

Annual Report of the Auditor General of Alberta

1998-99

Mr. Paul Langevin, MLA
Chair
Standing Committee on Legislative Offices

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 1999, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

This is my fifth annual report to the Legislative Assembly and the twenty-first such report issued by the Auditor General of Alberta.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
September 27, 1999

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Report For The Year Ended March 31, 1999**Purpose of Auditor General annual reports**

The purpose of the Annual Report of the Auditor General is to report on the scope and findings of the work carried out by the Office of the Auditor General. Resources are provided by the Legislative Assembly to identify and report on those instances in which systems and business practices can be improved.

The mission of my Office is to identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans. Our annual reports are designed to meet the expectation that we assist government and public agencies in improving their performance. Annual reports also serve to assist legislators, in particular the Public Accounts Committee, in their work to hold the executive accountable for the management of public resources.

Scope of work

The scope and extent of audit work completed for 1998-99 and recommended improvements for the specific financial and management control systems examined by my Office are described in section 2 of this report.

A new chapter, "Cross-Government", is presented in Section 2 this year. The title recognizes that much of our work and many of our recommendations relate to the government as a whole, and it is appropriate for the Report to speak to those who are responsible for Cross-government activities.

For every financial statement audited, I have issued an Auditor's Report. Section 3 contains information on those auditor's reports that contained reservations or reported a lack of compliance with legislation.

As a consequence of my work, I am satisfied that those transactions and activities examined in financial statement audits performed by my Office complied, in all significant respects, with relevant legislative authorities, apart from the instances of non-compliance described in this report. However, I must caution readers that it would be inappropriate to draw a legislative compliance conclusion about matters not examined by my Office.

Recommendations

Recommendations are provided for the benefit of Public Accounts Committee members, Ministers, other MLAs, the public, and management. When determining whether a matter is significant enough to bring to their attention, I consider the nature and materiality of the matter relative to the individual entity and to the government as a whole.

This report contains 83 recommendations. Of these, the 50 recommendations that I consider particularly important and therefore warrant a formal government response are numbered. Of the 50 numbered recommendations, 28 are new recommendations. The other 22 are designed to maintain focus on previously made recommendations that have not yet been fully implemented. An Appendix, Status Report of Recommendations, contains information on previous recommendations.

Improving The Financial Administration Of The Province

The purpose of this introductory section of the report is to provide a summary of the numbered recommendations, and to identify for the Assembly other matters of importance.

In essence, the Province's accountability model states that to be successful, all those who use public resources should:

1. Set measurable goals, and responsibilities
2. Plan what needs to be done to achieve goals
3. Do the work and monitor progress
4. Report on results
5. Evaluate results and provide feedback

These responsibilities, which can be viewed collectively as an accountability framework, are met by employing systems to manage, control and measure the performance of the Province. The process that extracts the potential benefits of the accountability framework is governance.

I continue to analyze my recommendations in relation to this accountability framework in order to stress that it is fundamental to improving performance. The analysis itself shows the government and its managers where they have further to go in the areas of planning what needs to be done; doing the work; and on the conclusion of the work, reporting on results.

Planning what needs to be done to achieve goals

Twenty of my numbered recommendations are designed to assist managers by having them focus on developing the processes for business planning and performance measurement. This effort includes developing comprehensive, timely business plans, and establishing the performance measures that will be used in reporting their results, as well as the performance measures that they will use in evaluating the performance of entities to which they have delegated work or authority.

Doing the work and monitoring progress

Fifteen of my numbered recommendations have to do with day-to-day business practice, and the conversion of plans into operating reality. They range from dealing with real risks to seizing opportunities to deliver services more efficiently, and to taking advantage of opportunities to provide needed guidance.

Reporting on results

Thirteen of the numbered recommendations relate directly to improving reporting on results. It is my job as Auditor General not only to add credibility to performance reporting, including financial reporting, but also to improve that reporting.

Summary

The government has done a commendable job in implementing the *Government Accountability Act*. The number of my recommendations should not be construed as an indictment of performance; rather, the number is evidence that “the devil is in the detail”. Developing an understanding of accountability was the starting point, but the time has come for a concentrated effort to resolve some key business planning issues that I have discussed in the Cross-government section of this report. I believe that the Department of Treasury, as the group with responsibility for defining accountability principles and standards for the Government of Alberta, should lead government managers and others out of the development mode and into one of taking full advantage of Alberta’s planning and reporting systems.

The scope for improvement is never ending. I have said in the past that I expected the state of reporting to improve such that evaluation of past results would lead naturally into goal setting for the future. With the fundamental systems in place, government managers must now show that they are using results information. It is not good enough to just report the actual results alongside what was planned.

Variances must be critically examined and explained and should guide the next round of planning. The best use of this information is in managing the cost-effectiveness of services. Managing the achievement of a financial budget is important, but is not the reason why a taxpayer pays a government manager's salary.

Analysis of numbered recommendations

Description of Categories:

- Gov.** Governance
- 2** Plan what needs to be done to achieve goals (including arranging contracted work)
- 3** Do the work and monitor progress (including managing contracted work)
- 4** Report on results
- CWA** Compliance with authorities

Rec. #		Category				
		Gov.	2	3	4	CWA
	Cross-government					
1.	Guidance on best practices in business planning		x			
2.	Components of business plans		x			
3.	Financial implications of business plans		x		x	
4.	Performance measures in business plans		x			
5.	Guidance to accountable entities				x	
6.	Summary financial information				x	
7.	Corporate Human Resource Plan		x			
8.	Employee performance management systems to support organizational goals			x		
9.	Governance principles for agencies, boards and commissions	x				
10.	Guidelines for shared service agreements			x		
	Advanced Education and Career Development					
11.	KPI Reliability				x	
12.	Deferred maintenance			x		
13.	Long-term capital planning		x			
14.	Conditional grant process			x		
15.	Contract project management - University of Alberta			x		
16.	Budget process - University of Calgary		x			
17.	Balanced budgeting - University of Calgary		x			
18.	The scope of academic health - Academic Health Centres	x				
19.	The accountability entity - Academic Health Centres	x				
	Agriculture, Food and Rural Development					
20.	Performance evaluation - Farm Income Disaster Program				x	
	Community Development					
21.	Use of official receipts for income tax purposes					x
	Education					
22.	Departmental monitoring and evaluation			x		

Section 1

Introductory Comments

Rec. #		Category				
		Gov.	2	3	4	CWA
23.	Charter School accountability		X		X	
24.	Financial reporting				X	
25.	Local target setting		X			
	Energy					
26.	Strategic information systems plan		X			
	Environmental Protection					
27.	Budgeting annual fire fighting costs		X			
28.	Consistency in regional plans and operations		X			
29.	Contract management				X	
30.	Financial security risk assessment model				X	
	Family and Social Services					
31.	Shared services for community based programs		X			
32.	Services to children provided by Persons with Developmental Disabilities boards					X
33.	Strategy to improve performance measures		X			
34.	Business planning		X			
35.	Deficient accounting systems				X	
	Health					
36.	Business planning for health		X			
37.	Performance measurement and reporting		X		X	
38.	Meeting equipment needs				X	
39.	Systems for planning facilities		X			
40.	Control over health registration				X	
41.	Physician funding systems					X
42.	Clinical practice guidelines					X
43.	Establishing accountability for results achieved by we//net	X				
	Justice					
44.	Special Reserve Fund		X			
45.	Performance information - fines collection				X	
	Transportation and Utilities					
46.	IMS project reporting				X	
	Treasury					
47.	Corporate government accounting policies				X	X
48.	Allocation of significant costs				X	X
49.	Seniors' health insurance premiums					X
50.	Bank reconciliation control				X	

Capital Asset Management

Introduction

Planning is the key to managing Albertans' investment in Provincial infrastructure

I am taking this opportunity to provide some commentary to the Members of the Legislative Assembly on a matter that is of great importance to the continued prosperity of Albertans.

My commentary will focus on the information required by those responsible for managing the Province's capital assets.

I believe that planning is the key to the management of capital assets, but planning requires good performance information, including the full picture of Albertans' investment in Provincial infrastructure.

