

Financial Controls Review

3.08

The mandate of the Ministry of Natural Resources is to achieve the sustainable development of the province's natural resources, including the development of the economies and communities that depend on these resources. The Ministry's goals are to ensure the long-term health of ecosystems by conserving soil, aquatic, forest and wildlife resources. It is also responsible for the protection of people and property from the threat of forest fires, floods and soil erosion.

To accomplish these goals, the Ministry spent \$521 million during the 1997/98 fiscal year, and collected \$448 million in revenue. Expenditures consisted of \$252 million for staff salaries and benefits and \$269 million for other expenditures which included primarily the purchase of supplies, services and equipment.

OBJECTIVES AND SCOPE OF REVIEW

The objectives of our review were to assess the adequacy of the Ministry's financial controls, systems and procedures for ensuring that:

- expenditures were properly authorized, processed and recorded; and
- revenues were properly billed, collected and recorded.

The criteria used to assess the financial controls were discussed with and agreed to by ministry management. These criteria provided a framework for our review of the Ministry's controls, systems and procedures.

Our review was performed in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

The scope of our review, which was substantially completed in April 1998, included an examination and analysis of documentation and discussions with ministry staff at head office in Peterborough as well as with staff at regional and district offices. We also reviewed plans and reports issued by the Ministry's Audit and Evaluation Section and, where relevant, we relied on the work ministry audit staff had performed.

OVERALL REVIEW CONCLUSIONS

We found a number of significant weaknesses in the Ministry's financial controls, systems and procedures. Controls were not sufficient to ensure that expenditures were properly authorized,

processed and recorded. As well, financial controls over water power fees were weak but the controls over the billing, collection and recording of other revenue were adequate, although we found some weaknesses which needed to be addressed. Specifically, we noted:

- Controls over the \$9.5 million spent annually through the Ministry's accountable advance account were weak, thus permitting errors and irregularities to occur and go undetected. At the time of our review, some \$1.3 million of errors related to prior years' expenditures had to be expensed and further investigation by the Ministry is necessary to fully ascertain the nature of these errors. Also, advances to employees amounting to \$800,000 as of March 1998 had not adequately been reviewed or followed up for collection for several years and could now be difficult to collect.
- Weak controls over payroll permitted employees to be paid when they did not work and to be paid incorrect termination amounts.
- The risk of errors and irregularities in \$269 million of other expenditures was high due to inadequate segregation of duties, poor supervisory controls and deficient payment processing controls.
- Procedures were required to ensure that policies for competitive tendering were followed.
- Improvements were required over the billing and collection of revenue including procedures to ensure that all water power fees are billed and collected.
- The eligibility of expenditures paid out of the Forest Renewal Trust required clarification so that only properly supported payments are made.
- Many of the concerns raised in this report had previously been brought to management's attention through work performed by the Ministry's Audit and Evaluation Section. However, management had not fully addressed all of internal audit's concerns and had often not put the necessary controls in place to ensure that proper practices were followed.

Overall Ministry Response

The Ministry will continue to strengthen its internal financial controls.

The process of improving financial controls began with the migration to a new integrated financial system in 1993 and continues presently with migration of our revenue systems.

Coincident with the move to a new accounting system was a move from a "preventive" control environment to a more "detective" environment in order to reflect the new capacities of the system.

At the same time, the Ministry has re-engineered its organizational structure, introduced new accounting practices and initiated extensive staff communication and training concerning accounting procedures and controls.

We will accelerate our efforts in this direction.

DETAILED REVIEW OBSERVATIONS

ACCOUNTABLE ADVANCE ACCOUNT

The majority of the Ministry's expenditures are paid through government corporate systems operated by Management Board Secretariat (payroll) and the Ministry of Finance (other expenditures). These payments are made as instructed by the Ministry, and the Ministry retains responsibility for them. The Ministry of Finance advances funds to the Ministry which are deposited in a bank account under the Ministry's name. This account is termed the accountable advance account.

