

## REPORT

### FIRST REPORT — Presented May 25, 1992, S.P. 62

Mr. Swenson, Chairman of the Standing Committee on Public Accounts, presented the Committee's Report as follows:

- 1) Your Committee held an organizational meeting on December 10, 1991 and elected Rick Swenson as Chairman and Harry Van Mulligen as Vice-Chairman.
- 2) Your Committee held Orientation Seminars on December 12 and 17, 1991, on January 6 and 9, 1992 on March 23 and 24, 1992 and on April 22, 1992 with presentations on the following:
  - The Role and Purpose of the Public Accounts Committee and How it Works
  - Parliamentary Control and Accounting of Public Moneys and the Role of the Comptroller
  - The Role of the Provincial Auditor
  - The Operation of the Department of Finance, the Budget Cycle and the Preparation of the Estimates
  - The Mandate of the Public Accounts Committee
- 3) Your Committee completed its deliberations on the Provincial Auditor's Report for the year ended March 31, 1990 and the Public Accounts of the Province of Saskatchewan for 1989-90.
- 4a) Your Committee held 16 meetings during the Fourth Session of the Twenty-First Legislature and 11 meetings during the First Session of the Twenty-Second Legislature to complete the review of the following departments and agencies:

Community Services - Housing Division (Saskatchewan Housing Corporation)  
Saskatchewan Property Management Corporation  
Department of Agriculture and Food  
Saskatchewan Beef Stabilization Board  
Department of Finance  
Crown Investment Corporation of Saskatchewan  
Department of Executive Council of Saskatchewan  
Department of Education  
Saskatchewan Institute of Applied Science and Technology  
Department of Rural Development  
Saskatchewan Liquor Board  
Department of Social Services  
Department of Economic Diversification and Trade  
Agricultural Development Fund  
Saskatchewan Power Corporation  
Department of Parks and Renewable Resources  
Department of Energy and Mines  
Saskatchewan Transportation Company  
Department of Justice

4b) This report is presented in two sections. The **first section, Paragraphs 6-35** is an account of the Committee which existed during the Twenty-First Legislature. There are items reported to which the current Committee has significant disagreement, with the previous Committee. The **second section, Paragraph 36 to the end**, are items the Committee of the Twenty-Second Legislature have examined and subsequently agreed to.

4c) The Committee of the Twenty-Second Legislature acknowledged disagreement with the following items, arising in Section 1 of this report:

1. Paragraph 7)
2. Paragraphs 13.9 and 13.11)
3. Paragraph 18.

5) Your Committee agreed to report its observations and recommendations arising from its hearings and discussions.

## **Section I**

### **Chapter 1 Public Accountability (.03-.13)**

6) Your Committee examined the Provincial Auditor's intention to encourage the Government to adopt the accounting practices recommended by the Canadian Institute of Chartered Accountants (CICA) for the main financial statements of the Province. The major issues are as follows:

- (a) Loans of the Consolidated Fund to Saskatchewan Property Management Corporation (SPMC) are recorded as assets of the Consolidated Fund. The Provincial Auditor reported this was inappropriate since loan repayment depends on future appropriations from the Consolidated Fund. These disbursements should have been recorded as expenditures. The Consolidated Fund cannot have an asset/loan/receivable if the only source of repayment of the loan is future appropriations from the Consolidated Fund.
- (b) The value of the Province's investments in Crown corporations is now reflected at current cost. The Provincial Auditor reported that a more relevant practice is to adjust the value of these investments each year to reflect the corporation's earnings.
- (c) The Province's liability for unfunded employee and teachers' pension obligations is not recorded in the financial statements, although it is discussed in the detailed notes to the financial statements.
- (d) Very little information about the Government's physical assets and infrastructure is provided in the financial statements of the Province. The Provincial Auditor reported that information is required to understand and assess the Government's management of our infrastructure as well as the future expenditure required for maintenance and replacement.

### **7) Recommendation**

With a view to addressing the issues outlined in paragraph (1) and other issues relating to government accounting practices, your Committee discussed various options as solutions to these problems and recommends that these issues be referred to an ad hoc committee composed of the Deputy Minister of Finance, the Comptroller and the Provincial Auditor for examination of the possible solutions and report back to the Committee.

8) Your Committee considered the issue of budgeting by the Government for goods and services requiring capital expenditures, in addition to the usual current operating budget. The differentiation between capital expenditures and current expenditures has a long history in many countries and in local government. Capital budgeting, among other things, addresses the size and composition of government infrastructure, and may allow for depreciation accounting.

### **9) Recommendation**

With a view to enhancing a better understanding of public spending in the Province of Saskatchewan, your Committee recommends that the Legislative Assembly encourage the Government of Saskatchewan to consider the implementation of an annual capital budget in addition to the current annual operating budget as part of an overall review of its budgeting and accounting procedures.

#### **Timely Financial Statements (.14)**

**10)** Your Committee discussed public release and intersessional tabling of the Province's Public Accounts and the Provincial Auditor's Report, thus enabling the Public Accounts Committee to consider both documents rather than wait for tabling in the Assembly, sometimes months after it is ready for publication.

