensitive data, and only 66% of agencies control access of system support staff.

13. **We recommend that agencies use government-wide security criteria to set password standards for all their IT systems.**
14. **We recommend that agencies identify their confidential data. This should be based on government-wide security criteria.**
15. **We recommend that agencies require program managers to define who can access their data.**
16. **We recommend that agencies control and monitor the access that IT support employees have to IT systems.**

## **Availability of IT resources**

We expected agencies would have adequate back-up and recovery procedures, and tested and documented contingency plans.

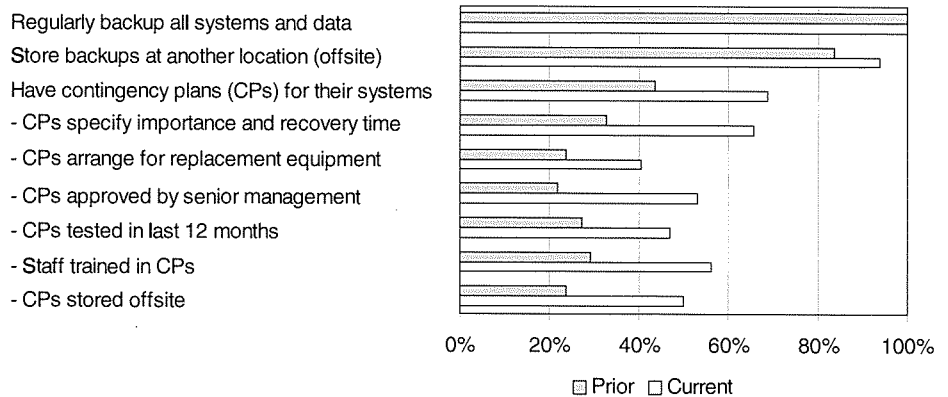
Agencies need current, written, and tested contingency plans for critical functions and for the 'business' as a whole. To ensure contingency plans are adequate, agencies need to perform a risk analysis. A risk analysis ensures management is aware of significant risks so that the agency can adequately address those risks. This includes assessing priorities, what could go wrong, and the likelihood of it occurring; and ensuring plans are in place to cover those risks. Even if agencies are relatively certain their systems will not fail, they still need to do a risk analysis and prepare contingency plans. For example, if an agency has fixed and tested its systems for the Year 2000 bug, it still needs a contingency plan in case unexpected problems arise.

Agencies need to be clear on which of their systems are mission critical. A system is mission critical if the agency cannot achieve its mission without that system. Designating a system as mission critical affects the level of contingency planning that is necessary. Senior management needs to:

- ◆ know what systems are mission critical;
- ◆ ensure adequate policies and procedures are in place relating to contingency plans;
- ◆ approve risks not covered by the contingency plan; and
- ◆ ensure that the availability of any mission critical systems managed externally is properly protected.

**Figure 6**

**Percentage of Agencies Reported That They:**



The survey results indicate that agencies have improved since the previous survey. Most of the agencies reported that they periodically backup their systems and data and store their backups offsite.

Sixty-nine percent of agencies reported that they have a contingency plan for their significant IT systems. Part of the increase from the previous survey results from agencies preparing for the year 2000.

Figure 6 shows improvement in the number of agencies that are aware of the systems that are critical to achieve the agencies' missions. We found that some agencies critically evaluated which systems are mission critical. However, other agencies still need improvement. For example, in the 32 agencies surveyed, the responses indicated that there are over 500 mission critical systems. Some agencies even included e-mail and word processing as mission critical systems.

Only 24% of agencies that have contingency plans meet all of the criteria listed in Figure 6.

17. **We recommend that agencies specify which systems are critical to the mission of the agency.**
18. **We recommend that agencies base their contingency plans on a risk analysis which ensures management is aware of significant risks and the agency can adequately address those risks.**
19. **We recommend that agencies specify in their contingency plans the acceptable recovery time for each IT system.**
20. **We recommend that agencies test and approve their contingency plans and store them in a safe location.**

## Conclusions

Some agencies indicate that security issues have not been made as high a priority as they would like. One of the competing priorities to security, that agencies face today, is ensuring their systems are ready for the year 2000. A majority of agencies stated that there is a lack of money to improve security.

