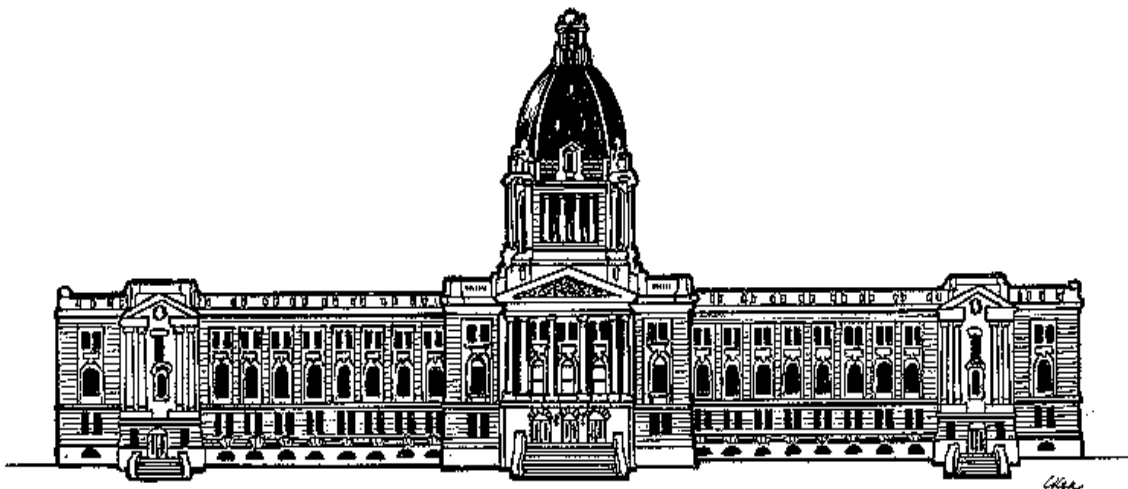




# **STANDING COMMITTEE ON PUBLIC ACCOUNTS**

## **Hansard Verbatim Report**

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## STANDING COMMITTEE ON PUBLIC ACCOUNTS

Mr. Trent Wotherspoon, Chair  
Regina Rosemont

Mr. Michael Chisholm, Deputy Chair  
Cut Knife-Turtleford

Ms. Pat Atkinson  
Saskatoon Nutana

Mr. Dan D'Autremont  
Cannington

Mr. Warren Michelson  
Moose Jaw North

Ms. Laura Ross  
Regina Qu'Appelle Valley

Mr. Lyle Stewart  
Thunder Creek

[The committee met at 09:02.]

**The Chair:** — Well good morning, folks, and welcome to the Standing Committee on Public Accounts. For the many, many, many viewers that tune in from across the province and watch these proceedings with riveted attention, I provide them the website [www.auditor.sk.ca](http://www.auditor.sk.ca) so that they can access the documents that we'll be reviewing here today.

Our primary considerations here today are the Provincial Auditor's report 2009 volume 3. We will also be reviewing 2009 volume 2, and there may be other questions of a broader nature as well.

Just as notice at this point in time, I deem referred, pursuant to rule 141(2), the 2009-2010 Public Accounts volume 1 to this committee at this point in time which was released yesterday.

### First Nations and Métis Relations

**The Chair:** — I'd like to welcome Deputy Minister Crowe and ministry officials here today from First Nations and Métis Relations for first considerations this morning, coming out of chapter 8 in the volume 3 report. I will provide Deputy Minister Crowe a moment to introduce his officials, then I'll turn it over to our auditor's office and our comptroller's office.

**Mr. Crowe:** — Good morning. Thank you, Mr. Chair. And good morning to the members. I'd like to introduce our officials from the Ministry of First Nations and Métis Relations who are with me today: James Froh who is the assistant deputy minister with the First Nations and Métis Affairs division, and Mr. Kerry Gray, director of finance, accountability and corporate services.

**The Chair:** — Thank you, Deputy Minister Crowe. I would like to welcome here today, from our provincial comptroller's office, Provincial Comptroller Mr. Paton and Mr. Bayda. Thank you for joining us here today.

And at this point in time, I'm going to turn it over to our Acting Provincial Auditor, Mr. Atkinson, to introduce his officials and to invite them to make presentation as it relates to this chapter of First Nations and Métis Relations.

**Mr. Atkinson:** — Thank you very much, Mr. Chair. Good morning, members. Seated to my left is Mike Heffernan. Mike is the deputy with our office and he will be leading our presentation this morning. Also seated over on the wall is Kim Lowe. Kim is a principal with our office. She attends all of these meetings. She is our liaison with this committee and makes sure that we have the right people here at the right time. Also seated beside Kim is Michelle Lindenbach. Michelle is a manager with our office and she'll be observing today.

**Mr. Heffernan:** — Mr. Chair, members, the Ministry of First Nations and Métis Relations administers certain aspects of an agreement between the Government of Saskatchewan and the Federation of Saskatchewan Indian Nations. This agreement is commonly referred to as the gaming framework agreement.

For the year ended March 31st, 2009, the ministry paid \$51.5 million to the First Nations Trust administered by FSIN

[Federation of Saskatchewan Indian Nations]. The gaming framework agreement requires this money to be spent for specific purposes. The ministry is charged with making certain that the First Nations Trust uses this money as the agreement intends.

The ministry needs to better monitor spending of the First Nations Trust. The ministry has not received from the trust the independent audit report required by the framework agreement on whether money received by the trust has been fully accounted for and properly disposed of and the rules and procedures applied are sufficient to ensure an effective check on the receipt and allocation of money received by the trust.

In addition the ministry needs to follow its procedures for ensuring that only authorized employees have access to its computer systems and data. In table 1 at the end of this chapter we set out a recommendation previously made by this committee that the ministry complete the development of its performance plan. That concludes my remarks.

**The Chair:** — Thank you. I'll now turn it over to Deputy Minister Crowe to respond and provide the perspective from the ministry.

**Mr. Crowe:** — Thank you, Mr. Chair. Once again we're happy to be here before the committee today to discuss the recommendations to our ministry from the Provincial Auditor. We always welcome the guidance and recommendations from the Provincial Auditor as we strive towards a stronger organization.

There are three recommendations for the Ministry of First Nations and Métis Relations. The first one regarding the First Nations Trust is a familiar one. This is an issue carried forward from the previous year and I want to point out that the trust has demonstrated an improvement year after year in its ability to meet accountability requirements. However there remains an issue of the trust delivering timely, independent auditors' reports to the ministry in order to ensure that money going to the trust is being properly accounted for. Ministry officials will continue to work with the First Nations Trust to obtain the necessary reports to meet Provincial Auditor's concerns.

The next recommendation for the ministry is to follow established procedures for removing user access to our computer systems and data. We understand the need to be on top of this to ensure the confidentiality and integrity of the work that we do. I can assure you today that the ministry staff are being more diligent in minimizing the time between a change in an employee's status and their ability to access our computer systems and data.

The third recommendation deals with the ministry's human resource plan and our need to provide details on how we are implementing strategies to meet our human resource needs. Though it is still very early in our union with the former Northern Affairs department, we have made considerable progress with respect to human resource planning. The ministry worked with the Public Service Commission to develop a human resource plan and it was approved in May 2008.

We did undertake a number of the initiatives contained in the plan, but we acknowledge that they were not documented. The ministry has assigned accountability for the implementation and maintenance of the human resource plan to the two new assistant deputy ministers. They will assure that work plans are developed, implemented, and documented.

Thank you for the opportunity to share with the committee the work the ministry is doing. And we'll continue to address the recommendations of the Provincial Auditor and we welcome any questions that you may have.

**The Chair:** — Thank you, Deputy Minister Crowe. I'll turn it to the committee for questions. I have a couple of questions here just as it relates to the audited reports of the trust. The deputy minister has said that they're going to endeavour to obtain the audited report. Does the ministry have a timeline to have this completed by? And is there going to be a procedure into the future that will ensure that that's done all of the time in a timely fashion?

**Mr. Crowe:** — The report that was in question has been received. However we understand that there has been . . . It hasn't been felt satisfactory to meet the needs. We continue to work with the trust to iron out some of the issues. I would also say that we have a fairly good, healthy relationship with the First Nations Trust to make sure that they understand the needs that we need to meet and to satisfy the concerns. And we strive to make improvements to ensure that they are received on a timely basis with the adequate information.

I would say that we continue to meet with them on a regular basis. Our staff and myself from time to time ensure that the relationship is there to ensure that we strive to make sure that we achieve the requirements that is asked of us.

**The Chair:** — One more question and . . . Are the problems themselves with the report and the auditor's report in what's reported and formatted? Or are there some specific concerns as it relates to aspects contained within that report and management of the trust and use of dollars within that trust?

**Mr. Crowe:** — I believe that the issue is mainly around the timing, the timing of receiving the report. As you know, the First Nations Trust wraps up many other reports and independent audit reports and uses that information to generate its own reports. So if there are a few untimely reports received, then that will back up some of the reports that are needed to generate . . . to provide to us.

**The Chair:** — So there haven't been concerns highlighted specifically in the reports that have been contained with the use or management of public resources?

**Mr. Gray:** — If I can add to that answer. It's Kerry Gray, director of finance. I think that in addition to the timeliness, which has historically been the main issue, there was also some concerns raised this year around the strength of the wording that the trust auditor used to verify that the money was being used for purposes that are allowed in the GFA [gaming framework agreement]. We've since met with the trust, had those discussions. We've passed on some draft wording to their auditor, and we're hoping that this issue can be resolved in the

next audit period.

**The Chair:** — So based on the report that's been provided and the language that's been used, is it fair to say that the ministry has some potential concerns that haven't yet been alleviated and that there's some work to ensure that the report and its findings and the management are well understood?

**Mr. Gray:** — I don't believe that the ministry has major concerns with the management of the trust. We've had concerns with the timeliness of it, and we've put processes in place to deal with that. And now that . . . You know, we're really looking for the trust auditor to make a specific statement around the controls within the trust. Within the ministry we don't have specific concerns on those controls. However we do need to see that their auditor does make a specific and strong statement for that.

**The Chair:** — Well Mr. D'Autremont has a question.

**Mr. D'Autremont:** — Thank you. On this year's recommendation no. 1, regards to the moving of computer access, would you say that there has been progress made or that you're in compliance now? What's the status there?

**Mr. Crowe:** — I believe we've achieved what has been recommended to us and that we satisfied the concerns of the auditor in this regard.

**The Chair:** — With that in mind I might . . . At first the language was I think in presentation that the risk had been minimized or that staff were being more diligent. And I think the recommendation is more plain and simple that it follow its established procedure, so I appreciate the question from Mr. D'Autremont. And I believe we've heard assurances that established procedures are now being followed. Is that correct?

**Mr. Crowe:** — That's correct.

**The Chair:** — So maybe I would invite a motion. Mr. D'Autremont.

**Mr. D'Autremont:** — Okay, thank you. I would move that we concur with the recommendation and note compliance.

**The Chair:** — All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — So it's agreed that this committee concur with recommendation no. 1 of chapter no. 8 of the Provincial Auditor's 2009 volume 3 report, and note compliance.

I don't know if there's other questions from committee members at this point in time. The other aspect was the partially implemented recommendation as it relates to the performance plan, including the identification of measures and selection of performance targets related to its goals and objectives. What I heard was that there's work and there's progress on this front. Is there a timeline at this point in time or you believe, Mr. Deputy Minister, that your ministry will have in fact complied with this recommendation?

[09:15]

**Mr. Crowe:** — I believe, and you'll see this in subsequent reports, I believe we've fully complied to this point in time the recommendation, the timelines, the activities that we set out. The accountability within the ministry is certainly something that we took serious. With the responsibility now lying with the assistant deputy ministers within our office, we are certainly confident that the recommendation, the aspects of the recommendation are fully satisfied.

**The Chair:** — Thank you, Mr. Deputy Minister Crowe, and thank you for coming before us here this morning, you and your officials. I would invite a closing statement from yourself if you have any.

**Mr. Crowe:** — I'd just like to thank the committee for the opportunity to present our progress and wish to continue on with the work that we do within the Ministry of First Nations and Métis Relations.

**The Chair:** — Well thank you. We'll recess briefly and we'll reconvene with considerations of chapter no. 6, Environment.

[The committee recessed for a period of time.]

[09:30]

### Environment

**The Chair:** — We will reconvene at this point in time. Under consideration here today is, primary business anyway, is volume 3 of the 2009 Provincial Auditor's report. And of course we know many individuals from across our province tune in to observe these proceedings and watch them closely, riveted to their television sets and their computers as we go through this. And I would encourage them to access documents at [www.auditor.sk.ca](http://www.auditor.sk.ca), so they can have the same information that we have before us.

Moving along here at this point in time to chapter no. 6, which focuses on Environment. I'm pleased to welcome officials here today from the Ministry of Environment and Deputy Minister Quarshie. Thank you for joining us here today. I will provide you an opportunity to introduce your officials, and then I'll turn it over to the auditor.

**Ms. Quarshie:** — Thank you, Mr. Chair. Today I have the following officials with me from the Ministry of Environment: Mark Wittrup, assistant deputy minister of environmental protection and audits; Lin Gallagher, assistant deputy minister of resource management and compliance division; Donna Johnson, acting assistant deputy minister of environmental support; Bob Wynes, executive director, forest service branch; Wes Kotyk, executive director, industrial branch; Kevin McCullum, chief engineer of the technical resources branch; Laurel Welsh, acting executive director of finance and administration; and Susan Loewen, director of financial management section.

Also, since the Saskatchewan Watershed Authority falls under the responsibility of the Ministry of Environment, the Provincial Auditor included dam safety recommendations

within the Ministry of Environment's chapter of the 2009 fall report. Accordingly the following officials from the Saskatchewan Watershed Authority . . .

**The Chair:** — I'm sorry to stop you, Deputy Minister. I think at this point in time we're just going to follow the similar procedure. What we'll do is we're going to have the auditor present their report, and then I'll have you subsequently respond to that. So thank you very much and welcome to your officials for joining us here today.

I would now invite Provincial Auditor Atkinson to introduce his officials and make a presentation as it relates to Environment.

**Mr. Atkinson:** — Yes. Thank you, Mr. Chair. Seated beside me is Rod Grabarczyk. Rod is a principal with our office and is going to lead us through our presentation on Environment.

**Mr. Grabarczyk:** — Good morning, Chair, members, and government officials. I will provide an overview of chapter 6 of the 2009 report volume 3 which begins on page 75. This chapter describes the results of our audits of the Ministry of Environment and its agencies for the year ended March 31st, 2009. In this chapter, we report the results of our audit of the ministry's regulation on reforestation with seven recommendations for the committee to consider, our audit of the ministry with three new recommendations for the ministry to consider, the ministry's progress in improving regulation of air emissions and contaminated sites, and its progress to safeguard public resources and comply with authorities.

First, I will discuss our audit of the adequacy of the ministry's processes to regulate reforestation of the provincial forest on Crown land as at June 30th, 2009 which begins on page 95. Our audit did not include assessing how the ministry issues forest management agreements and licences. We looked at reforestation because the ministry is responsible for sustainable use of the forest for the benefit of current and future generations. Prompt reforestation is necessary to maintain the long-term productivity of the forest and health of forest ecosystems. We found the ministry has adequate processes to regulate reforestation except for the lack of monitoring forest operators' compliance with reforestation requirements.

We make three recommendations on this area, beginning on page 103. First, the ministry set a formal plan to ensure reforestation of the forest. This will help the ministry address the several thousands of hectares of forest not properly reforested. Two, the ministry establish processes to monitor operators' compliance with reforestation requirements. This will help the ministry determine the type and frequency of reporting reforestation that operators should provide and the monitoring procedures forestry staff must do. Three, the ministry establish processes to verify that operators paid the correct fees to the relevant forest management fund or forest trust fund, and managers of these funds use the money collected for the purposes intended, including reforestation. Since 2006 the ministry has not verified that the correct fees were paid into the funds and used for allowable purposes.

The ministry needs a communication strategy to inform stakeholders about the effectiveness of reforestation and regular reports to oversee proper reforestation. We make two

recommendations in page 105 to help the ministry. First, that the ministry receive regular reports with adequate information to properly oversee and regulate reforestation. Regular information should include the level of operators' compliance with reforestation requirements, how much operators paid into the forest management and forest trust funds, what they spent out of those funds, and for what.

Secondly, the ministry develop a communications strategy to inform stakeholders about the effectiveness of reforestation activities in the province. On page 101, we also recommend the ministry establish processes to set reforestation terms and conditions and for approving forest product permits and set reforestation fees at a level to cover reforestation costs.

We make three new recommendations to help the ministry to safeguard public resources. First, on page 81, the ministry complete the identification of its human resource needs and develop strategies to address any competency gaps — for example, the ministry determine its accounting, human resource needs, the resources available, and how it will address any gaps.

Second, on page 89, the ministry establish adequate processes to determine its inventory. An incorrect inventory value included in the financial statements could result in incorrect or inappropriate decisions.

Third, on page 95, the ministry should approve an adequate internal auditor work plan that outlines the strategic and operational risks the ministry faces and how the internal auditor's work would help mitigate these risks. The ministry should also receive regular reports from the internal auditor and take action.

This chapter also provides the status of our past recommendations. The ministry needs to: do more to improve its regulation of air emissions, we have six previous recommendations; improve its regulation of contaminated sites, we have four previous recommendations; establish adequate processes to safeguard assets and comply with authorities, we have 12 previous recommendations. This concludes my presentation. We'd be pleased to respond to questions.

**The Chair:** — Thank you very much. I'll turn it over to the deputy minister and her officials to provide response.

**Ms. Quarshie:** — Thank you, Mr. Chair. Now just to complete the introduction of the Watershed Authority staff, since they are a part of the Ministry of Environment, also present is Wayne Dybvig, acting president of Watershed Authority, and Bill Duncan, director, infrastructure management of the Watershed Authority.

The Ministry of Environment welcomes the advice, values the work of the Provincial Auditor and his staff, and it helps the ministry in our efforts to continually improve our processes and operations. And we are committed to the principles of open, transparent, and accountable government.

And it is with these principles in mind that the ministry started the implementation of a results-based regulatory framework that supports environmental and resource management outcomes, which in turn supports the government's visions and goals. And

we have made some progress on some of the recommendations within the ministry, and we continue to address some of the remaining recommendations within the ministry with our partners in ITO [Information Technology Office] and the Public Service Commission.

As the auditor has indicated, the 2009 report includes findings respecting the audit of the ministry's processes to regulate reforestation, along with updates from previous audits of the ministry to regulate air emissions and contaminated sites. And we're fully committed to addressing all of the recommendations as soon as possible.

With respect to the recommendation to improve the human resource plan, the ministry and the PSC [Public Service Commission] have worked jointly together on significant plans that will guide our human resource management for the next four years. This includes a comprehensive transition strategy incorporating current state, desired future state, service delivery model, competency assessment, cultural change, and change management, as well as process mapping to guide the ministry as it adopts the results-based regulatory model. A new organizational structure is in place to support that model.

We also have a learning and development strategy that lays out all of the competencies and suggested training requirements. And we also have the four-year workforce adjustment plan.

Respecting the auditor's second recommendation regarding inventory, the ministry has policies for recording, storing, counting, and following inventory. We have guidance documents that describe how and when to conduct inventory and how to value inventory, and it also provides the instructions to staff each year. On a going forward basis, the ministry will ensure that inventory counts results are reviewed and signed off by the management.

The ministry is also addressing the auditor's third recommendation to improve internal audit function. In April 2009, senior management approved an internal audit charter that requires internal auditors to develop a financial risk-based plan for their review and approval.

The ministry's audit committee's terms of reference was established in April 2009 which defines the purpose, the composition, meetings, duties and responsibilities, and reporting. The internal auditors are now required to provide senior management with quarterly reports on the work that they have done.

Over the course of the past year, the ministry made progress in addressing the remaining recommendations carried forward from previous years. We are confident that several of these recommendations have been fully addressed, such as processes for monitoring agreements and for making changes to lease rates.

With respect to regulating reforestation, the Provincial Auditor has made several recommendations and the ministry has taken the following actions to address some of those recommendations. The ministry has a directive that guides the approvals and conditions that apply to all forest licences including forest product permits. The ministry continues to

complete its written guidance for setting reforestation conditions. To ensure proper reforestation, draft guidelines have been written and are currently under review. And the ministry has developed a draft process to monitor operators' compliance with reforestation requirements, and this is also currently under review. The ministry recently hired a forest renewal expert who is analyzing renewal information and providing more rigour to renewal monitoring.

With respect to the air quality recommendations, the ministry has made progress on all six recommendations, although further work remains to fully address some of the additional concerns of the auditor. Progress has been made in staffing positions with qualified persons, developing guidance documents respecting terms and conditions for permits, and additional training for staff.

The ministry plans to continue its efforts through continued staff training and protocol implementation, future implementation of an environmental database system, and enhancements to human resource planning including risk assessment procedures that ensure that staff are focused on the areas of greatest risk. Accordingly the ministry has increased its air monitoring locations and will continue to evaluate its air quality monitoring program to protect environmental quality and human health.

