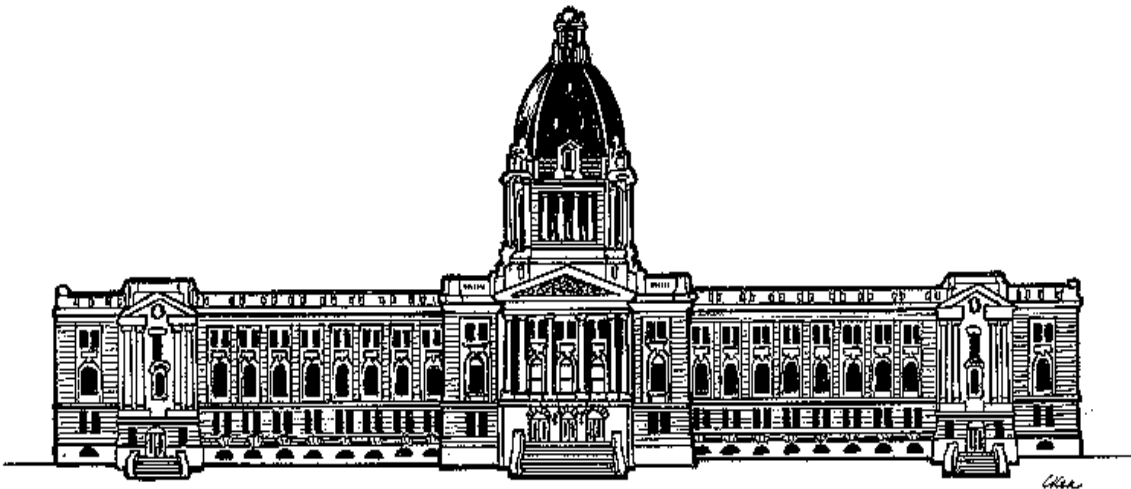




STANDING COMMITTEE ON PUBLIC ACCOUNTS

Hansard Verbatim Report

No. 19 – April 26, 2005



Legislative Assembly of Saskatchewan

Twenty-fifth Legislature

**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 10:45.]

Public Hearing: Industry and Resources

The Chair: — Good morning, ladies and gentlemen. I declare the meeting of Public Accounts under way and open. We have one item on the agenda this morning, and that is chapter 8 of the 2004 report volume 3, Industry and Resources. There are two parts to the report — a portion dealing with the Future is Wide Open campaign and the second portion dealing with northern affairs. As is per our usual we will have the auditor's summary of his office's chapter and then a response from the deputy minister. And at that time, Mr. Deputy Minister, you could introduce your staff if you'd like, your colleagues.

I think for the questioning, we will deal first with the Future is Wide Open portion of the report, and then we will go into the Northern Affairs office portion just so we're not bouncing back and forth. I think that would facilitate our time. We have an hour to try to get through the chapter, and there are also six recommendations in this chapter so we will try to leave some time at the end to deal with those. I'd ask members to be conscious of the time.

I'd like to welcome not only the deputy minister and his staff here, but also Mr. Wendel, the Provincial Auditor, and his staff. I believe the deputy auditor, Bashar Ahmad, will be reporting this morning. I'd like to welcome officials from the comptroller's office and thank members for sitting in on the committee. So with no further ado, Bashar, we will turn the floor over to you.

Mr. Ahmad: — Thank you and good morning, Mr. Chair, and members of the committee. I'm going to provide an overview of chapter 8 in our 2004 report volume 3. The chapter begins on page 214 and describes the result of our audits of the Department of Industry and Resources, Oil and Gas Environmental Fund, Information Technology Office, and the Office of Northern Affairs for the year ended March 31, 2004. In this chapter we also record the results of our work on the Our Future is Wide Open campaign.

We make six recommendations in this chapter. The first recommendation on page 219 relates to the Future is Wide Open campaign. The recommendation requires the department to document the roles and responsibility of each agency involved. When roles and responsibilities are not clearly agreed and documented, confusion and misunderstanding can result in loss of public money.

On pages 221 to 224, we make five recommendations for the Office of Northern Affairs. The first recommendation appears on 222. It requires the government to clarify which agency is responsible to oversee the affairs of the North. This has since been clarified through necessary legislative amendments.

The second recommendation requires the Office of Northern Affairs to update its delegation of authority for approval of payments and contracts for loans and grants. At the time of our audit, the official delegation of authority was old and for positions that no longer existed.

The third recommendation required the office to improve its services, service agreement with the department, to clarify duties and responsibilities. The department does some of the accounting function for the office. The service agreement, however, does not clearly set out who's responsible for approving the payments and the accuracy of the accounting records that it holds.

The fourth recommendation required the office to obtain the minister's approval of the rate of interest it charges on loans. We said so because the law requires the minister to establish the interest rate for loans, and the office could not provide us evidence of the minister's approval for the rate to charge on loans. We understand that the department has now obtained the minister's approval.

The fifth recommendation requires the office to follow the financial administration manual for safeguarding the money received in the mail. The manual sets out controls necessary to safeguard the cash receipts. We noticed staff do not always follow the procedures described in the manual. Without adequate controls over cash receipts, there is a risk that the money may be stolen or incorrectly recorded within accounts. And that concludes my remarks. Thank you.

The Chair: — Thank you, Mr. Ahmad, for that very concise report. We have with us from the department the deputy minister, Mr. Larry Spanner. Mr. Spanner, would you care to introduce your colleagues and respond to the auditor's report? And then we'll get on with questions.

Mr. Spanner: — Thank you, Mr. Chair. On my left is Debbie Wilkie, assistant deputy minister of industry development. And on my right is Hal Sanders, executive director of revenue and funding services with the Department of Industry and Resources.

