



# **Standing Committee on Public Accounts**

## **Hansard Verbatim Report**

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**STANDING COMMITTEE ON PUBLIC ACCOUNTS  
2001**

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The committee met at 08:30.

**The Chair:** — Okay. Good morning, everyone. We'll start our agenda for this morning. The agenda is before you dealing with Energy and Mines, and then the second half of the morning we'll deal with Environment and Resource Management.

And as you recall from our meeting yesterday, we will look at information that has been provided from the comptroller's office — thank you, Chris, for that — on the Treasury Board's policy regarding committees, and we'll look at how that will affect our audit committee. And we'll discuss that just at the conclusion of Environment and Resource Management.

I'd like to welcome Mr. Yates again as a stand-in for Mr. Wartman; Mr. McCall for Ms. Jones; Ms. Draude for Mr. Wakefield; and Mr. McMorris for Mr. Gantefer. And we'll assume that Ms. Junor will get here very soon.

Good morning, Fred, from the auditor's office. Mr. Wendel, I'd ask you to introduce the people that you have with you from your office.

**Mr. Wendel:** — Sure, Mr. Chair. Thank you. With me, right next to me, is Tara Clemett, who leads our work at Energy and Mines. She'll be making a presentation to you in a few minutes. Bashar Ahmad, who also works in our Energy and Mines section. Brian Atkinson, assistant provincial auditor. Rod Grabarczyk, who is here for the Environment and Resource Management section. And Rodd Jersak, who is here at all our meetings to coordinate our activities.

**The Chair:** — Good morning and welcome to all of you. And, Mr. Clayton, from the department, welcome.

**Mr. Clayton:** — Thank you, Mr. Chair. I'm Ray Clayton, the deputy minister. And with me is Donald Koop, assistant deputy minister.

**The Chair:** — Great. Welcome. Good morning.

And from the comptroller's office. Welcome, Mr. Paton.

**Mr. Paton:** — Thanks, Mr. Chair. I've got Chris Bayda with me again today, and Erich Finkeldey, who's a senior analyst in the Department of Finance.

**The Chair:** — Thank you, and welcome.

Okay, Mr. Wendel, even though you've indicated that Tara's going to give us the presentation on behalf of the Energy and Mines sector.

**Mr. Wendel:** — Sure, Mr. Chair. Just before I turn it over to Tara, I just want to make a few opening remarks about this particular chapter.

This very large department collects a lot of revenue on behalf of the government. It has a complex set of laws and regulations it has to administer. It has good systems and practices to do that and it has complied with all the laws during their audits, with the exception of the one item which is this NewGrade energy

payments. These payments have a long history that go back probably 9 or 10 years, and there's been different committees of different legislatures have different views on these payments, this being the first.

In 1999 it was a new legislature so we reported it again, so this legislature in this committee can consider this matter again. We are required by law to bring this to your attention.

The other matter in here is the annual report and that goes back a few years. And I think with the new accountability initiatives that the government announced a year or two ago, we'll begin to see some improvements to annual reports. And that's going to be a matter of time, I think.

So with that, I'll turn it over to Tara who'll go through more of the details on the payments to NewGrade and the annual report. With that, Tara.

**Ms. Clemett:** — Thanks. Good morning, Chair, and committee members. Today I want to talk to you about the Department of Energy and Mines. I refer you to chapter 10 in the 1999 Fall Report, Volume 2. The chapter starts on page 255.

In this chapter we talk about two issues. The first is the NewGrade payments need authority, and I'll get to this issue right away and explain why we are talking about it today. The second thing we talk about is that the department's annual report needs improvement.

The first thing we talk about in this chapter is NewGrade. This has been a long-standing issue. Different Public Accounts Committees have considered this issue and have come to different conclusions. The issue with NewGrade is one that we are required to report by law. We have always believed that the payments that are made by the Department of Energy and Mines to NewGrade are expenses — that is, grants — of the department and should be recorded as an expense of the department.

In the same sense we have always believed that the estimates should present future payments to NewGrade as expenditures. That is why we are back here to discuss the expense issue today with regards to NewGrade. We want to bring it to your attention now because this is the first opportunity for the Standing Committee on Public Accounts of the 24th legislature to consider this matter.

Now I will discuss some background information about the expense issue in regards to the payments to NewGrade by the Department of Energy and Mines. Producers of gas for Crown land pay royalties to the department under the Crown Oil and Gas Regulations. NewGrade buys some of this gas from producers to use in its heavy oil upgrader in Regina. In 1998-99 the department paid approximately \$3.2 million to NewGrade. The department called this payment the NewGrade royalty rebate. The department used order in council no. 7 of 1989 as its authority for the payment.

The order imposes the following conditions: producers of the gas must pay the department the full amount of royalties due under the law; producers also must assign to NewGrade the

right to the remission under this order; the department must pay the amount of the remissions to NewGrade for a minimum of 15 years or until NewGrade's debt, guaranteed by the government in December 1986, is paid.

The authority to issue this order is section 24 of The Financial Administration Act, 1993, which I will refer to as the Act. Section 24 of the Act allows the Lieutenant Governor in Council — cabinet — to remit, that is forgive or exempt any person from liability to pay any tax, royalty, rental, or fee to the Crown.

The only persons who can be forgiven are the persons liable to pay the royalties. Because the order imposes the condition that the producers must still pay, there can be no forgiveness. The only change is that NewGrade receives the monies collected instead of the Crown. Therefore the effect of the order is not a remission, that is a forgiveness, to the producers but a grant to NewGrade.

Section 24 of the Act gives cabinet the power to remit, forgive royalties but not the power to make grants.

Accordingly, the grant of \$3.2 million in 1998-99 to NewGrade is not authorized under section 9 of The Department of Energy and Mines Act.

The department records this grant as a reduction of revenue. The Legislative Assembly does not specifically approve reductions of revenue. We think the department should record this grant as an expense. Recording the grant as an expense would provide the Legislative Assembly with the opportunity to annually debate and to provide the money to pay the grant. This is an important parliamentary principle.