With respect to the four recommendations for contaminated sites, we have made progress and will continue to work to implement our action plan. The impacted sites database has been developed and contains the capability for recording new discharges and incidents as they occur. New spill or discharge incidents are already being documented in this new database format. The database is designed to track individual impacted site risk rankings in accordance with the national classification system for contaminated sites. This will allow the ministry to compare all impacted sites on record and rank them in terms of priority for action.

And with respect to the three recommendations for the Watershed Authority's dam program, the authority is now fully compliant with the recommendations to obtain an independent dam safety review on its very high-consequence dams, and is progressing towards full compliance with the others.

Mr. Chairman, we thank you for allowing us to make these opening remarks, and we welcome any questions you may have.

**The Chair:** — Thank you, Deputy Minister. I would turn it over to committee members for questions.

Maybe before we get into the specific recommendations and work through them and have questions on each one — we'll probably work through them one at a time or in groupings — but I do have questions just as it relates to some of the concerns that were raised with the segregation of duties and some of the risk to public dollars and some of the controls that were perceived to not be in place. And I'm just looking for a statement, I guess, from the ministry as it relates to your confidence at this point in time that the proper oversight and protection of public dollars is in fact in place.

[09:45]

**Ms. Quarshie:** — Thank you, Mr. Chair. The minister has implemented processes and procedures, and we've also improved the oversight given to the staff with respect to segregation of duties and public accounts and monies. Some of the issues in the previous year related to staffing issues dealing with the FWDF [Fish and Wildlife Development Fund] and other types of staff. And Donna can provide more details with respect to those.

**Ms. Johnson:** — This is Donna Johnson. My understanding is that the auditor's staff have been in to review the ministry's work for the year ended March 31, 2010. And my understanding from preliminary discussions with the auditor's officials is that they'll be acknowledging that the ministry has fully complied with the need to segregate duties.

**The Chair:** — Thank you for that. Just one other . . . What I see is sort of an outstanding recommendation, and it's with respect to policies and procedures for preparing amounts for terminated employees. And I believe there was some error in this, one circumstance of \$17,000 that's been reported by the ministry and by the auditor. Where are we at with respect to compliance and making sure that this has been addressed?

**Ms. Johnson:** — The issue that we have in this area is that we employ many people particularly through the summer months, labour service employees and that sort of thing, and the figure that's referred to in the chapter is made up of many payments to different individuals. So it isn't a case of one or two individuals having been overpaid, but several individuals being overpaid by anything from under \$1 to in some cases more than \$1,000.

But the challenge that we are facing is making sure that when employees are completed, that they provide notification from their . . . or that their supervisors provide notification back to the payroll services area. And we've been providing that direction to supervisors to make sure that they do notify the payroll services in a timely fashion and ensure that no additional payments are made to employees whose terms have expired.

**The Chair:** — Thank you. Ms. Atkinson.

**Ms. Atkinson:** — I want talk about your human resource planning, and I'm interested in knowing how many people work in the ministry that are there by order in council.

**Ms. Quarshie:** — It's just me. Just one.

**Ms. Atkinson:** — Just one?

**Ms. Quarshie:** — Yes.

**Ms. Atkinson:** — There's only one person?

**Ms. Quarshie:** — Yes.

**Ms. Atkinson:** — Okay. And this is a question I'm asking several ministries, but have you been asked or urged or suggested that people be hired in your ministry? And that might be coming from the centre.

**Ms. Quarshie:** — Ms. Atkinson, the Ministry of Environment

took a results-based regulatory framework about two years ago. The purpose of the RBR [results-based regulations] was to be able to define clearly what the environmental outcomes would be and have that straight up so there's transparency and public accountability. And the second reason for RBR is to bring in qualified persons, and currently we have that clearly defined in the legislation as to what qualified persons means.

The ministry's track currently is to bring in people who are qualified to enable us to be able to do our task. And so if you look at all the recruitments that we've done to date, including the technical resources branch, you could see that these people are very qualified to come in and be able to perform their tasks. So that's where the emphasis is.

**Ms. Atkinson:** — Well thank you for that, but I still want to have you answer this question. Have any personnel hires been suggested to you from the centre? That's either through Executive Council, the minister's office, and so on and so forth. They might be qualified, but I'm asking whether or not there have been suggestions made to you that you hire certain individuals for positions in your ministry.

**Ms. Quarshie:** — I can say that we're very fortunate from the Ministry of Environment that we don't get interference from the centre in terms of our hires.

**Ms. Atkinson:** — That's what I wanted to have clarified. And the second question, a follow-up question, when you're hiring people, is the Public Service Commission involved in that assessment?

**Ms. Quarshie:** — Yes. The Public Service Commission is involved in all of our hirings, but I believe currently there is some flexibility within the PSC in terms of hires to not necessarily have them at the table for every single hire. So a decision is left up to the senior management and the executive if we think that it is appropriate to bring them in.

**Ms. Atkinson:** — And can you describe examples of a position that was recently filled where the public service was not involved?

**Ms. Quarshie:** — To the best of my knowledge, I think there's only been one in the financial admin area with respect to the internal auditor position.

**Ms. Atkinson:** — Sorry, there's been one position where the public service wasn't involved? And what was the position that was filled?

**Ms. Quarshie:** — The position was an internal auditor position in the finance and admin area.

**Ms. Atkinson:** — Okay. So that of all the hires during the year in question, there was only one position that did not have the involvement of the Public Service Commission?

**Ms. Quarshie:** — That's correct.

**Ms. Atkinson:** — Okay.

**Ms. Johnson:** — And could I just offer a clarification. When

we say the Public Service Commission wasn't involved, what we mean is that there were no PSC staff in attendance at the interviews. So the Public Service Commission was certainly involved in identifying the screening or working with us to identify the screening questions and to do the posting. And they will have reviewed our interview guides and the results of the interviews and the results of the reference checks before authorizing us to offer employment to the successful candidate.

**Ms. Atkinson:** — Okay. Thank you. The Provincial Auditor recommended — and I'm trying to find it — that a position be filled in the area of air quality monitoring. And I'm wondering if that position has been filled?

**Ms. Quarshie:** — We are pleased to report that the chief engineer of the technical resource branch has a Ph.D. [Doctor of Philosophy] in air quality and hydrogeology. And consequently we've also filled three other positions in the unit with air quality backgrounds for samplers and others.

**Ms. Atkinson:** — So under, in page 109 it says that the ministry plans to hire an air quality director to oversee the permitting and monitoring of air emissions, and an air quality technician. Also the ministry has hired a chief engineer. I think we knew that. And I'm just wondering, has the ministry hired an air quality director?

**Ms. Quarshie:** — Since we undertook the HR [human resources] review in the Ministry of Environment in 2009, and based on the list of the things that I mentioned earlier that we went through, we have reorganized the entire ministry and eliminated certain positions that we believe we don't need. So we don't have a director of air quality position, but we have a chief engineer position that has the qualifications of air quality and other things that we need.

**Ms. Atkinson:** — Okay, thank you.

**The Chair:** — Mr. Michelson has a question.

**Mr. Michelson:** — Yes, Mr. Chair. Just, you know, I realize this is the Provincial Auditor's report that we're discussing. I would suggest to Ms. Atkinson that I know she came in almost 40 minutes late and this isn't estimates. I think we are . . .

**The Chair:** — Mr. Michelson, as far as commenting on any individual's attendance at the table or not isn't appropriate. Your intervention is not well taken at this point in time.

The questions that are put on the table are certainly within the scope of this committee. Certainly the Chair is always watching to make sure that questions are focused on the efficiency and the economy of government programs as is required by this committee as a scrutiny committee. The questions have certainly been within that scope at this point in time. I am watching regularly to make sure that if there's a question that comes from a policy field perspective that I would rule that out of order and direct it to a policy field committee. So you can finish your statement here, but certainly making comment with respect to an individual's attendance at this table isn't appropriate.

**Mr. Michelson:** — Mr. Chair, I will apologize. I thought we



were here to discuss the Provincial Auditor's report with Public Accounts.

**The Chair:** — As I highlighted at the start — and maybe it's important that I do again here for individuals at home and committee members around the table and officials that are here — the Public Accounts Committee, the Standing Committee on Public Accounts, has a fairly broad scope in what it undertakes. The review that we see in the auditor's report itself is a review and a study of those accounts and also of ministries. But the broad scope of the committee can go far beyond that. And when I suggest at the start of the meeting that the primary focus of business is the volume 3 2009 report, that's correct and that is our primary focus in aspects that we want to get through here today. But certainly there's many questions that I'll take from either side of the table as long as they fit within the mandate of this committee.

And I think it's appropriate. I think the public expects us to make sure the proper scrutiny and oversight of government resources and of programs occurs, and I think it would be wrong for us to intervene in that.

**Ms. Ross:** — I have a question.

**The Chair:** — Ms. Ross.

**Ms. Ross:** — For the no. 1 then, is that progress or is that compliance? I wasn't quite sure when you said you had undertaken a complete review.

**Ms. Quarshie:** — The no. 1 I consider progress. I think also we are almost 90 per cent done.

**The Chair:** — I would invite a motion on recommendation no. 1, Ms. Ross, if you're prepared to do so.

**Ms. Ross:** — I concur with the auditor's report and note significant progress.

**The Chair:** — Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — Agreed. So it's agreed that this committee concur with recommendation no. 1 of chapter no. 6, Environment, of the Provincial Auditor's report volume 3 2009 and note progress.

We can move along through some of these recommendations at this point in time. Maybe we'll focus our attentions on the recommendations. If there are broader questions, we can move along to those after that point.

Recommendation no. 2 highlights that, recommends that the Ministry of Environment establish adequate processes to determine its inventory. Maybe just a quick question; I know it was highlighted by the deputy minister. At this point in time has, I guess, what actions have been taken here? And in the deputy minister's opinion, has compliance occurred?

**Ms. Quarshie:** — Mr. Chairman, I would report that we're done. But I think in the spirit of continual improvement in any

process, we need to ensure that we are continually training staff and reminding them to follow the processes and procedures that we've established for inventory.

[10:00]

**The Chair:** — I'd field a motion. Question, Ms. Atkinson?

**Ms. Atkinson:** — Yes I do. So what your auditor's information to this committee indicates is that the inventory was overstated by the ministry, and management did not determine the extent that inventory was incorrectly valued nor did it adjust its CRF [Commercial Revolving Fund] financial statements. So can you give us an update on that so that we're clear that this has been addressed.

**Ms. Quarshie:** — Thank you. Maybe I will . . . One of the staff members could provide more detail in terms of your question.

**Ms. Loewen:** — Hi, I'm Susan Loewen. Regarding the inventory value that you've mentioned, actually regarding that amount, a junior staff member actually misspoke regarding that inventory. When that was come to light, senior management clarified that with provincial audit, and there was no adjustment made because no adjustment actually was required because the individual had misspoken.

The items in question were actually referring to rake and hose board technologies and those items are not obsolete. The figure that was presented was actually an extrapolation based on those values and therefore an amount was not corrected.

**Ms. Atkinson:** — I have a question for the auditor. So in fact as a result of the information that Environment has provided the committee, are there adequate processes to determine inventory as of now or are there not?

**Mr. Grabarczyk:** — As of March 31st, 2010, we're working through the processes to determine whether the processes have been improved or not.

**Ms. Atkinson:** — Okay. Thank you.

**The Chair:** — Mr. Stewart.

**Mr. Stewart:** — Thank you, Mr. Chair. In light of that, I'd move that the committee note concurrence and report progress.

**The Chair:** — All agreed.

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 2 of chapter no. 6, Environment, of the Provincial Auditor's 2009 volume 3 report and note progress.

Moving along to recommendation no. 3, which recommends that the Ministry of Environment approve an adequate internal auditor work plan and receive regular reports from the internal auditor and take action. I know it was mentioned again in the update from the deputy minister, but maybe just specifically the actions that have occurred and whether or not compliance has been achieved from the deputy minister's perspective.

**Ms. Quarshie:** — Mr. Chairman, we'll report substantial progress on that one. I believe what may be left from the Provincial Auditor's point of view is consistency in terms of the timing of reporting to senior management that we need to follow up on.

**The Chair:** — Ms. Atkinson, I believe you signalled you had a question.

**Ms. Atkinson:** — On page 93 the Provincial Auditor indicates to the committee that the ministry has begun preparing written guidance for staff to follow for making changes to lease rates. And I understand that they continue to recommend that the ministry establish a process for changing lease rates, and I'm wondering if that is now in place.

**Ms. Quarshie:** — Ms. Atkinson, I'm happy to report that it is.

**The Chair:** — With respect to recommendation no. 3, I think I would seek a motion at this point. Mr. Michelson.

**Mr. Michelson:** — I also move that we concur with the recommendation and note progress.

**The Chair:** — All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 3 of chapter no. 6, Environment, of the Provincial Auditor's 2009 volume 3 report and note progress.

We'll move along at this point to the reforestation recommendations and deal with no. 4 and no. 5. Specifically no. 4 recommends that the Ministry of Environment establish processes for setting reforestation terms and conditions, and for approving forest product permits. I believe there was mention that regulations were being worked on here and that there was progress. Maybe the deputy minister could just highlight those specific actions and maybe relate to us a timeline with respect to compliance.

**Ms. Quarshie:** — Thank you, Mr. Chair. We have developed draft guidance documents that are currently under review, and the processes we have in the ministry is to develop the guidelines, go through senior management. So Bob Wynes will speak to that for approval and bring it to executive for approval. So we haven't put it through the complete set of processes that we have internally for doing that. With respect to timelines, I think Bob Wynes will be able to provide more information.

**Mr. Wynes:** — Yes. We are making progress on those issues. We anticipate in both cases, recommendations 4 and 5, that we'll have these processes established and in place by March 2011.

**The Chair:** — Ms. Atkinson.

**Ms. Atkinson:** — I'm interested in the backlog of reforestation, and I'm wondering how many hectares of forest area need to be reforested.

**Mr. Wynes:** — Yes, I can speak to that. There is still

approximately, based on current surveys — and you need to understand that those numbers are constantly being revised because of the cost of doing those surveys to look at that land; we're constantly doing that on an ongoing basis, revising the numbers so the numbers do change over time as we get better information — currently the estimated provincial NSR lands, not sufficiently reforested land, is about 46 000 hectares. And that is both land that the government is responsible for that predates the modern agreements, the modern area-based TSLs [term supply licences] and the modern forest management agreements.

So there's a backlog that exists for several decades that we are making progress on. Essentially the government is responsible for about 83 per cent of that NSR. Our process is related to the industry's reforestation and essentially roughly post-1995. In my view we are dealing with the vast majority of it, it's an efficient process. And on 95 per cent of the area roughly that is harvested, we've got good processes in place.

There are certainly opportunities for improvement here with some of the smaller operations, the forest product permits, but the big risk areas are covered off. And we are not, from our evaluation, our acknowledged date, we're not adding significantly to that, the industry situation as well. We're trying to clear up this historic backlog and that's our renewal program that we manage within the ministry.

**Ms. Atkinson:** — So the year under review, how many hectares of land were reforested?

**Mr. Wynes:** — You cannot successfully reforest one hectare of land in one year. This is one of the difficulties in reporting this, that it takes several years to achieve reforestation on a parcel of land.

**Ms. Atkinson:** — Let's use the word how many hectares of land had tree planters planting trees?

**Mr. Wynes:** — Okay. Within the government program, about 1500 hectares per year.

**Ms. Atkinson:** — 1500 hectares per year?

**Mr. Wynes:** — Yes. That's roughly our average.

**Ms. Atkinson:** — And has this been the average for some time?

**Mr. Wynes:** — Yes, it has.

**Ms. Atkinson:** — Given that it takes quite a significant amount of time to reforest an area, has there been any thought of increasing this?

**Mr. Wynes:** — I guess there's a challenge with this just in terms of the budgeting process. And, you know, there's arguments to be made for increasing the rate that we're doing it. There's arguments to be made for continuing at a steady pace.

One of the challenges we have with this program is that we have to grow the trees two years in advance of the planting, so it makes it a challenge with an annual budgeting process. And if we did want to increase, for example, we would need to plan

that several years in advance so that we could put appropriate seed in the nurseries to gear up for an increased program. So my view, it's better to, it's much more efficient in terms of a renewal program to determine a rate that you're trying to do it and essentially stay somewhat steady with that rate over a longer period of time.

This program is extremely difficult to ramp up and ramp down in a short period of time because of the growing stock that you need, the number of trees that you need to grow. Nurseries can't produce those overnight. It takes two years lead time. So any thought to increasing or decreasing the rate that we're doing the program would need to be thought out several years in advance.

**Ms. Atkinson:** — Does the government put some of its own resources into this reforestation? Or is all of the money coming out of the trust funds?

**Mr. Wynnes:** — The government renewal program is strictly out of our resources, although acknowledging that there was historically in past decades, before the modern agreements, there was money paid from the companies to the government for reforestation. But it was either not an adequate amount or not enough was directed back to the program to accomplish the reforestation. That's why we have this backlog. But that is a historic problem that predates 1995.

**Ms. Atkinson:** — So last year, how much money was spent, both government and out of the trust, on reforestation in the province?

**Mr. Wynnes:** — Yes. I'm sorry, I don't have the exact number for the government at my fingertips right now, but it was about \$3.5 million that was spent last year. I don't have the number for the trust fund specifically.

The rate that the industry's had to do renewal in the last year has been driven quite a bit by the drastically reduced amount of harvesting that they've done. So the industry program on renewal — which is essentially a revolving fund, the trust funds are revolving funds — the money going in and the money needing to be spent out of those is greatly reduced because they're doing less harvesting.

But I could get those numbers, but I don't have them with me. I'm sorry.

**Ms. Atkinson:** — Have you had any discussions with the industry that is involved in reforestation in terms of the impacts that those companies and businesses have experienced since the downturn in the forestry industry? And any work done in terms of suggesting that perhaps the province could step in and fill the gap to keep these companies in place as we wait for the forest industry to recover?

**Mr. Wynnes:** — I'm not sure what, exactly what gaps you're speaking of because this is the beauty of the trust funds. This is why we like the trust funds, is that they carry the industry through these times. They've essentially banked the money during good times when they've done the harvesting. So there's no real need in those areas.

There's no gap essentially. The industry is staying on top of

their renewal responsibilities. So I'm not sure I understand your question.

**Ms. Atkinson:** — No, I'm not talking about the forestry industry. I'm talking about the companies in the province that are involved in reforestation — the tree planting companies. They're the ones that are suffering because there isn't harvesting taking place the way it has in the past. And the industry is not involved in hiring these companies to do reforestation work.

So I'm wondering, given that there are many companies in this province that are in dire straights, to be blunt, has your ministry thought about, as a stop gap measure, waiting for the forest industry to recover, not only in Saskatchewan, but across the country? Have you thought about perhaps filling in the holes so that these companies can survive because we could be in a position where the companies are all gone when the forest industry recovers, and then we have a difficult time finding people to do the tree planting.

**The Chair:** — I think some of this line of questions as it relates to filling the holes are good questions, but more related to government's policy. I would certainly invite a response from the ministry if they so wished, but certainly good discussion for a policy field committee.

**Mr. Wynnes:** — We've been doing everything we can within our budget considerations to maintain our program. The industry has been doing their responsibilities out of their program. So that's the limits of what we've been able to do. So that's essentially the only comment I have on that.

[10:15]

**Ms. Atkinson:** — Mr. Chair, maybe I'm having difficulty understanding the purview of this committee because on page 96 there is references to the province's involvement. Reforestation includes planting trees as well as allowing harvested areas to regenerate on their own. So there is reference. So I guess I was just curious to know whether or not, given that the auditor is talking about having adequate processes in place to deal with this, setting out reforestation terms and so on, I just thought this might be part of the discussion.

**The Chair:** — Well thank you, committee member. I think the part of the discussion certainly is the percentage of reforestation. What's been done at this point in time? What kind of budget's being allocated? What sort of timelines exist to be able to reforest, whether that's meeting the objectives that are there or not? And so certainly it gets into a bit of a grey area here, but there's some good lines of questions.

As to specific solutions and new directions in policy, I think some of those might be best fielded at the policy field committee. But very good questions as it relates to we've got so many hectares that need to be reforested; this is how many are being reforested right now; the timeline for achieving reforestation is such and such. And that is certainly in line with judging efficiency and economy of government programs. Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I think if we keep in mind that what we're reviewing is the auditor's report for 2008-2009. So when we're asking speculative questions as to what's happening after that point in time, I think that's when we're straying into the areas that would be better dealt with through the estimate-type committees and the policy field committees. So if we kept that in mind that we're dealing with the auditor's report for 2008-2009, I think we'd have less tendency to stray.

**The Chair:** — And just to clarify, we're dealing with the public accounts as the Standing Committee on Public Accounts and our primary business is the auditor's report. So I think that, you know, many of the questions certainly are certainly within scope and reforestation and the timeline and the budget and the programs and the adequacy in achieving the objectives are certainly within question.