Background

Capital asset management poses some unique challenges, but shares with other expenditures the need to be cost-effective

Capital asset management in the public sector is receiving a great deal of attention. This attention is understandable considering the size of our capital asset base and the significant impacts of capital funding on expenditure decisions by government. By their nature, expenditures on capital assets pose some unique challenges. However, the basic risks are the same as they are for all expenditures, namely "Are we spending the right amount?" and "Are we achieving our goals?"

Free spending on capital carries the risk of ineffective future costs

As with many things, there is an ebb and flow with capital expenditures. Relative wealth can lead in some cases to capital expenditures that, in retrospect, can be seen not to be cost-effective. Moreover, capital expenditures do not occur in isolation—they create a stream of subsequent operating costs that are often not fully recognized at the time of the original investment.

Fiscal restraint raises the opposite risks of deferring maintenance, replacement and expansion

On the other hand, fiscal restraint can give rise to concerns that deferring capital maintenance, replacement and expansion will result in the deterioration of the capital asset base, and can adversely affect service delivery, and/or can result in higher costs in the long run.

As reinvestment occurs here in Alberta, proper planning is critical to wise decisions

Buoyed by recent fiscal projections, the government has announced that it will allocate substantial amounts to capital investment over the next few years. I believe the quality of the government's capital planning initiative is critical to managing these expenditures in a way that establishes an equilibrium between legitimate program requirements and funding provided. Proper planning will make the difference between a reactive mode, which merely distributes allocated funds, and a predictive mode, which anticipates and justifies funding required.

Managing capital assets

Types of cost and risks

The goal of capital asset management is to ensure that capital investment is the best choice for minimizing the overall costs of service delivery. It also involves minimizing the costs of obtaining a given level of services from an asset over time. The major types of capital asset cost and associated risks are:

Cost-effective capital asset management requires prudent maintenance policies and the resources to implement them

maintenance—involves setting standards for the condition assets must be maintained at to achieve required service levels over their expected useful life, monitoring the condition of assets, and determining the timing and amount of funds required to maintain assets at the standards. There is a risk that if standards are set too low, service quality will suffer. If maintenance is deferred, higher costs and/or reduced service levels result.

Replacing assets when appropriate minimizes overall costs

replacement—involves knowing how age affects maintenance costs and service capacity, and replacement costs. There is a risk that replacement may be deferred because it requires a greater cash outlay in a given year than the amount of repairs. As with deferred maintenance, this is false economy because it inevitably increases costs in the long run.

There is a risk that cost-effective upgrades and expansions may be deferred

upgrades and expansions—involves anticipating service demands, ensuring capital investment is the best way to meet these demands, and utilizing existing capacity where possible. There is a risk that additional capacity of the type, or at the location or time proposed, may not be the best solution. The opposite risk is that cost-effective upgrades or expansions may be deferred, resulting in higher costs.

Planning issues

Planning information is critical for decisions on resource allocation among competing priorities

The fundamental question facing decision-makers with respect to capital expenditures is whether current funding levels are optimal or should be increased/decreased. At a government-wide level, information on funding requirements is essential for informed decisions on resource allocation among competing priorities in different Ministries. Planning information should also identify the potential for alternative funding sources such as borrowing/leasing, private sector investment, or user fees.

Capital planning has been identified as a key cross-government initiative

At the time of my last annual report, the government was examining the need for long-term capital planning. Capital planning has since been identified as one of four key cross-government initiatives in *Budget 99*. This flows in part from the June 1998 recommendations of the Capital Investment Planning Committee appointed by the Treasury Board to examine infrastructure planning issues on a government-wide basis. A Premier's Task Force has also examined municipal infrastructure issues.

A framework for deciding among priorities is required, supported by information from the entities responsible for owned and supported assets

The Committee made several recommendations relating to capital asset planning and budgeting, including the need for a framework for capital investment decisions among competing priorities. Since these decisions must be supported by government-wide data on capital requirements, Ministries need planning systems capable of producing the information for a corporate overview. In some cases, Ministries will need to get this information from supported entities such as school boards. Therefore, these entities must have adequate systems to produce the information for the Ministry. My recommendations to the Department of Health and Wellness and the Department of Learning elsewhere in this annual report are designed to address this issue with respect to regional health authorities and post-secondary education institutions.

Reporting

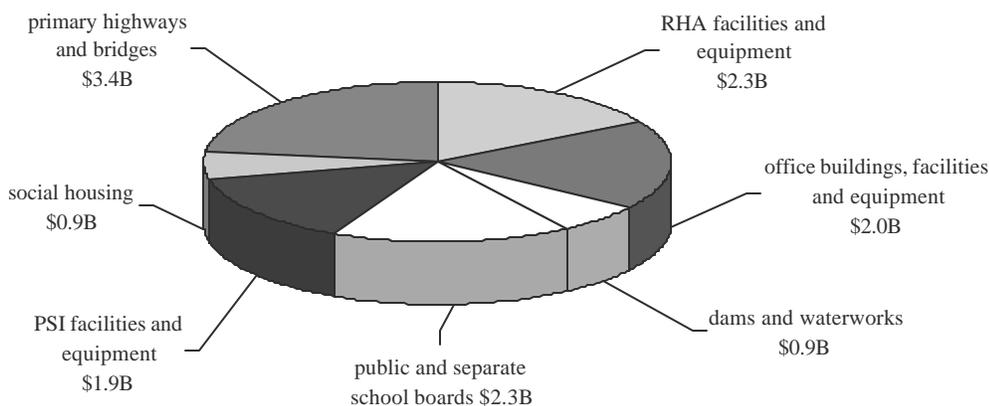
Reporting on the Province’s infrastructure is not just an accounting exercise. Reporting produces the information that is needed by decision makers as they plan the management of the Province’s capital investment. I contend that planning starts with good information on the full scope of the Province’s capital asset base.

I define capital assets to include owned and supported infrastructure and equipment—the total net book value is approximately \$13.7 billion

I define the capital asset base as the physical infrastructure and equipment owned by the entities currently included in the consolidated reporting entity. I also include publicly funded and supported infrastructure and equipment managed by Provincial entities such as regional health authorities (RHAs), post-secondary education institutions (PSIs), and school boards.

The chart below shows the approximate composition of the Province's capital asset base by major program. The total net book value of \$13.7 billion is the estimated historical cost of \$22.5 billion, less accumulated amortization of \$8.8 billion

Approximate Net Book Value of Provincial Capital Assets at March 31, 1999 - \$13.7 billion



Consolidated financial reporting

The availability and usefulness of information on the capital asset base and on capital investment requirements is hampered by deficiencies with current consolidated financial reporting. These deficiencies stem from the cash-basis of accounting for capital assets and an incomplete reporting entity.

Public sector support for full accrual accounting of capital assets is growing

My Office has long advocated full accrual accounting for capital assets. At present, the Province does not include capital assets on its consolidated balance sheet. Although this treatment is currently recommended by public sector accounting standards, for the summary level of government financial reporting, it is being reviewed by the standard setters for its continuing relevance. In addition, not all entities whose capital asset acquisitions are publicly funded are included in the reporting entity.

A clear, full picture of capital assets is necessary to understand and manage the related risks

I believe a clear view of the full extent of publicly-funded capital assets is necessary to properly understand and manage the associated risks. My recommendations on the government reporting entity and cost allocation in the Treasury section of this annual report are designed in part to provide decision-makers with unified information on the full costs incurred and assets employed in delivering a program.

The cash-basis of accounting understates the Province's financial position and encourages short-term thinking

Under the cash-basis of accounting that is used in reporting the Province's results and financial condition, capital investments are expensed in the period expenditures are incurred. This form of accounting is consistent with how funds are budgeted, namely the budget authorizes money to be spent and capital outlays are reported as expenditures in relation to the budget. However, this treatment has two disadvantages—it understates the financial position of the Province and it encourages short-term thinking with respect to capital asset investments.

Capital assets represent future service capacity and should be included in assessing the Province's financial position

It is important to recognize that the \$13.7 billion net book value of capital assets represents a public investment in future service capacity. That is, the net book value represents a prepaid capital portion of future program costs. Therefore, in our view, capital assets should be taken into account for a more accurate picture of Alberta's financial position.

