



# **STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES**

## **Hansard Verbatim Report**

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**Legislative Assembly of Saskatchewan**

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**STANDING COMMITTEE ON CROWN AND CENTRAL AGENCIES  
2006**

Ms. Sandra Morin, Chair  
Regina Walsh Acres

Mr. Dan D'Autremont, Deputy Chair  
Cannington

Hon. Graham Addley  
Saskatoon Sutherland

Ms. Donna Harpauer  
Humboldt

Mr. Allan Kerpan  
Carrot River Valley

Hon. Mark Wartman  
Regina Qu'Appelle Valley

Hon. Kevin Yates  
Regina Dewdney

[The committee met at 15:00.]

**Ms. Lang:** — Good afternoon. I'd like to inform you that I've received a letter from Mr. Iwanchuk as he is resigning his position as Chair. Therefore as per rule 109(4), the first order of business is the election of Chair.

Now it is my duty to preside over the election of the Chair. I call for nominations. Mr. Addley.

**Hon. Mr. Addley:** — Thank you, Madam Clerk. I move that Sandra Morin be elected to preside as Chair of the Standing Committee on Crown and Central Agencies.

**Ms. Lang:** — Are there any further nominations? Seeing none . . . The member has already moved his motion. I'll just have the Page bring me the motion.

The motion by Mr. Addley:

That Sandra Morin be elected to preside as Chair of the Standing Committee on Crown and Central Agencies.

Is the committee ready for the question?

**Some Hon. Members:** — Question.

**Ms. Lang:** — Is that agreed?

**Some Hon. Members:** — Agreed.

**Ms. Lang:** — I invite Ms. Morin to take the Chair.

**The Chair:** — So at this time I'd like to introduce the members of the Committee of Crown and Central Agencies. With us today we have the Deputy Chair, Dan D'Autremont. And beside him we have Doreen Eagles. And beside her we have Donna Harpauer. And on this side we have Kevin Yates, Frank Quennell, and Graham Addley.

And I would now like to ask the members of the committee . . . Yes, Mr. Addley.

**Hon. Mr. Addley:** — I move:

That the name of Sandra Morin be substituted for the name of Mr. Iwanchuk on the Standing Committee on Crown and Central Agencies steering committee.

**The Chair:** — The motion reads:

That the name of Sandra Morin be substituted for the name of Mr. Iwanchuk on the Standing Committee on Crown and Central Agencies steering committee.

Is the committee ready for the question?

**Some Hon. Members:** — Question.

**The Chair:** — All those in favour?

**Some Hon. Members:** — Agreed.

**The Chair:** — Opposed? It's carried. I'd now like to welcome all the new committee members to the committee today and ask the members of the auditor's committee to introduce themselves, please.

**Mr. Grabarczyk:** — Good afternoon, Madam Chair, and members. Andrew Martens who coordinates our office attendance at all your committee meetings is sick today, and we were unable to find a replacement on short notice. But in attendance is myself, Rod Grabarczyk. I'm a principal with the Provincial Auditor's office. And with us is Bill Harasymchuk who is leading our work on SaskWater.

**The Chair:** — Thank you very much. I'd also like to note that the Committee on Crown and Central Agencies is celebrating its 60th anniversary of being a legislative committee reviewing Crown corporations. It was first established on February 14, 1946 and the first committee meeting was March 6 of 1946 and the first report was on March 27 of 1946. So congratulations on a 60th anniversary.

At this time I'd like to formally table the documents 155\25 to 159\25.

### SaskWater

**The Chair:** — The next order of business is the Saskatchewan Water Corporation annual report, and I'd like to invite the minister to introduce his officials and make any opening remarks.

**Hon. Mr. Forbes:** — Thank you very much, Madam Chair. I'd like to introduce first the officials with me, and to my immediate left is Stuart Kramer, president of SaskWater. To my far left, Denise Soar, vice-president, corporate and human services. To my right is Mart Cram, vice-president of operations. And behind us are seated Bob Wheatley, vice-president of engineering and Greg Argue, vice-president of marketing and business development.

Now with that I'd like to make a few opening remarks, and I understand this is a bit of a continuation of business with the committee already in place. But I do think it's fitting, and we heard comments today in observation of World Water Day. Today has been set aside to be recognized by the United Nations General Assembly, and it's an important day because we know water is the cornerstone to a healthy society. It's vital to human life, but it's very important that we take the proper and efficient and effective mechanisms to make the best use of the water that we're blessed with.

With that I'd like to draw attention to the annual report 2004 that's before us. I'd like to draw attention to a couple of paragraphs that the minister's message contains. The former minister did an outstanding job of stewarding this corporation when its mandate was changed. He alludes to, and I'll read into the record a couple of paragraphs that I think really talks about the highlights of SaskWater.

In its second year of operation, the new SaskWater continued to deliver on its mandate to provide Saskatchewan communities with options for quality water

and waste water services. The Crown now serves 49 communities [and I would add it's actually grown to 55 communities] and 37 industrial customers as well as many pipeline associations and individual rural households.

It goes on to say:

In 2004, SaskWater made significant progress in demonstrating the added value Crown corporations offer to Saskatchewan people. The company recently introduced the SaskWater Scholarship Fund, a five-year commitment to the University of Regina and the University of Saskatchewan to award \$30,000 in scholarship funds to Saskatchewan students. SaskWater has 70 permanent, full-time employees, actively involved in eight different communities. Employee salaries generated \$3.8M for the provincial economy. SaskWater also purchased 97% of its total products and services in Saskatchewan, [for] a value of \$13.46M.

I have some further notes I would like to add. As I said, that no other provincial Crown utility in Canada provides the kind of grassroots water services to rural areas that SaskWater does. SaskWater serves about 40,000 people and that's grown from 30,000 that in the position it started from. It's spread out over 50 communities in the province and about, as I said, 37 industrial customers. We work with over 42 pipeline associations to develop pipelines delivering water to farms and rural households around Saskatchewan.

And this came about, the mandate was changed in 2002. SaskWater's mandate was changed because of the province's new safe drinking water strategy. There are three key parts to the drinking water strategy. First is to protect the source, enhance regulation, and the third provide solutions; which really is where SaskWater comes in — providing solutions.

SaskWater brings significant experience as a water utility to communities around the province looking for new ways to provide water and waste water services to residents. We have 26 certified operators on staff as well as engineering specialists in water and waste water treatment.

And we've experienced significant growth in the years since our mandate changed in 2002. Revenue is up, and it was up from 14.5 million in 2002 to 16.7 in 2004.

Now SaskWater supplies high-quality water to a growing number of Saskatchewan communities. In addition we offer certified operations and maintenance. And this is where SaskWater provides operation and maintenance of customer-owned facilities. This may include water treatment, storage, distribution, and waste water disposal.

I want to highlight some more comments here. This is important work that we do for the First Nations people in Saskatchewan. SaskWater also works for Indian and Northern Affairs Canada in Saskatchewan, providing technical assistance and training for 109 water treatment plant operators on over 50 First Nations as well as four operators in three northern communities.

In northern Saskatchewan SaskWater plays a particularly key role in planning and managing the design and construction of

water and waste water infrastructure. We have an agreement with Northern Revenue Sharing Trust Account Management Board to provide program management for a 6-year, \$35 million initiative to construct and upgrade water and waste water infrastructure in 35 Saskatchewan northern communities.