I do note we did highlight recommendation no. 4. I can certainly come back to committee members here. And I know that there was a discussion of the guidelines that are yet to be approved. That does sound to me to be significant progress. I would certainly seek a motion from committee to . . . Mr. D'Autremont.

**Mr. D'Autremont:** — I believe that for both 4 and 5 that the committee concurs with the auditor's recommendations and we note significant progress.

**The Chair:** — I've got a motion on the floor for 4 and 5 to note concurrence and progress. All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendations 4 and 5 of chapter no. 6, Environment, of the Provincial Auditor's 2009 volume 3 report, and note progress.

Recommendation no. 6 recommends that the Ministry of Environment set a formal plan to ensure proper reforestation of the forest. If the deputy minister can report on this front.

**Ms. Quarshie:** — Mr. Chairman, I can report that we do have the draft plan in place, and again it's going through the same review process that I described earlier. So we haven't completed the review internally.

**The Chair:** — Ms. Atkinson.

**Ms. Atkinson:** — So on page 102 the auditor indicates that there are some problems in the forest where several thousand hectares of forest are not properly reforested. Now it says the ministry has begun developing a plan to reforest these areas. My question is, where's the plan? And is this part of your thinking when the province is only putting forward funds for about 1500 hectares?

**Mr. Wynes:** — Yes, if I can speak to that. It's actually an unfortunate word that it talks about the plan because actually the actions have been going on for decades. We've had a substantial ongoing renewal program in the ministry, in the forest service. Pulling the actions together in a plan and actually describing it in a plan is certainly valuable in terms of the communication and the planning function and communication

function. But we've been doing this work on an ongoing basis. So this is not . . . we've made substantial progress. You know, the number of trees that we've planted over the last decade, certainly since I've been with the forest service for the last nine years, we've been making good progress.

There isn't another pool of land that hasn't been planned. This is in fact the same areas that we were talking about previously, just moments ago. We've been doing this work; it just hasn't been formalized in one plan that you could go to to see all the actions that are happening within the industry responsibilities and in the province.

So certainly we agree with the recommendation about pulling that together in one plan that clearly communicates what's going on in the program, but the actions to accomplish that renewal have been ongoing. We've had a well-established program for a long time.

**The Chair:** — Ms. Atkinson.

**Ms. Atkinson:** — Mr. Chair, so the province, I guess, has contracts with companies to reforest about 1500 hectares of land each year. And they've done this, we've had this for several years. But the auditor suggests that there are several thousand hectares of forest that are not properly reforested, says the ministry needs to complete its plan setting out who will correct this condition, how and when, and it must do so to ensure proper reforestation. And it also indicates that ministry and the industry have shared responsibility for reforesting these areas. So if we've had this in place for several years, do you have any sense of why the auditor would make this observation?

**Mr. Wynes:** — Yes, this is the same area that we were taking about moments ago. This is the outstanding pool of 46 000 hectares of land that is currently reported as NSR land in the province right now. Approximately 83 per cent of that is the government's responsibility, the 38 000 hectares that I mentioned, which is the area that we have the program established for. This is essentially a sunset responsibility for us. We are going to reforest, assuming budgets continue, we anticipate having this 38 000 hectares, the portion of that that is reasonable to reforest. It may not all be economically viable, suitable sites, competition growing on the sites — there's a number of reasons why we may not treat every last hectare of that legitimately, but the program has been occurring.

What the observation is is that we haven't described our actions by ourselves and the industry in a formalized plan where we've pulled together and described what is going on in the program. So, it's really, it's not the actions that have not been happening. It is pulling it together in one plan from a communications and an understanding of the total program standpoint. So it's the plan that's missing, not the actions.

**Ms. Atkinson:** — So then the auditor talks about how and when. And I'm wondering, okay, given that this has been happening, so the question is when will the 38 000 hectares be fully reforested?

**Mr. Wynes:** — Our projection at the current budget level that we've been getting — the average budget that we've had over

the past several years — we anticipate that the government responsibilities for treating the areas that are suitable to treat within that and this number may, like I mentioned earlier, this number may be adjusted with more information. Areas come back naturally, just like they do after forest fires. After harvesting you get some natural regeneration. This number will fluctuate just because of other factors, but we anticipate, we're projecting that our program as far as the tree planting will be completed shortly, like 2020, shortly after that. So in approximately the next 12 years, 13 years, we anticipate we'll be able to treat the lands that are viable to treat.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I wonder if you would happen to have a number for the number of unseeded lands there were for the 2007-2008 auditor's report. What I'm wondering is, is the number decreasing every year?

**Mr. Wynes:** — The number is decreasing for a couple of reasons. I don't have the numbers. I don't believe it was in the auditor's report last year. This is the first time the reforestation has been looked at by the Provincial Auditor, so I don't think there was a number that was reported by the Provincial Auditor. But certainly we have numbers. I don't have them at my fingertips, so I apologize.

But the number is decreasing for a number of reasons. One of them is improved information. As we do surveys, natural regeneration are happening on the lands, plus the actions by our program, for example. The number definitely is decreasing in all of the areas.

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

**Mr. Wynes:** — You're welcome.

**The Chair:** — So we hear that there's a draft plan put together. Certainly that's something that needs to be approved and something that will be evaluated by our auditor. We could probably call that progress though. Mr. D'Autremont.

**Mr. D'Autremont:** — Yes. I would note, Mr. Chairman, that we concur with the auditor's report and note progress.

**The Chair:** — Is it agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — I saw shaking heads over there. It is agreed that this committee concur with recommendation no. 6 of chapter no. 6, Environment, of the Provincial Auditor's 2009 volume 3 report and note progress.

Before moving along to recommendation no. 7, I believe Ms. Higgins had a question.

**Ms. Higgins:** — No, go ahead. It's for a little later.

**The Chair:** — Okay. Ms. Atkinson.

**Ms. Atkinson:** — Just for the information of the committee, I would be asking these same questions whether I was in

government or in opposition, whether I was in Treasury Board or not. So this is not about what happened before the 2007 election and what happened afterwards. We have a problem . . . [inaudible interjection] . . . Okay. No, I understand Mr. D'Autremont. He and I, we understand each other.

So I just want, for the edification of the committee, this is about reforestation in the North. That's what it's about, these questions, and how quickly are we working on it. And I just want to say this, that I don't note a lot of progress with this formal plan. There are actions maybe, but I don't see a formal plan. And I'd like to see that the next time we meet.

**The Chair:** — Let's move along to recommendation no. 7. The recommendation is that the Ministry of Environment establish processes to monitor operators' compliance with reforestation requirements. Where is the ministry at where actions have been taken, and when is compliance expected on this front?

**Ms. Quarshie:** — Again, Mr. Chairman, I'm happy to report that there is a draft document in place, subject to review at senior management and executive level for approval.

**The Chair:** — Field a motion? Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you, Mr. Chairman. I would move that we concur with the auditor's reports and note progress.

**The Chair:** — All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 7 of chapter no. 6, Environment, of the Provincial Auditor's 2009 volume 3 report and note progress.

Moving along to recommendation no. 8 that recommends the Ministry of Environment establish processes to verify that the operators paid the correct fees to the relevant forest management fund or forest trust fund and that the managers of these funds used the money collected for the purposes intended, including reforestation. To the deputy minister: what actions have been taken to make sure that these safeguards and this oversight's in place and that these revenues or these resources have been placed appropriately?

**Ms. Quarshie:** — Thank you, Mr. Chair. The position . . . We had a vacancy in the Ministry of Environment, the forest resources branch, to deal with this particular issue. And we recently filled the position of forest renewal expert who is analyzing the renewal information and providing more rigour into the monitoring and analysis and the fee collection. So with the staffing of this position we anticipate to commence addressing this issue, but this is one that we haven't started yet.

**The Chair:** — I think the committee would agree that of course we recognize that this is the first auditor's report on these areas. And, like any first report, it addresses areas that . . . It highlights the importance of the auditor's office, but certainly I think it's one that this committee would concur with.

**Mr. Michelson:** — Mr. Chair, I move that we concur with the

recommendation.

**The Chair:** — Ms. Higgins, do you have a question? Dealing with no. 8, yes.

**Ms. Higgins:** — A question.

**The Chair:** — Feel free.

**Ms. Higgins:** — Thank you very much, Mr. Chair. My question: by the mandate of the fund, what exactly are the parameters with which these dollars can be used? It says including reforestation, but what exactly are the terms of how the money is kept? The fund, can it be used for . . .

[10:30]

**Mr. Wynnes:** — Within the major amount of harvesting, over 90 per cent of the timber harvesting that's done in the province is done under either FMAs [forest management agreement] or volume-based TSLs. And particularly with the FMAs where the bulk of the harvesting happens, the funds that are set up with the FMA holders, we actually negotiate with them to agree on what allowable expenditures they have to include. Basic reforestation, that's not optional, but if the company wishes to essentially use this, my analogy is, they can use it like a banking opportunity for themselves to negotiate with us to pay in a higher rate into the fund so that they can fund things like forest inventory, for example.

We are in an extremely fortunate position in this province right now where we have new, state of the art forest inventories from one side of the province to the other with a few small gaps in it. In considering the state of the forest industry right now, to be sitting with that new inventory is extremely helpful for us when we're concerned about sustainability of the forest, looking at reallocating the forest. We're in a very fortunate position. That is largely because in some cases, the companies use these trust funds to bank money to do that forest inventory. It takes millions of dollars of investment. Because they negotiated with us to include those as allowable expenditures and paid in at a higher rate, so they're essentially banking the money to pay for those things, that's an example of one of the types of expenditures.

But it does not allow them to chip away at the basic amount. They still have to do the basic reforestation. So it's negotiated whether there's monitoring programs for example, or inventory or other things that might be allowable expenditures. If those are negotiated into the terms of the fund, then the rates would be adjusted accordingly.

**Ms. Higgins:** — In the auditor's recommendation, when it talks about using the funds collected for the purpose intended including reforestation, then who will kind of determine the intended use if it's that broad and that flexible? Seems to be depending on how the negotiations are carried out and what may be the priorities. So will there be guidelines laid out to further define it or is the recommendation, I guess, being interpreted as still flexibilities will remain? And maybe it's partly a question also for the Provincial Auditor if they want more definition laid out to the intended use of the funds.

**Mr. Wynnes:** — It's extremely important to note that this isn't a broad flexible thing that, you know, there's this broad set of allowable expenditures that may or may not apply. Each fund that we have with each one of the companies has the specifics negotiated in it. So you can look at the agreement and see whether it includes inventory or other allowable expenditures, and the rates that would be paid in are adjusted accordingly. The rates are negotiated hand-in-hand with the allowable expenditures. And we do need to acknowledge the auditor's recommendation. We do need to improve our monitoring of the money flowing in and out of those funds. We've made some changes in the recent reorganization in March to specifically address this as well. There's certainly room for improvement on that.

We also have a challenge related . . . one of our biggest challenges actually is we have other branches using our forest products permits to authorize damage to forest products, like when they build a road for an oil and gas development, for example, they use our forest products permit. So how does that money flow, and should there even be any reforestation of those? We certainly have some details to fill in. But it's not . . . In my opinion, as far as forest sustainability, they're relatively low risk. But yes, they do need to be addressed as well.

**Ms. Higgins:** — Yes. Okay. Thank you.

**The Chair:** — Mr. Michelson has a motion on the floor that we concur with recommendation no. 8. I see a question here.

**Ms. Atkinson:** — So concurring with recommendation no. 8 means . . . I just wanted to ask this, that it says that the Ministry hasn't, since 2006, "carried out its processes to verify that the correct fees were paid into the funds and that the fund manager spent the money for allowable purposes which include reforestation." And it also says that "the audited statements don't provide any assurance that operators paid the correct fees into their related funds or that the funds' managers spent the money on allowable expenses."

So has the ministry — because I haven't, I didn't quite understand this — have you carried out an evaluation of the fund and what the fund was spent on since 2006?

**Mr. Wynnes:** — Just to clarify, we're not talking about one fund. We're talking about . . .

**Ms. Atkinson:** — I understand.

**Mr. Wynnes:** — Yes, okay, multiple funds. One of the challenges we've had is that the legislation was not very specific historically about the nature of those funds. And one of the changes that we made in *The Forest Resources Management Act* is to require them to become true trusts. So the funds that were true trusts have been audited quite closely as far as the expenditures. The ones that were not true trusts, there's room for improvement. And that's what we're talking about improving here, is changing the mechanism that we use on those funds and more rigour in ensuring the expenditures in and out of them.

Another really important thing is that these funds, we still require the companies to successfully reforest the areas that

they harvest. They are not capped by the amount of money that's in this fund. So that even if they, frankly, even if they over-expended, used more money on forest inventory than they should have and there isn't quite enough in there for reforestation, it does not change their obligation. Their legal requirement to reforest those lands is not capped by the amount of money that's in the funds for the FMAs.

**Ms. Atkinson:** — As I understand it, there are about 8000 hectares that the forest companies still have to reforest. There were 46 000 hectares. The province has about 38 000, so there's about 8000 hectares.

So can I just ask a simple question: how much land do they, how many hectares do they usually reforest each year?

**Mr. Wynes:** — That varies a lot with the rate that they're harvesting. So the amount of harvesting that they've done the last few years with all the mill shutdowns has been negligible, so they have not had to do much reforestation because they haven't been harvesting much.

I don't have the figures over time to show you their actions, and we are focused more on the results of successful reforestation than we are about prescribing any amount that they need to do in one year. We have standards set, that they have to have essentially a crop of trees established on those areas by a certain time and they have to be performing to a certain standard by a certain time, but we're not prescriptive about how much they treat this year or the next year.

**Ms. Atkinson:** — Okay, so just so I'm clear. In terms of the outstanding forest that still needs to be reforested, there's about 8000 hectares that they're responsible for — the companies. You can't tell the committee, of those 8000 hectares, how much is done each year to try and get rid of that backlog?

**Mr. Wynes:** — I don't have that information with me. We do get annual plans from the companies where they tell us what actions they are taking each year to meet this renewal. What we hold them responsible for is successfully reforesting this land by a certain time, and that's the result that we're looking for. So no, I'm sorry I can't provide you information today in terms of exactly which actions they are taking this year to accomplish those results.

**Ms. Atkinson:** — Okay.

**Mr. Wynes:** — If I can also add, this is extremely important related to our 38 000 hectares and to the industries. This is a number, until it actually meets the standard of being reforested, we don't consider it to be successfully reforested. So this number of 38 000 includes a significant amount of area. Once again I'd have to do some digging here if you want the specifics. A significant amount of this area has already been planted. We just need to monitor it, go back and survey it and ensure that it's surviving and thriving and meeting the standards that we've set for reforestation.

A significant portion of this land has already been treated. It takes time to grow a forest and it just hasn't had enough time. We haven't surveyed it to confirm that it's there yet. This number will decrease significantly with surveys and subsequent

stand tending over the next few years.

**Ms. Atkinson:** — Thank you.

**The Chair:** — The motion now on the floor by Mr. Michelon is to concur with recommendation no. 8. All in favour?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 8 of the chapter no. 6, Environment, of the Provincial Auditor's 2009 volume 3 report.

Taking a look at recommendation no. 9, that recommends senior management of the Ministry of Environment receive regular reports with adequate information to properly oversee and regulate reforestation. Just looking for a comment with respect to the level of compliance on this recommendation.

**Ms. Quarshie:** — Thank you, Mr. Chair. With the hiring of the forestry renewal expert who's analyzing the information that we need in detail, and also with respect to the monitoring, we anticipate that we'll be able to bring more rigour to this process as opposed to what we're doing currently.

I think one of the issues that we have within the ministry is that with respect to reporting, we currently have quarterly reporting from all branches to senior management within the ministry. The problem we have is this is not clearly documented as a process that we're following. So internally it is an formal process, and we need to make sure that we bring some rigour to these processes by documenting them so when the auditor comes in, they're aware of all the things that we're doing.

**The Chair:** — Does the committee concur with recommendation no. 9? Mr. Stewart.

**Mr. Stewart:** — Thank you, Mr. Chair. I move that the committee note concurrence and report progress.

**The Chair:** — All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 9 of chapter 6, Environment, of the Provincial Auditor's 2009 volume 3 report and note progress.

Recommendation no. 10 recommends that the Ministry of Environment develop a communications strategy to inform stakeholders about the effectiveness of reforestation activities in the province, what actions are occurring on this front, and what's the plan towards compliance.

**Ms. Quarshie:** — Again thank you, Mr. Chair. The ministry produces the state of the forest report, and I believe the most recent report was 2009. Yes, 2009. And the state of the forest report provides comprehensive information about the state of the forestry and what's happening in terms of regeneration, going to some of the questions that are being asked and so on.

I believe that we could do more. And so for example, we could have information linked to our website that clearly provides

information to different members of the public in terms of regeneration standards and so on. So you know there are a few things we could do to improve the process. So we will undertake to do that.

**The Chair:** — I'd entertain a motion. Mr. Stewart.

**Mr. Stewart:** — Before we do that, I'd like to ask the auditor's office about this recommendation. It seems odd to me that the auditor's office has taken it upon themselves to recommend a communication strategy to inform stakeholders about the effectiveness of any activities in the province. It seems to me that that's a policy issue that's outside the realm of the auditor's office, and I'd like an explanation as to why the auditor's office thinks that's relevant to their business.

**Mr. Grabarczyk:** — I guess the relevance of the communication strategy is basically for the ministry to report to the public in terms of its performance, in terms of reforestation, has it been . . . the success of the reforestation.

**Mr. Stewart:** — Well thank you. That's not much help. I believe that the auditor's office is responsible for seeing that, for overseeing proper expenditures of the taxpayers' dollars. And recommending a communication strategy for any purpose doesn't seem to me that it's inside of that realm. And if that's the answer, that's the answer. But to me, it's outside of the business of the auditor's office.

**Mr. Grabarczyk:** — I guess to add further to that, the ministry has a budget and it is responsible for public resources, and part of those public resources go to reforestation. And in terms of accountability for those resources is to report back in terms of what those resources were used for and the success of the programs in which those resources were used for, and that includes reforestation.

**The Chair:** — I think as Chair, you know, I think the words communication strategy might be maybe, from my perspective, maybe is where this gets maybe off course from individuals' understanding of the recommendation. But if we're talking as it was relayed from the auditor's office, its performance reporting, I think that's something very important when tax dollars are being utilized for something.

And in fact it's not any different than we sit down with Finance in a couple other hours here, and we sit down and look at how they account for their dollars and what sort of tools they use to provide to the public what their progress has been and what their performance has been, just the same as in Health where they'd have certain measurements as it relates to different plans and strategies where tax dollars have been allocated.

But I would, certainly I can field further questions on this or further discussion, or I would entertain a motion.

[10:45]

**Ms. Ross:** — I make a motion that we concur with the auditor's recommendation and that we note progress because you had said it wasn't quite completed, right? Am I correct?

**Ms. Quarshie:** — What I indicated is that we produce a state of

the forestry report. And the state of the forestry report is a comprehensive report that talks about forestry management practices in the province, what regeneration successes we have and so on and so on. In addressing the auditor's concern, we think there is more we can do. So we can provide the information on our website with respect to some of the status of regeneration and so on.

So if that is the intention of the auditor, intention of that recommendation, we are quite happy to accept that.

**The Chair:** — And I just saw a question here, Ms. Higgins, and then back to Ms. Ross who's putting forward a motion.

**Ms. Higgins:** — Just a quick question: the state of the forest report, how often is it published? Is it more of an industry report or is it something that's geared more to the public stakeholder?

**Mr. Wynnes:** — I can speak to that: both. It's geared towards a fairly broad audience. It's got a number of indicators in it and it's required by *The Forest Resources Management Act* every 10 years. So the one that we put out in 2009 was the first one as required by the Act. So it's certainly . . . that's the opportunity for improvement is more timely reporting, making that information available through a web page is a good idea. We've got those tools available to us. So we certainly support that recommendation. But the state of the forestry report is required once every 10 years.

**Ms. Higgins:** — And how widely is it distributed?

**Mr. Wynnes:** — It's available on the website, and there were press releases about its availability.

**The Chair:** — Ms. Ross I know is looking for a motion but, Mr. Michelson, do you have a question that is relevant before the motion?

**Mr. Michelson:** — Yes. I'm just kind of curious how often this report is put out.

**Mr. Wynnes:** — The state of the forest report is done once every 10 years. And one of the things that's reported, it's a very broad spectrum of indicators right from forest industry state, the amount of harvesting, to forest age, indicators such as birds. It's a very broad-based report. So it addresses a lot of the concerns from industry right through to some ecological concerns. By law under *The Forest Resources Management Act*, it's required once every 10 years.

So there is an opportunity for issues like this that are, you know, more timely to report more frequently, making that information available on the web page is a good idea. We support that. We support the idea.

**The Chair:** — Ms. Ross.

**Ms. Ross:** — Well I'm just going to concur then.

**The Chair:** — Okay. Is it agreed, as moved by Ms. Ross, that we concur with recommendation no. 10?

**Some Hon. Members:** — Agreed.



**The Chair:** — It's agreed that this committee concur with recommendation no. 10 of chapter 6 Environment of the Provincial Auditor's 2009 volume 3 report.