Capital assets are costs of the periods in which they are used

Cash-basis accounting also perpetuates the misconception that capital acquisitions are costs of the period incurred and therefore should be included in the calculation of the annual surplus/deficit. While capital investments require cash, they are costs of the periods in which the assets are used and should be viewed as such for surplus/deficit purposes. The government currently reports amortization as a program cost, but substitutes capital expenditures for amortization in presenting the surplus/deficit. Thus capital expenditures in excess of the cost of assets consumed (amortization) in any one year depress the surplus. Conversely, expenditures less than amortization inflate the surplus.

Performance reporting

Performance reporting should assess whether the service capacity of the capital asset base has been maintained

At present, there is not enough performance reporting to usefully assist in capital asset management.

Benchmarks such as sustaining the capital asset base are useful in assessing the government's performance in managing these investments. This performance can be measured in various ways including comparison of net book value of depreciable assets (ie, excluding land) to cost. Since amortization is based on a capital asset's estimated useful life, net book value in relation to cost provides an approximation of an asset's remaining service life, as shown in the table below. I would caution, however, that the table does not show that the depletion for some asset classes and/or entities within the categories is greater than the totals would indicate. Nevertheless, the table does illustrate the important role of financial information in capital asset management.

	<u>Cost</u>	<u>NBV</u>	<u>%</u> <u>remaining</u>
	(in billions)		
NET DEPRECIABLE ASSETS			
Primary highways and bridges	\$ 4.9	\$ 3.2	65%
Office buildings, facilities and equipment	2.7	1.4	52%
RHA facilities and equipment	3.7	2.2	59%
Public and separate school boards	4.0	2.2	55%
PSI facilities and equipment	3.7	1.8	49%
Dams and waterworks	1.0	0.8	80%
Social housing	<u>1.2</u>	<u>0.8</u>	67%
	21.2	12.4	
LAND	<u>1.3</u>	<u>1.3</u>	
TOTAL	<u>\$ 22.5</u>	<u>\$ 13.7</u>	

In periods of expansion and rising prices, net book value should generally exceed 50% of historical cost

To put this in perspective, a mature capital base comprising some new assets, some partially used, and some nearing the end of their service life, would result in an average remaining service life of approximately 50%. In times of expansion, newer assets will be proportionately greater than older assets, so the average remaining service life of the asset base should generally exceed 50%. In addition, since asset replacements typically occur at prices that exceed the cost of the original assets, net book value should exceed 50% of historical cost, in many cases by a significant amount. Unless net book value is above this level, there has likely been a depletion of the capital asset base. That is, capital reinvestment has not kept pace with consumption.

Information on replacement costs is necessary because they may substantially exceed historical costs

While historical cost may be an indicator of capital investment requirements, replacement costs must also be known. The difference can be substantial. For example, at March 31, 1998, the Department of Public Works, Supply and Services estimated its buildings, which have a historical cost of approximately \$1.8 billion, had a replacement cost of nearly \$3.5 billion.

Direct measures of capital asset condition are useful in assessing performance

Other more direct measures of service capacity can be reported. For example, the Department of Infrastructure measures the condition of Alberta's primary highways. The fact that this measure has declined every year since 1995-96 may indicate that higher levels of reinvestment are necessary to maintain this infrastructure. Similar measures are needed to indicate whether other assets are being maintained to appropriate standards.

Policy options

*Information from systems
should guide public policy*

It is not in my role to make a formal recommendation to government on its fiscal policies. My mandate extends only to commenting on systems for the improved use of public resources. The fundamental purpose of an information system is to provide evidence to enlighten decision making. Instructive capital asset planning systems will provide policy makers with rigorous analysis of all alternative strategies.

For example, a cost-of-capital concept could be used to determine whether cost savings from a proposed expenditure exceed the cost of obtaining the funds. Such analysis recognizes that while debt has a cost, so too does deferral. Further, analysis of the cost to the public and to the economy of funding capital assets from current revenues would be instructive.

Conclusion

*Misconceptions in the
absence of planning*

Capital asset planning needs to shift from annual cash availability thinking, to thinking about long-term cost and benefits.

In my view, the term “affordability” is commonly misused in government to mean “whatever can be paid for from current cash inflows”. Further, too often, expenditures are justified by expounding their perceived benefits and deferral is defended by pointing to immediate capital costs.

*Recent initiatives should
promote more informed
decisions, and improved
disclosure is required for
accountability*

I acknowledge that capital asset planning systems are being developed and I commend the government’s recent initiatives to improve planning from a government-wide perspective. I believe this information is vital for informed debate on the amount and timing of required capital investments and the options available to fund them. Improved disclosure of capital assets in Ministry business plans and annual reports, and the consolidated financial statements of the Province is now needed to provide accountability for the stewardship of these public investments.

Year 2000

At the time of issuance of this report, the Year 2000 is three months away.

Year 2000 is a management responsibility

Readers of this annual report should not conclude that an entity is Year 2000 compliant because the Auditor General has not made any suggestions to management. It is management's responsibility to take reasonable steps to ensure that the entity will cope with, and survive the Year 2000 issue. It is not my responsibility to ensure that the entity is prepared for the Year 2000 date change, but I do, however, believe that my Office has provided a useful client service by encouraging management to assess the extent of the problem and to develop appropriate plans to mitigate the risks.

Conclusion

I have discussed the Year 2000 in more detail in the Cross-government section of this report. My overall conclusion is that I am satisfied that government managers are aware of the potential risks related to the Year 2000 problem and have generally acted appropriately to mitigate the risks.

Government Reorganization

Report based on Ministries as they were at March 31, 1999

On May 25, 1999, the government announced a reorganization that has seen many Ministers and Deputy Ministers change portfolios. Nonetheless, in order to reflect what took place in the 1998-99 fiscal year compared to business plans, the 1998-99 Ministry annual reports are based on the government Ministry structure in place at March 31, 1999.

Recommendations addressed to new Ministries

This annual report follows the logic of reporting on the government Ministries as they were at March 31, 1999. I have, however, addressed my recommendations to the Ministries that will be called upon to comment on their implementation at the next series of Public Accounts Committee meetings.

Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall

This annual report on the work of the Office refers (page 285) to the work performed in completing a Report commissioned in 1998 by the Executive Council on the 1994 Refinancing of West Edmonton Mall (WEM).

The magnitude of this assignment is not readily apparent. The Office's financial statements for the year ended March 31, 1999 show that the output costs for work on the Treasury Ministry increased significantly. Also, the Office's Management Discussion and Analysis explains that at March 31, 1999, the amount of work in progress for this annual report was significantly less than the comparable amount of work in progress at the previous year end. The reason for the reduction in work in progress is that the Report to the Executive Council on WEM was completed before March 31, 1999, and hence its costs were expensed.

The Office's internal costing of the Report to the Executive Council on the 1994 Refinancing of West Edmonton Mall amounts to \$754,000. This amount includes staff time and consulting and legal fees up to March 31, 1999. Since March 31, 1999, the Office has incurred further staff costs and legal fees in connection with a Notice of Motion wherein the WEM Applicants seek a Court order for the production of certain confidential documents of the Auditor General.

Acknowledgments

Pursuant to section 19(1)(b) of the *Auditor General Act*, I am pleased to report that in carrying out the work of my Office I received all the information, reports and explanations that were required.

Members of my staff and I continue to meet regularly with legislators, senior management members and board members of client organizations. In conducting our work, we receive a very high level of cooperation from client personnel. This support is vital to the efficiency of my Office and without it our contribution would be far less successful. The government continues to accept and act upon a significant proportion of the recommendations of the Office, which demonstrates their value.

The new public service management pay structure has set in motion the recognition of the contribution made by members of the staff of the Office of the Auditor General. This dedicated group of professionals is responsible for the wide scope of audit activities that are accomplished each year. Again, I am pleased to acknowledge publicly their professionalism, talent, dedication and hard work. My thanks are extended to each and everyone of them.

Peter Valentine, FCA
Auditor General

Edmonton, Alberta
September 17, 1999

Guidance to reader

Since 1993, the government has been implementing fundamental changes in the way it does business, including:

- implementing a new accountability framework;
- asking public sector managers to work collaboratively to ensure that Albertans can access services simply, and to ensure that services are delivered cost-effectively; and
- improving quality of service by moving decision making closer to the delivery of the service.