So you can see that we play an important part in many parts of Saskatchewan. Now sometimes people ask: why is a regional approach so essential? Well we know in Saskatchewan regional approach works very well in an effective manner. SaskWater is fostering a regional, co-operative approach to service delivery as a way to provide communities access to good-quality water at affordable prices.

By partnering with SaskWater, communities are able to take advantage of the economies of scale and health benefits of accessing Saskatchewan's regional water supply. These larger treatment facilities pump high-quality water through an extensive regional pipeline system to many smaller surrounding communities. Through our partnership with rural pipeline associations, good-quality water from the transmission lines is distributed even further to farms.

Now we also provide technical and management services for municipal water utilities, helping them to reduce their overall risk and again contain costs.

Now I'd like to highlight some of the work that we do with SUMA [Saskatchewan Urban Municipalities Association]. As a cost-saving option for communities, Saskatchewan Urban Municipalities Association hired SaskWater to be the technical project for some of their work. SaskWater in 2004 tendered assessments for 169 communities. By participating in this program, communities could reduce their costs by 20 to 25 per cent compared to what they might pay if they tendered the assessment for the community alone. Together with SUMA and the Consulting Engineers of Saskatchewan, we are helping Saskatchewan communities to meet these important regulations on time and as affordable as possible.

Now some concluding thoughts, especially around water quality objectives which are so important. I've taken a few minutes to describe the scope of SaskWater's operations in Saskatchewan and the important services the corporation is providing to the citizens of this province.

In the years to come, SaskWater will continue to increase its customer base. It will continue to build strong partnerships with our stakeholders in the water industry: SUMA, SARM [Saskatchewan Association of Rural Municipalities], Consulting Engineers, Western Economic Diversification Canada, Indian and Northern Affairs Canada, Prairie Farm Rehabilitation Administration, and Government Relations. And we will continue to operate as a total quality water management company.

This means by partnering with SaskWater not only do communities control their costs and protect their investments, but they have assurance that their water quality will meet or exceed regulatory standards. The outlook for SaskWater in the years to come is positive. We can expect increased revenues from all aspects from our core business areas. I would like to highlight that SaskWater partnered with about 331 communities

in 2005 in the water system assessment program. We think this will be wrapping up this month.

So we're very proud about the progress that we've made in SaskWater. We think today with World Water Day it's an important day to reflect on how important our infrastructure is here in Saskatchewan. And so with that, Madam Chair, I'd be welcome to take any questions or comments.

**The Chair:** — Thank you for those opening statements and remarks. Ms. Doreen Eagles.

**Ms. Eagles:** — Thank you, Madam Chair. And first of all, I'd like to welcome the minister and his officials here and thank you for taking the time to answer some questions for us.

And it is World Water Day today and we all are very aware of how important water is. And we have to . . . You know, there's still communities out there that have boil-water advisories and things like that. So that is something I think we have to work extremely diligent at to eliminate that in a province like ours.

The first question I'd like to ask you, and it's relating to . . . On page 50 of your report you have that the corporation settled an outstanding lawsuit related to the government's involvement in the potato industry. And there was another issue regarding a lawsuit and the provincial government versus the RM [rural municipality] of Canaan. And I was wondering where that situation was.

**Hon. Mr. Forbes:** — In regards to the specifics of the RM of Canaan, I'll take a minute to take a look at that. I think we have some information here on that. But generally speaking, with the outstanding lawsuits . . . Now you were referring to the SPUDCO [Saskatchewan Potato Utility Development Company] . . . No.

**Ms. Eagles:** — Well the provincial government and the RM of Canaan. It was over a tax bill apparently that the RM felt that they were owed \$90,000 in property taxes . . .

**Hon. Mr. Forbes:** — Right. Yes. Now . . .

**Ms. Eagles:** — You know, by the former SPUDCO company.

**Hon. Mr. Forbes:** — Yes. And I've been briefed by that. And I know that we have yet to resolve that, but it's one that's, you know, that there's been processes that they've taken. I understand they've tried some mediation, that type of work. But I don't know. Stuart, if you have anything further to add to that one . . .

**Mr. Kramer:** — A couple of observations. First would be that in terms of responsibility, Sask Valley Potato Corporation was set up to take the assets of SPUDCO. I believe that transfer took place a number of years back — I believe in the year 2000 — so that the ongoing work with the RM and the obligations of Sask Valley Potato Corporation are being dealt with by them. So SaskWater would be inactive in that work. It would be Sask Valley Potato Corporation that would be dealing with that.

I don't know as we sit here whether that is yet finally resolved or not. We could commit to get information for the member, but

it wouldn't be part of SaskWater's current duties or responsibilities. It's part of Sask Valley Potato Corporation.

**Ms. Eagles:** — Thank you. Could you tell me what all was involved in the dispute? Was it the tax situation? Were there other issues involved as well?

**Mr. Kramer:** — I couldn't quite give you that information because I just don't know. It would have been an issue before I went to SaskWater in the spring of 2002. By then the asset transfer to Sask Valley would have taken place. So I know there was a relationship to taxation. I know that just from media reports. But I don't have any personal knowledge of what that dispute would have been. SaskWater wouldn't have dealt with it at all since my time in SaskWater.

**Ms. Eagles:** — How much has SaskWater paid in legal fees regarding the lawsuits that they've had against them?

**Hon. Mr. Forbes:** — Are you talking the specific ones related to SPUDCO? Because there has not been any change in that since the previous minister was here. So I think we have that answer for you. But are you talking about the global answer in terms of what are . . .

**Ms. Eagles:** — Global and SPUDCO specifically.

**Hon. Mr. Forbes:** — Right. I'll read from the comments that Minister Prebble had made on — I'll make sure I get this right — on October 15, 2004: the precise total for the legal fees and professional service costs incurred to the end of September 2004 is \$1,745,980. And he mentioned that, I expect these costs will reach \$1.8 million by the time all the bills are in. And we think that's . . . September 2005, it's \$1,833,416.33. Now that is the SPUDCO-related expenses. That is not the total bills of that which I don't think would be much more than that, so . . .

**Ms. Eagles:** — I'm sorry. Those were legal bills?

**Hon. Mr. Forbes:** — Legal and professional services.

**Ms. Eagles:** — Okay. Could you tell me the firm that was used for the legal services?

**Hon. Mr. Forbes:** — There were several that I could . . . There were several firms that we paid out to. But I'll read the ones in descending order here: Olive Waller Zinkhan & Waller, that was \$892,417; Intercontinental Resources, \$267,373; Royal Reporting, 52,000. And I'm rounding some of these off. If you want the pennies, I can . . . Do you want the pennies?

**Ms. Eagles:** — Yes. I would appreciate the exact amount.

**Hon. Mr. Forbes:** — Okay. The first one is \$892,417.14. Intercontinental was \$267,373.61. Royal Reporting, \$52,095.25. Grant Thornton LLP, \$410,700.73. Oldman Communications, \$51,545.31. Kanuka Thuringer, \$60,015.83. Bennett Jones LLP, \$1,395.25. Robinson Investigations, \$4,516.91. Crown Enterprises, \$3,423.14. And Joseph Guenther, \$85,423.49.