In terms of the response to the Provincial Auditor, first of all I'd like to thank him and his staff for the co-operation that we've had, as usual, in conducting the audit of our books and so on. The auditor's report clearly states that the funds for Our Future is Wide Open were properly authorized, supported, and recorded correctly. The auditor notes the campaign was well planned and effectively evaluated. We clearly stated what we attempted to do, how we would do it, and when we would evaluate it. And we openly communicated both our intentions and the results.

The report did recommend in future, however, that the department produce a written agreement documenting roles and responsibilities on multi-agency projects before the work begins. And I'd like to advise the committee that, and the Provincial Auditor, that in fact we agree wholeheartedly that such an agreement would clarify responsibilities among government agencies and standardize processes to be followed on payments. In fact we have used such an agreement on multi-agency projects undertaken since the auditor released his findings. Most recently was the economic summit up in Saskatoon.

So that would conclude my remarks, Mr. Chair, and I'd be happy to answer any questions that the committee may have.

The Chair: — Thank you very much, Mr. Spanner. Just for the information of all committee members, I would just note that Brenda Bakken is substituted this morning for Ken Krawetz, as a voting member of the Public Accounts Committee. And with no further ado, we'll open the floor to any questions.

Ms. Bakken Lackey: — Thank you, Mr. Chair . . .

The Chair: — Ms. Bakken.

Ms. Bakken Lackey: — I do have a few questions. On the concern of the auditor's of written agreements on multi-agency involvement, the auditor indicated that this certainly was a lapse by the department because confusion and misunderstanding can result, and certainly a loss of public money can happen then. Why was there no written agreement prior to the auditor bringing this forward? And because there wasn't, how did the department determine, you know, where the dollars were going to and have any control over that?

Ms. Wilkie: — The reason there was no written agreement is because we hadn't done a multi-agency project like this before, which is why we were so accepting of the auditor's recommendation and why we've implemented it.

As to how we were accounting for the funds, the process is as follows. When we're going into a project, we request an estimate for the cost of the project. We receive that estimate. When we get the bill for the project we do a check to make sure that it's in line with the estimate, or if it's not in line with the estimate, follow up as to why and either make an adjustment or an explanation on that. We make sure that in fact all of the goods were received for that bill and then we proceed for processing. In the case of the bills that went to CIC [Crown Investments Corporation of Saskatchewan], we did all of that prior to sending to CIC. We followed the same process in both cases.

Ms. Bakken Lackey: — Thank you. Well further on that issue, the estimate is received and then you do ensure that goods are actually received or the service has been provided prior to them being paid. So in the Future is Wide Open campaign, did you have consultants that actually provided the department with advice and professional help? And were they paid separately, and how did the process work? How many layers did you have involved in actually getting from your department to the end result which was the actual advertising that was made available across the province and Canada?

Ms. Wilkie: — We had what I would call one layer, to use your words, and that is that we used an agency of record that was assigned based on a competition. The auditor also looked at that and found that the process for assigning that agency of record was appropriate. So we would place advertising placements through the agency as well as other production requirements. When it came to printing we placed that through the agency; however, the estimate and the bill came direct from the printers.

Ms. Bakken Lackey: — So the bills came directly from the printers. Was there a percentage paid to the agency, and if so, what percentage was paid?

Ms. Wilkie: — There were no percentages paid to the agency

with the exception of a commission on advertising, which is standard agency practice. Our contract with our agency does not allow any markup.

Ms. Bakken Lackey: — Your contract with your agency does not allow any markup, so what portion . . . I mean the agency obviously has to be paid, so how were they paid if they did not, if they were not paid on a markup of actually the product that they subcontracted out? How was the agency paid and what dollars were they paid?

Ms. Wilkie: — You want to know the exact dollars that the agency got paid?

Ms. Bakken Lackey: — Yes.

Ms. Wilkie: — I'd have to refer to my numbers, but generally the agency is paid based on an estimate they provide as to the number of hours of work and the type of work that would be provided. And that's how they're paid. So we pay directly for the specific work that they provide.

Ms. Bakken Lackey: — And then they hire the subcontractors but the department paid those contractors direct. Am I correct in that?

Ms. Wilkie: — In the case of some of the contractors, we pay direct. It depends on what the procedures and the regulations are, rules are around that. Printers we pay direct. For the advertising placement, we pay through the agency. And for the film production, we pay through the agency, but that is simply a flow-through. They do not get markup on any of those funds.

Ms. Bakken Lackey: — So just so that we're clear then, the bill comes through the agency but to you direct . . . or from the agency, I should say, and you pay the actual bill without a markup.

Ms. Wilkie: — That's correct.

Ms. Bakken Lackey: — And is this the practice across Canada, not just in Saskatchewan? But did your agency actually secure subcontractors outside of Saskatchewan? And was it the same process in place there, that they were not paid a markup? They were just the flow-through agency?

Ms. Wilkie: — We didn't use any suppliers outside of Saskatchewan, with the exception of the purchase of television and newspaper advertising. That was part of our requirement with the agency, that all material had to be produced through Saskatchewan suppliers. In one or two cases of promotional items, the local supplier did do some ordering out of province while they were getting ramped up to do local production. But we generally do not contract with out-of-province suppliers.

Ms. Bakken Lackey: — So did the agency of record, did they actually purchase the television time and the radio slots and so on? And how was that paid for? Was that paid for the same way as the print material, or how was it paid?

Ms. Wilkie: — The advertising was paid through the advertising agency. They did direct placement with the television stations and the newspapers and the billboard

companies.

Ms. Bakken Lackey: — And was there a markup on that?

Ms. Wilkie: — I believe there was a markup, which is standard agency practice to pay advertising commission. It is . . . From my understanding, it will be paid even if you don't use an agency.

Ms. Bakken Lackey: — I guess I don't understand. If you did not use an agency, who would you pay the markup to?