Overall, the results showed an improvement in IT security from the previous surveys. Some agencies are strengthening their security policies and procedures to ensure the confidentiality, integrity and availability of their information systems and data. However, more improvement is required. For example:

- ◆ Senior management needs to become aware of the risks agencies are assuming in protecting the confidentiality, integrity, and availability of one of its most valuable assets, its IT systems and data.
- ◆ IT security officials in most agencies are not independent of IT operations and therefore are placed in a conflict of interest position because IT operations objectives are often in direct conflict with IT security objectives.

- ◆ Agencies need to improve their employees' awareness of their responsibility and accountability for the access and use of the agencies' information systems and data.
- ◆ Only 34% of agencies say they have good physical security over their IT systems.

Government agencies are also working on improving security policies. The Information Technology Office and the System Management Council<sup>2</sup> are developing a document to assist in the process of setting security standards. We encourage all government agencies to adopt the security standards. This would be a major step toward better security for all government agencies.

Meeting the recommendations listed earlier requires a significant commitment by management. This includes ensuring management is involved in the security decision-making process and committing resources to improve IT security.

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<sup>2</sup> The System Management Council (SMC) is a group of the most senior IT official from each department of the executive arm of the Government of Saskatchewan. The SMC provides advice to the Information Technology Officer and to the Deputy Minister Steering Committee on Strategic Management of Information Technology within the Executive Government of Saskatchewan. (Copied from the SMC mandate document.)

## Exhibit 1 – Agencies surveyed by our Office

Department of Agriculture and Food  
Department of Economic and Co-operative Development  
Department of Education  
Department of Energy and Mines  
Department of Environment and Resource Management  
Executive Council  
Department of Finance  
Department of Health  
Department of Highways and Transportation  
Department of Justice  
Department of Labour  
Liquor and Gaming Authority  
Department of Municipal Affairs, Culture and Housing  
Department of Post-Secondary Education and Skills Training  
Public Employees Benefits Agency Revolving Fund  
Public Service Commission, The  
Regina District Health Board  
Saskatchewan Crop Insurance Corporation  
Saskatchewan Gaming Corporation  
Saskatchewan Government Insurance  
Saskatchewan Property Management Corporation  
Saskatchewan Transportation Company  
Saskatoon District Health Board  
SaskEnergy Incorporated  
Saskatchewan Power Corporation  
Saskatchewan Telecommunications  
Saskatchewan Institute of Applied Science and Technology  
Department of Social Services  
Teachers' Superannuation Commission  
University of Regina, The  
University of Saskatchewan, The  
Workers' Compensation Board

## 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

**Short Title**

- 1 This Act may be cited as *The Provincial Auditor Act*.

**Interpretation**

- 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;

(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

### Appointment of provincial auditor

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.

(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.

### **Salary**

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.

### **Acting provincial auditor**

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.



### **Qualifications of provincial auditor, acting provincial auditor**

**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.

### **Advisors, etc.**

**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.

### **Office of the provincial auditor**

**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.

**(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.

### **Confidentiality**

**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.

### **Delegation of authority**

**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**

### **Examination of accounts**

**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).

(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.

### **Reliance on report of appointed auditor**

**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.

### **Annual Report**

**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;
- (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.

### **Special report**

**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.

### **Tabling of reports**

**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;
- (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.

### **Certification of Statements**

**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.

### **Special assignments**

**16(1)** Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(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.

### **Improper retention of public money**

**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, 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.

### **Cancelled securities**

**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.

### **Attendance before Public Accounts Committee**

**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

### **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.

### **Meetings of audit committee**

**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.

### **Information on scope and results of audits**

**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.

### **Availability of reports**

**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

### **Right to information, accommodation**

**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.

### **Inquiries**

**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 exercise all the powers of commissioners under *The Public Inquiries Act*. 1983, c.P-30.01, s.25.

### **Working papers**

**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.

### **Change in auditor**

**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.

### **Auditor to audit office of provincial auditor**

**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.

### **Fees**

**28** The provincial auditor may charge a reasonable fee for professional services provided by his office. 1983, c.P-30.01, s.28.

### **Limitation of liability**

**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.

### **Information confidential**

**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
- (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.

### **Appropriation**

**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.

### **Transitional**

**32(1)** The person appointed on the day before the coming into force of this section as provincial auditor pursuant to *The Department of Financial 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.

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### List of organizations subject to an examination under *The Provincial Auditor Act*

Appendix 2 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, 1999.