We recommend the estimates present future grant payments to NewGrade as expenditures. We recommend that the department should report these payments as an expense of the department.

Now I'm moving on to the second issue we discuss in chapter 10 of the 1999 Fall Report, Volume 2. I refer you to page 260 in the report. We reviewed the department's 1997-98 annual report. We assessed the adequacy of the information in the report against the following criteria. To assess performance of public sector agencies, members of the Legislative Assembly and the public need adequate summary information about public agencies' plans and about the achievement of those plans. These plans should identify the key risks faced by the public sector agency. Annual reports can provide this information.

To be good accountability documents, annual reports should describe what the public agency is all about, what it has done, where it is now, and what it plans to do. Annual reports should also outline key risks and how the organization manages those risks. In addition, to ensure the information in the report is relevant and understandable, the annual report should be written clearly and be available promptly after the agency's year-end.

The department's 1997-98 annual report provides limited information on how the department measures its performance, and no information on key risks. Future reports should include a summary of its key performance indicators and targets

compared to actual results. A discussion and analysis of this comparison would help the readers to assess the department's performance in achieving its goals. Future reports should also outline the key risks faced by the department and outline how these risks are managed.

Also, the department's 1997-98 annual report does not provide the intentions or outlook of the department. Future reports should include a discussion of the direction the department plans to take. Such a discussion would help readers understand how the department intends to achieve its goals. We recommend that the department continue to improve its annual report.

That concludes my presentation with respect to the Department of Energy and Mines.

**The Chair:** — Okay. Thank you, Tara. Mr. Clayton, your comments?

**Mr. Clayton:** — In matters of accounting, my experience has been that there certainly are areas where the conclusions one might reach are not all black and white, and I think this is one of those. I think we can acknowledge the logic track that the Provincial Auditor uses. We have a different view of it.

It is our view that the section 24 of the Act under which the order in council is formulated does not provide any mandatory direction as to the person who is to obtain the direct benefit of the remission or what is to be done with the amounts remitted. The remission may be made on any terms that the Lieutenant Governor in Council considers advisable and furthermore, the remission may either be conditional or unconditional.

Hence the arrangements that have been made under which the producers of the gas who pay the royalty where they have agreed to pass on the remission to NewGrade, we feel is in accordance with the authority granted under section 24 of the Act.

We would furthermore make the observation that one of the fundamental principles at play should be full disclosure of the amounts provided and that that is in fact done through the item having been identified in the public accounts as a remission and to whom the payment is ultimately made.

So with what we believe to be the authority as it is constituted under that section of The Financial Administration Act, plus the disclosure that is there in the public accounts, that we have indeed complied with the law.

With regard . . . if I may go on then on the matter of the annual report. I think there we can simply say we agree. We agree with the observations of the Provincial Auditor in regard to our annual report. And since the annual report under discussion we have made what we feel are improvements to the last annual report, including information on our vision, goals, principles, and some of our plans.

And as we move through the public accountability initiative that's underway across government, we anticipate further improvements to the annual report as well, as one of the instruments under which we can further the aims behind this

initiative.

**The Chair:** — Good. Thank you very much, Mr. Clayton. From the comptroller's office, Mr. Paton, any comments at this time?

**Mr. Paton:** — No. I guess the only thing I might say, Mr. Chair, is I know that this has been an ongoing issue and one that I'll be surprised if it's resolved this morning, there's been a number of opinions, both from accountants and from lawyers, on this issue and I know there's differing opinions. So I'm not sure if there's an easy resolution to it.

**The Chair:** — Thank you. General comments? As indicated, the chapter we're dealing with is chapter 10 of the 1999 Fall Report, pages 255 to 261. Are there general questions?

**Mr. Stewart:** — Section 24 allows cabinet to exempt any entity from paying royalties. But NewGrade isn't liable to pay any royalties now, so I'm wondering how they can be exempted.

**Mr. Clayton:** — I guess this does come back, Mr. Stewart, to the question of the conditions under which the remission is made. The remission is made to the party that is liable to pay the royalty and the remission is made on the condition that they agree to the assignment of that remission to a third party.

So I think you're correct in observing that the NewGrade itself is not the payer of the royalty in the first instance, but it's the condition attached to the remission to those that do pay it that explains how the process has been working.

**Mr. Stewart:** — As I understand it from the auditor's material, section 24 gives cabinet the power to remit royalties but not the power to make grants. Is that your understanding?

**Mr. Clayton:** — Yes.

**Mr. Stewart:** — And the department is recording the 3.2 million as a reduction of revenue. And according to the auditor the Assembly doesn't specifically approve in a blanket manner reduction to revenue. Is that correct?

**Mr. Clayton:** — I believe so, yes.

**Mr. Stewart:** — Okay. So why I wonder can't the 3.2 million be recorded as an expense and provide the legislature an opportunity to review the matter in estimates annually.

**Mr. Clayton:** — That's one approach that could be taken. The government of the day decided to go about it this particular way during their discussions with the co-operative organization in setting up the business deal under which the NewGrade Upgrader was built. It was an arrangement agreed to at the time and it was thought to be in accordance with the law, and accordingly was thought that there's no compelling reason to make a change in that particular arrangement.

**Mr. Stewart:** — Moving on to the issue of the annual report, the '97-98 report was a little late and contained some deficiencies, according to the Provincial Auditor's office. There may be a difference of opinion as to the deficiencies but I'm wondering, have actions been taken, what actions, to remedy

this situation for subsequent reports?

**Mr. Clayton:** — I think, Mr. Stewart, we would acknowledge and agree with the assessment of the Provincial Auditor that there are deficiencies. Whether or not one considers an item to be a deficiency of course depends on what are seen as the objectives and purposes and functions to be played by that document.