And that, it came, that total, if you were to add that total up that was . . . And that was of December 2004. That total came to

\$1,828,906.66. But the total I gave you earlier was 1,833,000. That was to September '05. So you'll see there's a bit of difference there as well.

**Ms. Eagles:** — I guess it's my hope that this situation is cleared up in the very near future because it has been ongoing for quite some time.

Another issue I would like to discuss with you is the Fort Qu'Appelle waste water management. And you reached an agreement with the town of Fort Qu'Appelle on November 30 and I was just wondering when construction of that would begin.

**Hon. Mr. Forbes:** — I'll ask Stuart to answer that specific question.

**Mr. Kramer:** — There was some construction started in the fall already, the fall of 2005, on the in-town part of that.

And we do have tenders which are now advertised for both the evaporative lagoon outside the valley and for the pump work that needs to be put in place. Those tenders will be closing over the course of the next couple of weeks. We expect to award them shortly after that, and construction would take place beginning in the spring of 2006 on the remaining portion just as quickly as spring comes and we're into construction season.

But some of the work already started in the fall of 2005 and it will continue as soon as spring break happens.

**Ms. Eagles:** — Could you tell me how much the construction will cost?

**Mr. Kramer:** — We have estimates. We don't know exactly how the tenders will come in. It's been a busy last fall, it's been a busy spring in that business. So we have a sense of the scale of the project, but we don't at this point have a cost figure that's at all finalized because it depends on how well our tender process turns out compared to what our estimates might have been to this point.

**Ms. Eagles:** — So you said some of the construction had already begun last fall, so how was that arranged like with no tenders in? Did I miss something?

**Mr. Kramer:** — Yes. The information I'd provide would be that the part of the project that we started with last fall, which would have been the in-town holding pond, that was tendered and was awarded on the basis of the tender. And the three pieces now that are currently in the process of being tendered are the evaporative lagoon — which is on a hill — it's the piping that will move the effluent, and it is the pump station. So those are currently in process. And our activity last fall, what was tendered came in about on budget, and we'd be hopeful that these three would as well.

**Ms. Eagles:** — Thank you. I guess I just want to talk . . . I've got some more questions about Fort Qu'Appelle, but I just thought of another issue. And it's regarding health inspectors that work in conjunction with your department I assume for, you know, the water quality and also, you know, the sewage disposal in towns. And I would just like to know how you work

together and what part they play in your department.

**Hon. Mr. Forbes:** — I'll ask Stuart to be more specific on this. But it's very important to understand that — and I think it's a very good question because we have to reflect on this all the time — that essentially as part of our safe drinking water strategy that there were three parts: the water itself which Watershed Authority manages, and the regulations which Environment manages, and then SaskWater in our role in terms of the infrastructure but a really major role in terms of training the operators which is the key in many ways to a successful water program.

So now the Department of Health has a very specific role in terms of who they actually work with. And so in terms of Environment and their inspectors, their regulators, they have of course . . . that's who issues the precautionary warnings and that type of thing. But there is a role for Health, and I'll ask Stuart to speak specifically to that because I think it's important to understand how the different departments work together.

**Mr. Kramer:** — Thanks. The role of Health would be as regulator of the systems that are the small systems in Saskatchewan. The regulated systems that the minister referred to, that would be Environment's role as a regulator for water and waste water systems and standards for Saskatchewan. So we have in Saskatchewan about 600 regulated systems. Those would fall under the Department of Environment as the regulator and that would be for the typical community in Saskatchewan. They'd have a regulated system.

And in fact to describe SaskWater's relationship to that, we are regulated by Saskatchewan Environment in the work that we do on both water and waste water as a solutions provider. Our systems are as regulated by Saskatchewan Environment, if I can put it that way, as would be any of the individual community systems. So it's the same regulations they apply to us. We need to report in the same way individual communities do on both water and waste water. But then the Health role would be for the individual systems that are not regulated systems. They're smaller than that. They're yet subject to regulation. But Health deals through the individual health inspectors with the systems that are smaller than those that are regulated by the Department of Environment.

**Ms. Eagles:** — Thank you very much. I guess that's an issue I'll have to take up with Environment when it comes up. The reason I mentioned it is that in practically every small community there is a serious problem out there with sewage and water. And you know, people have contacted me and they've almost felt harassed by controllers and, you know, to the extent where they were phoning neighbours and asking them if so-and-so was caught pumping out and stuff like that. And you know, these small towns are in a dire situation. They're not qualifying for infrastructure. So that is why I brought that up. But I will bring it up with the proper authorities.

I will get back to the Fort Qu'Appelle issue now. The mayor of Fort Qu'Appelle, who is a former colleague of the minister's, he said the agreement will relieve the town of many liability issues. And I was just wondering what type of liability he would have meant.

**Hon. Mr. Forbes:** — Again I'll ask Stuart if there's any specific examples. But I know this is an important piece. It relates to your earlier question, the role of SaskWater in a solutions provider in that quite often, we know now in this changing world, liability is a huge, huge issue. And in fact we know with the two examples in Canada, North Battleford and Walkerton, that people take their water quality — and I think rightly so — very seriously.

And so we have a very high standard in terms of water quality and in terms of the people who work for SaskWater. And I think this is actually very much a good news story for Saskatchewan and rural Saskatchewan in that there's a group of men and women who are dedicated to improving water sources.

So the liability is there because you know, communities, if they're working by themselves and trying to provide services to their citizens . . . And quite often it's really, as you've said, a real struggle — very much a struggle. And if you have only one operator in a community, it can be very tough. And so in many ways, because there is this, SaskWater provides that, I would almost say, a bit of a safety net in terms of we can be very professional and we have to meet the needs of rural Saskatchewan in a co-operative manner.

And so I don't know if . . . Stuart, do you have anything about specific liabilities that Mr. Osika might have been alluding to?

**Mr. Kramer:** — I'd add a little bit for members maybe to describe the relationship that we will have with Fort Qu'Appelle. In Fort Qu'Appelle's case, they've asked us to be the owner and operator of their waste water treatment system. So in fact the facilities that we're putting in place are ones that we will invest in and we will own. And while the charges or the rates will continue to come from the residents of Fort Qu'Appelle, the community of Fort Qu'Appelle will have a contract arrangement with SaskWater that makes us the owner/operator.

So any of the liabilities or risks that the community would have as owner/operator, if they managed that themselves — owned and operated themselves — would be transferred to us so as we become their solutions provider on a contractual kind of basis. So I think what I would describe is that the liabilities we take are those of the owner/operator. And the community has chosen to meet its obligations to its residents to have a waste water system for treatment in place. They've chosen to meet those obligations by a contractual arrangement with SaskWater.

So typically communities have that choice for both water and waste water. If they want to do it themselves, they can. And yet in Saskatchewan, the majority do. But more are coming to us month by month and year by year because they see an added complexity in this whole area over recent years, and they're choosing to come in effect to someone who does that work for a living, who does it for a business. And that way they transfer their liabilities through to the provincial Crown of SaskWater and that in effect is our rule. They look at their liability.

We have by way of example 30 certified operators in place where a typical community would have one if they're lucky. So we have a depth of expertise that is available to communities if they choose to contract with us. So that's the observation I'd

make in terms of why they say they feel good about having transferred some of their liabilities to SaskWater.

