



# **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

## **Hansard Verbatim Report**

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**STANDING COMMITTEE ON PUBLIC ACCOUNTS  
2005**

Mr. Elwin Hermanson, Chair  
Rosetown-Elrose

Mr. Lon Borgerson, Deputy Chair  
Saskatchewan Rivers

Mr. Ken Cheveldayoff  
Saskatoon Silver Springs

Mr. Glenn Hagel  
Moose Jaw North

Mr. Ken Krawetz  
Canora-Pelly

Mr. Kim Trew  
Regina Coronation Park

Mr. Kevin Yates  
Regina Dewdney

[The committee met at 10:00.]

**The Chair:** — Good morning everyone. I declare the meeting of Public Accounts underway. Welcome to everyone. I think it's good to see everyone again. We have our officials here from the Provincial Auditor's office. I see committee members here. There is one substitution. There's one substitution to notice. We have substituting for Mr. Ken Krawetz, Glen Hart for the consideration of Environment, and other than that I don't believe there are any substitutions.

I have one item of correspondence to deal with. I believe that there is some discussion on the agenda, and we should probably deal with that first off as well. We have for consideration this afternoon from 1 to 1:30, Board of Internal Economy. That is an issue that the auditor keeps raising. Because it has never been dealt with by any committee anywhere, I decided to leave it on, in fact suggested that if need be, that could go into an in camera session. I understand that there is some disagreement with that. And so we will allow the matter of the agenda to come before the committee first. Mr. Borgerson.

**Mr. Borgerson:** — Yes with respect to the Board of Internal Economy, because it is the practice for the auditor's report and recommendations to be reviewed by the Board of Internal Economy, I will make a motion that the chapter on the Board of Internal Economy be referred to that committee.

**The Chair:** — All right.

**Mr. Borgerson:** — Sorry, to the Board of Internal Economy. Sorry.

**The Chair:** — All right. The motion is put forward. I believe it can be discussed. And in fact I have a question for the auditor. Does the board review your recommendations with yourself, and is there any public forum whereby the people of Saskatchewan know whether your recommendations regarding the Board Internal Economy are accepted, rejected, or whatever?

**Mr. Wendel:** — I have not met with the Board of Internal Economy on the management letter that we've sent them, and I would certainly do that if they asked me to attend. And if they did, those meetings are open to the public, and there is a verbatim record kept of those meetings.

**The Chair:** — Okay. That would take a different motion, and so we can't discuss whether or not the Public Accounts Committee would recommend that that happen. However I can tell you that as Chair I am somewhat uncomfortable that this chapter keeps reappearing in the auditor's report and nowhere is it dealt with. I'm not sure this is the right committee to deal with it, and certainly as your Chair I will accept the decision made by the Public Accounts Committee to pull the item from the agenda. But as Chair of Public Accounts and concerned for the accountability of public funds across the board, you know, I think somewhere, somehow, at some time there needs to be a better way to deal with the auditor's recommendations.

Is there any other discussion on the motion? Mr. Hagel.

**Mr. Hagel:** — Yes, Mr. Chair, just further to your comment. The records will show that the board of economy has dealt with the auditor's recommendations although it is accurate that the auditor has not come to the board. But the board has dealt with the recommendations of the auditor.

**The Chair:** — Very well. Is there any other discussion? Mr. Cheveldayoff.

**Mr. Cheveldayoff:** — Thank you, Mr. Chair. I just can't see why we would treat this any different than any other chapter that's in the book. Why not discuss it as per usual with other chapters here?

**The Chair:** — Does the maker of the motion want to respond or Mr. Yates wants to respond?

**Mr. Yates:** — Thank you very much, Mr. Chair. There is a significant difference in this particular chapter in that the outcomes of all the decisions of the Board of Internal Economy are in fact part of the Legislative Assembly which is scrutinized. But we have had a long-standing practice that no one committee of the legislature would scrutinize the actions of another committee or another group of elected members. And simply we don't want to go down that direction. And the Board of Internal Economy is a group of members of the Legislative Assembly which are both government and opposition members, created by law and by legislation. And now every decision that's made by that group shows in the budget of the Legislative Assembly, and that in itself is scrutinized. But the board is in fact another group of elected members.

**The Chair:** — I would note for committee members that actually the Public Accounts Committee is audited by the Provincial Auditor, and he has had chapters on the Public Accounts Committee, and we as a Public Accounts Committee have reviewed that chapter with the auditor and, you know, that discussion is a public discussion. That has not occurred with the Board of Internal Economy, and so that is the major difference. That is the concern that I have as a citizen, but it is not a matter of responsibility for the Public Accounts Committee if we choose not to accept that responsibility. The motion is that we strike this item from the agenda. Is there any new area of discussion in regards to this motion?

**Mr. Borgerson:** — Yes just a correction. The motion is to refer this chapter to the Board of Internal Economy.

**The Chair:** — To defer the chapter and then it's up to them . . .

**Mr. Borgerson:** — Refer.

**The Chair:** — Refer it.

**Mr. Borgerson:** — Yes.

**The Chair:** — Okay. Perhaps even as a result of this brief discussion, the Board of Internal Economy will choose to have the Provincial Auditor actually sit down with them and in a more public way they can review the recommendations because I notice that they are reoccurring recommendations that apparently just aren't dealt with, and that causes me some

concern.

Are we ready for the question? Mr. Hagel.

**Mr. Hagel:** — Just to correct your final statement, they are in fact dealt with by the board and it is recorded in public record.

**The Chair:** — All right.

**Mr. Hagel:** — Yes.

**The Chair:** — Are we ready for the question?

**Some Hon. Members:** — Question.

**The Chair:** — Okay. All in favour of striking item, well it's not numbered but the 1:30 p.m. item, Board of Internal Economy, chapter 17, from the agenda. All in favour? Opposed? Okay, that is carried but it is not unanimous. We will strike Board of Internal Economy from the agenda.

And now I also have an item of correspondence that I should bring to the attention of the committee, from Brenda Bakken Lackey, MLA [Member of the Legislative Assembly] for Weyburn-Big Muddy. She says:

Dear Mr. Hermanson:

As you may be aware, I recently wrote to the Provincial Auditor asking his office to examine public money spent by the Saskatchewan Liquor and Gaming Authority on its failed mega bingo program which ran from February 2000 until June 2001.

I have received the Provincial Auditor's reply. In his letter, which has been copied to you, Mr. Wendel has recommended that I direct my request to the Public Accounts Committee. I am therefore requesting that your committee conduct a special investigation into the failed mega bingo program.

I await your response.

I might add that I also have a copy of a letter from the auditor to Ms. Brenda Bakken Lackey in which he suggests he could also do a further investigation if he was instructed to do so by the Public Accounts Committee. I bring this to your attention as your Chair. The wishes of the committee on this matter are to be determined by you, the members.

Is there any discussion on this correspondence? Mr. Yates.

**Mr. Yates:** — I would move to table this at this time.

**The Chair:** — Okay, move to table.

**Mr. Yates:** — It is not on the agenda.

**The Chair:** — I guess there can be no discussion on a tabling motion. All in favour? Any opposed? Two opposed. Okay that is also carried.

## Public Hearing: Environment

**The Chair:** — All right we will get to our . . . I don't believe there is any other correspondence. I will get to the first item on the agenda, and that's the chapter on Environment in the most recent volume from the Provincial Auditor, volume 1 of the 2005 report, chapter 7. The official from the Provincial Auditor's office dealing with this is Mr. Bashar Ahmad. We will ask him to give a summary of the auditor's findings. We have the deputy minister, Ms. Stonehouse, from Environment who will respond as well as introduce her colleagues. And then we will open the meeting to questions from members. Mr. Ahmad.

**Mr. Ahmad:** — Thank you and good morning, Mr. Chair, members of the committee. I will provide an overview of chapter 7 in our 2005 report volume 1. The chapter begins on page 87 and describes the result of our investigation of the alleged misuse of public money of the Department of Environment. In December 2004, the department made a survey of the possible misuse of public money by an employee. The Provincial Auditor's Act requires us to investigate and report to the Assembly any losses to the Crown through the fraud, default, or mistake of any person.

On January 18, 2005, your committee also asked this office to report to the committee the result of our investigation. We provided a copy of this chapter to the committee on May 24, 2005. The purpose of our investigation was to determine the amount of the loss of public money and the condition that allowed the loss to occur and remain undetected.

Part A of the chapter starts on page 91 and describes what we did and what we found. We reviewed the department's investigations plan and found it reasonable. We relied on the department's work and performed tests and other procedures as we considered necessary.

We concluded that for the period from April 1, 1998, to December 31, 2004, the department incurred a loss of public money of at least \$260,000 and possible additional loss of public money of \$240,000. We found approximately 200 payments totalling \$260,000 where the department did not receive any goods and services. Also we found approximately 350 additional payments totalling \$240,000, which might result in loss of money. It is not practical for us to investigate these payments further.

Part B of the chapter starts on page 93 and describes the condition that allowed the loss of public money to occur and remain undetected. Before I report to these conditions, I want to point out that no system to safeguard public money can prevent or detect all fraudulent acts because these acts are designed to conceal the frauds and may involve collusion with others. However loss of public money is more likely to occur when the following conditions exist, and they are lack of segregation duties, ineffective direction to staff, poor supervision of employees, and inadequate hiring practices. In this part we make the five new recommendations and repeat three previous recommendations.

Our first recommendation on page 96 requires the department to properly segregate the duties of employees responsible for

collection, receipt, disbursement, or expenditure of public money. Segregation of duties would help ensure that no one person is in a position to perpetrate and conceal errors or misuse of public money.

The next two recommendations are on page 97. These two recommendations require the department to clearly communicate to its employees its operating policies and ensure its employees understand the reason for those policies, and train its employees to help establish a culture of fraud awareness. Employees are more likely to follow the established policies when they know the reason for those policies.

On page 99 we repeat three previous recommendations. Those recommendations require the department to define and document its compliance reporting needs, ensure its internal auditor prepared its audit plans based on the complete risk assessment of the department's programs and activities, and receive the internal auditor's report as planned and act on any recommendations. Your committee has previously considered and agreed with these recommendations.

Our next two recommendations on page 101, these recommendations require the department to assess if the government's standard blanket fidelity bond coverage reduces its risk of loss to an acceptable level and assess the risk of loss of public money by those employees who are responsible for collections, receipt, disbursement, or expenditure of public money and reduce the risk to an acceptable level.

That concludes my review of chapter 7. Thank you.

**The Chair:** — Thank you very much, Mr. Ahmad. Mr. Borgerson, you wish to ask a question before we hear the response from the deputy minister?

**Mr. Borgerson:** — Yes, Mr. Chair. I wonder if I might have permission to read a letter which I have received from the Department of Justice, and you as well have received a copy. And I thought I might excerpt it, but perhaps it might be useful for me to read the whole letter into the record to guide us as members of the committee.

So this is from the deputy minister of Justice and deputy Attorney General.

Dear Mr. Borgerson:

... [I'm advising] that officials of the Department of Environment and the Department of Community Resources and Employment will be appearing before the Standing Committee on Public Accounts on June 20. The Provincial Auditor recently released a report that contains chapters on investigations his office conducted in each of those departments relating to losses of public money involving the conduct of two employees of the departments.

You recently sought advice from the Department of Justice, through the office of the Minister of Justice, with respect to how your committee should handle the Provincial Auditor's report and the matters discussed in those particular chapters when officials of the two

departments appear before the committee.

As you know, on January 17 of this year I wrote to Elwin Hermanson, Chair of the committee, to discuss similar issues relating to the appearance of the Department of Environment before the committee on January 18. (A copy of that letter is attached.) Although some time has passed since then and certain of the details of the incidents have now been made public, in particular through the publication of the Provincial Auditor's report, the concerns expressed in that letter must still be considered.

The occurrences in both departments remain under active investigation by the RCMP in two separate investigations. When those investigations will be completed and what charges, if any, might be laid, is not yet known. It is important to remember that no one has been charged with an offence relating to these occurrences, nor has there been any determination of responsibility through any judicial process. As a result, care should be taken in describing the conduct of the individuals involved in the occurrences, in particular the two former employees. You will note, in this respect, that the Provincial Auditor's report addresses these issues with considerable care.

As suggested in my January 17 letter, the committee and the two departments may discuss matters dealing with broad issues of accounting practices, accountability standards, etc. Additionally, officials can be expected to respond to questions concerning the Provincial Auditor's findings and recommendations and, in particular, actions already taken by the departments or that will be taken to address those findings and recommendations and the problems identified by the occurrences themselves.

If you or the other members of your committee have any questions concerning this advice, please feel free to contact me.

Yours truly, Doug Moen . . . Deputy Minister of Justice and Deputy Attorney General.

And I read that into the record to assist all of us in terms of these two particular chapters this day.

**The Chair:** — All right. Thank you, Mr. Borgerson. I appreciate that. Yes I did have a copy of that letter, and it just reminds us that fortunately in our judicial system no one is guilty and . . . everyone is innocent until proven guilty, I guess is the correct way to place that. And I'm sure all members will be conscious of that fact as they delve into the auditor's report on the Environment.

That brings recollection of the last committee meeting when we had Ms. Stonehouse here and she very capably dealt with the subject. I would invite you to again introduce your colleagues and respond to the auditor's report on the Environment.

**Ms. Stonehouse:** — Thank you, Mr. Chair, and good morning. Today I have with me on my left, Donna Johnson, the director of our finance and administration branch. On my right, Hugh Hunt, the current executive director of resource stewardship branch. And just behind me, Michele Arcsott, a manager from

our finance and administration branch, a chartered accountant and the department's lead in the internal audit which informed the Provincial Auditor's chapter on our department.

I'd like to begin by acknowledging the work of the Provincial Auditor and thank him and his staff for their thoroughness in reviewing this matter with the department. I'd also like to take the opportunity to express my appreciation for the many hours of hard work by staff in Environment and Finance supporting the work of the auditor, the RCMP [Royal Canadian Mounted Police], and our own internal review.

As I reported during our last visit with Public Accounts Committee, the work to improve Saskatchewan Environment's accountability and performance began back in 2003. At that time we recognized that the old structure of branches reporting independently from regions with signing authorities delegated deep into the organization did not adequately meet the tests for accountability and efficiency, so change was planned and initiated. The department was restructured, reducing our senior management team by one-third, and a revised delegation of signing authority was implemented. This improved accountability structure and the diligence of an employee resulted in the discovery of financial irregularities that has brought us to this point.

There is no greater obligation for a government than to honour the public trust by being accountable and diligent in the delivery of public services. The public rightly expects all government employees to approach their work with honesty and integrity. When any of us fails to live up to that standard, it is a source of shame and demoralization for the civil service. Both the service itself and the public are owed a detailed explanation of what went wrong, as well as quick action to correct any systemic failings that allowed misappropriation of public funds to occur.

Since the discovery of the financial irregularities in December 2004, my department has worked diligently to realize corrective action and a full explanation. In order to find out what went wrong, there's been a great deal of activity focused in two major areas. The first is the department's internal audit; the second is the ongoing RCMP investigation. All of the details in this matter will not be known until the RCMP are finished their work and the issue of potential charges is dealt with.

However we have at least part of the picture. We know that there have been a total of 556 suspicious payments made between 1998 and 2004. All of these payments relate to approved invoices. Although we need further information from the RCMP investigation to confirm whether all of these payments were inappropriate, we know the maximum loss of public money is just over \$511,000 and we know the majority of these suspicious payments were made through the special cheque handling process that returned cheques to the department for distribution.

I'm filing with the committee today the summary of the department's internal audit... Do you mind just passing that along? In it we can see the results of some very committed work to improve the accountability of Saskatchewan Environment. The department agrees with the five recommendations made by the auditor. We have taken action

and will continue to move to fully implement those recommendations. I'd like to briefly address each one of these recommendations.

The first one, with respect to the recommendation that the department "... properly segregate the duties of the employees responsible for collection, receipt, disbursement, or expenditure of public money," the Provincial Auditor reports the department implemented a new and significantly improved delegated signing authority in June 2004. This revised delegation of signing authority resulted in segregating approval for payments from those who initiate payments. This delegated signing authority will be reviewed annually, something we did in April of this year. Additional work has been done and will continue to be done throughout the department to train staff and managers on the delegated signing authority and the importance of complying with it.

The second recommendation was that "... the Department of Environment clearly communicate to its employees its operating policies and ensure that its employees understand the reasons for the policies." The department initiated training for employees this April. The training focused on financial operating processes and procedures as well as the delegated signing authority standards within the department. The department will continue to deliver this training to ensure all employees are included and will also deliver additional training for managers. Managers are also regularly briefed on existing and new controls to ensure compliance with policies in operating procedures regarding financial management.

We have acted quickly to address the auditor's third recommendation regarding training our employees "... to help establish a culture of fraud awareness." The department delivered fraud awareness and internal control training in January 2005 to the senior management group which is all department heads, all department branch heads. And the entire finance and administration branch was also trained. This fraud awareness and internal control training was also provided to the parks branch in April 2005 and will be delivered to all branches during the remainder of 2005-06.

Regarding the auditor's recommendation that "... the Department of Environment assess if the government's standard blanket fidelity bond [or] (insurance) coverage reduces its risks of loss to an acceptable level," the department will be working with Finance and the Public Service Commission to assess the government's standard blanket fidelity bond coverage in light of the risk of financial loss within the department.

With respect to the recommendation that the department "... assess the risk of loss of public money by employees in positions of trust ... and reduce the risk to an acceptable level ..." the department will continue assessing the risk of loss of public money by employees in positions of trust. We've already been implementing policies and procedures to reduce this risk to an acceptable level. For example we've reviewed all functions on the financial systems and have removed all instances where one employee can initiate purchases and approve transactions for payments. We will be guided by the work of the Public Service Commission respecting more comprehensive criminal record checks.

Beginning with my appointment in 2003, I have led a comprehensive change management effort to strengthen accountability in the department — accountability for performance as well as financial management. It takes time and continued diligence to change an organizational culture. I am pleased with the progress we have made.

Although as the auditor notes it is not possible to construct a foolproof system of financial controls, as an organization entrusted with public money we are required to do everything we can to ensure all of the measures that can be taken are taken in order to regain and maintain the public's trust.

That work will continue until I am satisfied that we've done everything we can to strengthen our internal controls, to improve our management oversight, and to establish an accountable culture. The public expects it and it will be done. Thank you.

**The Chair:** — All right. Thank you very much, Ms. Stonehouse, for that response. I just would like before I open up the floor to questions to clarify a couple of things out of your response.

The auditor was unsure as to whether the losses totalled \$260,000 or if there was an additional 240,000 more. Did I understand you correctly to say that that has now been clarified and the total loss of public money is \$511,000? Is that correct?

**Ms. Stonehouse:** — No, Mr. Chair. The auditor has positioned this in the situation that it is. The total, the maximum potential loss is just over \$511,000. But the RCMP investigation is not complete. And it's possible that in the discovery phase of the legal process, some of the payments may be explained as something other than a loss of public money.

**The Chair:** — So your department doesn't know the answer to that question then either. The police don't, and you don't.

**Ms. Stonehouse:** — That's right.

**The Chair:** — All right. Then that takes away my second question. So, Mr. Hart.

**Mr. Hart:** — Thank you, Mr. Chair. The auditor said that these losses occurred within the resource stewardship branch. And the department was recently reorganized. I wonder if you could, Ms. Stonehouse, explain the activities of the resource stewardship branch. And I would imagine those activities were the same sort of activities back in '98, and with the branch, the department being somewhat differently . . . structured in a different manner.

But I wonder if you could just explain for the committee the activities that took place wherein the fraud occurred. And I know we need to be mindful of the letter from the Department of Justice but we don't want to talk about the actions of an individual. But what I would like for you to do is just give the committee a sense of what areas of responsibility and activity the department had where the frauds occurred.

**Ms. Stonehouse:** — When we restructured the department in February 2004 we consolidated a number of branches of the

department. And in the case of the resource stewardship branch, we brought together the sustainable lands management branch and the fish and wildlife branch, and any others here . . .

**Mr. Hunt:** — The five integrated resource management units from the ecoregions of the department.

**Ms. Stonehouse:** — Okay, and the five integrated resource management units from the ecoregions of the department.

The employee in question and the activities which were the focus of our internal audit this year were primarily in the former sustainable lands management branch. I'll take a high level approach to the question you've asked me and then invite Mr. Hugh Hunt, the executive director of the resource stewardship branch, to sort of fill in some of the details about activities of these branches.

In terms of the sustainable lands management branch as it was prior to February 2004, it was the branch that manages Crown lands, and in particular Crown land disposition. So the lease of Crown land, the sale of Crown land, was part of the work of this branch. In addition it was the locus of land use planning activities for the department, which are activities that engage the community in looking at environmental and economic considerations with respect to the use of Crown land.

The other branch is fish and wildlife, is both a scientific activity with respect to managing wildlife and fisheries populations, and the resource allocation and use and the licensing of that use in the province.

And the integrated resource management units in the field were an effort to have fish and wildlife, and that would be all . . .

**Mr. Hunt:** — Land managers.

**Ms. Stonehouse:** — And land managers work in an integrated fashion at the regional level. Is there anything you'd add?

**Mr. Hunt:** — About our previous structure? Just that the fish and wildlife branch was the component of the department responsible for policy related to the biodiversity action plan and other aspects, including endangered species.

**Mr. Hart:** — Ms. Stonehouse, I heard . . . you said that the majority of these known frauds and suspected frauds occurred in the sustainable land management branch. Is that correct? Was there some invoices and some activity in the fish and wildlife branch, for instance, that had been identified by the auditor and your internal audit committee?

**Ms. Stonehouse:** — The activities that we found in the internal audit were specific to one employee and the areas where she worked, which did not include the fish and wildlife branch.

**Mr. Hart:** — Okay, so this employee worked in the sustainable land management branch. Is that correct?

**Ms. Stonehouse:** — Correct.

**Mr. Hart:** — And she only worked in that branch while she was with the department.

**Ms. Stonehouse:** — Primarily there.

**Mr. Hart:** — Okay, thank you. You mentioned that that branch, its primary purpose is it manages Crown lands, the sales and leases of Crown lands. And I would presume . . . because that would be in the northern part of our province, in the non-agricultural area primarily, because the Department of Saskatchewan Agriculture and Food would manage grazing leases and cultivation leases, agricultural lands. Is that correct?

**Ms. Stonehouse:** — That's correct.

**Mr. Hart:** — Now the auditor on page 93 of his report describes the type of payments that were found to be fraudulent covered quite a range of services and — primarily services, perhaps some goods — such as equipment rental, catering, professional services, training, travel, and translation services.

I wonder if you could give the committee a sense of the purpose of those transactions and how they related to the activities of the land management branch so that we just have a better understanding of the operation of that particular unit within your department.

**Ms. Stonehouse:** — Well of course many of these expenditures are routine for the operation of any organization. An organization hosts meetings, brings its employees together, provides information sessions for the public, brings people together for that purpose, and many of these things relate to that.

In addition though, the land management function included, as I said earlier, a land use planning function, and this was in a sort of regular activity in several parts of the province including in the Great Sand Hills. So in that case it wasn't entirely in the North.

Where members of the public and stakeholder groups are engaged in what can be sometimes a rather lengthy process of regular meetings to work through the issues related to the use of Crown land . . . And so this branch had the responsibility to organize those sessions and support them, which again required the use of meeting rooms and caterers and payment of travel expenses for participants in the sessions.

**Mr. Hart:** — Prior to your reorganization and some of the changes that you talked about this morning that you recently implemented . . . and my questions are pertaining to that period of time starting in 1998 until changes have been implemented.

With the lease and sale of Crown land by this branch — certainly leases would involve lease payments; sales would involve payments for the property — how were those receipts of money handled? Did the individuals within this branch accept payment, lease payments, and then submit them on through the department? I wonder if you could just kind of walk us through that portion of the branch's activities as far as . . . Let's say a leaseholder was making a lease payment. How did the department handle that?

**Mr. Hunt:** — Let's use the example of a cottage lot in a provincial park, as the sustainable land management branch folks issue requests for payments in that regard.

The lease payment would be requested through an invoice sent to the cottage lot lessee. That payment would be returned to the government and then submitted through the normal accounting procedures that our finance and admin process uses. They would be in the circumstance completely isolated from the individual that created the questionable transactions.

**Mr. Hart:** — So my next question is then of the 556 suspicious transactions, did any of them occur with regards to lease and sales activities of the branch?

**Ms. Johnson:** — No. None of the transactions, none of the 556 related to the revenue side.

**Mr. Hart:** — Okay. Then perhaps we should zero in as to where the suspicious activities and fraudulent activities occurred. The auditor said payments were described as payments for meeting rooms and equipment rentals and so on.

Perhaps maybe I should direct this next question to the auditor. You indicated that there was fraudulent payments — 200 payments totalling \$260,000 — which resulted in the loss of public money. Some of them were for meeting rooms. Could you describe what you found as far as who, you know, the process of the individual that initiated the request for payment and how the payment was handled and through the department? I wonder if you could just walk us through what you found and then we will . . . and have the department people explain and perhaps maybe fill in some blanks depending upon your answers.

**Mr. Ahmad:** — Mr. Chairman, what we noticed that . . . an individual will initiate a transaction, i.e., request the payment. Then the individual will have the invoice. The invoice will be approved, and the request for payment will be submitted. That's how they were doing it. So one individual was doing both of those things — the requisition, approval, and seeking the payment.