Your Committee considered the establishment of a legislative calendar as a solution to the issue.

#### **The Public Accounts (.15-.21)**

**11)** Your Committee discussed the Provincial Auditor's concerns about the complexity of presentation of the Public Accounts as well as the relevancy of certain information contained in the Public Accounts.

**12)** Your Committee examined opportunities for improving the disclosure of revenue and expenditure detail of *Volume III (Details of Revenue and Expenditures)* of the Public Accounts, while maintaining adequate disclosure. Several changes were agreed to by your Committee, as follows:

**13) Recommendation:**

1. Your Committee agreed that providing a mandate statement for each department and major programme area would provide increased understanding for Volume III users.
2. Your Committee agreed expenditure detail could be summarized in a table format, grouped into major categories. The table would disclose the entire vote expenditure, with a breakdown by subvote. This will allow for a clear understanding of costs relating to specific areas and simplify comparisons amongst subvotes.

The major categories the Committee identified as necessary were: permanent and non-permanent salaries, supplies and services; purchase of fixed assets; grants; advertising; travel; contractual services; and unusual payments. Unusual payments would include items such as severance payments and compensation payments.

3. Your Committee agreed expenditure tables could be rounded to the nearest thousand dollars. Detailed information on grants, salaries and other expenditures would not be rounded.
4. Your Committee agreed the detailed description of revenue by department could be discontinued. Revenue disclosure will continue to be provided in a summary table format.
5. Your Committee agreed highway disclosure could be presented in a table format, grouped into major categories. Various categories were suggested such as: highway maintenance and operations; highway rehabilitation; capital construction; and major highway capital construction.
6. Your Committee agreed the Department of Rural Development's expenditures could be disclosed in a table format, categorized as follows: Road Grants; Basic Unconditional Grants; Equalization; and Other Expenditures.
7. Your Committee agreed the disclosure of salaries in Public Accounts should only be for classified out-of-scope employees which would include order-in-council appointments.

Your Committee stated it was important for full disclosure of all salaries in a supplementary book. The supplementary book would be distributed on a limited basis.

8. Your Committee agreed the disclosure of travel on an individual basis could be discontinued. Travel would be shown as a total for each subvote. Minister's travel expenditure would continue to be shown on an individual basis.
9. Your Committee agreed the disclosure limit for 'Other' expenditures could be increased to \$20,000 per department. Your Committee did not feel it was necessary to provide an aggregate of expenditure by payee across all departments.
10. Your Committee agreed the disclosure for grant payments could be raised to \$5000 per grant. Your Committee agreed universal grant programmes and grants where confidentiality is an issue, such as loan subsidies, need not be considered for disclosure by payee.
11. Your Committee agreed in principle, that disclosure requirements for government organizations funded primarily by tax dollars should be the policies adopted for the Public Accounts. The first extension of reporting requirements should be to Treasury Board Crowns.

#### **Value-for-Money Examinations (.22-.27)**

14) Your Committee was pleased with the government's intention, in the Fourth Session of the Twenty-First Legislature, of clarifying the responsibilities of the Provincial Auditor to undertake and report on value-for-money auditing, which addresses both economy and efficiency in the acquisition and use of resources and on the effectiveness of programmes.

#### **Relationship with Public Accounting Firms (.28-.30)**

15) Your Committee discussed the issue of the relationship of the Provincial Auditor with appointed public accounting firms and noted that the Provincial Auditor intends to make proposals with respect to the issue in his 1990-91 Report. Your Committee was concerned about the confusion which seems to exist in reporting relationships under The Provincial Auditor's Act between the Provincial Auditor and appointed auditors.

#### **Independence of the Office of the Provincial Auditor (.31-.33)**

16) Your Committee is pleased that the Office of the Provincial Auditor is, since February 1991, having its funding proposals reviewed by the Board of Internal Economy of the Legislative Assembly, thereby augmenting the independence of the Office as well as strengthening the accountability process.

### **Chapter 2 How We audit and Report**

17) The Provincial Auditor must often rely upon the work performed by and reports from public accounting firms with respect to the auditing and accountability of Crown corporations. Your Committee notes with concern the delays encountered by the Provincial Auditor in receiving such reports pertaining to Crown corporations.

### **Chapter 4 Corporation Accountability**

18) Your Committee discussed the accountability to the Legislative Assembly of Crown corporations. Your Committee is concerned that Crown corporations do not provide the Assembly with sufficient information, through tabling of financial statements, to allow detailed accounting of government spending in those areas. A fuller and more comprehensive accountability of government organizations funded primarily by tax dollars must be addressed. Your Committee recommended increased disclosure requirements for government organizations funded primarily by tax dollars to better address these issues.

## **Chapter 5 The Tabling of Documents**

19) Your Committee discussed the tabling of annual reports of government organizations under the Tabling of Documents Act and agreed that the equivocal interpretation of the fifteen day tabling time limit after commencement of a session has been resolved by adoption of amendments to The Tabling of Documents Act last December.

20) Your Committee further discussed the broader issue of tabling of all documents and making these available to Members of the Assembly when it is not in session.