<b>Departments and Secretariats:</b>	<b>Year End</b>
Department of Agriculture and Food	March 31
Department of Economic and Co-operative 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 and Aboriginal Affairs	March 31
Department of Justice	March 31
Department of Labour	March 31
Department of Municipal Affairs, Culture and Housing	March 31
Department of Post-Secondary Education and Skills Training	March 31
Department of Social Services	March 31
Executive Council	March 31
Women's Secretariat	March 31
 <b>Crown Agencies:</b>	
3339807 Canada Ltd.	December 31
3364381 Canada Ltd.	December 31
604408 Saskatchewan Ltd.	December 31
617275 Saskatchewan Ltd.	December 31
620064 Saskatchewan Ltd.	December 31
Agricultural Credit Corporation of Saskatchewan	March 31
Agricultural Implements Board	March 31
Agri-Food Innovation Fund	March 31
Assiniboine Valley District Health Board	March 31
Battlefords District Health Board	March 31

**Crown Agencies (continued):**

Battleford Consulting Inc.	December 31
Bayhurst Gas Limited	December 31
Board of Governors, Uranium City Hospital	March 31
Canodev Research Inc.	July 31
Carlton Trail Regional College	June 30
Central Plains District Health Board	March 31
CIC Forest Products Ltd.	December 31
CIC Industrial Interests Inc.	December 31
CIC Pulp Ltd.	December 31
Crown Investments Corporation of Saskatchewan	December 31
Cumberland Regional College	June 30
Cypress Hills Regional College	June 30
DirectWest Publishing Partnership	December 31
East Central District Health Board	March 31
Gabriel Springs District Health Board	March 31
Genex Swine Group Inc.	September 30
Greenhead District Health Board	March 31
Greystone Capital Management Inc.	December 31
Health Services Utilization and Research Commission	March 31
Hollywood at Home Inc.	December 31
Hospitality Network of Canada	December 31
Keewatin Yatthe District Health Board	March 31
Law Reform Commission of Saskatchewan	March 31
Liquor and Gaming Authority	March 31
Liquor Board Superannuation Commission, The	December 31
Living Sky District Health Board	March 31
Lloydminster District Health Board	March 31
Mamawetan Churchill River District Health Board	March 31
Many Islands Pipe Lines (Canada) Limited	December 31
Midwest District Health Board	March 31
Milk Control Board	December 31
Moose Jaw-Thunder Creek District Health Board	March 31
Moose Mountain District Health Board	March 31
Municipal Employees' Pension Commission	December 31
Municipal Financing Corporation of Saskatchewan	December 31
Municipal Potash Tax Sharing Administration Board	December 31
New Careers Corporation	March 31
North Central District Health Board	March 31
North Valley District Health Board	March 31
North West Regional College	June 30

**Crown Agencies (continued):**

North-East District Health Board	March 31
Northern Enterprise Fund Inc.	December 31
Northlands College	June 30
Northwest District Health Board	March 31
Parkland District Health Board	March 31
Parkland Regional College	June 30
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
Prairie West Regional College	June 30
Prince Albert District Health Board	March 31
Power Corporation Superannuation Board	December 31
Power Greenhouses Inc.	December 31
Public Employees Pension Plan	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
Sask Pork	December 31
Saskatchewan Alfalfa Seed Producers' Development Commission	July 31
Saskatchewan Arts Board, The	March 31
Saskatchewan Assessment Management Agency	December 31
Saskatchewan Auto Fund	December 31
Saskatchewan Broiler Hatching Egg Producers' Marketing Board	December 31
Saskatchewan Cancer Foundation	March 31
Saskatchewan Canola Development Commission	July 31
Saskatchewan Centre of the Arts	March 31
Saskatchewan Chicken Marketing Board	December 31
Saskatchewan Commercial Egg Producers' Marketing Board	December 31
Saskatchewan Communications Network Corporation	March 31
Saskatchewan Crop Insurance Corporation	March 31
Saskatchewan Development Fund Corporation	December 31
Saskatchewan Flax Development Commission	July 31
Saskatchewan Forest Products Corporation	December 31
Saskatchewan Gaming Corporation	March 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 IV Ltd.	December 31