Ms. Wilkie: — You would pay it to the media outlet. I don't know that myself, but I do know that advertising markup is standard across Canada, across the province, no matter which advertising agency you use. It's an agreement that all advertisement agencies have as part of their sort of standards for the industry.

Ms. Bakken Lackey: — So could you provide to the legislature, or to the committee, the amount of markup that that was paid?

Ms. Wilkie: — I would have to get back with a specific percentage. I believe the current percentage is 15 per cent. But with your permission, I can give you details on that.

Ms. Bakken Lackey: — That would be acceptable. I just have one more question and it's in regard to the money that was transferred from CIC in 2004. CIC declared and paid \$5 million to the General Revenue Fund in support of the province centennial celebration.

My understanding that this — according to CIC — that the dividend was paid directly for the province . . . or from the budget that was supposed to be for Our Future is Wide Open campaign. Am I correct in that regard and why did that happen? It says this dividend was paid, directing \$2 million of CIC's budget for the province's Our Future is Wide Open campaign to centennial celebrations, combined with a special dividend from SaskTel of 3 million. Why was this money directed to centennial celebrations when it was in fact originally for Our Future is Wide Open?

Ms. Wilkie: — I'm afraid I can't comment on that because I'm not working from the CIC background. From my understanding the payments for Our Future is Wide Open were paid direct by CIC to the suppliers. They did not transfer a dividend for Our Future is Wide Open. We had a very specific time frame in place with CIC and our time frame for the campaign with CIC expired in 2004.

Ms. Bakken Lackey: — So you have no understanding then of what this means. This is what I'm trying to get comment on, is why if the money, the dividend . . . It says the dividend was paid by directing 2 million of CIC's budget for the province's Future is Wide Open campaign to the centennial celebration. If that money was budgeted from CIC to Our Future is Wide Open campaign and was . . . Obviously there were plans put in place to spend it for the Future is Wide Open campaign. Why was it directed to centennial celebrations instead, in addition to a special dividend from SaskTel as well that was directed to centennial celebrations?

Ms. Wilkie: — Could you refer me to the page in the auditor's report?

Ms. Bakken Lackey: — This is from CIC's non-consolidated financial statements, second quarter report.

Mr. Spannier: — Well to answer your question, we're unaware of this transaction.

Ms. Bakken Lackey: — You're unaware of this transaction?

Mr. Spannier: — We're unaware of it.

Ms. Bakken Lackey: — Thank you for that. Do you have some questions?

Mr. Cheveldayoff: — I do.

The Chair: — Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you, Mr. Chair, Mr. Deputy Minister, and your officials. Somewhat similar to my colleague's question, do you have totals on amounts spent by the government on the Future is Wide Open campaign, including CIC, your department, any Crowns? Do we have a total budget of all public money expended on these campaigns by fiscal year, calendar year?

Mr. Spannier: — In response to the member, I think it's documented in the Provincial Auditor's report on page 218.

Mr. Cheveldayoff: — That is indeed then the total amount?

Mr. Spannier: — Yes.

Mr. Cheveldayoff: — There's nothing outside of that amount?

Mr. Spannier: — Up to this date, no.

Mr. Cheveldayoff: — Okay. I understand that the department, it says on page 217, plans to continue the campaign for '05 to prepare the stage for this centennial celebration. What is the budget for '05-06?

Mr. Spannier: — In the budget that's currently before the Assembly is around 700,000 for Our Future is Wide Open.

Mr. Cheveldayoff: — Seven hundred thousand. Okay, I'm looking through the information. I didn't see a breakdown by that so . . .

Mr. Spannier: — . . . marketing . . .

Mr. Cheveldayoff: — Okay. No, that's good. Could you give us a further breakdown, Deputy, on what that money would be used for?

Mr. Spannier: — Sure. *Globe and Mail* supplement, 110,000; advertising on national business television networks, 400,000; national print advertising promoting key sectors, 40,000; Team Saskatchewan missions, 150,000.

Mr. Cheveldayoff: — I'm trying to catch all that. The last

entry that you said . . .

Mr. Spannier: — Sorry about that. I'll just go through them once again. *Globe and Mail* supplement, 110,000; advertising on national business television networks, 400,000; national print advertising promoting key sectors, 40,000; Team Saskatchewan missions, 150,000.

Mr. Cheveldayoff: — Okay. Team Saskatchewan missions, 150,000. Could you just generally explain what's involved there?

Mr. Spannier: — Yes, basically we've got a group . . . we've got six key sectors of the economy that we're focusing on. And what we do is, we complement the work that STEP [Saskatchewan Trade and Export Partnership Inc.] does, go on various trade missions where we take a lot of the companies along with us. For example, there's a biotechnology conference, a world biotechnology conference coming up in Philadelphia. So Ag-West Biotech and some of the other biotech companies from Saskatoon would accompany a group of senior people down to that.

Similarly, Germany last year, there was a biotechnology conference; world uranium conference in September. Those types of missions.

Mr. Cheveldayoff: — These subsidies that are paid to these companies then? Or do they pay their own way?

Mr. Spannier: — In most cases they pay their own way, but in some cases where there is a financial hardship for them we offset some of the costs.

Mr. Cheveldayoff: — Okay, is there general guidelines around that?

Mr. Spannier: — No, they would basically make, put in a request to us. You know, for example, Ag-West Biotech may put in a request for \$2,000 to help offset the costs. But it's generally around that amount.

Mr. Cheveldayoff: — Just a general question regarding the Future Wide Open campaign, and how much was spent on media buys directed at audiences outside Saskatchewan versus those inside the province. And also, what measurements of . . . Well maybe we'll just start with that, how much directed outside the province versus inside the province.

Mr. Spannier: — I'll ask my colleague to answer that.