The accountable advance account is used to pay for expenditures which cannot proceed through the normal systems due primarily to a need for expediency. The Ministry uses the account for payments such as salary advances for new employees, wages for temporary emergency firefighters, employee travel expenses and petty cash fund reimbursements.

For the 1997/98 fiscal year, approximately \$9.5 million of payments were processed through the accountable advance account. These payments included both payroll and other expenditures. As of March 31, 1998, the Ministry had a current advance amount of \$4 million owing to the Ministry of Finance.

ACCOUNT RECONCILIATIONS

An operating agreement between the Ministry of Natural Resources and the Ministry of Finance concerning the accountable advance account was entered into in the spring of 1993. The purpose of this agreement was to provide the Ministry of Finance with assurance that any funds advanced were properly accounted for and managed. However, we noted the Ministry had been non-compliant with the terms of this agreement.

For example, the agreement specifies that the Ministry will not only reconcile the account monthly to its internal accounting records but will also designate a person to review the reconciliations quarterly and forward a statement of compliance to the Ministry of Finance. However, since the account had not been reconciled in over five years, the statements sent to the Ministry of Finance did not constitute statements of compliance and did not provide any assurance that the account had been reconciled or reviewed. As of March 1998, the most recent reconciliation had been prepared in February 1993, even though the Ministry's Internal Audit section had brought this weakness to management's attention in March 1994.

Furthermore, the accountable advance amount as recorded in the ministry records was inaccurate, and the records had not been regularly updated for all payments into and out of the account. Without timely reconciliations, the Ministry did not have assurance that all transactions were appropriate and promptly and accurately accounted for. Consequently, any errors or irregularities were likely to have gone undetected.

We informed the Ministry of our concerns and, in May 1998, the Ministry informed us that it had reconciled the account to the amount advanced from the Ministry of Finance. This reconciliation revealed a \$1.3 million net error. According to the Ministry, that amount pertained to a number of errors such as cheques written and not recorded on tally sheets, adding errors, incorrect adjustments, and cheques that were written, cashed and recorded, but for which the Ministry had not requested reimbursement from the Ministry of Finance. We were informed

3.08

that in order to clear the amount, the Ministry would have to expense this \$1.3 million. Further investigation by the Ministry is necessary to determine the nature of these errors and that the amount represents all the errors that were made.

Recommendation

To ensure that all payments made through the accountable advance account over the past five years were appropriate, the Ministry should fully reconcile the account and thoroughly investigate the \$1.3 million net error.

To ensure that subsequent records are properly maintained and that any errors or irregularities do not go undetected, the Ministry should:

- **reconcile its accountable advance account to its own records and to the records maintained by the Ministry of Finance on a monthly basis; and**
- **review the reconciliations before forwarding the required statements of compliance to the Ministry of Finance.**

Ministry Response

The Ministry will implement the recommendations in this audit.

In compliance with the Accountable Advance Operating Agreement with the Ministry of Finance, the Ministry has made significant improvements to its financial information tools and achieved a 75% reduction in its outstanding advances (\$2.5 million to \$645,000). Additionally, the Ministry centralized payments for utilities, office equipment, telephones, travel claims and the purchasing card.

Following completion of these activities, the Ministry completed an internal reconciliation of the account for March 1998. Virtually all of the \$1.3 million variance was associated with a brief period late in the 1996/97 fiscal year when the Ministry was totally dependent on manual processes to maintain its core businesses. The Ministry has approved a strategy to rectify this error and appropriately disburse the expenditures.

The Ministry now reconciles the account monthly and will report to Treasury on a regular basis.