**Ms. Eagles:** — So SaskWater in effect is a safety net for the town of Fort Qu'Appelle to some extent. What is SaskWater's safety net? How are you protected?

**Mr. Kramer:** — SaskWater, I would answer that in two ways. One is that we have a depth of expertise in the company that lets us meet our obligations, we believe, in a professional fashion with lots of expertise and depth. We also do have our own liability insurance, as would be reasonable, and that's part of the coverage we have. So we carry our liability insurance as any municipal utility would.

**Ms. Eagles:** — And does Fort Qu'Appelle have an adequate infrastructure in place in the interim until . . . [inaudible] . . . up and running?

**Mr. Kramer:** — We have done some significant work with them in the last number of months. Last fall's work was essentially to ensure that the community's current system would function until the new one is in place. And what we expect to happen in terms of timing — if construction is under way quickly in the spring of 2006, and we think it will be — we'd hope to have the Fort Qu'Appelle system in place and operational before the end of the 2006 calendar year.

And we're working with them, with our engineering staff, to ensure that their current system will provide the service it needs and meet regulatory requirements up until the time that we can transfer to the new system. So we've had to do work on it, but we believe that it will let them, with that work, meet regulations until the new system is ready to come into place.

**Ms. Eagles:** — Thank you. SaskWater in December received a \$35 million grant, and I would just like to know what that money would be used for.

**Hon. Mr. Forbes:** — What the money is used for is paying down some significant debt. That after the restructuring of SaskWater, the debt came from prior to that mandate and since its change to a mandate of being a commercial Crown, it was carrying a significant debt that was going to hamper its ability to be viable. And so in that way, CIC [Crown Investments Corporation of Saskatchewan] thought it was best that it provide some funds to pay down its debt.

**Ms. Eagles:** — Thank you. How much interest would be saved?

**Hon. Mr. Forbes:** — Stuart?

**Mr. Kramer:** — For the debt that we were able to repay with the \$35 million grant, we would have a calculation of about \$28 million worth of future interest payments that we would not need to pay because we were able to have that debt removed in December 2005. So it gives a future saving of about \$28 million in future interest payments.

**Ms. Eagles:** — Thank you, Madam Chair. I'll turn it over to my colleague, the member from Last Mountain-Touchwood.

**The Chair:** — Thank you, Ms. Eagles. Mr. Glen Hart.

**Mr. Hart:** — Thank you, Madam Chair. Congratulations on your new position. We won't . . . try not to be too difficult in the first time you're chairing this committee.

Just to go back to the Fort Qu'Appelle situation, if I understand the set-up or the proposed set-up, there'll be a holding tank or pond down near the town, and then it will be pumped up out of the valley into some other cells. I wonder if you could just kind of explain the design I guess of the Fort Qu'Appelle waste water system and where those evaporation cells are located and those sorts of things.

**Mr. Forbes:** — I'll ask Stu Kramer to answer that. I think he's getting that answer.

**Mr. Kramer:** — You're getting this explanation for someone who isn't a certified treatment or waste treatment plant operator, but it would work like this — that the primary holding cell is in the town, as you described, and typically we would plan to hold the sewage in that holding cell for 8 to 10 hours. It does have a storage capacity of up to two days capacity for the town, but it's held there for 8 to 10 hours. Then the sewage is pumped to the top of the hill, as you described, into a primary cell where it would have major treatment — that would be the primary treatment — it would be held there for up to 180 days. And then when that primary treatment is completed, it would go out into the evaporative pond where there is no release into the valley but there's sufficient land control and sufficient area planned for that evaporative pond where the effluent would evaporate after it's spent 180 days in the primary treatment pond, also up on the top of the valley.

So that's essentially the process — holding in the town site, 180 days of primary treatment, and then out as effluent to the evaporative pond where it would stay until evaporation takes place.

**Mr. Hart:** — Well I must admit I don't have the expertise either, but I did follow your explanation. And it sounds like it's a system that should work quite well in the summertime, but as we know, in the wintertime we don't have any evaporation because the water bodies freeze over. Now I guess I'd have some concerns about capacity.

**Mr. Kramer:** — Yes the further information provided to the member is that the evaporative pond on the top of the hill is sized so that it provides for growth for the community over the next 20 years at a significant level. It's sized to adjust for rainfall and other precipitation over the course of the year and provides sufficient capacity yet so the evaporation takes place over our evaporation months in Saskatchewan. So we have assurance that it will meet specs.

I'd say to the member as well that as I described earlier, our proposals for putting in place that infrastructure are subject to approval from the regulator — Saskatchewan Environment — as would any other community's be. So we're confident that with our expertise, the review at the regulator's level — Saskatchewan Environment — that we have an approach that is sound and will serve the community well. And we're excited to do business with Fort Qu'Appelle.

The thing that they place as a priority — and I think we do at

SaskWater as well — this will eliminate releases of even treated effluent into the Qu'Appelle River chain. And we give the community credit that that's something that they have placed a high priority on trying to avoid as they designed this system. And that's what this achieves. It's an evaporative pond that won't provide for any releases into the river system.

**Mr. Hart:** — Well I certainly have to congratulate the community for taking this approach to waste water disposal and trying to eliminate discharges into the valley because certainly I think it's widely believed that there's certainly some effect on the water quality in the middle of summer from discharges, you know, further upstream.

I have a question regarding location of the treatment cell and the evaporation cell. I believe they're located on the north edge of the valley. Have all the issues surrounding — because this can be somewhat contentious with adjacent landowners and so on and adjacent residents — have all those issues been . . . First of all I'm not aware if there have been any real issues, but I guess that would be one question. Are there any issues with adjacent landowners and residents as far as the location of these two cells?

**Mr. Kramer:** — The comments that I make is that the location has changed from some of the initial design. Initially it was planned to be located very near to the valley's edge, on the hill but near to the valley edge. And as design was done and the size was determined, the decision was made to move that back from the valley edge. So our site now is farther back than was initially planned.

The other observation we'd make is that we have placed it adjacent to the local municipal landfill. It's on the adjacent quarter. So no one wants the evaporative pond adjacent to their particular land. We understand that. So we thought that placing it adjacent to the municipal landfill was wise because there already is that as a deterrent to adjacent land ownership.

But we do have some local issues that we are yet dealing with in terms of concerns. We are confident that those can be dealt with. We still have the final stages of approval of our environmental review from Environment to deal with as well. But we are confident in those two cases that things can be dealt with in a way that doesn't provide for major irritation in the area. We would say we are confident because the site is already being used for or adjacent to the local regional landfill that Fort Qu'Appelle uses. Thank you.

**The Chair:** — Thank you, Mr. Hart. And, Mr. Dan D'Autremont, I see that you have some questions to ask as well.

**Mr. D'Autremont:** — Thank you, Madam Chairman, and congratulations on your elevation even though you are sitting lower than we are.

Mr. Minister, has SaskWater been working with the communities to help with their water supply? And in particular I'm thinking of their requirements for fire safety. I know that a number of communities have been requested to have a certain amount of water on hand in case of fires and that they need to put in some kind of a reservoir system to maintain that. A lot of the rural communities actually run their water systems from



wells, and so they don't actually have a storage facility in place because their wells will maintain the water supply and pressure that they need in their community. But the fire marshals want to have a supply on hand — a certain amount, depending on the size of the community, of water on hand. Has SaskWater been working with any of the communities to help them facilitate that?