Ms. Wilkie: — I don't have the numbers added up, but I can give you some print, TV, etc. So in '03-04, on print placement, in province we spent 13,000, out of province 270,000. In terms of television placement, in province 74,000, out of province 189,000. Radio, in province, 188,000. We did not spend money out of province on radio. Web placement was 42,000, and that of course applies to both in province and out of province. Airport placement 43,000 out of province, 6,000 in province.

Mr. Cheveldayoff: — Okay. What measurements were taken, what benchmarks were in place, I guess, of the attitudes of audiences before and after the campaign both inside the

province and outside the province? I'm wondering if you can share that information with us, you know, and possibly table any information that you may have? I understand this would be, you know, an important premise of the whole campaign.

Ms. Wilkie: — Absolutely. And it was one of the elements that the auditor looked at in terms of our evaluation and said that we had done quite an adequate job in terms of setting objectives and evaluating against those objectives.

In province, we conducted polling in 2003 shortly after the advertising had run for about a month. What we found was that 20 per cent of all respondents said they actually learned something new about the province from that advertising — that's inside the province. That compares to an industry norm of about 14 per cent, so it was quite a bit higher than the industry norm.

Of the youngest respondents — which is a group, of course, all of us are concerned about — 46.6 per cent agreed that they had learned something new about Saskatchewan from the advertisements. So that was pretty much double the, you know, the general population. And 26.6 per cent of the youngest respondents said that the ads actually changed their attitude towards the province. In addition, the Canada West Foundation . . . Saskatchewan had the largest increase in optimism among all four of the Western provinces between 2001 and 2003. Now there's no way, you know, to know for sure whether or not that was related to the campaign, but it certainly was an interesting statistic.

And I have a news release, as we had issued the results on the out-of-province polling as well as the in-province polling. Out of province we conducted research in June of 2003 with the national business community and it showed that almost half of the business people surveyed remembered hearing or seeing the ads about Saskatchewan, and of that, more than a third said they'd be more likely to do business in Saskatchewan as a result of that advertising.

If we want to go on a province breakdown: 62 per cent of those in Ontario felt more positive towards Saskatchewan — Ontario was a key market because of the Toronto business community — 54 per cent said that in BC; 50 per cent in Alberta. We found the closer that people were to the province, the more positive perception they had in the first place, so there was less attitudinal change. The farther they were away, the more inaccurate their perception was of Saskatchewan.

I can go through this, but I'd be pleased to table the news releases and the reports that we have done on the polling and evaluation.

Mr. Cheveldayoff: — Okay, I think that would suffice if you could table that information.

The Chair: — Ms. Bakken.

Ms. Bakken Lackey: — Thank you. In the auditor's report he specifically refers to, that the department's documentation of rules and responsibilities for other government agencies involved in the campaign were not adequate. And other than CIC it's unclear what other departments were involved and

what was the involvement? Was the involvement that money was being transferred from those departments to the Future Is Wide Open campaign, or vice versa, or both? If you could clarify which departments the auditor's referring to and what was the actual involvement with those departments?

Ms. Wilkie: — Well I can't speak for the auditor as to which specific departments he was referring to, but I do know that departments were involved in a couple of ways. They could access use of our Wide Open Future display at events, and there was no cost to them for that.

We did ask that they incorporate the Wide Open Future logo on their materials and they did that. There was really almost no cost, because if they were printing material to add a logo, it was really a non-cost item. And I believe that's what the auditor found as well, according to the report, is that departments told them there were very little costs in relation to participating in the campaign.

Ms. Bakken Lackey: — Was there money transferred from other departments to the Future is Wide Open campaign?

Ms. Wilkie: — There was not.

Ms. Bakken Lackey: — So it was . . . Where was the sole source of income from then for the Future is Wide Open campaign? Where did you receive the funding from?

Ms. Wilkie: — We received the funding from General Revenue Fund and we paid. CIC also funded the campaign but they made those payments direct.

Ms. Bakken Lackey: — To?

Ms. Wilkie: — To the suppliers.

Ms. Bakken Lackey: — To the suppliers. So none of the money from CIC flowed into the Industry and Resources budget. It was . . . They paid directly? All their involvement was direct?

Ms. Wilkie: — That's right.

Ms. Bakken Lackey: — That's right. Okay. Thank you.

The Chair: — Thank you. Just a couple of questions. I'll get back to Mr. Cheveldayoff. I am curious about the ad agencies outside of Saskatchewan that actually did the booking. Do you have a list of who those ad agencies were and could you . . . if you don't, could you provide that information to the Public Accounts Committee?

Ms. Wilkie: — No ad agencies outside of Saskatchewan would have done the booking. That would have been all directly done by Phoenix Advertising directly with, you know, Global CanWest for the national TV, with *The Globe and Mail*. So we didn't use outside advertising agencies for that purpose.

The Chair: — So then all of the advertising out of Saskatchewan was done on a national basis through a national media delivery system.

Ms. Wilkie: — Yes. Directly, booked directly with a national media.

The Chair: — Okay. And the other question I have is on the benchmarking and then the subsequent evaluation of the program. How much money did you spend on both the benchmarking process and the evaluation process?

Ms. Wilkie: — On the national survey, I think it was approximately \$40,000 and that included the benchmarking as well. The in-province polling would have been approximately \$10,000. It was part of the regular omnibus polling. It cost us approximately \$7,000 to do benchmarking for in-province polling.

The Chair: — All right. Very good. And, Mr. Cheveldayoff, you had another question?

Mr. Cheveldayoff: — Yes, Mr. Chair. And we have questions regarding recommendations. Do we handle that later or should we ask them now?

The Chair: — We can deal with the recommendation no. 1 at this time and then we'll deal with the others in conjunction with the Northern Affairs office.