**Crown Agencies (continued):**

Saskatchewan Government Growth Fund V (1997) Ltd.	December 31
Saskatchewan Government Growth Fund VI Ltd.	December 31
Saskatchewan Government Growth Fund VII Ltd.	December 31
Saskatchewan Government Growth Fund Management Corporation	December 31
Saskatchewan Government Insurance	December 31
Saskatchewan Grain Car Corporation	July 31
Saskatchewan Health Information Network	March 31
Saskatchewan Housing Corporation	December 31
Saskatchewan Indian Regional College	June 30
Saskatchewan Institute of Applied Science and Technology	June 30
Saskatchewan Legal Aid Commission	March 31
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation	March 31
Saskatchewan Municipal Board	March 31
Saskatchewan Opportunities Corporation	December 31
Saskatchewan Pension Plan	December 31
Saskatchewan Power Corporation	December 31
Saskatchewan Property Management Corporation	March 31
Saskatchewan Pulse Crop Development Board	August 31
Saskatchewan Research Council, The	March 31
Saskatchewan Sheep Development Board	September 30
Saskatchewan Telecommunications	December 31
Saskatchewan Telecommunications Holding Corporation	December 31
Saskatchewan Telecommunications International, Inc.	December 31
Saskatchewan Trade and Export Partnership Inc.	March 31
Saskatchewan Transportation Company	December 31
Saskatchewan Turkey Producers' Marketing Board	December 31
Saskatchewan Water Corporation	December 31
Saskatchewan Wetland Conservation Corporation	March 31
Saskatoon District Health Board	March 31
SaskEnergy Incorporated	December 31
SaskEnergy International Incorporated	December 31
SaskPen Properties Ltd.	December 31
SaskPower International Inc.	December 31
SaskTel Delta Exchange Inc.	December 31
SaskTel Holding (New Zealand) Inc.	December 31
SaskTel New Media Fund Inc.	December 31
SaskTel Telecommunications Consulting Inc.	December 31
SaskTel U.K. Holdings Inc.	December 31
SGC Holdings Inc.	March 31
SGL CANADA Insurance Services Ltd.	December 31

**Crown Agencies (continued):**

South Central District Health Board	March 31
South Country District Health Board	March 31
South East District Health Board	March 31
Southeast Regional College	June 30
Southwest District Health Board	March 31
SP Two Properties Ltd.	March 31
Staff Pension Plan for Employees of the Saskatchewan Legal Aid Commission	December 31
St. Louis Alcoholism Rehabilitation Centre	March 31
Swift Current District Health Board	March 31
Teachers' Superannuation Commission	June 30
TecMark International Commercialization Inc.	March 31
Touchwood Qu'Appelle District Health Board	March 31
TransGas Limited	December 31
Twin Rivers District Health Board	March 31
Water Appeal Board	March 31
Western Canadian Beef Packers Inc.	November 20
Western Development Museum	March 31
Workers' Compensation Board	December 31

**Special Purpose and Trust Funds:**

Agri-Food Equity Fund	March 31
Associated Entities Fund	March 31
Beef Development Board	March 31
Big Game Damage Compensation Fund	March 31
Capital Pension Plan	December 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
Doukhobors of Canada C.C.U.B. Trust Fund	May 31
Extended Health Care Plan	December 31
Extended Health Care Plan for Certain Other Employees	December 31
First Nations Fund	March 31
Fish and Wildlife Development Fund	March 31
General Revenue Fund	March 31
Highways Revolving Fund	March 31



**Special Purpose and Trust Funds (continued):**

Horned Cattle Fund	March 31
Judges of the Provincial Court Superannuation Plan	March 31
Learning Resources Distribution Centre Revolving Fund	March 31
Livestock Services Revolving Fund	March 31
Members of the Legislative Assembly Superannuation Plan	March 31
Northern Revenue Sharing Trust Account	December 31
Office of the Rentalsman - Rentalsman's Trust Account	March 31
Oil and Gas Environmental Fund	March 31
Prepaid Funeral Services Assurance Fund	March 31
Private Vocational Schools Training Completions Fund	March 31
Provincial Mediation Board Trust Account	March 31
Public Employees Benefit Agency Revolving Fund	March 31
Public Employees Deferred Salary Leave Fund	December 31
Public Employees Dental Fund	December 31
Public Employees Disability Income Fund	December 31
Public Employees Group Life Insurance Fund	December 31
Public Trustee for Saskatchewan	March 31
Queen's Printer Revolving Fund	March 31
Resource Protection and Development Revolving Fund	March 31
Saskatchewan Agricultural Stabilization Fund	March 31
Saskatchewan Development Fund	December 31
Saskatchewan Employment Supplement and Saskatchewan Child Benefit	??
Saskatchewan Government Insurance Superannuation Plan	December 31
Saskatchewan Heritage Foundation	March 31
Saskatchewan Legal Aid Commission	March 31
Saskatchewan Legal Aid Commission Client Trust Accounts	March 31
Saskatchewan Pension Annuity Fund	March 31
Saskatchewan Research Council Employees' Pension Plan	December 31
Saskatchewan Student Aid Fund	March 31
Saskatchewan Telecommunications Superannuation Plan	December 31
School Division Tax Loss Compensation Fund	March 31
Sinking Fund	March 31
Social Services Central Trust Account	March 31
Transportation Partnerships Fund	March 31
Trust Accounts at Court House, Local Registrars and Sheriff's Offices	March 31
Victims' Fund	March 31
Workers' Compensation Board Superannuation Plan	December 31