At this point in time, we've worked our way through the recommendations put forward by the Provincial Auditor. I don't see any other questions from committee members at this point in time. As Chair, I will note that, you know, certainly we've gone past the guidelines we had for time, and maybe next time we'll allocate a little bit more time. I thank Deputy Minister Quarshie and her officials for coming before us here today and providing answers and just look for a closing statement if she has any.

**Ms. Quarshie:** — Thank you, Mr. Chair. We thank the committee and the committee members for your patience, and we also thank the Provincial Auditor for the report. We take in a very positive light that this a process of continual improvement and it fits within the realms of where we're going as a ministry. So thank you.

**The Chair:** — Thank you. That concludes our consideration. We'll take a brief recess and reconvene with Municipal Affairs.

[The committee recessed for a period of time.]

### Municipal Affairs

**The Chair:** — Welcome back. We reconvene with Municipal Affairs. I welcome Deputy Minister Isman and officials from Municipal Affairs. I invite Deputy Minister Isman to introduce his officials. Then I'm going to turn it over to the Provincial Auditor to make their presentation and subsequently your response.

**Mr. Isman:** — Thank you. I'm pleased to introduce on my right, Wanda Lamberti. Wanda is the executive director of our central management services. On my left is Russ Krywulak who's the executive director of our grants administration and financial management branch. And to my rear, behind me is Kyle Toffan, the director of grants administration.

**The Chair:** — Thank you. I'll turn it over to Provincial Auditor Atkinson to introduce his official and present their findings.

**Mr. Atkinson:** — Thank you, Mr. Chair. Seated beside me is Corrine Rybchuk. Corrine is a principal with our office and will be leading our presentation.

**Ms. Rybchuk:** — Thank you, Mr. Chairperson, members, and officials. In chapter 15, pages 311 and 315 of your report, we report the results of our 2009 audit of the Ministry of Municipal Affairs. We found that the ministry did not comply with the law in two areas.

First, as noted on pages 314 and 315, we found that Municipal Affairs did not comply with the law when it incurred over 700,000 of spending without proper authority. *The Provincial Auditor Act* requires our office to report where an appropriation was exceeded. The Legislative Assembly, through appropriation Acts, gives ministries authority to spend money out of the General Revenue Fund. Cabinet can, through an order in council called a special warrant issued under *The Financial*

*Administration Act*, provide authority for additional spending.

For the year ended March 31st, 2009, Municipal Affairs spent over 700,000 without proper authority. Its appropriation was 396.6 million, and Municipal Affairs did not request or obtain a special warrant for its overspending.

Second, as noted on page 315, Municipal Affairs tabled its 2009 annual report later than the law required. The law requires Municipal Affairs to submit its annual report to the minister by June 30th and the minister to table the report in the Legislative Assembly by July 29th. The minister tabled Municipal Affairs' 2008-2009 annual report on September 17th, 2009. Because of the following, our office concluded that it was unnecessary to make a recommendation that the ministry follow established laws.

For both instances the requirements of the laws are clear. The ministry was aware of the laws and had processes to comply with them. However in both instances the processes did not result in compliance.

That concludes my presentation of the chapter, and I'd welcome any questions at this time.

**The Chair:** — Thank you. I would invite response from the ministry.

**Mr. Isman:** — Thank you very much, Mr. Chair. I'd like to begin with a few general comments and provide some details with regards to the issues raised in this chapter. Then myself and my officials would be pleased to answer any questions that may come from the committee.

Through a variety of funding agreements, our provincial government leverages federal infrastructure dollars and gets those dollars to municipalities in a timely fashion. We work with municipalities to help maintain and build momentum in the province, in fact to keep Saskatchewan moving forward.

In 2008-09, our expenditures exceeded our approved appropriation as a result of infrastructure projects progressing at a significantly accelerated rate compared to what was anticipated in the Municipal Rural Infrastructure Fund, or MRIF as we refer to it. MRIF is a federal-provincial cost-shared program administered by the province. The province is responsible for expensing both the provincial and federal shares of funding, and then the province is subsequently reimbursed by the federal government for the share upon submission of cost-share claims. In accordance with the CICA [Canadian Institute of Chartered Accountants] public sector accounting handbook, expenses must be accrued once eligible expenditures are incurred by the municipalities.

Now historically we've experienced infrastructure spending that has fallen below budget, and it's important to note that there are a number of variables outside of the control of either the ministry or the municipalities that we're supporting that make the expense forecasting for infrastructure programs somewhat challenging. These include weather conditions, municipal financing arrangements, and contractor availability.

Although we routinely conduct detailed surveys of

municipalities to determine the current and anticipated status on the progress of projects, it's not possible to predict actual outcomes with great precision. In 2008-09, despite best forecasting efforts, construction surpassed the expectation of both the municipalities and the ministry.

We did not become aware of this issue until very late in March 2009. In fact that was on March 26, 2009 that the ministry became aware of this, which in fact was too late to obtain a special warrant or supplementary estimates funding. As a result, our approved appropriation was exceeded by just over \$700,000 on a total budget of over \$396 million. It is true that this is a substantial amount of money. However, I wish to point out that the variance in fact is less than two one-thousandths of our total budget.

Now we strive to forecast with as much precision as is possible. We do not artificially inflate our funding projections. At the same time, we make every effort to include sufficient flexibility to address pressures based on the best information available to us, recognizing that unanticipated expenditures often arise at year end. We applied this principle in 2008-09, but we were unable to predict the surge of progress of infrastructure projects based on the data previously provided to us by the municipalities.

[11:00]

Subsequently in 2009-10, wherever possible we've entered into grant funding rather than cost-shared arrangements for infrastructure programs. This has helped us mitigate the problem that we encountered the previous year in '08-09. In addition we've been surveying municipalities more frequently to determine progress on projects.

Lastly I would like to address the issue related to the tabling of our 2008-09 annual report which was inadvertently tabled late. This is a result of new and inexperienced staff coupled with a shortage of staff. The importance of meeting the tabling deadlines has since been reinforced with all those involved in this process, and I'm confident that this oversight will not reoccur in the future.

Thank you very much. We'd be pleased to entertain any questions that any of the committee may have.

**The Chair:** — Thank you very much. Ms. Higgins.

**Ms. Higgins:** — Thank you very much. And I'd like to thank the auditor for comments never to be confused with being subtle, I must say, on this report and also to the deputy minister for his explanation.

Previously then, when you ran into problems with the dollars that were expended inappropriately and against the law I guess, how often did you do the reviews of programs to keep an ongoing tally or make your projections as to what type of appropriations would be needed?

**Mr. Isman:** — In 2008-09, we were doing it approximately every three to four months. Because of arrangements we now have with the federal government, we need to do these surveys on a monthly basis.

**Ms. Higgins:** — So it was because of requirements by the federal government that you have increased the number of reviews you are doing now or because of the situation that you ran into previously.

**Mr. Isman:** — In fact, both. The federal government was also in a similar type of situation that they wanted more precision in terms of what the expected expenditure would be.

**Ms. Higgins:** — So has this caused any problems in the municipalities? Does it put any different pressure or requirements on the municipalities to report in a more timely fashion, or is it just internal changes that are needed?

**Mr. Isman:** — There has been some indication from some of the municipalities that there is more pressure on them in terms of this monthly type of reporting when we call out to them, but I wouldn't say it has been particularly onerous.

**Ms. Higgins:** — So then, just for a little more detail on this. Three-quarters of a million dollars basically overspent. So this was money that was required through approvals as the municipalities moved ahead with their projects. The money was paid out and reimbursement came from the federal government, or was this more money that was required by the department itself or the ministry?

**Mr. Isman:** — Of the amount that you make reference to, half of it obviously came back from the federal government. In fact this is a timing issue. The actual amount of the expenditure over more than one fiscal year had been held constant, and so the over-expenditure in '08-09 was reflected by a corresponding under-expenditure in '09-10. So the total amount has remained constant as far as the government is concerned, and municipalities have been able to receive what they in fact had been promised.

**Ms. Higgins:** — Okay. Now I'm going to ask for a clarification on something. Then basically it seems to me, and I'm going from a pretty sketchy memory on this, previous to our current budget, there was an additional injection of cash into the Ministry of Municipal Affairs. I think the news release at the time said to speed up infrastructure in municipalities. So was it the same situation where what you were doing was actually making sure you didn't run into this problem again and just moving the money forward?

**Mr. Isman:** — There was an additional allocation of \$145.4 million in '08-09. That consisted of \$100 million for what we refer to as the MEEP program or the Municipal Economic Enhancement Program, which was that booster shot. There was an additional \$31.6 million for Building Canada Fund-communities component monies. And there was \$13.8 million which was pure federal funding that we administered for the public transit program. Now those are completely outside of the MRIF program, which was the program where we ran into the over-expenditure in 2008-09.

**Ms. Higgins:** — In 2008-09. I guess I was wondering more recent. Before the March budget of this year, there was an announcement. There was additional money put into infrastructure to speed up infrastructure projects in the municipalities. So what you're saying is the ministry was just

keeping up with the work municipalities were doing? That actually you just moved that money ahead so you wouldn't run into the same problem in last budget year of incurring higher expenses than had been approved for the department?

**Mr. Isman:** — Yes. That's largely correct. But it was a little bit more than just keeping up with expenditures that had taken place. We had heard from a number of the municipalities in terms of how some of the projects were moving forward. Certainly a number of the projects, even the multiplex in Moose Jaw, was progressing much faster than had originally been anticipated. And those are all good things, and we're pleased to see that moving forward. So there was certainly a component of that that we wanted to address.

We also heard from a number of the municipalities that by tendering earlier in the year, they were able to sometimes get more favourable pricing on some of the projects. And so we wanted to enable them to do business as best they could. And accordingly we were being very responsive to what we heard from the municipalities, of assisting them to move their projects forward in a pretty competitive environment actually, in terms of being able to secure contractors to do the work.

**Ms. Higgins:** — Then the amount of money that was provided for speed up I guess of the projects in the municipalities would've been just a corresponding amount that would've been in the Ministry of Municipal Affairs' budget in the current budget year. So it just flipped to avoid this same problem basically.

**Mr. Isman:** — Correct.

**Ms. Higgins:** — Okay, thank you very much. Well obviously then, your increased accounting . . . or just being made aware or running into this problem previously, you are using the processes that you have in place. It was interesting that the auditors, you know, didn't make a recommendation for improved processes and accountability. They believed that you have them already. So you just feel that they're being better adhered to or more closely watched than the problem that we're talking about now?

**Mr. Isman:** — By doing our forecasts and assessing where municipalities are on a monthly basis now, as opposed to on a quarterly basis, we have a much better indication of how things are moving forward and more and more able then to address needs through special warrant or supplementary estimates.

**Ms. Higgins:** — These are a couple of pretty glaring incidents that are highlighted in the auditor's report. I don't believe I've seen anyone miss an annual report date in an awful long time. Wouldn't that just be standard? I mean we all get a document mailed to our MLA [Member of the Legislative Assembly] office, talks about tabling requirements and what documents are required to be tabled in the Legislative Assembly and how they are to be tabled. It's pretty hard to believe that it could be missed in the ministry when it's something that happens on an annual basis.

**Mr. Isman:** — Yes, I agree. As I indicated, I'm trying to avoid naming names or pointing at specific individuals. I am aware of where it broke down, where the process broke down, and

certainly the individuals involved know exactly what had happened. It was not only a case in terms of new staff, it was also a circumstance with a staff person who was unfortunately off due to an extended illness.

**The Chair:** — At this point in time, I think consideration of chapter 15, Municipal Affairs, appears to be concluded. I don't see other questions. Certainly mechanisms and following procedures that report to the public spending, and as well, operations are important. It's a good exchange at this table here.

I'd like to thank Deputy Minister Isman for coming before us here today. And we'll take a brief recess before we reconvene with volume 2. Thank you.

[The committee recessed for a period of time.]

[11:15]

### Finance

**The Chair:** — We'll reconvene considerations here this morning. We'll move along to volume 2 of the Provincial Auditor's 2009 report. With us here at this point in time we have Deputy Minister Matthies with respect to the Ministry of Finance. Thank you for coming before us. I'll invite Mr. Matthies to introduce his officials, and then I will ask the auditor's office to make a presentation and then call for your subsequent response. Mr. Matthies.

**Mr. Matthies:** — Thank you very much, Mr. Chair. I've brought several officials with me this morning. Hopefully they won't all necessarily be needed, but from a bit of a training and development perspective, folks that have some thoughts on issues. So with me on my left is Joanne Brockman. Joanne Brockman is the assistant deputy minister responsible for the economic and fiscal policy branch and the taxation and intergovernmental affairs branch within Finance.

On my right is Nancy Perras. Nancy is the manager of business systems planning within Finance. I'll introduce also Terry Paton and Chris Bayda. They're obviously well known to the members of the committee, but they are with Finance as well.

Sitting behind me on the left is Louise Usick. Louise is the director of corporate services. Beside Louise is Brent Hebert. Brent is the director of audit branch in revenue division. And beside Brent is Brian Smith, the assistant deputy minister responsible for the public employees benefits agency. And sitting at the back I see Fred Fedosoff from the minister's office.

**The Chair:** — Thank you, Deputy Minister Matthies. I'll turn it over to Auditor Atkinson and his office to make presentation.

**Mr. Atkinson:** — Thank you very much, Mr. Chair. Seated beside me is Judy Ferguson. Judy is a deputy provincial auditor in our office, and she's going to lead us through the presentation on volume 2.

**Ms. Ferguson:** — Thank you, Brian. Good morning, Mr. Chair, committee members, and government officials. Thank you for the opportunity to provide you with an overview of the 2009

volume 3. I'm going to take about the next 10 minutes just to focus on a few charts that are contained within this report and explain our recommendation for the committee's consideration. We've handed out a handout which provides a quick summary. It is two-sided, I just wanted to draw that to your attention, but you could also follow within the report if you so wish.

This report actually contains two parts. The first part actually provides an analysis of key financial results and trends of the government's financial position for the year ended March 31st, 2009. It also includes analysis of interprovincial comparisons wherever possible. The second part is a status of past recommendations on the nature and extent of information the government published to aid the legislators' and the public's understanding of the government's financial performance, the government as a whole.

The government summary financial statements provide a complete financial picture and key financial information on the financial activities of the entire government. In this report we're using the financial statements of the government for the year ended March 31st, 2009. Yesterday the minister tabled the March 31st, 2010, so this report is the 2009 numbers.

So as explained in appendix 2 of our report, pages 46 and 47, we measured the financial condition of the government using three categories of indicators. And those categories were developed by the Canadian Institute of Chartered Accountants. First we measure whether or not the government is living within its means. This helps to understand how much debt a government can carry. This is a category of sustainability.

The second is how well can a government respond to program commitments by either raising more revenue or borrowing more money. This category is called flexibility. The third is to what extent does the government rely on revenues from sources beyond its direct control or influence, such as monies from the federal government, and use those moneys to pay for existing programs. This category we call vulnerability.

So what did we find? This report actually contains 30 charts of trends and interprovincial data. And I'm just going to actually highlight on five graphs. The first graph is on page 6 of your report, if you're using your report, graph no. 1. It's annual surplus or deficit. The annual surplus or deficit shows the extent to which a government spends more or less than it raises in one fiscal year. An annual surplus means the government has lived within its means, whereas a deficit means it has not. This graph shows that the government has lived within its means for 12 of the last 15 years.

The dramatic growth in the 2009 annual surplus — about 1.1 billion more than 2008 — was primarily because of increases in non-renewable resources offset by decreases in net income from government business enterprises. Government business enterprises include SaskTel, SaskPower, Workers' Compensation Board, and a few others.

Now if you turn to page 9 of our report, it's net debt as a percentage of GDP, gross domestic product. This measure measures the level of financial demands placed on an economy by a government's spending and revenue-raising practices. It provides a measure of how much debt a government can afford

to carry. The thinking behind this indicator is that a person with \$50,000 per year of income can afford to carry more debt than a person with \$30,000 per year income. Thereby, the larger the economy, the more debt a government can afford to carry.

Higher ratios means a government is placing a growing debt burden on its taxpayers and will need more future revenue to repay the debt. Higher ratios can adversely impact the interest rate at which a government can borrow — that is, it impacts credit ratings. Lower or decreasing ratios are better.

In the 1990s, the government's net debt was in excess of 40 per cent of the provincial economies. The level of debt at this time was not sustainable. As a result, the government had fewer borrowing sources, paid higher interest rates, and needed large amount of monies from the federal government to pay for provincial government programs.

As the graph shows, this ratio has vastly improved. This improvement was as a result of growth in the provincial economy from 24.7 billion in 1995 to 63.3 billion in 2009. Details about that are shown on graph 3, page 8 of the report. And it's also from a reduction of net debt from 10.8 billion in 1995 to 3.5 billion in 2009.

Reduced net debt has contributed to better credit ratings for the government. This in turn means the government has more sources for borrowing and can borrow at lower rates. Also, using 2008 numbers, Saskatchewan tied with BC [British Columbia] with the second lowest net debt ratio. Alberta continued with the lowest ratio, and that information is on graph 5, page 10. Overall the government was in a much better position than it was 10 years ago to carry its debt and to afford existing programs with the money it raised from the provincial economy.

Moving on, page 11 of the report graph 6, which is own-source revenue as a percentage of GDP. This measure shows how much revenue from the provincial government, a government raises through taxations and user fees. Higher ratios or increases in ratios means a government is placing higher demands on its provincial economy. Its demands are outpacing growth in the economy. This can make increases in taxes or user fees more difficult.

Own-resource revenue is from taxes, non-renewable resources, income from government enterprises and other miscellaneous sources. The graph shows that since 1995, the revenue raised by the government as a percentage of GDP from sources within the province has remained relatively constant. This means that the paces of increases in the government's revenue has matched the increases in the size of the provincial economy.

Looking at own-source revenue and detail can be found on page 48 of our report in the appendices. Saskatchewan's own-source revenue has grown steadily from 5.4 billion in 1995 to 12.3 billion in 2009, and the makeup of that revenue has changed significantly over this period. In 1995, non-renewable resources was about 16 per cent of the total; whereas in 2009, it made up 37 per cent.

Because non-renewable resource revenues are commodities beyond the government's controls, reliance on those types of

revenues as a significant source of long-term revenue to finance operations may decrease a government's flexibility.

Moving on to page 14 of the report or graph no. 9, interest cost as a percentage of revenue. Sometimes this is referred to as interest bite. This shows the extent to which a government may use revenue to pay for interest costs rather than pay for services. In simple terms, the ratio shows how much of every dollar a government's revenue is needed to pay interest.

A lower ratio of interest costs as a percentage of revenue means a government uses less of its revenue to pay for interest costs. In the 1990s, about 20 cents of every dollar went towards paying interest, as shown in graph 9. This has decreased significantly since then to six cents of every dollar of revenue in 2009. This improvement is a result of larger revenues, lower interest rates, and a smaller net debt.

In 1995, the government spent more money on interest costs than it did on education. In 2009, interest costs of 208 million remained significant and was the government's fourth largest expense after health, education, and social services.

And finally the last graph on page 17, graph 12, federal transfers as a percentage of own-source revenue. This measure shows the extent to which a government is dependent on money from the federal government to pay for existing provincial programs. A government showing increasing trends is becoming increasingly dependent on federal money to operate — that is, changes in the levels of federal transfers would have a greater impact on the government's ability to deliver its expected services.

The graph shows that since 1995, the federal government transfers as a percentage of own-source revenue has gradually decreased. Increases in own-source revenue have helped the government to become less reliant on money from the federal government.

As previously noted, our report contains many other graphs showing trend lines and interprovincial comparisons that we hope will help you understand the financial condition of the government.

So overall, we found that at March 31st, 2009, the government's financial condition was very strong, with the following notable risks. Even though the net debt had decreased, the government's interest costs remain the fourth largest expense. The government's ability to service its debt and provide public services depend on the health of the provincial economy.

And Saskatchewan's economy is significantly impacted by commodities because over one-quarter of the government's own-source revenue comes from non-renewable resources. The government's ability to raise revenues is very susceptible to downturns in the economy and commodity prices. As the government is not in control of commodities, predicting non-renewable resource revenue from a commodity-based revenue is complex and challenging. The government must be prudent in considering how much to rely on non-renewable resource revenue as a source of long-term revenue to pay for its operations.

Overall, in our view, the government must continue to maintain a strong financial condition to withstand swings in its revenue.

Now I'm going to move to the second part of our report which starts on page 19 called status of previous recommendations on summary level reporting practices. In 2008 we recommended the government use the summary reporting entity as the primary basis of reporting. Your committee did not agree with this recommendation. Unlike all other provinces, the government continues to focus on reporting financial results based on the General Revenue Fund instead of the summary reporting entity. In our view, the government's continued focus on the General Revenue Fund causes confusion and misunderstanding about the true financial picture of the province.