**Hon. Mr. Forbes:** — Well I appreciate the question. It's an important one, and I will ask the officials for the answer. I know that the former minister had a direct connection between the two departments with fire protection in the South and with water, but I'll ask the officials to . . . Mart Cram will answer this.

**Mr. Cram:** — You're quite correct in that fire flows typically in municipal situations come from the storage reservoir. Our role in water supply, we deliver water to a community storage reservoir. They build their own reservoir, so we're not directly involved with the reservoir. That's part of their distribution system, and they take care of that themselves. We haven't had municipalities coming to us and asking for any assistance in that regard.

**Mr. D'Autremont:** — Okay. Thank you. Yes I'm surprised then that the communities haven't been coming forward because I know the ones that have contacted me, their response is, how in the heck are we supposed to, you know, come up with all of this money when things are tough in the small communities and they can't . . . They can barely run their own water system let alone put in a large artificial reservoir of some sort to meet the regulations and the demands by the fire marshal.

Would SaskWater be willing to entertain some kind of discussion with communities that need to put in these facilities to meet the current fire codes for water storage where they're having difficulty being able to provide the financing for that?

**Hon. Mr. Forbes:** — Well I would say to the member that it's a very interesting question. I really appreciate it. I'm going to undertake to learn more about this and what their specific needs are. I would say that clearly our mandate is as a solutions provider, but we're more of a . . . It would be interesting to see where these specific communities are and that type of thing. I know when there are challenges out there — and this is one of the wonderful things about SaskWater — is you're developing a group of expertise. Whether they can actually help with specific situations is one thing, but clearly rural Saskatchewan has its own unique set of needs and we're finding more about that.

So I appreciate the question. I will follow up on that and then talk to the minister that's responsible for fire protection here in southern Saskatchewan about that type of thing and I will get back to the member in due course on that.

**Mr. D'Autremont:** — Well SaskWater is moving more, as I see it, more towards a commercial enterprise, more towards an engineering function design for water systems. And clearly within the urban municipalities, the smaller municipalities, these are issues that are arising based on government regulation. I mean most of these communities have survived for close to 100 years without the need for a large reservoir to fight fire

with and perhaps in some locations they've paid the price for not having that in place.

But now the demand is there for them to have that kind of facility available with the proper pumping mechanisms to be able to deliver large volumes of water in a short period of time. And they do need some assistance in determining the best means to go ahead and to provide this to meet the fire codes.

**Hon. Mr. Forbes:** — I would say, point well made. And one of the things that I'm also very delighted about SaskWater is their triple line . . . have I got that right?

**A Member:** — Triple bottom line.

**Hon. Mr. Forbes:** — Bottom line. And one of them is social responsibility and clearly this SaskWater, when its mandate was changed, was largely in response to the unique needs of rural Saskatchewan. And so I think that it's an important question. I had not thought of that and will pursue that further.

**Mr. D'Autremont:** — Has SaskWater been carrying on any water studies across rural Saskatchewan as how to meet the demands and the needs of some of the smaller communities and some of the communities that hopefully will be growing in the future?

I'm thinking in particular of the Moose Mountain area, the provincial park there with the water problems that have been ongoing for a number of seasons there because of the lack of snow. And I know that some people in the province will be saying, what do you mean lack of snow; there's lots of snow. Well down in the Southeast there isn't a lot of snow. And so we're apt to see the lakes drop again this year because of that. And I know that there are people in the area that are requesting some means by which to move water into the park for everyone's benefit. And has SaskWater been doing anything along that line for studies?

**Hon. Mr. Forbes:** — I'll ask the president his specific thoughts on it. But I would know that this is clearly an important issue that's being looked at across Saskatchewan and it's one that I know Watershed Authority has been actively involved in the management. They're the water people; we're the pipes people.

But obviously we work with our partners — especially SUMA and SARM — to look at areas, potential areas where there could be solutions, especially when we're talking about pipelines and co-operatives around that kind of initiative. Very important work.

So I'll ask Stuart if there's any specific things under way here. But I know that again it's a, you know, partnership with Watershed Authority. They do that kind of work. We're doing that kind of work but . . .

**Mr. Kramer:** — Yes. There's a couple comments that I'd make. You know, back in October when SaskWater last appeared before the committee with Minister Prebble, we talked about work that was being done at a quite early planning stage but with five groups of communities in the province. And we'd identified them, just looking at *Hansard* today.

But La Ronge region, in the Caron-Mortlach region, in Kindersley, Rosetown, and White City, there are groups of communities that are working together putting together proposals for regional systems. Those are quite dependent, given their size and cost, on federal grant funding. And there was announcement of the potential for funding back in July 2005 that hasn't yet come to fruition.

So what I'd say I guess in summary, is a number of regions are working with us. Some are doing their own work apart from SaskWater and we encourage that as well. But there's lots of opportunity and we would be most interested to work with other groups of communities that would like to have work done at a planning stage to determine the engineering that might be needed and what the costs might be for their customers because they're obviously concerned about at what cost as well.

We're also interested in working with First Nations. In some of these, particularly the La Ronge area, there's interest in having a system that would not only meet the community's needs — non-Aboriginal — but meet the First Nations needs as well. So we're excited about those kind of possibilities and would look forward to that.

We have significant regional systems now like the Melfort regional, the Humboldt regional. We believe there's opportunity for more. There's active work being done but none that we would say we are delivering as of now. Some things still have to fall into place.

**Mr. D'Autremont:** — I know last fall that you had some numbers that you charged per gallon or thousand gallons to communities for use of their water that SaskWater handles. But do you have any numbers in relationship to the cost to move water either by the volume of pipe or by the amount of lift that you need if you're lifting water 500 feet, let's say? Say you're moving it from Gooseberry Lake or Moose Mountain lake up into Moose Mountain Park . . . and I don't know what that elevation change would be, but it quite possibly could be 500 feet. Do you have a sort of a rough cost estimate what it costs to lift water that kind of a height?

**Mr. Kramer:** — We wouldn't, for the member, have any particular rule of thumb that we could say, this is the way we do it. Each one would be dependent on the height, as you've described, the distance, and then the volume as well in terms of just the size of pipe that would be needed.

But if there are communities that would like some initial assessment of, does this have a chance of being economical or not, we would invite them to be in touch with us at Moose Jaw head office. And we would give them even whatever loose rules of thumb or analysis we have from some of our existing systems. But because in each case the volume or size of pipe, the height and distance are unique, there isn't anything that we could say to you to be helpful at this point. But we invite folks to come and talk to us, and we would give them something preliminary that would be helpful without a detailed engineering design.

**Mr. D'Autremont:** — Okay. Thank you very much.

**The Chair:** — Thank you, Mr. D'Autremont. This being past

the hour of 4 o'clock and we have SGI [Saskatchewan Government Insurance] scheduled from 4 until 5, I am going to adjourn discussion on the SaskWater 2004 annual report and thank the committee and the minister for their time and their answers. Thank you.

We will commence with SGI in five minutes, so a five-minute recess. In the meantime, I have something very interesting that I want to bring forward as well.

I was saying this is the 60th anniversary of this committee meeting, and Iris was kind enough to find something in archives. And it's the report that was tabled on February 27, and it describes the types of Crown committees that were being discussed at that point in that meeting.