**Mr. Hart:** — Okay. So the individual requested, approved, and the sought payment. Where did the payment come from, and was there any other further approvals required before that invoice was paid?

**Mr. Ahmad:** — No. Once the payment was approved, the invoice was approved, it goes to Department of Finance for processing, and the cheques come back.

**Mr. Hart:** — Okay. So could you then . . . I pose my next question to Ms. Stonehouse and her officials then. Obviously you indicated that it was an employee within the Department of Environment that first noticed that there was something not . . . something was amiss and suspected that there was some fraud. I believe you had indicated that an employee had stepped forward, and then your internal audit committee went to work on this.

I wonder if you could give us an example, sort of a step-by-step process of how these fraudulent payments — requests and payments — were made, using a hypothetical example. You may want to pick one of the categories, say professional services as an example. If you have an invoice that you know, that both yourselves and the auditor said well this was definitely



identified as a fraudulent transaction, perhaps you could use an example of one of those invoices and just walk us through step by step from the time the individual initiated the request for payment or an invoice and how that was done until the time that that invoice was paid and who actually received the money. Could you walk us through that whole process?

**Ms. Stonehouse:** — If you don't mind, it might be better to use something like renting a meeting room since at the time in the department the authority to rent a meeting room was delegated to administrative assistants.

**Mr. Hart:** — Okay, sure.

**Ms. Stonehouse:** — So if I had been a director in the department at the time I would have had an administrative assistant, and I would have said to the administrative assistant, I need a meeting on such-and-such a date. Find me a room and do what you can to make sure there's lunch for a group of 20 people, right? And my administrative assistant would then have done the work to locate a room, actually enter into a contract with the hotel or whatever facility it was, and bring forward the invoice for that contract for approval and payment.

At the time . . . Now I should just make sure I'm right here, am I right here? At the time — so far I'm right — at the time, at the time in question the admin assistant could in fact approve that contract for payment, and having done that would send it to our finance and admin branch who would process it and then forward it to the Department of Finance to actually cut the cheque.

**Mr. Hart:** — Okay. And then the Department of Finance would send the cheque to, to who? Because we have I believe a couple of scenarios so perhaps you could walk us through some of the scenarios.

**Ms. Stonehouse:** — So normally, under normal circumstances, the Department of Finance would cut the cheque and mail it to the service supplier, so to the hotel in this example. In some of the situations — a majority I would say of the situations that led to suspicious payments — the Department of Finance was asked to return the cheque to the department, and the distribution of the cheque then was the department's responsibility.

**Mr. Hart:** — So whose name would be on the cheque when it was returned to the department? Would it be the . . .

**Ms. Stonehouse:** — The supplier's.

**Mr. Hart:** — The supplier. It was the hotel, for instance, providing the meeting room?

**Ms. Stonehouse:** — That's correct.

**Mr. Hart:** — Okay then. So then if the cheque was returned to the department, was that cheque returned . . . Is it suspected that this cheque was returned to the individual? I believe the auditor had said that the cheque was returned to the individual who had initially requested payment. Is that correct?

**Ms. Stonehouse:** — Yes, that's what our internal audit found.

**Mr. Hart:** — Okay. So this individual . . . It was possible then, hypothetically possible . . . and I believe the auditor suspects and your internal committee, audit committee suspects that an individual could request payment, approve it, and also request from the Department of Finance that that cheque be sent back to that individual. Were all the cheques made out to suppliers of goods and services, or was there ever instances where the cheques were actually made out to the individual who had initially requested payment for an invoice?

**Ms. Stonehouse:** — Mr. Hart, I'm sort of on the edge of what we can talk about and what jeopardizes the RCMP investigation. So I'd like to just move it somewhat higher level to respond if you don't mind.

**Mr. Hart:** — Okay.

**Ms. Stonehouse:** — It seems to me that what we had in place was a situation where the person who requested that a cheque be returned to the department — anywhere in the department — could be the person who picked up the cheque from the finance and admin branch when it was returned to our department. We have since corrected that.

**Mr. Hart:** — Were there any instances in your exploration of what went on in the past where cheques were made, the name . . . the cheques were made payable to a department employee? Have you come across any instances of that situation?

**Ms. Stonehouse:** — I'm advised only where it was typical to have such payments such as reimbursement of expenses.

**Mr. Hart:** — Where a department employee had paid for some services and was being reimbursed.

**Ms. Stonehouse:** — Correct.

**Mr. Hart:** — And so of the 556 suspicious transactions, what percentage would fall into that category of employee reimbursement? Would you have an estimate of . . .

**Ms. Johnson:** — I don't have a specific number for you right now, but we can come back with that shortly before the session is finished today.

**Mr. Hart:** — Okay I'd appreciate that because it seems to me if this situation was allowed to . . . Or, you know, and I can understand that in instances, you know, we as elected officials, we purchase sometimes supplies for our offices and then submit the appropriate documentation and then are reimbursed. And I think that is probably a practice that is to some extent I guess throughout government. I guess maybe we should ask the Department of Finance as far as, you know, they perhaps have a better handle on that.

But it would seem to me in this situation — or in any situation, any operation of government — if that practice is quite widespread, that would make the illegal use of public funds you know fairly easy to put into effect. If you have a . . . You know, it would seem to me that it would be much easier for anyone within government operations to initiate, you know, or supply an invoice for some goods or services that they supposedly paid for and then receive payment. That's one thing. But there is also

a number of these suspicious invoices were made to . . . the cheques were made payable to suppliers of the goods and services, I'm assuming. Is that correct?

**Ms. Stonehouse:** — Yes, sir.

**Mr. Hart:** — And you will be providing us with the breakdown before 12 o'clock as far as the percentage then, will you? Thank you.

I wonder if I could ask the Department of Finance officials, in this time frame that we're discussing today when the suspicious transactions took place, was it common practice throughout government departments to operate . . . Or I guess maybe I'll put the question in this form. Did other departments operate in the same fashion as the Department of Environment did during this time frame as far as the reimbursement of employees for goods and services supplied, to the extent perhaps that happened in the Department of Environment? Do you have any comparisons or is this a situation that was unique to the Department of Environment?

**Mr. Paton:** — Yes. I don't have the actual numbers available in front of me right now. However, I would say that it would be common for departments to receive cheques back that are payable to employees being returned to the department and then having the department distribute them subsequently to the employees.

And we have a number of instances where travel advances are being issued or reimbursement of expenses, or in fact for members of the Legislative Assembly we get a number of payments that reimburse you for honorariums and so on. So there's a fairly wide category that is appropriate. Roughly speaking, it's less than 1 per cent in total, not only for employee-related expenses but also for cheques that are being distributed in terms of a formal presentation or something. So all cheques that are returned to departments are less than 1 per cent of the total cheques that we issue and the employee category would be included in that group.

**Mr. Hart:** — Do you have the ability to provide this committee with an overview of those type of payments that occur during the time frame from April 1, 1998 to December 31, 2004? Were they abnormally higher within the Department of Environment versus other departments? Does the Department of Finance track those sorts of things or have the ability to generate those type of figures?

**Mr. Paton:** — We have taken a look at that. Unfortunately, I don't have the statistics with me. The Department of the Environment would have been a little bit on the higher side than some of the other departments. They wouldn't have been the highest. I did a presentation to the media a couple of weeks ago and one of the highest departments is actually the Department of Health.

And I'm just going from recollection where, in one year, it's approximately 4,000 payments — between 4 and 5,000 payments — that are being returned annually to a department. The Department of Health in that particular year accounted for approximately 1,000 of those. So roughly 20 per cent for the Department of Health. Now their reasons are quite particular,

where they run programs where certain payments that they make contain a fair bit of confidential information as it relates to the health programs that they run. So various personal information as it relates to medical needs and so on is included in the cheques that we would be producing or the attachments that they have to in turn submit with the cheques. So they go back to a special area in the Department of Health and are handled from a confidential perspective. But it's in the range of 1,000 payments. I'd say Health is the highest department with about 1,000. And Environment would have been on, say, the high side of average but I don't have the actual numbers here.

**Mr. Hart:** — Well I would suspect that, or it would be reasonable not to assume that the Department of Health would be higher just by the mere size of its budget and the scope of its activities. If we exclude Department of Health, then what you have said is that Environment was on the high side of the other departments whose, you know, in the area or whose budgets would be more comparable to the Department of Environment then. Is that a fair statement? If you exclude Health and look at other departments who have a budget somewhat similar to Environment, then is it fair to say that Environment's payments to individuals for reimbursement of goods and services would be on the high . . . would be one of the highest if not the highest?

**Mr. Paton:** — I wasn't speaking to individuals for payments of goods and services. I was speaking to all payments being returned to departments.

**Mr. Hart:** — Okay.

**Mr. Paton:** — So that category would be on the high side, but it was for all payments being returned, not just staff and so on.

**Mr. Hart:** — Okay. The auditor, Ms. Stonehouse, had indicated that there was purchase cards that were available to department employees. Is this purchase card, is that a credit card? I wonder if you could explain what the purchase cards were and what the purpose was and or what the, you know, what their purpose is and is that practice still in effect, the use of purchase cards.

**Ms. Stonehouse:** — I'm not sure how far back the use of purchase cards goes for government. The comptroller might have that kind of information. But this is a process that government-wide has been adopted, principally to reduce the administrivia related to miscellaneous expenditures — office supplies and routine purchases such as that. In a department such as ours where we're distributed right across the province, we need some mechanism to enable employees to get the supplies they need to do their job, and the purchase card is used for that purpose. And if you think about parks operations, there's a good deal that needs to go on to ensure a park can function.

So the system is in place. It's really like a credit card in that sense, the difference being that it comes for payment to the department with a complete list of what the expenditures were. And there's an authorization process in the department to approve those expenditures before the card's paid.

**Mr. Hart:** — Do these purchase cards have spending limits?

**Ms. Stonehouse:** — Yes they do.

**Mr. Hart:** — And would those limits vary for employees in different positions? And perhaps could you give us just a bit of an example as to, you know, who has these purchase cards, what their spending limits would be, and that sort of thing?

**Ms. Johnson:** — The purchase cards do have a limit. The general starting point for a limit is \$5,000 per month for the employees that have been granted a purchase card. And there are some particular purchasers, mostly in the fire program, that will from time to time have higher purchase limits. So for example if we have an employee who holds a purchase card and that person is working on fires outside of the province and will need to buy fuel, they will generally have a higher purchase limit.

**Mr. Hart:** — Employees within the sustainable land management branch as it existed, they would also have these credit cards and they would have similar spending limits. I can certainly see within the fire protection where, you know, if you're in the midst of fighting a forest fire you need to access goods and services rapidly and that sort of thing. But within the land management branch, you know, how are those purchase cards used and who had them and what were their limits? If you could explain that, please.

**Ms. Johnson:** — Well I'll respond and then I'll ask to follow up on this one as well. My understanding is that in the sustainable lands branch there was one purchase card. And the limit on that card from April 1, 2004 would have been \$5,000. Prior to April 1, it was \$1,000. And the nature of the transactions that would have been charged to the purchase card would have been primarily office supplies. For goods basically, so for office supplies.

**Mr. Hart:** — So were, through the audit, internal audit committee, were . . . Of those 556 transactions, how many of them related to the use of purchase cards?

**Ms. Johnson:** — There would have been less than five. It may have been as low as one. It was not the primary method of the loss of public money.

**Mr. Hart:** — Okay. Of the 556 transactions, we have discussed already the practice of reimbursing employees for goods and services that they paid for. The other one that would come to mind is that an employee could request payment for services or goods and the cheque would have been sent to the department with the name of the supplier. I mean the cheque was made payable to the name of the supplier of the goods and services. And then I would assume that there was also of that 556 was . . . Or I guess I'll ask the question: were there instances or transactions that took place where the cheque was sent directly to the supposed supplier of the goods and services?

**Ms. Stonehouse:** — Mr. Hart, we've been trying to be as forthcoming as we can be here. And I think we've probably overstepped what the RCMP would wish we would or wouldn't talk about in this circumstance. I would just reiterate that the majority of these suspicious payments were the result of approved invoices and the payments were made to the suppliers.

**Mr. Hart:** — That is where the majority of those 556 suspicious payments were made, where the cheques went to supposedly . . .

**Ms. Stonehouse:** — No, I'm sorry. The cheques were made out to suppliers but in fact the majority came back to the department.

**Mr. Hart:** — Back to the department. Okay. Were there any other types of transactions other than the three types that I have just described that fall, you know, are part of that 556 suspicious transactions? Basically the first type, reimbursement to employees for goods and services that they paid for. Secondly, a request for payments to where the cheque came back to the department. And thirdly, where they went, where the cheques went directly to the suppliers. Is there any other types of transactions that were . . . So those three types . . .

**Ms. Stonehouse:** — Those were the three.

**Mr. Hart:** — . . . covered the 556.

Okay. Now the auditor talks about situations where supervisors' passwords were not kept confidential, and it was possible for employees to go online and approve their own requests for payments. I wonder if you could kind of expand that process, you know, for the committee. I'm certainly not totally knowledgeable as to the activities in that area, and I wonder if you could just explain what happened in that area as far as the failure to keep passwords confidential and how that affected this whole issue that we're talking about today.

**Ms. Stonehouse:** — Well again I'm not sure that I'll go to the issue we're talking about more specifically, but I would just say this is a concern for us as a department. We have staff all across the department, and so we have for some time now used an electronic approval process for time sheets, for S4s, which is the expense claims, and for purchase cards. All three are electronically approved. And so in situations where a supervisor and a direct report shared a password, it was possible for the direct report to approve their own expenses.

Our internal audit did not find, sort of, broad use of that. I think the Provincial Auditor's pointing to a risk, and we have corrected that to the extent that we can by training staff. We also had our finance and admin staff do some spot checking over time. This has always been the case so that we did have a sort of detection control in place around this.

But I would just reiterate it's a major efficiency to be able to use electronic approvals for these kinds of expenditures, and we want to ensure that it's as secure as it is. Otherwise it's very costly to revert to paper approvals.

**The Chair:** — All right. Mr. Cheveldayoff.

**Mr. Cheveldayoff:** — Thank you, Mr. Chair. A few questions for the Department of Finance officials and then also some questions for Ms. Stonehouse as well. To the Department of Finance officials: when I spoke to the Minister of Finance about this, he said he wasn't overly concerned about the issuing of cheques to Environment. Can you outline for us the documentation that Finance requires in order to initiate a

cheque issuance?

**Mr. Paton:** — For all payments that the Department of Finance makes, the documentation is not sent in to the department specifically. This system has been decentralized for a number of years and that responsibility lies with the department. So you know there is set required procedures in terms of the acquisition of goods, the approval and certification of invoices and so on, but all that information is retained within the department itself. The requests for the cheques and the payments is done electronically. And then I say for the majority of the cheques, we do issue them directly to the suppliers, 99 per cent of them. And 1 per cent is returned directly to departments for proper distribution.

**Mr. Cheveldayoff:** — So in effect Finance would just get the request and have no actual documentation whatsoever that would come in. It would just be the request and it's automatic that it is, based on the department's advice, the cheque is issued. Is that correct?

**Mr. Paton:** — Well it's a little bit more than the department's advice. I say there's a set of rules and procedures that are in place in all departments to ensure that only properly authorized invoices are submitted through the system, requiring, as I said earlier, proper approval, certification, and so on.

This is a system that, like I say, has been in place I'm thinking for roughly 20 years in terms of how payments are processed within the government. The fact that information is being kept in departments is about a 10-year-old process. I'm just trying to recall when that actually changed. It has been quite some time.

All of this process is subject to audit by the Provincial Auditor. The proper internal controls, we believe, are in place to protect payments. So while we are the last step in processing payments and producing cheques, there is a fairly lengthy process that, if you members are interested, I'm sure we could provide a full presentation to you on what all those steps and controls are. So I don't want to minimize the fact that we do produce cheques without getting information. There is a full system in place to properly control these types of payments.

**Mr. Cheveldayoff:** — Thank you. I've heard the number referred to that, you know, 99 per cent of the cheques are issued directly to suppliers but 1 per cent is not. And I guess I'm just . . . I haven't heard the justification for that 1 per cent going to people other than directly to the suppliers. And if you could just outline and your knowledge of standard business practices in the private sector and in the public sector and, you know, the federal Treasury Board procedures, for example.

**Mr. Paton:** — Yes.

**Mr. Cheveldayoff:** — Where are you looking to for guidance and advice in this regard?

**Mr. Paton:** — Well I think there are legitimate reasons why these cheques have to get returned to departments. Since we spoke to this just earlier this morning, I looked back through my notes and the actual number for last year was roughly 3,500 cheques that were returned. We determined that 500 of those were for employees and MLAs, so basically travel advances or

reimbursement of expenses or MLAs' expenses. So that was 500 of those. And then approximately 1,000 went to the Department of Health and the majority of those are for privacy reasons. That leaves roughly 2,000 cheques for the whole year that went back to departments.

Now we're in the process of going through and determining exactly what reasons they're being returned for. I think that process is probably being overused right now and there's probably circumstances where it should be tightened down further. But there are about 2,000 cheques that we're currently having a look at in determining with the departments why they're receiving those cheques back, trying to assess whether or not there are legitimate reasons, or discontinuing that practice immediately.

**Mr. Cheveldayoff:** — Okay. A question for Ms. Stonehouse on the cheque receiving procedures by your department, how the mail is opened per se. Do most of the cheques come through the mail office or is there more than one individual that opens the mail?

**Ms. Johnson:** — All of the cheques that are returned to the department come to our mail office.

**Mr. Cheveldayoff:** — Are all cheques documented at that point and are they opened by more than one individual present at that time?

**Ms. Johnson:** — Yes, they are. When we have cheques in the mail that are for our revenue items, for example, those are all entered into a daily cash log. So that includes recording of any cash, money orders or cheques, or any forms of payment.

And that is . . . Those are opened with two people present in the mailroom. So they open the mail together and record the contents of the daily mail. And also for the expenditure cheques that come back to the department for handling, those are recorded as having been received.

**Mr. Cheveldayoff:** — Okay. That's good to hear because there have been instances in this committee where we've asked the question of other departments and that is indeed not the case. So are those reconciled in any way on an ongoing basis then?

**Ms. Johnson:** — The daily cash coming in — the revenue cash — is reconciled, yes. And the code 1, special handling cheques for the expenditures, are just noted as having been received back, given that the transaction to initiate the payment had requested a code 1 handling.

**Mr. Cheveldayoff:** — Okay. Regarding the purchase cards that we touched on earlier, I understand you to say that there was a \$5,000 limit on a monthly basis. Could an employee, once that \$5,000 limit has been reached in a month, go online and reactivate that card or, you know, run it down to zero and then start at the \$5,000 level again? Would that be possible?

**Ms. Johnson:** — No. Once the limit is reached they're not able to charge or make any more charges against the card until the monthly bill has been paid off. So it's a monthly limit that they're held to. And I might add too that for the cardholders, the majority of the cardholders that we have who have a \$5,000

limit, the majority of them do not get . . . or do not use the full limit in a month.

**Mr. Cheveldayoff:** — Okay. Back to the Department of Finance officials. We touched on the MIDAS [Multi-Informational Database Application System] system and you said that you could provide us with some information on how the system operates and how the cheques are issued. Can you just, you know, very succinctly talk about the advantages to using this system and the disadvantages to using this system?

**The Chair:** — Is that a question to the comptroller or to the deputy minister?

**Mr. Cheveldayoff:** — No I'm sorry, to the Department of Finance official.

**The Chair:** — Okay.

**Mr. Paton:** — The first thing I'd like to clarify is that we do refer to the MIDAS system as being a, you know, a new financial system in government. I'd like to clarify that the issues you're dealing with today at Environment took place over a fairly long period of time, and they took place under the previous financial system that was in place at the Department of Finance as well. So the MIDAS system that we're moving to now is a more, I guess a state-of-the-art, desktop-type application as opposed to the older mainframe systems that they ran. But both of those are simply central processing systems.

Not all governments have such central systems. You'll find some of the larger provinces have actually decentralized some of their payments where various departments control their own expenditures.

Saskatchewan is one of the provinces that continues to run a central process where all expenditures that are approved through the Legislative Assembly, with the exception of where there's Crown corporations involved, but all department-type expenditures go through the Department of Finance and are controlled centrally. So I guess we've got a central data repository when you're trying to get information out of the system.

What we were actually finding — I'll go back four or five years ago where our old system didn't have the utility of what the new one did — we're finding departments were beginning to develop shadow systems. So they weren't getting information out of the system that was put in in the early '80s, and they were starting to develop their own management information systems. And when you get that, it gets to be quite expensive where every department is developing a system that doesn't speak to other departments and we can't share information. So the decision was made about four years ago to go with one central, new system, effectively replacing our old central processing system but with more capabilities.

**Mr. Cheveldayoff:** — So are you satisfied that the new system is an improvement on other systems, based on your knowledge of working on other systems as well?

**Mr. Paton:** — I'm satisfied the system that we're putting in right now I think is one of the state-of-the-art systems in North

America. It's currently shared, I believe, by I think five other provinces where we have a user group across the provinces. But I'm very satisfied with the system that's going in.

**Mr. Cheveldayoff:** — Are there particular areas where you feel it could be improved to prevent situations like we're in right now?

**Mr. Paton:** — The places where I see where there's potential for improvement are more around the system as opposed to the system itself. The problems that occurred here — and I'd like to stress this — aren't the financial system but some of the controls that we have and rules and procedures that we have around the system.

Just earlier I spoke about the special handling procedures where we're currently reviewing the 2,000 payments that were returned to departments for special handling purposes. The MIDAS system or any financial system allows you to direct payments either to a supplier or to a department or an individual.

I think what we have to do is ensure that we're satisfied with the processes that we're using to provide proper direction to departments so that they're aware of what type of payment should be returned to the departments. While some of these are documented in our financial administration manual laying out the requirements, I think there's a requirement for us to review that on an ongoing basis and make sure that departments are aware of those. This just gives us an opportunity to reassess some of those processes and procedures, and that's exactly what we're doing with the code 1 cheques that we're talking about here today. But as I say, that's not so much a system issue as it is the internal processes that feed the system.

**Mr. Cheveldayoff:** — Well it's an important function for the Department of Finance. And I know from other departments that have appeared before this committee they look to the Department of Finance for that direction and for any improvements, you know, setting the bar higher if you like. The responses that we've received from department officials is that they look to the Department of Finance for increasing those requirements. So you know I would ask you and your officials to diligently look at ways that this can be improved.

**The Chair:** — All right. Just before we . . . I think Mr. Hart wants back in, but just before we do I've scribbled down a few notes as we've gone along and I don't want to lose track of these.

First of all, Ms. Stonehouse, you mentioned that many department heads had already received fraud awareness training. Could you just tell the committee how many people we're talking about here. Is this a large number or just a handful? I'm trying to get a grasp on that process.

**Ms. Stonehouse:** — Well our senior management team would be 20. That includes our executive and the branch heads. The finance and administration branch would be another 80, parks branch would be less than 100. So about 200 of our 1,500 or so employees, 900 of whom are permanent staff.

**The Chair:** — All right. And then there's the next level of

fraud awareness training that's going to occur. Is that correct?

**Ms. Stonehouse:** — We'll be working with each branch.

**The Chair:** — And how many people would be involved with the next . . .

**Ms. Stonehouse:** — By the time we're done we'll have covered all employees.

**The Chair:** — For the entire department.

**Ms. Stonehouse:** — That's right.

**The Chair:** — All right. You also . . . And I believe Mr. Hart was asking you about the nature of the suspicious transactions. You said that the professional services wasn't a good example, that perhaps renting a meeting place would be better. So that made me curious as to what kind of professional services would be included in the suspicious transactions. Are we talking about legal services or accounting services? What type of professional services were involved?

**Ms. Stonehouse:** — Well typically the department would contract for consultants' services in a range of areas, sometimes very specialized services such as in the environmental protection area where we would get someone to actually do site characterization work for us. So it can range from very specialized scientific services like that to services of a consultant to facilitate a contentious meeting, for example. So there's quite a range here.

**The Chair:** — Okay. The next area — and this is probably the question that most Saskatchewan citizens would want, I think, Public Accounts to ask after observing . . . And of course, you know, we don't know the full outcome of this process with the investigation, potential charges and who knows the outcome.

But the auditor has said since 1998, I believe, that there were problems with process, with accountability within the Department of Environment. I think people want to know, has anybody been taken to task for this? You know, has there been disciplinary action within the department? You know, has anybody been held accountable for the fact that while the auditor was pointing out these problems existed for years and the department said they agreed with the auditor and would take action, yet that action never occurred? You know, has someone been held to account for this? And if so, what kind of account; like, what were the consequences for ignoring the auditor's report for so many years?

**Ms. Stonehouse:** — Well with all respect, I would not agree that the department's been ignoring these recommendations for many years. When the recommendation was first made, the department agreed with them and began to take action.

The initial recommendations about compliance, for example, were made by the Provincial Auditor in the context of the department needing a plan and needing to monitor its progress on that plan. And the department became one of the first departments involved in the pilot of the government's new accountability framework for just that purpose.

So I would argue that progress has been made on the recommendations that the Provincial Auditor has raised over time. We've certainly made progress in developing a performance plan. We've made progress in documenting progress on goals and objectives. We've made progress on reporting on those.