**Other organizations subject to examination under  
The Provincial Auditor Act:**

**Year End**

Chief Electoral Office	March 31
Legislative Assembly Office	March 31
Ombudsman and Children's Advocate, Office of the	March 31
Pension Plan for the Eligible Employees at the University of Saskatchewan, 1974	December 31
Provincial Auditor, Office of the	March 31
Saskatchewan Archives Board, The	March 31
University of Regina, The	April 30
University of Regina Academic and Administrative Employees Pension Plan	December 31
University of Regina Crown Foundation	April 30
University of Regina Master Trust	December 31
University of Regina Non-Academic Pension Plan	December 31
University of Regina Pension Plan for Eligible Part-Time Employees	December 31
University of Saskatchewan, The	April 30
University of Saskatchewan Academic Employees' Pension Plan	December 31
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31
University of Saskatchewan Crown Foundation	April 30
University of Saskatchewan Long Term Disability Fund	April 30

## Audits not completed at November 15, 1999

This Report includes the results of all audits completed at November 15, 1999 for government agencies with fiscal periods ended March 31, 1999 or earlier. Our goal is to report all March year-ends in our fall reports and all December year-ends in our spring reports.

Some audits have not been completed. In most cases, the audit has been delayed. To ensure we provide the Legislative Assembly and the public with timely reports, we do not delay our reports to accommodate delayed audits, but rather include their results in future reports. In a few cases, we have not been given access to necessary information.

### Denied Access to Information:

### Year End

First Nations Fund (1997, 1998 and 1999)	March 31
Greystone Capital Management Inc. (1988-1998 inclusive)	December 31
SaskPen Properties Ltd.	December 31
SP Two Properties Ltd.	March 31

### Delayed Audits:

Agri-Food Equity Fund	March 31
Agri-Food Innovation Fund	March 31
Board of Governors, Uranium City Hospital	March 31
Cattle Marketing Deductions Fund	March 31
Chief Electoral Office	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
Department of Post-Secondary Education and Skills Training	March 31
Health Services Utilization and Research Commission	March 31
Highways Revolving Fund	March 31
Learning Resources Distribution Centre Revolving Fund	March 31
Livestock Services Revolving Fund	March 31
Office of the Rentalsman - Rentalsman's Trust Account	March 31
Pension Plan for the Eligible Employees at the University of Saskatchewan, 1974	December 31
Provincial Mediation Board Trust Account	March 31

**Delayed Audits (continued):**

**Year End**

Public Employees Benefits 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 Agricultural Stabilization Fund	March 31
Saskatchewan Arts Board, The	March 31
SGC Holdings Inc.	March 31
St. Louis Alcoholism Rehabilitation Centre	March 31
Transportation Partnerships Fund	March 31
University of Saskatchewan Academic Employees' Pension Plan	December 31
University of Saskatchewan and Federated Colleges Non-Academic Pension Plan	December 31
University of Saskatchewan Clinicians Service-Side Pension Plan	December 31
Victims' Fund	March 31

### **Organizations where we found no significant matters to report to the Legislative Assembly**

Appendix 4 lists government organizations with fiscal periods ended March 31, 1999 or earlier that we have not reported in previous reports, and 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.

In cases where the organization has an appointed auditor, that auditor supports our opinion. We report elsewhere in this Report on those government organizations where we found matters or issues requiring the attention of the Legislative Assembly.