## **Chapter 11 Department of Agriculture and Food**

### **Spending Controls (.01-.04)**

21) Your Committee questioned the Department's recording of a refund of prior year expenditures of \$756,990 as a reduction of current year expenditures, contrary to the requirements of the *Financial Administration Manual*, thereby rendering the Assembly's spending control ineffective by the amount cited. The Department confirmed that this was not an on-going practice. It was a one-time occurrence due to error made in terms of understanding the type of revenue coming to the Department in that case.

### **CONSERVATION AND DEVELOPMENT REVOLVING FUND (.05 .17)**

#### **Budgets and Timely Financial Statements**

22) Your Committee questioned the Department's lack of adequate controls to permit the preparation of accurate financial statements. There was concern with the lack of preparation of a budget for the Revolving Fund for the fiscal year 1989-90 and the lack of preparation of financial statements for the quarter ending September 30, 1989, all of which are requirements under the *Financial Administration Manual* for the adequate control of the operation of the Fund.

23) The Department explained that the Fund dealt with the administration of four northern farms. Commitments had been made to remove the farms from the Department's administration during the year in question. Because of this process, a normal budget was not prepared on the expectation that the farms would not be administered through to the end of the fiscal year. This will not be a recurring issue as the farms in question are no longer operating out of the Revolving Fund which was formally closed on March 31, 1991.

#### **Controls over Cash Receipts**

24) The Provincial Auditor expressed concern over cheques not being endorsed immediately upon receipt and the lack of a reconciliation of money deposited to the cash receipts, contrary to the requirements of the *Financial Administration Manual*, thereby not providing adequate controls to protect public money against loss from unauthorized use or disposition. The matter has been resolved by the termination of the Revolving Fund.

### **HORNED CATTLE FUND (.18 .25)**

#### **Supervision of Employees**

25) Your Committee is satisfied that this issue involving the incorrect recording of loan repayment money received as revenue and the incorrect recording of a loan disbursement as an expenditure rather than as a loan has been resolved.

## **Controls over Cash Receipts**

26) The Department advised that the lack of reconciliation of receipts issued, cash received and unused receipts with respect to Cattle Marketing and Horned Cattle deductions paid by cash has been resolved by the setting up of a computer system to provide that reconciliation.

## **Money Used for Authorized Purposes**

27) Your Committee is advised that the Melfort Agricultural Society is now committed to providing the Department with quarterly reports detailing the use of disbursements of money from the Department, thereby informing and ensuring the Department that the money was in fact used for its authorized purpose.

## **Chapter 25 Saskatchewan Beef Stabilization Board**

### **Public Accountability (.04-.10)**

28) The lack of timely and accurate preparation of financial statements resulting in inadequate public accountability was being dealt with through the establishment of a new computer system and significant staffing. Department of Agriculture officials are confident that these issues will not arise in the future.

### **Loss on Unauthorized Investments (.11-.14)**

29) Your Committee was concerned by a Board investment of \$601,982 without proper approval from the Cabinet, as stipulated by the Financial Administration Act. The Committee was advised that these funds were used to, in effect, purchase reinsurance in the form of beef futures contracts for the Board to cover what could have been payouts to producers. A Cabinet Minute did approve the purchase of futures, but the technical process of seeking and obtaining an order-in-council was not followed, according to information provided to the Committee.

### **Billings Required (.15-.18)**

30) The Auditor was concerned that the Board did not comply with regulations governing billings to the Department and did not bill the Department the full levies due under the regulations. It was explained that the issue had been brought to an end due to the conclusion of the provincial stabilization plans.

### **Stabilization Payments (.19-.21)**

31) There was concern about the Board's "Borrow Ahead" option policy whereby producers could receive double stabilization payments during one fiscal year i.e. at the start of a fiscal year and at the very end of the same fiscal year, the latter payments being in anticipation of those for the following fiscal year.

32) This issue has ended with the termination of the provincial stabilization plans.

### **Payments Requiring Authority (.22-.26)**

33) The Auditor was concerned about levies refunded to a producer who withdrew from the stabilization plan, contrary to governing regulations. It was explained that the refund was paid as the application for it was made prior to the date on which the Board's revision of its interpretation of the governing regulations came into effect.

### **Verification of Animals in Tripartite Programme (.27-.30)**

34) The Board's lack of procedures to verify the existence of the number of animals registered by

producers in the National Tripartite Programme resulted in the Government not knowing if the correct amounts were being paid to the Federal Government. This issue is reported to have been resolved by the establishment of a post-audit inspection service by the Department.

#### **Systems Development Controls (.31-.35)**

35) The Board's new computer system used to keep the records of the Tripartite Programme was found to be lacking in effective controls over systems development, a deficiency which has been reportedly resolved by the development of a new system for the Programme together with changes at the Board office.

## **Section II**

### **Chapter 17 - Department of Finance**

#### **Payment Requires Authority (.01-.03)**

36) Your Committee discussed a payment to a supplier for printing budget materials without seeking proper approval of the Director of Purchasing as required by The Purchasing Act. The Department recognized the error and has resolved the situation with the Director of Purchasing for subsequent printing of budget materials.