Central agencies and government organizations must collaborate

Central agencies, such as the Treasury Department and the Personnel Administration Office, are to establish and manage broad administrative policies, while Ministries and their organizations have greater authority to manage their businesses. Public servants are expected to work collaboratively and think corporately by working within the broad policies and recognizing that their decisions need to respect all the competing goals of government. One of the stated goals of the May 1999 reorganization was to further encourage Ministries to work collaboratively.

Recently the Alberta government's accountability framework received a silver award for Innovative Management from the Institute of Public Administration of Canada. This recognition is testament to the quality and importance of the change being implemented in the public sector.

In the Budget for 1994-95, the government set out its plans for the government as a whole. Consistent with good accountability, the government for the first time reported actual results against its plan in Measuring Up in June 1995. Ministries and their organizations were asked to implement similar processes. These practices were entrenched in law with the proclamation of the *Government Accountability Act*.

Government has established cross-government initiatives

In 1997-98, the government formally communicated that it had established key cross-government initiatives. The government manages cross-government initiatives by establishing a lead Ministry which then works with other affected Ministries to develop policy frameworks for all Ministries to follow. This practice is consistent with the overall management model established by the government.

*This Cross-government
Section of our annual
report is new*

Due in part to the government's evolving business practices, recommendations arise that, in my view, need to be addressed by a number of Ministries or by the government as a whole. To highlight these matters and to assist in their review, I have established this new Cross-government Section.

To facilitate review and response to any recommendation, I have identified the Ministry that I understand to be the lead Ministry with respect to the issue identified. Each Ministry is responsible, however, for dealing with recommendations that improve their operations.

*The Deputy Minister of
Executive Council is
responsible for monitoring
the success of cross-
government initiatives*

Also, I believe it is important to acknowledge that the ultimate accountability of all Ministries is to the Premier. Therefore, the Deputy Minister of Executive Council has overall responsibility for monitoring the success of cross government issues. In fact, the organizational changes that occurred in 1998-99 in the Department of Executive Council were designed to meet this responsibility.

Significant cross-government risks

*Central agencies establish
policy framework*

As noted, the government expects cooperation amongst Ministries as they act independently for the achievement of its goals. Under this arrangement, organizations with broad corporate responsibilities, for example, the Personnel Administration Office, Treasury Department, and Treasury Board develop policy frameworks, principles and guidance. These broad directives establish the range of alternative management practices that Ministries may follow.

*Accountability requires
good systems*

Therefore, the government is at risk of not achieving its goals if a broad policy is not appropriate or is not followed. To mitigate this risk, central agencies are responsible for introducing systems that support accountability. The Treasury Department has responsibility for financial and business planning and human resource management is the responsibility of the Personnel Administration Office.

Scope of work

The focus of my cross-government work is on the operations of the Province's accountability systems including the management of broad administrative policies. I have also looked at the implementation of these broad policies within individual Ministries and, where appropriate, included recommendations for improvement in relevant sections of this annual report.

I have again looked at business plans and annual reports

Two key components of accountability are business plans and annual reports. The business plan contains information on what is to be accomplished. The annual report then provides information on actual achievement in comparison to the plan.

I believe opportunities exist to further improve business plans. These improvements should start with an improved understanding of the contents of a business plan. Then Ministries and the Treasury Department will need to action a strategy that will implement the improvements.

The government has established good quality direction for the preparation of Ministry annual reports. However, I have learned that similar guidance is not generally available to accountable organizations, all of which are responsible to a Minister.

Human resource management systems have been examined

This year I have also examined systems used to manage human resources. A significant risk facing government is the inability to achieve business plan goals due to the absence of necessary skills. My review of these systems indicates opportunities for improvement. Employee performance management systems need to be fully implemented.

Board governance can be improved

The government has moved to a service delivery model that relies more heavily on agencies, boards and commissions that are governed by boards of directors. Therefore, for the government to be successful, boards must function effectively. In recent years, a number of respected organizations have published guidance on board governance. Also, a number of departments have developed guidance, which they then provided to boards with which they work. I believe there is scope for improvement in board governance.

Government is preparing for Year 2000

The Year 2000 will begin in about three months. Over the last three years, I have reported on the steps being taken by government to ready its systems. Once again, I report on management's efforts.

Shared services promises benefit, but must be managed

Recently the government has put emphasis on improving the cost-effectiveness of administration. This focus is called the shared services initiative. In the May 1999 reorganization, the government re-emphasized the importance of this initiative. Shared services occur when one organization

provides administrative support to another, thus realizing the benefits of economy of scale. However, shared services also give rise to new risks. In the material that follows, I have identified these risks and suggested steps to mitigate them.

Business Plans

Background

Alberta continues to lead

As I have stated in previous annual reports, the Province is a leader among Canadian governments in the use of publicly reported business plans and annual reports. I believe Alberta continues to lead and I endorse the government's ongoing efforts to improve the quality of these documents, which are central to continuous improvement in government performance and accountability to Albertans. For this reason also, I continue to seek opportunities to improve the business planning process. The recommendations in this section are intended to further such improvement.

*Most of last year's
recommendations were
accepted*

Last year I recommended that business plans:

- Place greater emphasis on the third year.
- Communicate longer-term strategies and be shared among Ministries early in the planning process.
- Contain challenging and attainable performance targets.
- Elaborate on cross-government initiatives and demonstrate Ministry contributions to these.
- Include forecast information on factors that could impact their implementation.
- Provide information on a common set of components.
- Present financial information in a similar form to the rest of the plan.

The government accepted, partially or completely, all but the last of these recommendations. I am pleased to report that I have observed progress on the recommendations accepted, particularly in the elaboration of cross-government initiatives and Ministries' contributions to these and in the use of a common set of components in business plans. In the following recommendations I continue to stress my view that appropriate performance measurement and presentation of the financial implications of core businesses are important criteria for good business plans and consequently for effective accountability. This year I also focus on the

opportunity to capitalize on best practices and on the application of business planning within Ministries.

Guidance on best practices**Recommendation No. 1**

It is recommended that Ministries collaborate with Treasury to articulate best practices in business planning.

This is the sixth year that most Ministries have prepared business plans. To date, Ministries have been allowed considerable flexibility in preparing and presenting their business plans. During this period of experimentation, experience has been gained and preferred practice has emerged. Now is therefore an opportune time to review the various approaches taken by Ministries and provide direction or guidance relating to best practices in business planning.

Guidance on how to prepare business plans is limited

The present business plan and budget finalization instructions issued by Treasury relate primarily to the budget. The business plan component of the instructions has for several years indicated that the same format as the previous year should be used. For Budget 99, the instructions were very brief. They included a list of seven items to be provided as a minimum and a reference to a recommended length. The seven items were:

- an accountability statement;
- a mission statement;
- a vision statement;
- a definition of core businesses and goals;
- a summary of strategies;
- performance measure information; and
- the Ministry income statement.

No definitions of these items or how they interrelate were provided.

As discussed below, Ministries are interpreting these terms in different and therefore potentially confusing ways. Since the business planning process provides the framework within which government services are planned and delivered and resources are managed, it is important that Ministries present their business plans in as clear and understandable a manner as possible. Ministry business planners told us they would appreciate more guidance on the definition of business plan components.

Annual Report Standards provide some but not enough guidance

Some guidance can be gained by inference from the Ministry Annual Report Standards, which are much more comprehensive. However, since these standards refer to the end of the reporting cycle, they do not deal explicitly with business plan preparation and requirements. Treasury's current participation in an Institute of Public Administration of Canada project on business planning and performance measurement may provide some good input for the development of such guidelines. In addition, since considerable expertise in business planning exists within Ministries, an inter-Ministry working group could be established to accomplish this task. Such an approach has proved useful with Ministry annual reports.

Feedback to Ministries could help improve the quality of business plans

Another vehicle for providing guidance would be a review of draft business plans. Business planning staff we interviewed reported that most feedback received from Treasury and Standing Policy Committees usually relates to the budget. Feedback relating to the content or format of business plans is minimal. Constructive feedback could assist in improving the quality of business plans, resulting in a more useful accountability tool.