Mr. Cheveldayoff: — Right. Regarding recommendation no. 1, where it says:

We recommend the Department of Industry and Resources document the roles and responsibilities of the agencies involved when it coordinates work with other government agencies in delivering a significant program.

I guess I just want it explained to me what exactly is meant by the recommendation. And I see a role for Executive Council here in defining the roles of departments and agencies. And if you could just comment on the recommendation towards the department and what you would see as the role of Executive Council in this area.

Mr. Ahmad: — Mr. Chairman, what we are talking about is they have to know who's going to do what, for what purpose. For example, they had some kind of understanding which was not written, with CIC, that CIC will receive bills to the department. And CIC was under the impression that the department is going to do the due diligence, or look at the actual performance and do whatever they had to do to forward it to CIC for payment. The department said that, we were not doing it. CIC said that yes, we paid it because the department sent it to us. So there was a confusion, who was supposed to do what.

And then later on the department told us that, we have looked at all the support for the payments but we cannot document that because we don't have the authority to document any approval for CIC payments. So that kind of thing, they have to make sure that there is some kind of written understanding of who's going to do what, for what purpose.

Mr. Cheveldayoff: — Well that's exactly what I'm getting at. But I guess taking it a step further, I think there's a role for the Executive Council here in defining those. Like should it be up to the Department of Industry and Resources to define that with

CIC, or should it be taken to the highest level for those definitions to be explained?

Mr. Wendel: — I'll try and answer that. It would depend who was assigned the responsibility to carry out a particular program. So if the responsibility lays with the particular line department, they're responsible then to make sure that that's administered properly. And if that requires inter-agency agreements and contracts, then they need to do that. If Executive Council was responsible for delivering it itself, then we would expect them to do that. So that's how we would come at it. Because the department is ultimately responsible for this program, they have to manage it properly to make sure money is well spent.

Mr. Cheveldayoff: — If there is a disagreement between CIC and Industry and Resources, who would arbitrate that disagreement? Or would Industry and Resources have the lead on that?

Mr. Wendel: — Well the responsibility has been given to this department and they would have to work that out, and I suppose they would have to go to the highest levels if they weren't able to. That might go right to cabinet as opposed to the Department of Executive Council or wherever it might go. But if they ended up in that situation, yes, they'd have to go somewhere.

Mr. Cheveldayoff: — Okay. Thank you, Auditor. A couple of questions for the deputy, just general questions. Deputy, are you aware of any fraud or allegations of fraud or suspected acts of fraud within this program?

Mr. Spannier: — No, I'm not. I refer again to the Provincial Auditor's report, who said that, "We found all payments were properly authorized, supported, and recorded correctly." So I think that lends a lot of weight to the . . . [inaudible] . . . audit.

Mr. Cheveldayoff: — Thank you for that answer. Again, are you aware of any illegal acts, allegations of illegal acts, or suspected illegal acts with this?

Mr. Spannier: — None at all.

Mr. Cheveldayoff: — That's the answer we want to hear. Thank you very much, Deputy. Mr. Chair.

The Chair: — All right. Are there any other questions regarding . . . Ms. Bakken.

Ms. Bakken Lackey: — I have one more question of the auditor. I listened to your explanation that there was not proper documentation by either the department or CIC. So how did you then come to the conclusion that everything was proper at the end of the day?

Mr. Ahmad: — Mr. Chairman, what we had to do is we took all the invoices adding up to 2.1 or 2.9, whatever the amount was, and we said, okay we want to see support. And we substantively worked our way through the invoices and work orders, the rates, and everything, and it seemed there was support for every payment.

Ms. Bakken Lackey: — And so you're satisfied that they are

accounted for.

Mr. Ahmad: — Yes, yes.

Ms. Bakken Lackey: — Thank you.

The Chair: — All right. I think it's time to entertain a motion on recommendation 1. I will read the recommendation by the Provincial Auditor:

We recommend the Department of Industry and Resources document the roles and responsibilities of the agencies involved when it coordinates work with other government agencies in delivering a significant program.

Is there a motion?

Mr. Yates: — Mr. Chair, I will move concurrence and note compliance.

The Chair: — Okay, the motion is to concur and note compliance. Are there any questions or discussions surrounding the motion? All right. Seeing none, we'll call for the question. All in favour? Opposed? That's carried.

Public Hearing: Office of Northern Affairs

The Chair: — Very well. We will now move on to the second area of chapter . . . second item under chapter 8, which is the Office of Northern Affairs. Again, are there any questions? I see we're changing some officials here. We'll just give you a few seconds to reorganize yourselves there.

Okay, we have Larry Steeves, deputy minister of Northern Affairs. And if you would introduce your colleague, and then we'll allow you, I guess, also a chance to respond specifically to the auditor's report. If you could do that briefly, and then we'll open up the floor to questions. Mr. Steeves.

Mr. Steeves: — Thank you, Mr. Chair. I'm pleased to introduce our executive director of the policy and financial administration, Anita Jones, who will be with me today.

As far as comments, just introductory a few brief comments. I would just indicate that we accept the recommendations provided by the Provincial Auditor, and beyond that I think I would be honest in saying that we've found them helpful in providing guidance to us. As a relatively new department, I think the auditor's comments and feedback in general ways were helpful and opportunity in us in further enhancing and developing our own internal financial controls. So that was valuable to us.

We, as a result of them, have addressed these issues, have identified frankly clear responsibility internally for financial management issues and spent time with staff to review and further improve understandings related to the specific recommendations that were provided.

The Chair: — All right, thank you very much. Are there questions? Ms. Bakken.

Ms. Bakken Lackey: — Well my understanding from the

auditor's comments is that this has now been clarified and corrected in that who is responsible for the Northern Affairs agency. It is, if you could comment, it is still under the Department of Industry and Resources but . . . or how has it been changed?