SEGREGATION OF DUTIES

One of the most fundamental elements of good internal controls is a proper segregation of key functions so that no employee or group is in a position to perpetrate and conceal errors or irregularities in the normal course of their duties. However, we found no effective segregation of duties regarding the accountable advance account. For example, an employee at head office could authorize transactions on the computerized expenditure system, maintained the blank

3.08

cheques, ordered supplies of blank cheques, had access to the cheque signature stamp, maintained the numerical continuity of used and unused cheques, and could access the payroll sub-system to make changes to employees' addresses or cheque pick-up locations. This same employee was also responsible for reviewing the bank account statements and returned cheques, updating the records for employee advances, and making journal entries on the financial system.

For expenditures processed through the accountable advance account, only one person was needed to enter transaction information into the financial system and process a payment. The lack of a second person to review and authorize the transaction increases the risk that errors and irregularities could go undetected. Currently, more than 50 ministry organizational units across Ontario process transactions and issue cheques on the accountable advance account. Given the lack of segregation of duties at head office and similar concerns expressed by Internal Audit staff regarding other organizational units, control weaknesses may be present throughout the Ministry. Consequently, we consider controls over the millions of dollars flowing out of the account to be extremely weak.

Recommendation

To ensure that employees cannot perpetrate and conceal errors or irregularities in the accountable advance account, the Ministry should ensure that, at all office locations, appropriate internal controls are in place including a proper segregation of key financial functions.

Ministry Response

The Ministry will implement the recommendations in the audit and will immediately increase the separation of processing and corporate responsibilities in head office. The Ministry will review and ensure appropriate separation of duties in all office locations.

CHEQUE SIGNING CONTROLS

Cheque signing controls at the Ministry's head office were weak because the stamp with the required dual signatures which is used to sign cheques is kept in an unlocked drawer during business hours. Staff who prepare and process cheques also have access to and custody of the signature stamp. Dual signatures are intended to ensure that no one individual is in a position to perpetrate and conceal errors or irregularities in the normal course of duties. The use of a signature stamp accessible to several individuals defeats the purpose of dual signing control. Moreover, Internal Audit staff expressed concern that some of the other 56 locations outside of head office also use signature stamps to sign cheques for the accountable advance account with a similar lack of control.

Also, authorized cheque signers should be separate from the staff who process and record cheques, and all cheques should be signed manually or by way of a machine which requires dual keys for its operation. The keys should also be under the control of staff who do not have other accountable advance functions.

Manual accountable advance cheques are used for rush payments when there is insufficient time to first process a transaction through the financial system. Instead the cheque is simply written or typed and the payment information is required to be subsequently entered into the financial system. Manual cheques therefore pose increased risks of errors and irregularities. Given the increased risk, the Ministry should consider alternatives to limit the number of manual cheques produced and subject manual cheques to increased scrutiny.

Recommendation

To enhance controls over accountable advance cheque processing and to ensure that no single individual can process cheques independently, the Ministry should:

- **discontinue the widespread use of signature stamps;**
- **process cheques using procedures such as dual manual signatures or a dual key automated system; and**
- **significantly strengthen controls over manual cheques.**

Ministry Response

The Ministry will implement the recommendations in the audit including additional controls on the use of manual cheques and the use of two independent signatures.

EMPLOYEE ADVANCES

The Ministry advances funds to employees for travel expenses, petty cash and miscellaneous purchases. With the introduction of corporate cards for miscellaneous expenses and corporate credit cards for employee travel, advances should be minimal. However, as of March 1998, ministry records showed approximately \$800,000 as owing from ministry employees. The Ministry subsequently reduced this amount to \$645,000 by month's end.

We found that many employee advances recorded on the Ministry's financial system had not been followed up for many years. We were informed that in some cases the outstanding amounts had been advanced as far back as 1993. Since employee advances had not been periodically confirmed, some employees might not be aware that the Ministry's records showed they owed these funds. Consequently, the Ministry could have difficulty collecting these outstanding employee advances.

Recommendation

In order to properly manage employee advances, the Ministry should:

- **limit employee advances to exceptional circumstances;**
- **follow up on all outstanding advances, inform employees of their outstanding debts and enforce prompt reimbursements; and**
- **implement procedures to monitor, periodically review and confirm all outstanding employee advances.**

3.08

Ministry Response

The Ministry will implement the recommendations in the report and will strengthen its efforts to limit employee advances and strengthen internal controls.