Provide inputs to Ministries earlier

In the Budget 99 cycle, information on Alberta's economic outlook for factors such as population, unemployment rate, exchange rate, and interest rates were not provided to Ministries until October 1998, several months after some Ministries began their business planning. We suggest, and Ministry planners interviewed indicated, that it would be useful to have this information at an earlier date, even if it was of a more preliminary nature. It would also be useful for planners to have information on the proposed cross-government initiatives at an earlier stage to better integrate them into their business plans.

The provision of more detailed guidance and feedback to Ministries on business plans will enhance the progress being made in implementing the Province's accountability framework. In my view, an important ingredient of that guidance would be consistent definition of the components of business plans.

Components of business plans

Recommendation No. 2

It is recommended that Ministries work with Treasury to develop a strategy to improve the definitions of the components of business plans.

In my 1997-98 annual report (page 22), I recommended that all Ministry business plans provide information on a common set of components. I observed that Ministry business plans followed different formats: some focussed on core businesses, others on key change initiatives. The meaning of strategies, goals and objectives also differed among business plans. I suggested a common set of components could include mission, vision, core businesses, goals, strategies, performance measures and targets.

This recommendation was accepted, recognizing that each Ministry tailors these components to reflect the nature of its particular core businesses.

Business plan components should be defined consistently

I am pleased to note that in Budget 99, common components were used more consistently in Ministry business plans. However, I continue to believe that there is considerable scope for enhancement in the presentation of business plans and that such enhancements would make business plans more useful to Members of the Legislative Assembly and Albertans. I appreciate that Ministries should choose a method of presenting their business plans that best reflects the nature of the Ministry's business and that therefore they may structure the components of their business plans differently. In my view, whatever components are used, they should be defined and interpreted consistently. This is not the case at present. In Budget 99, core businesses are still defined variously in terms of goals, strategies, activities, or performance criteria. Strategies are sometimes defined as desired results rather than broad actions to achieve them. Goals are sometimes defined in terms of activities rather than end results.

Consistent definitions of core businesses and their key components would aid considerably in the understanding and usefulness of business plans. Core businesses define the primary responsibilities of the Ministry—what it is accountable for delivering. They set out the role of the organization, that is, its central activities. Goals are the desired results the businesses aim to achieve. Strategies are the broad, long-term actions designed to achieve the goals. Performance measures indicate both targets for and results of the extent to which the goals are achieved. And, as discussed in the next recommendation, budgets should estimate what it will cost to operate the business, execute the strategies, and achieve the performance targets. Ultimately, a Ministry is aiming to commit to the taxpayer that it will provide the services and achieve the goals planned in each core business cost-effectively.

Financial implications of business plans

Recommendation No. 3

It is recommended that Ministries, together with Treasury, develop a strategy to combine Ministry core businesses and programs so that Ministry income statements clearly present the cost of implementing core businesses.

I also recommended last year (page 22) that the financial information in the business plan be presented in a form similar to the rest of the plan. This recommendation was not accepted. In the government's view, financial information in business plans highlights the program components that Ministries consider significant.

Plans should present the resources budgeted for each core business

I am convinced that it is a fundamental principle of accountability that information on plans and expected results should be linked to information on what it will cost to carry out those plans and achieve those results. The purpose of the budget is to present how the government plans to allocate limited resources among competing demands. The plans for each core business describe these demands. If the resources required to deliver each core business are not indicated, then accountability is not well served.

In our review of Budget 99, we found that, in many Ministries, it is difficult if not impossible to relate budget estimates to the core businesses, and then through core businesses to goals of the Ministry. The only Ministry in our

view that presents how much each core business is expected to cost is Community Development. Other Ministries, including PWSS and Municipal Affairs, link some core businesses to their budgets, but not others. In most Ministry business plans, core businesses and financial plans (income statements) are presented on different bases that are not readily comparable. Core businesses typically focus on expected results (goals and performance measures), whereas financial information is generally presented on a different, program basis. The user cannot tell from the business plan what achieving the planned results of each core business would cost. Conversely, the user also cannot tell, except at the overall Ministry level, for what purposes the proposed budget will be spent. Linking budget estimates to core businesses will provide greater transparency in the allocation of public funds and thus improve accountability.

Cost allocation is not a prerequisite to implementing Recommendation No. 3

I have recommended to government that costs be allocated to organizations responsible for delivering outputs. The government has recognized the value of this recommendation by accepting it. Clearly, the usefulness of business plans would be enhanced if all significant costs, including program support costs, were allocated to core businesses in the budget estimates. However, as evidenced by the Community Development business plan, allocation is not necessary to implement recommendation number 3 above. The key point is that those being asked to approve a budget for a business plan should be provided with information on how that budget will be spent according to the plan. In the government's planning model, this means providing budget information by core business, with or without the allocation of support costs.

Other jurisdictions are aligning plans and budgets

Other jurisdictions implementing accountability frameworks have recognized the importance of such alignment. In 1993, the U.S. Congress passed the *Government Performance and Results Act* (GPRA). The aim was to provide policy makers with performance and financial data to appropriate resources and to provide managers with the tools to improve program efficiency and effectiveness. The Act requires government agencies to prepare a five-year strategic plan and encourages managers to align budgetary resources with desired outcomes and goals. The plan must also identify foreseeable external factors that could affect the achievement of goals. In 1998, the U.S. Chief Financial Officers Council issued a report on the need to align information to ensure successful

implementation of the Act: *Integrating the Budget Structure, Financial Statements, and Performance Measures into one Understandable Package*.¹ The need to align program goals, performance measures, and budgets is clearly evident from the following extracts from the report:

“The components of a fully integrated management structure consist of performance plans that identify programs with clearly defined goals and objectives, a budget account structure that enables the alignment of resource requirements with the programs identified in the performance plans, and a financial reporting structure that provides for the accumulation and reporting of the full costs of a responsibility segment’s programs and its related goods and services. These financial reporting structures are expected to comply with accounting standards and link resources consumed and performance achieved.”²

“The agency’s budget account structure must be aligned with the programs identified in the agency’s performance plan.”³

To paraphrase the above quotation, the programs in Ministry statements of operations must be the same as the core businesses in the Ministry business plans for users to see how Ministries propose to allocate their resources to achieve their goals.

¹ Chief Financial Officers Council, GPRA Implementation Committee “Integrating the Budget Structure, Financial Statements, and Performance measures into one Understandable Package: A Report on the need for Alignment of Key Financial Information to Ensure the Successful Implementation of GPRA,” March 24, 1998.

² Ibid., p.28

³ Ibid., p.30

**Performance measures in
business plans****Recommendation No. 4**

It is recommended that Ministries, in conjunction with Treasury, develop a strategy to improve the quality of performance measures in business plans.

Ministry accountability documents (business plans and annual reports) should allow users to see how results achieved presented in annual reports relate to results expected presented in business plans. Performance targets and measures are a critical part of this linkage.

The quality of performance measures varies

Most Ministries have reported performance measures in their business plans and annual reports for the past three years. As with business plans in general, Ministries have been allowed considerable flexibility in the types of performance measures to use and how to present them. As a result, Ministries vary considerably in the extent of development of their performance measures. In our review of Ministry performance measures in Budget 99, Budget 98 and Annual Reports 1997-98, we noted the following areas on which a strategy to improve the quality of performance information could focus.

Each goal should have at least one performance measure

Goals. In order for the user to assess the performance of the Ministry in each of its core businesses, as intended by the *Government Accountability Act*, the goals set for each core business need to be measured by at least one performance measure. In our review of the Ministry business plans in Budget 99, we found that over half the Ministries had at least one goal that did not have a performance measure associated with it. Overall, 24% of all the goals in Ministry business plans did not have a performance measure. In addition, in many business plans where performance measures were included, the linkage between the goals and the performance measures was not apparent. This makes it difficult for a user to determine what goal and core businesses are being measured. To enhance accountability the business plan should clearly provide a performance measure for each goal that links back to a core business of the Ministry.