Mr. Steeves: — Effective in December we were incorporated officially, legally as a separate department under The Government Organization Act and so now we accept responsibility fully as had been practised previously. But now we are legally so entitled.

Ms. Bakken Lackey: — So you have your own department and you're responsible?

Mr. Steeves: — Not that we didn't have that in effect . . .

Ms. Bakken Lackey: — But you worked within . . .

Mr. Steeves: — Yes.

Ms. Bakken Lackey: — . . . under the auspices of Industry and Resources, correct?

Mr. Steeves: — Yes.

Ms. Bakken Lackey: — But now you do not. And so from the auditor's report he indicated that the delegation of authority for approval of payments and contracts for loans and grants were not adequate. I mean, I guess I struggle with this when I read the auditor's report of how could you possibly have a government agency — whether you were, you know, under Industry and Resources or a stand-alone — that did not have the proper delegation of authority for approval of payments and certainly for grants and loans? If you didn't have the proper authority and the processes in place, how was this being handled and why?

Mr. Steeves: — Previously it had been a matter signed off by officials internal to the department. When I accepted responsibility for the position in July, I thought it would be helpful to . . . partly as a familiarity issue and also one just to get a clearer idea of what we were doing and not doing, we centralized authority and that was finally completed in February. Effectively March 23 what we did is delegated a number of areas back out, in areas that I think there was a common agreement that this would be helpful and appropriate.

With respect to the specific areas referred to in the auditor's comments, I felt it would be helpful to take a look at other departments' best practices to get a better idea of what would be the most effective and appropriate way of handling these issues. So at the present time those are still under my signing authority, centralized at this point.

Once we've had a chance to do some due diligence and research in those areas, I think we'll be in a better position to identify the most appropriate signing authority. I think it is at this point overly centralized, quite frankly. But it allowed me to get a better idea of some of the things we were doing in our department and then, from there, I think allows us to determine what's the appropriate signing authority level.

Ms. Bakken Lackey: — Thank you, Mr. Chair. Well I guess, you know, when we . . . In the last few months, we've had allegations of misappropriation of funds in the department of community and resources and also in the Department of Environment. And what assurance or what steps have you taken within your department to ensure that this has not happened within the Department of Northern Affairs?

And I guess, having looked at the concerns raised by the auditor, quite frankly, I don't know how you would verify that because there were not the proper controls in place for either, in both instances of allocating money out of the department and also in receiving money. So what have you done to ensure the public that there was not misappropriation of funds?

Mr. Steeves: — I think the auditor had indicated that by and large our financial procedures were appropriate. My sense of the issues were that there needed to be tighter focus. I think that when we reviewed things and helpfully had the support of I and R [Industry and Resources] in that process, the controls were in place but not as rigorous as might have been the case. So we wanted to ensure that we tidied things up and ensured that the appropriate controls would be there.

Ms. Bakken Lackey: — Well, Mr. Deputy Minister, I guess I find it alarming that they're almost in place. The auditor has raised a concern about approval of payments where there was not a proper delegation of authority for approval of payments for contracts or for loans and grants. There was not a proper service agreement in place to approve payments and ensure the accuracy of accounting records, there was not proper approval by the minister regarding interest rates on loans, and there was not proper control of money flowing into the department.

So there was huge concern, and I guess, I mean myself and I'm sure the public in general would like to know how you could possibly run a department and not have these accepted accounting principles in place. This is public money flowing in and out of a department with apparently very little control and checks on who was receiving it, or the money that was coming in and where it was going when it came in. And the auditor further goes on to indicate that there was not a proper mechanism in place to balance the incoming cash with the money that was actually deposited.

So I guess I disagree with you when you say that the proper procedures were in place and that it was a, you know, minuscule concern.

Mr. Steeves: — I think there was certainly room for improvement, and with respect to the area of delegation of authority we wanted to ensure that I had a good opportunity to review our existing practice and see where it could be supplemented and improved. That was one of the reasons I felt it would be helpful to centralize signing authority.

We've gone through that process now; identified areas that legitimately could be passed out again in appropriate ways in areas where I think we want to still see if there are . . . what would be the most appropriate practice. We are moving forward in those areas. With respect to some of the other areas, approval of interest rate, that was addressed in December '04 with approval from the minister. And in other areas that the auditor

helpfully identified, we've been moving quickly to review and improve financial management issues.

Ms. Bakken Lackey: — Well just further, some specific questions then. Firstly around the whole issue of the interest rates and were there . . . did the interest rate vary for different projects or different people? Or at the end of the day, who did determine what the interest rate was, that was going to actually ultimately be charged? Who made that determination?

Mr. Steeves: — The interest rate has been effectively established at 10 per cent for some years . . . [inaudible interjection] . . . Yes, it hadn't been adjusted. I think the auditor identified to us that the letter of approval from the minister was not in place designating that interest rate. So it was a matter of having the minister officially approve the interest rate that was in place, which was 10 per cent.

Ms. Bakken Lackey: — So what you're telling the committee is that 10 per cent was the only interest rate charged; it was the same across the board. It just was not actually given approval by the minister. Is that correct?

Mr. Steeves: — Yes.

Ms. Bakken Lackey: — And, Mr. Deputy Minister, when we talk about who had signing authority and for what programs or funds, what . . . are you saying that different people throughout the province had signing authority? Did you have bank accounts across the province or how is this handled? I don't understand.

Mr. Steeves: — No. What had happened previously is that there was effectively a delegation of authority in place. What wasn't there was a clearer statement of who was responsible for what in terms of signing authority. And to clarify to all staff what would occur, I felt it helpful just to sort of say for now . . . and partly an opportunity for me to get a better sense of flow of loans, etc., that were coming in as a new deputy minister, I would take it, centralize it in from members of my staff — whether it be loans or grants, those kinds of things, or even travel approvals — I just centralized it all and to give me a good sense of flow of department administration. It's possible to do that when you have a department with 35 people.