[11:30]

In 2008 we also recommended that the government include a statement of operations with its estimated revenue and expenses in its summary budget. Again your committee did not agree with this recommendation. Unlike all other provinces, the government's financial plan does not include this level of information. Rather it provides only expected annual surplus or deficit by agency and overall.

The summary level budgets of other provinces also set out the expected revenue by type and expenses by program. Without this information, we think legislators in the public lack key information about what services the government plans to deliver in the upcoming year and how it plans to pay for them.

In 2007 we recommended that the government publish actual and forecasted results compared to a plan for the entire government each quarter. PAC [Public Accounts Committee] did not agree with this recommendation, and rather they recommended that the ministry review the implications of reporting actual results with projected results for the General Revenue Fund on a quarterly basis. They viewed that publication of this information for the General Revenue Fund could be a first step towards publishing similar information on a summary basis.

We note that the 2009 mid-year report did not include actual results for the General Revenue Fund as initially planned, and nor did the third quarter report. Interim financial information for the summary financial statements is not available on a quarterly basis at present. In our view, providing legislators and the public with such information on a quarterly basis fosters really a no surprise or transparency reporting process. Such information will help assess the government's progress towards achieving its summary budget.

In 2006 we recommended that the government publish financial discussion and analysis along with its audited summary financial statements. Your committee agreed with this recommendation. We recognize that the use of financial discussion analysis provides the government with an opportunity to explain its overall financial results.

In the 2009-10 Public Accounts volume 1 that was tabled yesterday and also the 2008-09, the government continues to improve the quality of its financial discussion and analysis. In the '08-09, it provided information on all but one of the key

indicators of financial information, and that was net debt to GDP. And we're very pleased to report that the volume 1 that was tabled yesterday does include that key indicator.

Areas of further improvement that our office will be monitoring and looking for include providing more in-depth analysis of trends and financial indicators, longer trend lines, and interprovincial indicators for key areas. We do note that the brevity of the summary financial budget provides limited actual-to-budget analysis at the summary level at present. Overall we're quite pleased with the government's progress on the financial discussion and analysis, and we'll continue to monitor and look forward to future improvements in that area.

Lastly our office wants to advise the committee, because the government is now including all the key indicators for the summary financial statements, that our office has decided to discontinue the publication of the first part of volume 2, which is the detailed analysis of the key indicators and results. We will continue to report on that second half, which is the quality of the government's financial reporting at the summary level, and we'll include that report within our normal reporting process.

So that concludes my comments. Thank you.

**The Chair:** — Thank you, Ms. Ferguson. I'll turn it over to Deputy Minister Matthies for a response.

**Mr. Matthies:** — Thank you, Mr. Chair. I actually don't think I'll have any comments to make, Mr. Chair. I think Judy did an excellent job in providing comment on the indicators. And as she indicated, the financial statement discussion and analysis that we incorporate into the public accounts now, we're covering off the same sort of territory. And so I think that's definitely good progress, and I think that we'll just take members' questions.

**The Chair:** — Sure. Looking to the committee, and I have one question. I know in the last consideration of the previous volume 2 report from the previous year, considered in 2008 I believe November or December, there was a commitment to endeavour to work with the province of Manitoba to explore their circumstance as it related to complying with public sector accounting standards and focusing wholly and entirely on the summary financial statements. My question to the ministry is, if we could be provided an update as to what actions took place, and what was learned through that process?

**Mr. Matthies:** — Certainly. Officials, including at the deputy level and also I believe in the Provincial Comptroller's office, did have discussions with a number of the folks in Manitoba. I think some of the comments that we might provide is that they undertook about a year-long planning process before they actually moved towards a summary financial role budgeting process. There was a fair bit of leg work, as they were describing to us, that needs to be done as you move to change or potentially change your approach.

A lot of it involves stakeholders or government agencies or school boards or RHAs [regional health authority] or whatever that we would have to get information from. And so what their comments to us were, you have to make sure that the people you're getting the information from can get you what you need

when you need it in the format you need it. And there's also some work that's required in terms of ensuring that there's a consistency or an ability to reconcile differences because in some cases the accounting policies may not necessarily all be the same. So we were provided with that feedback, and we would inform the committee I guess of that discussion.

**The Chair:** — Thank you. Now you've highlighted at this point in time that there is a process that was undertaken. Certainly I'm familiar with the process that Manitoba undertook. Can the deputy minister comment, with respect, is the province of Saskatchewan looking at this point in time into undertaking a similar process? Are you in that process right now? Are you looking to comply with public sector accounting standards?

**Mr. Matthies:** — Mr. Chairman, the province at this time has no intentions to move to a different budgeting or reporting process from what we have today. We continue to provide both a General Revenue Fund set of information and summary financial statement information. And the summary information receives a clean audit opinion from the Provincial Auditor's office. We have, as Judy has identified, not moved to exclusively focus on the summaries, and it is my understanding that the government is comfortable with the process today. I noted that the Minister of Finance made the comment yesterday that there may at some point in the future be a revisiting of that, but at this point we are on the same path.

**The Chair:** — Thank you, Deputy Minister. I guess I look to the committee at this point in time. There were recommendations on this front with respect to summary financial focus with an entire focus. I am looking to the will of the committee. Is there a desire to reconsider the recommendations that were not concurred with at a previous date? And I look specifically back to the recommendation in 2008 volume 2, and the recommendation was that government use the summary reporting entity as the primary basis for reporting its financial plans and results. Is there a will within the committee to consider this recommendation once again? Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I think the decisions by this committee and government for the last many years has been to not change the accounting practices and the reporting. So this I think should remain the same as it has been in the past for many years ever since I've been elected, which is almost two decades now. So the government believes that we should carry on in the manner that we have been.

**The Chair:** — Just to make sure I understand this completely. The government doesn't have the interest in reconsidering and concurring in a recommendation that the province use the summary reporting entity as its primary tool for reporting back to the public. Is that conclusive . . .

**Mr. D'Autremont:** — That's correct. We do not agree with that recommendation.

**The Chair:** — Don't agree. And I guess it'd be noted then that the value in going to a vote or having any motions wouldn't exist with a five and two representation at this table.

It's worthy, I think, just to note and maybe even . . . you know, I guess I'm sitting in the Chair's spot. Not to make a formal

statement, but certainly it's the perspective of the opposition and highlighted in a news release yesterday and in discussion that we comply with summary reporting. It's the concern of the opposition that the current reporting isn't sustainable. We believe it's a problem to be out of line with all other provinces in Canada, and we believe it's a problem to be out of line with generally accepted accounting principles and public sector accounting standards. And we have urged the government to reconsider its reporting mechanism, and we believe that it's time to move in line with the other provinces and provide that clarity and transparency to Saskatchewan people. Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I think prior to the last election we were probably arguing that point and the government of the day, yourselves, were arguing the point we now argue, so I don't think the arguments have changed. The characters simply sit on the other side of the tables.

**The Chair:** — Ms. Atkinson.

**Ms. Atkinson:** — Well I think Mr. D'Autremont's right. It depends on which side of the table you sit on, whether the position that you take on this issue, because there's no question that summary financial statements are difficult to communicate to the public. And summary financial statements do change from year to year depending upon the province's finances.

But we're now at a point I think in this country where we are the last person standing on this issue. And all other provinces have made the move, as recommended by their provincial auditors. So I guess I would ask the government this question. Would it be appropriate for this committee, given that the deputy minister of Finance has indicated that Manitoba took a year or so to take a look at this, would it be appropriate for this committee to, as part of its recommendation to government, to have the Ministry of Finance take some time to take a look at the implications of going to the Provincial Auditor's recommendation and report back to this committee a year from now?

My thought being that as I said earlier we're the last of all the provinces in Canada, and there's no question there are some good reasons for this, having sat on Treasury Board in the government benches. But we're also in the position where all other provinces have bit or taken the bullet, so to speak. And I'm wondering would it be prudent of us to recommend to Finance that they take a look at this and report back to the Public Accounts Committee a year from now?

**The Chair:** — Are you placing a motion, Ms. Atkinson?

**Ms. Atkinson:** — Well I'm not in a very good position to place a motion given that there's only one of me and four of the government members. But I'm wondering if it's something that the government members might consider.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — Based on the statement yesterday by the Minister of Finance that this may not necessarily be the state forever, I think though that it should be left up to the Minister of Finance and cabinet to make a determination if they want to

go to the summary financial system rather than the current system. So from our point of view, we would not be supportive of a motion.

**Ms. Atkinson:** — So given that the government wants to undertake this, might I just suggest that it might be worthwhile for government to look at, spend the next year looking at what the implications would be of moving to the Provincial Auditor's recommendation given that we basically are the last province standing. And I would hope that if the government makes the decision to move on this, that the Public Accounts Committee be given somewhat of a heads-up because I actually think that we can't really maintain our position any longer given that all other provinces have made the transition.

[11:45]

**The Chair:** — At this point in time, we'll maybe consider other aspects of the report and further questions. I have one here, just with respect to unfunded liability within pensions. And of course I know that trajectories on this and projections on this show that this will grow over the next few years, I believe peaking in maybe around 2013. I would appreciate just for understanding and for planning purposes if, to the best of the ministry's information, if they can provide us those estimates and those projections?

**Mr. Matthies:** — I think we will undertake to provide you with some information, Mr. Chair. Certainly the way you've described it, I believe you accurately characterized it. We've got about a \$5.8 billion unfunded liability right now that's disclosed in the notes to the public accounts. And we have in prior years, there has been a fairly extensive report provided to this committee around pension liability issues. So we will certainly undertake to get you some more information.

**The Chair:** — But at this table here today, you don't have that information available to us. Is that . . .

**Mr. Matthies:** — I'm looking to my colleagues from the comptroller's office. I think, Mr. Chair, what I would say is we certainly, in the course of preparing some of our public accounts briefing material, we have stuff on pension pieces. And I note my staff are referring to some of their briefing notes right now. So perhaps if there's another question, they'll do some research and there may be a further answer that we can make.

**The Chair:** — Are there questions from committee members at this point in time? With that in mind, certainly would the deputy minister be able to provide that information in written form to members of this committee in a relatively timely fashion as opposed to waiting on the answer at this table?

**Mr. Matthies:** — Absolutely. We'll provide a written response through the Chair not inconsistent with the information that we provided in prior years. Sure.

**The Chair:** — Thank you very much. Further questions at this point in time? We'll conclude considerations at this point in time of volume no. 2 2009 report of the Provincial Auditor. And I believe we have pretty much the same officials for the next consideration, so maybe if we can stay at the table and simply

switch books. We're going to be switching over to volume 3, 2009 volume 3 report.

**Mr. Matthies:** — Mr. Chairman.

**The Chair:** — Yes.

**Mr. Matthies:** — Mr. Chairman, my staff have provided me with a bit of an updated note here. And you're absolutely right in what your comment was earlier. The peak, if you will, will be in '12-13. And so I'm not sure if that sort of suffices for what you're asking, or if you're still looking for any additional information.

**The Chair:** — That's a good question. I appreciate that. Do you have the actual amount that you're projecting at this point in time? We're at 5 point, was it 8, at this point?

**Mr. Matthies:** — No, we don't have that with us. So we'll continue with the original plan to provide a written response to the Chair.

**The Chair:** — Thank you. And if you can provide not just the estimate as it relates up to the peak of 2013, but how that is extended across the out years, maybe the next decade, the decade beyond 2013.

So shifting gears with the committee, I appreciate the officials that are here with us here today. We're going to now focus in on the 2009 report of the Provincial Auditor as it relates to volume 3, specifically chapter 7, which is Finance. And I would invite the Provincial Auditor's office to make a presentation at this point in time.

**Mr. Atkinson:** — Thank you. Seated beside me is Carolyn O'Quinn. Carolyn is a principal with our office, and she will lead us through our presentation on chapter 7.

**Ms. O'Quinn:** — Thank you. Good morning, Mr. Chair, committee members, and Finance officials. In chapter 7 of our volume 3 report, on pages 117 to 144 we report the results of our audit for the year ended March 31st, 2009 for the Ministry of Finance and the agencies that it is responsible for. This chapter includes four new recommendations and provides an update on 22 previously reported recommendations about the General Revenue Fund; the ministry, including those about the adequacy of its PST [provincial sales tax] audit selection process; the Public Employees Benefits Agency; the public employees pension plan; and the public service superannuation plan.

For most of the previously reported recommendations, we have noted reasonable progress. The notable exception is a recommendation related to the General Revenue Fund financial statements. As noted on pages 128 to 131, we continue to have significant concerns with the continued use of inappropriate accounting policies in the GRF [General Revenue Fund] financial statements. These relate to recording of pension costs and liabilities, and transfers to and from the General Revenue Fund. As reflected on page 130, the use of these inappropriate accounting policies results in significant errors in the GRF financial statements. Because these errors significantly impair the usefulness of these financial statements, we continue to

qualify our audit report on the 2009 financial statements of the GRF.

For the rest of my presentation, I'll focus on the four new recommendations in this chapter. These recommendations relate to three areas. The first area is an example of where staff were not following existing procedures. Although the Ministry of Finance requires its staff to reconcile its bank accounts promptly, during 2008-2009 we found that the General Revenue Fund bank account was not reconciled promptly for various months.

Approximately \$2.5 billion in transactions flow through this account on a monthly basis. Completing timely bank reconciliations provides a check on the accuracy and the reliability of accounting records. It also helps to detect errors or any misuse of public money more quickly. On page 126, we recommend that Finance follow its established policies to reconcile recorded bank balances to the bank records promptly.

The second area notes the inconsistency of legislative requirements for the public service superannuation plan with other government pension plans. Unlike other provincial government pension plans, *The Public Service Superannuation Act* requires the Public Service Superannuation Board to include detailed information on its plan members in its annual report. This information includes the names of employees who have retired, those who died, the position and government agency they worked for, the amount of salary payable and age at retirement or death, the cause of early retirement, and the amount of superannuation allowances granted to each employee.

Public disclosure of such information may be inconsistent with current privacy legislation. On page 136, we recommend that the Public Service Superannuation Board seek changes to its legislation to remove personal information disclosures required by *The Public Service Superannuation Act*.

The third area in our chapter with new recommendations is the results of our audit of whether the Ministry of Finance had adequate processes for oversight of its information technology for the 12-month period ending September 30th, 2009. Without appropriate oversight of IT [information technology], there's a risk that the ministry's significant investment in IT will not be fully and effectively used to help the ministry fulfill its mandate.

We found the ministry had adequate processes, except two areas. We make two recommendations on page 139. The first recommendation is that the Ministry of Finance develop an information technology risk management plan based on an analysis of its information technology risks. The second recommendation is that the Ministry of Finance implement a strategic information technology plan that aligns with its overall strategic business objectives.

This concludes my presentation.

**The Chair:** — Thank you. I would invite response from the ministry.

**Mr. Matthies:** — Thank you, Mr. Chair. I think perhaps what



I'll do in this case, with leave of the committee, I'll just speak to each of those four recommendations. And if that's fine — I'm seeing nods — I'll continue.

In terms of the first one regarding the bank account reconciliation. Certainly we absolutely agree with the recommendation of the auditor, and just for the committee's sake, we would just sort of speak to a couple points around this. During the time in question, we were looking at sort of summer issues and some staffing issues. We have since moved to create a new position, a bank services supervisor position, so we will always be covered.

And I would also sort of note for the benefit of the committee that during the entire period of time that the auditor has noted that the bank reconciliations were not done monthly as required, we were continuing to do a daily reconciliation of all of the amounts that were drawn out of our account. So we do that every day. It's due by noon of the following day, and it's to make sure that there's been no fraudulent or inappropriate withdrawals from the government's accounts.

So that check and control over all of the disbursements was continuing to happen, but as the auditor noted we did not have sort of the full bank reconciliation done at month ends including making sure all of the deposits and things were appropriately registered in our accounts. So we've moved to address this, and we certainly think the recommendation was well-founded.

The second recommendation regarding *The Public Service Superannuation Act* and the reporting of all of the personal information, I would note for the benefit of the committee that the ministry has attempted through a few of the recent legislative sittings to introduce an amendment that would affect this change. Unfortunately it was also part of Bill No. 9 which had broader pieces in it that did not get through.

The new minister of Finance-to-be — I presume next week, based on what I'm hearing from the comments from the Premier — and the new deputy of Finance will probably review this issue. But it would be my expectation at least that the government will probably look to reintroduce this aspect because I think we are in agreement with the auditor that it is the right way to go, and obviously through the past legislative pieces the government has demonstrated it believes in that. So I expect that, you know, we support this item and there'll likely be a further proposal before the House, I would anticipate this fall. But I just want to be careful about second-guessing the new minister.

In terms of the third and fourth recommendations, I'll deal with them together because they are all sort of tying into the IT plan. The request around the risk management plan is a subset of the broader IT strategic plan. I think what I would remark for the benefit of the members is Finance is in agreement with both of these pieces. I want to spend a couple of minutes describing some of the work that we already have in place on this because I just want to make sure that members are not of the impression that we haven't done anything in this. But I think when the auditor came asking, we had pieces in various places. And what I would describe at least is the auditor said, put it all together, guys. And there are some lower priority areas that we hadn't dealt with yet. So I just gave you some sense around that.

So in terms of the risk management aspects of it, I'm going to describe, the ministry has already got documented backup and restore procedures. We've got system security requirements that are in place. We've got business continuity plans and disaster recovery plans. We've done data classifications of all of our major operating systems, and we have completed risk assessments for our critical systems including our revenue system; our fuel tax agreement system; our consumption tax systems; our revenue expenditure system; our financing, banking, investing, and borrowing systems; and our audit and farm fuel tax programs.

So we've certainly gone a long way in putting these pieces together, but as I indicated there are some of our less critical systems where we do not have this documentation in place. And we will move to address that.

In terms of the strategic plan, the auditor has commented that we certainly do have a good governance process. And so I don't need to elaborate on that.

The ministry has completed a three- to five-year IT plan for system upgrades and renewals for all of our critical systems as well. And as I mentioned we've got disaster recovery, business continuity, pandemic plans — all those sort of things. But again, we haven't brought them all together into sort of one concise document, and our less critical systems, we haven't completed the documentation.

So I just want to leave sort of the sense with the committee that we've done a lot of homework on this file, but we recognize and agree with the auditor that there are some documentation and some further things we can do to better present and have it more concisely put together in a single source.

[12:00]

**The Chair:** — Thank you, deputy minister. I think we'll focus on these as sort of as a group, or the last two here as it relates to the IT services. And keeping in mind the work that had already been done in the ministry and that was being done, and then the idea that this needs to be wrapped together and put together in a concise plan, I guess I would look for 3 and 4. I would certainly welcome a motion that we concur. Mr. Stewart.

**Mr. Stewart:** — I move that we note concurrence. And I think that we can report progress on no. 3. Is that reasonable?

**The Chair:** — For 3 specifically, sorry?

**Mr. Stewart:** — I think 3 and . . .

**A Member:** — And 4.

**Mr. Stewart:** — 4 as well?

**A Member:** — Yes.

**Mr. Stewart:** — All right.

**The Chair:** — Mr. Stewart moves concurrence and progress for 3 and 4. Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — Okay. It's agreed that this committee concur with recommendations 3 and 4 of chapter no. 7 of the Provincial Auditor's 2009 volume 3 report and note progress.

Looking back at the first two recommendations, the first one specifically recommends that the Ministry of Finance follow its established rules and procedures and reconcile recorded bank balances to bank records promptly. This was highlighted; I believe that there's movement to address this. It might be fair to note progress or we could simply concur. I'd welcome a motion. Mr. D'Autremont.

**Mr. D'Autremont:** — I believe, in listening to the deputy minister, that he noted there was compliance. So I would move that we concur and note compliance on this issue.

**The Chair:** — All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 1 of chapter no. 7, Finance, of the Provincial Auditor's 2009 volume 3 report and note compliance. And recommendation no. 2? Mr. D'Autremont.

**Mr. D'Autremont:** — After listening to the deputy minister on this, I would move that we note concurrence.

**The Chair:** — So moved by Mr. D'Autremont that we concur with recommendation no. 2. All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — Agreed. So it's agreed that this committee concur with recommendation no. 2 of chapter no. 7, Finance, of the Provincial Auditor's 2009 volume 3 report. Are there other questions or comments at this time?

Would the deputy minister provide us comment, if he so wishes? Its highlights again: the major concerns laid out by the auditor in using an accounting system that's not generally accepted, that's not consistent with public sector accounting principles, and that's not compliant in the same fashion as other jurisdictions. Is it fair to ask the deputy minister whether or not this is sustainable into the future?

**Mr. Matthies:** — I think, Mr. Chair, that what I would indicate is the government is providing information in both the General Revenue Fund and for the summary financial statement. So we provide what I might describe as more information than a number of other jurisdictions because we provide certainly the summaries which the auditor provides a clean audit opinion on. And then we also provide the details for the General Revenue Fund which is sort of the nuts and bolts operations of government.