Over the past two years, the Ministry has significantly reduced its risk through managing its outstanding advances from \$2.5 million to \$645,000, including an 80% reduction in travel advances. Sixty percent of the remaining advances are “non-personal” advances issued to individuals for operational purposes such as cash floats in provincial parks and the Zimbabwe project.

The Ministry will initiate strengthened processes to further reduce and confirm outstanding advances.

PAYROLL EXPENDITURES

The Ministry employs about 3,000 full-time classified staff and a large number of seasonal employees, for example, 3,500 in August 1997. Staff salaries and benefits for the year ended March 31, 1998 were \$252 million. Although Management Board Secretariat is responsible for the government’s centralized corporate payroll system, the Ministry performs general payroll functions including the compilation and input of payroll information and the verification of payments. The Ministry is ultimately responsible for ensuring that the payroll is processed correctly.

We reviewed the procedures for the authorization, processing and recording of payroll and found that controls need to be improved. The following examples highlight some of the control weaknesses we observed:

- The Ministry did not ensure that all employee timesheets were submitted on a timely basis. Until timesheets are received, the Ministry’s attendance recording system can not be updated with regard to illness, extended leaves or other absences which would result in a reduction in pay. For example, an employee who had not submitted timesheets for over five years went on leave without pay in February 1998 and continued to be paid for four weeks.
- We reviewed the payroll for seasonal employees and found that resignations were not always promptly communicated to ministry payroll staff, and procedures were not in place to ensure that seasonal employees did not continue to be paid after they resigned. A seasonal employee in our sample had continued to be paid for three weeks after leaving the Ministry in August 1997. As of March 1998, the Ministry had not recovered the overpayment.
- We reviewed a number of termination payments and found insufficient controls in place to ensure that the required forms were used to calculate severance pay. For one employee in our sample who retired in June 1997, the appropriate forms had not been used and, consequently, the termination payment had not been checked or approved as required. We discovered that this employee had been overpaid more than \$3,000 for vacation pay and other benefits that had not been earned.

Recommendation

To ensure that employees are only paid what they are entitled to, the Ministry should review and implement procedures to improve payroll controls where they are inadequate, including the implementation of procedures to ensure that:

- **timesheets are reviewed, approved and submitted on a sufficiently timely basis and that seasonal workers are promptly removed from the payroll so that employees are paid only for attendance at work or legitimate absences; and**
- **termination payments are reviewed and approved as required.**

Ministry Response

The Ministry will implement the recommendations in the report and has already established a process to ensure timely submission of timesheets. Payroll staff will be more pro-active regarding documentation in support of termination payments and will continue to pursue reimbursement of infrequent overpayments noted.

OTHER EXPENDITURES

Other expenditures include payments for services including the engagement of consultants, supplies and equipment, and transfer payments such as grants to conservation authorities. The majority of cheques for such payments are produced by the Ministry of Finance but the Ministry is ultimately responsible for ensuring that payments are processed correctly. The Ministry's other expenditures for the 1997/98 fiscal year totalled \$269 million.

GENERAL EXPENDITURE CONTROLS

We reviewed procedures for the authorization, processing and recording of expenditures and found that controls were inadequate and needed to be improved. The following are some of the major weaknesses we observed:

- The evidence on file was insufficient to indicate the extent of verification that staff had performed or what procedures had been followed to determine whether payments were appropriate. For example, we found two payments for which holdbacks had not been deducted as required. Holdbacks are necessary to give the Ministry time to ensure that goods and services acquired from consultants or contractors are satisfactory.
- For a number of types of expenditures and journal entries, only one person's input of information into the financial system was needed to trigger payments for goods and services or to process a journal entry. In such cases, the input should be put in suspense, a supervisor should check that the supporting documentation has been reviewed and subsequently approve only appropriate transactions for processing.