We've established a quarterly reporting system so that each branch reports to the executive on activities taken to reach its goals. And there's a monthly review and forecast of expenditures by each branch. So I would argue that in fact the department has over time been making progress.

What the Provincial Auditor has pointed out is that we haven't reached the end goal entirely yet.

And I think the other thing I would point out here is that I was briefed, when I joined the department I was briefed on the Provincial Auditor's recommendations. And at that time it was my choice to initiate an operational review of the whole department to look at what compliance requirements needed to be addressed and to begin to address them through a restructuring of the department and a really good look at some of the internal controls, such as the delegated signing authorities that we had in place.

So with all due respect, I would not agree that we hadn't been working on these recommendations. I would of course agree that we hadn't got the full meal deal in place yet and we will continue to strive to get that in place.

**The Chair:** — Well thank you. I guess my concern is that back in 2000 and 2001, the auditor recommended that Environment improve its processes to ensure that it only pays for goods and services received, because employees in the department did not always follow established rules.

I think the auditor, in pointing out that, you know, it wasn't that the department hadn't done its work in putting the proper, you know, book — policy and procedure books — in place; that that was there. The problem was that they weren't being followed and that's pretty serious stuff. And it requires, I think, some action. And if that action isn't forthcoming, then it requires some change in personnel, some disciplinary action. And I have not been made aware that that ever occurred.

So I guess my question is in light of the fact that no . . . I agree with you that the department was putting together, you know, the policy manuals and suggesting things could be done better. But in fact, its employees were ignoring . . . And I'm not speaking across the board. I mean, I'm sure there was compliance as well.

But obviously the non-compliance was significant enough that the auditor pointed that out back four or five years ago. Is no one held accountable for the fact that while all the work was done to put the proper procedures in place, those procedures were being ignored?

**Ms. Stonehouse:** — Two things here. First of all, our internal audit showed that the majority of our managers are in fact in compliance with the policies and procedures in the department. In those isolated cases where financial management's falling

short of expectations, we assess the situation and we look at an appropriate response as determined by the facts of each situation. So we'd be guided here by the Public Service Commission's correctional discipline policies and that could range from a warning all the way up to and including dismissal, depending on the severity of the situation and the frequency of failure to comply.

I guess I would just also indicate here that our internal audit in this case has identified that these are primarily the result of the actions of one person and that we will wait now for the RCMP to complete their investigation and at that time determine whether further action is required.

Just in a broader sense, if I might, I think that the department has responded to the Provincial Auditor's recommendations each year by focusing on the particular issue which the auditor was raising and drew conclusions about and fixing the particular issue. And that in fact what we've realized in the last two years is that we need to step back and look at the whole system of controls and the whole system, the whole culture and attitude of the department. Those are much bigger changes that need to be made, but in the long run should ensure that particular issues don't occur.

**The Chair:** — Can you tell the committee, you know, without . . . obviously without naming names, but the number of incidents where disciplinary action has been taken because of non-compliance with department rules?

**Ms. Stonehouse:** — You know, I don't actually have that kind of a number in my head. The department has in the thick of the summer some 1,700 employees, and there is no shortage of disciplinary action in the department related to performance. But I can't actually give you a specific number.

**The Chair:** — Can you tell the committee specifically, has any disciplinary action been taken because of the failure to follow the rules and allow these suspicious transactions to occur?

**Ms. Stonehouse:** — Well in this case we have dismissed an employee that . . .

**The Chair:** — The actual employee. But obviously there would be other people involved in making sure that this, you know . . . As I said, the rules, the procedures, the policies were in place, but obviously they weren't always followed. Somebody must be responsible to ensure that public, you know, funds are being protected because policy is followed, you know. In regards to these suspicious occurrences, was there any disciplinary action taken aside from the actual person who is under investigation?

**Ms. Stonehouse:** — As part of the internal audit, we conducted multiple interviews with a number of Environment staff including all of our branch heads. The determination at this point is that the person was acting alone. The senior manager most directly associated with the employee is no longer with the department due to the reorganization in February.

**The Chair:** — This past February, after the incident was . . .

**Ms. Stonehouse:** — Before, in February 2004.

**The Chair:** — Before the incident . . . 2004, all right. Can I ask the officials from the Department of Finance, what does your department do when repeatedly the auditor reports that there are problems with compliance with procedures? I mean this should not be a surprise to Finance. I mean, I think it's a real credit to the public service that the amount of fraud is so minimal given the fact that the auditor has said that the opportunity has existed for six or seven years. I mean that speaks to the integrity of the people in the public service.

But certainly there must be some responsibility with Finance if the auditor says year after year after year there's a problem in Environment or some other department that procedure is not being followed. Doesn't Finance take some measures and say, look you've got to tighten things up, or you know we're going to have to review our way of doing business with this department.

**Mr. Paton:** — Certainly we play an important role in this process. Whenever the auditor issues recommendations such as non-compliance with Acts or issues and loss of money, whatever the case may be, we do get involved in reviewing those letters with the department and determining exactly what went wrong and ensuring that the departments understand the auditor's concern, and accept the responsibility for it and have a plan of action. Unfortunately we're not in a position where we can force action on departments.

For the most part, I think departments take the auditor's recommendations very seriously. If you look over the past few years — and I know the auditor's stated this himself — a very high percentage of his recommendations do get acted on. I think the number is 87 per cent that has been used in the past. It's in that range anyways, so there's high acceptance of the auditor's recommendations.

The ones that tend to not get accepted are not the type of issues we're talking about today. I think without exception, if there's an issue where funds are not being handled properly or procedures aren't being followed, departments take those very seriously and do their best to act upon them.

The majority of the issues I believe that don't hit the 100 per cent category, where there's some non-compliance, is often where there's disagreements with the auditor as they relate to public policy or the application of accounting issues. And a couple of the examples I can give you are the pension accounting that we have on the General Revenue Fund, the way we deal with transfers to the Fiscal Stabilization Fund. Those are policy issues that we disagree with or the auditor disagrees with the direction that the government's taken on them.

But when it comes down to the handling of money and proper segregation of duties and so on, I think almost without exception, departments take it very seriously as do we, and it's the other issues that tend to be outstanding.

**The Chair:** — So then, Mr. Paton, did Finance have any discussion with the Department of Environment when the auditor reported that established rules for segregating the duties of employees involved in the payment process and some of the established rules did not properly segregate these duties? Did you actually deal with this matter? Was there a communication

between Finance and Environment in regards to correcting this problem, because this is one of those exceptions to what you were saying is the general recommendations of the auditor.

**Mr. Paton:** — Are you referring to the current case or the one back in . . .

**The Chair:** — No. I'm talking about back in 2000-2001 when the auditor said that the established rules for segregating duties with regards to payment weren't being followed.

**Mr. Paton:** — I don't have the answer here, Mr. Chairman. As I say, our process would be to review the auditor's recommendation, come to some full understanding of that. And I would say, almost in all cases, an issue like this, we would be in support of and would be encouraging the department to accept the recommendation and act on it. I don't have the details on that specific one from 2000 and 2001, but our procedure generally would be in support of the auditor on an issue like this.

**The Chair:** — Okay. I have one question for . . . Yes, Ms. Stonehouse.

**Ms. Stonehouse:** — And if I might, Mr. Chair, just as an example of where the department in fact corrected the specific issue which the auditor was pointing to and in fact reported to the Public Accounts Committee and you reported progress. So we took the specific issue, which in this case was the segregation of duties in entering data into MIDAS and we've corrected that problem.

What the auditor has done this report is to generalize from those previous instances to a situation in the department. And that, it seems to me, is exactly where we've been going in the last year and a half which is to try to get a more accountable culture in the department as a whole.

But in the specific instance, in fact we did correct the specific issue the auditor was raising, and we did report to Public Accounts, and you did report progress.

**The Chair:** — All right. Although back in 2000-2001 when the auditor made this observation, I guess had the department been successful at that point, it would have been . . . you know, the suspicious transactions would have been discovered far more quickly.

**Ms. Stonehouse:** — It's my point. If the department had generalized from the specific instance of fixing the MIDAS — the situation at that time — to generalize to segregation of duty as an issue we need to pay more attention to, I agree with you that things might have been fixed . . .

**The Chair:** — Just a final question for the auditor. In doing your audit of how these suspicious transactions came about, could you describe the process as being a sophisticated process or was it, you know, fairly uncomplicated? Is that a fair question to pose to you?

**Mr. Ahmad:** — Mr. Chairman, the individual understood the system, how the system works. And whether you needed a sophisticated person to understand that, I can't comment on

that. But the individual was involved knew the system and knew the strength and weaknesses of the system.

**The Chair:** — And would you think that that would be difficult to ascertain, the strengths or weaknesses of the system or . . .

**Mr. Ahmad:** — If you've been working somewhere for 20 years, it's not that difficult.

**The Chair:** — All right. Mr. Hart, did you have further questions?

**Mr. Hart:** — Yes I have. Thank you, Mr. Chair. Ms. Stonehouse, I believe your department has a memorandum of understanding with Government Relations as far as the Northern Revenue Sharing Trust Account. You provide administrative services to that department in the area of land leases and land sales. I assume that's correct, that statement. Is it?

**Ms. Stonehouse:** — Yes is . . . we're currently renegotiating that MOU [memorandum of understanding].

**Mr. Hart:** — Okay. And just for the record once again, of the 556 suspicious transactions that have been identified, how many, if any, were associated with land leases and land sales? Oh, and the Revenue Sharing Trust Account.

**Ms. Stonehouse:** — None.

**Mr. Hart:** — None. Okay, thank you. I just very briefly had an opportunity to look at the report that you tabled here this morning. As I said, it's very brief. We certainly didn't have time to read it all.

But I looked at page 2 where you have a couple of tables that summarize transactions year by year and dollar values and those sorts of things. Right at the top of page 2, you said the following is a summary of SLMB [sustainable land management branch], RSB [regional services branch], and regional services. Well it's sustainable land management branch. What's the RSB?

**Ms. Stonehouse:** — Regional services branch, resource stewardship branch, the current branch.

**Mr. Hart:** — Oh the resource . . . Okay.

**Ms. Stonehouse:** — And regional services.

**Mr. Hart:** — Because when I look at the summary that's provided in your document, one would make the assumption and the calculation that the total of \$511,994.10 is for very rough . . . if my math is somewhat close, very roughly, that's about 5 per cent of the total, maybe less than 5 per cent of the total expenditures that have been identified. Yet in the auditor's report on page 92, it would appear at least that the suspicious transactions would account for approximately 23 per cent of the funds available.

I guess I should perhaps direct this question to the auditor. Where I get the 23 per cent is I've added up the other's line across the six years and if we had approximately \$500,000 in



suspicious payments, that's where I get the 23 per cent, assuming that all the suspicious payments came out of the other's category. I wonder if the auditor would comment on those statements. Are those correct assumptions?

**Mr. Ahmad:** — Yes, Mr. Chairman, that's true.

**Mr. Hart:** — So now, your figures are different than what was provided here this morning. Would you care to comment on the difference? Did you get a copy . . . I believe you got a copy of the department's report that was tabled here this morning. And would you care to comment on the difference in the total figures that you have in your report versus what we have here before us this morning?

**Mr. Ahmad:** — Mr. Chairman, I have only just received that so I didn't have the opportunity to . . .

**Mr. Hart:** — You haven't got the opportunity to . . .

**Mr. Ahmad:** — Look at that.

**Mr. Hart:** — Okay. Perhaps I then ask the department to comment as to the differences.

**Ms. Stonehouse:** — It appears to be the period of time that the auditor looked at our reports before he wrote the report. We've included, in '04-05, the resource stewardship branch in its entirety. And I think that the Provincial Auditor has limited their amount to the sustainable lands management branch and that piece of resource stewardship that was there, if I'm understanding this.

**Mr. Hart:** — So that by and large would change the . . . Okay so basically what you're saying is for '04-05 the resource . . .

**Ms. Stonehouse:** — Stewardship?

**Mr. Hart:** — Resource stewardship. Thank you for helping me out. That includes a broader range of activities, more units?

**Ms. Stonehouse:** — That's right, because of the fish and wildlife branch.

**Mr. Hart:** — Okay, okay. Now getting back to the fish and wildlife, I believe I asked you earlier but I'm not clear on the answer. Did you say that there were some suspicious transactions in that area?

**Ms. Stonehouse:** — No, there were none.

**Mr. Hart:** — There were none. Okay. Thanks for clarifying that.

**Ms. Stonehouse:** — In fact the department's internal audit checked right across the department. We did sampling in every branch of the department, and we did not find suspicious activity anywhere but in that one place.

**Mr. Hart:** — In the branch, okay. Well if we exclude '04-05 from your figures and if we deal with the auditor's figures on page 92, as I said, approximately — and the auditor confirmed that — that all the suspicious transactions took place out of the

funds that he has designated as other, which is about 23 per cent of those funds over that time frame went missing. That's pretty significant. And what you're saying, you're telling us here this morning that nobody twigged into this until last year. Is that what you're telling us?

**Ms. Stonehouse:** — Yes, that's what I'm telling you. I think, as the auditor points out, the expenditures were all the kinds of expenditures this branch experiences. And once a pattern was established, it looked to senior management like the branch was functioning within budget, on target.

**Mr. Hart:** — Now if we go back to page 2 of your document, the lower half, you summarize the suspicious payments per year. And your document seems to show that these payments started slowly and grew year by year — gained momentum. But even so if we go back to 2000 and 2001, you've identified 80 suspicious payments and a high of 138 in '03-04. As I said earlier, these payments on an average were 23 per cent of the funds available over that six-year period. If we look at, say, 2000-2001, I would suggest that they are higher than the 23 per cent. That seems to indicate that we had a fairly major meltdown in procedures within that branch and no one . . . You're saying here this morning that nobody suspected anything, that it wasn't detected until 2004.

**Ms. Stonehouse:** — Well I don't dispute your assessment of the situation. There were some changes over time here. And if it had been caught in those first three years, then the pattern wouldn't have been established, and it wouldn't have been sort of available to maintain.

**Mr. Hart:** — So I don't know if you've identified for us today — and perhaps you're not able to — but I would hope that you could at least give us some sort of an indication as to how the suspicious payments were uncovered. What happened in 2004 that was different in the previous years?

**Ms. Stonehouse:** — Okay. Well it's a number of things. First of all, we did restructure. And one of the things that that did was consolidate branches so that people were no longer operating in isolation. There were folks sitting beside them and working with them in a way that they hadn't before.

Secondly, we changed the signing authority, the delegated signing authority, in June 2004. And that moved to a much higher level the requirement for who could approve payments. And that actually ensured that there had to be segregation of the duties, making it more difficult for the same person to request and then authorize payment.

And thirdly, a vigilant employee in the branch drew some suspicious activity to the attention of our executive director, Hugh, and he pursued it.

**Mr. Hart:** — Thank you. My next question is for the auditor. On page 93 you'd indicated or explained in your report that there was 200 payments that you had identified, and then in the next paragraph down you indicate that there was possibly another 350, totalling \$240,000. And you make the statement, "It is not practical for us to investigate these payments further." I wonder if you could explain why it's not practical. Just give the committee a sense of what you were up against and why

you decided that you wouldn't pursue those 350 documents.

**Mr. Wendel:** — Some of that work would be what the police would be doing, and they'll be some time before they're through that process. And that wouldn't be work that our office would normally do — interviewing people, going to banks and looking where money went and being able to demand bank account information. That's beyond my responsibility.

**Mr. Hart:** — So then a lot of this or at least some of this will be covered . . . you would think would be covered by the ongoing RCMP investigation.

**Mr. Wendel:** — As we say in the report, the Department of Environment's continued its investigation, working with the RCMP, looking into these transactions, and they'll be working on that for some time. But our work is done as far as we're concerned.

**Mr. Hart:** — Okay thank you. Thank you for that explanation. So then, Ms. Stonehouse, did your department, your internal audit committee, did they pursue the 350 suspicious payments that the auditor had identified in his report?

**Ms. Stonehouse:** — Yes, we've pursued every one to the extent of our ability. We're at this stage also needing some more information to in fact validate that they were not legitimate. Maybe an example would be helpful here, so without trying to get . . . let's see if I can do this. I'll use an example that isn't specific here, right?

So if the department, let's just say if the department rented a meeting room from the Hotel Saskatchewan and we issued . . . and there was an invoice for the meeting room and we issued a cheque to the Hotel Saskatchewan, what needs to be done at this point is to determine that in fact the Hotel Saskatchewan received the money.

And so there's some work that needs to be done that's beyond our ability to do as well, and we will continue to work with the RCMP and continue to validate each of these suspicious payments as we're able to.

**Mr. Hart:** — So what you're saying is that, in the example that you used, your department has no ability to call the Hotel Saskatchewan to see if a room was ever actually booked and if, for that particular date and . . . or if a room was booked, whether the cheque was received. You don't have that ability within your department to do that.

**Ms. Stonehouse:** — We've done as much of that as we're able to for follow-through.

**Mr. Hart:** — So have you provided the RCMP with all the information that you have found from within your audit activities surrounding this time period that we are discussing here this morning?

**Ms. Stonehouse:** — Yes we have, everything. Every one of these cheques had an approved invoice, and we've provided that and the cheque itself to the RCMP.

**Mr. Hart:** — So the RCMP have all information that is

available. They have it at this point in time.

**Ms. Stonehouse:** — They do.

**Mr. Hart:** — Good. Thank you for that.

Mr. Chair, I would like to make a recommendation to the committee. In view of the fact that we just received the department's internal audit report and recommendations and really haven't had time to look at it and the auditor of course certainly hasn't had time to look at it, we do have a half hour right after lunch that is available, and I would suggest that before we deal with the recommendations that we break for lunch so that we could have time to review this report and then ask any questions that may stem from this report. And we could still deal with the recommendations after lunch and keep to our time schedule. So if the committee would agree to that, I would find that extremely useful.

**The Chair:** — All right. Well this is a new wrinkle. So first of all, we have to find out whether the officials would be available between 1 and 1:30 to accommodate that because it wasn't on their agenda, and then we have to see if there's agreement amongst the members of the committee to do that.

You're suggesting that we break for lunch at 12. We deal with the five recommendations and any further questions that might come out of the internal audit report during that half hour.

**Mr. Hart:** — Between 1 and 1:30, yes.

**The Chair:** — Between 1 and 1:30. Is there any response from other committee members to that recommendation? Give you a minute, a second to think about it.

And, Ms. Stonehouse, is that possible from the point of view of your officials?

**Ms. Stonehouse:** — We'll rearrange our schedule to be here.

**The Chair:** — Okay. Mr. Borgerson, is that satisfactory?

**Mr. Borgerson:** — That's satisfactory with us, yes.

**The Chair:** — All right. Okay. Given that, then I suggest that we recess for lunch. We're approaching the noon hour.

I want to thank the minister actually for bringing this internal audit report. That was quite thoughtful and would have probably been requested, and thus you have speeded up the process substantially.

We will adjourn till 1 o'clock where we will promptly resume and complete chapter 7 of the 2005 report volume 1. We're recessed.

[The committee recessed for a period of time.]

**The Chair:** — Good afternoon, Public Accounts Committee members and Provincial Auditor people and guests. We are going to resume the discussion on the Provincial Auditor's report regarding Environment that we dealt with. We will be here for . . . We will deal with this issue for no longer than half

an hour, and we have an internal audit that some members asked a little more time to review, and we have five recommendations that we have to get to in the next 25 minutes. So without any further ado, we'll open up the floor to questions. Mr. Hart.

**Mr. Hart:** — Thank you, Mr. Chair. Ms. Stonehouse, earlier this morning I asked for a breakdown as to the various types of invoices, and you said you'd be able to provide some additional information. I wonder if you have that information at this time?

**Ms. Stonehouse:** — Nineteen per cent of the suspicious payments were payments to the employee. Just to underscore that this is an area where in particular we need the opportunity for the employee to explain because they may in fact have been legitimate expenses. They represented less than 5 per cent of the total dollar figure.

**Mr. Hart:** — Okay, thank you. In your document, the document that you tabled this morning, on page 3 you indicated that these transactions were sort of normal transactions that would take place throughout a department in other government departments and the auditor had indicated, given a list I guess, of the types of payments and one of them was meeting rooms, and we've discussed that briefly today. But on page . . . top of page 3, you said that they seemed reasonable and then the second bullet there, they're legitimate and then there's a sentence there:

The key . . . [defective] control that appeared to be absent in this case was management review and oversight control.

That brings to I guess maybe the first question I'd like to ask. How many of these . . . Do you have an approximate number of how many of the suspicious documents dealt with rental of meeting rooms? Would you have an approximate percentage or number? No. And would you have any type of a breakdown as far as the numbers . . . as far as the various categories that the auditor had identified as far as like meeting rooms, equipment rentals. You wouldn't have a breakdown — out of the 556, let's say 50 were for equipment rental — you wouldn't have that information?

**Ms. Stonehouse:** — We don't have it with us, and I'd probably want to seek legal counsel on whether I gave the specifics.

**Mr. Hart:** — Okay. If legal counsel advises that it's acceptable to provide that information, will you provide that to the committee after you consult with legal counsel?

**Ms. Stonehouse:** — Yes, I will.

**Mr. Hart:** — Thank you. Okay going back to the sentence that I just quoted from your report where defective control seems to be, was absent . . . or the defective item that was absent was management review and oversight control.

Well it seems to me if there was a number of invoices coming through for meeting rooms and equipment — sound equipment and so on and audiovisual equipment I guess that would normally be associated with a meeting — it would seem that it . . . I would think that it would be fairly simple to, occasionally, someone to ask a question. Oh okay, why are you having that

meeting? Who was at the meeting? What was the purpose? Was there any minutes available from the meeting? I mean it seems to me that would be fairly easy to do a random check on that in the course of operations, particularly . . . I mean is it, within the branch is it normal to have a lot of meetings, and was no one checking to see if these meetings actually took place?

**Ms. Stonehouse:** — It is and was normal for there to be quite a lot of meetings because of the land use planning activities in several parts of the province. It would normally be the senior manager in the branch who would verify payments in the way that you've suggested.

**Mr. Hart:** — I guess the next question would be then, is one individual that would verify, and without trying to get too particular, is that individual with the department at this point in time?

**Ms. Stonehouse:** — Just a bit of background. Each branch has its budget assigned to it for the year and then receives monthly information that identifies exactly where expenditures have been made. And it is up to the senior manager in the branch to review that, and if there are errors in it, to follow those up.

And no, the senior manager who was present for most of this period of time is no longer with the department.

**Mr. Hart:** — Thank you. On the bottom of page 3 you talk about changes in vendor policies where there's been safeguards, I would interpret it as, have been put in place to prevent department staff from simply adding a new vendor to the list of vendors that the department has. So I would then also extrapolate from that that, prior to the changes, that department staff could add vendors without seeking approval and verification by other department staff members that this actually was a valid, legitimate supplier. Is that correct?

**Ms. Stonehouse:** — That's correct. I think the Provincial Auditor's report actually alludes to that. Yes.

**Mr. Hart:** — Okay. Thank you. The auditor talks about the need — and the auditor's talked about this over a period of years with this department — the need to ensure that policies to safeguard public expenditures are in place.

But also the auditor's talked about, over a number of reports, not only the requirement to have these policies in place but for the requirement of compliance to see if departments . . . if there were department staff actually checking to see if the rest of the department is complying with these policies and guidelines. What have you done to ensure compliance is now happening?

**Ms. Stonehouse:** — We have created a position for a second internal auditor. The person's not yet been recruited, but we're in the process.

In our discussions with the comptroller and the Provincial Auditor, the key thing that they point to is a need for some random checking to ensure that compliance is occurring. The department has had one internal auditor through all of this time, but that position has been devoted entirely to auditing forestry revenues and hasn't been used in an internal compliance capacity.

**Mr. Hart:** — Thank you. On the bottom of page 4 you talk about qualified financial resources. And in this year's budget there was five additional financial positions created and they are being, I guess, currently being . . . you're in the process of filling those positions, and you just mentioned that you have one internal auditor. The people that you're looking for to fill these positions, you're requiring them to have some . . . an accounting designation, chartered accountant or management accountant. Prior to creating these positions, how many positions within the department had accounting designations? You said you had an auditor. I presume that individual has an accounting designation.

**Ms. Stonehouse:** — No, he doesn't. We had one chartered accountant and one CMA [certified management accountant] in the whole department.

**Mr. Hart:** — Okay. Thank you for that. But now you're going to have six or . . . five or six or . . .

**Ms. Stonehouse:** — Five. Yes.

**Mr. Hart:** — Five. Okay.

**Ms. Stonehouse:** — And this is part of the dilemma for the department, that they in fact didn't have coaching on appropriate procedure.

**Mr. Hart:** — But, Ms. Stonehouse, the auditor has, since 2000 or before, has been warning your department that these deficiencies existed and it appears nothing was done to correct it. And that certainly is not acceptable. And simply to say that, we understand that we didn't do what we were supposed to; we are now fixing it, is one thing. But how do you, I mean it's not acceptable to see the possibility of at least \$511,000 . . . and perhaps it's more. We don't know, I would suggest.

**Ms. Stonehouse:** — Not more.

**Mr. Hart:** — You can guarantee the committee that it's not more.

**Ms. Stonehouse:** — I can.

**Mr. Hart:** — Okay. Thank you for that. So I would think that this would be a lesson that other government departments could learn when the auditor identifies weaknesses, that those weaknesses be corrected as quickly as possible. We are dealing with one department at this time and we will be dealing with another department very shortly where there was serious problems and serious amounts of public funds were lost. And so I know you've assured the committee that you're doing everything within your power to rectify these situations but we need, as legislators and members of this committee, we need to be assured and we need to see results, I think is the most important part.