And it was quite interesting to me and I thought it might be interesting to the members as well. And they were the Saskatchewan Timber Board, Saskatchewan Fish Board, Saskatchewan Clay Products, Saskatchewan Government Printing Company, Saskatchewan Wool Products, Saskatchewan Leather Products, Saskatchewan Fur Marketing Service, Saskatchewan Reconstruction Corporation, Saskatchewan reconstruction housing corporation, and good old Saskatchewan Transportation Company. So it's been around for a while.

[The committee recessed for a period of time.]

#### Saskatchewan Government Insurance

**The Chair:** — Good afternoon everyone, and welcome to the afternoon of consideration of Saskatchewan Government Insurance 2004 annual report and related documents.

At this time I'd like to introduce Rod Grabarczyk and ask him . . . from the Provincial Auditor's office, and ask him if you have any opening remarks.

**Mr. Grabarczyk:** — Yes I do. First of all I'll like to introduce Jamie Wilson, right beside me, who is the partner at the firm of KPMG who are the appointed auditor of SGI.

I have a few brief comments on the audit of SGI and related agencies for the 2004 year. We have completed our work for SGI and its related agencies and the Saskatchewan Auto Fund it manages.

In our opinion, for the year ended December 31, 2004, SGI, SGI CANADA Insurance Services Ltd, Coachman Insurance Company of Prince Edward Island, the Saskatchewan Auto Fund, and the Saskatchewan Government Insurance superannuation plan financial statements are reliable. Adequate rules and procedures exist to safeguard public resources and SGI and its related agencies complied with the authorities governing their activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing. And that concludes my remarks. Thank you.

**The Chair:** — Thank you very much. At this time I'd like to ask Jamie Wilson of KPMG if he has any opening remarks as well.

**Mr. Wilson:** — Thank you very much. We have conducted an audit of the financial statements of SGI and its related subsidiaries. Our auditor's report for SGI CANADA is contained in the annual report on page 30. In it we conclude that the consolidated financial statements present fairly in all material respects the financial position of the corporation as at December 31, 2004, and the results of its operations and cash flows for the year then ended. We have issued similar clean audit opinions on the other individual subsidiaries as well.

**The Chair:** — Thank you very much. And at this time I'd like to welcome the minister, Glenn Hagel, and his officials and ask if you'd like to introduce your officials and give any opening remarks.

**Hon. Mr. Hagel:** — I certainly would, Madam Chair. I appreciate that very much and I thank the gentlemen for their comments related to the audit of SGI for the year '04.

I'd like to introduce first of all, on my left is the . . . from the viewer's point of view and to the right of the screen, Jon Schubert, who is the president of SGI, and beside him is Earl Cameron, who is the vice-president responsible for claims. Beside me is Don Thompson, the vice-president responsible for finance. And seated behind us from the viewer's point of view, on the left is Sherry Wolf, vice-president of the Auto Fund, and Betty Weigel, manager of business affairs and who also is the corporate secretary.

Madam Chair, I'm very, very pleased as we come to the committee today regarding the 2004 annual report to say that SGI has had a very strong year financially in 2004, and I think that's good news. Not just, importantly, for the corporation but even more importantly for its customers and for its shareholders, many of whom are one and the same as people of Saskatchewan.

The Auto Fund posted a surplus of \$125 million in '04, increasing the balance in the rate stabilization reserve to \$140 million at year-end. It's important for the fund to have a positive balance in the reserve because it helps to keep Saskatchewan's auto insurance rates the lowest in Canada. And I think it's with a great deal of pride that Saskatchewan people recognize that we have not only the lowest rates in Canada, but that our rates have not changed since 2000, since we've had a rate change. And I think there are many across the nation who, with a great deal of — what's the word I'm looking for? — envy, I think that's the word I'm looking for, would wish that they could say that about the auto insurance in their jurisdictions.

In January 2005 SGI more than doubled the discounts under the Safe Driver Recognition program to raise it to a maximum discount of 20 per cent. The maximum discount under the business recognition program was also doubled and bringing it to 10 per cent. These significant program enhancements were in large part due to the strong financial results that were posted in the 2004, in the Auto Fund. I'm pleased to report that the Saskatchewan Auto Fund is meeting its goal of providing high-quality services and products at the lowest rates in the country.

SGI CANADA, which is the competitive side of the company,

had a similarly impressive year. SGI CANADA had its best year on record in 2004, posting a consolidated profit of \$42 million, nearly double the 2003 result of \$21.2 million. Its success resulted from disciplined underwriting, where rates accurately reflect risk. And that's an important principle in conducting, of course, a successful insurance corporation.

The absence is helpful to us . . . For some things for which we can claim no responsibility, the absence of severe summer storms and good investment earnings were also major contributors. And for those, I guess it's to the Minister of Environment that I express my appreciation that we had the absence of severe summer storms.

SGI CANADA sold insurance in four other provinces in 2004. This is a corporation that is growing for reasons that I'd like to comment about. In 2004 SGI CANADA sold insurance in Manitoba, in Ontario, in Prince Edward Island, and in New Brunswick, and all were profitable in 2004.

The Insurance Company of Prince Edward Island posted a profit of \$1 million. Coachman Insurance out of Ontario made a \$682,000 profit. And SGI CANADA Insurance Services Ltd., which is predominantly Manitoba business, in 2004 made a profit of \$1.1 million. Overall then there was a profit of \$2.8 million made on business outside of Saskatchewan in 2004, more than double the amount of the previous year.

I would like to make the point, Madam Chair, that expansion means a stronger company with greater financial stability to protect Saskatchewan customers from the cyclical nature of the insurance industry. And I think we all understand that the insurance industry will have its ups and downs based on those things that occur — some of which are natural causes — that affect people's inclination to make claims as they insured themselves to protect themselves from risk. It's important to spread that risk geographically because of SGI CANADA's large market share in the province of Saskatchewan.

What that means is if you have a large share in a single jurisdiction and something horrific happens within that jurisdiction, then you are extremely vulnerable then to the consequences of that. And so it is the ability to move beyond the borders of the province that enables that risk to be shared and to expand the protection against risk for all of our customers. Losses in one product area or areas can be offset then by profits in another. That's the basic principle in the conduct of a good insurance company.

Growing the business by selling SGI CANADA products in other provinces also means creating new jobs and maintaining current ones at our head office here in Regina. And we value that and I know the people of Saskatchewan do too.

It also means increased profits for our shareholders here in Saskatchewan. And the results of 2004 are evidence precisely of that. The 2004 results are a significant achievement and an indication of the expertise, in my judgment, of SGI CANADA in the insurance business in Saskatchewan and elsewhere in Canada. I think that's what the results tell us.

Overall 2004 was a very good year for SGI shareholders and customers. And, Madam Chair, we'd be pleased to take any

questions that the hon. members may have regarding the annual report for '04. Thank you very much.

**The Chair:** — Thank you, Mr. Minister. Are there any questions? Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I'd like to start off with the auditor's report if I could please. And . . .

**Hon. Mr. Hagel:** — Are you looking at a particular page now?

**Mr. D'Autremont:** — Not yet. I will. I have more of a general question on the auditors to start off with.

In the last few days we have found out about some fraud cases that have resulted in SGI . . . with the loss of some funds from SGI. How do the auditors track that? Do they track that? Do they look for it? And if so, how do they record that in the audit reports?