## **SPENDING CONTROLS OVER THE EXECUTIVE GOVERNMENT**

#### **Commitment Controls (.10-.15)**

37) Your Committee discussed a federal-provincial agreement relating to drought assistance for the 1988 crop year under which Saskatchewan assumed responsibility for repayments to the federal government of \$113,000,000 during fiscal years 1991-92 to 1995-96. The total assistance payments were paid by the federal government in 1989-90, however, the Legislative Assembly will not have had an opportunity to approve Saskatchewan's share of this expenditure until the 1991-92 Estimates are fully considered.

38) Although the current basis of budgeting and accounting appears to preclude a ready solution to this problem, your Committee felt that improvements are needed so that a similar situation does not arise in the future.

## **PUBLIC ACCOUNTS**

#### **Reservation of Opinion (.17-.21)**

39) The reservation of opinion on the Consolidated Fund Financial Statements concerning the recording of loans to Saskatchewan Property Management Corporation as assets of the Consolidated Fund was discussed. This matter has been the subject of previous discussions in this Committee and is referred to in paragraph 6 (a) of this Report.

#### **Supplementary Information (.22-.25)**

40) Your Committee questioned why the tabling of a supplementary volume of information on the Public Accounts was discontinued in 1984 after this practice had been in effect for eight years since 1976, in response to your Committee's 1975 Report which was adopted by the Legislature.

The Department of Finance responded that Treasury Board was empowered by Section, 13(b) of The Financial Administration Act to prescribe the form and contents of the Public Accounts. It was noted that the Committee, in the spring of 1991, considered the disclosure of detail in the Public Accounts. The recommendations arising from those meetings are referred to in paragraph 8) of this Report.

### **Timely Information (.26-.30)**

41) Your Committee discussed with the Provincial Auditor the issue of strengthening accountability by making the Public Accounts available to Members prior to consideration of the upcoming year's spending estimates. The Provincial Auditor suggested that legislative amendments establishing tabling dates may be necessary.

### **COMPTROLLER**

#### **Controls Over Revenues (.31-.37)**

42) Your Committee discussed the Provincial Auditor's concern over lack of documentation by the Comptroller's Division of the rules and procedures established to monitor receipts under the direct supervision of Treasury Board. The Department explained that it is working at improving the documentation and rationalization of its rules and procedures and hopes to complete the exercise by summer, 1992.

#### **PUBLIC EMPLOYEES BENEFITS AGENCY (.38 .73)**

43) Your Committee discussed the impairment of the Department's accountability due to the delay in preparing financial statements for the Public Employees Dental Fund and the Public Employees Revolving Fund as well as related internal control deficiencies.

44) The Department explained that staff turnovers caused the delays but that the hiring of a qualified professional accountant in October 1990 has assisted in the timely preparation of the financial reports for these funds.

#### **PUBLIC EMPLOYEES BENEFITS AGENCY**

#### **PUBLIC SERVICE SUPERANNUATION BOARD (.74 .78)**

45) The Committee noted that the deficiencies in control procedures over revenue had been resolved to the satisfaction of the Provincial Auditor.

#### **PUBLIC EMPLOYEES SUPERANNUATION PLAN SUPERVISORY BOARD**

#### **Public Accountability and Supervisory Control (.83-.92)**

46) The Committee discussed the timeliness of the financial statements prepared for the Public Employees Superannuation Fund and the Public Employees Annuity Fund and related internal controls. The Department explained that substantial improvements had been made due to more efficient computerization of the processes. In addition, the Department explained that the preparation of a current policy and procedure manual was in progress.

#### **Journal Vouchers and Controls over Investment Income (.93-.98)**

47) Control deficiencies with respect to these issues were noted as being resolved to the satisfaction of the Provincial Auditor.

### **Chapter 23 - Investment Corporation of Saskatchewan (ICS) (.01-.08)**

48) The Committee discussed the ability of the Provincial Auditor to audit the Investment Corporation of Saskatchewan. The ICS has legal advice that it is not subject to an audit under The Provincial Auditor Act and has not permitted the Provincial Auditor to discharge his duty as his legal counsel advises.

49) The Department advised the Committee they felt that the broad issues of responsibility for the ICS audit should be deferred to another forum as the Department has no direct responsibility for the



ICS audit, i.e. the Provincial Auditor should go back again and deal with those boards and members who provide direction to ICS.

The Provincial Auditor responded that the shareholders of ICS are government pension funds and Crown agencies and the Department of Finance was responsible for the pension funds. Therefore, if the department or the Minister of Finance thought it appropriate for the Provincial Auditor's office to examine ICS, it could do that through the shareholders.

### **Chapter 33 - Saskatchewan Property Management Corporation**

#### **Compliance with Authority (.08-.14)**

**50)** Your Committee discussed the retention by Saskatchewan Property Management Corporation of the proceeds from the sale of surplus assets of departments, contrary to the requirements of The Purchasing Act, which stipulates that those proceeds be paid to the Consolidated Fund.

**51)** The corporation explained it had budgeted for retention of the proceeds in 1989-90 and prior years. Because of the lack of compliance with The Purchasing Act, the corporation now budgets to return the proceeds to the Consolidated Fund and is actually repaying all of the moneys through this process.