Measures should be designed for the purposes intended

Design of Performance Measures. Performance measures should be designed with their intended use in mind. Several measures proposed in business plans in Budget '98 were not included in Ministry annual reports for 1998-99 because data was not available or of suitable rigour to provide useful

information. Measures proposed for inclusion in Ministry annual reports should be scrutinized during their development to ensure that they are appropriate for their intended purpose. This could include preparation of a mockup or proforma of measures with available data. What constitutes a significant variation in performance that would require follow-up action should also be considered. The rationale for the measures should be documented. Designing measures in these ways would enable Ministries to demonstrate more effectively how their policies and programs have or have not had an impact on their performance.

Most measures have targets

Targets. As also required by the *Government Accountability Act*, once performance measures have been decided for each goal, targets for the results to be achieved need to be set. Without targets, it is difficult for a Ministry to manage performance and for the user to determine whether actual performance meets expectations. Our review of Budget 99 found that 82% of the performance measures had targets. However, two thirds of Ministries had at least one performance measure that lacked a target.

Statements of targets can be improved

Although most performance measures have targets, some targets are poorly stated, that is, not sufficiently specific and/or measurable. For example, some targets are expressed as “to maintain or improve” the magnitude of a performance indicator. Such targets make it difficult to determine what constitutes success. For instance, the Energy business plan states:

“Action by Alberta Organizations to Improve Energy Productivity – The number of action plans registered with the National Voluntary Challenge and Registry Program indicates success in obtaining voluntary action by Alberta organizations to reduce greenhouse gas emissions. In the past, the Ministry has measured percent of emissions covered by action plans but the actual number of plans is a better indicator of increasing the scope of the initiative. The number of registered action plans increased from 55 in 1995 to 103 in 1997. *The target is to increase the number of registered plans.*” (emphasis added)

This target does not indicate what number of plans would represent successful implementation of the business plan.

Also, the measure could indicate the maximum possible number of action plans and what proportion of that maximum has been achieved.

Additionally, the basis for the setting of targets should be documented. In order to effectively assess results and facilitate changes to improve them, the rationale behind how the target was set and the information used to determine the target need to be known by those who review the target.

Measures should be current

Timeliness. In order to assess a Ministry's performance over the past year or several years, users need current information. If the information reported is old and has remained unchanged in several years, the user will be unable to assess current performance. Since performance is reported annually, it should be measured annually.

Some performance measures are not measured annually. For example, the Advanced Education and Career Development business plan contains the goal of Accessibility, which is measured by adult participation in learning. The information on adult participation presented refers to 1991 and 1993. Since this is the only performance measure for the goal of Accessibility and the information is six years old, the user does not know how the Ministry is currently performing or has performed over the past six years with respect to Accessibility.

External factors that can impact performance should be discussed

Attribution of performance. As I recommended last year, business plans should provide more discussion of the context in which the results of a program or service are being measured. This discussion would include disclosure of the influence the Ministry has on the results as well as the possible impact of external factors on performance. Alternatively, Ministries could select measures of performance that are not impacted significantly by external factors. Otherwise, Ministries run the risk of being blamed inappropriately when external factors constrain their performance. Information on the factors influencing results improves the ability of the user to assess the Ministry's performance.

Few business plans discuss external factors that can effect performance. Examples where such discussion would be useful are as follows:

- How changes in exchange rates impact exports (Economic Development).
- How the employment rate would be affected by a downturn in the economy (Family and Social Services).
- The impact of grain prices on farm cash receipts (Agriculture, Food and Rural Development).

Measures should focus on outputs and outcomes

Output/outcome measures. The performance measures set out in the business plan should represent all the important dimensions of performance for the core businesses and related goals of the Ministry. For external reporting purposes, such as Ministry business plans and annual reports, the performance measures should be primarily of an output and outcome nature, since output and outcome measures indicate the degree to which goals are achieved. We noted that in Ministry business plans, output and outcome measures are not always well defined, measurable, and clearly related to core business goals.

Output measures track the goods and services provided through the Ministry's core businesses that are intended to achieve an outcome. A good example of an output measure is in the Transportation and Utilities business plan under Goal#3-*Improving Access to World Markets*. The performance measure is the percentage of the North-South Trade Corridor that is completed and open to travel. The targets are the portion of the road to be completed each year.

Outcome measures indicate how well goals are accomplished, that is, the effects of the outputs on the intended client groups. A good example of an outcome measure was reported in the Labour business plan under the Goal: *Safe and healthy workplaces*. The measure is the three year average of person-days lost owing to workplace injuries per 10,000 person-days worked. The target is that the average be lower than 29.62, the average of the last three years. By comparing the results reported for each year to the target, a user can assess whether the Ministry is achieving its goal.

In order to improve accountability, a strategy needs to be put in place to review and improve performance measures. Also, Ministries would benefit by having the Treasury Department and Standing Policy Committees provide more feedback on the usefulness of performance measures during planning.

Ministry business planning processes

Approaches to planning within departments vary

During our examination of business planning, we reviewed the internal business planning processes of a sample of departments. We found that departments exhibit a wide range of approaches to implementing business planning within their organizations. Business plans may be developed by a central group with some input from divisions or may be a consolidation of divisional plans. Some departments require divisions to develop operational plans based on the business plan. Others do not. In some departments, business planning and budgeting are integrated in a single process; in others they are undertaken separately.

Business planning is also a management tool

While I do not wish to suggest there is one best approach that fits all departments, if business planning is to be an effective management tool, it should be integral to the way departments and divisions manage their business. Indications are that this is not always the case. Consistent with the fact that budgets are presented by program rather than by core business in published business plans, some departments use programs rather than core businesses as the basis for allocating resources, managing activities, and controlling expenditures. In these cases the published business plan is, in effect, not the business plan that is used for internal management.

Sharing of best practices and provision of more guidance to Ministries could also help in maximizing the usefulness of business planning for managing the business. Because this is a key purpose of business planning, as well as the presentation of business plans to the Legislative Assembly, I will continue to monitor how Ministries internally implement business planning.

Annual Reports

Background

For the year 1997-98, the Treasury Department published standards for Ministries to follow in the preparation of their annual reports. The standards were developed in collaboration with the Ministries. Through a collaborative process, improvements in the standards were developed and then published for use in preparing the 1998-99 Ministry annual reports. In my view, the standards are essentially sound.

The quality of annual reports is affected by the quality of business plans

I have again looked at the annual reports to assess compliance with the standards and to assess whether the information included is useful. In my view there continue to be opportunities for improvement. However, the quality of the information in the annual report is dependent on the quality of the plan it reports on. Put another way, since the report is against the plan, if financial and non-financial performance expectations are not clearly and completely set out in the plan, the report cannot do its job. Therefore, the recommendations I made above on business planning need to be addressed to establish the benchmarks for the preparation of a useful annual report.

Accountable organizations are outside the scope of the Treasury Department's annual report standards

The government's accountability framework includes planning and reporting at the government-wide level, at the Ministry level and at the organization level. While the *Government Accountability Act (GAA)* and the Treasury Department's standards provide direction on the first two levels of the framework, similar guidance is not available to a significant number of government organizations. The Provincial Treasurer has overall responsibility for the accountability framework, but the responsibility for guidance to organizations has been given to the Minister to whom they are accountable.

The plans and reports at the organization level form the foundation for reporting at the Ministry and government-wide level. It is at the organization level where the work is actually being done that cost-effectiveness can best be managed.

Summary financial information should not be included in general purpose annual reports

I noted that annual reports of some accountable organizations included summary financial information. Of significant concern to me was the inclusion of summary or condensed financial information rather than full financial

statements. I have more specific comments on this matter on page 37 of this section.

Guidance to accountable entities

Recommendation No. 5

It is recommended that Ministries, supported by the Treasury Department, provide guidance to accountable organizations on best practices for annual report presentation.

Annual reports for some organizations are not as useful as they might be

Accountable entities are organizations, other than departments, to whom the government has delegated the authority to execute its programs. They take the form of provincial agencies, boards, commissions and delegated administrative organizations. In reviewing the annual reports of several of these entities I found considerable variation in quality. Also, I found the extent to which guidance had been provided by Ministries, on the content of the annual reports, varied considerably. Examples of deficiencies include the lack of comparison of budget to actual for financial information and the lack of non-financial performance information in the annual reports of accountable organizations. In short, published annual reports for some organizations are not as useful as they could be.