**Ms. Stonehouse:** — Mr. Hart, as I said this morning I think that there's . . . the department was responding to the specifics each time. And in fact I think the lesson we need to learn is probably what the auditor intends from the beginning, which is the specific points to a more general practice. But I think both ourselves and other departments probably need to learn that

lesson.

**The Chair:** — Thank you, Mr. Hart. And I haven't seen a nod from any other members indicating they want further questions so I sense that we're ready . . . oh we do have a nod? We have two nods. Okay, that's right. I apologize, Mr. Hagel. We will go then to you first and then to Mr. Cheveldayoff.

I'll just remind both members that I am determined to be completed by 1:30. Mr. Hart. Mr. Hagel, sorry about that.

**Mr. Hagel:** — Thanks, Mr. Chairman, I was really . . . it was a follow-up to some line of questioning that Mr. Hart was having.

I think the answer is yes, but I want to check an assumption with the auditor. There was reference to the work that the RCMP are doing now and that the department is doing now by way of its investigation. And I just was wanting to know whether the auditor has any reservations about the integrity of the work that either the RCMP or the department are doing in their investigations that they're currently engaged in. From previous comments, I think the answer to that is that there are not concerns. But I just wanted to verify that because I think the view of the auditor on that is very important.

**The Chair:** — Thank you, Mr. Hagel. Mr. Wendel.

**Mr. Wendel:** — Thank you. As we say in the report, we found the department's practices to be reasonable. We have reviewed all their practices. We went through, did our own testing of transactions, and we're very satisfied with the work the department did. And I'm sure the ongoing work will be of the same calibre.

**Mr. Hagel:** — Thank you very much. I appreciate that.

**The Chair:** — Mr. Cheveldayoff.

**Mr. Cheveldayoff:** — Thank you, Mr. Chair. A couple of quick questions. I was surprised to learn that the blanket bond coverage has not changed in some 35 years; it's still \$20,000 per employee. My question to the Finance officials, have they made a recommendation to cabinet that this be changed or this be updated?

**The Chair:** — Mr. Paton.

**Mr. Paton:** — Yes, Mr. Chair. This isn't an issue that's being dealt with by the Department of Finance. My understanding is that's it's currently being reviewed by the Public Service Commission. And I don't know the date, but I think the report by the Public Service Commission is expected very shortly on this issue.

**Mr. Cheveldayoff:** — I would think that the Department of Finance would probably have some expertise to add in this area. Do you not agree?

**Mr. Paton:** — Yes, I do. It's an area that's shared by a number of departments, Public Service Commission . . . And in fact I'll correct myself. The report that's coming out is on the bonding issue so there's still some work to be done on the . . . or, pardon me, criminal records checks is the report that's coming out

fairly shortly. There is some work under way currently — I believe it's being led by the Public Service Commission with involvement from the Department of Finance and the new Department of Property Management — in regards to insurance in general. And yes, Finance does have a keen issue in it.

**Mr. Cheveldayoff:** — Okay. And you mentioned criminal record checks, that they'll be . . .

**Mr. Paton:** — Criminal records check is the area that the Public Service Commission has put a lot of work into recently as a result of this, and that's the report that I understand is imminent. I don't know the date but I know it's supposed to be fairly shortly.

**Mr. Cheveldayoff:** — Okay. Are they considering retroactive criminal records checks as well as on a go-forward basis, do you know?

**Mr. Paton:** — I believe that's under consideration. Public Service Commission did check with all departments as to, you know, what their practices were and areas of concern. And I believe that was one of the issues that was identified is, what period should we cover and what are the broader implications of this.

**Mr. Cheveldayoff:** — Thank you. Thank you, Mr. Chair.

**The Chair:** — All right. Are there any more questions? Have I missed anyone's nod? Seeing none, we will turn to the recommendations. As I mentioned, there are five in chapter 7 of the volume 1 of the 2005 auditor's report. Recommendation no. 1 is on page 96. I will read it:

We recommend the Department of Environment properly segregate the duties of the employees responsible for collection, receipt, disbursement, or expenditure of public money.

Is there a motion? Mr. Borgerson.

**Mr. Borgerson:** — Yes. I'll move that we concur with this recommendation.

**The Chair:** — A motion to concur. Is there any debate on the motion? Seeing none, all in favour? None opposed. That's carried. Is there a need to note compliance or lack of compliance?

**Mr. Borgerson:** — I'll restate that motion then. I move that we concur and note progress.

**The Chair:** — We've passed the previous one. Now you're making things difficult for your Chair here. But . . . [inaudible interjection] . . . Yes, I did. Well perhaps we should just have a second motion to note what stage you think the process is in. Mr. Hagel.

**Mr. Hagel:** — Mr. Chair, regarding recommendation no. 1, I will move that the committee note progress.

**The Chair:** — All right. The motion is to note progress. Is there agreement with the second motion?

**Some Hon. Members:** — Agreed.

**The Chair:** — All in favour? Okay, that's carried as well. Two motions for recommendation . . . you're going to run me out of time here yet, you guys. Well moving on to recommendation no. 2 which is on page 97:

We recommend the Department of Environment clearly communicate to its employees its operating policies and ensure that its employees understand the reasons for the policies.

Is there a motion? Mr. Yates.

**Mr. Yates:** — I'll move that we concur and note progress.

**The Chair:** — A motion to concur and note progress. Is there any discussion on the motion? Seeing none, we'll call the question. All in favour? It's carried unanimously. We move to recommendation no. 3, also on page 97:

We recommend the Department of Environment train its employees to help establish a culture of fraud awareness.

Is there a motion? Mr. Borgerson.

**Mr. Borgerson:** — I'll move that we concur and note progress, please.

**The Chair:** — A motion to concur and note progress. Is there any discussion on the motion? Seeing none, we'll call the question. All in favour? None opposed. It's carried. And we will turn to page 101, and you will note two more recommendations.

No. 4 reads:

We recommend the Department of Environment assess if the Government's standard blanket fidelity bond (insurance) coverage reduces its risk of loss to an acceptable level.

Is there a motion? Mr. Hagel.

**Mr. Hagel:** — Mr. Chair, I'll move that regarding recommendation 4 the committee concurs and notes progress.

**The Chair:** — Again, a motion to concur and note progress. Is there any discussion on the motion? Seeing none, we'll call the question. All in favour? None opposed. That's carried. And recommendation no. 5:

We recommend the Department of Environment assess the risk of loss of public money by employees in positions of trust (responsible for collection, receipt, disbursement, or expenditure of public money) and reduce the risk to an acceptable level (e.g., increasing insurance coverage or requiring criminal record checks).

Is there a motion? Mr. Yates.

**Mr. Yates:** — I move that we concur and note progress, Mr. Chair.

**The Chair:** — Again, a motion to concur and note progress. Is there any discussion on the motion? Mr. Hart.

**Mr. Hart:** — Mr. Chair, I believe on this recommendation I think that we certainly agree with the recommendation. I would wonder how much progress has been made. I don't see any. We're told that there's been no increase in the blanket fidelity bond, and the department is just now seeking qualified accounting personnel to put into five new positions. I would suggest a more appropriate motion would be that we concur with the recommendation, Mr. Chair. So I would move that, I would move that we would defeat this motion.

**The Chair:** — You can. All right. Mr. Yates.

**Mr. Yates:** — Thank you, Mr. Chair. Well we've just heard from officials that there's been a great deal of work been done on this issue. We're just a few days or weeks away from a substantial report on the issue of limiting those liabilities, so there has been work done as a result of the result of the recommendation by the Provincial Auditor. So that is progress. Prior to that recommendation, these studies weren't being done. This information wasn't being gathered and so I clearly, Mr. Chair, would say there has been progress made.

**The Chair:** — All right. We've got a couple of opinions here. Is there any more discussion on the motion? Seeing none, we'll call the question. All in favour? Opposed? It's carried but not unanimous.

That brings us, ladies and gentlemen, to the end of chapter 7. It's been a bit of a long haul and a bit intense at times so I want to particularly thank the members, all the members for their co-operation. I want to thank Ms. Stonehouse and her officials for their co-operation and attendance at this lengthy session of the Public Accounts. I also want to thank the auditors for having the answers to the questions that were posed to them and we actually brought in the comptrollers as well and they played a significant role. So all cylinders were firing during this portion of our Public Accounts meeting and I thank you for your co-operation.

And we have a five-minute break and then we will resume with Community Resources and Employment. Thank you very much.

[The committee recessed for a period of time.]

### **Public Hearing: Community Resources and Employment**

**The Chair:** — Well ladies and gentlemen, we'll resume our Public Accounts Committee meeting. We are now progressing on to the item on the agenda called Community Resources and Employment. We have two chapters to deal with, one from the old 2004 report volume 3 — that's chapter 4. And then chapter 6 of the new 2005 report volume 1.

There are a total of seven recommendations in the '04 book but recommendation no. 1 is repeated in the 2005 report so we will not deal with that first recommendation in the 2004 report. So that leaves us with six recommendations in the '04 and five recommendations in the '05 report. I just thought I'd give you that heads-up so that you would be prepared to cover all the

material and know that at the end of our allotted time, which is at 3:30, that we should have proceeded through those two chapters and be prepared to deal with a total of 11 recommendations. Sounds like a busy time.

We have representing the Provincial Auditor's office, Mr. Mike Heffernan. He will be providing us with an overview of the two chapters. And then we have Ms. Wynne Young, the deputy minister for the Department of Community Resources and Employment, who is . . . we offer a chance to respond and also to introduce her colleagues. So, Mr. Heffernan, we'll turn the floor over to you.

**Mr. Heffernan:** — Thank you, Mr. Chair. Just for clarification, did you want me to deal with both chapters right now?

**The Chair:** — I think we should.

**Mr. Heffernan:** — Just go right through?

**The Chair:** — Just go right through.

**Mr. Heffernan:** — Okay. Chapter 4 starts on page 131. On pages 133 to 135, we continue to recommend the department follow its established processes that ensure only eligible clients receive the correct amount of assistance and the children in its care are protected. The department is improving the level of compliance with its processes for social assistance payments and children in care. It has prepared a quality improvement plan to improve compliance with this processes.

On pages 135 to 138, we continue to recommend that the department strengthen its agreements with community-based organizations and improve the quality of their performance reports to the department and the timeliness of the department's reviews of the performance reports. On page 138, we continue to recommend that the department prepare a business continuity plan. On page 139 . . . Or page 139 describes how the department needs to prepare, approve, and implement security policies and procedures to ensure the confidentiality, integrity, and availability of information systems, and that the incompatible duties are segregated. And I will deal with this recommendation later, I guess.

Also on page 140, we describe our audit to assess whether the department had adequate processes to measure its progress in helping welfare recipients find and keep work. Measuring the effectiveness of welfare-to-work programs is a long-term, complex process. Our audit concluded that the department's processes were not yet adequate to measure its progress in helping welfare recipients find and keep work.

We make several recommendations to improve the department's processes in recommendations 2 to 7. In summary we recommend that the department select additional performance measures that directly assess its progress; establish baseline results and targets for each measure; communicate to its employees its measures, baseline results, and targets; collect relevant and reliable information; establish policies and procedures for evaluating data; and prepare reports for management that shows its progress in helping welfare recipients find and keep work. That concludes my comments in chapter 4.

Chapter 5 of the 2005 report . . . chapter 6, I should say, starts on page 71. Last December department officials informed us that they had become aware of a possible misappropriation of money by a manager in the Saskatoon regional office. The Provincial Auditor Act requires our office to report losses to the Crown through the fraud, default, or mistake of any person. We set two objectives for our investigation. First, we wanted to determine the amount of the loss of public money. Second, we wanted to determine the conditions that could have allowed the loss of public money to occur and remain undetected.

The department incurred a loss of public money of about \$1 million. To reduce the risk of future misuse the department needs to: (1) properly segregate the duties of its employees; (2) provide effective direction to employees; (3) properly oversee operations; and (4) use sound employee hiring practices.

To improve its segregation of duties, we continue to recommend in the recommendation 1 that the department establish adequate security processes for its information systems that adequately segregate employees' duties to initiate, revise, and improve payments.

To improve its direction to employees, we recommend in recommendation 2 that the department clearly communicate to its employees the importance of its processes to safeguard public resources and ensure employees understand the intent of the processes.

In recommendation 3 we recommend that the department train its employees to help establish a culture of fraud awareness. To improve its oversight of operations, we continue to recommend the department follow its established processes to ensure that only eligible clients receive assistance and that they receive the correct amount of assistance.

To improve its processes for hiring employees, we recommend in recommendation 4 that the department assess if the government standard blanket fidelity bond coverage reduces its risk of public money to acceptable level.

In recommendation 5 we recommend that the department assess the risk of loss of public money by employees in positions of trust and reduce their risk to an acceptable level.

That concludes my remarks.

**The Chair:** — Okay. Thank you very much, Mr. Heffernan. Again welcome, Ms. Young, and if you . . . Mr. Borgerson, you want to interject?

**Mr. Borgerson:** — With permission, if I could just make reference to the letter that I read into the record this morning. I'm aware that we have a new set of officials here from another . . . from the second department that that letter referred to, and I also recognize that we have another member sitting on the committee.

I won't read that same letter into the record. But if I may, I'll just read the one paragraph, just in terms of the parameters that I have been advised that we need to follow in terms of questions and responses.

**The Chair:** — Okay. Go ahead, Mr. Borgerson.

**Mr. Borgerson:** — And when I said we, of course I'm speaking of committee members and officials as well.

So this is a letter to myself from Doug Moen from the department of . . . deputy minister of Justice. And I'll just read the last paragraph, the paragraph, "The occurrences in both departments . . ." This being the Department of Community Resources and Saskatchewan Environment:

The occurrences in both departments remain under active investigation by the RCMP in two separate investigations. When those investigations will be completed and what charges, if any, might be laid, is not yet known. It is important to remember that no one has been charged with an offence relating to these occurrences; nor has there been any determination of responsibility through any judicial process. As a result, care should be taken in describing the conduct of the individuals involved in the occurrences, in particular the two former employees. You will note, in this respect, that the Provincial Auditor's report addresses these issues with considerable care.

As suggested in my January 17 letter, the committee and the two departments may discuss matters dealing with broad issues of accounting practices, accountability standards, etc. Additionally, officials can be expected to respond to questions concerning the Provincial Auditor's findings and recommendations and, in particular, actions already taken by the departments or that will be taken to address those findings and recommendations and the problems identified by the occurrences themselves.

I think there were some very sensitive moments this morning. I was concerned at times that we were crossing a line, but I read this just as a reminder to all of us that this is under investigation at this time.

**The Chair:** — Yes. Thank you, Mr. Borgerson. Your point is duly noted.

Again welcome, Ms. Young, and if you'd introduce your colleagues and respond to the auditor's report.

**Ms. Young:** — Thank you, and good afternoon. I will introduce my colleagues first and then I have an opening statement.

To my right is Gord Tweed, the associate executive director of employment and income assistance division. To my left is Don Allen, the executive director of corporate services and finances. Behind me to my left is Darrell Jones, the assistant deputy minister of housing. And to his right is Marilyn Hedlund, the executive director of child and family services.

I would like to begin this afternoon by apologizing on behalf of the department for the situation that unfolded in Saskatoon and to state that we do accept responsibility for not having sufficient controls in place to prevent or detect the situation.

Each year, the department welcomes the Provincial Auditor's recommendations and takes them under serious consideration. Our work over the years has included considerable study of the

recommendations and of the courses of actions that we take to respond to the concerns raised by the auditor and our operational requirements. More than this, it has also included considerable efforts to close the gaps that he has identified.

Since his fall report of 1998, the Provincial Auditor has made a number of recommendations directed to the department. While there were several each year, they can be grouped into 12 general areas. Of these 12 areas, in chapter 4 of volume 3, 2004, five are no longer reported on, and one was reported for the first time in that chapter.

It was because we listened to the auditor and responded; he was able to remove many of these concerns from his most recent reports. We have acted decisively to make improvements, but we also acknowledge more needs to be done. Some of the issues raised by the Provincial Auditor still need to be addressed, but we believe we're on the right track. I would like to describe a few of the examples of where we've been addressing the issues raised by the auditor.

In fall 1994 report, the auditor first raised concerns about the department's internal auditor's independence from the programs he was auditing. In subsequent years he also had concerns about the timeliness and reliability of the internal auditor's reports to management. After examining his recommendations, the department agreed with each and took action.

In 2001 the new executive director of Finance assumed the role as Chair of the internal audit committee, and in 2002 the assistant deputy minister joined the committee. In 2003 a new internal audit committee was struck chaired by myself with the department's three assistant deputy ministers as members. We set a new mandate for our committee, that being to see the all quality initiatives throughout the department. The internal auditor began issuing interim audit reports and has also provided improved timeliness of his year-end report. After discussions with the Provincial Auditor's office, we changed our internal auditor's reports to enhance their reliability.

Another example of the changes are improvements in areas brought forward by the Provincial Auditor in social assistance. Considerable effort has gone into assuring that the rules are followed to ensure that only eligible clients receive assistance and they receive the correct amount of assistance.

In 2001 we began transferring responsibility for taking new applications for assistance to a central contact centre. This provided greater quality of control and assurance that applications are consistent and are complete. Since 2001 income security staff have been trained and retrained on policy and the importance of following it. In 2003 a case review process was implemented that saw us review thousands of cases. This culminated in our launching a quality improvement plan in 2004 which I will speak about in a moment.

While the results are still not good enough, the Provincial Auditor reports that since 2003 inadequate documentation or inadequate recordings in social assistance files has gone from being 67 per cent compliant on client identification in 2003 to 90 per cent in 2005; from being compliant 87 per cent of the time with respect to marital status to being compliant 99 per

cent of the time; living arrangements properly described and documented 77 per cent in 2003 and 90 per cent in 2005; and high-risk files with identified issues being followed up appropriately only 83 per cent in 2003 and the auditor found no incidents of this in following up of these files in 2005.

Other examples of improvements made as a result of the auditor's recommendation includes improvements to our department's annual report, enhancements to our service agreements with CBOs, community-based organizations, and process and system enhancements to improve enforcement of child maintenance support.

Today I will focus on the quality improvement plan we implemented in January 2004. This overarching initiative is multi-dimensional, incorporates the concepts and philosophies that enabled us to successfully and fully address certain of the auditor's concerns, and to make progress on others.

This plan is based on the foundation of continuous improvement through planning, implementation, and monitoring, resulting in a culture of quality. The plan was reviewed by the auditor who said the plan, combined with long-term commitment from senior management, should provide a reasonable basis for the department to comply with its processes.

During 2004 this meant that we reviewed about 9,500 social assistance cases. It also meant new quality assurance measures are being added this year both at the time the client applies for social assistance, but in our annual review of the client's file. I believe that it was partially because of this enhanced culture of awareness that the Saskatoon incident came to light.

Our efforts over the years and most recently since January 2004 have led to significant improvements and compliance with our policies and procedures that the Provincial Auditor observed upon, both in his fall 2004 report and his spring 2005 report.

While I'm pleased with the progress and the improvements, the misappropriated funds in Saskatoon demonstrated weaknesses in our system and the need for us to redouble our efforts, and that's what we've done.

Since the matter has first come to our attention, we have improved segregation of duties by further limiting the authorities of income security workers, supervisors, and managers. And I'll just make a point here. I want to clarify some misconceptions there might be about emergency cheques. I have heard them described as being only used for certain types of support or using a special emergency fund budget.

Emergency cheques are a response to the situation the client is in. This need is so great that they can simply not wait for the cheque to be mailed to them. What differentiates an emergency cheque from other cheques is where they're printed. In response to the needs of those in distress, we have attempted to find the balance between responsiveness to our clients and control.

Next, while we must maintain responsiveness to our emergency needs of clients, we have also improved processes to secure our emergency cheques. We have also completed a thorough investigation of the financial irregularities to the satisfaction of



the Provincial Comptroller and the Provincial Auditor. This helped us to identify areas for improvement in segregation of duties that I've just mentioned.

We've improved both preventative and detective controls over emergency payments, and we've enhanced monitoring on payments and on cases including those but not limited to those that are high risk. The department has completed a comprehensive investigation to identify possible occurrences of a similar nature and found none. The Provincial Auditor agrees with our findings.

With guidance from both the Provincial Auditor and the Provincial Comptroller, we completed a comprehensive review of the preventative and detective controls in our social assistance program to identify areas for improvement. The group that conducted the review made 35 specific recommendations, some of which have already been implemented. Work plans for the remainder are under way. Only a few of these were a factor in the irregularities that occur in Saskatoon, but all are specific areas we have identified for improvement of our preventative and detective measures. These recommendations are in the areas of improved communication and training, improved existing controls, and adding new controls.

While it's important to maintain confidentiality on financial controls, including these recommendations, I will mention a few general ones. High-risk payments should be subjected to a special audit to identify anomalies. Application form design should be reviewed to identify barriers to quality and efficiency. Segregation of duties should be improved. Controls of emergency cheques should be improved.

I would like to be clear that this review was conducted independent of other reviews into the Saskatchewan irregularities. But this investigation also identified the same concerns around segregation of duties and emergency cheques, both of which have now been addressed.

Work has also begun to deal with concerns raised by the Provincial Auditor on non-compliance of policies and procedures specifically around accuracy and completeness of applications for assistance and annual reviews. This includes strengthening the forms and processes for taking application for assistance and annual reviews and will include an independent review of each application before any payment is made. We expect these efforts to address these specific concerns will be in place before the end of the year.

We've also just launched a department-wide risk assessment which will examine each program area, its risks, and its controls around the entire department. The assessment will enlighten our future work around minimizing financial exposure in every part of the department. We have dedicated a designated accountant to perform this review and expect the assessment to be complete this fall.

We are also working on the other recommendations made by the auditor such as the need for business continuity plans. The department is in the process of finalizing a contract with an external consultant to undertake a business impact assessment as the first step in meeting the needs for these plans. This

assessment will examine the risk that the departments face, such as from a major computer failure or fire in one of our buildings, the relative impact of each, examine the risk mitigation strategies that the department already has in place, and report on where we have gaps. Armed with this, the department can then examine the need for additional work to strengthen our ability to respond to these risks.

The auditor also talks about hiring practices in light of the situation that unfolded in Saskatoon. We have made changes over the years, implementing criminal record checks in 1997 for specific positions of trust. As our policy now stands, about 1,100 positions require a criminal record check for new hires. This includes workers and supervisors in income security and in child and family services, for all staff who serve people with intellectual disabilities, for all staff working in daycare programming, and for certain staff involved in providing employment services.

We are currently considering expanding this definition of positions of trust to include other employees, and we will be making those changes in our policy of criminal record checks in conjunction with enhancements as recommended by the PSC [Public Service Commission] in the report that we expect this summer.

In his December 2003 report, the Provincial Auditor recommended that the department follow its rules and procedures to ensure that children in care are protected and that payments to custodians are authorized. In January 2004 the department's quality improvement plan was announced to address concerns raised by the auditor and to move beyond compliance with policy.

It is our goal to support a more robust approach to ongoing quality management to help foster a culture that focuses on quality. In child welfare, this plan has been endorsed by both the Provincial Auditor and the Children's Advocate. Some of the elements of this plan include developing a list of the most important standards — that is, priority standards — systematic and regular file reviews of all open-child protection, child services, and resources files to assess compliance to priority standards; development and use of a computer base system to monitor compliance to priority standards; evaluation of barriers to complying with policies; and development of solutions to enhance services provided to clients; and implementing the outcome of the recently undertaken child and family services review.

The employees of the department are responsible to the public through government for the delivery of our programs and services to our clients in an effective and efficient manner. Since 1998 this has meant a reduction in the social assistance caseload of almost 19 per cent; child poverty rates, almost half of what they were in 1996. We have been able to fight the national trend of dramatically increasing numbers of children in foster care. Saskatchewan has had only a marginal increase in the number of children in care over the past three years.

New affordable housing and home ownership programs have been developed, and programs to improve the quality and affordability of existing housing have been implemented. Programs for persons with disability, including those with the

intellectual disabilities, have been enhanced and new ones developed.

However this is no more than is expected of us. While we have been working diligently on programs and services, we've also been working diligently to close the gaps identified by the Provincial Auditor.

Over the past seven years, the auditor's reports have encouraged the department to ensure that our staff follow policy and procedures on social assistance payments. Unfortunately neither he nor we identified the specific gaps in controls that permitted an employee to intentionally breach the policies and remain undetected. Staff at the department take seriously our responsibility to uphold the public trust and deeply regret that our efforts did not prevent or detect earlier the serious breaches of policy and procedure that occurred in Saskatoon.

While no system is 100 per cent foolproof, we know now that there could have been more done to protect the funds entrusted to us. And more importantly, we have changed to tighten and strengthen controls and are continuing to layer additional controls. In short, we will take the next necessary steps to protect the public's interest.

We want to thank Mr. Wendel and his staff for their ongoing support to assist us in our efforts for continuous improvement and to meet the goals of accountability and transparency. I would also like to thank Mr. Wendel and his staff for the help in the investigations and reviews that we conducted into the financial irregularities in Saskatoon. Their assistance has been a tremendous benefit to us. Thank you.