And I think it's true to say that in the past, government departments generally have not given a great deal of priority to that particular report. It was seen as a document that tended to have limited readership, very limited use. And therefore whether or not this was a correct judgment, I think the judgment tended to be made that not a lot of resources were put into preparing a document that had limited usefulness and readership.

But of course in the more recent years there's been a lot of emphasis, and I think quite appropriately, put on the broader aspects of the accountability of government to the electorate, and accordingly there's been an examination of a number of instruments through which really the fundamentals of the democratic process can be further improved.

And the annual report is one of those instruments, we would agree. And we would agree that if it's to be an effective instrument, it needs to be revised. We agree that there are deficiencies there; we've taken some steps in reports subsequent to this one and there are further ones that need to be made yet. We're learning as we go along, and the deficiencies are ones that we certainly intend to address as we develop more expertise in this area.

**Mr. Stewart:** — I think that's about all I have. The auditor concedes that the department generally does a pretty good job except for these two areas that have been pinpointed and I think Mr. Clayton and Mr. Koop can both assume a great deal of credit for that. Thank you.

**Mr. Yates:** — Yes, seeing there are no further speakers, Mr. Chair, I'd like to move:

That the committee does not concur with the recommendations of the Provincial Auditor on this issue.

**The Chair:** — We'll deal with that. Well we'll deal with one recommendation at a time.

**Mr. Yates:** — Right, right.

**The Chair:** — And I think that that's what you're saying about recommendation no. 1.

**Mr. Yates:** — No. 1, yes.

**The Chair:** — Okay. Note, and I think Mr. Paton has pointed this out, that it has been before the committees many times as you note on page 259. I think the Public Accounts Committee of the twenty-second legislature recommended or concurred with the recommendations for about three years, '92, '93, and '94, and then in '96 and '97 the Public Accounts Committee of the day disagreed with the Provincial Auditor's

recommendations as noted in that paragraph.

And now we have the recommendation no. 1 and we have a resolution before you that this committee would not concur and would support the decision of the previous Public Accounts Committee of 1998, on November 24, 1998.

Discussion? All those in favour? Opposed? Carried.

Recommendation no. 2 is connected to this as well, dealing with the department and recording the payment as an expense. Any resolution coming forward on recommendation no. 2?

**Mr. Yates:** — Yes. In light of the first recommendation, I would also like to move:

Non-concurrence on the second recommendation as well,  
Mr. Chair.

**The Chair:** — Resolution is that the committee does not concur with recommendation no. 2. Any discussion? All those in favour? Opposed? Motion is carried.

Recommendation no. 3 at the top of page 267. I think we've had some discussion there and that we've . . . and heard from Mr. Clayton that there have been some changes and it seems that the changes are intended to improve the report. Any resolution regarding recommendation no. 3?

**Mr. Yates:** — Mr. Chair, I move:

Concurrence with recommendation no. 3.

**The Chair:** — Move that we concur with recommendation no. 3. Any discussion? All those in favour? Opposed? Seeing none, motion is carried.

That brings our discussion to an end on Energy and Mines rather quickly this morning. I wanted to thank you, gentlemen, from the department for being here. And thank you, Tara, for your presentation this morning.

We'll recess right now and we'll reconvene after coffee break.

**The committee recessed for a period of time.**

**The Chair:** — We'll call to order again. Thank you for returning so promptly, and thank you to the officials from Environment and Resource Management for being here a little earlier than anticipated, so we can get rolling.

I'd ask Mr. Wendel to introduce a new person that has joined his staff.

**Mr. Wendel:** — Thanks, Mr. Chair. We have another person from our office here, Cindy Fysh, who's sitting back there. She's an auditor with our office. Cindy just wrote the uniform final examinations to be a chartered accountant, so she'll be sitting on pins and needles for a couple of months waiting to see what happens.

**The Chair:** — Good morning. Welcome, Cindy. And welcome to you, Mr. Kramer, and I'd ask you to introduce your officials.

**Mr. Kramer:** — Good morning. To my left is Dave Phillips, assistant deputy minister responsible for our programs division in SERM (Saskatchewan Environment and Resource Management); to my immediate right is Lynn Tulloch, our executive director for corporate services division; to my far right is Bob Ruggles, who's our assistant deputy minister responsible for programs division.

**The Chair:** — Welcome to you this morning. And there are no new officials from the comptroller's office this morning. We'll move right into the presentation. Rod is going to be doing that, I understand.

**Mr. Wendel:** — That's right.

**The Chair:** — Good. Go ahead.

**Mr. Grabarczyk:** — Good morning, Chair, members, and officials. I will provide a brief overview of our comments on chapter 9, the Department of Environment and Resource Management, which can be found on pages 241 to 253 of our 1999 Fall Report, Volume 2. I will also provide some comments on chapter 10 of our 2000 Fall Report, Volume 3, which can be found on pages 261 to 269. My comments will focus on chapter 9 first, followed by chapter 10.

On pages 244 to 249, we report the key issues or risks the department must manage to be successful, which are: ensure a clean and healthy environment within the province; develop sustainable resource management programs while encouraging a strong economy; and protect provincial resources using regulatory and non-regulatory controls.

To carry out our work, we must understand the risks facing an organization and we think sharing our understanding with legislators and the public will help them better understand the organization's performance. To identify risks, we reviewed various departmental documents and reports. We discussed our understanding of the risks with management and confirmed we had identified the right risks.

The chapter explains what the department needs to do to manage the risks and activities it has taken to manage these risks. For example, the department needs to know what pollutants exist in the air, water, and soil, why they exist, what the maximum acceptable levels are, what damage these pollutants are likely to cause. The department then needs to establish maximum acceptable levels; it can then develop programs to bring these pollutants within these acceptable levels.

Our audit conclusions and findings for the year ended March 31, 1999 are: the financial statements of the Big Game Compensation Fund and the Fish and Wildlife Development Fund are reliable. The department had adequate rules and procedures to safeguard and control its assets, except as reported, and the department complied with the law, except for a matter related to the department's capital assets.

