

**Special Report to the
Lieutenant Governor in Council**

**Regarding
Métis Addictions Council of
Saskatchewan Inc.**

October 2004



Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Telephone: (306) 787-6398
Fax: (306) 787-6383

E-mail: info@auditor.sk.ca
Web site: <http://www.auditor.sk.ca/>

Our vision

We envision effective, open, and accountable government.

Our mission

We serve the people of Saskatchewan through the Legislative Assembly by fostering excellence in public sector management and accountability.



SASKATCHEWAN

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Phone: (306) 787-6366
Fax: (306) 787-6383
Internet e-mail: fwendel@auditor.sk.ca

October 15, 2004

Her Honour
The Honourable Dr. Lynda M. Haverstock, S.O.M.
Lieutenant Governor of Saskatchewan
Government House
4607 Dewdney Avenue
REGINA, SK S4P 3V7

Your Honour:

I have the honour to submit herewith my report on the special assignment requested by Order in Council 111/2004.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Fred Wendel".

Fred Wendel, CMA, CA
Provincial Auditor

MH/dd

Métis Addictions Council of Saskatchewan Inc.

Main points.....	1
Introduction	3
Background.....	3
Our audit objectives.....	4
Our audit conclusions and findings.....	4
MACSI special assignment—findings	6
Lack of control by Board of Directors.....	6
Board performing management functions without adequate oversight.....	9
Payments made for building repairs and renovations not done	10
Payments to board members	11
Vehicle costs.....	12
Board Chair	12
CVA leased vehicles.....	13
Leased truck for Board Chair	14
Mileage allowance claims	14
Credit cards.....	15
Other payments without proper authority.....	16
MACSI continues to provide needed services	16
Department’s supervisory controls need strengthening.....	17
Department’s oversight processes need strengthening	17
Annual service agreements need strengthening	17
Corrective actions not always adequate	21
Appendix 1 – Order in Council 111/2004	24
Appendix 2 – Schedule of Revenue and Expenses for Addictions Services	28

This page left blank intentionally.

Main points

The Métis Addictions Council of Saskatchewan Inc. (MACSI) provides addictions services on behalf of Saskatchewan Health (Department).

In March 2004, Cabinet asked our Office to do a special assignment to determine whether:

- a. money paid to MACSI by the Minister of Health during the period April 1, 1998 to February 18, 2004 has been used appropriately, fully accounted for, and properly disposed of in accordance with the terms and conditions of the funding agreements; and
- b. MACSI maintained essential records and rules and procedures to appropriately safeguard and control the money it received from the Minister of Health.

During this period, we also assessed whether the Department used sound oversight processes to ensure that MACSI properly protected public money and spent it prudently and for intended purposes. We also considered if the Department took prompt and appropriate action to remedy any significant problems it knew, or should have known, about MACSI's operations.

We found that money paid to MACSI by the Minister of Health during the period June 2001 to February 18, 2004 was not used appropriately, was not fully accounted for, and was not properly disposed of in accordance with the terms and conditions of the funding agreements. For the period April 1, 1998 to May 2001, we did not find inappropriate use of public money by MACSI or instances where MACSI did not fully account for or properly dispose of money received from the Minister of Health.

MACSI did not maintain essential records and rules and procedures to appropriately safeguard and control the money it received from the Minister of Health during the period April 1, 1998 to February 18, 2004.

In June 2001, the newly appointed Board took cheque-signing authority away from management and gave it to the Board Chair and the three other executive board members (Executive Committee). In August 2001, the new Board gave the Executive Committee the authority to perform

management duties. From then until February 18, 2004 (i.e., date the Department replaced the Board) the Members of the Executive Committee spent public money inappropriately and imprudently. For example, they spent a lot of money for goods and services not received by MACSI.

We found that the Department's oversight processes were not adequate to ensure that MACSI properly protected all public money and spent it prudently and for intended purposes. The Department needs to strengthen its processes to keep informed on MACSI's operations and any significant problems at MACSI. In recent months, the Department has improved its processes to oversee MACSI.

The Department took prompt and appropriate action to remedy the problems it knew about MACSI's operations for the period April 1, 2003 to February 18, 2004 including replacing MACSI's board of directors.

The Department did not always take prompt and appropriate action to remedy all significant problems it knew, or should have known, about MACSI's operations during the period April 1, 1998 to March 31, 2003. This has resulted in a deficiency or loss to the Crown through the misuse of money provided by the Department.

Our report contains many recommendations to strengthen governance practices at MACSI and improve the Department's supervision of MACSI.

We understand that MACSI's management and staff have continued to provide needed services in spite of the lack of governance and the misuse of public money described in this report. Department officials and independent additions experts told us that MACSI provides a valuable service for Métis and First Nations peoples.

Introduction

The Métis Addictions Council of Saskatchewan Inc. (MACSI) was established in 1969 (originally called the Native Alcoholism Council). MACSI provides alcohol and drug recovery, reintegration, and healing programs to about 1,300 clients annually. While MACSI's mission is to serve Métis and off-reserve Indian peoples, its services are available to all citizens of Saskatchewan. MACSI has treatment centres in Regina, Saskatoon, and Prince Albert. The treatment centres are referred to as the Regina House, Saskatoon House, and Prince Albert House.