**The Chair:** — Thank you, Ms. Young. And we appreciate that response and recognize it was rather lengthy, but you're covering a fair amount of material.

I expect most members will want to focus on the 2005 report volume 1. But in case there is a particular item from the year earlier volume that is not covered in the second, just so that it doesn't get lost, if someone has come prepared to deal with that, we could look at that first. Otherwise, I'll just open up the floor to general questions.

Is there any specific questions that pertain to the 2004 report volume 3 that you want to address first? Seeing none, then we'll open up for general questioning where you want to go. Who wants to be first to . . . Mr. Cheveldayoff.

**Mr. Cheveldayoff:** — Thank you, Mr. Chair. I have questions pertaining to both chapters, but there's a large amount of overlap there. I guess my first question is for the auditor. Do you believe that the lack of security controls was responsible for the fraud that was uncovered by the department?

**Mr. Wendel:** — I think, as we've identified in the report, we thought there were three major areas of concern. One was the lack of segregation of duties, another one was need for better oversight, and the need for staff to comply with existing policies and procedures.

**Mr. Cheveldayoff:** — So you think specifically, if these changes were made, that this would be prevented in the future.

**Mr. Wendel:** — Be much more likely to be detected. But I think, as we said in here this morning, you can never design a system so tight that you can prevent all cases of misuse of public money. There'll always be that chance and that's where you buy the insurance.

**Mr. Cheveldayoff:** — Right. Okay. For the deputy minister. You've outlined what steps the department has taken to address the lack of security controls, so we'll get into that a little bit more later.

In January 2005, three employees from your department were suspended for improperly accessing the SGI [Saskatchewan Government Insurance] database which is used by caseworkers to verify the assets of clients. Was this another violation, another example of the department's failure to undertake the necessary security procedures and make staff aware of the security policies and security risks? Could you just comment on this situation, please?

**Ms. Young:** — I'm not sure it was January 2005. I think it might have been a little bit later than that. But regardless, in fact I believe this is an example of where the system works. There, we were able to identify that there had been a breach in confidentiality using the SGI database and we handled the situation quickly and the employees were suspended, were disciplined for this action.

**Mr. Cheveldayoff:** — Would you say it's fair to say that there's a culture of fraud awareness that exists in the department right now?

**Ms. Young:** — I think that there always has been a reasonable culture of fraud awareness. I think that we believe it needs to be more. We need to be more diligent and more regular about reminding our employees about proper policy and procedure, proper oversight, and that's our intention as we move ahead. We are now looking at our new employee orientations to increase the training around fraud awareness, and we have recently been out to the regions to speak to them about that. So I think, I think we are interested in doing more.

**Mr. Cheveldayoff:** — Okay. You touched on the topic of criminal record checks, and you outlined which positions now entail criminal record checks. Could you outline which positions do not at this time require criminal record checks within your department?

**Ms. Young:** — Well there are many occupations within the department. We would be talking about support staff, staff in regular office positions, field staff who are not involved with children or SAP [Saskatchewan Assistance Plan] cheques. Are there other areas, Gord? Right, yes, and front-line service delivery would . . . much more common that there would be criminal record checks.

Right now we have about 1,100 of our 2,500 have criminal record checks — 1,100 of the positions. If you're interested, I can get a detailed list of who doesn't, if that's of interest to you.

**Mr. Cheveldayoff:** — Well I was just wanting sort of a general feel for how the department was split up between the two groups, I guess.

**Ms. Young:** — Okay.

**Mr. Cheveldayoff:** — Would you feel comfortable having all your employees subjected to criminal record checks?

**Ms. Young:** — I think that we are interested and that we are going to be moving on increased criminal record checks in the department. But we aren't going to move there; we're going to wait pending the results of the Public Service Commission recommendations. They have done a thorough analysis, and I believe the recommendations are going to be available this summer. And so we will base our increased action on the Public Service Commission's recommendations.

**Mr. Cheveldayoff:** — I guess I have trouble seeing the downside of the checks. And I'm asking you and similar officials in other departments if they can articulate any downsides of such checks, both for new employees and retroactively for existing employees.

**Ms. Young:** — Right. I think that there might be a sense of lack of trust. And I think that that might be a worry to our existing employees. But I think that there are pros and cons on both sides of this equation. And the Public Service Commission I think is going to . . . will give us a very complete analysis of this.

**Mr. Cheveldayoff:** — Okay. You've mentioned emergency benefit cheques. I'm wondering if you could outline to us the number of emergency benefit cheques that are issued in a year.

**Ms. Young:** — Right. We have about 700,000 cheques a year on social assistance program. Approximately 10 per cent of those are emergency cheques — 70,000.

**Mr. Cheveldayoff:** — Okay. And that's to deal with emergency benefits that are needed before the regular processing can take place. Am I correct?

**Ms. Young:** — That's right. Certainly some of the clients that we work with present themselves to us, and they have immediate needs and very basic needs. And that's what the emergency cheques are there to deal with.

**Mr. Cheveldayoff:** — Okay. I wanted to move into defining performance and data measurements for the department. The auditor has said:

The Department needs to develop new measures that [more closely] relate . . . to reducing welfare.

Most measures [in place] relate to individual programs and not directly to the department's overall . . . [vision] of reducing welfare.

What steps has the department taken to address the auditor's recommendations regarding the establishment of measures and policies to measure the effectiveness of moving people from welfare to work?

**Ms. Young:** — We certainly do have measurements in place now. I think that performance management in government departments is an evolving initiative. And specifically to this

area we — as with all jurisdictions in Canada — are learning more as we move into this area, more about better and better measurements to actually measure the outcome of our programs.

Right now we look at specific outcomes like the reduction in the number of people on social assistance. What we eventually would like to get to is a comprehensive measure of where our former clients are in future years. That of course will take many years for us to follow those clients. And we're now looking at ways to try and do this in a fairly efficient manner.

So work is under way on this. And we think the measures we have are good proxies, but we will be working for more.

**Mr. Cheveldayoff:** — Okay. I think you've partially outlined an answer to my next question here, but maybe you could just delve into the details a little bit more. One of the criticisms made of the performance measures was that they related to individual programs rather than the department's overall objective of reducing welfare. Can you outline some of the areas that are now being measured in light of the auditor's recommendations?

**Mr. Tweed:** — One of the developments over the course of the past 12 or 18 months has been the implementation of a service delivery model that we're calling the employment model.

Within that model we've developed what we're calling service catalogues. We identify each of the services that we provide to individuals. The individual components of that catalogue would describe a service, describe the process to deliver that service, and provide an indicator that tells us the impact of the service.

With respect to that is that, as that catalogue is completed, we would have better evidence, better information to inform us on service development.

**Mr. Cheveldayoff:** — Okay. Just a follow-up to that then. Is the department measuring the percentage of individuals who get and keep jobs at different intervals like 6 months, 12 months, 24 months as has been recommended by the auditor? And is that something you're doing?

**Mr. Tweed:** — It is. One of the pieces of work that we undertook back in I think it was 2001 was a longitudinal study of new entrants into the social assistance system and their interaction with our programs. We looked at those folks who had entered at that point in time and connected with them I think on two occasions subsequent to their entry point, to determine their status of employment, the type of employment that they were in, and actually their level of incomes that they were receiving.

**Mr. Cheveldayoff:** — Levels of incomes as well?

**Mr. Tweed:** — Yes.

**Mr. Cheveldayoff:** — Yes, okay. Other than measuring caseloads, what measures are you using to determine whether the department's strategy of building independence is indeed working?

**Mr. Tweed:** — We look at any number of different pieces of information. As you suggested, the measurement of caseload is one of our indicators that we use. We also have the ability to look into the caseload at a bit of a deeper level and understand that the level of income, other income that people report to us is an indicator at times of their employment status.

We endeavour through some of our services . . . I'm not sure if you're familiar with a new service that we've introduced over the course of the past number of years, a service called Jobs First, which is a direct employment matching or an employment linkage service to track the individuals that enter that service and subsequently attain employment.

**Mr. Cheveldayoff:** — Are you looking at other provinces and using a best-practices model to determine how you can improve building independence in Saskatchewan? And what have you learned from other provinces, I guess?

**Mr. Tweed:** — Certainly some of the components of building independence, especially in terms of the service delivery model, were in large part the result of analysis from other jurisdictions. Some of the programs that were introduced, some of the income support programs that were introduced as part of the Building Independence initiative, things like the Saskatchewan Child Benefit and employment supplement were, although similar in nature to other jurisdictions, are somewhat different. And we've actually seen a bit of a migration in other jurisdictions to those type of programs.

**Mr. Cheveldayoff:** — Okay. You've mentioned some of the information that's gathered by the department, data on clients, surveys, etc. Is this information shared with outside departments?

**Mr. Tweed:** — Certainly the longitudinal study that I referenced was available. I actually . . . I believe it's available on our department website or has been made available on our department website so it would be available to other departments. It would be made available to the general public as well through that mechanism.

**Mr. Cheveldayoff:** — I suspect there's some private information that's kept back and some publicly . . .

**Mr. Tweed:** — It would be the generic results of the survey, that's right. Not individually related information.

**Mr. Cheveldayoff:** — The private portion, what safeguards do you have in place to make sure that that information does indeed stay private?

**Mr. Tweed:** — With respect to the survey that you're referencing, the individual information would be blanketed from us in a sense in that we would collect the information, the survey company would return the results, although not use individual identifiers to inform the department as to the outcome of the . . . with respect to a particular individual. Does that answer your question?

**Mr. Cheveldayoff:** — Yes, that answers the question. I guess I'm looking at overall policy, not just specifically with this survey.

**Mr. Tweed:** — I think that with respect to as we survey clients, I'd be better advised to bring you back the information on that.

**Ms. Young:** — But I would add to that that we certainly . . . The importance of confidentiality of our clients is paramount to us, not just in social assistance programs or in employment programs, but all of the programs that we take. So we have, I think, reasonable precautions in place around confidentiality of all clients.

**Mr. Cheveldayoff:** — Okay. I want to move to the topic of only eligible clients receiving assistance. I appreciate the explanation that you gave us at the beginning of the meeting. It appears that the department's implementing a quality improvement plan. May 2004 seems to be a bit of a watershed where improvements have been made to make sure that only eligible clients receive assistance.

I guess my question — and after reviewing auditors' recommendations for the last 10 years almost, since 1996, and seeing the repetitive recommendations that he's made — why did the department take so long to finally take action with this issue after the auditor enunciating it in a clear and direct fashion for a number of years?

**Ms. Young:** — A couple of general comments and then, Gord, if you had anything to add. I think that the auditor since 1998 has been speaking around the fact that our policies and procedures are sound but that we have to increase our compliance with them.

I think that we have been working in steps since that time, and it certainly hasn't been a case that we've been ignoring the Provincial Auditor's recommendations. In fact we've been taking them and developing programs around them. And I think — more recently in the last several years — but I think we have made good steps. It is a big program with a lot of activity in it. And I think it's going to be . . . the plan to move ahead is going to improve year over year, I think. Gord, did you have anything specific?

**Mr. Tweed:** — I think that the department has acted on the recommendations over time. Just to illustrate a couple of the concrete pieces of work — the formation of the internal audit committee; the timeliness of the internal audit reports or the interim internal audit reports; the development of a centralized point of contact for all people throughout the province to apply for income support at the contact centre.

We've greatly enhanced our training regime for social assistance service providers or income security workers. Over the course of a number of years, we've built into our automated payment system, and it's around things like duplicate address checks and so forth.

**Mr. Cheveldayoff:** — I guess just, you know, I'm troubled by 1996:

The Department needs to follow its rules and procedures to ensure only eligible persons receive the right amount of assistance.

In 1997 exactly the same sentence. In 2000, "The Department

did not conduct [annual] . . . reviews in 16 per cent of the cases we examined.”

You know, that’s disturbing in itself. In 2002 the internal auditor reported 77 per cent of client files audited contained one or more instances where the department did not follow its rules and procedures for paying social assistance.

You know, that was followed by a year where the internal auditor did not issue auditor reports and I understand from what you’re saying that, you know, changes have been made but it’s just very difficult to, you know, to take the comments that an effort has been made over this past decade to implement those changes. So I guess we’ll take you on your word that you are making those changes but could you just please comment on what you would say when an internal audit is done. What’s the percentage of files that were offside that you would say is an acceptable number?

**Ms. Young:** — Well first of all let me say that we certainly agree there is more work to do. We believe we have made changes, we have made improvements, but we have to, as I have mentioned earlier, redouble our efforts.

When we look at files we look at any number of things and so we don’t have an overall rating that we can assess. And I think it’s also important to point out that when we look at administrative errors, that doesn’t necessarily mean it resulted in a financial error or in particular maybe an overpayment, and that we generally look at less than 4 per cent as being where we want to target in terms of financial error. And those efforts have been under way for several years now to focus on financial error.

**Mr. Cheveldayoff:** — Do your employees review their own work from time to time? Do they work on a file? Maybe you could just take me through the steps of them working on a file. Once they’ve dealt with it, is it done or do they do reviews themselves to see if they can catch any of their own errors?

**Ms. Young:** — Right. I’ll get Gord to speak about the specific track that they go through but certainly employees are encouraged to look at their own files and improve their own, and certainly our new training and retraining has focused on that. But in terms of auditing and looking over files we have other eyes look on those files too.

**Mr. Tweed:** — I think certainly with the introduction of the quality improvement plan in 2004 there is far more rigour built into the system around the review of files. So trying to sort of lay it out step by step, a worker would interact with an individual, interact with a benefit system. In ’04 we would have reviewed approximately 9,500 social assistance files. That review would have been conducted by an employee other than the worker responsible for the file, with errors or changes that might be required submitted back to the employee and back to the employee’s supervisor.

**Mr. Cheveldayoff:** — Okay. You talked about the quality improvement plan that the department has undertaken. Can we get a copy of that? My understanding is it has targets and, you know, established targets to . . . that you’re working towards.

**Ms. Young:** — We can certainly get you that information. There’s nothing . . . It doesn’t come in one single package, but there is information we’d be able to put together for you on that.

**Mr. Cheveldayoff:** — Okay. So the quality improvement report or plan is not one single document that you can look to and measure yourself against.

**Ms. Young:** — No. The quality improvement plan stands for a number of efforts. One around training and retraining, increased sensitivity of the culture of compliance, streamlining our forms so that application forms are easier to manage, better oversights, increased control, and increased audits in the system along with, as mentioned by Gord, things like enhanced internal audit function in the department where we now have our own unit. So it’s a range of things and we can certainly get that down on paper for you.

**Mr. Cheveldayoff:** — Yes. I think it would be helpful for us and also for your employees in the department to have a concise document which, you know, articulates your goals and sets out how you’re going to achieve them. And it would be a way to communicate with your employees and to communicate with the public in a positive manner.

**Ms. Young:** — Certainly. We have a separate quality improvement plan — one for child and family services and one for employment and income assistance, and then overarching or umbrella plans that would apply to the whole department. And so we can . . . we will get them available to you.

**Mr. Cheveldayoff:** — Okay. On page 82 of the 2005 report, the auditor indicates that 10 per cent of client identification is still not adequately documented or is incorrectly documented. Similarly, 26 per cent of clients’ needs expenses are still not adequately documented or incorrectly documented, and 10 per cent of client living arrangements have the same failure rate. I guess my question is: how can the public have confidence in their tax dollars are being properly spent, given these statistics?

**Ms. Young:** — The chart that you’re referring to does in fact show that there are still client identification needs and expenses and other areas where we have . . . we’ve still yet not complete in the current files. It does also show, with the exception of needs and expenses, a steady improvement over the past three years in the work that we’ve been doing. A couple of the things that we have planned on and are being implemented now are to increase the rigour around that, in terms of requiring a higher degree of client identification when they first apply for social assistance. And more of a clarification or a documentation around needs and expenses. So we expect that those numbers will be better in the future years.

**Mr. Cheveldayoff:** — I’ll grant you that you’re moving in the right direction, but the auditor has stated that, and I quote:

More improvement is needed [in this area and] . . . Prompt action by management is necessary to improve compliance.

What action is the department taking to improve accountability?

**Ms. Young:** — Again I’ll ask Gord to add to my comments.

Certainly since January of this year we've put some additional controls in place. Those are around segregation of duties and other things related to the specific Saskatoon incident.

With regard to overall compliance in social assistance, we have made some continual improvements and are now in the process of putting some extra controls in place. For example, there will be, there are currently three staff members who would partake of a client registration. We are going to move that to four. And we will also have, we had done a post-audit of the first payment; we are going to move that to a pre-audit of the first payment. And we're also going to be requiring, as I said, increased diligence around identification, around potential clients who are coming in. So those are just three of the initiatives that we're putting into place now.

**Mr. Cheveldayoff:** — I would think risk management is an important issue for you and the auditor has noted that:

... in previous years ... DCRE does not have a comprehensive and consistent risk management system to decide which ... clients require close scrutiny [or closer scrutiny].

Is the department finally taking action to introduce such a system?

**Ms. Young:** — I would make the comment as I made earlier that just generally in the department around risk management we are, have launched now a full risk review of the department — every program in the department — to look at the areas where we have highest financial risk, look at the controls in place, and to assess if there are gaps in any of the areas. I believe you're referring to the notion of high-risk payments and in fact we are putting in place — may have put in place already, I'll have to check — a new control around high-risk payments to be able to flag and review all high-risk payments.

**Mr. Cheveldayoff:** — The auditor notes that if DCRE [Department of Community Resources and Employment] had such a system, it might have flagged the loss of public money since individual clients in the fraud case often received over \$20,000 annually. Does your department, or do you agree that the fraud case is a consequence of the failure of ... to take action in response to previous recommendations of the auditor?

**Ms. Young:** — I guess my response would be much the same as the auditor's. In fact I think we would have increased our chances of finding irregularities if we had had much more rigorous controls in place. But there is no assurance that that would be the case because the irregularities came about because of breaches of policy and procedures which were in place, by an individual who would have been aware of the policies and procedures. So I wouldn't answer definitively but I think the potential is higher.

**Mr. Cheveldayoff:** — Agreed. I wanted to talk about segregation of duties. The auditor has been very clear on this. He's identified that segregation of duties is a way to safeguard public resources from abuse. In the 2004 report the auditor noted that this hasn't been done adequately in this department. The auditor also states explicitly that this deficiency in security processes enabled the manager to both initiate and approve

payments. What actions has the department taken to segregate duties?

**Ms. Young:** — We have already put in place some increased initiatives around this area. I'm not able to speak specifically to the initiatives because this is still under investigation and I don't want to jeopardize the investigation in any possible future prosecutions. But we certainly have taken this and acted on it and they are now in place.

**Mr. Cheveldayoff:** — On June 7, 2005 your department, Saskatchewan Community Resources and Employment, issued a document, "Response to the Provincial Auditor on the misuse of public money within the Social Assistance Plan," a report by Saskatchewan Community Resources and Employment. In there you talk about a comprehensive four-month review that was launched and 35 specific recommendations were made in the areas of improved communications training, existing controls, and new controls. Could we get a copy of that plan? Has that been shared publicly?

**Ms. Young:** — You're referring to the document that we released on June 7 or the results of the review?

**Mr. Cheveldayoff:** — No. I've seen the copy that's been released on June 7, but it doesn't detail the 35 recommendations that ... It just ... What I have here is a bit of a news release, but I haven't seen the document with the actual 35 recommendations.

**Ms. Young:** — Right. When I spoke earlier about the areas that where there are the findings and where we need to make improvements, that was speaking from the review that resulted in the 35 recommendations. One of the sensitivities we have is the review looked at the full plan and made recommendations around increasing or changing or just explicitly explaining the number of the controls that we have in place.

And the nature of the success of these controls is that many of them are confidential. And so I did try to explain generally the areas that the review covered and I'm pleased to try and do more of that generally. But we would certainly want to try and keep a number of these recommendations confidential because they are ... they function best when they're confidential to the system.

**Mr. Cheveldayoff:** — Okay. I guess, just in referencing it in a news release type fashion, I thought that there would be a document behind it that we could all look to.

A policy question: did your department have a policy in place that prevented a single individual from entering a client into the system and authorizing payments to that same client?

**Ms. Young:** — Our general system is that if a client is considering whether or not they are eligible for social assistance they would contact our contact centre and speak to a contact centre worker. So that's the first individual. If there is some belief after asking around needs and around financial circumstance, then that contact centre would move it to a regional office where an appointment would be set up and they would meet with a worker. So that's the second individual. If that worker then assesses it and believes there is need for social

assistance, that then goes to a third person for benefit verification before it moves to the point of issuing a cheque. So that is the current system.

**Mr. Cheveldayoff:** — So how are these security procedures circumvented?

**Ms. Young:** — Again, it would be hard for me . . . I'm feeling like I'm going near the edge of this. It's hard for me to speak specifically because of the investigation under way and because I don't want to jeopardize either the investigation or the future possibility of prosecutions.

**Mr. Cheveldayoff:** — Okay. On the topic of the standard blanket fidelity bond, do you feel the \$20,000 that's in place — that has been in place since 1970 — is adequate or should that indeed be re-examined?

**Ms. Young:** — Right. We've certainly spoken about this and said that we are prepared to re-examine this for our employees. We have a range of employees and a range of positions in the department and we believe the bond might be still adequate for some positions and potentially not for others. So we are certainly willing to work with the Department of Finance in assessing this.

**Mr. Cheveldayoff:** — Okay. So you're saying, on an individual basis, that it should be reviewed depending on the position that the person occupies?

**Ms. Young:** — That would be how we would go about it. And we would work as much as possible with the other departments and central agencies.

**Mr. Cheveldayoff:** — My question to the auditor. Do you believe that increasing the standard blanket fidelity bond is the best way to reduce risk of loss of public money or would there be better ways to spend that money to ensure that the public's money is safeguarded?

**Mr. Wendel:** — I think that I would have to agree with what Ms. Young was saying, is that you'd have to look at the positions and decide whether or not the coverage is enough for the risk that you have. So it may well be adequate for a lot of positions and other positions you may need additional coverage if they have more access to financial resources.

**Mr. Cheveldayoff:** — Okay. Thank you, Auditor. That's all for now, Mr. Chair.

**The Chair:** — Mr. Krawetz.

**Mr. Krawetz:** — Thank you, Mr. Chair. And to you, Ms. Young, a few questions of clarification from the '04 report. I want to move back because obviously a number of concerns were identified by the Provincial Auditor back in 2004 and then we've since then had the circumstances regarding the incident in Saskatoon. So if I could turn to page 133.

And first of all, my question is to the auditor first, because it's a number that the auditor has put in there and I'd like clarification.

Mr. Wendel, on 133 you indicate that the department paid 242 million in social assistance during '04, and on the previous page we see a breakdown of the expenditures within the department, income support being 313 million. Could you identify which portion of the amounts that we see on page 132 are within the 242 million?

**Mr. Heffernan:** — It's all contained in the income support, 313 — it's all in there. There are other programs. For example, the Saskatchewan employment supplement is also in that, so . . . But the 242 is part of the 313. It's all in there.

**Mr. Krawetz:** — And that's the actual amount that's paid to individuals in the way of social assistance. That's what you identify as 242 million.

**Mr. Heffernan:** — Yes.

**Mr. Krawetz:** — Okay. Thank you, Mr. Heffernan.

Ms. Young, a question of policy and clarification. And I know that there's accommodation and there's housing that comes into play as well when you provide social assistance. Does the department get involved in home purchases in communities where there is someone who has qualified for social assistance? Does home purchasing occur as part of assistance to that individual, or can it? Can it occur?

**Mr. Tweed:** — The social assistance program is a needs-based program. You might . . . Your living arrangement might be one of a rented suite or a rented home. It might be also one where you're the principal owner of the property. In that instance if you were responsible for a shelter payment through mortgage, the component of your social assistance benefit that would be considered would be the amount of your mortgage payment, up to particular thresholds.

**Mr. Krawetz:** — Could you clarify then, will there be circumstances in the province where an individual who currently is not an owner, then through work with a caseworker now convinces the caseworker that purchasing of a home by social assistance is the best method of providing housing? Does that occur?

**Mr. Tweed:** — The responsibility of the department is to . . . In the circumstance that you describe, the responsibility of the department is to apply the regulations and policy of the program. The shelter component that the individual would request — be that mortgage or rent — is really driven by the individual. Their ability to access commercial lending or funding for mortgage, that would be between the individual and an institution. The department wouldn't be involved in that discussion, if that's what you're asking.

**Mr. Krawetz:** — Yes. I'm asking . . . The situation I guess is, does the department actually do a purchase of a home where the department owns it through Saskatchewan Housing Corporation or through some other means, where in fact the owner is Saskatchewan Housing and it is now providing social assistance to an individual with an owned home?

**Mr. Tweed:** — I can take a shot at it.

**Mr. Krawetz:** — Sure.

**Mr. Tweed:** — ... here in the back too. Certainly too the Saskatchewan Housing Corporation, there are home ownership programs. If the individual was responsible for the payment of a mortgage on that property, that payment would, for a low-income person, be considered as part of their allowance through social assistance.

**Mr. Krawetz:** — My concern is that ...

**Mr. Tweed:** — And so the answer to your question's yes.

**Mr. Krawetz:** — My concern is that if there is such guidelines and if there is such policy, is it the same in every community? I've received inquiries at my office where there has been concern by individuals in a community who are self-supportive, who claim that social assistance has been provided and the purchasing of a home is part of the social assistance, thus changing the, you know, amount of dollars being paid for homes in a particular town. Because, you know, the involvement by a government department obviously changes the, you know, the value of the home.