At the time of reporting, we had not completed our work on the financial statements of the Resource Protection and Development Revolving Fund and the Commercial Revolving Fund. Later we completed our work and found both financial

statements are reliable.

In this chapter, we continue to recommend that the department should define and document its operational compliance reporting requirements. The department should also follow its established rules and procedures for preparing all of its internal financial reports. Operational reports show the effectiveness of programs, i.e., what the department expected to accomplish and how it is performing towards that expectation.

Compliance reports should describe the department's compliance with its legislative and related authorities. The department has established rules and procedures for preparing internal financial reports; however we noted staff did not always follow them to prepare financial reports, including a comparison of planned and actual results for the current period and for year-to-date results including an explanation of any differences.

This committee considered this matter most recently in January of 1999 and it concurred with our recommendation. Management has told us it continues to work on defining its operational and compliance reporting needs. It also told us it continues to work towards preparing required internal financial reports in accordance with its established rules and procedures.

In this chapter we also continue to recommend the department should keep complete records of its capital assets. The department should also periodically reconcile its capital asset records to its financial records, and include information about its capital assets in its annual report.

Section 240 of the Provincial Comptroller's financial administration manual provides guidance to departments regarding capital assets, including how to maintain complete records of capital assets. The department has not complied with this guidance. This committee considered this matter most recently in January of 1999 and it concurred with our recommendation. Management told us it continues to work towards ensuring it has complete capital asset records.

We reviewed the department's 1997-98 annual report assessing the adequacy of the information against criteria. We noted that the annual report does not set out the objectives related to the department's goals. The report also provides limited information on how the department measures its performance. For example, the report should include a summary of its key performance indicators and targets compared to its actual results. Therefore we recommend the department should continue to improve its annual report.

I will now discuss chapter 10 and on pages 261 to 269 of chapter 10 in our Fall Report — 2000 Fall Report, Volume 3 — we report the criteria for managing forest fires and our audit conclusions and findings for the year ended March 31, 2000.

Forest fire management is a significant risk the department must manage as part of developing sustainable resource management programs. It also must be managed as it poses a significant risk to human life, property, and natural resources. We list the criteria that have been discussed with management and their agreement obtained on page 266. We are currently examining how the department manages this risk and expect to report our

audit conclusions and findings in our 2001 Fall Report, Volume 2.

Our audit conclusions and findings for the year ended March 31, 2000 are: the financial statements of the Big Game Damage Compensation Fund, the Fish And Wildlife Development Fund, the Commercial Revolving Fund, and the Resource Protection And Development Revolving Fund are reliable. The department had adequate rules and procedures to safeguard and control its assets except for the matters reported in this chapter. And the department complied with the law except for the matter related to the capital assets.

We continue to report that the department's internal reporting needs improvement and the department needs to have complete capital asset records as discussed just a few moments ago in chapter 9.

We reported one new matter in chapter 10 and that is that the rules and procedures over payments need improvement. We recommend the department should improve its rules and procedures to ensure it pays only for goods and services received. We found that the department did not always follow its rules and procedures requiring the person approving the payments be separated from the individual purchasing and receiving the goods or services.

For example, the department's new financial system allows the same person to purchase goods, receive those goods, and approve the payment. This increases the risk that the department might pay for goods and services that it did not receive. We also found instances where supervisors did not always review and approve credit card purchases. We were unable to determine whether the department paid for goods and services that it did not receive.

That concludes my comments.

**The Chair:** — Thank you very much, Rod. Mr. Kramer, overall comments from your department, please.

**Mr. Kramer:** — Yes. First of all, I would want to say we welcome the opportunity to be here to talk about the issues raised by the Provincial Auditor in his review and find that information to be useful and helpful to our operation of the department on an ongoing basis, so we welcome the opportunity to be here.

We found in particular for the '99 report that the analysis of risks and department priorities was useful to the department, I believe, to the public, and to the committee in terms of understanding, enlightenment around the purposes of the department, and in each of the areas that have been identified where there's recommendations.

I would have particular comments that I would make in terms of progress inside the department. Some of those we have moved forward to the point of being resolved. We believe some, we would want to report progress. So I'm not sure just how far to go on those.

In the '99 report there's issues around internal reporting, around listing of capital assets, and around the annual report

improvements. We would have observations in each of those three areas. And for the 2000 report there are observations from the auditor, recommendations again around internal reporting, around listing of capital assets, and in the last case around rules and procedures for payments.

So in each of those areas we would briefly describe the progress that has been made. But I'd leave initial comments there, or would you like me to go through and, say, do the '99 report and then the 2000 — whatever would work best for the committee.

**The Chair:** — Well I think in light of the discussions that we've followed, or the practice we've followed, is if you want to make comments specifically in '99 first, and then we can deal with the recommendation, the new recommendation that comes in the '99 report, and then we can move on to the 2000, if that would be fine with you.

**Mr. Kramer:** — That's just fine. I would go through then and make comments. If you're following through the auditor's recommendations, the first area, recommendation, deals with improved internal reporting.

And from the department's perspective, we'd first of all observe that as of April 1 of 1999, SERM put in place its new financial management system that had been under development for a couple years previous. That has been a tremendous improvement in terms of processing expenditures and efficiencies in making payments. And we now are in the process of working on the other things that that system can provide to us — the automated system — that is better information on reporting.

We have put in place a project to improve our budgeting and forecasting model. It will provide for better information to come through to management that we believe will improve our management capability because of better information tied to historical trends in spending. And that analysis then will be available.

So as a benchmark in terms of financial management and reporting, we have for a number of years made reference to the financial management system and would report that that is functional in the department and is providing for improved operation.

We've also put an emphasis on training initiatives for our staff so they understand the importance of the issues around internal reporting, knowing what the procedures are for preparing reports. And that is an ongoing initiative where we're working with our staff in terms of understanding how this is done and the priority of that work.