MACSI also runs a Community Residential Facility (i.e., a halfway house) in Prince Albert for Correctional Service Canada. This service includes room and board, counselling, and supervision for offenders who are on day parole.

For the year ended March 31, 2004, MACSI received \$2.4 million from the Department of Health and \$0.3 million from the Government of Canada. Appendix 2, at the end of this report, shows MACSI's spending of the Department's money for the years ended March 31, 1999 to March 31, 2003 (the most current audited information available).

MACSI is incorporated under *The Non-profit Corporations Act, 1995*. MACSI is not a crown agency as defined in *The Provincial Auditor Act*, and accordingly is not subject to an audit by our Office. We have accepted a special assignment to audit MACSI as requested by Order in Council 111/2004 (see Appendix 1).

Background

During 2003, the Department received several complaints alleging harassment, unfair labour practices, and misuse of public money at MACSI. In June 2003, a Member of the Legislative Assembly asked the Minister of Health to explain the apparent misspending of public money and the mismanagement taking place at MACSI.

In response to these complaints, the Department reviewed the governance, finances, and operations of MACSI. The review revealed serious deficiencies in governance and financial control processes. The

review also indicated unauthorized transactions and apparent allegations of misuse of public money.

As described later in this report, on February 18, 2004, the Department replaced MACSI's board. In March 2004, the Department hired Kalesnikoff, Kingdon & Associates, a forensic accounting firm, to undertake a forensic audit for the period April 1, 1998 to February 18, 2004. The Department also asked Cabinet to request our Office to perform a special assignment as described below.

Our audit objectives

On March 3, 2004, Cabinet, through Order in Council 111/2004, asked our Office to undertake a special assignment to determine whether:

- a. money paid to MACSI by the Minister of Health during the period April 1, 1998 to February 18, 2004 has been used appropriately, fully accounted for, and properly disposed of in accordance with the terms and conditions of the funding agreements; and
- b. MACSI maintained essential records and rules and procedures to appropriately safeguard and control the money it received from the Minister of Health.

During this period, we also assessed whether the Department used sound oversight processes to ensure that MACSI properly protected public money and spent it prudently and for intended purposes. In addition, we determined whether the Department took prompt and appropriate action to remedy any significant problems it knew, or should have known, about MACSI's operations.

Our audit conclusions and findings

In performing the audit of MACSI, our Office worked with Kalesnikoff, Kingdon & Associates (KKA), forensic accountants, using the framework recommended in the *Report of the Task Force on Roles, Responsibilities and Duties of Auditors* (to view a copy of this report, see our web site at <http://www.auditor.sk.ca/rrd.html>).

KKA issued its forensic audit report to the Minister of Health on September 15, 2004. The Minister of Health announced publicly on September 1, 2004 that, based on KKA's preliminary report, the RCMP has started investigating the activities of MACSI.

In our Office's opinion:

- ◆ **The money paid to MACSI by the Minister of Health during the period June 2001 to February 18, 2004 was not used appropriately, was not fully accounted for, and was not properly disposed of in accordance with the terms and conditions of the funding agreements.**

For the period April 1, 1998 to May 2001, we did not find inappropriate use of public money by MACSI or instances where MACSI did not fully account for or properly dispose of money received from the Minister of Health.

- ◆ **MACSI did not maintain essential records and rules and procedures to appropriately safeguard and control the money it received from the Minister of Health during the period April 1, 1998 to February 18, 2004.**
- ◆ **The Department did not use sound oversight processes to ensure that MACSI properly protected all public money and spent it prudently and for the purposes for which it was provided during the period April 1, 1998 to February 18, 2004.**
- ◆ **The Department did not consistently take prompt and appropriate action to remedy significant problems it knew, or should have known, about MACSI's operations during the period April 1, 1998 to March 31, 2003.**
- ◆ **The Department took prompt and appropriate action to remedy the problems it knew about MACSI's operations during the period April 1, 2003 to February 18, 2004 including replacing the Board of Directors.**

We describe the results of our audit in two parts. The first part covers our special assignment for MACSI. The second part describes our audit of the Department's supervision of MACSI.

Part I – MACSI special assignment—findings

Lack of control by Board of Directors

The Métis Nation of Saskatchewan (MNS) owns and controls MACSI. During the period covered by our audit, a 17-member board of directors (Board), appointed by MNS, governed MACSI. The Chair of the Board was also the Minister of Health for MNS.

A sound system of control creates an environment where errors or fraud are either less likely to occur, or if they occur, are more likely to be detected. A board of directors is a critical element of control in managing the business of an organization. A board provides independent oversight on the conduct of business and monitors management's performance in achieving the organization's objectives. Through planning and overseeing business activities, a board reduces the risk of errors or fraud.

Agencies that receive public money have a special duty to spend that money with due care. MACSI's Board had inadequate processes to oversee MACSI. This lack of Board oversight allowed unauthorized, inappropriate, and imprudent spending to occur as described later.

MACSI's Board did not approve written policies setting out:

- ◆ the scope of the Board's authority and responsibilities;
- ◆ the scope of the chief executive officer's (i.e., executive director) authority and responsibilities;
- ◆ the board's directives to, or performance standards for, the executive director.