3.08

- Purchase orders are one of the fundamental internal controls related to expenditure processing and are required by ministry policy. Properly completed purchase orders provide evidence that the required approvals were obtained for the goods ordered and provide details that can be matched to the goods received. However, we noted that invoices were often paid although purchase orders had not been issued as required by ministry policy.
- Ministry employees involved in payment processing are given a level of transaction authority on the financial system. This authority was intended to control and limit access to the system. However, we found that no formal mechanisms were in place to remove transaction authorities when staff changed positions. For example, an employee retained the authority to acknowledge the receipt of goods even though that employee was reassigned to approve the payment of invoices. A fundamental internal control is the assignment of these two functions to different staff, preferably in different departments.
- Internal Audit staff noted in an August 1995 report that administrative controls were weak, and the lack of controls made it difficult to identify irregularities.

Recommendation

To ensure that expenditures are processed accurately and that the risks of errors and irregularities are minimized, the Ministry should:

- **require procedures to verify that payment processing checks have been performed;**
- **require supervisory review and approval of input into the financial system prior to the processing of payments and journal entries, especially for higher dollar items and when purchase order controls are absent;**
- **improve controls over payments through the effective use of purchase orders; and**
- **implement procedures to promptly cancel transaction authorities when employees change positions.**

Ministry Response

The Ministry will implement the recommendations in the report.

The Provincial Auditor noted two Construction Lien Act holdbacks that had not been appropriately applied. The Ministry will review its processes to ensure all appropriate holdbacks are deducted.

The Ministry will strengthen procedures and requirements for supervisory review and approval prior to processing transactions not supported by a purchase order. In addition, we will reduce the frequency of such transactions.

The Ministry will initiate immediately a review to establish revised protocols for assignment of the various transaction authorities in our accounting system.

PROCUREMENT PRACTICES

To ensure a fair process and the best value for the funds expended, Management Board of Cabinet developed Directives to be followed for all acquisitions. In general, for purchases estimated to cost \$25,000 or more, a competitive tendering process is required. When costs are expected to be less than this amount, the Ministry must develop policies to ensure the receipt of the best value. Also, formal written agreements are required and the ceiling price must not be exceeded if the terms and conditions of the agreement remain unchanged.

We noted that the Ministry did not have procedures in place to ensure that the Directives' requirements regarding the acquisition of goods and services were met prior to processing payments. The required competitive tendering process was not used for one third of the consultant assignments we reviewed or for the procurement of leased computer equipment. Over the last two years, the Ministry had spent or committed to spend approximately \$66 million to lease this computer equipment. There were no documented waivers on file to justify or approve the departure from the required competitive process.

In addition, for expenditures under \$25,000, although ministry policies were in place, there was often no evidence that the Ministry had ensured that the best price was obtained. We also found that signed contracts were often not on file and the agreed-upon costs were exceeded, without documented justification, in over one quarter of the contracts reviewed.

Recommendation

To ensure a fair procurement process and the receipt of the best value, the Ministry should:

- **require that all payments be supported with evidence of compliance with the mandatory procurement policies; and**
- **monitor contracts to prevent payments from exceeding the agreed-upon price unless accompanied with proper justification and approval.**

Ministry Response

The Ministry will implement the recommendations in the audit and has initiated revised directions to ensure mandatory procurement policies are followed across the Ministry. We have already initiated additional staff training and will ensure more adequate documentation of evidence of compliance with policies.

A response to information technology procurement practices is contained in the Ministry's specific response to the Science and Information Resources Division audit.

TRAVEL EXPENSES AND PURCHASE CARDS

Ministry policy requires that employees submit receipts to verify that expenditures have been incurred for ministry business. Employees incur expenses when they travel on job-related

business, often using corporate credit cards, and when they purchase goods and supplies using corporate purchase cards. The Ministry either reimburses the employee for the expenses incurred or pays the corporate card companies directly when invoices are received.