With regard to the aspect of this that deals with compliance reporting and performance measures, other than just the straight financial reporting, again this is work that we have put a priority on. We believe it's important for public accountability of our department and others to be able to talk about our vision, our goals, our objectives in a defined way and about our performance measures as well. We have done significant work to identify those aspects of our operation — our vision, objectives, goals, and performance measures.

And again, as you have heard from other departments, that work is coordinated across government through the accountability project or performance management project where there is initiative across government to have departments move to better define goals and objectives.

I would say more about that in particular for our department in a few minutes related to the improvements in the annual report, but certainly we accept that as something that is, in addition to the financial reporting, that the reporting around goals, objectives is also significant work for the department to do.

With regard to the recommendations around capital and reporting of capital assets, I'd make these observations: that the department's capital assets are very diverse, both geographically and in terms of their uses. As examples, we have facilities and equipment in each of 34 provincial parks. We have field operations in excess of 60 offices which would have equipment such as boats, quads, and the like for enforcement work. We would have firefighting equipment throughout the North, things like hoses, pumps, axes, and northern air operations which again is distributed throughout the North.

So we would just acknowledge that, for us, that is a significant challenge. It's also a significant proper issue for us to be able to identify individually all of those and list all of those individual capital assets.

We also have had the assets accumulated over a number of years by a number of different departments. People are aware of department structural changes so that the arrangements around purchase would be somewhat different in different eras or the reporting and recording of that would be somewhat different in different areas. So again, it's one of our challenges when we come to one common listing of assets.

So we've had challenge in terms of responding to the Provincial Auditor's recommendation. And we note that from even the current audit activities in recent months, we expect this to be an item that would be identified by the Provincial Auditor in their Fall 2001 Report as well.

But this is one where I'd like to report progress, in that we have worked hard on implementing a capital asset and inventory tracking system to ensure that recording of assets takes place within the department. And it is expected that SERM's (Saskatchewan Environment and Resource Management) capital assets will be completely recorded in this system by the end of the fiscal year 2002-2003. We've set that as our objective and believe we will deliver on that. And it is a significant objective and well noted by the Provincial Auditor.

With regard to reconciling our capital asset schedule from public accounts with our detailed financial records, again it's anticipated that that reconciliation will be completed for March 31, 2002, and that public accounts . . . and adjustments will be made to our public accounts reporting according.

So the listing the assets, we'd expect to have complete by the end of the 2002-2003 fiscal year. And the reconciliation of our capital assets schedules, we expect to have that completed before the end or by the end of the current fiscal year.



A few observations, then. The last item that was raised in the year 1999 Fall Report with regard to improving the annual report. We have developed goals, objectives, and performance measures for the department. I don't know if people have had opportunity to see the annual report that was released publicly — I believe as of yesterday — the department's annual report for the year 2000-2001.

We have structured our reporting in this report around our goals and objectives. We operate around three goals and 10 objectives. We indicate in each of those areas the risks that we believe we need to manage within the department to do our job as well. So it is important work and we've made some progress.

The work to refine performance measures — that is, within an objective what are we seeking to achieve in terms of actual performance, the targets — that work is ongoing. We've done some of that work but we yet have some distance to go. So we wouldn't claim to have close to a final listing of performance measures but we have given that significant thought. The work is coordinated, we've said, with the accountability project across government. I believe that we have been a leader in that regard — one of the departments that have moved forward quite quickly.

But I observe this, in general, as I would conclude my comments on that issue. I think we would acknowledge that for Environment and Resource Management departments across Canada the issue of science-based analysis of our risk — not financial risk but risk to our society, to our environment, to our natural resources — that's not a very fine science. It isn't like mathematics. So that we have a program base, a policy base that we believe is proper, is based around priorities.

But for us to be able to say science dictates that our priorities, our expenditures are certainly dealing with the worst risks to society, we believe we're close but science is still emerging and science is working on that issue in all jurisdictions because I think people understand with the environment even what we sense to be the risks day by day, week by week, continues to change. The things that we're talking about even in the media in the last few weeks as risks to our environment have taken on a different priority than we would have had before.

So we understand that to be important work. We do some risk analysis reporting in our annual report. We say these are the risks we believe that are there. But we would be the first to indicate that's a work in progress. We believe the priority to pursue that is right to ensure we're working on the right things. But this is yet a significant element on judgment that's based on other than hard science in terms of whether a risk analysis is conclusive and whether we are assessing properly all the risks that should be reflecting where government places its priority to ensure we're doing the maximum with the dollars we have available to protect our environment and natural resources.

So we would say this is a work in progress, significant work done, but we wouldn't claim to have it all adequately understood at this point.

I'd leave that as my comments with regard to the '99 report from the department.

**The Chair:** — Good. Thank you very much, Mr. Kramer. Okay. As indicated, chapter 9 of the 1999 Fall Report is found on pages 241 to 253 and there is a review in that chapter of the recommendations that have been before the PAC (Public Accounts Committee) committee before and we've heard from both the auditor's office and the department about some initiatives that have taken place on those recommendations. And that's now, I guess, a period of time for you to question or to clarify anything that you want in chapter no. 9. And then we'll be dealing with the new recommendation, the only new recommendation in this chapter, which is found on page 253 at the conclusion of your questions.

The floor is open.

**Mr. Kwiatkowski:** — I wonder if the Provincial Auditor's office could give us a little bit of a better description of some of the deficiencies that they noted with respect to the recording of capital assets, what particular areas may have been more affected than others, and what are some of the specific concerns as it relates to that issue.

**Mr. Grabarczyk:** — Well one of the areas of concern is that you've got a detailed listing of records and that detailed listing of records doesn't match with what you're putting in public accounts. So one is looking to have a reconciliation done of the two so that you can see that you have all the assets there and that the two sets of records match. As well, that means going and ensuring that you verify that the assets do exist and that they're all on the list and that they all exist.

So that's really the points that we're making there, is there should be a reconciliation between the two sets of records and that by going back and verifying that those assets are there, you'll know that those assets are on a list and that they do exist.