The Board did not have a long-term strategic plan or an annual business and financial plan for MACSI. As a result, the Board did not set direction for MACSI (i.e., goals, objectives) or decide how to assess management's progress in achieving the Board's objectives (i.e., performance measures and targets).

The Board did not set codes of conduct and conflict-of-interest policies for Board members and staff. Such policies help to ensure that the behaviour of Board members and staff is guided by the principles of integrity, objectivity, and accountability. Use of codes of conduct and conflict-of-interest policies may have reduced the misuse of public money described later in this report.

The Board did not provide training for its members to ensure they understood their roles and responsibilities and were effective in directing MACSI. In addition, the Board did not periodically assess its own performance.

The Board did not ensure management had adequate written rules and procedures so that it could adequately manage and control MACSI. Such rules and procedures provide for the orderly and efficient conduct of business and safeguard public money. They help to:

- ◆ ensure the board receives timely and reliable financial and operational reports for monitoring and decision-making;
- ◆ ensure adequate segregation of functions so no individual board member or staff can both initiate and authorize a transaction;
- ◆ ensure goods and services purchased are:
 - authorized and appropriate;
 - received and used for proper business purposes;
 - physically secured; and
 - based on fair and just prices; and
- ◆ reduce the risk of errors, fraud, breakdowns in control, and unauthorized transactions.

Effective boards of directors insure their agency against theft or fraud committed by staff who sign cheques and contracts on behalf of the agency (e.g., by bonding staff). The MACSI Board did not bond its directors and managers who it authorized to sign cheques and contracts. As a result, MACSI may not be able to recover the misspent public money described later in this report.

As we describe later, the lack of effective governance at MACSI resulted in the misuse of public money.

- 1. We recommend that the Board of Directors of the Métis Addictions Council of Saskatchewan Inc. (Board) clearly define the scope of its authority and responsibilities.**
- 2. We recommend that the Board define the authority and responsibilities of, and performance standards for, senior management.**
- 3. We recommend that the Board establish a long-term strategic plan and annual business and financial plans for the Métis Addictions Council of Saskatchewan Inc.**
- 4. We recommend that the Board approve a code of conduct and conflict-of-interest policies for board members and staff, and monitor compliance.**
- 5. We recommend that the Board provide governance training for its members.**
- 6. We recommend that the Board periodically assess its own performance.**
- 7. We recommend that the Board establish and approve written rules and procedures to safeguard public money. These rules and procedures should be designed to:**
 - ◆ ensure the board receives timely and reliable financial and operational reports for monitoring and decision-making;**
 - ◆ ensure adequate segregation of duties so that no individual board member or staff can both initiate and authorize a transaction;**
 - ◆ ensure goods and services purchased are:**
 - authorized and appropriate;**
 - received and used for proper business purposes;**
 - physically secured; and**
 - based on fair and just prices; and**
 - ◆ reduce the risk of errors, fraud, breakdowns in control and unauthorized transactions.**

8. We recommend that the Board ensure all signing officers are bonded (i.e., insured against theft or fraud).

We understand that since February 2004, the Department and MACSI's Board are working to strengthen the governance and management processes at MACSI to ensure public money is protected and spent only for intended purposes.

Board performing management functions without adequate oversight

The Board's Executive Committee consists of the Chair, Vice-Chair, Treasurer, and Secretary. In June 2001, the MNS appointed a new Chair and Vice-Chair, and the MACSI Board elected the new Treasurer and Secretary. At its meeting on June 15, 2001, the Board removed the cheque signing authority from the executive director and gave signing authority to its four Executive Committee members.

On August 27, 2001, the Board gave the Executive Committee "the authority to deal with personnel and staffing issues under the advisement of our lawyer and the board."

From June 2001 until February 18, 2004, the Executive Committee signed cheques and carried out management duties. During the year ended March 31, 2003, the Executive Committee members paid themselves \$76,000 for "contracted labour". Support for payments to the members indicated this work related to "executive director duties, union negotiations, administration, and staff recruiting." MACSI did not make contracts with the Executive Committee members for this work.

The Board's decision to authorize its Executive Committee to carry out management functions resulted in a lack of segregation of key functions, e.g., Board oversight and the approval of payments. MACSI was not able to provide us Board minutes or other evidence that the Board properly oversaw and approved the actions of the Executive Committee. This opened the door to the losses to the Crown that we describe below.

We did not find inappropriate or imprudent use of public money by MACSI prior to June 2001.

Payments made for building repairs and renovations not done

During the period December 2001 to February 2004, the Executive Committee paid \$321,000 to four contractors located in Saskatoon for renovations and repairs to MACSI's treatment centres.

As shown below, we estimate that \$132,000 of this money was spent and no repairs or renovations were done.

Renovations & repairs	Saskatoon House	Prince Albert House	Regina House	Total
Payments for work done	\$ 189,000	\$ 0	\$ 0	\$ 189,000
Payments for work apparently not done	80,000	42,000	10,000	132,000
Total payments	\$ 269,000	\$ 42,000	\$ 10,000	\$ 321,000

To determine the amount of work done, we inspected each House. We discussed the nature and extent of the work with current and former MACSI management and staff and the architect for the Saskatoon House renovations.