**52)** Your Committee enquired as to the cost effectiveness of the \$200,000 cost to operate the miscellaneous asset portion of the sales and salvage division. The corporation responded that perhaps the costs are not effective from a business point of view but for the purpose of ensuring the proper disposal of government assets it may be worth the cost.

#### **Agreement with Department of Parks and Renewable Resources (.15-.18)**

**53)** Your Committee reviewed the Provincial Auditor's comment about \$740,000 paid by Saskatchewan Property Management Corporation to the department for costs incurred under an agreement without the support of documents required by the agreement. The Committee noted the agreement was changed to remove the documentation requirement and the matter has now been resolved to the Provincial Auditor's satisfaction.

#### **Reservations of Auditor's opinion on financial statements (.20-.44)**

**54)** Your Committee reviewed the Provincial Auditor's comments that an inappropriate depreciation policy adopted in 1988 has resulted in an accumulated overstatement of both Real Estate and Investments and Retained Earnings at March 31, 1990 of \$10,880,000. It was noted that management had undertaken to restate the 1991 financial statements to rectify the situation.

**55)** Your Committee reviewed the Provincial Auditor's comments that both revenues and expenditures were overstated in the financial statements by \$52,000,000 due to the recording of a participation credit representing the difference between the gross accommodation charges for space occupied and the amounts actually charged to and paid by departments. It was noted that management had undertaken to remove the participation credit from the 1991 financial statements.

**56)** Your Committee reviewed the Provincial Auditor's comments concerning the failure of Saskatchewan Property Management Corporation to record in its financial statements the furniture transferred to it from the Department of Supply and Services in 1986 and 1987.

#### **57) Recommendation**

Your Committee recommends that Saskatchewan Property Management Corporation perform an inventory of the furnishings for which it has responsibility and identify the assets by departmental location.

## **Chapter 10 - Crown Investments Corporation (CIC)**

### **Public Accountability (.01-.8)**

**58)** Your Committee reviewed the Provincial Auditor's comments that CIC's financial statements are not fairly presented. The Provincial Auditor believes the financial statements inappropriately mix CIC's financial results with the financial results of "Part II" Crown corporations such as Saskatchewan Power Corporation. Management advised the Committee that this matter will be under active consideration during CIC's next fiscal year. Your Committee expects to consider this matter again in the context of the Provincial Auditor's next Annual Report. The Committee looks forward to a clearer indication from management at that point as to which direction they want to proceed.

### **Payments Requiring Legislative Authority (.09-.14)**

**59)** Your Committee considered the comments of the Provincial Auditor concerning the lack of order-in-council approval for remuneration and expenses paid to members of the Board. It was noted that there were differing legal opinions, however Crown Investment Corporation intends to seek order-in-council authorization for future payments to Board members so as to resolve any doubt on the issue.

## **Chapter 14 - Education**

### **SASKATCHEWAN STUDENT AID FUND**

#### **Public Accountability (.02-.04)**

**60)** Your Committee reviewed the Provincial Auditor's comments that the delay in preparing the 1989 financial statements impaired the Department's public accountability. Management responded that the financial statements were late due to an underestimation of the length of time required to complete the audit of the Fund's financial statements.

#### **Loan Verification Procedures (.05-.10)**

**61)** Your Committee reviewed the Provincial Auditor's comments that the Department's rules and procedures were not adequate to prevent or detect unauthorized loans. The Department informed the Committee of a post-payment audit programme that was introduced in 1991 resulting in improved loan verification practices.

### **NORTHLAND CAREER COLLEGE**

#### **Requirement for Reliable Accounting Records (.22-.26)**

**62)** Your Committee reviewed the Provincial Auditor's comments that the College's rules and procedures were not adequate to safeguard and control public money, or to ensure the timely and accurate preparation of financial statements. The Department indicated the College was taking steps to develop an integrated computer system in 1992 which would provide information for better management.

#### **Prairie West Regional College (.29-.32)**

**63)** Your Committee reviewed the Provincial Auditor's comments that the College lacked the necessary accounting personnel to provide an adequate segregation of duties. The College indicated that the accounting staff strength had been increased to help alleviate the problems noted.

#### **Saskatchewan Indian Regional College (.33-.32)**

**64)** Your Committee reviewed the Provincial Auditor's comments regarding the compliance of

the College under certain requirements of The Regional Colleges Act. The Department responded that these matters arise from a jurisdictional issue concerning the accountability of the College since all of its funds were received from the federal government.

## **Chapter 30 - Saskatchewan Institute of Applied Science and Technology**

### **Unauthorized Deficit (.25-.26)**

65) Your Committee reviewed the Provincial Auditor's comments that the Saskatchewan Institute of Applied Science and Technology incurred a deficit exceeding \$1,000,000 which was not approved by the Minister as required by governing legislation. The Saskatchewan Institute of Applied Science and Technology reported that the deficit resulted from the failure to estimate the costs for a labour settlement in its budgeting process. The Institute has changed its procedures and now considers such settlements as part of its budgeting process.