Improvement is needed to assist Minister and others to assess performance

The provision of adequate financial and non-financial performance information is essential to allow the relevant Minister and other users to assess the performance of an entity. In my view, providing consistent guidance on annual reports to accountable organizations will ensure that Ministers are provided with the information they need.

As noted, the Treasury Department and Ministries have already worked together to develop standards for Ministry annual reports. I suggest that these standards be used as a basis for developing guidance for accountable organizations.

Some performance reports are incomplete

In order to meet the information requirements of certain stakeholders, some accountable organizations are publishing performance reports which do not include financial statements, instead of publishing full annual reports. Others provide extracts from annual reports without referring to the existence of and where to obtain a copy of the full annual report. In my view, it is important that users have the opportunity to obtain full annual reports which include both financial and non-financial performance information.

**Guidelines for summary
financial information**

The Treasury Department has added a new requirement to its Ministry Annual Report Standards for the year ended March 31, 1999. It requires an extract to clearly indicate that it is not the full annual report, and to refer to the full report and how users can obtain a copy of it. However, the new requirement does not apply to a performance report issued by an accountable organization. Nor does the guidance indicate when summary information is appropriate or what information should be included.

**Summary financial
information****Recommendation No. 6**

It is recommended that the Treasury Department develop guidelines for Ministries and accountable organizations regarding the use and content of summary financial information.

*Summary financial
information abbreviates
full financial statements*

Summary financial information is a shortened version of an entity's traditional general purpose financial statements, sometimes referred to as full financial statements. It is also referred to by other terms such as condensed, abbreviated, simplified and summarized. Summary financial information is similar to interim financial statements prepared by some large public companies, but it has more credibility because it is derived from audited financial statements rather than unaudited interim financial information.

*The usefulness of
summary financial
information is limited*

Summary financial information is be provided by some public sector organization. By definition summary financial information excludes a great deal of information that is material to an assessment of performance. Therefore, summary financial information can meet only the most general information needs of any user. As a result, this practice needs to be carefully managed.

No standards in Canada

At the present time there are no generally accepted standards relating to the content of summary financial information that we can refer to. In the absence of such standards I suggest the following guidelines be applied to the content, disclosure and presentation of summary financial information:

*Recommendations for
content, disclosure and
presentation of summary
financial information*

Content:

- Summary financial information should generally include summary information on operations, financial position and changes in financial position. For example, a summarized statement of financial position would normally include the major headings from the financial statements such as totals of assets, restricted assets, liabilities, and net assets.
- Typically, the detailed notes in the full financial statements would not be included in the summary financial information. However, items vital to the understanding of the summary information should be included as briefly worded notes. Some examples of such items are changes in accounting principles or methods from the prior year, departures from generally accepted accounting principles, and significant events.
- The report should include an auditor's report on the summary financial information.
- The notes to the summary financial information should include reference to any qualification in the auditor's report on the full financial statements.

Disclosure:

The following information is important to a user's understanding of the purpose and scope of the summary report and must be included in a prominent place in the report:

- That the financial information has been derived from the full financial statements.
- That the summary financial information cannot be expected to provide as comprehensive an understanding of the performance of the entity as the full financial statements.
- Where an interested user can obtain a copy of the financial statement.
- If the summary report includes extracts from a number of entity financial statements, this should be disclosed.

Presentation:

- Presentation of information in comparative form with the prior period and current year budget information.
- The titles or headings should include the word “summary”, “condensed”, or “simplified” or another appropriate descriptor.
- The information should be presented in a balanced and objective manner.

Client Satisfaction Surveys

In the 1997-98 annual report, criteria were set out for the preparation of client satisfaction surveys that produce meaningful results. Client satisfaction surveys used in preparing performance measures in Ministry annual reports for the year ended March 31, 1998, were reviewed for compliance with the criteria. It was found that survey design has improved considerably, but there is still room for improvement in execution and reporting. We will continue to monitor progress in this area.

Human Resource Management**Background**

Government is improving human resource management within the public service

The government has taken significant steps toward improving human resource management within the public service. For example, Deputy Ministers and Human Resource Directors have jointly developed a Corporate Human Resource Plan. The plan reinforces the importance of human resources for the success of the government. Further, the implementation of a Management Rewards Strategy includes demonstrating success in human resource management as one of the criteria for evaluating and rewarding Deputy Minister performance.

Responsibility for human resource management is shared

Responsibility for developing and implementing human resource management strategies is shared. The Personnel Administration Office (PAO) is responsible for providing human resource leadership and for managing regulatory frameworks. Deputy Ministers, with support from human resource professionals located in their departments, are responsible for the implementation of these regulatory frameworks within their Ministries.

Principles of accountability are applicable to human resource management

Over the past several years the government has been working towards obtaining better accountability for the management of public financial resources. The same principles apply to managing human resources.

*In 1998 a review of human resource management was completed
Recommendations to improve accountability were made*

Accordingly, when my staff completed a review of human resource management in 1998, the fundamental observation that arose was that key components of the accountability framework for human resource management could be improved. I reported this conclusion, along with a number of recommendations, to management in late 1998. Specifically, I recommended to the Deputy Minister of Executive Council and Public Service Commissioner that they work with Deputy Ministers to:

- Reinforce the principle of the public service as a single employer,
- Clarify the roles and responsibilities of key parties involved in human resource management,
- Improve communication to government employees,
- Develop and communicate a corporate human resource plan,
- Develop departmental human resource plans,
- Improve performance management systems to support the Management Rewards Strategy,
- Establish a system to monitor and report on the implementation of corporate human resource strategies, and
- Develop and report on performance measures for the Corporate Human Resource Plan.

This year I followed-up on the progress made in addressing these recommendations. In the course of this work, I noted that management has taken steps to address the recommendations and has fully implemented a number of them.

It will take time to improve human resource management

The management of human resources is a complex and continually developing practice. I recognize that many human resource strategies are in the initial stage of development and implementation. My observations reflect the status of activities and the action taken at the time of the follow-up.

In my view, the implementation of the recommendations that follow will result in the following improvements in the management of human resources:

- Stakeholders will receive better direction and the benefits of managing human resources on a government-wide basis will be maximized.
- Deputy Ministers will obtain assurance that all Ministries are managing human resources in the best interests of the government.
- The Public Service Commissioner will be able to assert that human resource strategies are supporting the achievement of business and human resource plan goals.
- Albertans can be assured that the Alberta Public Service is developing highly competent staff.
- Government accountability for human resource management will be enhanced.

Human Resource Strategies are important to achieving business goals

The success of the business plans of the government and the Ministries are in part dependent on effective management of human resources. Consequently, human resource strategies are important tools in assisting public employees in the planning and execution of their work in a manner that contributes to the achievement of goals.

Corporate Human Resource Plan

Recommendation No. 7

It is recommended that PAO, in conjunction with Deputy Ministers, enhance the Corporate Human Resource Plan.

Last year, I recommended that Deputy Ministers develop and communicate a corporate human resource plan and clarify the roles and responsibilities of key parties involved in human resource management.

Progress has been made, however, a more comprehensive plan is required

A Corporate Human Resource Plan (the Plan) has been developed. While I am pleased with the progress made to date, I believe that the government would benefit from ensuring that the Plan integrates all corporate human resource strategies and identifies accountability for results.

Several tools guide the implementation of corporate and departmental human resource strategies

The human resource community is involved in implementing a number of corporate and departmental human resource strategies. Several tools guide the management and implementation of the strategies, including:

- Human Resource Policies—policies that guide the development of corporate human resource strategies and practices
- The Corporate Human Resource Plan—a three-year plan that focuses on four broad strategic areas: alignment, commitment, competence and versatility
- The Corporate Human Resource Development Strategy (the Development Strategy)—a 1999-2000 plan for addressing current issues related to demographic pressures, competition for scarce resources and rapidly changing skills needs
- A draft human resource management accountability framework—outlines the responsibilities of the key parties responsible for human resource management in the government

The Human Resource Policies and the draft accountability framework should be integrated into the Plan

While a linkage is evident between the Plan and the Development Strategy, the Human Resource Policies and the draft accountability framework are not incorporated in the Plan. The variety of management tools and the number of existing strategies increases the need for integration into one comprehensive plan. Such a plan will assist stakeholders in understanding corporate requirements and contributing to the development and implementation of successful corporate strategies.