I would just maybe comment, in the dialogue that I have with other deputies across the country and other ministries, from a management perspective, what they'll often tell me is that you manage government through a general revenue type of fund. The reporting that they've done focuses on the summaries, and

there's been lots of discussion around that. But they have made the comment to me that from a management perspective, the general revenue fund style is still how to manage because you're dealing with what has the Assembly appropriated and how is that working and what has the Assembly agreed from a tax piece. Although, you know, in fairness, there's probably more use of Crowns in our province than in probably in any of the other provinces.

**The Chair:** — No. I guess we just look to the auditor as well maybe to provide a statement because it's not necessarily how it's managed but it's how it's reported, I believe, that's the biggest concern. And certainly focusing on a summary basis would change how things would be managed as well. But maybe just if the auditor's office could provide their specific concern on this front.

**Ms. Ferguson:** — Thank you very much. Our concern really, as indicated in the previous presentation, is because we do have so many Crowns in Saskatchewan. And I think Doug's comment is a valid comment. We seem to actually have more Crown agencies than a lot of other provincial jurisdictions. So the differences between what's in the summary financial statements and what's in the General Revenue Fund can be significant from one year to the next, depending on the activities outside of the General Revenue Fund.

So our concern is twofold, is one, that given that you have a focus on the General Revenue Fund, the concern on that one is that the financial statements that you're preparing aren't following generally accepted accounting principles. And so as a result the information that you're providing to the public and the legislators, as our audit report indicates, is not accurate information. And so again there's a greater chance or a greater risk people may not understand even the results of the General Revenue Fund.

**The Chair:** — Any other questions around the table at this point in time? Ms. Atkinson.

**Ms. Atkinson:** — Yes. So when we hear that the debt has been reduced by 40 per cent, that is the GRF debt and not GRF and Crown corporation debt. Is that correct?

**The Chair:** — Is that a question to the auditor's office, Ms. Atkinson?

**Ms. Atkinson:** — Yes, the auditor. Yes.

**Mr. Matthies:** — Perhaps, Mr. Chair, I might offer a comment there. I would describe that the member has correctly characterized it. The reduction in the debt relates to the government general debt that is basically paid off through taxpayers' dollars. The Crown debt has increased. When I look at ... because they just published the '09-10 information, Crown debt has gone up, and that's tied to the major capital initiatives on the Crown side.

**Ms. Atkinson:** — So is that ... And to the auditor, same question.

**Ms. Ferguson:** — That's valid; how Doug described it is how it is reflected. The government, when they put out their summary

financial statements, they make a distinction between what is referred to as general debt and what is referred to as government business enterprise debt. And then there's a further slice down in terms of what is general borrowings through the borrowings of the General Revenue Fund and borrowing through other agencies too.

**Ms. Atkinson:** — Okay. Just so I'm clear. So when we get this information, the public gets this information that debt has been reduced by 40 per cent, it's the GRF debt that's been reduced by 40 per cent, not the overall debt that we have long talked about in the province. Is that correct? It's a GRF debt and not overall debt, the debt of the province.

**Mr. Matthies:** — Yes. It is the government general purpose debt that has been reduced. The aggregate debt, including the Crowns, has not gone down.

**Ms. Atkinson:** — Thank you.

**The Chair:** — If no other questions from committee members at this point in time, would the deputy minister oblige and inform the committee of who the next Minister of Finance is at this point in time?

**Mr. Matthies:** — I wish I knew, but I would take your bets. Maybe just to clarify my last comment as well, the government general purpose debt is down 40 per cent. The Crown debt has gone up. And so just to make sure that that's clear.

**The Chair:** — Thank you. Ms. Atkinson.

**Ms. Atkinson:** — Just so I'm clear. General purpose debt, would that be commonly the GRF, like what the GRF is responsible for?

**Mr. Matthies:** — That's the common language. That's how people think about it.

**Ms. Atkinson:** — Thank you.

**The Chair:** — We had discussion of some good ideas there for a moment, and what we've chosen to do is move ahead with chapter 19 at this point for consideration of this committee, government accountability. We have the deputy minister of Finance before us for this section as well. And I think there may be a change in officials at this point in time. I'll just quickly look to the deputy minister to introduce his officials.

**Mr. Matthies:** — Thank you, Mr. Chair. I have one new official with me. Raelynn Douglas is director of the performance management unit at Finance and deals with this area with great passion.

**The Chair:** — Thank you very much. And I would invite the Provincial Auditor's office, I believe, Ms. Ferguson, to provide a presentation.

**Ms. Ferguson:** — Thank you, Chair, members and government officials. As was indicated, we're talking about chapter 19, which begins on page 363 of our report. The chapter describes the processes the government uses for accountability from the perspective of planning and reporting. It summarizes the

accountability approaches used as of September 2009 for the government as a whole with specific discussion on summary plans for ministries and treasury board agencies and for CIC [Crown Investments Corporation of Saskatchewan] Crown agencies.

The chapter emphasizes the importance of clear and public plans to communicate the government's direction, reports outlining the progress made, and timely review of legislatures of those plans and progress reports. It explains how accountability is evolving and asked legislators to use the information they receive to help them balance expectations and available resources.

It also reports management's action on two recommendations that our office made in 2004. And the intent of those recommendations is to strengthen the accountability of ministries and Treasury Board agencies. In 2004 we recommended that the government direct all Treasury Board Crowns to use an accountability framework that focuses on results. Treasury Board Crowns include those like SIAST [Saskatchewan Institute of Applied Science and Technology], Workers' Compensation Board, Liquor and Gaming Authority, regional health authorities, etc.

Some of these Crowns are actually the largest employers in Saskatchewan and spend millions of dollars annually to provide public services. Use of an accountability framework that focuses on results would help these agencies to better plan, to prepare better public plans and meaningful public reports on their progress. We found that the government has encouraged Treasury Board agencies to use such a framework and that the plans and reports of these agencies have reviewed since our last look at them.

In 2004 we also had recommended that the government require ministries and Treasury Board agencies to publish their planned targets for major long-term results. Such targets help legislators determine the amount of resources required to achieve the expected results and also to help them assess the progress of the agencies. Public targets also make it possible for agencies to report on their progress by comparing their actual achievements to planned targets and explain the risks that the agency has faced in trying to achieve those targets.

This additional information makes reports more useful and meaningful to legislators and public. To date the government hasn't asked ministries and treasury boards to make public their planned targets, and at the time of our work, most agencies did not provide that information publicly. Our office continues to make this recommendation. This concludes my presentation. Thank you.

**The Chair:** — Thank you very much for that presentation. And I would invite response at this point in time from Deputy Minister Matthies.

**Mr. Matthies:** — Thank you, Mr. Chairman. I think what I would do is I would just sort of I think echo the sentiment of the auditor that this is an area where the government continues to make progress. And the last time we were here we were discussing that. It was shortly after the transition in government, and so we were not providing some of the same information, as

government was sort of reassessing where it wants to go in the intervening time.

[12:15]

We have now moved forward. And so last spring when the budget was tabled, ministries were providing their plans again. Starting in July of this year, ministries will also continue and be reporting in their annual reports on the progress against those plans. So I think we are continuing to move forward on that.

We've taken the approach with Treasury Board entities, and I think most of what we might consider as the traditional Treasury Board entities are using the planning framework.

There are some other entities that are receiving government funds. I'll use education or health authorities as an example where we do not require or impose the same accountability framework that the government is using, but we certainly have, through our office and through the Ministry of Education and Health, been working with major third parties to use similar types of frameworks. And our approach has been what I would say is a moral suasion approach, which we think we're seeing some progress on.

So I think I'll maybe leave it at that. And if there are more specific questions, I may get Raelynn to provide further response.

**The Chair:** — Look to committee members for questions. Ms. Atkinson.

**Ms. Atkinson:** — On page 371 it says, "As of September 2009, the public plans of CIC Crowns are changing, but continue to provide key information." Can you explain or give a little more detail in terms of what you mean by changing?

**Ms. Ferguson:** — Most certainly. Basically what we noted, that basically the CIC Crowns use a format called the balance scorecard. And what they were doing is really just changing their areas and the groupings within that balance scorecard, so if you stacked them up over time, you'll see that the areas have moved along, you know. So it's not meant to be a negative comment. It's meant to reflect that planning doesn't necessarily mean status quo. Things evolve. And so it's just meant to be a statement of fact.

**Ms. Atkinson:** — So is it your impression that CIC has moved along and have more sophisticated reporting to the public than say, government ministries or departments?

**Ms. Ferguson:** — They're using a different reporting format. Probably the area that our office sees in their format that they're using is that they include targets for the upcoming year, whereas the ministries at this point in time don't provide that information from a public point of view. So I don't think it's a level of sophistication. It's a different type of a format. They run a different business. So the key difference for us is the inclusion of targets.

**Ms. Atkinson:** — Thank you.

**The Chair:** — Is there other questions? I see various members

still reviewing their documents, and wondering if there's other questions I might . . . Ms. Atkinson.

**Ms. Atkinson:** — Yes. So this is to the Ministry of Finance. Do you anticipate in the future that we will see more targets? Because I often hear the Premier refer to results-based action, and I'm wondering are we going to see more of the results-based action or targets in various ministry performance measures.

**Ms. Douglas:** — Thank you for the question. I'll answer, if that's okay with the Chair. There certainly has been a lot more language around targets. There's been comments the Premier's made about employment targets and that kind of thing. So I think there might be perhaps a readiness for it.

What our office focuses on though, however, is getting substantial measures that are meaningful for the public and ensuring that those measures are accurate and have solid data systems and that kind of thing. We haven't required targets as of yet, so it's something that we are you know waiting to get the cue from government to see if they want to go there.

I think that's similar to the other discussion on summary financial, depending on which side of the table you're sitting on. The opposition tends to like targets and the government tends not to because it can offer something that is prone to criticism. However, our intention is to always move towards results-based actions, so ministries can measure their progress whether they stay at a target or not. It's certainly part of the accountability framework that we've been advancing.

**Ms. Atkinson:** — I'll just make a comment. I think from my point of view as a legislator — and that's one of the things that the auditor refers to — as a legislator, the reports that I find most useful up until now have been the annual reports of various ministries.

Now it looks as though those are changing in terms of the information that's provided. My sense is they're not as detailed as they were at one stage, and there may be various reasons for that. But from my point of view, that has been . . . because that to me is the result; that sort of tells you what the results are when you look at the annual reports.

And so I'm wondering is there some sort of pressure or idea that you might want to have plans, public plans from each of the ministries kind of align with the annual report so that you can compare them because right now I wouldn't say we're able to do that very effectively.

**Mr. Matthies:** — Perhaps I'll speak to this because Finance has just been in the process of preparing our own annual report, so it's top of mind for me.

I think when the annual reports come out in July, what you will see is a better linkage in terms of here's what we said we were going to do when we published the plan at the start of the previous budget cycle, and then here's what we've actually done against it.

So the format, if I'm following the line of discussion, the format that Finance is preparing will be common I believe throughout

all of the ministry responses because the direction comes from the performance management unit. And so we're very focused on making sure we said we're going to do this; what did we do. And so that's the approach that we're using in preparing Finance's annual report, and I think that'll be common across the waterfront.

**The Chair:** — As a comment — not as Chair of the committee but as Finance critic — just to follow back to a statement that's been made twice with respect to summary financial reporting in that it's reflective of which side of the table one sits on.

It would be our position that it was inevitable that our province would come in line with summary financial reporting. As critic, we've worked in an advisoral team; we've worked significantly with previous Finance ministers and with other jurisdictions spending extensive time with Manitoba to understand. In many ways many of the questions that were held, many of the concerns and some of the challenges for Saskatchewan complying are very similar, in fact the same as Manitoba with the Crown sector.

What we learned through that experience and going through detailed reports such as the report on summary financial reporting project from the province of Manitoba is that it's not only been workable but it's been effective. And it's our position that it's simply unsustainable to move on at this point in time. And it's not our position to say that we support this in opposition and then have a different perspective if and when granted the opportunity to govern again if that change hasn't already been made. And that's a commitment that's been put on the table.

Further to that and not to highlight specifics and not to make a partisan discussion at this table, but the current management of Finance's wealth puts further pressure and priority on this circumstance when we're looking at the draws from our Crown sector and our rainy day funds, which we would use third party validators to support that are unsustainable at this point in time.

So I think there's two factors there. One is a modernization. One is lessons learned through the Manitoba experience, and three, through concerns with current sustainability of the current fiscal plan. And thank you for obliging me with the comment as Finance critic. And I know that's . . . and I try to make sure that I do my best as the Chair here and serve your interest there as well.

As Chair, I don't see questions further to this report, this chapter, at this point in time. And I hear Mr. Michelson's stomach growling, and I know we're well past our lunch hour here right now. I would I guess call for recess at this point in time. I would invite any further comment, any closing statement from the deputy minister of Finance, and I'd wish him well in his future capacity as well.

**Mr. Matthies:** — Thank you, Mr. Chairman. I'm not entirely sure I followed all of your comments about the finance management. Certainly as it relates to this chapter, we think performance, planning, and reporting is good accountability, and the government continues to move in that regard.

And I thank you very much for your kind comments. You never

know where the future lies, and I may be back before this committee in other capacities, but I've definitely enjoyed my tenure here and thank you very much. And thanks to all my staff and for your questions.

**The Chair:** — Thank you. I just looked to our . . . Is it 1:30 that we'll reconvene at? So we'll reconvene at 1:30 this afternoon with considerations as it relates to chapter 3, Agriculture. Thank you.

[The committee recessed for a period of time.]

[13:30]

## Agriculture

**The Chair:** — We'll reconvene at this point in time, committee members. We'd welcome at this point in time Deputy Minister Koch and officials from the Ministry of Agriculture. Thank you for coming before us here today. And up for consideration within the Provincial Auditor's volume 3 2009 report is Agriculture.

I would invite Deputy Minister Koch to introduce her officials, and then I'll turn it over to the auditor's office to make presentation and then subsequent response.

**Ms. Koch:** — Thanks. Well good afternoon. I have with me here today Dean Cursons who is the senior manager of financial systems in our corporate services branch. And then also with me today, we have Cam Swan who's the general manager for Saskatchewan Crop Insurance Corporation. As well we have Ray McVicar, and Ray is our manager of plant production technology in our crops branch. So thank you.

**The Chair:** — I'll invite a presentation from our Provincial Auditor's office.

**Mr. Atkinson:** — Thank you, Mr. Chair. Before we begin our presentation, I'd like to make some introductions. First of all, sitting beside me is Rod Grabarczyk who I introduced this morning. Also here this afternoon are Jamie Wilson, a partner with KPMG; Matt Schroeder, he's a manager with KPMG. They are the appointed auditor for the Saskatchewan Crop Insurance Corporation. Also present from my office is Jason Shaw. He is a manager and he'll be observing. Rod, if you'll go ahead please.

**Mr. Grabarczyk:** — Thank you. Good afternoon, Chair, members, and government officials. I will provide an overview of chapter 3 of our 2009 report volume 3 which begins on page 37. This chapter describes the results of our audits of the Ministry of Agriculture and its agencies for the year ended March 31st, 2009. The chapter also sets out the results of our audits of the Milk Control Board's 2007 and 2008 financial statements.

In this chapter we make two new recommendations for the committee's consideration and provide an update on eight previous recommendations. Each year the ministry makes significant accounting estimates. These estimates include payables to the federal government totalling 148 million at March 31st, 2009 and its \$8.1 million writedown of land.

During 2008-09 we noted the ministry did not consistently set out key assumptions it used when making these estimates. For example, it did not set out the factors affecting land value when it wrote down its land by \$8.1 million. Without documenting key assumptions used in developing significant accounting estimates, there is an increased risk of producing incorrect information for decision making.

On page 42 we make our first recommendation. We recommend the ministry consistently document key assumptions used when making significant accounting estimates.

As noted on page 47 and 49, we note employees did not record in the Saskatchewan Agricultural Stabilization Fund's internal financial reports all of the assistance owing to others such as producers and operators of slaughter facilities. Also the fund's financial statements for the year ended March 31st, 2009 provided for audit were inaccurate. Management corrected the financial statements when informed of the errors.

On page 47, we make our second new recommendation. We recommend the ministry follow its established processes for preparing accurate internal financial reports and year-end financial statements for the Saskatchewan Agricultural Stabilization Fund. This chapter also provides the status of eight previous recommendations. Although we note progress towards implementing them, more work remains.

This concludes my presentation. We'd be pleased to respond to questions.

**The Chair:** — Thank you. I'd invite response from the ministry.

**Ms. Koch:** — Okay, thanks. We're pleased to discuss Agriculture's chapter in the Provincial Auditor's 2009 report volume 3. This report deals primarily with the audit of the ministry, Saskatchewan Crop Insurance Corporation and its administered funds, the Saskatchewan Agricultural Stabilization Fund. It also deals with follow-up on previous recommendations regarding the Milk Control Board, specifically the transfer of the dairy lab, as well as pesticide regulatory functions with respect to assessing risk and planning.

One issue raised by the Auditor is in regards to accounting estimates needing strengthening. This issue deals with the permanent writedown of some land valuations of Crown agricultural land, specifically land bank land. This land was purchased in the late 1970s and 1980s and values at that time were very high. In the last 10 to 15 years, as some of this land has been sold, the ministry has incurred losses.

The ministry used a methodology and averaged five different land valuations to come up with an estimated land value. The valuations were based on recent sales information from SAMA [Saskatchewan Assessment Management Agency] and within lands branch. Only land with a higher book cost compared to the calculated value was written down. In 2008 the ministry announced its intention with a sales incentive to sell this Crown land over the next four years. Therefore we feel adequate documentation existed to support the writedown and the assumptions used for the writedown.

With respect to the issue on the transfer of the dairy lab to the Milk Control Board, it is approaching completion, I'm happy to report. Legislation repealing the existing milk control Act was passed this past session in May. We are working with the industry to get the new agency established through regulations under *The Agri-Food Act*.

With respect to the Saskatchewan Crop Insurance Corporation recommendations, I'll report that with respect to adequate processes for making changes to computer systems, Crop Insurance has implemented procedures as of November of 2009 for tracing system changes that includes an internal checklist to ensure compliance.

With respect to the auditor's reporting that SCIC [Saskatchewan Crop Insurance Corporation] should have adequate processes to grant and monitor employee access to its computer systems and data, I have several points to make. Employee profiles have been modified to enable identification of changes they make. Access to generic accounts is restricted and monitored. The executive manager of IT reviews access on a monthly basis. All passwords are set to expire after 45 days. A new privacy security policy was developed and awareness training was provided. And in addition, all staff now annually sign an acknowledgement statement indicating that they understand their privacy and security responsibilities.

With respect to premium rate setting process, formal premium rate setting procedures have been documented and now signed off by the executive. Beginning with the 2010 premium rate setting, modified procedures were implemented in December of 2009 whereby someone independent of the person initially calculating the rates verify them. Procedures to verify premium rate calculations are now being formally signed off and a checklist is now used. SCIC's internal auditor has started to examine evidence that management acted on recommendations. In addition the board will receive semi-annual updates on management's actions to address recommendations.

The Provincial Auditor had one recommendation with respect to the Saskatchewan Agricultural Stabilization Fund, which was that employees need to follow established processes. We agree with this recommendation. However, note that the incorrect information used in preparing the 2008-09 draft financial statements of the fund were the result of new staff in both the program and the central branch. Errors to the draft financial statements were identified by both management and KPMG and the corrections have been made. Both staff are more familiar with the specifics of each program operated out of the fund. Expenditure accruals are now being done on a quarterly basis, and we consider this recommendation to now be fully complied with.

Finally, the Provincial Auditor reports on the following outstanding recommendations, that the Milk Control Board support and train staff in accounting standards. I understand that the board has retained the services of a chartered accountant firm to provide assistance in specific technical areas as required. The staff member has now taken additional training and the Milk Control Board feels this recommendation has been fully complied with.

With respect to regulation of pesticides, the ministry has

prepared an analysis and work continues in prioritizing and identifying strategies to mitigate the risks identified.

So in conclusion, we have a very good professional relationship with the Provincial Auditor's office and with the Ministry of Finance, and we rely on those relationships extensively in the work that we do in the Ministry of Agriculture. We take our duty to manage and protect public resources very seriously, and we appreciate and value the work that the Provincial Auditor's office does and which will ultimately lead to strengthening our internal processes. And so now I'd certainly be pleased to answer questions.

**The Chair:** — Open it up to the committee. Ms. Atkinson.

**Ms. Atkinson:** — This is a question to the auditor. And because I haven't served on this committee before, I just have this question. I think today I heard on three occasions where ministry officials indicated that some of the issues attached to your observations were because of new employees that had not, you know, didn't know all of the process. Is that usual? I guess in past observations by the auditor, have some of the difficulties been new employees in various ministries not knowing all of the information, and therefore the auditor then has to comment on lack of following processes? So is this something that's normal or usual?

**Mr. Grabarczyk:** — I guess I'll say, I guess there's a couple of things. One is when you have a change in staff and you bring new staff on, one of the things that you're going to look to mitigate the risk that the staff don't know what they're to do or they're doing incorrectly is to have good guidance for them and good supervision. That helps to mitigate that. At the same time, yes, there are instances where we're seeing in the audits that, yes, there's a change in staff and as a result processes aren't being carried out as they should be.