## **Chapter 31 - Saskatchewan Liquor Board**

### **Payment Requiring Authority (.01-.07)**

66) Your Committee reviewed the Provincial Auditor's comments that the amount of the Chairman's remuneration paid was in excess of the amount authorized by the order-in-council. It was noted that there was a lack of regard for due process by the Board in this instance. It is expected that management will bring such situations to the attention of the Minister in the future.

## **Chapter 22 - Social Services**

### **Claims for Cost Shared Programmes (.01-.05)**

67) Your Committee reviewed the Provincial Auditor's comments concerning late claims made on the federal government which related to the lack of a system to identify sharable costs where clients were receiving allowances from both the Family Income Plan and the Saskatchewan Assistance Plan for less than six months. The Department explained that the problem had now been corrected with additional computerized services.

### **Contingency Plan (.06-.08)**

68) Your Committee reviewed the Provincial Auditor's comments that the Department does not have a contingency plan that ensures continued operation in the event of a major loss or destruction of records. The Department advised that, along with other departments, it is actively involved in a sub-committee of the Information Technology Management Agency of SPMC which is exploring disaster recovery options for the government.

### **Authorization for Employment Development Programme Payments (.09-.12)**

69) Your Committee reviewed the Provincial Auditor's comments that payments in excess of \$10,000 were made under this programme without the necessary order-in-council approval. The Department has recognized this error and advises that for the 1990-91 fiscal year, the payments were being properly approved.

### **Authorization for Skills Development Programme Payments (.13-.16)**

70) Your Committee reviewed the Provincial Auditor's comments that the programme was not established by regulation as required by The Department of Social Services Act and accordingly payments totalling \$5.8 million were made without authority. The Department responded that it had been working with the Department of Justice to draft regulations for the Saskatchewan Skills Development Programme under The Saskatchewan Assistance Act.

## **Chapter 13 - Economic Diversification and Trade**

### **Authority for Expenses and Revenues Related to Trade Show (.01-.05)**

71) Your Committee reviewed the Provincial Auditor's comments that the Department did not deposit in the Consolidated Fund, revenues from a Trade Show as required by The Financial Administration Act. In addition, the Trade Show expenditures were not appropriated by the Legislature. As a result, the Public Accounts did not include these revenues and expenses. The Department responded that it had assumed that the banking arrangements were handled properly because the Department was involved with SEDCO as a joint-venture sponsor. The Department has acknowledged the error and in the following budget rectified the situation.

### **Loss of Public Money (.13-.22)**

72) Your Committee reviewed the Provincial Auditor's comments that due to an error in applying the rules of The Venture Capital Tax Credit Act, the Department did not recover a tax credit resulting in a loss to the Crown of \$101,576. The error was related to the use of appraisal increase credits to revalue the stated capital of venture capital corporations at the time of withdrawal of capital. The Committee noted that there were conflicting legal opinions, however, management has advised that effective December 1989, the Department has advised all interested parties that the policy of treating appraisal increments as part of shareholders equity for the purposes of the Act is no longer in effect.

## **NORTHERN SASKATCHEWAN ECONOMIC DEVELOPMENT REVOLVING FUND**

### **Loss of Public Money (.24-.29)**

73) Your Committee reviewed the Provincial Auditor's comments on the Fund's potential losses due to the actions of a person in the Department's management who made unauthorized representations to the creditors of a loan recipient. Disbursements of \$25,466 were made to the creditors to honour the representations made, however, a promissory note was not obtained for the additional loan. The employee in question was dismissed for cause.

## **Chapter 15 - Department of Energy and Mines**

### **Systems Development Controls Over Petroleum and Natural Gas Tax and Royalty Revenue (.01-.07)**

74) Your committee reviewed the Provincial Auditor's comments that a new computerized production and distribution system, which is used to verify reported production of oil and gas companies, was scheduled for implementation January 1, 1990 but that it was not fully working in October, 1990. As a result verification procedures were not performed on a timely basis and a large backlog of unverified reports were accumulated.

75) The department explained that during the concept phase, the department had underestimated the complexities of conversion and the time required to resolve those issues. These situations were only discovered during the development phase but the industry had already been informed of the start date for the new system. Because the industry had converted its systems to produce the reports required by the department, the ability to change the start date was restricted.

The department was able to report that the system is now fully working and the backlog of unverified reports has been cleaned up.

### **Payment Requires Authority (.08-.14)**

76) Your committee reviewed the comments of the Provincial Auditor concerning a payment to NewGrade Energy Inc. (NewGrade) relating to royalty remissions granted to producers who

supplied natural gas to NewGrade. By terms of the remission orders, producers were required to assign to NewGrade their right to the remissions made. In the opinion of the Provincial Auditor this payment constituted a grant to NewGrade and not a remission to producers and, accordingly, was made without proper authority.

77) The Department advised the payment was part of assistance committed to the NewGrade project by the Province for a minimum period of 15 years under terms negotiated with the other parties involved in the project.

#### **78) Recommendation**

If the remission of natural gas royalties is to continue to be paid to NewGrade Energy Inc. the amount to be provided should be included in the Estimates and presented to the Legislative Assembly for their consideration.