#### **Departments and Secretariats:**

Department of Intergovernmental and Aboriginal Affairs  
Department of Labour  
Economic and Co-operative Development  
Women's Secretariat

#### **Crown Agencies:**

Agricultural Credit Corporation of Saskatchewan  
Law Reform Commission of Saskatchewan  
Municipal Financing Corporation of Saskatchewan  
New Careers Corporation  
Prairie Agricultural Machinery Institute  
Public Employees Pension Plan  
Public Service Superannuation Board  
Power Corporation Superannuation Board  
Saskatchewan Cancer Foundation

**Crown Agencies (continued):**

Saskatchewan Centre of the Arts  
Saskatchewan Communications Network Corporation  
Saskatchewan Crop Insurance Corporation  
Saskatchewan Health Information Network  
Saskatchewan Institute of Applied Science and Technology  
Saskatchewan Lotteries Trust Fund for Sports, Culture and Recreation  
Saskatchewan Forest Products Corporation  
Saskatchewan Housing Corporation  
Saskatchewan Municipal Board  
Saskatchewan Research Council  
Saskatchewan Water Corporation  
Saskatchewan Wetland Conservation Corporation  
Water Appeal Board  
Western Development Museum

**Special Purpose and Trust Funds:**

Associated Entities Fund  
Beef Development Board  
Big Game Compensation Fund  
Capital Pension Plan  
Crop Reinsurance Fund of Saskatchewan  
Doukhobors of Canada C.C.U.B. Trust Fund  
Horned Cattle Fund  
Judges of the Provincial Court Superannuation Plan  
Oil and Gas Environmental Fund  
Private Vocational Schools Training Completions Fund  
Saskatchewan Heritage Foundation  
Saskatchewan Legal Aid Commission  
Saskatchewan Legal Aid Commission Client Trust Accounts  
Saskatchewan Pension Annuity Fund  
Saskatchewan Research Council Employees' Pension Plan  
Social Services Central Trust Account  
Trust Accounts at Court House, Local Registrars and Sheriff's Offices

### **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 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 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

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 investing 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

## Reports of appointed auditors

Appendix 6 contains the reports of appointed auditors that we have not relied on and the report of the appointed auditor indicates a matter or issue that should be reported to the Assembly.

Appendix 6 does not contain the reports of appointed auditors that indicate a matter or issue to report to the Assembly when we have not yet done our work. Appendix 3 contains a list of work not done.

### Crown Agency

### Page

Workers' Compensation Board  
Sask Pork

6-2  
6-7

**WORKERS' COMPENSATION BOARD  
YEAR ENDED DECEMBER 31, 1998**

To: Province of Saskatchewan,  
Provincial Auditor

We have examined the financial statements of the Workers' Compensation Board (Saskatchewan) for the year ended December 31, 1998 and have issued our report thereon dated March 23, 1999. We have examined the system of internal control as at December 31, 1998 and have issued our report to you dated March 24, 1999. We have also made an examination to determine whether the Workers' Compensation Board complied with specified legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue-raising, borrowing and investing activities during the year ended December 31, 1998 and have issued our report to you dated March 24, 1999.

Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In those instances, if any, that our study and evaluation of internal control disclosed conditions indicating controls were inadequate or not complied with, substantive tests were performed to detect any cases in which:

- 1) any officer or employee of the Workers' Compensation Board has wilfully or negligently omitted to collect or receive public money belonging to the Crown;
- 2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and
- 3) an expenditure was made which was not properly vouchered or certified.

During the course of these examinations, nothing came to our attention that would indicate to us that:

- 1) any officer or employee of the Workers' Compensation Board has wilfully or negligently omitted to collect or receive public money belonging to the Crown;
- 2) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person; and
- 3) an expenditure was made which was not properly vouchered or certified.

During the course of our examinations, however, the following circumstances came to our attention concerning the inclusion of the accounts of the Workers' Compensation Board in the Government of Saskatchewan Summary Financial Statements.

The accounts of the Board are currently being consolidated in the Summary Financial Statements on the basis that the Worker's Compensation Board is considered to be a

government enterprise that is owned or controlled by the Government. In conducting our audit at the Board, we formed the view that this basis for consolidation is inappropriate since it does not correspond with the Board's legislative authorities. The Board considers the net assets of the Workers' Compensation Board, amounting to \$143,884,000 as at December 31, 1998 (1997 - \$114,501,000) should not be recorded in the Summary Financial Statements to reduce the accumulated deficit of the Government. It is the Board's considered opinion that these net assets do not accrue to the Government.

Chartered Accountants

March 24, 1999

**Provincial Auditor's comments:**

We think the Government's Summary Financial Statements comply with The Canadian Institute of Chartered Accountants' (CICA) recommendations. Those recommendations state:

The Government reporting entity should comprise of organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature, or local government, and are owned or controlled by the Government.