While the Board gave the Executive Committee the authority to sign cheques, there is no evidence that the Board approved any of the payments for renovations and repairs totalling \$321,000. There is no evidence that the Executive Committee asked for proposals (i.e., tenders) for any of the work to ensure it received the right goods and services at a reasonable price. MACSI did not make contracts with any of the contractors to document what MACSI was purchasing or for how much.

We estimate that three of the contractors (paid a total of \$143,000) did few actual renovations. We also think it was inappropriate for the Executive Committee to deal with contractors that are not lawful businesses. That is, the three contractors operate in the “underground economy”. They are not registered as businesses in Saskatchewan, even though they have business-like names. The City of Saskatoon has not issued business licenses for these contractors. They are also not registered with Canada Revenue Agency (CRA) for the collection and remittance of Goods and Services Taxes (GST). No telephone listings exist now or at the time of payment for these suppliers. The Executive

Committee made out all cheques in the names of three individuals, not the business names.

The Board Chair appears to be associated with one of the above three “businesses” (total payments of \$7,750) because MACSI made out the cheques totalling \$7,750, in the Chair’s name, for work not done.

MACSI spent \$269,000 on renovations to the Saskatoon House. Our discussions with the architect and a visit to the Saskatoon House indicate that only about \$189,000 of renovations were actually done. A fourth contractor, paid \$181,000, did over 95% of the renovations actually done at the Saskatoon House. This contractor has a business license from the City of Saskatoon. The \$80,000 paid for work not done was paid to two of the three contractors described earlier.

Payments to board members

The following exhibit shows the total payments to board members during the 4 years ended March 31, 2004. The payments include contractual services, honorariums, and reimbursements for travel expenses.

	2001	2002	2003	2004	Total
Chair	\$ 0	\$ 36,453	\$ 61,495	\$ 64,110	\$ 162,087
Vice-chair	0	22,152	20,429	18,620	61,202
Secretary	1,602	16,981	21,397	22,527	62,507
Treasurer	3,286	14,605	24,534	31,993	74,417
Other members	43,350*	18,139	31,859	47,511	140,859
Total	\$ 48,238	\$ 108,330	\$ 159,714	\$ 184,790	\$ 501,072

(* Includes payments to former executive committee members)

Unlike the financial statements of many health agencies, MACSI's financial statements do not show Board expenses. Instead, MACSI grouped its Board expenses with travel and sustenance expense.

MACSI could not show us evidence that the Board approved contractual services paid to the four Executive Committee members for the year ended March 31, 2004 (total of \$76,000). MACSI did not make agreements with these Board members for the work purportedly done.

Métis Additions Council of Saskatchewan Inc.

MACSI did not take deductions from these payments for employment insurance, Canada Pension Plan, or income tax. MACSI has not received a ruling from the Canada Revenue Agency (CRA) to determine if an employer-employee relationship exists between MACSI and these Board members. If the CRA rules that such a relationship exists, then MACSI may be subject to penalties and retroactive contributions to CRA.

MACSI's Board expenses are excessive. We compared MACSI's Board expenses to other agencies that spend public money for the year ended March 31, 2004. We provide the comparison below.

Agency	Board expenses	Total revenue	%
MACSI	\$ 185,000*	\$ 2,700,000	6.9
St. Louis Alcoholism Rehabilitation Centre	6,000	800,000	0.7
Saskatchewan Cancer Agency	51,000	53,000,000	0.1
Sunrise Regional Health Authority	64,000	132,000,000	0.05

(*does not include MACSI's payments for hotel rooms)

Vehicle costs

Board Chair

As described later, the vehicle costs incurred by the Board Chair increased dramatically after April 1, 2002. We show the vehicle costs for the Board Chair for the years ended March 31, 2003 and 2004.

Year ended March 31	2003		2004	
	kms	cost (\$)	kms	cost (\$)
Board Chair				
CVA Vehicle	57,774	\$ 18,953	63,897	\$ 21,072
Leased Dodge Ram Truck			31,000	10,566*
Mileage Allowances Claimed	43,199	15,489	54,753	20,798
Total	100,973	\$ 34,140	149,650	\$ 52,436

(* cost does not include fuel & maintenance paid by MACSI)

If the Chair travelled every day of the year, he would have needed to drive an average of 410 kms each day to accumulate the 149,650 kms driven for the year ended March 31, 2004. For 2003, the average would

be 277 km per day for 365 days. Given the Chair's duties, this amount of business travel for MACSI seems unlikely.

CVA leased vehicles

In recent years, MACSI leased five vehicles from the Saskatchewan Property Management Corporation – Central Vehicle Agency (CVA).

As shown above, MACSI assigned one CVA vehicle to the Board Chair and another to the Board Secretary. Two of the leased vehicles are vans that the Saskatoon and Regina Houses use to transport clients.

MACSI assigned the fifth vehicle to a full-time employee of the Métis Employment and Training of Saskatchewan Inc. (METSI). METSI provides job training for Métis persons and wage subsidies to employers. METSI is an affiliate of the Métis Nation of Saskatchewan. MACSI could not show us a business reason for assigning one of its vehicles to an employee of another agency.