### **Chapter 34 - Saskatchewan Transportation Company**

#### **Ability of the Provincial Auditor to Discharge His Duties (.01-.10)**

79) Your Committee reviewed the comments of the Provincial Auditor concerning his inability to receive reports from appointed auditors thus preventing him from discharging his duties to the Legislative Assembly.

80) The Committee was informed that the Ernst & Young draft report was made available to the Provincial Auditor by court order in September, 1991 under conditions which restrict its availability and use to the Provincial Auditor only. The Provincial Auditor advised that he has been conducting his own examination and will prepare his findings for inclusion in his next annual report.

81) The Committee authorized the Legislative Counsel and Law Clerk to seek to obtain, through lawful recourse, the Ernst and Young report referred to in the Provincial Auditor's Report for the year ended March 31, 1990, at Chapter 34, paragraphs .04, .05, .06 and .07 for the immediate use of the Committee.

82) The Legislative Counsel and Law Clerk reported that the Court of Queen's Bench decision directed that the Ernst and Young draft report be released to the Provincial Auditor to be utilized by him only in accordance with The Provincial Auditor Act. However, the Provincial Auditor may at his discretion, pursuant to The Provincial Auditor Act, release the document to the Public Accounts Committee, should the Public Accounts Committee request the draft report. It is noted that the document is a draft and as such, for the purposes of Section 26 of The Provincial Auditor Act, is considered a "working paper" which the Provincial Auditor is not required to lay before the Public Accounts Committee.

### **Chapter 20 - Department of Justice**

83) Your Committee reviewed the comments of the Provincial Auditor concerning improvements needed in the systems of internal controls of the Department. The Department provided the following information with respect to improvements made.

84) Progress is being made concerning segregation of duties related to the personal property registry accounts systems, however the Department is continuing to work on implementing access controls for other systems.

85) A policy and procedures manual for systems development and maintenance has not been completed in the face of other demands on the systems group. The Department is still concerned about this matter and will pursue it as resources permit.

86) A disaster recovery plan has been developed and approved, with the exception that the

question of back-up equipment has not been resolved. The Department is looking at possible solutions to this problem through the Information Technology Management Agency of SPMC.

**87)** The Department reported there was no overall loss in connection with late billings to municipalities because billings were made in the subsequent year and monies were recovered. The problem arose because of late billings from the RCMP which were not followed up promptly.

**88)** During the past year some work was done in the area of automation to help administer deposit accounts. This work did not fully eliminate the problem and the Department will likely be recommending some changes to the cumbersome regulations which govern the administration of the accounts.

## **CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND**

**89)** The internal control concerns raised by the Provincial Auditor have been resolved. These difficulties arose in a start-up period, with the Fund becoming operational in October 1989.

## **Chapter 32 - Saskatchewan Power Corporation**

### **Authority for the Sale of Natural Gas Business (.01-.10)**

**90)** Your Committee reviewed the Provincial Auditor's comments that there was some question whether Saskatchewan Power had adequate legislative authority to sell its natural gas business to SaskEnergy and later sell SaskEnergy to the Crown Investments Corporation of Saskatchewan (CIC). In addition the Committee examined the concern that the accountability of SaskEnergy to the Legislative Assembly had diminished as a result of these transactions with no financial statement for SaskEnergy having been issued since the sale to CIC.

**91)** The Committee noted that there were conflicting legal opinions, however it was informed that SaskEnergy had prepared draft legislation following the Provincial Auditor's recommendations. The status of this draft legislation was not clarified.

#### **91.1) Recommendation**

Your Committee recommends that the Legislature clarify the authority, if any, provided to Saskatchewan Power Corporation (SPC) to sell the natural gas business. If clarifying legislation confirms the continued operation of SaskEnergy as a separate operation, your Committee recommends the accountability of SaskEnergy to the Legislative Assembly should be similar to that of SPC.

### **Authority for Producers Directly Supplying Gas to Consumers (.11-.15)**

**92)** The Committee examined the Provincial Auditor's concern that there was some question whether Saskatchewan Power Corporation had the legislative authority to consent to the supply and sale of natural gas to individual consumers. The Corporation agreed that this was an area that required legislative change to address the situation and clarify any ambiguity.

**92.1)** Your Committee recommends that the Legislature clarify the authority provided, if any, to Saskatchewan Power Corporation to consent to the supply and sale of natural gas to individual consumers, by independent natural gas producers.

### **Reservation of Auditor's Opinion on Financial Statements (.16-.18)**

**93)** Your Committee reviewed the Provincial Auditor's comments that a gain on the sale of SaskEnergy to CIC of \$226 million had been inappropriately included in net income and retained earnings of Saskatchewan Power Corporation. Under generally accepted accounting principles, this portion of the proceeds from the sale of SaskEnergy should have been treated as an increase in equity

advances made by the Province.

**94)** Management does not disagree with the reservation of opinion but explained that since management and the Board no longer had any jurisdiction or control over those assets, that it would be more appropriate to record in the accounts of Saskatchewan Power Corporation the gains and results of operations during the period of stewardship, i.e. that generally accepted accounting principles may not necessarily be appropriate in this instance.

#### **94.1) Recommendation**

Your Committee recommends that the Saskatchewan Power Corporation resolve this matter.