**Mr. Grabarczyk:** — Well the audit is designed . . . It has three objectives. One is to provide an opinion on the financial statements. The second objective is to take a look at the adequacy of the controls to safeguard public resources. And the third one is to provide an opinion on the compliance with the legislative authorities.

So the second objective is to take a look at the adequacy of the controls to safeguard public resources. So one is looking to see that there is control mechanisms in place to ensure that the resources are safeguarded, whether there's a proper segregation of duties, there's approvals for expenditures being made. So yes, the auditors are looking at the control processes of SGI and its related agencies.

**Mr. D'Autremont:** — Perhaps Mr. Wilson from KPMG would like to respond on how they deal with it when they're doing the auditing, specifically of SGI versus the Provincial Auditor who looks at it second.

**Mr. Wilson:** — I'll talk generally about how internal controls are examined and fraud is considered within the context of an audit — being any audit, SGI obviously included. During the planning phase of the audit we do consider the controls in place within the organization, the adequacy of those controls, and then to the extent those controls would be relied upon. We in fact test them.

The audit isn't designed by its nature to detect all cases of fraud necessarily. Although, to the extent that any are discovered during the course of the audit, we report those and are required to report them to the audit committee and to management and also to the Provincial Auditor through the reporting that we do to his office.

Our auditor's report on the financial statements only comments on whether or not the statements fairly present the financial position of the corporation as at a point in time. So if losses have in fact occurred during the year for whatever reason, as long as those losses are properly reflected in the financial statements within a concept of materiality, our opinion states that the consolidated statements present fairly — easy for me to say — in all material respects, the financial position.

So as at December 31, based upon the work that we did and also the work that management did to quantify the magnitude of the losses on the cases that you're specifically referring to, our conclusion was on an overall basis the financial statements did, in fact, fairly present the financial position.

Within the context of Canadian generally accepted accounting standards and the context of this report, we are not reporting on the adequacy necessarily of internal controls or whether or not fraud per se occurred during the organization. As I say, to the extent we discover any of that during the context of our audit, we do report it to the audit committee. I'm not sure if that completely answers your questions but . . .

**Mr. D'Autremont:** — Well that's a part answer to my question. A follow-up on that is, how would that be reported though in the annual financial statements of the corporation? How would that loss be reflected and where would it be reflected?

**Mr. Wilson:** — I can't recall exactly which line item the loss that you're referring to is reflected in. I believe it is included in net other income, because that's where the salvaged sales less any returns less any cost of those salvaged sales is reflected.

The question becomes, are the financial statements fairly presented by netting that into one line or should the disclosure be provided on an individual basis? Clearly, if the issue being discussed was \$150 million — just hypothetically — one would say that that should be presented on a single-line basis. To net \$100,000 worth of other costs into a line item on the financial statements within the context of the size of SGI was considered to be fairly presented.

So as near as I can recall, and perhaps management would answer on a follow-up basis, I believe that's where the item in question is included in the financial statements.

**Mr. D'Autremont:** — So from an audit point of view, it would be . . . A loss due to some criminality would be a small loss. As you indicate, \$100,000 versus 150 million would be reflected in the same manner that the loss on the sale of an automobile or a group of automobiles. If SGI had bought \$500,000 worth of automobiles and sold them for 400,000, that loss of 100,000 would be written in the same manner as the theft of \$100,000. There would be no differentiation.

**Mr. Wilson:** — And perhaps one comment I should have made is that clearly the financial statements are management's financial statements. The management makes a determination as to where they best think items are disclosed within those financial statements. We then provide an auditor's report on those financial statements to say, do the statements and the grouping of items and the classification and disclosure of items that management has presented, does it fairly present the financial position of the corporation?

And given the size of the item that we're discussing and the size of SGI's financial results generally, our conclusion was that the statements were not materially misstated by not individually disclosing the one or two items that you are specifically referring to. Had the items been larger and had management decided to disclose them exactly the same way, at some point,

our opinion may in fact have changed and suggested that they should in fact be disclosed separately due to the unusual nature of them.

But management prepared the statements on this basis and that I've indicated where I believe the — from memory — the item is in fact included. And our conclusion was that, given the quantum and the quantum of the statement of operations for SGI generally, they were not materially misstated by not disclosing it on a separate basis.

**Mr. D'Autremont:** — So the statements accurately reflected the net for the year.

**Mr. Wilson:** — Right.

**Mr. D'Autremont:** — Because the loss because of the fraud was simply reflected in losses similar or losses that may have occurred in other areas because of business decisions or changes in the business environment. And so there was no differentiation between a fraud, a poor business decision, or a change in the business environment which resulted in a loss.

**Mr. Wilson:** — Correct, within the same concept of significance.

**Mr. D'Autremont:** — Okay, thank you. To the minister and your officials. Mr. Wilson indicated that potentially a larger amount of fraud may have been reported differently. From management's point of view, is that possible? Could it have been reported differently? And if there is a different mechanism for that reporting for the 2004 year, what level would that report have diverged from the practice that we saw happen in 2003-2004?

**Hon. Mr. Hagel:** — I'll ask President Jon Schubert to comment. And I think for the advantage of *Hansard*, for record purposes, if an official is speaking for the first time, that they could just identify yourself so that *Hansard* can properly record it. Mr. Schubert.

**Mr. Schubert:** — Jon Schubert. The amount of the fraud in this case is \$100,000 and relative to the size of the Auto Fund it's a relatively small amount. What we would consider a material amount for the Auto Fund would be over \$1 million. Now having said that, when there's fraud that's made against the corporation we take any amount . . . We consider that something serious, that we follow up on fraud and we, you know, take a great deal of work in having internal controls to detect fraud. When we do find that we have a fraud, our policy is to look at the internal controls that we have in place to detect the fraud and to stop . . . to prevent the fraud in the first place. And we take that amount very seriously. But materiality level for the Auto Fund would be over \$1 million. And to put it in perspective, if you look at the company, all of the SGI companies as a whole, our revenues now are in excess of \$1 billion.

**Mr. D'Autremont:** — Well in terms of the corporation perhaps \$1 million is not a huge amount of money. In terms of the people of Saskatchewan that's the registration costs on 1,000 vehicles. To the individual that's a lot of money, and I don't think the fact that it's insignificant in your terms in relationship

to SGI's operation in any way mitigates the amount of loss and the sense of betrayal that the people of Saskatchewan feel with that happening.

**Mr. Schubert:** — I agree with you. You know when you have any fraud that's perpetrated against SGI we take that very seriously. And while the \$100,000 may not be material you know for the Auto Fund, \$100,000 is a lot of money. And you know when we have a fraud that's perpetrated against the corporation that's not good news and we take it very seriously. We have all sorts of internal controls; we investigate all sorts of fraud and that's what we have been doing for a number of years and will continue to do so.

**Mr. D'Autremont:** — In 2004 what was the process in place for SGI to have reported a case of fraud (a) to the police, and how would the determination be made whether or not that fraud would be reported to the police?

**Mr. Schubert:** — What we do is, when we find an allegation of fraud, when we detect a fraud, we investigate that. And if there is a conclusion that a fraud actually occurred, we will be in contact with the police. There may be discussions with the police and the prosecutor's office to see whether or not a conviction or whether or not a process should proceed to lay charges, and we will push it to get a conviction. And we will always try and recover whatever monies the corporation has been defrauded from.