The METSI employee retained the CVA vehicle from June 13, 2002 to February 23, 2004 for a total cost to MACSI of \$14,922.

CVA paid all costs for the five vehicles including fuel, maintenance, and repairs, then billed MACSI rental for the vehicles on a monthly basis.

MACSI's spending for CVA vehicle rentals more than tripled since 2002. Total spending for years ended March 31:

2002	\$ 23,000
2003	\$ 61,000
2004	\$ 77,000

These costs do not include the cost of renting and operating a truck for the Board Chair or the mileage reimbursement claims by the Chair and Board Secretary described later.

MACSI could not show us a business case for its leasing of the five vehicles. Leasing incurs a fixed monthly charge that may be excessive and can be avoided by using pooled CVA vehicles or by reimbursing staff for using their own vehicles.

Leased truck for Board Chair

In October 2003, MACSI leased a 2004 Dodge Ram truck for the Board Chair. MACSI paid \$684 a month for the truck plus a down payment of \$5,261. MACSI installed a box liner on the truck for \$1,201 and replaced the windshield for \$571.

For the next six months, the Chair drove the truck 31,000 kilometres (kms). The Chair continued to retain his assigned CVA vehicle as well as using CVA pool vehicles on some occasions.

In addition to the costs of leasing vehicles, the Chair submitted expense claims for mileage allowance to MACSI as if he owned the two MACSI vehicles he drove, as described below.

Mileage allowance claims

MACSI, like many publicly-funded agencies, pays its staff a mileage allowance for driving their own personal vehicles for the agencies' business purposes. The mileage rate MACSI pays is similar to the rates paid by government agencies.

As described earlier, the Board Chair and Secretary had corporate vehicles for their full-time use. Beginning in the year ended March 31, 2003, MACSI also started to pay them a mileage allowance as if they drove their own vehicles for business purposes.

For the years ended March 31, 2003 and 2004, MACSI paid mileage claimed by Executive Board members as follows:

Year ended March 31	2003	2004
Chair - Mileage claimed	43,199 kms	54,753 kms
- cost	\$ 15,489	\$ 20,798
Secretary - Mileage claimed	9,388 kms	11,914 kms
- cost	\$ 3,505	\$ 4,675

Credit cards

In August 2002, the Board Chair obtained two corporate credit cards in his name. MACSI already had a corporate credit card in the name of one of its accounting clerks.

MACSI paid the full balance on the credit cards each month. Prior to August 2002, all charges to the credit card were supported by invoices and were for proper business purposes.

From August 2002 to February 2004, the Chair increasingly used the credit cards. The Chair often did not provide MACSI with supporting invoices for the credit card charges. The accounting clerk's use of the credit card remained consistent throughout this period.

We show the total credit card use by the Chair and accounting clerk below for the years ended March 31:

2002	\$ 3,988
2003	\$ 8,532
2004	\$46,537

The Chair took the following cash advances on credit cards without supporting documentation for the years ended March 31:

2002	\$ 150
2003	\$ 2,621
2004	\$14,884

Charges to credit cards for meals for the years ended March 31:

2002	\$ 545
2003	\$ 1,324
2004	\$ 7,533

In addition to cash advances and meals, between April 1, 2003 and February 18, 2004, the Chair purchased personal items on the credit cards for a total of \$7,545 as shown below. These items do not appear relevant to MACSI's business. In addition, MACSI was unable to show us the items.

Personal items purchased include:

- sofa/loveseat - \$1,450

- picture windows - \$298
- gym set - \$560
- accommodation/meals/boat rental at North Haven Lodge - \$939
- car battery/labour - \$215
- three portable air conditioners - \$853
- veterinary services for two animals - \$663
- mechanical repairs at Chair's residence - \$149
- lumber (delivered to Chair's residence) - \$499
- Kodak DX3600 Digital camera - \$655
- cash advance at a Casino - \$314
- garden tractor with mower and rototiller - \$950

Other payments without proper authority

MACSI agreed in writing to pay a consulting firm \$18,000 to prepare a proposal to request a grant from the Federal Government. MACSI could not provide us written evidence to show how much money it was seeking from the Federal Government or the purpose of the money. MACSI paid the consulting firm \$13,500 and paid the Board Chair \$4,500.

9. **We recommend that the Department work with MACSI to determine the amount that the former executive committee members of the board of directors owe MASCI and try to recover the money.**

MACSI continues to provide needed services

We understand that MACSI's management and staff have continued to provide needed services in spite of the lack of governance and the mismanagement of public money described in this report. Department officials and independent addictions experts told us that MACSI's staff continue to provide a valuable service for people with addictions.

Part II – Department’s supervisory controls need strengthening

This part of our report describes our audit of the Department’s supervision of MACSI.

As described earlier, the second objective of our audit was to determine whether for the period April 1, 1998 to February 18, 2004, the Department used sound oversight processes to ensure that MACSI properly protected public money and spent it prudently and for intended purposes. In addition, we examined if the Department took prompt and appropriate action to remedy any significant problems it knew, or should have known, about MACSI’s operations during the above noted period.

