

## **COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE**

### **MEMBERS OF THE COMMITTEE (as of February 10, 1989)**

Mr. H.H. Van Mulligen, MLA, Chairman  
Mr. L.J. Muller, MLA, Vice-Chairman  
Mr. M.A. Hopfner, MLA  
Mr. D.M. Lingenfelter, MLA  
Mr. H.A. Martens, MLA  
Mr. G.B. Martin, MLA  
Mr. G.S. Muirhead, MLA  
Mr. W.Z. Neudorf, MLA  
Mr. P.W. Prebble, MLA

Regina Victoria  
Shellbrook-Torch River  
Cut Knife-Lloydminster  
Regina Elphinstone  
Morse  
Regina Wascana  
Arm River  
Rosthern  
Saskatoon University

### **MEMBERSHIP CHANGES**

#### **March 25, 1988**

That the names of Mr. Anguish and Mr. Prebble be substituted for those of Mr. Tchorzewski and Mr. Lyons on the Standing Committee on Public Accounts.

#### **May 2, 1988**

That the name of Mr. Hopfner be substituted for that of Mr. Saxinger on the list of Members comprising the Standing Committee on Public Accounts.

#### **June 27, 1988**

That the name of Mr. Lingenfelter be substituted for that of Mr. Rolfes on the Standing Committee on Public Accounts.

### **STAFF OF THE COMMITTEE**

Gwenn Ronyk  
Joyce Rublee

Committee Clerk  
Secretary to the Committee

### **ADVISERS**

Willard G. Lutz  
Gerry Kraus

Provincial Auditor  
Comptroller

## **ORDER OF REFERENCE**

The Standing Committee on Public Accounts was established by resolution of the Assembly on August 31, 1987 composed of the following Members:

Tchorzewski  
Gardner  
Lyons  
Martin

Martens  
Muller  
Pickering

Rolfes  
Saxinger  
Van Mulligen

### **March 22, 1988**

That the Report of the Provincial Auditor for the fiscal year ended March 31, 1987 be referred as tabled to the Standing Committee on Public Accounts.

That the Public Accounts of the Province of Saskatchewan for the fiscal year ended March 31, 1987 be referred as tabled to the Standing Committee on Public Accounts.

## REPORTS

### SECOND REPORT (Presented May 10, 1988 – S.P. 81)

Mr. Van Mulligen, from the Standing Committee on Public Accounts, presented the Second Report of the said Committee.

At the last meeting of the Committee held on April 14, 1988, Mr. H. Van Mulligen was elected as Chairman.

Your Committee has completed its deliberations on the Provincial Auditor's Reports and the Public Accounts for 1984-85 and 1985-86. Following submission of the Committee's last report on November 3, 1987, the Committee held hearings during the intersessional period to complete the review of the following departments and agencies:

Agricultural Credit Corporation (1985-86)  
Agriculture (1985-86)  
Economic Development and Trade (1985-86)  
Health (1985-86)  
Justice (1984-85 and 1985-86) including Consumer and Commercial Affairs (1985-86)  
Saskatchewan Crop Insurance (1985-86)  
Saskatchewan Power Corporation (1985-86)  
Social Services (1985-86)  
Supply and Services (Saskatchewan Property Management Corporation) (1985-86)  
Westank Industries – SEDCO (1985-86)

Your Committee submits herewith its observations and recommendations arising from the hearings and discussions.

### HEALTH

1. In his 1986 report the Provincial Auditor reported an instance where an appropriation was applied in a manner not authorized by the Legislature. The instance involved an appropriation for the University Hospital (capital) in which part of the appropriation was paid to the hospital while the remainder was transferred by virement to other appropriations. The Auditor pointed out that Section 9 of *The University Hospital Act* provides that such sums as may be appropriated by the Legislature "shall be paid" to the board rather than the more usual permissive "may be paid." The Auditor concluded that in view of the clear statement in the Act, there was no authority to vire any of the appropriated money to another subvote. The Department took the view that the virement authority within *The Department of Finance Act* was sufficient to authorize the transfer.

#### Recommendation

Your committee is concerned that the differences in interpretation be resolved and recommends that the appropriate officials in the Departments of Health and Finance prepare a resolution to the problem whether by legislative amendments or other means and report the same to the Committee.