CICA goes on to say:

A government may choose not to exercise its authority or actively participate in the implementation of its policies; nevertheless, control exists by virtue of the government's ability to do so.

The Government does have the ability to control the Workers' Compensation Board (WCB) in administering the workers' compensation program. The Government can and does influence the WCB's decisions by virtue of the Government's authority set out in *The Workers' Compensation Act, 1979*.

Subsection 181(2) of the Act states:

The Lieutenant Governor in Council may make regulations setting out guidelines for the making of decisions by the board, and regulations made pursuant to this subsection supersedes any policy directive of the board that conflicts with it.

We also note the Government's Summary Financial Statements clearly state that any net assets of the WCB are not available for the payment of dividends to the General Revenue Fund.

**WORKERS' COMPENSATION BOARD  
YEAR ENDED DECEMBER 31, 1998**

To: Province of Saskatchewan,  
Provincial Auditor

We have examined the system of internal control of the Workers' Compensation Board (Saskatchewan) in effect as at December 31, 1998. We did not examine certain aspects of internal control concerning the effectiveness, economy, and efficiency of certain management decision making processes, including those for ensuring its computer systems will accurately process data in the year 2000. 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.

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 the Workers' Compensation Board 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 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. For example, the project of any conclusions to future periods, based on our findings, is subject to the risk that system changes required to process data accurately in the year 2000 may alter the validity of such conclusions.

Management has not developed and documented emergency response plans to recover from a disaster scenario involving its computer systems and operations. A year 2000 recovery plan should also be developed to respond to failures occurring in the Board's own systems or at key service providers or suppliers. In addition, there is currently no organization-wide security policy covering all aspects of the Board's computer operations and systems. As a result, there is a risk of security measures being applied by management inconsistently or inadequately.

In our opinion, based upon the above criteria, except for the matters reported in the preceding paragraph, the system of internal control of the Workers' Compensation Board in effect as at December 31, 1998, 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 related to the Workers' Compensation Board.

Chartered Accountants  
March 24, 1999

**WORKERS' COMPENSATION BOARD  
YEAR ENDED DECEMBER 31, 1998**

To: Province of Saskatchewan,  
Provincial Auditor

We have made an examination to determine whether the Workers' Compensation Board (Saskatchewan) complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1998:

*The Workers' Compensation Act*  
*The Financial Administration Act*  
*The Tabling of Documents Act*  
*Members of the Legislative Assembly Conflict of Interests Act*  
*The Occupational Health and Safety Act*  
*The Income Tax Act*  
*The Workers' Compensation Board Superannuation Act*  
*The Superannuation (Supplementary Provisions) Act*  
*Regulations and Orders in Council pursuant to the above Legislation*

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the Workers' Compensation Board (Saskatchewan) has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1998.

Chartered Accountants  
March 24, 1999



**SASK PORK**  
**YEAR ENDED DECEMBER 31, 1998**

To: W. K. Strelloff, Provincial Auditor

We have made an examination to determine whether Sask Pork complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding of assets, spending, revenue raising, borrowing and investing activities during the year ended December 31, 1998:

- (a) The Agri-Food Act
- (b) The Pork Industry Development Plan Regulations
- (c) Orders issued pursuant to the above legislation

Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

On April 6, 1998, Order in Council 210/98 repealed The SPI Marketing Group Regulations and issued The Pork Industry Development Plan Regulations. Under the new Regulations, SPI Marketing Group continued as a development board, known as Sask Pork. Under section 4(2) of the Regulations, all assets and liabilities of the SPI Marketing Group became assets and liabilities of Sask Pork.

Sask Pork transferred net assets totaling approximately \$3 million to SPI Marketing Group Inc. (SPI Inc.) for no consideration. SPI Inc. is owned by hog producers. As a result, Sask Pork transferred substantially all of its assets to hog producers for no consideration.

As to whether Sask Pork had the authority to transfer the assets to SPI Inc. is a legal issue beyond the scope of our engagement. Accordingly, we express no opinion regarding whether or not Sask Pork had the authority to transfer the assets to SPI Inc.

In our opinion, except for whether or not Sask Pork had the authority to transfer assets to SPI Inc. as described in the preceding paragraphs, Sask Pork has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended December 31, 1998.

Chartered Accountants

Saskatoon, Saskatchewan  
March 12, 1999