Department’s oversight processes need strengthening

The Department needs to strengthen its oversight processes to ensure that community-based organizations (CBOs) such as MACSI properly protect public money and spend it prudently and for intended purposes.

We expected the Department to have processes to keep informed about the CBOs’ operations including any significant problems. The Department should base its processes on a risk assessment of each CBO. High risk CBOs require stronger supervision. For high risk CBOs, such as MACSI, the Department should do regular inspections of their operations and attend boards of directors’ meetings.

The Department makes agreements with all CBOs that provide services on its behalf. The Department uses these agreements to help it direct and supervise the agencies and to keep informed about any problems.

Next, we describe how the Department’s agreements with MACSI and other CBOs are not adequate for that purpose.

Annual service agreements need strengthening

The Department provides most of its services through health agencies such as regional health authorities and the Saskatchewan Cancer Foundation. The Department also uses many CBOs such as privately-

owned hospitals, special care homes, mental health agencies, and addictions agencies to deliver health services.

Twelve regional health authorities (Authorities) directly supervise and provide money to most of the CBOs. The Department directly supervises and provides \$12 million directly to 63 CBOs (including four CBOs that provide addictions services).

To achieve its objectives, the Department must ensure that all health agencies work towards the Department's objectives. To do this, the Department needs to supervise the performance of health agencies. The Department must also ensure that the Authorities adequately supervise the CBOs who provide services on the Authorities' behalf.

The Department makes annual service agreements with the Authorities. These agreements are adequate for the Department to supervise the Authorities' performance. The Authorities, in turn, make annual agreements with the CBOs they supervise. With very few exceptions, these agreements are adequate.

The Department makes annual agreements with the CBOs (including MACSI) that it directly supervises. The agreements authorize spending limits on specific kinds of expenses (e.g., salaries, purchased services) on a line-by-line basis. Appendix 2 shows the authorized spending limits (budget) for MACSI for the period April 1, 1998 to March 31, 2003.

The agreements with CBOs need improvement to ensure that the CBOs achieve the Department's objectives. The content of the agreements should be based on a risk assessment.

Adequate service agreements have the following key elements:

- ◆ set out clearly the Department's financial, operational, and compliance with the law objectives and the services the CBOs are to provide;
- ◆ require the CBOs to report periodically to the Department their assessments of the processes they have established to achieve the Department's objectives;

- ◆ require the CBOs to report to the Department periodically on their progress in achieving the Department's objectives;
- ◆ give the Department access to the CBOs' staff and records; and allow the Department, or require an independent auditor, to verify the CBOs' reports; and
- ◆ describe how the Department will provide money to the CBOs.

For CBOs managing small amounts of public money (e.g., less than \$250,000), the Department could have less stringent reporting requirements than those described above. For these CBOs, the Department could directly monitor and document their performance instead of requiring formal performance reports from these CBOs.

The Department's agreements contained the key elements described above except they did not:

- ◆ set out the Department's operating objectives or performance measures; and
- ◆ require audited reports on the CBOs' processes to safeguard public resources, compliance with the law, or progress in achieving the Department's operating objectives.

The Department's most recent agreement with MACSI contains the above key elements.

The Department received annual audited financial statements each year from MACSI during the period of our audit. The auditors' reports provide assurance that MACSI's financial statements are reliable. The audited financial statements show a comparison of actual expenses to expenses authorized by the Department.

The Department did not do a risk assessment on CBOs to determine which CBOs it should monitor more closely. As a result, it had not determined that MACSI needed close supervision. The Department regularly visited MACSI, but did not regularly inspect or evaluate MACSI's programs. In addition, the Department did not attend the board of directors' (Board) meetings. Attending MACSI's Board meetings could

have helped the Department to understand the lack of governance processes and the potential for a loss to the Crown.

In recent years, the Department signed the service agreements with MACSI well after the fiscal year began (April 1). For the past three years, the Department signed the agreements at least five months after the year began. Finalizing agreements late reduces the Department's ability to adequately supervise MACSI and take prompt corrective action.

Without adequate processes to keep informed on all significant problems at MACSI, the Department did not know if MACSI was meeting the Department's financial, operational, and compliance with the law objectives during the period covered by our audit. In addition, the Department did not know if MACSI spent all of its public money prudently and only for the purposes intended by the Department.

Since February 18, 2004, the Department has improved its processes to keep informed of significant problems at MACSI and other CBOs. The Department has amended its standard template for making agreements with CBOs to include the key elements of effective service agreements described earlier.

In addition, the Department told us it is strengthening its processes to supervise CBOs and to take corrective action when required. We will report on these processes in a future report.

10. We recommend that the Department of Health strengthen its processes to keep informed about any significant problems at community-based organizations (CBOs). The processes should include:

- ◆ **doing a risk assessment on all CBOs to determine the nature and extent of processes needed to monitor each CBO's performance;**
- ◆ **identifying objectives and performance measures for each CBO;**
- ◆ **reviewing each CBO's performance reports routinely;**
- ◆ **carrying out regular on-site assessments of high risk CBOs; and**
- ◆ **attending board of director's meetings of high risk CBOs;**

11. **We recommend that the Department finalize the service agreements with CBOs before the Department's fiscal year begins (i.e., April 1).**

Corrective actions not always adequate

As described earlier, we examined whether the Department took prompt and appropriate action to remedy problems it became aware of from April 1, 1998 to February 18, 2004.