**Mr. Kwiatkowski:** — Was there any one area where the list didn't match up perhaps more so than other areas — general departmental assets, firefighting assets, those kinds of things?

**Mr. Grabarczyk:** — We didn't go through on a category by category basis. I don't have that here.

I just know, on a total basis, that the two sets of records didn't match and they were out approximately to the tune of a million dollars.

**Mr. Kwiatkowski:** — I guess I'd ask Mr. Kramer then what . . . obviously you would have taken a look at that and attempted to determine what constituted that million dollars. What conclusions did you arrive at?

**Mr. Kramer:** — Well the observation I would make is the work on reconciliation is still underway in terms of the various sources of that information that is there. We would have made significant progress on that, but our target for the reconciliation is as I had indicated before. And at the end of that time I think we would have best assessment of just what the individual components had given rise to a different list. But at this point I wouldn't have for you the . . . a summary.

**Mr. Kwiatkowski:** — So you have no, at this point, idea as to whether the problem may be more serious in terms of . . . this is

just generally right across the department that it's this sloppy, or is it perhaps more so in the firefighting area, or do you have an indication as to where . . .

**Mr. Kramer:** — I think what I may do. . . some of this relates to the systems we have in place for recording as well. If it's appropriate to ask Lynn Tulloch to speak to that from her perspective, if that's proper.

**Ms. Tulloch:** — The issue that the auditor has raised really, I think, has two different elements to it. One is that traditionally over the last several years — probably going back decades, obviously — most of our capital asset records have been manual systems. So the record keeping that we kept for these assets was manual at a time when a lot of other expenditure invoice processing was occurring in an automated fashion. But the fixed asset records themselves have been manual and that has created a lot of the expected difficulties in keeping them up to date, especially in a very decentralized organization such as SERM.

So that has been a challenge that we recognize and one that we are working to improve by the implementation of an automated system that will give us more capability to keep those records updated on a more regular basis and have them accurate on an annual basis. So that's the one aspect of it that we are working to improve.

The other aspect specifically relating to the reconciliation actually goes back quite a period as well. And I believe the root of some of the difficulty in the reconciliation goes back to when the assets were first recorded in public accounts, or first disclosed in public accounts, and some of the challenges that we had at that time to value the assets that we had in place at that time. Because going back prior to, I think, '96, '97 or so, in the '90s, we did not disclose assets in public accounts at all.

So at the point when the government moved in that direction, we needed to find ways to value the assets that we already had. And there were some approaches used to estimate percentage of assets. And those are some of the things that I think today the auditor is still noting that we need to ensure they reconcile today. And we still have to go back and I think do some work to verify how we're doing that reconciliation.

So I don't think in either case it's a case of a particular area of the department being more deficient than other areas. It's really some of the method of tracking that was used universally and the systems that we use to record them that, you know, presented some of the difficulties that we're now in a position to start to overcome.

Some areas of the department, such as the fire program in particular, has actually led the way in wanting to see some of these new changes because there's tremendous benefits to our program in terms of efficiency and the cost effectiveness of the assets we're consuming, if we can start to better track them and manage them so that when we're looking for hoses or pumps for a fire, we know where they are instead of having to go out and buy new ones so that they can be available.

So a lot of our programs, and fire management in particular, has been extremely supportive and behind trying to get some of

these new systems in place for their benefit as well because there will be a lot of improvements in that regard when we've got the better tracking in place.

**Mr. Kwiatkowski:** — I'm led to believe that SERM has a greater degree of autonomy with respect to the purchasing of goods and services than probably any other government department, that there's a fairly significant, large, internal purchasing division, if you will, and procurement division.

Could you just describe what internally SERM can autonomously purchase and acquire, that kind of thing, and perhaps what kind of a role they have with SPMC (Saskatchewan Property Management Corporation) as compared to other government departments, that kind of thing?

**Mr. Kramer:** — Yes. The processes that we would use would be the government processes. Certainly our relationship with SPMC, the role that it provides for us in terms of central purchasing, would be the same as for other departments. So our relationships I would describe as the same as any other department.

We would have a larger purchasing function because of the nature of the work, where we have parks, where we have significant activities in firefighting. So there is a significant amount of activity, but I would describe our processes as being the same as the rest of government, and our relationship with SPMC being the same as with other departments.

But I'm not sure whether that answers your question. There may be comments from the comptroller's office on that as well.

**Mr. Kwiatkowski:** — Perhaps what I would ask the Provincial Auditor's office is, do the purchasing and procurement programs and systems of SERM match up with other government departments? Are they similar and do they follow the same types of practices and policies?

**Mr. Grabarczyk:** — Yes, they would. As the officials point out, though, there is obviously, due to the nature of the operation, some differences in terms of the forest fire program that they operate. That is different where they're contracting for aircraft, for heavy equipment, those things of those natures. But the processes are similar that you would find in other departments.

**Mr. Kwiatkowski:** — A number of other provinces over the course of the last decade have undertaken some very intensive reviews of their entire forest firefighting budgets, procedures, practices, policies, those kinds of things.

One of the things that a couple of the provinces found was that the controls were probably lacking to the greatest degree right at the fire line level if you will, in that the terms and conditions of contracts weren't being fulfilled by contractors in some cases. Equipment that had been contracted wasn't what ended up being on a fire line. There was poor quality equipment, not the type of equipment that could perform as was the expectation of the contract.

In the case of Alberta I understand that they even found some very serious deficiencies even with respect to occupational

health and safety issues of workers and firefighters and that kind of thing — everything from the food preparation and availability to the firefighters.

Has the department ever contemplated doing a similar kind of review? Is it in the process of doing a similar kind of review? Is that something that — I think if you're going to look at an overall kind of streamlining and updating and modernizing of the process, then that will probably have to include everything right down to, in the case of forest firefighting, right down to the fire line. And is that something that the department is contemplating doing?