So it isn't as though it's a large and overweening organization. It meant, I think, frankly our practices were by and large pretty solid. What wasn't in place though was a clearer definition in some ways, like the approval of interest rate that we had a formal statement of delegation of authority that was understood and approved. It was understood by all staff. Effectively it was operating reasonably well but it didn't operate according to an approved delegation of authority, which was what we set out to rectify.

Ms. Bakken Lackey: — If I might, Mr. Chair, if I could address a question to the auditor, Mr. Wendel. What was your concern then when . . . about not proper signing authority and were there various signing authorities throughout the province and for different accounts? Or, I don't understand how there could be different signing authorities and not proper approval for who had the authorization.

Mr. Ahmad: — What we found is that the delegation of

authority had certain delegation for approval to individuals or positions that no longer existed. So what they were doing, the Northern Affairs was doing, is they had the old delegation of authority from the Department of Industry and Resources, and they're continuing with that thing.

And our concern was that if you have delegation of authority which state that certain positions have the authority to sign, those people could still authorize some payments. But that was not the case in . . . As a matter of fact, when we looked at those things, we did not find any errors. But the potential for error was still there. That was our concern.

Ms. Bakken Lackey: — Thank you for clarifying that. Just a few more questions, Mr. Deputy Minister. The auditor indicates that there was a need to control the money that was received by your department in the mail. First of all, why would you be receiving funds by mail? What would this money be for?

Mr. Steeves: — The Office of Northern Affairs is responsible for the operation of the Northern Development Fund, which is a small, lending fund that deals with the developments of small business, primary producers — typically loans to a fisher, loans to wild rice producers, loans to trappers, those kinds of things.

And given the nature of the northern economy and practices there — sometimes a financial institution is available, sometimes not — that on occasion you'll find in the North that it operates more on a cash basis than would be typical in other places; sometimes simply because there's no financial institution in the community to draw money on. And so cash, which creates some challenges, frankly, but cash becomes a more significant payment vehicle than might always be the case outside of the northern administration district.

Ms. Bakken Lackey: — Thank you, Mr. Deputy Minister. Well the auditor's report indicates that due to lack of controls, money might have been stolen or misappropriated. What I mean, in any business when you receive cash, it has to be documented. And obviously the amount of money received has to balance to the amount of money that you deposit.

This is just, I mean, this is just common practice. It sort of goes without saying. So I guess I fail to understand how you could possibly, in a department, be receiving cash and not have the proper authorities and rules and regulations in place to ensure that that money was accounted for.

Mr. Steeves: — I think that the money was essentially accounted for. The issues were more, again because of the small operation — people on the road a fair bit — there wasn't always the proper segregation of duties, etc., that would, frankly, normally be accepted. And the auditor identified those issues and we've been working hard to see those kinds of proper authorities in place. Anita, would you want to comment a bit more about . . .

Ms. Jones: — Actually you've covered it fairly well.

Ms. Bakken Lackey: — Mr. Deputy Minister, I fail to understand what . . . I guess I hear it as an excuse — people on the road. And that justifies not having proper accounting principles in place to ensure that cash is actually handled

properly and that it goes at the end of the day to the right place. I mean if you have a loan in your department that someone has to make a payment on monthly, obviously when that money comes in, it would have to be applied against the loan and have to be documented and then deposited in a bank account. So how can . . . I mean how can you justify by saying that people were on the road so it was okay that we didn't have proper accounting practices?

Mr. Steeves: — Your comments are fairly taken. And I think the auditor helpfully raised those issues and ones that we took seriously and are sort of working to ensure that the proper segregation of duties occurs, and on occasion revising administrative practice to ensure that those kinds of proper controls are in place.

Ms. Bakken Lackey: — Well, Mr. Deputy Minister, I guess I find this alarming, as I'm sure that most people in the province will upon hearing that we have, within the Government of Saskatchewan, yet another department that is not ensuring that control of money is handled under proper accounting procedures, and that this could actually be taking place. Within private business, this would never be condoned and if it was, then there would be certainly concern that there was misappropriation of funds or that cash was either missing or stolen.

And if this is going on in this department . . . We also have concerns within the Department of Community Resources, within the Department of Environment. I guess it begs the question, how many more government departments do not have proper controls and where there could certainly be concern over misappropriation of funds.

Mr. Steeves: — I think that the auditor's feedback to us was that our financial practices were essentially in place, but there was room for improvement, which we would . . . we certainly accepted those recommendations.

The Chair: — Okay, thank you. Just before Mr. Cheveldayoff and Mr. Yates ask questions, I'm just curious. We're talking about loans. What's the global amount of these loans? Are we talking millions of dollars here? What would we be considering?

Mr. Steeves: — The amount would be — outstanding loans at any given time — in the neighbourhood of about \$2 million. Anita, would you . . .

Ms. Jones: — We have about actually \$4 million outstanding. The average loan could be \$10,000. We have a lot of low-volume loans that are around \$1,000 that go towards primary production like commercial fishing and trapping. The largest loan we can administer is \$250,000. They go over a 10-year period.

The Chair: — And of those loans, how many would you consider to be in default? And what would be the total amount of that default?

Ms. Jones: — At the present time we have approximately \$1.8 million in default.

The Chair: — In default. One point eight out of a total of . . .

Ms. Jones: — Four million.

The Chair: — Four million. That's a very high rate.

Ms. Jones: — We have an allowance for doubtful accounts set at 20 per cent of our lending, annual lending, so that's \$400,000 a year. This year our allowance for doubtful accounts was only 305,000 of our 400.

The Chair: — So you're way above your allowance?

Ms. Jones: — We're doing well this year actually on an annual basis.