**Ms. Atkinson:** — I guess what I'm trying to identify, is this a new problem? Or has this been a problem, you know, each year in the past?

**Mr. Grabarczyk:** — I would say that I wouldn't say it's a new problem. I think it's a problem that's been around. Sometimes it comes down to how good the guidance was and how good the supervision was. And so if those elements were there, it will mitigate the risk of, you know, processes not being followed properly. Where it isn't, that's where it ends up we have a reportable matter.

**Ms. Atkinson:** — I guess this is a larger issue that as boomers start to retire, we're going to see more and more new people coming into the workplace. And so this may become an even greater problem in the future. I just note today, I think there has been three occasions where the auditor has commented and the response from the ministries have been, we had new people. So I just make that observation.

Just a question on the first recommendation that the Ministry of Agriculture consistently document key assumptions used when making significant accounting estimates, and this is in reference to Crown land. And I think the deputy minister indicated that this is land, bank land that is now being sold under the program. So to the auditor: did you note any changes in terms of the

documentation of the assumptions? Because land was sold in the past fiscal year, so have there been some improvements in terms of how assumptions are made in valuing land?

**Mr. Grabarczyk:** — On the documentation around the assumptions, we did not see any changes in those assumptions. What we have observed is that the land where there was writedown, the land is actually, on a total basis the land that's being sold is being sold at a gain.

**Ms. Atkinson:** — The prices that were paid by the province in the 1970s.

**Mr. Grabarczyk:** — Well, there's land that's been written down in the year that we're looking at here. What we've seen since then is that that land that's been written down is actually being sold at more than it was written down by.

**Ms. Atkinson:** — Thank you. But the ministry didn't move to document its assumptions?

**Mr. Grabarczyk:** — The point we're making here is that any time there's estimates — and one of the estimates we're referring to here is the value of the land that's been written down — is that the organization set out its methods, the data that it's using, the assumptions it's using to support its analysis for the estimate it's making. In this case, it's making an estimate as to the value of the land.

And part of the documentation that we did not see was that there's a writedown of land, looking at five different methods of valuing that land, is the factors that went into determining those values to say that the land is written down. And some of the documentation suggested that there maybe was an increase in the value of the land. So what we were looking for is analysis to support the writedown.

**Ms. Atkinson:** — So to the ministry, no doubt there was land sold in the last year, not under review, but in the last year. So have you improved your documentation of your assumptions? Or was there new valuation undertaken in 2009-10 fiscal year?

**Mr. Cursons:** — We haven't recorded any further writedowns in 2009-10. I guess just to address what the auditor was saying, I agree that overall, you know, we did recognize a gain in this year on the land we've sold. I think the point that was missed there though is that most of that is on land that either had no book value or had a very low book value. And we're still seeing that we're selling land at losses in some cases as well which we have experienced over the past 10 or 15 years.

**Ms. Atkinson:** — Thank you.

**The Chair:** — Question to the ministry: just to have an understanding of, as it relates to we're typically looking for whether we concur as a committee; secondly then, what actions are being taken by the ministry, and then whether it's been complied with. I don't believe I heard a recognition. Is there a difference of opinion between the ministry and the auditor's office on this?

[13:45]

I heard the deputy minister highlight that they felt they had sufficient information to write down this land to the value that they had. Is it the intention of the ministry to comply with this recommendation and to put forward the documentation, the methodology, that analysis that is being asked for here today?

**Ms. Koch:** — No, I guess in fact what we're saying is we think we have done some proper valuation methodology. And we think we've got good documentation to indicate that we have provided accounting estimates in the proper way and that in fact there was a reason why we did the writedown the way we did. So I guess, yes, the answer is no, we don't believe that we need to change the process that we've been using in the ministry.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — A question for the auditor. On this issue, is it a question of the documentation being supplied to the Provincial Auditor's office, that the ministry may have the documentation but didn't put it together, or are you arguing with their method of evaluation?

**Mr. Grabarczyk:** — I guess it's difficult to argue on the method when you actually haven't got all the pieces to the documentation. And I guess the piece that we're saying is that there is different valuations that have been done. We're looking for the analysis saying this is how we got those values, so that we can do analysis and say, okay we agree or disagree in terms of what those values are.

**Mr. D'Autremont:** — So you're looking for that to be pulled into one document that you could evaluate?

**Mr. Grabarczyk:** — Or whether it's a number of documents, it's really just to set out how did you arrive at the values you were using. And that's the information we're seeking, that there's their support and analysis that says this is the estimate we're making as to the value of that land.

**Mr. D'Autremont:** — [Inaudible] . . . minister. You obviously have a method in place by which you do that evaluation. So is it a disagreement then with what information is available between you and the auditor as to the value of that information. I'm not clear on either one.

**Ms. Koch:** — Well I think the Provincial Auditor indicates that the ministry wasn't able to provide sufficient evidence to support the reduction in values. So part of it is documentation but I think it's also, you know, sort of the issue of losses versus gains on the land.

And I think what we're saying is is that the gains were typically on the lower priced land because we have been selling land. But the impact of current economic conditions and the fact that some of the land bank land was on the books at very high values maybe isn't being sort of taken into as much context as we think is necessary.

Having said that, we do have, you know, there's quite a bit of documentation on the valuations that we talk about, taking, averaging five different land valuations to come up with the estimated land value. And so maybe what we can do is package that documentation up again and provide that to the Provincial

Auditor's office.

I think what we're saying is we think our methodology is accurate. We think we've provided the documentation, but maybe what we need to do is package that up and provide it again. But our view is that there is, you know, there's specific reasons and good methodology around why we've valued the land the way we have.

**The Chair:** — I don't see why we wouldn't concur with the recommendation and allow the exchange and evaluation to go on and respect, I guess, the office of the independent officer. And I would welcome a motion of concurrence unless there's further discussion and/or questions. Mr. D'Autremont.

**Mr. D'Autremont:** — Perhaps this is one where the Provincial Auditor's office and the ministry need to sit down to try and work out between themselves what the requirements are. I think they're both trying to do the right thing, and I'm not understanding why there remains a difficulty.

**The Chair:** — So I guess what we have, we have a recommendation before us here. And I think that if we concur on that recommendation, that sitting down and that working together and evaluation certainly would go on. So I would welcome a recommendation of concurrence.

**Mr. D'Autremont:** — I could ask another question first to the Provincial Auditor's office. What specifically did you feel was missing in the ministry's documentation that would provide you with the feeling that there was not enough documentation there?

**Mr. Grabarczyk:** — I guess there's a couple things. One, when we talk about the five different evaluation methods, they are based on, they start off with using SAMA as the value, and then they're applying factors to SAMA's value to come up with other values. What we're interested in is those factors that you're adjusting SAMA to get another fair value of the land. What's the basis for that factor? And then they use that in a number of different scenarios using different factors. So what's the basis of those factors?

There's also, in some of the documentation provided, what I'll call inconsistency in terms of there's information that they've obtained from Farm Credit that says that the land values are increasing and at a certain percentage that those lands are increasing by. So if those lands are increasing, how does that get factored into determining what the value of the land that you're looking at?

And I guess the other point I would make is that this point is . . . The example used is about land values, but it would apply to other estimates. And there's other significant estimates that the ministry has, and those are things around the AgStability and AgInvest programs as well.

**Mr. D'Autremont:** — When I look at my farming career, when I first came home and took over the farm, there was lands that were selling for, I remember three quarters that sold near us for \$80,000 a quarter. And this was in mid-'70s. We haven't seen those prices since then, and the fact is those land values were probably down at one time to less than 40,000. They've started to rise again. So I think there's maybe a problem here in the



time frames associated and the fluctuations within the marketplace. So if you measure it on a short term, you may be on a spike down, or correspondingly you may be on a spike up.

So I think, I know in the past we used to always look at the SAMA evaluations or the assessments on the land. And in our area, you always said it's 20 times; so if your land at that time was valued at \$2,000, the real price was 20 times that. Then SAMA changed its evaluations, went closer to more real market values, and still not time-wise close to the date of you may be looking at purchasing or selling. And I think we may be still into that situation where SAMA is not tracking annually or publishing annually the values on any particular property, and so we're still lagging behind on that.

And so that's where the factors come in, where now it may be a factor of one point two, one point five times the assessment or even two times now because land values have started to . . . were increasing, then decreased. And now going, maybe starting to move back up again — until it started flooding, that is, and now we're looking for boats. But you know, so I can understand the difficulty in coming up with an accurate estimate. And obviously estimates are not accurate or else they'd be the actual.

So I think it would be important for the ministry and the Provincial Auditor's office to sit down and maybe try and work out an evaluation system that would work for everybody.

**The Chair:** — I now come to Ms. Atkinson. I don't think that question is necessarily the number derived; I think it's the process and the methodology and, you know, what's been utilized there. Ms. Atkinson.

**Ms. Atkinson:** — Can the ministry tell us when the last time the land had a value placed on it? Was it 10 years ago?

**Ms. Koch:** — With respect to the land that is actually, you know, I think specifically was of concern, I would emphasize that only land that had a higher book cost compared to the calculated value was written down.

And so in the case of land bank land, it would be what was actually paid for, what was the actual price paid for by government in purchasing that land, and then what we were able to sell it for. And so it was, you know, it was specifically what was paid by government and then what was received by government. So it wasn't really a matter of recent valuations. It was the actual value that was on the books based on what government paid.

**The Chair:** — I don't know if it's the role of this committee to probe, to figure out whether or not the methodology was satisfactory or appropriate. I think what our job is to do is to see whether or not we concur with the auditor's recommendation. And I think that it's a type of a recommendation that's consistent with many across many ministries at different points and times, and it's simply a valuation of an asset and making sure how that's been derived is appropriate, clear, transparent.

And certainly by concurring with the recommendation, the opportunity will exist for the ministry and the Provincial Auditor's office to work together. And I think the people of the

province will expect to have clarity on this front, and certainly we'll have that in the next report. So I would welcome a motion of concurrence. Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I think if we parse the words carefully here, and it says consistently document key assumptions. I think the government, the ministry can likely do that, and so we can concur. There may be a disagreement on how they . . . the results of those assumptions, but to document them I think should be acceptable.

**The Chair:** — Mr. D'Autremont, is that a motion that we concur with recommendation no. 1? All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It is agreed that this committee concur with recommendation no. 1 of chapter no. 3, Agriculture, of the Provincial Auditor's 2009 volume 3 report. And we'll move along to recommendation no. 2.

I believe as it relates to this recommendation — which recommends the Ministry of Agriculture follow its established processes for preparing accurate internal financial reports and year-end financial statements for the Saskatchewan Agricultural Stabilization Fund — the statement, as I heard from the deputy minister, was that this is now complied with from her perspective. What actions have been taken and what changes have been made?

**Mr. Cursons:** — For 2009-10, the quarterly financial statements of the fund, we recorded all the accrual entries that we felt necessary. That's something that we hadn't been doing previously. I guess for the year-end audits though, still not quite finalized yet, but I guess Alanna mentioned new staff and that sort of thing. Just with familiarity and staff learning the processes and the programs, we feel that we've complied with this.

**The Chair:** — Questions from committee. Motion on the floor. Ms. Ross.

**Ms. Ross:** — I move that we concur and that we note compliance.

**The Chair:** — Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 2 of chapter no. 3, Agriculture, of the Provincial Auditor's 2009 volume 3 report and note compliance.

Any other broader questions here on some of the outstanding recommendations that exist, or some of the updates that were provided?

That appears to conclude our questions here today. Thank you very much to Deputy Ministry Koch for coming before us and your officials. Any closing comments on your behalf?

**Ms. Koch:** — Just to say we certainly appreciate the good

working relationship we have with the Provincial Auditor and look forward to that going forward. Thank you.

**The Chair:** — Thank you. Brief recess as committee, and we'll reconvene in a couple minutes with our next considerations being Liquor and Gaming Authority. There's two chapters, 14A and B.

[14:00]

[The committee recessed for a period of time.]

### Liquor and Gaming Authority

**The Chair:** — We'll reconvene at this point in time and I'd like to welcome Mr. Lacey, president, chief executive officer of Liquor and Gaming Authority and his officials that are here today for considerations of chapter 14, Liquor and Gaming Authority of the Provincial Auditor's 2009 volume 3 report. I would invite President Lacey to introduce his officials, and then I'm going to turn it over to the auditor to make their presentation. Subsequent to that, you can respond.

**Mr. Lacey:** — Yes, thank you and good afternoon. To my left is Rod Wiley, vice-president of corporate services and chief financial officer. Sitting to my right is Warren Fry who's acting vice-president of gaming operations at SLGA [Saskatchewan Liquor and Gaming Authority]. And sitting behind me is Jim Engel, vice-president of policy and planning. Thank you.

**The Chair:** — Thank you. I'll turn it over to the Provincial Auditor's office.

**Mr. Heffernan:** — Thank you, Mr. Chair. In chapter 14A, we describe how Liquor and Gaming needs to improve its oversight of the operations of the Saskatchewan Indian Gaming Authority. Without effective oversight, Liquor and Gaming does not know if SIGA [Saskatchewan Indian Gaming Authority Inc.] is complying with agreed-upon policies and procedures to safeguard public money from loss due to error or fraud.

At two casinos SIGA lost 1.2 million in public money due to a fraud by one of its service providers for automated teller machines. SIGA did not detect this loss quickly because it did not follow agreed-upon banking procedures. When SIGA does not follow agreed-upon policy and procedures, Liquor and Gaming may need to recover losses from the First Nations Trust Fund.

Liquor and Gaming needs to promptly verify the accuracy of slot revenues remitted by SIGA. It does this verification only once a year at March 31st. We noted that early in 2009-10, of months following our audit, SIGA overpaid slot revenues of 1.2 million. Liquor and Gaming's annual verification procedures would not have detected this error until the following year, March 31st, 2010.

Liquor and Gaming is responsible for regulating gaming activities in the province. They must have adequate policies and procedures to help ensure the integrity of gaming activities. It needs to improve its monitoring of video lottery terminals and table games. It also needs to register the service providers of

ATMs [automated teller machine] at casinos. Registration would help to ensure its services are provided by reputable suppliers and thereby reduce the risk of loss of public money.

Liquor and Gaming has made good progress, but more is needed on improving its training and guidance to liquor store employees so they understand and follow established policies and procedures. Liquor and Gaming needs to follow its information technology policies and procedures to protect its computer systems and data, especially its customers' credit card information. Liquor and Gaming also needs a complete and tested business continuity plan.

Mr. Chair, did you want me to do SIGA at this time or just leave that for later?

**The Chair:** — It might be for sake of being engaged to go through 14A first, and then come back to 14B. Okay, turn it over to Liquor and Gaming for a response.

**Mr. Lacey:** — Yes. I'll keep my remarks brief perhaps. We accept all of the Provincial Auditor's recommendations before us here today, appreciate the work that he has undertaken over the last period under review. And we are in the process of implementing all the recommendations as he's noted in his report. And with that, I think I'll just open it up to the committee, any questions of myself or my officials.

**The Chair:** — Any questions on a broad basis, or should we go specifically into each recommendation individually and look for actions and work towards compliance? Ms. Higgins.

**Ms. Higgins:** — Thanks. So, Mr. Lacey, you accept the remarks by the Provincial Auditor. What steps have been put in place then to begin the process of implementing the recommendations?

**Mr. Lacey:** — Maybe if you'd like, I'll walk through the recommendations perhaps and provide a high-level overview of the work that we've undertaken over the past year.

So with respect to recommendation no. 1, the recommendation around recommending SLGA establish a risk-based process to assessing SIGA's compliance with approved operating policies, there's a number of things that we undertake now in monitoring SIGA's performance. There's financial oversight, so that's reviewing and approving their budgets, operating and capital budgets when they come in, quality review of their statements.

We do work around governance oversight with respect to board deliberations, board committee deliberations, and follow up with respect to the outcome of that. There's numerous audits conducted on SIGA by their own internal auditor, our auditor, and the external auditor, which are reviewed and followed up. Operational oversight with respect to our conduct and management functions with respect to SIGA and relationship management processes with SIGA with respect to meeting with their senior management team and executive and their board.

So there's a lot of work that we conduct on an annual basis with respect to SIGA now. And that's not to say that there's not more that we can do or a different way in which we devote some of those resources with respect to oversight of SIGA. And

I think the Provincial Auditor does provide some guidance to us in how perhaps we can look at how we go about, with respect to our oversight functions at SIGA, particularly with respect to looking at and taking a risk-based approach with respect to reviewing how we allocate our resources with respect to the oversight of SIGA.

So in fact the process we're undertaking right now is looking at undertaking a formal process by which we look at how we carry out our responsibilities with respect to oversight of SIGA from a risk-based approach, including taking a risk-based approach with respect to reviewing SIGA's compliance with approved operating policies which is noted in the Provincial Auditor's report.

The second piece really relates to the loss of funds in the Provincial Auditor's recommendation around recovery of losses of public money from the ATM loss of funds last spring. We are currently in the processes of determining what might be recovered as a result of that ATM loss. There are a number of factors however that impact this review, including circumstances leading up to the loss, what approach and what activities has SIGA been taking with respect to managing this issue, what mitigation might come out of insurance and insurance proceeds.

As well SIGA's undertaken litigation with respect to some of the individuals and parties that were related to this. So the outcome of that litigation will also impact at the end of the day what in fact might be recoverable or not recoverable. And we certainly have notified SIGA that this loss will be reviewed by SLGA and is being reviewed by SLGA, consistent with our expenditure recovery policy that we do have in place at SLGA with respect to these type of events.

**The Chair:** — I might just stop you there instead of going through each of them there. I think our time as a committee is most effective when we can focus on each of them individually and have subsequent questions to your response. So you've kind of touched on 1 and 2, and I appreciate that.

And I guess I would look to committee members at this point of time if there's specific questions to 1 and 2, and then we can arrive at some conclusions and move on to no. 3 specifically. Nothing specific on no. 1. So you've said that you concur and agree and that you're going to work towards compliance on this recommendation. Sounds like most of the work right now is sort of planning to figure out how to go about doing that, so in the preliminary stages.

**Mr. Lacey:** — Over the past year, we've undertaken a broader enterprise risk management project initiative within our organization. That kind of looks at managing risks more broadly, engaging an outside party to assist us in walking through that process. And having gone through that, we think there's value in taking that process that was more broadly applied to our organization and directing it specifically with respect to our relationship and oversight functions with SIGA. So when I talk about engaging in a formal process, that would be what I would be specifically speaking to.

**The Chair:** — Is there a realistic timeline that you have right now as an organization, as Liquor and Gaming as to

compliance?

**Mr. Lacey:** — We're currently targeting to conduct that review over the course of this fiscal year.

**The Chair:** — Ms. Higgins.

**Ms. Higgins:** — Who is the outside party doing the assessment?

**Mr. Lacey:** — The initial, for the broader corporate piece that we went through, we engaged Deloitte Touche, the accounting firm of Deloitte Touche. We have not yet identified a party or a partner to walk us and assist us through this process. But I'm assuming that it will be, likely be . . . Professional accounting firms usually are quite versed in this type of activity, so it's not Deloitte Touche who this piece . . . I would expect it would be a similar professional consulting firm.

**The Chair:** — I would welcome a motion. Mr. D'Autremont.

**Mr. D'Autremont:** — Thank you. I think on both 1 and 2 we could agree to concurrence and note progress on both of them.

**The Chair:** — All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur recommendations 1 and 2 of chapter 14A, Liquor and Gaming Authority of the Provincial Auditor's 2009 volume 3 report and note progress.

Looking at recommendation no. 3 that recommends that Liquor and Gaming Authority promptly verify Saskatchewan Indian Gaming Authority Inc.'s remittances of slot machine revenues. If we could have an update of what actions you've taken on this front, and what work and what timeline is under way towards compliance.

**Mr. Lacey:** — Thank you, Mr. Chair. As the Provincial Auditor notes in his report, previously this reconciliation was taken once annually by SLGA at the end of the fiscal year. There's two things that we've done in response to the recommendation before us from the Provincial Auditor's office.

The first piece has been to work with SIGA with respect to reviewing their processes with respect to how they calculate the weekly remittance to us around this piece to ensure there's accuracies on their process, on their process side of the piece. So we've completed that, and improvements have been made with respect to their weekly calculations and the spreadsheets that they determine that weekly remittance on.

The second piece as well is with respect to internal processes within SLGA. We have increased the frequency as well with respect to our internal reconciliation of slot machine revenues to the fund SIGA's submitting to us from an annual basis to a more frequent basis within SLGA. Unfortunately I can't speak today specifically with respect to how often that is, but we have taken procedures with respect to doing that year-end process more frequently within the fiscal year.

[14:15]

**The Chair:** — So the problem, the problem as identified by the auditor is that this was being done once a year on an annual basis. You're not certain of the timeliness or the reporting that's in place now, whether that's quarterly or whether that's monthly or weekly. And I'm not certain what the appropriate reporting is. I might look to the auditor's office as well on that.