**Mr. D'Autremont:** — Okay. You say that there will be discussion with the police to determine whether a charge will be laid. But what process do you go through prior to approaching the police to determine . . . You do an investigation. I'm assuming someone within SGI does that investigation then to determine whether you consider fraud to have occurred or not.

When do you though make the determination to approach the police? Is there any potential for fraud that you've determined through your investigation? Is there a scale that you use to determine how much fraud is involved, what the levels of money are involved? What is the process within SGI, and is it SGI's own investigators that do the initial investigation?

**Mr. Schubert:** — Investigation can take place in a number of places. It could be an employee's supervisor. There could be some involvement from our human resource division. We have a special investigation unit to detect fraud, insurance fraud, and those are all investigated.

And depending on the outcomes of the investigation, we know whether it's an alleged fraud or whether it's an actual fraud. And then if there's an actual fraud, we will assess each one individually. We'll talk to the police. We'll talk to the prosecutor's office. Then we determine jointly whether or not there will be charges laid and whether or not it will end up in court.

In all cases when we have detected a fraud, we look at our internal controls to see whether or not there is a way of improving those. And we always try to recover whatever funds the corporation has lost.

**Mr. D'Autremont:** — When you say you talked to the police,

do you talk to the police in the case of every time your investigations determine that a fraud took place, every time you have investigated and your investigations have determined that a potential fraud has taken place because obviously the person may be found not guilty of it? So the potential fraud has taken place. Do you talk to the police then in every one of those cases?

**Mr. Schubert:** — We look at each case individually. There is no set amount or limit at which time we would go to the police.

**Mr. D'Autremont:** — So what's the criteria then for making the determination that situation A, we will go to the police as SGI; situation B we won't go to the police as SGI? You know, how do you make that judgment that one should go and one shouldn't?

**Mr. Schubert:** — If it's a small amount and the employee pays us back, we terminate the employee. In those cases, we don't go to the police. So I believe we had one for \$100. In that case we didn't go to the police. But in the two cases in salvage, we did go to the police with the prosecutor and laid the charges. And then there was a court proceeding. And then we recover whatever money that we can out of those.

**Mr. D'Autremont:** — So has the board made some sort of a recommendation or directive to management of the corporation as to what that small amount would be, where the cut-off is between going to the police and not going to the police?

**Hon. Mr. Hagel:** — Yes, maybe I'll take the question from the hon. member. On a go-forward basis, the criteria is \$200. That has now been determined not only for SGI but for Crowns as well as the executive government so that any incident which involves an amount of \$200 or greater then will be reported to the police as a matter of process.

**Mr. D'Autremont:** — What was though the policy . . . was there any directives or guidelines prior to this announcement that was made here this week?

**Mr. Schubert:** — There weren't.

**Mr. D'Autremont:** — So it was basically left up to local managers and supervisors up the ladder at SGI?

**Mr. Schubert:** — Perhaps I could explain a little bit about some of the things we do about fraud. The corporation has had a fraud policy in place since 1998, and what we do is we review our internal controls. We've implemented specific training for management on fraud, and in 2002 we implemented a policy, a code of ethics for all SGI employees. We have specific training for adjusters to detect insurance fraud. We have a special investigation unit to investigate fraud. We assess overall fraud risk twice a year, and we present a risk assessment to the SGI Board of Directors.

If there's any actual fraud, that is reported by management to the internal auditor at SGI, the external auditor, the Provincial Auditor, and the audit and finance committee of the board of directors. So if there are any fraud that is not just an allegation but actually proven, those are reviewed by senior management and that's the determination of whether or not they'll be

proceeding with the police. Now of course that changes from the \$200 that the minister was just referring to. That will change now.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — SGI's investigative personnel though, their focus would be mainly though on their clients — would they not? — rather than internally. Perhaps I'm making an assumption there that's not valid. So I'm wondering how much emphasis had the corporation put on concerns about internal fraud.

**Mr. Schubert:** — You're right that the majority of the work that the special investigation unit does relates to insurance fraud, but they do also assist the corporation with employee fraud. And it's a very small portion because of course the vast majority of people that work at SGI are not, absolutely not going to be involved in fraud.

Now the company takes it seriously, and we've had a code of ethics in place since 1997 to specifically lay out the rules that employees have to follow in order to work at the corporation. Employees are required to sign that so that they acknowledge that we have these rules in place.

We have a specific training by our internal audit department for management so that we can have an awareness about fraud and so that we make sure that we follow the internal controls that the corporation has in place. Our internal audit department also makes an annual assessment of the fraud management practices that the corporation has. So we spend quite a bit of time making sure that we are diligent about that and try and deal with it the best we can. We're always trying to improve it, and we'll continue to do that.

**Mr. D'Autremont:** — I'm assuming SGI has inventory control on the salvage side. Would that be the case?

**Mr. Schubert:** — That's the case. Twice a year we take the inventory.

**Mr. D'Autremont:** — Does that inventory control include daily records in the sense that you're tracking it by computer? So if I come and pick up a water pump at SGI, it's immediately shown, a change in inventory?

**Mr. Schubert:** — Yes, that's correct.

**Mr. D'Autremont:** — Do you also then ensure that — in that inventory, tracking it, when there is a decrease in an area — that there's a corresponding income that directly relates to that sale or change?

**Mr. Schubert:** — Well when a customer comes into salvage to purchase a part, we get the part for them, and we produce an invoice for that part. And we collect the cash and the customer takes the part.

**Mr. D'Autremont:** — So there should be a change in your inventory of one item, and there should be a corresponding value show up at some point that corresponds to that inventory change. And if that doesn't happen, does that trigger any alarm

bells?

**Mr. Schubert:** — Well there's an actual reconciliation of the inventory twice a year.

**Mr. D'Autremont:** — So it may take six months to determine that a water pump went out of salvage but there was no corresponding payment coming in?

**Mr. Schubert:** — If somebody were to take a part, we would discover the part was missing later on. But you know, if I can keep it in perspective, there are literally hundreds of thousands of pieces of parts within the salvage operation. And so while we reconcile it twice a year, you know, it's not possible to do that every day.

**Mr. D'Autremont:** — But shouldn't there be a . . . If a sale is made of an item out of salvage, shouldn't there be a corresponding piece of income shown that represents that sale?

**Mr. Schubert:** — So every day there's a number of invoices in each of the salvage operations. There's a daily reconciliation of those invoices to the cash or credit card receipts that we have to make sure that we actually collected the cash. Then there's a monthly reconciliation of the bank account and the accounts receivable to make sure that they balance.

**Mr. D'Autremont:** — Okay thank you. I believe we're ending this for today, so thank you very much for coming in.

**The Chair:** — Thank you, Mr. D'Autremont. As the hour is 4:45 and that is the end time for this discussion, I would ask someone to move a motion to adjourn please. Thank you, Mr. D'Autremont. So the motion has been made to adjourn at 4:45. All in favour?

**Some Hon. Members:** — Agreed.

**The Chair:** — Any opposed? Thank you. Carried. Thank you, Mr. Minister, and your officials for your diligence and patience in answering all the questions. And we stand adjourned.

[The committee adjourned at 16:45.]