2. Your Committee is pleased to note that the concerns raised by the Auditor respecting inadequacies in the records of the fixed assets of the Frank Eliason Centre have now been rectified by the Department. The Committee would like to emphasize to the Department the importance of maintaining these records in a current position.
3. Your Committee noted with concern the Auditor's report that the Saskatchewan Hospitalization Fund, the Saskatchewan Prescription Drug Fund and the Medical Care Insurance Commission had incurred substantial overdrafts on their respective bank accounts from time to time during the year without receiving the required approval from the Minister of Finance. Such overdrafts constitute unauthorized borrowings.

The Comptroller presorted to the Committee that this problem should not occur again due to banking procedure changes which allow for the balances in accounts of the province be consolidated for interest purposes. The Committee will be interested to hear confirmation from the Comptroller that the problem has been effectively resolved.

4. Your Committee shares the Auditor's concerns that the Department of Health must maintain security over medical Care Insurance programmes and data files to ensure that they are protected from unauthorized access. The Committee was pleased to receive the Deputy Minister's report that significant steps have been taken in response to the Auditor's report. The Committee requests the Auditor to follow-up on this matter to satisfy himself that the security software package has been appropriately implemented.
5. Your Committee was pleased that the Auditor was able to report as a result of his most recent audit that the department had satisfactorily resolved the following matters raised in his 1986 report:
  - (a) failure to maintain an appropriate record of the fixed assets of the Saskatoon Sanatorium;
  - (b) weaknesses in processing and security controls in the contract between the Souris Valley Regional Care Centre and the Computer Service Bureau;
  - (c) inadequate accounting and organizational controls in the Wascana Rehabilitation Centre.

## **JUSTICE**

6. For three consecutive years the Provincial Auditor has reported on the absence of an internal audit function in the system of management controls involved in the collection of revenue through Land Titles Offices, Local Registrars' Offices and Sheriffs' Offices. Despite the fact that this matter has been raised repeatedly by the Auditor, (1984, 1985 and 1986 reports) the department to date has failed to establish a system to monitor compliance with its prescribed procedures for the collection, recording and deposit of moneys for services provided. A significant amount of revenue is handled yearly by these offices (\$14.6 million in 1985/86) thus the potential for abuse which exists due to the lack of an internal audit is a serious concern.

7. Your Committee was informed that the audit concern has been studied by the department and that there is a basic agreement with the Auditor's conclusions that an internal audit function should be developed. The delay in doing so is the result of the unavailability of the funds required to carry out the function. The department reported that some resources have been allocated for the fiscal year 1988-89 which will allow the audit to be partly in place by the end of the year.

### **Recommendation**

Your Committee is concerned that this potential problem has gone unresolved for almost four years. While it appears that some action is about to be taken, your Committee urges the Department of Justice and Treasury Board to give high priority to the prompt establishment of a thorough internal audit procedure. The Committee will expect the Department to report substantial progress the next time the Department appears before the Committee.

8. Your Committee noted with satisfaction that the department had acted quickly to resolve problems identified by the Auditor concerning the segregation of duties, obtaining proper authorization for grants and the recovery of overpayments. The Auditor also reported the resolution of an old problem with the RCMP contract. The federal Minister of Justice now provides the province with a statement certified by the Auditor General for Canada verifying that the annual statement of expenditures and revenue for RCMP services has been prepared in accordance with the Provincial Policing Agreement.

### **CONSUMER AND COMMERCIAL AFFAIRS**

9. Your Committee received the Department's explanation regarding the failure to prepare separate reports and financial statements for the Office of the Rentalsman and the Residential Tenancies Review board. The Department reported that in future separate reports would be submitted rather than combining the information in the annual report of the Department.
10. Your Committee reviewed the role of the Licensing and Investigation Branch of the Department in the licensing of investment companies such as Principal Trust, Associated Investors and First Investors. The Department indicated that in recognition of the need for improving the regulation of financial institutions there have been a number of conferences and meetings of the various federal and provincial regulatory bodies. Concerns that have been addressed include the need for an improved exchange of information and the development of standards of reporting and standards of performance for various types of companies.

### **AGRICULTURE**

11. Your Committee reviewed with concern the high number of instances reported by the Provincial Auditor of inadequate internal controls in various departmental programs and agriculture-related agencies. In the course of its hearings the Committee inquired into the reasons for the problems and the steps being taken to resolve them as outlined in the points which follow.