The Department took prompt and appropriate action to remedy problems it became aware of from April 1, 2003 to February 18, 2004.

However, the Department did not always take prompt and appropriate action to remedy concerns it became aware of regarding the operations of MACSI during the period April 1, 1998 to March 31, 2003. This appears to have resulted in a deficiency or loss to the Crown through the misuse of public money provided by the Department.

For the period April 1, 1996 to March 31, 2000, MACSI incurred annual losses totalling \$291,000. The losses resulted mainly from overspending on travel and sustenance (i.e., board of directors' expenses), and purchased services (i.e., contractors and consultants).

The Department told us that it met with MACSI management and the board on several occasions to express concern about this overspending. There is little written evidence (e.g., letters to MACSI) setting out the Department's concerns. The Department may have been more effective in getting MACSI to control its overspending if the Department had communicated in writing to MACSI the corrective action the Department required.

Instead of requiring MACSI to reduce its spending on directors' travel and purchased services, the Department, for the period April 1, 1999 to March 31, 2003, amended its service agreements to allow MACSI to use money previously planned for salaries for other purposes. This allowed MACSI to reduce the number of its employees significantly. For example, for the year ended March 31, 2003, MACSI spent \$312,000 less for salaries than initially expected in the Department's service agreements.

The Department could not show us a written analysis to explain the rationale for allowing MACSI to use public money meant for salaries for other purposes.

During 2003, the Department received numerous letters and calls regarding misuse of public money by the Board Chair and other Executive Committee members. In June 2003, a Member of the Legislative Assembly asked the Health Minister about apparent misappropriation of public money and the mismanagement taking place at MACSI.

The Department responded quickly to these concerns. On June 24, 2003, the Department decided, with MACSI's agreement, to do a thorough review of MACSI's governance, management, and financial processes, and programs. The Department started its review in September 2003 and completed it in January 2004.

The review revealed serious deficiencies in processes to safeguard public resources including governance controls and financial processes. The review also indicated many unauthorized transactions and apparent misuses of public money.

On February 18, 2004, the Minister of Health reached an agreement with the Métis Nation of Saskatchewan. The agreement:

- ◆ terminated the 17 member MACSI board of directors and replaced it with a four member board;
- ◆ appointed an interim executive director for MACSI for a maximum period of one year;
- ◆ required the new board to address the problems found by the Department's review and to hire a permanent executive director by September 1, 2004; and
- ◆ required the new board to undertake a forensic audit as its first order of business.

In March 2004, the Department hired a forensic accountant as described earlier. The Department also recommended to Cabinet that our Office conduct a special assignment as described earlier.

12. We recommend that the Department of Health improve its processes to remedy any significant problems at community-

based organizations (CBOs). These processes should include procedures to:

- ◆ clearly define the problem;
- ◆ provide options for corrective action;
- ◆ promptly inform the CBOs, in writing, of the problem and corrective action required;
- ◆ give the CBOs a deadline for fixing the problem; and
- ◆ set predetermined remedies if the CBO does not fix the problem promptly.

13. We recommend that the Department of Health ensure MACSI implements recommendations 1 – 8 of this report.

Appendix 1 – Order in Council 111/2004

03 March 2004

111/2004

TO THE HONOURABLE

THE LIEUTENANT GOVERNOR IN COUNCIL

The undersigned has the honour to report that:

1. *The Provincial Auditor Act* provides, in part, as follows:
“16(4) Where:
(a) the Lieutenant Governor in Council:
(i) requests the provincial auditor to perform a special assignment; and
(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and
(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;
the provincial auditor may perform the special assignment.”

2. Saskatchewan Health has asked the Provincial Auditor to examine the accounts and records of Saskatchewan Health relating to the contracting and funding practices with the Métis Addictions Council of Saskatchewan Inc. and to offer an opinion on whether Saskatchewan Health exercised appropriate controls and applied appropriate procedures to sufficiently safeguard and control the funds provided to the Métis Addictions Council of Saskatchewan Inc.

3. It is desirable and in the public interest that the Provincial Auditor perform a special assignment, pursuant to the terms of reference as set out in the attached schedule “A”, to determine whether the funding that the Métis Addictions Council of

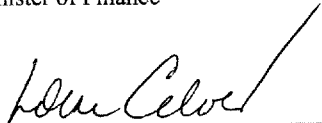
- 2 -

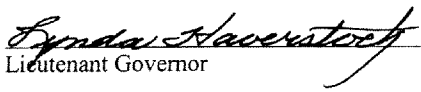
Saskatchewan Inc. received from the Government of Saskatchewan was used appropriately and for the purposes for which it was provided.

The undersigned has the honour, therefore, to recommend that Your Honour's Order do issue pursuant to section 16 of *The Provincial Auditor Act* requesting that the Provincial Auditor perform a special assignment, pursuant to the terms of reference as set out in the attached schedule "A", to determine whether the funding that the Métis Addictions Council of Saskatchewan Inc. received from the Government of Saskatchewan was used appropriately and for the purposes for which it was provided.