So I'm concerned that, if this is a policy that is there, is it administered throughout the entire province? Is it on an individual, case-by-case basis? Is it on an individual community basis? Is it ... Can one caseworker administer the policies different than another caseworker in another community, I guess would be my final question in this area.

**Mr. Tweed:** — As it relates to the provision of the shelter component of the social assistance benefit, the policy should be consistent across the province. So the individual worker would respond to the client circumstance. If that was a mortgage situation or a rental situation, that would be considered as part of the need assessment.

**Mr. Krawetz:** — But so your conclusion though is that guidelines are systematic throughout the province and are standardized such that every caseworker should be applying the guidelines in the same fashion whether they be in the east central part of the province or whether they be in the Southwest.

**Mr. Tweed:** — Yes.

**Mr. Krawetz:** — Okay. Thank you. On page 133 there are a number of concerns that the auditor raises and he talks about your internal auditor's reports, Ms. Young, that were "... not timely enough to enable management to make prompt decisions." And I'm quoting directly from the report.

Could you indicate to our committee what your department has done to ensure that this is in fact, you know, followed that internal auditors' reports are on time? Did you hire more staff? Have you fully met the challenge that the auditor has presented to you here?

**Ms. Young:** — Well I'll maybe let the auditor make that judgment. But some of the things we have done, as I mentioned earlier, we have increased the and shifted the membership of the internal audit committee. Whereas it was largely a financial committee before, it is now a committee chaired by myself and

the membership are the three assistant deputy ministers and the executive director of finance. We are meeting monthly now and we have asked for reports, I believe either three times a year or four times a year, much more timely than we had before.

I guess the other thing I would mention is that we had a smaller unit before, probably with not enough distinct clarity and enough independence and separation. We have created a separate unit for the internal auditor, and so they now feel the independence that they need to be able to audit any of the programs.

**Mr. Krawetz:** — The response I guess by the auditor will be seen next year when we review a chapter on your department again.

On the same page, the auditor makes reference that ... And I quote again from the report. It says: "For the past several years, we also reported that the Department did not ensure staff follow its processes for social assistance."

Now that says it's an ongoing thing. It's been happening for years, and it's been raised by the Provincial Auditor for I believe a number of times. Could you indicate what progress you've made on addressing this and what circumstances now will correct the concern that the auditor has indicated here?

**Ms. Young:** — Well we certainly have made progress over the past several years, and I think in fact the auditor has made the point that we have significantly improved the level of compliance and with its processes for social assistance payments.

The social assistance system — and this is certainly something we're also looking at — is a complex system and one the more complexity one has, the more detail that there is for a worker to comply with. One of the things we're looking at and starting to take action on is to where we can appropriately and responsibly simplify the system. And that we think will help quite a bit.

We have also, and the auditor has noted this, in many of the areas have increased our compliance with our policies. Absolutely not enough, and we've got more work to do, but I think we're progressing and we're progressing in the right direction.

**Mr. Krawetz:** — Thank you. In a very general sense without identifying a specific case, when the auditor indicates that the compliance level has improved, and in fact the incidence of non-compliance is now about half the rate of it was two years ago — that's an improvement — could you identify what conditions would create non-compliance? What kind of things go wrong? And while you know it's 50 per cent better as indicated, it's still not acceptable. And what are you ... What are your goals? What are your staff's plans to ensure that there is an acceptable level, and what is it? And then how are you going to make those changes if you identify some of those non-compliance issues?

**Ms. Young:** — Some of the specific areas that are non-compliance I will actually get Gord to speak to because some of them are just very specific. I guess we are talking about incomplete applications and boxes that are unfilled, and we'll



speak to those in a moment. My goal ideally is to have no errors. I think that with the path that we're on we are going to improve year by year. I would suggest that we won't be to the ideal for some time, but I do believe that we are moving on the right path and will continue to improve.

I'll just get Gord to speak to a few of the specifics so you can get a sense for yourself.

**Mr. Tweed:** — I think in the past the auditor's reports have identified some areas where we need to strengthen our responses, primarily in the areas of the completion of forms such as the application form, the annual review form. And perhaps in a secondary around supporting documentation around individuals' needs and resources. An example of that, just to . . . If an individual declared — the case that we talked about just earlier, the scenario we talked about earlier that all shelter costs must be verified — we should endeavour to ensure that we have a rent receipt or a mortgage document on file.

**Mr. Krawetz:** — A question to the auditor then. When you would look at this and see a level of acceptance of non-compliance, what would . . . Would that be a percentage of files looked at when you studied them that . . . What would you deem to be an acceptable level of non-compliance? Or is it zero?

**Mr. Wendel:** — I don't think we'll ever get to zero. But Ms. Young had mentioned earlier that they were looking for 4 per cent, you know, as a reasonable number. If they could get their compliance within 4 per cent that seemed to be what they were indicating for financial errors, and we've accepted that for a number of years. If they could get to that we would certainly give them credit for getting there.

**Mr. Krawetz:** — Good. Thank you. On page 139 you make reference, the auditor makes reference to business continuity plans and plans that should be in place in case there is a failure of the IT [information technology] systems. I would say that this business continuity plan needs to be there at all times, whether or not there's an IT system. And you've identified some of the reasons why that, you know, maybe things went wrong in the department in Saskatoon. When I see the kinds of plans that are there when you regularly test and update and then the statement underneath those five bullets says, "The Department does not have a business continuity plan," can you indicate whether or not you have made progress on this deficiency and what have you done to move in the direction of having, of having a business continuity plan.

**Ms. Young:** — Right, thank you. It wouldn't be correct to say that we don't have any continuity plans. We certainly have a variety of them. We've been automated to one degree or another for our programs for close to 20 years and certainly there are IT backup plans in place. I think that as IT evolves and our understanding of it evolves and the expectation, I think that we're looking for increased continuity around backup for system failure.

We also have business continuity plans around things like strike contingency. We also support the emergency social services measures for the province, so our plans would be in place there too. But I think what the auditor is looking for, and what we

have accepted, is that we need a broad, all-encompassing business continuity plan and we've accepted that.

The first step on moving to this broad plan is what we have recently announced, is that we have, we're in the final process of hiring an external consultant with expertise in this area to actually do an assessment of the entire department around what continuity plans are in place and what . . . where any gaps might be and then to assess that. And that will be our road map to increasing our business continuity throughout the whole department.

**Mr. Krawetz:** — Thank you. And my final question, Mr. Chair, deals with the topic that Mr. Cheveldayoff covered just briefly with . . . regarding security and access by staff to sensitive data that they should no longer have access to. And the auditor makes reference to that at the bottom of page 139 when he says that:

. . . the processes should define how and when the Department will grant and remove an individual's access to systems and clearly identify the rules that staff need to follow.

Could you explain how this has . . . Has this caused any problems in the past, first of all, and secondly, how are you implementing a process to ensure that unauthorized persons do not have access?

**Ms. Young:** — I think that from time to time there have been issues. I think one was mentioned earlier around inappropriate use. I think it also is an example of where detection systems were in place and we discovered the inappropriate use.

We do have systems in place. Employees are trained and retrained about particularly client confidentiality. We have a lot of employees and sometimes those policies aren't followed. And when we do find the issues, we both discipline the employees as appropriate and we also look at the processes in place and make any improvements that we need to.

Specifically and as mentioned earlier, we have done some recent work in assuring that access to certain systems is appropriate. So we are putting additional controls in place.

**Mr. Krawetz:** — Mr. Chair, I may have additional questions as we move through each of the recommendations, but at this point I'll stop.

**The Chair:** — Very good. I thank you, Mr. Krawetz. Just a few questions that I would like to throw in. With regard to fraud, I think the public, when they think about fraud in the case of Community Resources and Employment, formerly the Social Services department, would have thought about client-initiated fraud. I think that's where the primary concern in the public's eye would be. And I'm sure that that's an area of concern because of the statistics that the auditor has put forward about, you know, inaccuracies in client records.

What would you say would be the total resources as a percentage of dollars paid out to clients that are used to, just to verify the authenticity of the claim and the propriety of the claim?

**Ms. Young:** — Just so I'm clear, you're asking what is the internal cost for our oversight.

**The Chair:** — Right.

**Ms. Young:** — I'll just have to consult and see if we have that here.

**The Chair:** — Okay.

**Ms. Young:** — Well we aren't going to be able to give you a specific dollar, although if you are interested we'll see what we can do. Some comments I would make, that we have I think about 30 verification workers that actually are looking at social assistance applications and files to verify the correct amount. So there would be the cost of verification workers. We have an internal audit unit, and so it would be the cost of the staff in the internal audit unit. We also run several computer matchings and the computer system in that we would be matching looking for appropriateness of clients to make sure they match with other databases both provincially and federally.

I guess, and this is where it gets a little soft, that we . . . it's a part of every employee's job to be looking in this area. And so certainly part of their salary would be involved with that, plus the administration to manage all of these things. So if you are interested we will attempt to do that, but that just gives you a sense of the people involved.

**The Chair:** — Okay. Thank you. That's a very good answer. You've sensed where I was going. I recognize that all, you know, all employees would be urged to play a role. But I was thinking about the specific categories that were outside of the regular caseworkers. And if you could document that portion, I think that would be helpful.

I'm wondering in light of the recent occurrence in Saskatoon, the department would have had to allocate resources now to ensuring that there are, you know, that there is employee-initiated, I don't want to use the word surveillance or investigation, but obviously that there is protection for public funds. What would be the amount of financial resources now allocated to that? Are these new resources or have you been required to take those resources out of existing programs? And if so, where did you take it from to apply it to watching employees, given the auditor's concerns and given the case in Saskatoon?

**Ms. Young:** — There will certainly be a number of limited new costs throughout the year, particularly in increases in programming time to change some of the computer systems. Generally speaking though, we received no new funds or allocated no new funds to this that we have internally reallocated to work on this area. And it will be a permanent reallocation and so we have just worked internally.

For example, the accountant who is now undertaking the risk assessment for the whole department is an accountant from another program area and has come in to do this full-time. So it was a reallocation.

**The Chair:** — So the reallocation is within which basket of funding within your department or which envelope of funding

then? Would it be under administration or would it be under some other category or would it be a number of categories?

**Ms. Young:** — Yes. It would almost entirely be under administration because of the nature of the changes.

**The Chair:** — All right. How does your department identify clients? Like, do you use SIN [social insurance number] numbers? Do you use Sask Health cards? Do you use birth certificates or some combination of the two? And has there been any change in regard to how you identify clients following the Saskatoon incident?

**Ms. Young:** — Again, the specifics I'll ask Gord if he has any additional comment. We routinely use the social insurance number, health number. And sometimes we need to go to other forms of identification because our clients may present themselves with not having that kind of identification. But that would be the first place we would go.

**Mr. Tweed:** — The deputy's exactly right on with the social insurance number and the health services number. The other types of identification that we would pursue, in the event that a client doesn't have those identifiers, would be things like driver's licence or photo ID [identification] or birth certificates.

**The Chair:** — Okay. And again, you know, tell me if you're unable to answer this question because of the ongoing investigation. But in the case of the Saskatoon situation, why were these identifiers not able to identify what the auditor has designated to be bogus or fictitious clients?

Obviously fictitious clients shouldn't have SIN numbers and driver's licences and all these other identifiers. How could that have occurred?

**Ms. Young:** — Unfortunately, I feel that probably is in the territory with what's under criminal investigation right now.

**The Chair:** — Okay. And I won't pursue it if that is the case. But obviously I guess that's the question that's on a lot of people's minds.

You mentioned that there were . . . You mentioned high-risk payments and I would assume that emergency payments are the bulk of high-risk payments. Are there other categories of high-risk payments that we should be aware of? Could you just give us a definition of what high-risk payments are?

**Ms. Young:** — We think about high risk potentially as high dollar value payments. That might be special payments. Unlike the usual social assistance payment, you may have a special need. And depending on the value of that, we may consider that a high-risk payment.

**The Chair:** — So what do you mean then by high . . . Can you more clearly define what you mean by high risk? Is it a high risk to the integrity of the system? Is it a high risk just because of the size of the amount? I mean, to me I think of risk as there's a risk that there may be something that's inappropriate. Maybe I've read that wrong. I mean, we're not talking about appropriateness. We're talking about risk in terms of amounts. Can you more clearly define what you mean by high risk.

**Ms. Young:** — In addition to the size of a single payment that I've referred to, it could also be the size of the ongoing payments, the accumulation of the payments. It could be insufficient documentation on a special need. It could be areas of the frequency of the payment or the infrequency of a payment. Or it could be the number of emergency payments versus emergency and regular payments, the mix of them. So again it could be any one of these. And what we are doing is setting up a system to look into any of these and flag them for review.

**The Chair:** — Is it possible with changes to administration to reduce the number of what you would categorize as high-risk cases — even though the amounts and the frequency of those payments may not change — but sort of the risk factor is reduced? Or have I still not totally grasped this concept?

**Ms. Young:** — Gord may want to jump in a little bit more. There may be a possibility we can reduce a certain number of these with the increased controls. The fact is, though, given the nature of our clients and the program that we have, we will always have a number of payments that are emergency, for example, or are not regular because of just the lives or the clients that we're working with.

So we may be able to do more in the way of that in terms of preventing this. Probably more importantly, what we're putting into place is detecting them after, so looking at them after and that's where we're putting our emphasis. Is there anything else you would add?

**Mr. Tweed:** — The detection of the payments is certainly an important control and, I think, better and more scrupulous management reporting to allow for more constant observation on those types of circumstances. So we'll be building some information systems around management reporting.

**The Chair:** — I apologize if I missed this number, but you said earlier that out of the 700,000 cheques that were issued annually, 70,000 were emergency cheques. How many cheques out of the 700,000 would you categorize as high risk?

**Ms. Young:** — It's going to take more than a minute to get back to you. We don't actually have a number and it's because it could vary from year to year. We may have a high dollar value in one year of payments because of a particular client and that may change in the next year, so it's a bit hard to look . . . We haven't actually looked at the overall number. And it will also be what . . . how we set up the system to flag the numbers too. So we'll see if we can do a bit more work on this in the next bit.

**The Chair:** — Okay. Can you ballpark it in the short term? Like are we talking about more high-risk payments than we are emergency cheques?

**Ms. Young:** — Less.

**The Chair:** — Less.

**Ms. Young:** — Yes.

**The Chair:** — Okay. Considerably less?

**Ms. Young:** — Noticeably less.

**The Chair:** — Noticeably. Okay, all right. I love words. Aren't they exciting?

Just a final area here with regard to the Saskatoon case. And I'm not going to get into the details of the case, but how many people in the department would have been in a supervisory role over the person in question? I guess starting from the, you know, I guess you start from the minister on down, just to give me an idea of how senior this person was.

**Ms. Young:** — Right. There would have been three reports above the individual who was . . . I'm assuming you're talking about the individual who was terminated for breaches of policy.

**The Chair:** — Right. Right.

**Ms. Young:** — Yes. There would be three layers reporting above.

**The Chair:** — And what is their status in regard to, you know, has there been any disciplinary action? Has there been any, you know, have you been able to associate any responsibility with the problem in conjunction with people who were in a supervisory role or in a senior role over this employee?

**Ms. Young:** — I guess what I would say in response to that is this employee was aware of policies and procedures and controls, and breached those policies and procedures and controls, and was a manager. And this person was terminated. Other than that, I think all managers in the department have a responsibility to look at this situation and to review and ask ourselves where we need to improve. And we are doing that right now and will be for the ongoing future.

I guess the last comment I would make, at the end of the day I'm responsible for the overall administration of the department and I consider my job here to get to the bottom of this and to do all we can to not let this happen again.

**The Chair:** — So you're saying that we haven't heard the end of the story. There may be some actions taken in regards to this situation that will affect other employees of your department.

**Ms. Young:** — I'm actually not necessarily suggesting that at all. We did look quite hard at this situation and tested for it throughout the province. We found no other indication that anyone else was involved. And the auditor has agreed with our findings on that.

When I refer to future actions, I'm referring to increased control, increased policies and procedures, and increased vigilance.

**The Chair:** — Okay. And I'm not referring to any accomplices to improper action. I'm talking about negligence in not identifying this problem sooner, given the fact that the Provincial Auditor has on numerous occasions over a number of years indicated that there was some potential for a problem in this regard.

**Ms. Young:** — At this point that isn't under consideration.

**The Chair:** — All right. Are there any other questions? Mr. Hagel.

**Mr. Hagel:** — Yes, Mr. Chair. Just a couple of quick . . . one to Ms. Young and one to the auditor.

I think we're all unanimously agreed that improper use of public funds is simply not acceptable. And I'm sitting here listening to the attention that's being paid to the very important issue that the auditor's dealt with and aware that a good number of those high-risk emergency payments are occurring because we have people who have got truly emergency kinds of needs.

And my question is whether the department is confident that in the process of doing the important work of reviewing procedure to defend the integrity, the financial integrity of the system, that we're not causing unnecessary hardships for people who are needing that, you know, that emergency kind of help. I mean the system exists first and foremost because, as much as we wish it wasn't the case, there are people in Saskatchewan who just find themselves absolutely without means. And I think from a public policy point of view it's important to ensure that the integrity of the response of the system to citizens in high need is not being jeopardized. Can you comment on that?

**Ms. Young:** — Certainly. And it's certainly an ongoing consideration for us. There are ways to tie the system up so tight that you really very much lose the responsiveness which is in fact, as you make the comment, one of the reasons we're in business. When we have looked at this issue, when we have looked at the overall SAP system and as we're going forward, we're always considering that balance between service and control. And we're trying to find that balance as we go forward and . . . because it is important. We are a program of last resort and clients come in in some very difficult circumstances, and we do need to be able to deal with them. So hopefully we continue to find that balance and it's certainly on our mind as we're going forward.

**Mr. Hagel:** — I guess my question is a little more direct than hopefully as you're doing this. Is it your view that in fact the integrity of the support system for people with emergency needs is not being weakened?

**Ms. Young:** — Probably the easiest . . .

**Mr. Hagel:** — And I know that's a tough question because I know the pressure that you feel to be fiscally responsible and have the checks and balances to protect that side of the integrity equation.

**Ms. Young:** — I guess the way that I could respond to that is by saying that if a client presented themselves in an emergency situation and absolutely needed their basic needs — they had no place to stay, they had no food — that we would make available resources so that they wouldn't be in jeopardy. That will continue.

**Mr. Hagel:** — Okay. I appreciate that. And to the auditor, a similar question to the one I asked this morning. As you look at the review that the department is doing and also the work the RCMP are doing, do you observe that with a sense of confidence that the integrity of the process is sound of both the

parties — the department and the RCMP?

**Mr. Wendel:** — Yes, we're satisfied with the investigation the department carried out. We worked with them on that and had a look at their plan, reviewed their actual work tests and we were satisfied.

**Mr. Hagel:** — Thank you. Thanks, Mr. Chair.

**The Chair:** — Thank you, Mr. Hagel. In my haste to make sure we stayed on time, I missed one of my own questions here. So before I turn to Mr. Hart for a couple of questions, I wanted to ask in one other area, and that was again in regard to criminal record checks which I understand you said you are now implementing in a number of cases, depending on the positions that you are hiring for.

How many people currently employed by your department who were employed, were employed prior to the criminal checks being implemented . . . In other words, how many employees are we talking about that, you know, were they hired today would have to have a criminal check, but because they were hired before the change in procedure have not had a criminal record check?

**Ms. Young:** — I will certainly get that number to you. I don't have it. I know it's 1,100 positions now require it, but we do have long-serving employees so that the number that you're speaking of is obviously lower than that. But we'll get that number to you.

**The Chair:** — Okay. And have you thought . . . I mean I heard your earlier answer where you said you're a little bit hesitant to ask these, you know, to demand of these people that they do have criminal record checks because somehow it may show a lack of trust. I always think that people that, you know, have nothing to hide certainly don't mind having a criminal record check. But have you considered asking these people if they would voluntarily do a criminal record check with no consequences if they said no?

**Ms. Young:** — We have actually, we are waiting for the Public Service Commission. I will . . . I do know that the Public Service Commission has that under consideration, the notion of existing employees. And I expect that that will be addressed when their report comes out this summer.

**The Chair:** — So you're not prepared to move prior to the Public Service Commission's report.

**Ms. Young:** — No. They have done the detailed work on implications and it's coming up fairly quickly. So we think we'll wait.

**The Chair:** — Okay. Mr. Hart.

**Mr. Hart:** — Thank you, Mr. Chair. I just have a few quick questions with regards to the 2004 report, the section the auditor discusses and has some ongoing concerns about children in care and the level of protection. He indicates on the top of page 135 that in January 2004, criminal record checks were done for individuals who had contact I guess with children in care. Approximately how many individuals were screened at that

point in time?

**Ms. Young:** — How many were screened. I'm going to see if I can get that detail from Marilyn here. I do know when this was raised — and we did go to the field to assure this was the case — and in 2004 when we did the complete analysis we had, by the time we were done, 99 per cent of the foster parents had criminal record checks done with the 1 per cent still pending the police investigation, the police review of it. So it was comprehensive at that time.

This is an area that we have to continue to be diligent about because foster parents change and we also require criminal record checks of any adults living in the home. And sometimes children of the foster parents themselves turn 18 and they need their checks done, or potentially a parent could move into the home. And so we need to continue doing this work as we go forward.

**Ms. Hedlund:** — I don't have that precise number here. But I can tell you that there was about 760 foster homes that were reviewed for criminal records checks.

**Mr. Hart:** — You said 760 foster homes?

**Ms. Hedlund:** — Foster homes. Yes.

**Mr. Hart:** — So the number of individuals would be quite a bit, you know, perhaps double or more than that, I would suspect.

**Ms. Hedlund:** — Yes. We require a criminal records check on each caregiver and any adult in the home.

**Mr. Hart:** — Good. Thank you. My next question is to the auditor. You note at the end of that section in your report on page 135 that you have . . . I guess you have some concerns that the appropriate level of safety and checks aren't being done. At the very last paragraph in that section, you indicate that you're recommending the department follows its rules and procedures to ensure that children in care are protected. So by putting that statement into the report, are you concerned that the department isn't as diligent as it should be in this area?

**The Chair:** — Mr. Heffernan.

**Mr. Heffernan:** — Yes. If you look at the top paragraph on that page, we just generally indicate that the department is not meeting its standards for criminal record checks, for home studies, for maintaining contact with children, and so on. They still have some non-compliance with those policies and so they need to improve further.

**Mr. Hart:** — But did you not just . . . Ms. Young, did you not just say that you have since January 2004 completed criminal record checks on all foster homes and such, for all individuals who are looking after children in care?

**Ms. Young:** — Our review that was done was completed in 2004 and that was the case then. I'm not sure if the auditor is referring to something broader than just criminal record checks.

**Mr. Heffernan:** — It's partly criminal record checks because I

don't think the department's review considered all adults in the home, just the primary caregivers. And we are talking about broader issues too — for example home studies, maintaining regular contact with children, and so on.

**Mr. Hart:** — Okay.

**Mr. Heffernan:** — It is broader than just criminal record checks.

**Mr. Hart:** — Thank you for that. Mr. Chair, just one or two quick questions dealing with the next section, the community-based organization. The auditor raises a number of concerns and a lot of them seem to be around the agreements that the department signs with CBOs and the reporting or lack thereof of sufficient or adequate reports, whether they be financial or operational.

And when I look at the list of types of services and programs that our CBOs provide on top of page 136, I guess I can somewhat understand that the primary function of these CBOs would not be ensuring that their reporting mechanisms are, you know, right up to speed and in place, but their primary concern would be providing services to individuals and youth and children and perhaps disadvantaged adults and so on.

And so I guess the question that I have for the department is, in view of that I'm sure you recognize that the reporting function doesn't probably come easily to a lot of the individuals and that's not where they come from and they're not based in that. Does your department provide CBOs with a format as to what is required in terms of reports, whether they be financial or operational, something that they could work from and rather than leaving it entirely on their own to develop their own formats?

**Ms. Young:** — The department . . . Let me back up and start by saying that I certainly agree our CBOs provide invaluable service, and it is direct service in areas of employment and care for children and care for adults with intellectual disabilities. So very important, it's very important work.

We also understand that they are paid through public dollars and there has to be a reasonable degree of accountability. So we certainly accept the recommendations from the auditor from last year, and we've done a few things to put them in place that I think will help out.

We are looking at streamlining and making as efficient as we can the accountability requirements, the reporting requirements. We are trying to strengthen the outcome of requirements, reporting requirements that the CBOs need.

We have also put a committee into place that is looking at the overall administration in support of the CBOs. We do have community . . . I'm not going to get the . . . [inaudible interjection] . . . community program consultants, thanks, whose job it is, is to liaise with the CBOs and hopefully navigate some of the protocol and some of the accountability that needs to take place.

We also this year have brought on a senior official who is looking at the entire CBO system with an eye to clarifying what

the relationship is between the department and the CBOs, and to try and make it as accountable as we can where . . . and still making it easy as we can with the CBOs. We are going to be looking at financial reporting guidelines that will hopefully clarify and standardize what we need to do. And, right, they are guidelines but they won't be — I'm being told — they won't be a prescribed template. I think that we are also looking at CBOs can be very small or very large, and we're looking to see what we might do. Do we have to have the same kind of requirements for a very small CBO versus a large one?