12. 1985 Crop Drought Assistance Program – the problem identified by the Auditor was \$2 million of 1986-87 payments improperly charged to the 1985-86 appropriation. The Department explained that delays in the process of confirming residency resulted in cheques being held until after the end of the fiscal year.

### **Recommendation**

Your Committee wishes to emphasize that one of the basic principles of the government's cash basis of accounting should not be bypassed or ignored. Through the Auditor the Committee will be seeking assurance that new procedures are operating effectively to prevent a repetition of this problem.

13. Agricultural Lands – the problem identified was the absence of a control procedure to reconcile the record of land and related assets maintained by the Department of Agriculture with the amount recorded as an asset in the financial statements of the Saskatchewan Heritage Fund. Your Committee is pleased to note that the Department has now establish satisfactory reconciliation procedures.
14. Farm Purchase Program – the problem identified was the absence of a system to check information to ensure applicants were eligible to receive benefits under the program. The Department reported that a joint audit procedure has now been devised with the Comptroller. The Committee awaits the next Auditor's Report for confirmation that the new procedures have been found to be satisfactory.
15. Conservative conservation and development revolving fund – the operation of this revolving fund was founded by the Auditor to have weaknesses and inadequacies in several respects as follows:
- (a) lack of timely and adequate financial management information and monitoring;
  - (b) absence of internal controls to ensure legislative compliance;
  - (c) absence of an adequate system to determine year-end value of inventory;
  - (d) absence of adequate management controls to compensate for non-segregation of duties;
  - (e) inadequate internal controls respecting the collection and recording of revenue.
- The department reported that action has been taken to resolve the problems with respect to inventory, revenue and segregation of duties. The Committee awaits the next Provincial Auditor's report to confirm this progress.
16. Sheep and Wool Marketing Commission – The Auditor repeated a concern raised in previous reports about the absence of the system to ensure that required check-off fees were duly collected and remitted to the Commission. Officials reported to the Committee that the Commission has determined that a full 100 per cent check would be too expensive and that the current procedure is sufficient to maintain control. Your Committee has no further recommendations to make at this time.

17. Beef stabilization board – your committee reviewed the Auditor’s report that the Board has incorrectly interpreted a regulation providing for a participant to withdraw from the Cow Calf to Finish Market Insurance Plan. The Department reported that there interpretation had been corrected as of March 31, 1986. The Auditor also reported on the lateness of the prepared financial statements of the Board.

#### **Recommendation**

Your Committee urges the Board to ensure that financial statements are available on a timely basis to respect and preserve the principle of accountability to the Legislature.

#### **AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN**

18. The Provincial Auditor reported on seven areas of deficiency in the systems for administering the Livestock Cash Advance Program and the Production Loan Program. Your Committee debated the issue of the lack of criteria to establish eligibility for loans and the absence of checks to verify the eligibility information provided by applicants. In response to a request for the names of clients who had received loans of \$50,000 or more from the Production Loan Program, the following motion was adopted:

That in view of the recognized need for confidentiality of agricultural credit Corporation clients, the confidentiality of the agricultural credit Corporation clients be retained.

Your committee discussed the merits of universality in the application of the above programs versus the economics of more restrictive eligibility criteria.

#### **SASKATCHEWAN POWER CORPORATION**

19. The Provincial Auditor reported that the Corporation had made purchases of natural gas in excess of one million dollars without obtaining the required approval by the Lieutenant Governor in Council.

Your Committee reviewed the circumstances with Corporation officials and was satisfied with the Corporation’s outline of the steps being taken to prevent the situation from occurring again.

#### **SASKATCHEWAN PROPERTY MANAGEMENT CORPORATION**

20. The Provincial Auditor raise the issue of how the formation of the Saskatchewan Property Management Corporation may reduce the accountability of the executive government to the Legislative Assembly. In accordance with the usual Crown corporation policy, the new corporation would not disclosed payee information which would have been available had the activities remain the responsibility of a government department. Your Committee explored this matter with corporation officials. It was indicated that the payee information respecting items purchased for government departments through the corporation’s purchasing agency would still be included in the Public Accounts; however, expenditures relating to the operation of

the new corporation would be reported in the format normal for a treasury board Crown corporation. The Members indicated that concerns about the latter policy would be raised in the forum of the Legislative Assembly.