RECOMMENDED BY: 
Minister of Health

RECOMMENDED BY: 
Minister of Finance

APPROVED BY: 
President of Executive Council

ORDERED BY: 
Lieutenant Governor
REGINA, Saskatchewan

SCHEDULE "A" to OC 111/2004

**Schedule A
Terms of Reference
Provincial Auditor Special Assignment: MACSI**

In performing this special assignment the Provincial Auditor:

1. Shall investigate the administrative practices of MACSI to determine whether, in his opinion:
 - a. Money paid to MACSI by the Minister of Health during the period of April 1, 1998 to February 18, 2004 has been used appropriately, fully accounted for and properly disposed of in accordance with the terms and conditions of the funding agreements.
 - b. MACSI maintained essential records, rules and procedures to appropriately safeguard and control the money it received from the Minister of Health.
2. May rely on the work of an independent forensic auditor engaged by the Minister of Health and MACSI to perform a forensic audit of the books, accounts, records and activities of MACSI.
3. Shall provide advice, as required, to a Forensic Audit Reference Group that will provide oversight and guidance to the forensic audit process. The Reference Group will be composed of representatives from the Provincial Comptroller, MACSI and chaired by Saskatchewan Health. The Provincial Auditor will be invited to attend any and all meetings of the Reference Group.
4. Shall have access to working papers and documents that are collected by the independent forensic auditor during the course of the forensic audit.
5. Shall have the authority to conduct additional work on MACSI if, in his professional opinion, further review is required in addition to the forensic audit noted in Section 2.
6. May require and receive from Saskatchewan Health any information, reports and explanations that he considers necessary for the purposes of this special assignment.
7. Shall submit his report on this special assignment as soon as practicable to the Lieutenant Governor in Council as required by Subsection 16(5) of *The Provincial Auditor Act*.

Appendix 2 Schedule of Revenue and Expenses for Addictions Services Years Ended March 31, 1999 to 2003

	1999		2000		2001		2002		2003	
	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Revenue										
Grants - Sask. Health	2,022,274	2,022,290	2,072,604	2,072,626	2,111,865	2,111,865	2,240,094	2,236,123	2,334,738	2,334,738
Transfers from Deferred Revenue	50,131	-	35,000	-	20,000	-	-	-	-	-
Miscellaneous	9,250	-	46,428	-	88,519	-	53,704	-	36,273	-
	<u>2,081,655</u>	<u>2,022,290</u>	<u>2,154,032</u>	<u>2,072,626</u>	<u>2,220,384</u>	<u>2,111,865</u>	<u>2,293,798</u>	<u>2,236,123</u>	<u>2,371,011</u>	<u>2,334,738</u>
Expenditures										
Amortization	17,027	-	17,714	-	18,359	-	14,127	-	14,828	-
Building Occupancy	181,803	173,070	189,520	180,802	189,177	182,611	197,166	186,263	209,699	189,997
Food Supplies	90,530	76,000	91,867	79,123	68,867	79,916	70,693	81,513	59,058	83,142
Housekeeping	22,906	17,200	23,481	18,044	24,508	18,224	26,541	18,588	27,798	18,959
Legal Settlement	-	-	-	-	57,140	-	21,250	-	30,000	-
Medical Supplies	3,800	3,550	3,540	3,685	3,880	3,722	6,355	3,796	7,007	3,872
Miscellaneous	22,643	22,597	13,455	13,809	1,288	13,948	18,348	14,228	11,035	14,513
Office Supplies	57,863	45,150	52,944	46,755	45,503	47,224	51,653	48,167	62,690	49,130
Promotion/publ./donations	16,926	-	18,876	-	1,587	-	17,263	-	23,538	-
Purchased services	62,420	13,500	127,794	16,094	51,871	16,253	85,636	16,579	107,805	16,911
Recreation/education	5,314	67,600	8,192	69,879	4,871	70,576	5,349	71,988	4,260	73,427
Salaries and staff benefits	1,515,673	1,520,163	1,551,441	1,556,549	1,491,665	1,590,624	1,455,534	1,704,459	1,480,459	1,792,434
Staff recruiting/education	35,609	12,000	4,905	12,417	2,861	12,542	34,864	12,793	27,741	13,049
Travel and sustenance	171,438	71,460	147,936	75,469	110,418	76,225	132,053	77,749	216,202	79,304
	<u>2,203,952</u>	<u>2,022,290</u>	<u>2,251,665</u>	<u>2,072,626</u>	<u>2,071,995</u>	<u>2,111,865</u>	<u>2,136,822</u>	<u>2,236,123</u>	<u>2,282,120</u>	<u>2,334,738</u>
Excess of Revenues over Expenditures	<u>(122,297)</u>	<u>-</u>	<u>(97,633)</u>	<u>-</u>	<u>148,389</u>	<u>-</u>	<u>156,976</u>	<u>-</u>	<u>88,891</u>	<u>-</u>

Source: Annual audited financial statements for the Métis Addictions Council of Saskatchewan Inc.