**Mr. Kramer:** — Yes, there are some observations I would make on that in really two categories. One would be around the way we fight fires and ensuring that our system, that our processes are proper.

As people know, we've had difficult fire years in '95 and '98. There would have been outside consultants that would have done a review of both of those years with recommendations that would have come back to the department. So that in both of those years we would have had major reviews done by folks outside of government and would have responded with response on the recommendations. We would also have done a joint review with the Department of Finance in 1999 that would have consideration in the last year within government as well.

And what we observe about those reviews, that the way Saskatchewan organizes its fire management approach now is much more geared to preparedness; that is to have resources in place when there are fire starts to get them while they're small, as opposed to building major resources to deal with escaped fires.

It's like investing in fire insurance. And that's a model that's concurred in then within government, and we have moved to that in terms of where we locate our people. The emphasis on having people available even before the fires start, to be in locations where there's highest risk where based on weather conditions, wind and the like, we have our people there with helicopters or other means of transportation so that they can get to fires when they're small.

So we've made those moves over the last number of years. I would just cite, without making comments hopefully unduly long, that even a year like this year — to this point we've had about 805 fires. A normal year would be about 650, and the number of escaped fires would have been very small, and hence we believe the cost implications of that have been very positive for government.

On the financial accountability side, which I believe was the other side of the question, how much is done to ensure that we're getting on the fire lines the kinds of resources that we believe we're getting, that things are handled properly — again there is an annual function inside of our department. We have an internal auditor. We put a priority because of the extent of the fire expenditures . . . or the percentage of fire expenditures in the department, we put that as a priority to our audit function, and they have spent time doing the fire management expenditure audits over the last number of years.

And we're also working with the audit; we've worked out criteria that had been indicated in the report initially. The Provincial Auditor will have an assessment, I think, on the financial side of your question in the Fall 2001 Report.

But we believe we've been responsive on both the issue of how we fight fires but also the financial management side, that in fact expenditures are made in a proper fashion and accounted for.

**Mr. Kwiatkowski:** — One of the initiatives that the Government of Manitoba has undertaken in order to accomplish both of those objectives is they have established something call the SEAT program, single engine air tanker program. This is something that . . . and in talking to the president of the Canadian association of agriculture applicators, who is more or less monitoring the program on behalf of that association in Manitoba, he's indicated that this SEAT program in their province has turned out to be tremendously beneficial in both the areas that you refer to in the sense that the Government of Manitoba has seen some cost saving.

And in fact, with the SEAT program, with the single engine air tankers, they have been able to get on fires a lot sooner and a lot more effectively. And there are all sorts of issues that contribute to that, I understand, that some of these single engine air tankers can be a little more accurate, for example, in terms of getting the material on the fire. And there are some other things that apparently they do very well.

And my question would be, are we giving any consideration to a single engine air tanker program in this province, in order to enhance our firefighting effectiveness, and in order to be able to perhaps be a little more financially responsible as well? Is there anything that we're doing in this area, and if so, where are we at?

**Mr. Kramer:** — It's something that we have looked at on a fairly active basis. I think that some of Manitoba's use of these aircraft, a lot of it is focused in early spring where their lakes are not yet open. They haven't had a tracker program, that is one that Saskatchewan's had for a number of years, where we have foam and retardant that we would use as a significant part of how we fight our fires in Saskatchewan.

So their approach is somewhat different. We have looked at this. It isn't an area where we have made significant commitments at this point, to move in that capacity. There are issues around occupational health and safety as well. But it's something that we have looked at and to this point haven't moved forward in a significant way.

**The Chair:** — Any other general questions?

**Ms. Draude:** — In 1999 and the year 2000, there was expenditures deducted as shown from Economic Development related to fire in the area, 1.6 million, 1.7 million in the year 2000. What are those related to? Page 243 and 263.

**Mr. Kramer:** — Would that be the reference to page 243 of the report itself?

**Ms. Draude:** — Yes.

**Mr. Kramer:** — That is a question that, as I sit here, I don't think I can give you an answer to. But I would . . . someone else may have, it but if not, I would certainly commit to give a written response to the Chair on the explanation for that. But there may well be someone who has an answer to that, but I don't.

**The Chair:** — I think Mr. Wendel's indicating that he can supply that eventually, but also doesn't have it here either.

**Mr. Wendel:** — There's an explanation for what this is. There's an amount reported in public accounts for the Department of Environment and Resource Management under the General Revenue Fund, and that's the \$165 million that appears at the top.

But there's also . . . the government puts out summary financial statements to show how much money it spends on the environment across the government. So Saskatchewan Water Corporation incurs some expenses like that. Okay? And Economic Development, that's a deduction. Okay?

So I'm not sure . . . I'd have to give the details. I don't have that with me, but I could certainly provide it to the committee.

**Ms. Draude:** — So this comes from other departments then?

**Mr. Wendel:** — That's right. It's to show . . . the number \$202 million, that's the amount that appears in the public accounts under the summary financial statements which puts together the entire government.

**Ms. Draude:** — Okay.

**Mr. Wendel:** — And what the department has to answer for here is what they're responsible for, which is 165 million. So we're just trying to show you that there's more money spent on Environment and Resource Management than what goes through the department.

**Ms. Draude:** — Okay.

**Mr. Wendel:** — That's the purpose of this. Now I can give you the details if the committee wants it, but it's just to show you there's more money spent than what the department is accountable for.

**Ms. Draude:** — Okay.

**Mr. Kramer:** — Yes. We would undertake to provide that information in a written form through to the Chair. I have it circled on my copy with a question mark, in terms of (6). And what I find . . . What I don't know, I mean as it's been described, the various items that are shown as pluses are the expenditures in this category of expenditure across government. Why this is a bracket or minus, I don't know, but when I find out I will put that in writing to the Chair.

**The Chair:** — Thank you very much. Any further questions?

**Mr. Stewart:** — Mr. Kramer, what is the approximate annual maintenance cost for the aerial forest fire fleet, most recent fiscal year available?