We reviewed controls over employee travel expenses and purchase card payments and found that controls were inadequate. Specifically, receipts for travel claims and corporate card expenditures were not submitted. Moreover, managers did not always review receipts when they approved travel expenses and corporate card purchases. In June 1996, Internal Audit staff reported that without proper supporting documentation, there was no proof of the accuracy or validity of the amounts claimed.

3.08

Recommendation

The Ministry should ensure that requests for reimbursement of travel expenses and purchase card expenditures are adequately reviewed, approved and accompanied by proper supporting documentation.

Ministry Response

The Ministry will implement the recommendations in the audit.

Our existing policies require supporting documentation for all travel and purchasing card expenditures. We will strongly reinforce this across the Ministry.

The Ministry recently completed a comprehensive post-implementation review of the purchasing card, and, while there are geographic pockets where we are still experiencing problems, the level of non-compliance is not widespread. As a result of our review, we have distributed a document to all card holders and managers reminding them of their responsibilities.

REVENUE

The Ministry collected revenues of \$448 million during the 1997/98 fiscal year. The principal sources of revenue are timber stumpage and water power fees, and deposits into three Special Purpose Accounts (SPA) as follows:

Ministry Revenue for the 1997/98 Fiscal Year

Revenue Source	\$ Millions
Timber stumpage fees	178
Water power fees	126
Forest Renewal SPA	53
Fish and Wildlife SPA	37
Ontario Parks SPA	26
Other revenue	28
Total revenue	448

Source: Ministry of Natural Resources

In addition to collecting royalties, fees and SPA deposits, the Ministry is responsible for monitoring the performance of the trustee that administers two trust funds, the Forest Renewal Trust and the Forestry Futures Trust.

GENERAL REVENUE CONTROLS

We raised a number of concerns regarding the collection and recording of revenue during an audit of the Ministry in 1992. During the 1997/98 fiscal year, the Ministry implemented a new accounting system for a major portion of its revenue and plans to extend the implementation to the remainder of its revenue sources during the 1998/99 fiscal year. This new system and the centralization of revenue collection have significantly improved controls over revenue management. The financial controls over water power fees were weak but the controls over the billing, collection and recording of other revenue were adequate. However, we observed the following weaknesses:

- We noted that procedures did not ensure that all revenue received was promptly deposited and properly recorded. For example, upon receipt cheques should be stamped for Ministry deposit only and listed for subsequent reconciliation to the daily bank deposits.
- In our review of timber revenue, we noted that billings were slow as it often took almost six months from the time timber was harvested for the Ministry to issue an invoice for the applicable timber fees.
- We observed that in some cases cheques were made payable to a ministry employee. To help prevent the possibility of the misappropriation of government funds, the Ministry should instruct all payees to make cheques payable to the Minister of Finance.

Recommendation

To improve the management of revenue collection, the Ministry should:

- **ensure that revenue received is promptly deposited and properly recorded;**
- **ensure that timber fee invoices are prepared and sent on a timely basis;**
and
- **instruct all payees to make cheques payable to the Ministry of Finance.**

3.08

Ministry Response

The auditor notes the control improvements resulting from our recent efforts to move our revenue processes to state of the art technology, but that there is still room for improvement. The Ministry will implement the recommendations.

We will ensure prompt deposit and recording of all revenue. In future, all cheques will be stamped and recorded to facilitate reconciliation.

Delays in billing our timber licensees have been a major concern for some time. We have approached this issue from a number of fronts, including development of mass scaling protocols, electronic data transfer and moving the processing to the Oracle environment. Most recently, we have been piloting a self assessment process with our major licensees.

All our billing processes indicate payment should be made to the Minister of Finance, and the Ministry has already reinforced this requirement with the one supplier noted.

WATER POWER REVENUE

Legislation and a number of legal agreements stipulate when and at what rates power companies are required to pay fees to the province for water power generating stations. For the 1997/98 fiscal year, water power revenue was \$126 million. We reviewed the collection, processing and recording of water power revenue and found that procedures were inadequate to ensure that all revenue owed to the province was collected.