**Mr. Hart:** — Thank you. I have no further questions.

**The Chair:** — Mr. Cheveldayoff, you indicated you had a couple more questions.

**Mr. Cheveldayoff:** — Yes. Thank you, Mr. Chair. I just wanted to revisit an earlier question where I asked for a copy of the quality improvement plan. I'm looking at page 85 of chapter 6 in the 2005 report and it says:

In May 2004, DCRE prepared a long-term Quality Improvement Plan . . . The purpose of the Plan is to 1) [to] improve the quality of social assistance delivery, and 2) to improve [the] compliance with DCRE's processes for social assistance payments including strengthening the processes if necessary. The Plan sets out a vision, values, objectives, risks to achieving objectives, strategies and action plans (with deadline dates), and performance measures.

Now I indicate . . . asked for a copy of that plan earlier. I'm just wondering if we could revisit that conversation and . . .

**Ms. Young:** — I probably wasn't as clear as I should be. There are two plans and then with some umbrella directions for all of the department. The plan you're referring to is the employment and income assistance division quality improvement plan and we would be able to share that with you.

**Mr. Cheveldayoff:** — Thank you. You also mentioned the public service review that's taking place right now. Have you had input into that review? Have you been asked to provide input from your department's perspective for that review?

**Ms. Young:** — Our department has been asked for input. I haven't as yet been asked personally for it. Our department has been involved with the review that's under way. And I know it's the intention that we will be reviewing this prior to it going forward for decision.

**Mr. Cheveldayoff:** — Okay. Will you be reviewing a draft of that?

**Ms. Young:** — That's my understanding.

**Mr. Cheveldayoff:** — Yes. I understand that it's to come out in July sometime?

**Ms. Young:** — I understood summer. I don't quite know the specific date.

**Mr. Cheveldayoff:** — Okay. And just a couple of general

questions, Madam Deputy. Are you aware of any other areas of fraud, suspected fraud, or alleged fraud within your department other than the specific case that we've mentioned today?

**Ms. Young:** — I'm not aware of any employee fraud in the department. There is an alleged case that of course we have been speaking about.

I guess I would need to add though that the Department of Community Resources and Employment has Sask Housing Corporation as a part of that department. Under Sask Housing Corporation there are a number of housing authorities, and I am aware of two cases of alleged misappropriation in the two housing authorities. Both are under investigation, and I'm not sure exactly the status on them. I do know the sum of both of them together is less than \$10,000, and that they have been dealt with and restitution is being planned. So I can get more to you. But I do know that those two have happened quite separate from each other.

**Mr. Cheveldayoff:** — Thank you for that answer. Just broadening the question a bit, are you aware of any criminal activity — suspected criminal activity or alleged criminal activity — within your department?

**Ms. Young:** — I am only aware of the alleged activity that we have spoken of today.

**Mr. Cheveldayoff:** — Okay, thank you very much. That's all, Mr. Chair.

**The Chair:** — Are there any other questions? I don't have anyone on my list. Seeing no hands, then we will turn to the recommendations beginning with the 2004 report volume 3. And we will proceed to page 145 because as I mentioned before, we do not have to deal with recommendation no 1. It will be dealt with in the subsequent volume. So we will proceed to recommendation no. 2, which reads:

We recommend that the Department of Community Resources and Employment select additional performance measures that directly assess its progress in moving people from welfare to work.

Is there a motion? Mr. Yates.

**Mr. Yates:** — I'll move we concur and note progress, Mr. Chair.

**The Chair:** — A motion to concur and note progress. Is there any discussion on the motion? Seeing none, we'll call the question. All in favour? It's carried unanimously.

Move on to recommendation no. 3, same page:

We recommend that the Department of Community Resources and Employment establish baseline results and targets for each measure.

Is there a motion? Mr. Yates.

**Mr. Yates:** — I move we concur and note progress, Mr. Chair.

**The Chair:** — Again a motion to concur and note progress. Is there any discussion on this motion? Seeing none, I'll call for the question again. All in favour? Again that's carried unanimously.

We proceed to recommendation 4, same page:

We recommend that the Department of Community Resources and Employment communicate to employees its measures, baseline results, and targets.

Is there a motion? Mr. Yates.

**Mr. Yates:** — Thank you, Mr. Chair. I'll move we concur and note progress.

**The Chair:** — Again a motion to concur and note progress. Any discussion on the motion? Seeing none, we call the question. All in favour? Again carried unanimously.

We proceed to page 147, recommendation no. 5, which reads:

We recommend that the Department of Community Resources and Employment collect relevant and reliable information related to its performance measures.

Is there a motion? Mr. Yates.

**Mr. Yates:** — Thank you, Mr. Chair. I'll move we concur and note progress.

**The Chair:** — Again a motion to concur and note progress. Any discussion on this motion? Seeing none, again we call the question. All in favour? They're quick, they're all in favour. That's carried.

Proceed to recommendation no. 6 on page 148:

We recommend that the Department of Community Resources and Employment establish policies and procedures for evaluating data to assess its progress in moving people from welfare to work.

Is there a motion? Mr. Hagel.

**Mr. Hagel:** — Mr. Chair, I concur and note progress.

**The Chair:** — Again a motion to concur and note progress. Is there any discussion on the motion? Seeing none, we call the question. All in favour? Carried unanimously.

Proceed to the last recommendation of this chapter which is on page 149, no. 7:

We recommend that the Department of Community Resources and Employment prepare reports that show its progress in helping welfare recipients, and others seeking financial assistance, to find and keep work.

Is there a motion? Mr. Hagel.

**Mr. Hagel:** — The same, Mr. Chair, that we concur and note progress.

**The Chair:** — Okay. Again, a motion to concur and note progress. Is there any discussion on the motion? Seeing none, we call the question. All in favour? And none opposed. That is carried.

We can now proceed to the 2005 report volume 1 and go to chapter 6. And I found . . . here we are. On page 79 is our first recommendation. Just give everyone a minute to make sure we're all on the same page. Recommendation no. 1 by the Provincial Auditor reads:

We continue to recommend that the Department of Community Resources and Employment establish adequate security processes for its information systems that adequately segregate employees' duties to initiate, revise, and approve payments.

Is there a motion? Mr. Borgerson.

**Mr. Borgerson:** — Yes, I will move that we concur and note progress.

**The Chair:** — Again a motion to concur and note progress. Is there any discussion on this motion? Seeing none, we'll call the question. All in favour? It's carried unanimously.

We'll proceed to page 81, recommendation no. 2:

We recommend that the Department of Community Resources and Employment clearly communicate to its employees the importance of its processes to safeguard public resources and ensure employees understand the intent of the processes.

Is there a motion? Mr. Borgerson.

**Mr. Borgerson:** — Yes, again I'll move that we concur and note progress.

**The Chair:** — A motion to concur and note progress. Is there any discussion on the motion? Seeing none, we'll call the question. All in favour? None opposed. That's carried.

Resolution — or recommendation, pardon me — no. 3, same page:

We recommend that the Department of Community Resources and Employment train its employees to help establish a culture of fraud awareness.

Is there a motion? Mr. Borgerson.

**Mr. Borgerson:** — Again to concur and note progress.

**The Chair:** — A motion to concur and note progress. Is there any discussion? Seeing none, call the question. All in favour? None opposed. That's carried.

Proceed to page 84, recommendation no. 4, which reads:

We recommend that the Department of Community Resources and Employment assess if the standard blanket fidelity bond (insurance) coverage reduces its risk of loss

of public money to an acceptable level.

Is there a motion? Mr. Yates.

**Mr. Yates:** — I'll move we concur and note progress, Mr. Chair.

**The Chair:** — Again a motion to concur and note progress. Is there any discussion on the motion? Seeing none, we'll call the question. All in favour? Carried unanimously.

We'll move to the final recommendation of this chapter and of the discussion on Community Resources and Employment. No. 5 on page 85 reads:

We recommend that the Department of Community Resources and Employment assess the risk of loss of public money by employees in positions of trust (i.e., responsible for the collection, receipt, disbursement or expenditure of public money) and reduce the risk to an acceptable level (e.g., increasing insurance coverage or requiring criminal record checks).

Is there a motion? Mr. Yates.

**Mr. Yates:** — Thank you, Mr. Chair. I'll move we concur and note progress.

**The Chair:** — Again a motion to concur and note progress. Is there any discussion on the motion? Seeing none, we call the question. All in favour? Again carried unanimously.

That brings us to the conclusion of this part of our agenda. I want to thank Ms. Young and her officials for a rather lengthy time of scrutinizing the Provincial Auditor's two chapters. I thank all members for their patience and consideration.

We will recess for 20 minutes and then we will proceed to the last item on our agenda for today. Thank you very much.

[The committee recessed for a period of time.]

### **Public Hearing: Agriculture, Food and Rural Revitalization**

**The Chair:** — We will reconvene our Public Accounts meeting. And we are now on the last item on the agenda for today. This is dealing with chapter 13 of the 2004 report volume 3 by the Provincial Auditor — Agriculture, Food and Rural Revitalization.

I've neglected throughout the course of the day to inform everyone that this is being streamed through the Internet. It is also being televised for the building. But folks who are fortunate enough to tune into the legislative channel in, might be October or November will see a rebroadcast of our proceedings. So for those people who I know are purists and want to know exactly when this is occurring, it's occurring on June 20, 2005.

We are pleased to have from the Provincial Auditor's office, Rod Grabarczyk, who will be presenting a summary of the auditor's finding and then we welcome the deputy minister of Agriculture, Mr. Matthies, here along with some officials which

we will invite you to introduce and then provide a short response to the auditor's report. We will then have questions by committee members. So we will turn the proceedings over to Mr. Grabarczyk.

**Mr. Grabarczyk:** — Thank you. Good afternoon, Chair, and members. I will provide a brief overview of chapter 13, Agriculture, Food and Rural Revitalization which can be found on pages 263 to 279 of our 2004 report volume 3. In this chapter we report the results of our audit of the department, its special purpose funds, and its agencies for the year ended March 31, 2004 or July 31, 2004. We make seven new recommendations in this chapter.

Saskatchewan Agricultural Stabilization Fund on page 272, we recommend that the department needs to set out the financial, operational, and compliance reports it needs to monitor the Saskatchewan Agricultural Stabilization Fund. Such reporting would help the department better oversee the fund's operations. We also continue to report the issue related to the timing of recognizing revenue of the fund. We also continue to suggest that the committee defer this item pending the results of the Canadian Institute of Chartered Accountants project that is examining accounting standards concerning government transfers.

Saskatchewan Crop Insurance on page 273, we recommend that the board of directors of the corporation approve a work plan for its internal auditor based on a risk assessment of the corporation's activities. To effectively oversee the corporation, the board needs to receive an audit plan that includes a complete risk assessment of all the corporation's programs and activities. The board can then determine if the proposed work plan adequately addresses all risks and provides adequate resources to the internal auditor.

Pastures Revolving Fund can be found on page 274 and there are four matters related to that revolving fund. The first matter is that the department needed to improve its budgeting procedures for the revolving fund. The fund did not obtain Treasury Board approval for significant changes between the fund's preliminary budget provided to the Treasury Board and its final budget. During 2004-05 we found that the department complied with our recommendation by preparing a detailed budget for the fund in the fall for the Treasury Board's approval.

The second matter is that the department needs to prepare financial statements for the fund using generally accepted accounting principles. In 2004 the fund's financial statements contained several errors. We have recommended that the fund's financial statements be prepared in accordance with generally accepted accounting principles in the future. One way to ensure that the financial statements are in accordance with generally accepted accounting principles is to provide staff with policies and procedures that include necessary guidance on financial reporting. Therefore we recommend the department include guidance on preparing financial statements in the Pastures Revolving Fund manual.

The fourth matter concerns compliance with the regulations. The department staff permitted patrons to remove livestock from pastures before paying fees owed due to financial hardship



faced by cattle producers. This was contrary to the regulations. Since this report, the regulations have been changed and in 2004-05 we observed the department is complying with these regulations.

Horned Cattle Fund, which can be found on page 279, we recommend the department establish rules and procedures to know whether the money the Horned Cattle Fund gives to research centres is safeguarded and used for authorized purposes.

That concludes my overview. Thank you.

**The Chair:** — I thank you, Mr. Grabarczyk. And again, welcome, Mr. Matthies. Is this your first appearance before the Public Accounts Committee or is this old hat for you?

**Mr. Matthies:** — Thank you very much, Mr. Chairman. It's been some time. It's the first time in this capacity, but I have been here several times over the years.

**The Chair:** — Well we welcome you back and would you introduce your officials and respond and then we'll open the floor to questions.

**Mr. Matthies:** — Thank you very much. Seated to my immediate right is Jack Zepp, acting assistant deputy minister of Agriculture. On my immediate left is Maury Harvey, policy analyst in our policy shop. Seated behind me, if I start on my immediate left in the front row here, is Mr. Stan Benjamin who is the general manager of Saskatchewan Crop Insurance. Beside Stan is Mr. Dave Boehm. Dave is the director of our financial programs branch. And beside Dave is Karen Aulie who is the director of our corporate services branch. And behind Karen is Wilf Pyle from our livestock branch.

**Mr. Pyle:** — Lands branch.

**Mr. Matthies:** — Lands branch. Sorry, Wilf. We've moved some people around a little bit.

Just in response, Mr. Chair, to the comments by the Provincial Auditor, I would like to report that we have a very good relationship, we believe, with the Provincial Auditor. We welcome their comments and observations and we believe that we have either addressed or in the process of addressing all of the recommendations that they have put forward.

**The Chair:** — Very good. Short and sweet. Then we could open up the floor to questions. Mr. Hart.

**Mr. Hart:** — Thank you, Mr. Chair. I guess we'll start with the beginning of the chapter and we'll start with the Agricultural Stabilization Fund. This issue of whether or not the accounting, the way income and liabilities are reported, particularly provincial dollars, that issue has not been resolved. The accounting people have not finished their report as far as generally accepted principles as far as government financial statements are to be set out. That work is ongoing yet and we haven't received a final report from your organization. Is that correct?

**Mr. Wendel:** — The Canadian Institute of Chartered

Accountants is still studying the matter and it will be some time yet. Mr. Paton may be able to give you some further information.

**The Chair:** — Mr. Paton.

**Mr. Paton:** — Yes. Thank you, Mr. Chair. I was actually at a meeting on Monday and Tuesday of this week with the Public Sector Accounting Board, and this project is moving along, albeit slowly, and I'm not expecting it to be resolved very soon.

But one of the things that the accounting standards board does do, or the public sector accounting standards board does is tries to get input from various users of financial statements. And one thing I'd like to offer is the possibility, if this group would be interested, would be for you to hear where the project's going, what the standards are going to say.

Chris Bayda who's with me today actually is working on the task force that's developing the standards. I know that a document's going to be released over the summer going out to constituents to get some input and find out what people think about the proposed standards. I say it'll be a way out before we get some final resolution, but if the committee's interested, we'd like to propose giving you some update in the near future, if you can fit it into your agenda, and get some feedback from you as to what those standards might mean.

**The Chair:** — Thank you. And between Mr. Borgerson and myself we will see if we can somehow schedule that in at some point in the future, probably after the summer. Thank you, Mr. Paton. Mr. Hart.

**Mr. Hart:** — My question is to the auditor. It appears that for a number of these funds the department engages the services of another, of a private accounting firm, KPMG. And on top of page 269 you talk about the financial statements are reliable except for the Saskatchewan Agricultural Stabilization Fund. Yet KPMG says that the statements are reliable. Is the difference of opinion, I'm presuming, centres around the accounting principle issue? Is that the difference there?

**Mr. Wendel:** — It centres on this particular principle that we're talking about — the transfers between government organizations.

**Mr. Hart:** — Are there any other issues that you differ on besides these accounting . . . the interpretation of the accounting principles?

**Mr. Grabarczyk:** — No, that's the only issue, is strictly on the accounting of the revenue which is the accounting principle being referred to.

**Mr. Hart:** — Good. Thank you. Dealing, Mr. Matthies, with the Saskatchewan Agricultural Stabilization Fund, the auditor states that on these cost-shared programs such as the CFIP [Canadian farm income program] and the AIDA [agricultural income disaster assistance] program and the other ones listed on page 269, that all federal funds that come to the province under these programs are deposited into this fund, the stabilization fund. And are they one-time payments? Or are they, let's say if we have a two-year program, a program agreement that is

signed for two years, is there a lump sum payment for each of those two years? Or are the federal funds deposited into the fund as required, as funds are being withdrawn? Perhaps you could explain those mechanisms.

**Mr. Matthies:** — Thank you, Mr. Chairman. I would be happy to. Each of the different programs that are identified on page 269 are independent of each other and so some of these programs will be an ongoing program. So if I could point to things like the big game damage compensation program, the waterfowl damage compensation program, those are ongoing annual programs and we would be receiving funds from the federal government on an annual basis typically to adjust the account for the claims that we pay out.

Some of the other ones like the new crops insurance program, this was basically, if you will, a pre-funded reinsurance account used by Crop Insurance for some of the newer, more sort of diversifying types of crops — so whether it was things like chickpeas or commodities like that, coriander, caraway, etc. So there was one-time funding that went into this account some years back and then it is used in any occasion when the claims for those particular crops exceed what the premium was for those crops and any accumulated surplus that had been generated through previous years in claim payouts. So it became sort of just a one-time piece to backstop larger disasters.

AIDA was a three-year program. CFIP was a three-year program. The Canada- Saskatchewan assistance program was a one-year program. And the BSE [bovine spongiform encephalopathy] recovery programs have dragged on a little bit longer than what we anticipated.

So depending on the program, in some of these we would actually receive the federal funding. Some of these they only held the provincial dollars and then we would advance the money to the federal agency to actually make the payments to producers. AIDA and CFIP for example are actually administered by the federal government, and so the provincial contributions would be put in here and then moved across to the federal government when they would make billings.

**Mr. Hart:** — So in those two programs that you identified, AIDA and CFIP, the province never received any federal funds then. Is that . . .

**Mr. Matthies:** — That's correct. The federal government would look after the administration of AIDA and CFIP. And so they would essentially bill the province for our portion of claim payments.

**Mr. Hart:** — Okay. Thank you. Any of the federal contributions to crop insurance would not fall within this fund then. Is that correct?

**Mr. Matthies:** — Mr. Chairman, that's correct. Crop insurance is a separate fund and separate financial reporting. And I guess if I might make the comment, that with crop insurance the province administers the program. So we would invoice the federal government for their share of premiums, and then with the CFIP and AIDA programs, it's sort of the opposite. The federal government administers it, and then they invoice us for

our share of the costs.

**Mr. Hart:** — The auditor raises some concerns with the Crop Insurance Corporation, and the things like the concerns that the auditor raises centre around the internal audit function. And before I go there though, the auditor also talks about the crop insurance reinsurance fund and those sorts of things. I would like to ask just a couple of questions dealing particularly with the crop insurance . . . Crop Reinsurance Fund.

On top of page 273, the auditor states that the corporation “. . . pays to the [reinsurance] Fund a portion of its total premium revenue.” Is that based on a percentage or how many dollars are put into this reinsurance fund? What are the guidelines and policies surrounding those type of payments into that fund?

**Mr. Matthies:** — Thank you, Mr. Chairman. In response, the crop insurance agreement contains a schedule that actually outlines how much would be contributed for reinsurance premiums based on the overall financial health of the crop insurance program. So if you have a crop insurance program that is in a greater deficit, if you will, there would be a larger amount of reinsurance that would be ceded into the reinsurance funds to pay down the previous debts. As the fund itself gets to a stronger, more healthier financial situation, then the amount that would be transferred into the reinsurance funds is reduced. And the amount is actually set out right in a schedule to the agreement.

**Mr. Hart:** — I wonder if you could give us some examples in recent years, say 2003, 2004; I'm not sure if you have the figures for 2004-2005 year. But give us some examples of the total amount of dollars that went into the reinsurance fund and how you arrived at those dollars.

**Mr. Matthies:** — Okay certainly. The schedule basically calls for at this point that 30 per cent of the total premium that is collected is ceded into the reinsurance accounts — 18 per cent goes to the federal government and 12 per cent goes to the provincial . . . or to the federal reinsurance account and 12 per cent to the provincial reinsurance account.

**Mr. Hart:** — And does that 30 per cent vary from — as you'd said earlier in your comments — that the payments can vary dependent on whether the corporation is in a deficit position or a surplus position, or whether the reinsurance fund has a surplus or a deficit position. How does that vary and what percentages would we look at under the two various scenarios that we may have, one where there aren't any deficits and one where there are deficits.

**Mr. Matthies:** — Okay. In response to that, there is a sliding scale that's set out in the schedule. And the minimum reinsurance payment I believe is 15 per cent of premium split between the two levels of government. And we are at the maximum level right now at 30 per cent. So depending on again the aggregate financial health of the fund, the amount adjusts up and down between those parameters.

**Mr. Hart:** — So the scale will slide between 15 and 30 per cent depending on the financial health of the reinsurance fund, not the corporation's deficit or surplus position.

**Mr. Matthies:** — Sorry, we were just conferring for a moment there. The amount is actually based on the fund overall so it takes sort of a blended approach in terms of the three funds that are involved — one being the federal reinsurance account, the second being the provincial reinsurance account, and the third which is sort of the Crop Insurance Fund itself. So depending on the combined financial position of all three, then that's where the scale is.

So if you're, for example, in the deficit where we are, we're paying then 18 and 12. And then as the fund improves, then the amount would be reduced to, I believe it's eight and seven I believe is the split when the fund is in a surplus position.

**Mr. Hart:** — So as of the end of the fiscal year 2004, at that time the fund was in a deficit of \$134.2 million. What is the most, what are the most recent figures that you have available for this reinsurance fund?

**Mr. Matthies:** — Okay. The 134.2, if I would just clarify, that is the provincial reinsurance deficit. So on top of that, there would be the federal reinsurance account, and I would advise that coming out of the '04 crop year we are projecting that on a cumulative basis including both the federal and the provincial amounts that the reinsurance, the program will be in a deficit of approximately \$648 million.

**Mr. Hart:** — That is . . .

**Mr. Matthies:** — Federal and provincial combined.

**Mr. Hart:** — The reinsurance fund will be in a deficit of six hundred and . . .

**Mr. Matthies:** — \$648 million. If I might offer a comment, Mr. Chair. Members may recall the effect of the 2002 drought on Saskatchewan. Crop insurance payments in that year were approximately \$1.1 billion. And so we had gone from approximately \$400 million surplus in the '01 year to the position we are in now because we've had certainly the catastrophic effects of the 2002 drought followed by continued drought experience and the frost last year.

**Mr. Hart:** — So then related with the 2004 crop, I would imagine that the majority of the claims are most likely settled now. I'm guessing that perhaps there may be a few outstanding claims. What premiums versus payouts, total premiums versus payouts, what number are you using currently?

**Mr. Matthies:** — Thank you very much for the question. The premiums for the previous fiscal year were, and I don't have the exact numbers with me, but approximately \$292 million, and claim payouts were just under \$400 million. So there was approximately \$100 million in excess of claims over premiums last year.

**Mr. Hart:** — Let's use 100 million as a round figure. That \$100 million would then have been, would have been drawn out of the two reinsurance funds.

**Mr. Matthies:** — That's correct.

**Mr. Hart:** — Even though those reinsurance funds were in

deficit positions, those funds would then . . . Where do the reinsurance funds access the dollars to pay the Crop Insurance Corporation?

**Mr. Matthies:** — Under the agreement for the crop insurance program, if the reinsurance accounts are in a surplus position, they retain those funds until such time as circumstances turn around. And if we find ourselves where the programs are in a deficit, then the funds are advanced by the respective government to the reinsurance account and then the reinsurance account pays it back. So in essence there is an interim financing, if you will, with the federal and provincial governments to the reinsurance accounts.

**Mr. Hart:** — So then when premiums are set, I'm presuming that they are set to over — what is it, a 15-year period? — to bring the reinsurance funds to a break-even position. So this year, for the 2005 crop year, that 30 per cent that will . . . of premiums that'll be going into the two reinsurance funds, what are you projecting as in total dollars that will be going into the two reinsurance funds? How many dollars?

**Mr. Matthies:** — We don't at this point have the 2005 premiums because until producers complete their seeded acreage reports and get it back to us, we don't actually have the numbers. But it will be in the neighbourhood of approximately \$300 million is what the premiums are expected to be for this year. And the reinsurance premiums then would be the 30 per cent of whatever the premium comes out to be. As I said, it'll be somewhere in that \$300 million range.

**Mr. Hart:** — So let's say they're 300 million. That's about \$90 million that'll be going into the reinsurance funds. And if the deficit for the two funds is 648 million, well I guess we got a little ways to go before we get those two funds to the break-even point without adding to or putting some surpluses in there for future years, you know. They have another August 19 frost as an example and so on.

So have you been reviewing your statistical analysis of the program on an ongoing basis to see if the premium rates that you're setting are realistic to establish those goals? How often do you review the premium rates in regards to, you know, re-establishing the reinsurance fund and those sorts of things.

**Mr. Matthies:** — Okay. If I would, I'll maybe offer a historical perspective as well because obviously 648 is large enough to make everyone concerned.

From a historical perspective what I might offer is that coming out of the 1989 crop year, the program had a deficit I believe of around 642 million. So unfortunately history has repeated itself and we find ourselves in this situation again. But what I would point out is that you're entirely correct in terms of the long-term perspective that we take on the premiums.