**Mr. Kramer:** — I would have Dave Phillips who deals in that area respond. He would be closest to the particular numbers and we would have information on that.

**Mr. Phillips:** — It will take me a second to locate the number for you. Okay. The way I'd respond would be to describe the distribution of expenditure within the fire program. We have approximately 37 million in allocation for fire operations. Approximately 30 of that is allocated to what we call fixed expense. That's developing the preparedness system, maintaining the fire organization that's available to provide initial attack response. The other component, variable expense, relates to what's driven by day-to-day demands in terms of burning hazard man-up and response to actual fire starts.

About 50 per cent I believe of the overall fire expense relates to the cost of . . . related to aerial operations, both aerial detection, initial attack, land-based as Stuart Kramer had described our tracker program, in the earlier part of the season before the lakes are open; and in locations where there is no water access, what the majority is, is a water-based operation with our skimmers.

**Mr. Stewart:** — Thank you.

**The Chair:** — Seeing no further questions, can we move to page 253, recommendation no. 1, the only recommendation in this chapter that's new. And we've also had comments from Mr. Kramer about their last report, that we'll have the auditor's comments on in this fall's report.

Mr. Yates, are you prepared to make that resolution?

**Mr. Yates:** — Yes, Mr. Chair. I would move:

That the committee note progress and concur with the auditor's recommendations.

**The Chair:** — Yes, okay, concur and report progress. Any discussion? All in favour? Carried.

Okay, chapter 10 of the 2000 Fall Report. And again, back to you, Mr. Kramer, for your overall comments on the report.

**Mr. Kramer:** — I probably should have made clear when I made my initial comments on the first two items, that of internal reporting and capital asset reporting as well, that the comments that I would have made with regard to where we're at and the commitments to conclude some of these issues in certain time frames, those would have really brought us to current day commitments. So that the observations I'd make around internal reporting and around capital asset reporting would relate to also the Fall 2000 Report.

The additional issue or the new issue that was identified in the Fall 2000 Report, that of the rules and procedures in place for ensuring our payments are properly made, I'd have some comments I would like to make on that issue.

There is two particular specific concerns that the Provincial Auditor has identified: one, that SERM's financial system allowed the same person to purchase, receive, and approve payments for goods and services; and secondly, that SERM did

not follow procedures with respect to the approval of credit card purchases.

And comments on those two issues would be these: that SERM, with regard to the first, has now developed automated controls within our automated financial management system that I referred to earlier, that would ensure that individuals that initiated purchase cannot approve that purchase for payment. So it's written into the automated system that we'll reject that if that is attempted. We are in the process of setting up that in the department's overall system that would . . . into the, into the computer system, if I can describe it that way, the process of applying that, ensuring the staff are aware of that. We expect to have that fully in place before the end of this current fiscal year, the end of March of 2002.

With regard to the issue of credit card purchases, we've ensured that the processes and procedures that are set up for approval of credit card purchases are communicated to managers and supervisors throughout SERM. Staff are now more familiar with the procedures for approval and we believe this should no longer be an issue for the department. We believe the issue was one around communication and that has been approved and dealt with and we believe that issue should be resolved.

So those are the observations I would make with regard to the two recommendations, two areas noted from the Provincial Auditor.

**The Chair:** — Thank you very much, Mr. Kramer, for those comments. The 2000 Fall Report for chapter 10 is found on pages 261 to 269 with, I think, reference to recommendations that previous PAC committees have dealt with on page 267 and 268.

So I'd open the floor to comments or questions or discussion about the material prior to the new recommendation that we find on page 269.

**Mr. Harper:** — Yes. Mr. Kramer, after introducing your new process to keep a closer tab, I guess you would say, on credit card purchases, have you noticed any significant change in those purchases?

**Mr. Kramer:** — No. We believe that the observation from the Provincial Auditor was proper. We put in place . . . the response we believe is adequate, but we don't have evidence — I don't believe that was part of the evidence from the Provincial Auditor either — that there had been misuse or that there had been significant trouble around that issue. But it was in theory possible because of the process that was used.

We believe that we have corrected that, but we have not found a change in use or a change in use of credit cards because of it.

**Mr. Harper:** — And you believe then that the process you have in place now will be adequate to maintain a close review of those purchases on an ongoing basis?

**Mr. Kramer:** — Yes, that's correct. And the process that was in place, in terms of the steps to be followed, how that was done was one that was adequate. I think what we have needed to do is ensure our staff are aware of that and follow that and that's

the action that we have taken. But the process that will be in place, which would be the across-government process, is one that we've had to ensure our people followed and we believe we've done that.

**Mr. Harper:** — Great. Thank you, Stuart. No further questions, Mr. Chair.

**The Chair:** — Thank you very much, Mr. Harper. Any further questions or comments? On page 269 . . . no, don't confuse me. On page 269, recommendation no. 1, regarding the rules and procedures for paying for goods and services received. Are there any comments, first of all, or questions on this recommendation? Seeing none, is there anyone prepared to make the resolution.

**Mr. Harper:** — Mr. Chair, I think:

The PAC Committee wants to note much progress and concur with the auditor's recommendations.

**The Chair:** — Concur and report progress. Any discussion? All those in favour? Opposed? Carried.

Any further questions of the officials from the Department of Environment and Resource Management? Seeing none, thank you very much, Mr. Kramer, and to your officials for being with us this morning and assisting us in getting through these two chapters.

**Mr. Kramer:** — Thank you.

**The Chair:** — That brings this morning's agenda to a close, earlier than anticipated. And being a Friday I'm sure that you are all very disappointed that that has occurred.

As indicated and discussed yesterday, Margaret will circulate the dates and proposed times for our blocks that we have tentatively booked for November, the four days in November. And that we'll continue making the progress that we made over the last two days, that will be great.

Have a great weekend and meeting's adjourned.

The committee adjourned at 11:00.