A number of recent initiatives have helped to improve internal controls over the collection of water power revenue. For example, over the past two years, \$2 million of under-billing errors from previous years had been identified and collected. However, we noted several areas where the Ministry needs to improve the management of water power revenue collection:

- A significant number of statutes, regulations and legal agreements govern water power fees. The Ministry needs to check that the rates charged to power companies are in accordance with the governing legislation and agreements. However, we found that receipts of water power revenue were not always checked to ensure compliance with the legislation and legal agreements. For example, the Ministry was unable to completely verify over \$40 million of annual water power fees for one major water system because all the related legal agreements were not on file. A clear summary of the basis for calculating all fees was not prepared and, therefore, was not available to verify the validity of revenue received.
- The Ministry did not have a comprehensive list of all water power generating stations for which payments were required. For example, the Ministry recently noted a generating station on a lease agreement that had not been billed for several years. The power company that owned the station was subsequently billed \$1 million for previous years' fees.

-
- The Ministry did not regularly verify water power revenues by verifying on site the accuracy of the information submitted by the power companies. In 1989 and again in 1994, the Ministry's Internal Audit section recommended that such verification procedures should be implemented.

Recommendation

In order to ensure the receipt of all the water power fees it is entitled to, the Ministry should:

- **establish procedures to bill and collect in accordance with legislation and the legal agreements; and**
- **periodically verify, at power company sites, that the information submitted is accurate.**

Ministry Response

The Ministry will implement the recommendations in the audit. While Corporate Services Division staff are involved in processing the related revenue, monitoring compliance with legislation and legal terms and conditions contained in agreements is conducted in the program area. We will ensure the related agreements and rate calculation methodologies have been retained in the program delivery area.

The Ministry is reviewing its data to ensure it has a comprehensive list of power stations for which water power payments are required. We have also reinforced the need to notify the Ministry when new production facilities come on stream.

We will continue to increase our level of internal integration in order to ensure adequate management of our relationships with the generating entities.

FORESTRY TRUST FUNDS

The Ministry is responsible for ensuring the proper administration of two trust funds, the Forest Renewal Trust and the Forestry Futures Trust. These trusts were established to manage the funding of silviculture expenses for Crown land that has been cut or damaged by fire or other natural causes. The trusts are administered by a trustee and are audited by a public accounting firm. The audited financial statements for the two trusts for the year ended March 31, 1997 reflected the following:

Forestry Trusts' Financial Summary
(as at March 31, 1997)

	Forest Renewal (\$ Millions)	Forestry Futures (\$ Millions)
Revenue	75.6	8.5
Expenditures	45.6	9.2
Fund increase (decrease)	30.0	(0.7)
Total Trust Assets	71.5	9.4

Source: Audited financial statements

3.08

We reviewed the audited financial statements and the accompanying management letter reports for the Forest Renewal Trust and the Forestry Futures Trust. For both trusts, the external auditor reported that the trust company did not have an adequate system for tracking receivables from timber companies. The auditor reported that in respect of the Forest Renewal Trust:

- the trust agreement was too unclear to allow for determinations of what constituted eligible expenditures to be paid from the trust; and
- the trust company had not complied with a trust agreement requirement when it paid invoices to timber companies prior to receiving the required reports from them.

Recommendation

The Ministry should ensure that action is taken on the weaknesses noted by the forestry trusts' auditor so that receivables systems are improved and only eligible and properly supported expenditures are paid.

Ministry Response

The Ministry will implement the recommendations in the audit.

From inception of the forestry trust arrangements, management of the trust funds has been the responsibility of an outside provider. We have been aware of problems with the receivables aspect of this service for some time, and have been working with the provider to try and improve the quality of documentation and record keeping. Unfortunately, we have been unsuccessful and are currently making arrangements to bring this function back within the Ministry.