**Mr. Lacey:** — I'm informed here that we used to do it annually internally. I'm informed here that it's at least monthly. What I can't provide the group here information on is whether it's more frequently than monthly. So we've moved from annual to a minimum monthly.

**The Chair:** — Might appreciate the perspective from the auditor's office just with respect to that frequency.

**Mr. Heffernan:** — That sounds reasonable. It's a big improvement over the past. I think we'd be happy with that.

**The Chair:** — I'd welcome a motion.

**Mr. D'Autremont:** — I would move that we concur and note compliance.

**The Chair:** — All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 3 of chapter 14A, Liquor and Gaming Authority of the Provincial Auditor's 2009 volume 3 report and note compliance. Ms. Higgins.

**Ms. Higgins:** — Oh sorry. I was just stretching my hand.

**The Chair:** — Must have had a tough golf game this week or something there. She was stretching her hand. I thought that . . . For the record, Ms. Higgins, she doesn't get to golf very often because she's working so hard for those constituents. But I know when she does, she's a heck of a good golfer.

Moving along to recommendation no. 4, we recommend that the recommendation is that the Liquor and Gaming Authority establish adequate rules and procedures to verify that video lottery terminals, VLTs, the percentages they hold are in accordance with gaming integrity standards. I guess I look to President Lacey, and a question from Ms. Higgins.

**Ms. Higgins:** — Sorry, Mr. Chair. I do have a question to I guess the Provincial Auditor. Is there a problem in this area, or just the perception that it may be open to problems?

**Mr. Heffernan:** — The recommendation no. 4?

**Ms. Higgins:** — Yes.

**Mr. Heffernan:** — No. We haven't found any errors, but there's potential. So the whole percentages should be verified from time to time. And I think Liquor and Gaming agrees with that.

**Ms. Higgins:** — And what would from time to time be?

**Mr. Heffernan:** — That's a good question. Certainly at least annually.

**Ms. Higgins:** — [Inaudible] . . . whole percentages should be verified? The Provincial Auditor made the comment that it should be from time to time, and I asked the question what time to time would be.

**Mr. Lacey:** — If I could perhaps just respond to the activity that SLGA has undertaken in addressing this recommendation by the Provincial Auditor. And this was an area that we knew that we needed to work on I think even before the Provincial Auditor came into our organization to conduct the audit for this year under review.

There's two pieces that we've undertaken here to ensure integrity of the VLT machines and the VLT operations. The first piece is, starting in June of '09 we started doing field testing of the VLTs. And by field testings I mean we actually go out and test essentially the computer chip in that machine to ensure it is operating under the parameters, the manufacturer's parameters under which we received it. Now this testing is done in conjunction with our liquor inspectors that go out to the liquor establishments. So we hope over the course of two to three years that we'll have hit all the machines across the province as the liquor inspectors go into the commercial permittees with respect to the regulatory work that they do in those establishments.

The second piece is we've begun receiving reports from the Western Canada Lottery Corporation on individual machine activity. The Western Canada Lottery Corporation is the organization we contract with as our agent to basically operate the VLT network for us. And what we do with those reports then is we have parameters in which we expect the machines to play. And if we notice that a machine, the revenues and the results coming out of that machine are outside those parameters that we have established, then a follow-up activity is undertaken with respect to ensuring that that specific machine continues to operate appropriately and with integrity.

**The Chair:** — Any other questions on this recommendation?

I welcome a motion from the floor, or from your chair.

**Mr. Stewart:** — Thank you, Mr. Chair. I move that the committee note concurrence and progress.

**The Chair:** — Concur and note progress. Is it agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 4 of chapter 14A, Liquor and Gaming Authority of the Provincial Auditor's 2009 volume 3 report and note progress.

Recommendation no. 5 that's before us recommends that Liquor and Gaming Authority establish policies and procedures to document the reasons for differences between table game whole percentages and expected limits. What work's been done

on this front?

**Mr. Lacey:** — Perhaps I'll keep this answer really short here. This was primarily an issue of documentation and not having policy and procedures around our review of the whole percentages of table games at the casinos and follow-up with respect to any anomalies that we saw. So subsequent to this, we have put in place policies and procedures documenting how SLGA officials are to document their review of table game activity, and secondly, documentation of activity is now occurring within SLGA.

**The Chair:** — From your perspective with the recommendation that's there that highlights those policies and procedures be put together and document the reasons for the differences between the games, has your organization complied at this point in time?

**Mr. Lacey:** — Correct. Yes, the issue was the activity was being undertaken. It wasn't being documented as well as it should have been, and we believe we are in full compliance with that now.

**The Chair:** — Mr. Michelson.

**Mr. Michelson:** — I move that we concur with the recommendation and note compliance.

**The Chair:** — Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — Agreed. And it's agreed that this committee concur with recommendation no. 5 of chapter 14A of the Provincial Auditor's 2009 volume 3 report and note compliance.

The last recommendation, formal recommendation, of this chapter is that it recommends that Liquor and Gaming Authority register the casino automated teller machine service providers. So register the ATM service providers. Of course there was a problem that existed as well, and I suspect that this is part of the solution to safeguard dollars into the future.

**Mr. Lacey:** — Yes, that's correct, Mr. Chair. With respect to this piece, we have reviewed, gone back and reviewed the function of ATMs in casino sites and determined that they are an integral part of casino operations and as a result have characterized ATM services as providers of financial services under the gaming regulations. And as a result, we have implemented a process to begin registration of ATM service providers in the casinos of Saskatchewan — that's SIGA casinos as well as Saskatchewan Gaming Corporation casinos — and that process is under way. We're in the middle of that process, but we have determined that we're proceeding in that direction.

**The Chair:** — Questions or a motion of progress? Ms. Ross.

**Ms. Ross:** — I motion that we concur and that we note progress.

**The Chair:** — Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 6 of chapter 14A, Liquor and Gaming Authority of the Provincial Auditor's 2009 volume 3 report and note progress. Ms. Atkinson.

**Ms. Atkinson:** — Just a question for Liquor and Gaming. Do the people who provide services through these casino ATMs, do they have to undertake a criminal record check?

**Mr. Lacey:** — Part of the registration process for any company that's deemed to, being required to be registered as a gaming supplier, there is a test that the senior officers of that organization, as well as . . . And I don't have the percentage with me today, but if you're a shareholder with a certain significant influence in the company and owner, you're also required to undertake a . . . It's not them providing a criminal record check. We have access to CPIC [Canadian Police Information Centre], the RCMP [Royal Canadian Mounted Police] CPIC system, so any individual of influence in any company that is registered by SLGA as a gaming supplier, we undertake a CPIC review of them, which would be equivalent to a criminal record check.

**Ms. Atkinson:** — Thank you. So just so I'm clear. So everyone who provides a financial service I guess undergoes some form of security check?

**Mr. Lacey:** — Let me clarify that. The regulations speak to if a financial service provider falls under another piece of legislation where there is another regulated oversight function, they are exempt from the registration process. So for example, a chartered bank that would fall under federal legislation would be regulated federally. We wouldn't go through a registration process with them, as an example.

If the ATM service provider did not fall under that heading, then they would be subject to SLGA's gaming registration process.

**Ms. Atkinson:** — Which includes some form of a security check of some kind, more than CPIC I presume?

**Mr. Lacey:** — Yes. No, part of the gaming registration function includes obviously the CPIC and criminal background check, requires a review of the financial affairs, the financial integrity of the operation. Follow-up references with other organizations that have conducted business with them is undertaken, as well as interviews with the key individuals directly. So it's an intensive, I wouldn't call it a security check, but it is a fairly comprehensive review of the organization and the key officers of the organization.

**Ms. Atkinson:** — How many casino automated teller service providers would there be providing services in our provincially regulated casinos?

**Mr. Lacey:** — It's our understanding there's four related to, I believe, the SIGA casinos and one main operator for the Saskatchewan Gaming Corporation casinos.

I should mention, and we'll probably get into this when we

move into the next chapter relating to SIGA, part of the review that SIGA has done is to look at how they manage their ATM operations or how ATM, I should say, services are provided within SIGA casinos. And it is their long-term plan to move to one ATM service provider within their casino operations as well as strengthening their direct relationship with the ATM service provider to reduce their risks and have more oversight of those operations. So five currently in the province, down the road I think we'll be down to two.

**The Chair:** — Ms. Atkinson.

**Ms. Atkinson:** — One last question. How does SLGA determine a service provider? On what basis is someone chosen as a service provider, and is this tendered?

**Mr. Lacey:** — By service provider, you're referring to ATM service providers? That would be up to the casino operators on how they wish to obtain that service, whether it would be through a RFP [request for proposal] process or through some other mechanism.

Historically with SIGA, SIGA has partnered with their landlords. And as part of that process, their landlords have provided the ATM services. So SIGA's contract for ATM services have been with their landlord, and the landlord in turn is then contracted directly with the ATM service provider, if that's helpful as far as historical context. As I've mentioned, SIGA is interested in moving away from that model and have recently issued a RFP for casino provider services. And the plan is, once that RFP is completed, that they'll move to that provider who is a successful proponent coming out of that RFP process.

[14:30]

**Ms. Atkinson:** — Okay, but you also have some oversight of the province's casinos, I presume. So can you tell us how they have chosen their ATM service provider?

**Mr. Lacey:** — To the recent process that they're undergoing?

**Ms. Atkinson:** — Yes.

**Mr. Fry:** — You're asking with respect to SIGA? Or you're asking with respect to SGC . . . [inaudible].

**Mr. Lacey:** — So with respect to SGC, our role is primarily as a regulator of SGC. So from that perspective, we wouldn't have any direct involvement in how they went about selecting the ATM service provider for their facility. Our interest would be ensuring that that ATM service provider, however they've selected him, meets the good character requirements with respect to being qualified for gaming registration.

**The Chair:** — Any other questions on chapter 14A? I'll invite at this point in time presentation from the auditor's office with respect to 14B which focuses on Saskatchewan Indian Gaming Authority Incorporated.

**Mr. Heffernan:** — Thank you. In chapter 14B, SIGA needs to improve its training and supervision of its employees to protect public money from loss due to error fraud. SIGA also needs to

complete and implement its human resources plan to ensure its employees have appropriate competencies. SIGA needs to prepare an information technology strategic plan. It also needs a complete, written, tested, and approved disaster recovery plan to help ensure that it can continue to provide information technology services in the event of a disaster.

In May 2009, we became aware of a possible loss of public money by an ATM supplier. We investigated this matter to determine the amount of the loss and identify the conditions that allowed the loss of public money to occur and remain undetected for three months. SIGA incurred a loss of public money of about 1.2 million. To avoid this, it needs to provide effective direction to its employees, use sound employee hiring and retention practices, and mitigate the risk of loss of public resources. That concludes my remarks.

**The Chair:** — Thank you. I would invite response from President Lacey.

**Mr. Lacey:** — I'm just thinking. I think my response really covers recommendations 1 through 4 off because I think the activity that SIGA's undertaken here really addresses and is intended to address all four of those pieces.

So first off or under this piece is that as a result of the loss of funds last spring, SIGA undertook an in-depth review of its financial services area's operations and the circumstances and factors leading to the loss of funds. This was led by their internal auditor who is a third party engaged by SIGA to provide internal audit services. As a result of that, there's been significant changes, both from a staffing perspective at SIGA as well as a change in processes at SIGA as well.

Currently at SIGA there are now four professional accountants in their financial services function as well as two senior accounting individuals who are in professional accounting programs and working towards their professional accounting designations. That is compared to one individual previously in their financial services area having a professional accounting background.

Along with this infusion of talent and experience that's been brought into SIGA, they have changed their policies and procedures around this piece. Bank reconciliations are being conducted on a timely basis. Reconciliations are reviewed by a senior individual within SIGA to ensure that reconciliations are accurate and timely. And with that senior oversight function then as well is on-site training with respect to fraud awareness, and education with respect to bank reconciliation procedures, follow-up, etc. So I think I'll just leave my response at that for now.

**The Chair:** — Questions from committee members may be focusing on recommendation no. 1 to start, that being that SIGA supervise its employees' compliance with SIGA's policies and procedures for bank reconciliations. Do we recognize progress on this front?

**Mr. Michelson:** — I would so move that we note progress on this recommendation.

**The Chair:** — So we concur and note progress. Is that agreed,

so moved by Mr. Michelson?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 1 of chapter 14B of the Provincial Auditor's 2009 volume 3 report and note progress.

Recommendation no. 2 relates to the training required for employees to establish a culture of fraud awareness. Specifically, President Lacey, could you highlight what training's been undertaken?

**Mr. Lacey:** — To date, I wouldn't characterize SIGA's undertaken any formal fraud awareness training. But as we all well know, on-the-job training is equally important with respect to understanding why you're undertaking certain tasks and communicating throughout the organization the importance of certain policies, procedures, controls, and safeguarding of public assets.

The individuals that they brought in, the professional accountants that they brought in, that is part of what they bring to the organization with respect to supervision of staff. And just not staff within the financial services unit, but more broadly providing that advice and direction across SIGA.

**The Chair:** — Would we concur? Mr. Stewart.

**Mr. Stewart:** — Thank you, Mr. Chair. I move that the committee note concurrence.

**The Chair:** — Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It's agreed that this committee concur with recommendation no. 2 of chapter 14B, Saskatchewan Indian Gaming Authority Inc. of the Provincial Auditor's 2009 volume 3 report.

I believe statements have been made with respect to 3 and 4, with respect to meeting the expectations as it relates to professional qualifications or specific qualifications of individuals and human resource individuals.

As it relates specifically to no. 3, are the required numbers, qualifications, and experience of professional accountants and supporting staff, is that now in place? And has written assessment been put together?

**Mr. Lacey:** — With respect to no. 3, I would just make reference once again with respect to the comprehensive report that their internal auditor undertook with respect to what occurred, and recommendations to address that as part of that. There was a personnel or a staffing section in that report, so that directly addresses recommendation no. 3.

And as I have mentioned, recommendation no. 4 then is the fallout of that, which is the additional professionals they brought into their organization.

**The Chair:** — We'll show progress or . . .

**Mr. Michelson:** — Mr. Chair, if I understand him correctly, I think you have concurred with these two recommendations.

**Mr. Lacey:** — Yes. We concur with 3 and 4 that they have been implemented.

**Mr. Michelson:** — So I would concur with recommendation and note compliance.

**The Chair:** — Just a question on that. So the report was put together. And from your understanding, with your knowledge, it has been fully complied. And then, that the individuals that were required have in fact been procured by SIGA.

**Mr. Lacey:** — That's correct. SIGA has acted upon the recommendations in the report.

**The Chair:** — Sure. So I think Mr. Michelson put forward a motion to concur and comply with 3 and 4. Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — So it's agreed that this committee concur with recommendations 3 and 4 of chapter 14B, Saskatchewan Indian Gaming Authority Inc. of the Provincial Auditor's 2009 volume 3 report and note compliance.

Down to recommendations 5 and 6 which are related to one another here, and that's that the recommendation that SIGA make agreements with suppliers and service providers of all automated teller machines at its casinos. And we had a bit of a report on that front that has in fact occurred.

**Mr. Lacey:** — They have completed their review of their ATM service provider relationships which would relate to item no. 6, recommendation no. 6. They are in the process of implementing the results of that review, which is the RFP process I referred to in entering into a new and improved agreement with the future service provider. So recommendation no. 5 is in progress.

**The Chair:** — From your perspective, the review that was undertaken satisfies the expectations laid out in recommendation no. 6, and it's been fully complied with?

**Mr. Lacey:** — Yes. We believe that the outcome of their review will significantly strengthen their oversight and control of the ATM process and related funds.

**The Chair:** — Mr. D'Autremont.

**Mr. D'Autremont:** — I would move that we concur and that we note progress on no. 5.

**The Chair:** — Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — It is agreed that this committee concur with recommendation no. 5 of chapter 14B of the Provincial Auditor's 2009 volume 3 report and note progress.

Moving along to no. 6. Mr. D'Autremont.

**Mr. D'Autremont:** — I would move that we concur and note compliance on recommendation no. 6.

**The Chair:** — Is that agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — So it's agreed that this committee concur with recommendation no. 6 of chapter 14B of the Provincial Auditor's 2009 volume 3 report and note compliance. Ms. Atkinson.

**Ms. Atkinson:** — When issues are discovered at SIGA that are problematic, do you then determine whether or not those issues may exist at the other provincially run casinos?

**Mr. Lacey:** — That would depend on whether it was an operational issue or a regulatory issue. If it was operational in nature, that primarily would be confined to our relationship with SIGA and working with SIGA around that piece with respect to our responsibilities around conduct of management of gaming at those casinos. Regulatory, our role and mandate would extend to both casino operators in the province. So if we noted issues, problems either in their processes or our process with respect to integrity of gaming and our role as a regulator of casino gaming, that certainly would branch into both casino operators.

So I think the ATM service provider would be a good example. The gaming registration of ATM service providers would be a good example of that one with respect to making a determination as a result of this, whether they truly do provide financial services under our regulation Act and resulting from this casino, SIGA casino experience, now moving forward to register SIGA ATM suppliers, but also moving forward now and registering ATM suppliers at the SGC [Saskatchewan Gaming Corporation] sites.

**Ms. Atkinson:** — So that the supplier at the Saskatchewan Gaming Corporation site is registered?

**Mr. Lacey:** — If they're not registered currently, they'd be in the process of getting registered, similar to the process we're going through with SIGA ATM service providers.

**Ms. Atkinson:** — Are they changing suppliers at the moment?

**Mr. Lacey:** — We wouldn't, sorry, we wouldn't have that. We don't have that information with us here, whether they're in the process of changing or not. Irregardless if they are changing, the new service provider would be undergoing the same regulatory review as the current provider.

**Ms. Atkinson:** — Thanks.

**The Chair:** — Thank you, Mr. Lacey. I think that concludes our considerations with Liquor and Gaming Authority here this afternoon and with SIGA. Thank you very much for coming before us and to your officials. We appreciate that. Any closing statement?

**Mr. Lacey:** — No, just thank you members for your questions, and I think that concludes it from our end here as well. Thank

you, Mr. Chair.

**The Chair:** — Ms. Higgins.

**Ms. Higgins:** — Mr. Chair, I was just wondering if there had been any discussion — I mean I'm not officially a member of the Public Accounts — if there's been any discussion as to when annual reports will be here or is this the venue that they will be reviewed at?

[14:45]

**The Chair:** — It'd be fully within our scope to address the report here and now this afternoon, as it would be any time we have officials before us, and we could also at any point into the future when we had officials before us. We can schedule a specific time to go through a report. So if there's specific questions related to those reports right now, it would be . . .

**Ms. Higgins:** — No, I apologize. I mean, I have some general ones, but I wouldn't mind having a little more time when we've got a bit of notice. I don't have any paperwork with me whatsoever.

**The Chair:** — No, that's fine. Certainly officials will be before us before, and certainly the mandate of our committee is to have primary business, and then there's questions that relate to public accounts or annual reports. And we can look at scheduling a specific time as well to satisfy any questions that exist.

Thank you very much for coming before us today. At this point . . .

**Ms. Atkinson:** — I have some questions just for the committee.

**The Chair:** — Ms. Atkinson.

**Ms. Atkinson:** — Yes. One of the things that I was interested in pursuing with the committee is the whole issue of going through public accounts that are issued each year where you go through spending, expenditures of various ministries. And I'm wondering if that's something that we could set up, to look at public accounts for the past year so we can look at the actual expenditures of each ministry.

**The Chair:** — I think there's a couple thoughts on this. Absolutely is, I guess, the answer, as it relates to the scope of the committee and the ability to do so and dedicating a time in committee meetings to do that.

And as well, I would encourage when we do have officials before us as well to not be hesitant to be bringing those questions at the specific times, but certainly that's within the scope of the committee and kind of the blues. So I don't know. We can discuss this. We're probably not going to arrive at a date right here and now, but certainly I think through the steering committee — being the Clerk and the Chair and the Vice-Chair — we can arrive at times.

I'm not certain that we are looking at every single ministry, maybe we are, and how much time. I guess we can work a little bit with committee members. And maybe I'll put out a solicitation out to committee members as to what kind of time



you might be looking at for relevant ministries, then we can simply plan for it. Maybe we won't plan for next Friday, but relatively soon.

**Ms. Atkinson:** — I'm actually thinking, Mr. Chair, in the fall that we could schedule some meetings to go through the blues and have the appropriate deputy ministers and their officials before the committee in order to have some understanding of actual expenditures.

**The Chair:** — I think that that's something that can certainly be planned and is certainly within the scope and purview of the committee.

**Ms. Atkinson:** — Thank you.

**The Chair:** — Without any other questions or comments, I would welcome or entertain a motion to adjourn. Mr. Michelson.

**Mr. Michelson:** — I move to adjourn.

**The Chair:** — All agreed?

**Some Hon. Members:** — Agreed.

**The Chair:** — So moved.

[The committee adjourned at 14:49.]