### **Chapter 21 - Department of Parks and Renewable Resources**

#### **Contingency Plan (.01-.03)**

**95)** Your Committee reviewed the Provincial Auditor's comments that there was no written and tested contingency plan in place for employees to follow if a major loss or destruction of the Department's computerized records occurs. The Department has hired staff to develop a plan and it is expected the plan will be in place by March 1992.

#### **COMMERCIAL REVOLVING FUND RENTAL COLLECTIONS (.14-.18)**

**96)** Your Committee reviewed the comments of the Provincial Auditor concerning prescribed collection procedures not followed by the Department for certain rentals due from leases for operation of provincial park services.

**97)** The Department supplied information regarding the unpaid rentals referred to in the Provincial Auditor's Report. Of \$149,000 in unpaid rentals for the three years ended October 31, 1989, the Department indicated that \$93,000 had been collected or was actively being collected while \$56,000 was to be paid in September 1993. The Department further indicated that there were no arrears on the current year's rents.

#### **FISH AND WILDLIFE DEVELOPMENT FUND PAYMENTS REQUIRING AUTHORITY (.19 .23)**

**98)** Your Committee reviewed the Provincial Auditor's comments that payments were made out of the Fund totalling \$84,000 without order-in-council authority, as required by The Government Organization Act.

**99)** The Comptroller indicated that revisions to the regulations made in February 1991 would allow this type of expenditure without order-in-council approval. However, the Provincial Auditor indicated his view was that the revised regulations would still not allow the types of expenditures cited.

#### **INTER-AGENCY SECONDMENTS**

**100)** Your Committee considered the secondment of personnel to/from departments and agencies during its hearings with several of them. Notably, the Committee expressed its concern that 23 persons with annual salary costs of \$980,000 were seconded to Executive Council without reimbursement to the host departments and agencies. Accordingly, the costs for these secondments were not disclosed in the Public Accounts as expenditures of that Department.

#### **ASSIGNMENTS TO THE PROVINCIAL AUDITOR**

**101)** Your Committee agreed to request the Provincial Auditor to perform, as a special assignment, a review of the following:

- (a) The reported practice of government organizations (departments and corporations) requiring their employees to perform services solely for the benefit of other government organizations and other organizations or individuals (This review would not include arrangements commonly called "secondment." These are arrangements whereby government organizations require their employees to perform services solely for the benefit of other government organizations and the employer organization is reimbursed for the remuneration expenses related to the "seconded" employees.); and
- (b) The reported practice of government organizations making payments to Dome Advertising, Roberts and Poole Communications and other advertising agencies for which no specific services were provided; and
- (c) The reported practice of government organizations providing goods and/or services without charge to Ministers of the Crown; and
- (d) The reported practice of government organizations providing goods and/or services without charge to other government organizations, counter to their stated mandates; and

to report all instances where these practices are observed for the fiscal years ending March 31, 1990 and March 31, 1991 and whether, in his opinion:

- (a) An officer or employee of the government has wilfully or negligently omitted to collect or receive money belonging to the Crown;
- (b) Public money was applied to a purpose or in a manner not authorized by the Legislature;
- (c) An expenditure was made for which there was no authority or which was not properly vouchered or certified; or
- (d) The rules and procedures applied were not sufficient:
  - i) to safeguard and control public money;
  - ii) to effectively check the assessment, collection and proper allocation of public money; or
  - iii) to ensure expenditures were made only as authorized

and any other comments which may be relevant in these matters.

## **OTHER DEPARTMENTS AND AGENCIES**

**102)** It is noted that the Provincial Auditor reported satisfactory resolution, in whole or in part, of issues relating to the following departments and agencies which did not appear before your Committee:

Agricultural Credit Corporation of Saskatchewan  
 Agricultural Development Corporation of Saskatchewan  
 Board of Internal Economy  
 CAMECO - Canadian Mining and Energy Corporation  
 Department of Consumer and Commercial Affairs  
 Department of Environment and Public Safety  
 Department of Health  
 Department of Highways and Transportation  
 Investment Corporation of Saskatchewan  
 Provincial Secretary  
 Saskatchewan Centre of the Arts  
 Saskatchewan Crop Insurance Corporation  
 Saskatchewan Forest Products Corporation



Teachers' Superannuation Commission  
The Saskatchewan Government Printing Company  
Western Development Museums

## **GOVERNMENT RESPONSE**

**103)** A response to this report from the Government is requested within 120 days.

**104)** Your Committee expresses its appreciation to the Officials from the departments and agencies who appeared before the Committee, and to Mr. John Kelly, Director of Public Sector Accounting, Canadian Institute of Chartered Accountants who made a presentation to your Committee.

**105)** Your Committee also is thankful to the Provincial Auditor and his staff and to the Provincial Comptroller and his staff for their assistance. Your Committee wishes to thank the Clerk of the Committee and the Legislative Assembly staff for their work on behalf of the Committee

Respectfully submitted

Rick Swenson, MLA  
Chairman

## **Concurrence**

That the First Report of the Standing Committee on Public Accounts be now concurred in.  
(*Mr. Swenson — Debate, agreed May 25, 1992*)