## **DEPARTMENT OF SUPPLY AND SERVICES**

21. Your Committee reviewed with officials a number of comments in the Auditor's report including the following:

- (a) security of access to departmental computer data files and program;
- (b) absence of control per sprint or two reconcile Comptroller's monthly reports of charges to the Central Vehicle Agency Revolving Fund with the payments originally authorized by the department officials.
- (c) The loss of a deposit of \$25,000 U.S. for default on a contract to purchase a medically equipped aircraft;
- (d) deficiencies in the controls in place for the administration of the financial affairs of the Supply Agency Revolving Fund.

The Corporation's process for the management and rental of government office space was reviewed.

Officials of the Property Management Corporation which now administers the activities of the former department reported that the identified control problems had now been addressed and corrected.

## **WESTANK INDUSTRIES LTD.**

- 22. Your committee is very pleased to know that the company has acted promptly to resolve the general management problems identified by the Provincial Auditor.
- 23. The Auditor reported that this Crown agency does not table audited financial statements in the legislative assembly and that's the government is not fully accountable to the Legislative Assembly for the administration of this company.

### **Recommendation**

Your Committee considered the accountability issue and wishes to reinstate its concerns as reported in the Committee's interim report (November 3, 1987) as follows:

That the Committee recommend that the Government consider preparing legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly, providing that the competitive position of the Crown Corporation is not prejudiced.



## **DEPARTMENT OF SOCIAL SERVICES**

24. Your Committee reviewed matters reported by the provincial auditor concerning control of overpayments, the need for cost-benefit analysis of corrective measures, deficiencies in verification procedures and in obtaining annual declarations of personal circumstances. The department was questioned on the public accounts with respect to a wide variety of expenditures, programs and third-party grants administered by the department.
25. Your committee wishes to encourage the Department to continue in its progress in resolving the identified controlling verification deficiencies while at the same time remaining sensitive to the clients' needs for considerate and sensitive treatment.

## **DEPARTMENT OF ECONOMIC DEVELOPMENT AND TRADE**

26. Your Committee reviewed issues identified by the Auditor relating to procedures for you the control of departmental appropriations and systems problems relating to the Market Development Fund. The Committee also reviewed the operation of the Hong Kong trade office and other expenditures of grants noted in the Public Accounts.
27. The Department reported that corrective measures have been implemented to resolve the problems.

## **REQUESTS FOR INFORMATION**

28. Through the course of the hearings, your Committee had made numerous requests for information from the various departments and agencies being reviewed. The requests are listed in appendix B in this report. The Committee wishes to express its appreciation for the co-operation given by the officials and departments at the hearings and then providing the requested written information. The Committee expects that outstanding answers will be submitted to the committee in the very near future.

## **FOLLOW-UP**

29. Your Committee wishes to emphasize the need for monitoring and follow-up on the steps being undertaken by departments in response to the Auditor's Report into this Report. This follow-up will be accomplished in part by the Auditor's annual review, in part by the Comptroller's annual report to the Committee and also by the Committee itself through its request for direct reports and information from departments and agencies reviewed.

## **CANADIAN COUNCIL ON PUBLIC ACCOUNTS COMMITTEES**

30. Your Committee is pleased to report that a delegation from the Committee will be attending the 10th Annual Conference of Canadian Council of Public Accounts Committees to be held in Halifax in July. While Saskatchewan was unrepresented at last year's meeting because the Committee had not been established at the time of conference, your Committee wishes to express its support for this organization the purpose of the association is to share information between jurisdictions in order to

strengthen the functioning of Public Accounts Committees and enhance the awareness of members and the public of the important role played by these Committees and maintaining Government accountability.

#### **100TH ANNIVERSARY**

31. Your committee wishes to draw to the attention of the Legislative Assembly an occasion of note which takes place this year. It is the 100th anniversary of the establishment of the first public accounts committee in Saskatchewan as established by the North-West Territories Legislative Assembly in 1888.

#### **ACKNOWLEDGMENTS**

32. Your Committee hereby expresses its appreciation to the Provincial Auditor and his staff and the Comptroller and his staff for their assistance in the work of the Committee. The Committee also wishes to thank the committee clerk, Ms. Gwenn Ronyk, The secretary of the committee, Mrs. Joyce Rublee, the *Hansard* staff and library staff for their work on behalf of the Committee.

#### **CONCURRENCE**

That the Second Report of the Standing Committee on Public Accounts and now be concurred in.