The Chair: — But on the longer term, you're not doing well.

Ms. Jones: — What it is, is we have not recently submitted for a write-off request for submission to the Board of Revenue Commissioners so we have an accumulated allowance right now. This year we will be submitting a . . .

The Chair: — So how do you try to collect loans in a default? Do you turn it over to a collection agency or do you pursue those defaulted loans yourself?

Mr. Steeves: — A bit of both. We retain the services of a collection agency and lawyer on occasion to encourage clients to be forthcoming. I think the other thing I would say is this is the developmental lending program as well. And we recognize that this is, to some extent, a capacity-building exercise given the nature of our clientele. Having said that, it's fair to say that our director of the Northern Development Fund is very diligent and rigorous in ensuring people come good.

The Chair: — Are these loans given with or without security provided?

Mr. Steeves: — My experience suggests that we're fairly rigorous on identifying security, even though we're talking about a developmental model.

The Chair: — Mr. Cheveldayoff.

Mr. Cheveldayoff: — Okay. Just on that topic, what percentage of the loans in default are actually written off? What's your experience over the past number of years?

Ms. Jones: — There hasn't been a write-off submission made for the last few years. That's why we have an outstanding balance of about 1.8 million.

Mr. Steeves: — Our director is vigilant in chasing our folks to have them meet their commitments. I think on occasion we probably should talk more about the fact. Realistically some of the loans that he's still wanting us to ensure are taken care of, may realistically not be recoverable. But he is very, very vigilant about ensuring that people pay wherever possible.

The Chair: — Who is he? Who are we talking about?

Mr. Steeves: — Gerald DesRoches is the manager of the

Northern Development Fund.

The Chair: — Thank you. Mr. Cheveldayoff.

Mr. Cheveldayoff: — Thank you. Mr. Deputy, conflict of interest policies, can you just outline for employees of your department, is there a conflict of interest policy for the office? And has that been signed by each employee?

Ms. Jones: — When an employee joins the Government of Saskatchewan, we do complete the standard documentation of forms which deals with conflict of interest. Conflict of interest in particular deals with when an employee is interested in pursuing alternate employment outside of the department, such as participating on boards of committees, doing consulting work, teaching university classes. In the cases where we do have employees that are engaged in outside activities, we do have conflict of interest forms completed.

Mr. Cheveldayoff: — I'm thinking, I'm asking more specifically to those that are able to approve loans and safeguards in that place, so loans can't be approved to friends and associates. And my understanding is that financial institutions that do that have a conflict of interest policy in place, or a code of ethics, if you like.

Mr. Steeves: — Actually in our case, actually officials don't formally approve the loans. What happens with the Northern Development Fund, there's also the Northern Review Board. And the Northern Review is an advisory board, which has representatives from various parts of the province, northern administrative district of course. Examples would be the administrator in the community of La Ronge, who serves on our board. Another example would be one of the mayors in one of the communities, etc.

And what happens is that when the loan is made, due diligence is done. The recommendation goes forward with the recommendation to approve or not approve, to the Northern Review Board. They review that and the process goes from there. So in fact loans are reviewed by the Northern Review Board prior to the decision. So I think that really ensures that there's a transparent and open process in terms of how the loans are considered.

I think a six-member board, and I say, they represent various communities and various walks of life, so to speak; chosen, I think, geographical but also in terms of the specific skills that they would bring to that position, and a variety of backgrounds.

The Chair: — If I could just interject. We have come to the agreed upon time to adjourn the committee meeting and we are not yet completed questions, and we have some recommendations. So is it your will to carry on? Do you think that this will be much longer? Or is it your will that we adjourn and we ask these officials to return to committee at a future date? I guess I need some guidance from members here.

Mr. Yates: — How much longer do you anticipate questions to take? Can we wrap up by 12?

The Chair: — Are there many more question on this side?

Mr. Cheveldayoff: — Mr. Chair, there's certainly a number of answers that have given us thought for further questions, so we would ask that we adjourn at this time.

The Chair: — All right. Are members on this side . . . I'm cognizant of the fact you have an engagement that's coming quite . . . a regular scheduled function or engagement that comes quite soon. So I don't want to, you know, I don't want to be heavy-handed here, but I also sense that I have some responsibility to make sure that you're able to keep that commitment. And I also sense that, you know, this may go a little longer, plus we have four more, five more recommendations that we haven't dealt with.

So do I sense a general agreement that we should adjourn? Mr. Trew.

Mr. Trew: — Yes, Mr. Chair. Thank you and I appreciate all of this. Is there one of . . . Like, this is broken into two groups that we're reviewing today. Is there one that the opposition might be ready to pass?

The Chair: — We've completed the recommendation on . . .

Mr. Trew: — We've done the one. I'm sorry.

The Chair: — We've done that so we, in fact, have . . .

Mr. Trew: — I apologize.

The Chair: — We have completed that, Mr. Trew. Mr. Borgerson.

Mr. Borgerson: — But Mr. Trew has raised an interesting question. Are there particular recommendations that we could deal with now?

The Chair: — Ms. Bakken.

Ms. Bakken Lackey: — Well we've already dealt with Future's Wide Open portion of it and we do not need to recall those officials. It'll be the Northern Affairs that we would like to ask further questions on.

The Chair: — As a rule, the recommendations don't take much time. It's the questions around the recommendations that take the time. So with your permission, and if I don't see any hands waving wildly, I want to thank the officials. You certainly have been giving answers to the questions, but there are still more questions to come. So we will excuse you and ask you to come back at a future time.

I want to thank committee members for their questions. I want to thank the Provincial Auditor and his staff for being here to also facilitate the process of the Public Accounts Committee to review all aspects of the government. I declare this meeting adjourned.

[The committee adjourned at 11:47.]