And from the end of the '89 year up until I believe the end of the 2001 year, we had had a significant turnaround in terms of the program where we'd gone from the 642 deficit I believe to a surplus of around 400 million. So certainly over time we recovered from the deficit, and we were able to put a sizeable amount of money into the bank for the next catastrophe which came in 2002. So the premium rate methodology we expect will

provide for the fund to regain a more favourable financial position over time.

In terms of confidence in the rates that we use, the corporation uses the services of an external actuary that we work with basically on an annual basis to gain confidence that the methodology is right. And certainly members are probably aware that producers have observed an increase in premiums in the last number of years because of the size of the payouts that we've seen.

**Mr. Hart:** — For the 2005 program year, what is the level of sharing of the total premium between the three parties that pay the total premium? What are the percentages?

**Mr. Matthies:** — Okay. The agreements right now are calling for the premium cost sharing to get to a point where producers are paying 40 per cent of the premium. The federal government would pay 36 per cent of the premium, and the provincial government would pay 24 per cent of the premium. We are currently migrating to that point. And I believe 2005 is the last year I think of sort of the migration process. So we are fractionally, the provincial and the federal governments are fractionally less than those numbers that I gave you. But we're migrating to that point.

**Mr. Hart:** — Okay. So the most common . . . One of the complaints or probably the most common complaint that I hear from constituents, from producers about the crop insurance program is that the level of coverage is too low and the premiums are too high, or at the very least for the premium being paid, the level of coverage isn't sufficient to offset cash operating costs.

And so therefore you know they're saying, in many cases producers are saying that it's a program . . . The concept of the program is great, and the producers have been in it for a long time. But because the payouts that we've had and the deficit position, we've come to a level where the premiums, the value you're getting for the dollars you're spending is just not there. So in your opinion, how do we fix that problem?

**Mr. Matthies:** — I think one of the first things that I would have to sort of comment on is sort of stepping back and taking a perspective. In the last three years, crop insurance has paid out approximately \$2.1 billion. So the comment in terms of where producers' concerns are, I would say probably had a little more relevance prior to '02 when the corporation was enjoying the benefits of more favourable growing conditions. And then we heard within the corporation a little more grumbling about, well gee, should I carry this or not.

But in the context or the backdrop of \$2.1 billion in payments in the last three years, we've heard less concern with, you know, why should I be participating in the program because it's helped quite a bit.

In the context of the coverage that we're seeing right now, the issue really comes down to the impact of falling commodity values on agriculture as a whole. The way the crop insurance coverage is structured is we take sort of a historical perspective in terms of what producers can produce, multiple that by a coverage level that they select themselves. We also multiply

that by a forecasted price for the commodity for the year. And so what we get into is when we have high-price cycles, coverage looks really good. And when you have low-price cycles, like we have now, coverage doesn't look as well.

The corporation has responded. And I guess so what I would say is that the first thing is crop insurance cannot solve a poor price problem. Crop insurance is designed to address production difficulties but it's not, of itself, capable to respond to the impacts of poor prices. And so that's why under the APF [agricultural policy framework], we have both CAIS [Canadian agricultural income stabilization] programming and we have crop insurance because you're looking at different tools to help address different issues.

But some of the things that we have looked at under the crop insurance program is we've gone to some tools like the weather-based programs where producers can layer some additional protection on top of their multi-peril coverage. So for example I can buy regular coverage of 80 per cent of my historical yield and then I can buy an extra 10 or \$25 an acre coverage, but it's more on an area basis. It's tied to what happens in the area as opposed to necessarily my own farm.

And they're targeted to address the major perils where the province has suffered significant downturns in the past. So for example that would be frost or drought. Insects and other perils wouldn't be covered under those programs because we haven't had . . . by and large they haven't been the major cause of grief. And I can tell that you're thinking of grasshoppers as I say this. But when we looked historically in the past, any time the program ran into a deficit it was either because of a drought or a frost.

**Mr. Hart:** — Well I agree with you and I don't think we're going to solve the level of coverage and the appropriateness of the program.

I would just add this, that I think where some of the comments that I related earlier are coming from is that producers are looking at what they've got invested in the crop and the amount of coverage that they can have by enrolling in crop insurance. And I mean many producers are enrolled. But from those producers who are participating in the program, they're saying, I've got X number of dollars tied up in this crop, yet my crop insurance coverage only covers me for this portion of it. And, you know, and when they talk about the dollars they've got tied up in the crop it's their cash costs and they're not talking about land costs and those sorts of things. So I mean that's probably a policy program that I probably should be discussing more appropriately with the Minister of Agriculture.

And so what I will do now is turn my attention to the auditor's report more in detail. The auditor talks about the internal audit function. And I wonder if you could describe for the committee what type of internal audit function you have in place now at the corporation.

**Mr. Matthies:** — Okay. The corporation has set up what we call an audit division. The primary focus of the audit division to this point has really been around the claims side of things. Because when we sort of take sort of the financial transactions if you will that go through the corporation, the two big-ticket

amounts if I can point to them are first of all what the premium dollars would be. And so the corporation uses the services of an external consulting actuary to ensure that we have confidence in sort of that side of it.

The other large number is what the payouts are. And so the corporation established over a decade ago an audit branch which basically takes the role of reviewing a number of claims every year to identify whether procedures have been followed and whether the correct amount of payments have been made.

I believe the Provincial Auditor has been encouraging the work of the audit branch to expand beyond its primary focus, which has been around the claims side. And so the corporation has retained the services of KPMG to do sort of a risk assessment piece to help determine where any additional audit measures would be required and what those should look like.

**Mr. Hart:** — Thank you for that. So my next question would be to the auditor then. Is that where you're looking at the strengthening and the overall business plan of the corporation? Is that where you see the deficiencies, rather than auditing the claims areas and those sorts of things?

**Mr. Grabarczyk:** — I guess it's a case of taking a look at . . . I mean, they've identified one risk area which without doubt is the claims area. But to take a complete risk assessment of where other risks may lie and what procedures or processes are in place to mitigate those risks, and then just to see whether the internal audit would come behind to see if those processes are in fact working.

**Mr. Hart:** — So what you're saying is that currently the board, the Crop Insurance Board, doesn't have all the information as far as business risk to the corporation that it should have. Is that what you're saying?

**Mr. Grabarczyk:** — Well there's not a complete risk assessment to the board and then from there an audit plan that would be complete based on that.

**Mr. Hart:** — Okay, good. Thank you. Thank you.

The next area in this chapter deals with the past year's revolving fund . . . [inaudible interjection] . . . Okay, certainly.

**Mr. Matthies:** — Mr. Chair, I wonder if I could offer a supplementary remark.

**Mr. Hart:** — Sure.

**Mr. Matthies:** — And I'll just kind of go back to the financial statements for crop insurance program and just to put some context around it. The financial statements actually include a section in here dealing with the, sort of, the major risks around the program. And for those members that may have it, I'm looking first on page 8 in the Crop Insurance annual report.

But it basically sets out those areas that the corporation has identified as sort of the significant risk areas to the program. And so certainly around program design and participation, we've identified and have some material in here speaking to it because obviously if you don't have a program that is

responsive, that producers want to continue participating in, then how will you ever be able to recover from the size of a deficit that we have right now? How will producers see value of it?

So we have a piece that speaks to that; we have a piece that speaks to the financial stability of the program. And the largest part here certainly would relate to both the revenue and the premium side of things to make sure that what we're charging for this coverage reflects what we expect to be is the long-term cost of the program, and have identified that we use the services of a third party actuary to make sure with that.

The other side of it of course is on the payout side, and so just in perspective, you know, we're dealing with about, for example, a \$300 million program. And by and large claims will be somewhere below that \$300 million if you could sort of have that average year, and then operating costs of about 25 million.

So the audit function within the corporation has focused primarily around that 300 million — or something less than that on average spend on claims — and the \$25 million which is sort of the administration pieces which we've got a piece in here around sort of program delivery. And some risks associated with that is where we are doing some more work in terms of the expanded role of an internal audit piece.

So we do have risk analysis comments set out in the annual report. And there is certainly periodic reporting to the board and the board does review and approve the audit plan of the audit division. And the urgings of the Provincial Auditor is to enhance it, and so we are moving in that direction.

**Mr. Hart:** — Thank you for that. I'd like to turn my comments and questions towards the Pastures Revolving Fund as outlined on page 274. And I see the hour is moving on, so I'll try and ask some direct questions and we'll try and get through this fairly quickly.

The community pastures that are administered by your department, are they — the funding and the operation of that — is it designed to be on a self-sustaining, break-even basis?

**Mr. Matthies:** — That's correct.

**Mr. Hart:** — And the auditor outlined some problems with budgetary estimates and reporting and those sorts of things. And I had made a comment to the auditor earlier, off the record, that I don't, this isn't surprising to me. I have some background in this area and it seems that cowboys aren't the best record keepers, although they do a great job of looking after cattle. But that doesn't excuse them . . . [inaudible interjection] . . . No, that doesn't excuse them. I realize the department has responsibilities. You are dealing with public funds as such and you have indicated earlier that you've made changes in the way you budget and so on, to comply with the auditor's recommendations. Did I understand you correctly? Are those comments correct?

**Mr. Matthies:** — Yes, I believe the Provincial Auditor himself identified that for '04-05 that the department has complied.

**Mr. Hart:** — I have some comments about my statements

about the cowboys. I know that their primary concern is for the well-being of the livestock and as a producer myself sometimes we do our accounting later at night at the end of a long day and we sometimes make some errors that we shouldn't.

There's one area that the auditor raised, removal of livestock without direct payment, and I believe that either it was the auditor or yourself that indicated that regulations had been changed so that, what, producers can now remove their cattle without paying for them. Or what was the change there? The auditor indicated that in order to adhere to the spirit of the regulations, producers gave the managers a post-dated cheque. What is the situation as far as payment of fees and concerns that the auditor raised in that area?

**Mr. Matthies:** — You're quite correct. The regulations previously basically required the producer to pay for the animals before they could be removed from the pasture. The department, as we got into the BSE situation, and the tough cash flows that put on to producers, I guess took an action that we felt was appropriate for the circumstances. And quite correctly, the auditor identified that the specific authority to do the post-dated payment piece was not actually within the regulations, so we amended the regulations to allow that action.

**Mr. Hart:** — The auditor also states in his report that for 2004 that the department has collected substantially all the outstanding accounts. Could you give us how much is outstanding at this point in time.

**Mr. Matthies:** — I'm advised by my staff that the, if I have the information correct here, that there was approximately \$300,000 that was paid for by way of post-dated cheques and at this point there's about \$15,000 that we're still dealing with.

**Mr. Hart:** — Thank you for that. Now we'll move quickly on to the Horned Cattle Fund. The auditor expresses some concerns. There was, on page 279, there was a five-year agreement with a research centre and the . . . First of all, okay, what research centre was this that the auditor is identifying here? He doesn't name it. I wonder if you would care to provide the committee with the . . .

**Mr. Matthies:** — That would be the Western Beef Development Centre.

**Mr. Hart:** — Okay. And under the agreement the fund loaned cattle to the centre for research purposes. I wasn't aware that the fund owned cattle. I wonder if you could explain that.

**Mr. Matthies:** — The Horned Cattle Fund is essentially, if I might sort of describe it as an industry check-off. And it's almost sort of a penalty, if you will, for any horned cattle. When producers market cattle, there's a cattle marketing deduction levy that goes on for marketing and development pieces. And then there's also a horned cattle check-off that goes on, which is sort of a penalty aspect if producers aren't having the horns removed on animals. So it's sort of a safe handling type of a piece.

Essentially the fund . . . what happens is the producers that sit on the board of the fund make investment decisions in terms of where they want these pieces to go. Sometime in the past, I

believe we had a significant surplus that had been accumulated in the fund. And so what the producers on the board directed, I believe, was that they would actually invest in a cattle herd which they would then make available to the western beef development's fund for, or the Western Beef Development Centre for cattle research.

So the animals are owned by the Horned Cattle Fund and then they are basically utilized in the Western Beef Development Centre for livestock research pieces.

**Mr. Hart:** — That seems like a bit of a cumbersome way of accomplishing an end. I guess the question that would spring to mind is, why wouldn't the fund make monies available to the centre and then they buy their own cattle? I mean why do we go about this roundabout method of providing cattle that the beef development centre needs to do its research, you know, and have another, have a fund, or the fund only's cattle.

**Mr. Matthies:** — I probably would say, Mr. Chair, that the — I guess I would emphasize — the department doesn't control or direct these funds. So the producer, the cowboys that look after this fund, in their wisdom decided that this is how they wanted the operations to be. And from the department's side we're not using appropriated funds to do something. These are basically the receipts from the horned cattle check-off, and so as long as the funds are used for a research type of purposes, you know, we participate as a non-voting member on their board, but it's basically the decision of the producer members in terms of how they want this money to be directed.

**Mr. Hart:** — How many people sit on the horned cattle advisory board and who are those people?

**Mr. Matthies:** — Mr. Chair, this might take a moment. I don't have it readily at hand. We can . . .

**Mr. Hart:** — Perhaps you could provide that at a later time. It's not particularly relevant although I, you know, I would appreciate that information.

**Mr. Matthies:** — Okay. We will do so, Mr. Chair.

**Mr. Hart:** — Mr. Chair, I really have no other questions in this area.

**The Chair:** — Thank you, Mr. Hart. Well we were doing a pretty good job of staying on schedule until we began to wax eloquent on the strengths and weaknesses of pasture managers. That being said, before someone breaks out in cowboy poetry, is there any more questions regarding chapter 13 of the 2004 report volume 3? We are somewhat past our projected time of completion here, I'll just remind you of that.

Seeing no questions, there are a number of recommendations that we are required to deal with. And now I'll just slip back here and find recommendation no. 1, which is on page 272.

And the Provincial Auditor recommends that:

. . . the Department of Agriculture, Food and Rural Revitalization set out the financial, operational, and compliance reports it needs to monitor the Saskatchewan

Agricultural Stabilization Fund.

Is there a motion? Mr. Yates.

**Mr. Yates:** — Thank you very much, Mr. Chair. I would move we concur and note progress.

**The Chair:** — A motion to concur and note progress. Is there discussion on the motion? Seeing none, I'll call the question. By the way, before we have the vote I should just mention that Mr. Hart is now substituted in again for Mr. Cheveldayoff. So just so for the record's sake everyone knows who is voting on this and that everything is legal and above board here. Call the question on recommendation no. 1, a motion to concur and note progress. All in favour? None opposed. That's carried.

We'll go to the bottom of page 273. Recommendation no. 2 reads:

We recommend that the Board of Directors of Saskatchewan Crop Insurance Corporation approve a work plan for its internal auditor based on a risk assessment of the Corporation's activities.

Mr. Borgerson.

**Mr. Borgerson:** — Yes, I will move that we concur and note progress.

**The Chair:** — Again, a motion to concur and note progress. Mr. Krawetz.

**Mr. Krawetz:** — Yes, just a quick question. Is that currently under way that you would have such a plan in place?

**Mr. Matthies:** — The review conducted by KPMG is under way right now — the risk assessment for us.

**Mr. Krawetz:** — Okay. But as a board of directors sitting down and working on a work plan and approving that work plan, that has not taken place yet.

**Mr. Matthies:** — The work plan, even back to the '04-05 year, was approved by the board. And so there are two pieces. One is approval by the board of the activities of the audit division. That is happening and was happening the prior year as well. And we have ongoing, the risk assessment and determination of other actions that the audit branch might undertake.

**The Chair:** — All right. Is there further discussion on the motion? Seeing none, we've already made the motion. Ready to vote. All in favour? Carried unanimously.

We'll proceed to recommendation no. 3 on page 275 which reads:

We recommend that the Department of Agriculture, Food and Rural Revitalization prepare a detailed budget for the Pastures Revolving Fund to support the estimates information before sending it Treasury Board for approval.

Is there a motion? Mr. Yates.

**Mr. Yates:** — Thank you very much, Mr. Chair. I would move we concur and note progress.

**The Chair:** — A motion to concur and note progress. Is there a discussion on a motion? Seeing none, we'll call the question. All in favour? That's carried unanimously.

Proceed to recommendation no. 4 at the top of page 277. It reads:

We recommend that the Department of Agriculture, Food and Rural Revitalization prepare the Pastures Revolving Fund's financial statements in accordance with [the generally accepted accounting principle] Canadian generally accepted accounting principles.

Is there a motion? Mr. Yates.

**Mr. Yates:** — Thank you, Mr. Chair. I'd move that we defer this issue pending the outcome of a review by the Canadian Institute of Chartered Accountants on the public sector accounting standards.

**The Chair:** — He throws a curve at me, and I'm supposed to repeat that motion. Motion to concur . . .

**An Hon. Member:** — Defer.

**The Chair:** — Defer, pardon me. Defer, pending a subsequent review.

All right. Is there any discussion on the motion? Mr. Matthies.

**Mr. Matthies:** — Mr. Chair, just for clarification, I believe the issue that the CICA [Canadian Institute of Chartered Accountants] is looking at is not related to the Pastures Revolving Fund. It is related to the Ag Stabilization Fund. And I would just offer that as a clarification. The recommendation on the top of page 277 was a different fund and we have no disputes with the recommendation. So just to clarify for members.

**An Hon. Member:** — Are you making progress on it?

**Mr. Matthies:** — Yes we have, minister, or member.

**The Chair:** — In his dreams.

**Mr. Yates:** — I then move to concur and note progress.

**The Chair:** — Are you withdrawing the previous motion?

**Mr. Yates:** — Yes, I am.

**The Chair:** — You're withdrawing the previous motion. We didn't have a vote on that. And now you are . . . We are now moving concurrence and note progress. Is there a discussion on the new motion? Is further clarification still needed? Mr. Hagel.

**Mr. Hagel:** — Yes. Could you just describe then in what manner you're making progress here.

**Mr. Matthies:** — Essentially on this one, what we've directed

is our corporate services branch to work with the pastures branch to make sure that they're following the provisions contained in the financial administration manual. So that's where we've improved this.

The accounting errors that were identified by the auditor were essentially a function of people that were unaware, didn't have the appropriate background. So we've moved to have our corporate services people provide much closer support.

**Mr. Hagel:** — Okay. Thank you. Thanks, Mr. Chair.

**The Chair:** — All right. Is there any further discussion? Seeing none, just again for clarification, the motion is now to concur and note progress. All in favour? Carried unanimously. And that was recommendation no. 4.

We now move to the bottom of page 277, recommendation no. 5:

We recommend that the Department of Agriculture, Food and Rural Revitalization include guidance for financial reporting in the Pastures Revolving Fund's Policies and Procedures Manual.

Is there a motion? Mr. Borgerson.

**Mr. Borgerson:** — Yes. I'll move that we concur and note progress on this as well.

**The Chair:** — A motion to concur and note progress. Is there any discussion on the motion? Mr. Krawetz.

**Mr. Krawetz:** — Did I hear from you, Mr. Matthies, that you said that this is being complied with, that the manual has been amended?

**Mr. Matthies:** — What we have done is, we used the financial administration manual for the financial pieces. So rather than duplicate in the pastures manual themselves, they're now using, with the support of the corporate services people, the financial administration manual.

**The Chair:** — All right. We are . . . Could we have the discussion directed to the Chair? Is there any further discussion? Are we ready for the question?

**Some Hon. Members:** — Question.

**The Chair:** — All in favour? Carried unanimously.

We'll proceed to recommendation no. 6 on page 278. The recommendation reads:

We recommend that the Department of Agriculture, Food and Rural Revitalization comply with *The Pastures Regulations* for the payment of outstanding pasture fees.

Is there a motion?

**Mr. Yates:** — I would move that we concur and note progress.

**The Chair:** — Again, a motion to concur and note progress. Is

there a discussion on this motion? Mr. Krawetz.

**Mr. Krawetz:** — Yes, Mr. Chair. You know, the sticky point here is noting progress. I believe that you had said that there has been compliance now because the regulations have been changed.

**Mr. Matthies:** — That's correct.

**Mr. Krawetz:** — So does that meet the auditor's goal? So rather than noting progress, I would suggest that we concur and note compliance.

**The Chair:** — Are you ready to withdraw your previous motion . . . [inaudible interjection] . . . I think it's a new motion. We haven't voted. Would you withdraw the motion?

**Mr. Yates:** — Sure.

**The Chair:** — Okay. Would you make a motion.

**Mr. Yates:** — We concur and note compliance.

**The Chair:** — All right. The motion is now to concur and note compliance. Is there any other discussion? Seeing none, we'll call for the question. All in favour. That's carried unanimously. And the final recommendation on page 279, recommendation no. 7 reads:

We recommend that the Department of Agriculture, Food and Rural Revitalization establish rules and procedures to know whether the money it gives to research centres is safeguarded and used for authorized purposes.

Again, is there a motion? Mr. Borgerson.

**Mr. Borgerson:** — I'll move that we concur and note progress.

**The Chair:** — This time a motion to concur and note progress. Mr. Krawetz.

**Mr. Krawetz:** — Just a question to the auditor. In terms of tracking the conversion of monies into cattle and then the cattle are loaned to the centre, is that what you're meaning here when you say that there should be rules and procedures to know whether the money it gives to research centres, or are you talking about the whole conversion of money into cattle before that? Like how is . . . how does the auditor's office track the entire investment that is made to a research centre of both cattle and monies?

**Mr. Grabarczyk:** — Well I guess first of all we look at the department to track the cattle in terms of the cattle that is on hand at any point in time, any cattle that's been purchased or sold. And whatever funding the fund provides to the research centre, that they ensure that that funding's used for the purposes outlined in the agreement.

**Mr. Krawetz:** — So when the cattle are sold by the centre, then the repayment of the money goes back to the fund?

**Mr. Grabarczyk:** — Well typically the fund would get the money back and then they turn around and usually reinvest it



right away in additional cattle. So they'll maybe cull some cattle and then turn around and purchase some more cattle for research purposes.

**Mr. Krawetz:** — And this is tracked continuously.

**Mr. Grabarczyk:** — Yes.

**The Chair:** — Mr. Hart, you had a question.

**Mr. Hart:** — Yes, Mr. Matthies. These cattle that the fund bought and then gave to the beef development centre, were they cows? And if . . . well maybe you could answer that first.

**Mr. Matthies:** — It's a commercial herd.

**Mr. Hart:** — Adult cattle?

**Mr. Matthies:** — It's a commercial herd.

**Mr. Hart:** — So then, and these cattle were bought, when were they bought?

**Mr. Matthies:** — Mr. Chair, I don't know exactly when they've been bought, but I guess it would go back some number of years. Probably at this point, I think, there's a fair number of the animals that are sort of in the eight-year vintage, if I could put it that way.

**Mr. Hart:** — So then it sounds like these cattle, not all of them, most of them were bought pre-BSE. And if that's the case then there's a significant loss in funds because of this action of taking funds from the Horned Cattle Fund, purchasing cattle and then giving them to the . . . I mean well regardless of what was done with those cattle, under today's market conditions mature adult animals, adult cows and bulls, are in some cases nearly valueless. So I would suspect that there's been a significant loss of funds to that cattle fund. How many dollars were spent, how much money was used to purchase this cow herd?

**Mr. Matthies:** — If I could maybe just sort of clarify it in this regard. The proceeds are typically from the sale of the calves, not from sort of the cull animals, but most of the revenue comes from the sale of the calves. And as I recall, the producers that were on the board basically saw this as sort of an investment in order to generate an ongoing revenue stream for the research funding. So rather than take whatever the amount was to buy the herd and invest it in sort of a one-time research project, they saw it as buying a herd where the calf crop would provide more of an annuity if you will for ongoing research funding. So that was the rationale I believe behind this.

**Mr. Hart:** — Could you give us an estimate of how many dollars were used to buy this cow herd?

**Mr. Zepp:** — Mr. Chair. Okay, I can't answer your question. As Doug said, it's been quite a number of years ago when the Horned Cattle basically purchased this herd. They gave it to, I shouldn't say gave it to, the cattle are located at the Termuende farm at the Western Beef Development Centre for use by the centre for research. The calf crop is sold and the income comes back to the Horned Cattle Fund which in turn kind of reinvests

it back to the western beef centre. And if I've got my little trail wrong, I know Rod will help correct me on that one.

My guess is that it was . . . The herd was purchased when the Western Beef Development Centre was set up in 1990. Now I shouldn't have said that because now I can't remember what year. Under the innovation fund anyway, back in the mid-'90s.

**Mr. Matthies:** — Mr. Chair, if I can offer one comment. In the audited financial statements for the Horned Cattle Fund which are audited by the Provincial Auditor, in note no. 6 it basically sort of talks about the realizable value of the herd in the magnitude of 300,000. So if you're looking for sort of a relative value then maybe perhaps 300,000 would be sort of what you're looking for.

**The Chair:** — All right. I think we still have a motion on the floor to concur and note progress with regards to recommendation no. 7. Is there further discussion? Seeing none, we'll call the question. All in favour? None opposed. That's carried.

We have completed the work we set out to do today with the completion of review of the Agriculture, Food and Rural Revitalization, chapter 13. I would remind my colleagues that we plan to resume our work tomorrow morning at 9 a.m. I want to thank you, Mr. Matthies, for appearing before the committee with your colleagues and answering questions that arose from the auditor's report, and thank the other officials for being here as well as my committee colleagues. I declare the meeting adjourned.

[The committee adjourned at 16:52.]