The components of the Plan should be defined

The Plan and the Development Strategy are broken into several components to illustrate the processes to achieve corporate human resource goals. Within the documents, a variety of terms, such as objectives, strategies, initiative, corporate supports, priorities, departmental implementation and activities, are utilized to describe steps towards achieving goals. The definition of these terms is not readily

apparent to users of the Plan. The usefulness of the tools and the Plan would be increased by the use of consistent definitions.

The roles and responsibilities of all key players are not clearly defined

Further, both the draft accountability framework and the Plan outline the general roles of the key parties participating in the implementation of human resource strategies. However, these documents do not identify individuals or organizations accountable for each strategy. Therefore, it is not clear who is responsible for managing the execution of each strategy, and what results are expected.

The Plan should ensure all aspects of accountability are applied to each corporate strategy

Integrating information on all of the key human resource strategies and identifying key players responsible for each would help ensure that each element of the accountability framework is applied to each significant human resource strategy. In my view, the Corporate Human Resource Plan should provide the foundation for effective accountability. Once enhanced, the plan can be used as the central guiding document, which would assist Ministries in implementing human resource strategies in a manner consistent with corporate guidance. An enhanced plan will also assist Ministries in further developing their own human resource plans.

Monitoring Corporate Human Resource Strategies

It is recommended that PAO, in conjunction with Deputy Ministers, enhance current performance measures and establish a consistent reporting process to assess and demonstrate the success of the Corporate Human Resource Plan.

Progress has been made in developing performance measures

Last year I recommended the development of performance measures and a method for reporting the results of corporate human resource strategies. I am pleased that PAO and the human resource community have included performance indicators in the corporate plan and taken steps to develop a performance monitoring and reporting framework.

Improvement is still required

The primary purpose for monitoring implementation of strategies is to enable stakeholders to determine whether human resource strategies are advancing according to plan. I believe that the present performance monitoring process could be improved.

An integrated set of performance measures is required

The measures for the Corporate Human Resource Plan and the Corporate Human Resource Development Strategy are

the same. However, separate measures have recently been introduced in the proposed monitoring and reporting framework. Further, we have noted that some objectives in the Corporate Human Resource Plan do not have corresponding measures. This makes it difficult to assess the success of the implementation the various strategies. In my view, an integrated set of performance measures is required for stakeholders to assess the effectiveness of all corporate human resource strategies.

There is a need to assess the appropriateness of the performance measures

The appropriateness of all current performance measures should be assessed to ensure that each measure influences the human resource management decisions. This assessment should be on a government-wide basis and ensure that decision making at the corporate and departmental level is well supported. Consideration should also be given to information collection, the nature and frequency of reporting, and the identification of report recipients.

Rationale for targets should be disclosed

Targets have been established for all performance measures. However, in order to evaluate actual results, management should explain the rationale for setting targets and determine what would constitute a significant change in performance. When results do not measure up, a decision will need to be made on the action required. This is particularly true of satisfaction surveys results. To be useful, the information received should lead to a specific decision or action.

Common measures can support variety in implementation while maintaining a corporate perspective

Developing an integrated set of performance measures and corresponding targets will allow for variety in departmental strategy implementation while maintaining a corporate perspective. Further, management at all levels will be provided with better information to make decisions.

Employee Performance Management Systems

Background

Managing performance is important to the success of human resource strategies

The successful implementation of the Corporate Human Resource Plan is dependent on effective systems to set and measure performance levels at the individual level. Managing individual performance in a systematic way is also important to improving the performance of each department.

Performance management processes are not well established in many departments

Performance management within the government was largely suspended in times of downsizing or restructuring. As a result, many departments had not conducted

performance evaluations on staff for several years. When human resource management was set as a priority in 1998-99, improved performance management was expected. Consequently, within the last year, three quarters of the employee performance management systems in the government have been implemented or modified.

Employees regard skill development as important

Before departments, in support of the 1998-99 government human resource management priority, reviewed their performance management processes, my staff heard that performance evaluation had lost credibility with some employees. However, I also observed that skill development was perceived as important. For example, public service employee response to the 1997-98 Core Measures Survey, a government-wide questionnaire, showed that employees viewed “having the skills and knowledge to meet current job requirements” as very important.

Employee performance management systems are a tool to assess and develop skill

The APS Performance Management Framework provides broad guidance on the components of a performance management system. Skill development is one of the main objectives of the APS framework. One of management’s primary tools to assess training needs of employees is the performance management system.

Employee perception is a good indicator of the effectiveness of employee performance management systems

Although it is not the exclusive measure of the effectiveness of an employee performance management system, employee perception can be used as one indicator of success. In my view, it is important that employees perceive that management processes facilitate the accomplishment of both organizational and personal goals. I noted that 29% of the respondents to the Core Measures Survey strongly agreed, while 46% somewhat agreed, that their organization provided the necessary support to acquire or develop the necessary skills. These results tend to support overall employee agreement with skill development in government. However, the significant number of employees that only somewhat agreed may be an indication of the need to improve systems to manage employee performance and skill development.

**Employee performance
management systems to
support organizational goals****Recommendation No. 8**

It is recommended that each Deputy Minister, in conjunction with PAO, ensure that employee performance management systems clearly support the achievement of government and department objectives.

Last year I made recommendations to enhance employee performance management systems

In 1998, I recommended that performance management systems be improved in support of the Management Rewards Strategy. I also indicated that departments needed more assistance and guidance in the development and implementation of their employee performance management systems.

Scope for further improvement

As noted above, during 1998-99, departmental employee performance management systems were generally improved. However, opportunity exists for further improvement, particularly as lessons are learned during the implementation of the new systems.

Employees may not understand their role in the achievement of goals

In my view, management of employee performance is integral to the achievement of individual and organizational goals, and to the development of staff. Achievement of organizational goals is premised on the employees' understanding of the business plan. The Core Measures Survey suggests that employees, especially non-management staff, do not have sufficient understanding of the business plan. This indicates the need for Deputy Ministers, with assistance from PAO, to continue to ensure that employee performance management systems clearly support government and department objectives.

The Management Rewards Strategy helped to diminish the concept of automatic compensation

The 1998 implementation of the Management Rewards Strategy permitted the award of the Achievement bonus, a lump-sum variable payment for managers who meet performance goals. By expressing performance as the basis for the compensation framework, the strategy helped to diminish the expectation of automatic salary increases.

Performance is defined in terms of both results achieved and the methods used

Performance is defined in many departments in terms of both results achieved and methods used, which are tied to specific competencies, such as team work or client focus. A competency model reflects the behaviors and skills that are needed to support the objectives, values and culture of the organization. The APS Performance Management Framework proposes the development of employee learning

plans that identify specific skills required to carry out the business plan. Establishing clear individual performance expectations promotes employees' understanding of their contribution and responsibility for achieving organizational performance

Competency development and pay-for-performance is a culture shift for the Alberta public service

The concepts of compensation based on performance and performance assessment based on competencies reflect a shift in culture for Alberta public service employees. Consequently, it is important for Deputy Ministers and human resource practitioners to ensure that employee performance management systems clearly support the corporate intent of the Achievement Bonus, and the development and implementation of competency models.

The linkage between pay and performance has been difficult to establish

This cultural shift is not easy. Demonstrating a linkage between pay and performance has proven difficult for both the public and private sector. Only 19% of 2,004 Canadian employees surveyed in a Watson Wyatt national survey (*CMA Management, March 25, 1999*) reported a clear, direct and compelling link between their performance and their pay.

Inconsistent management of employee performance may impact the achievement of government objectives

The APS Performance Management Framework illustrates a conceptual linkage between performance and reward. It also provides general guidance, which departments apply in a manner that suits their business requirements. My staff observed considerable variation in the implementation of departmental employee performance management systems. While some variation was expected, the degree noted may result in difficulty in achieving government objectives.

Departments were required to have performance management systems in place for the Achievement Bonus. While this has been done, we noted that in some departments systems to evaluate individual performance had been implemented in isolation, without being linked to departmental performance measures or other departmental or corporate human resource strategies. For example, the Deputy Minister's performance contract was often used as a basis to assess managers for the allocation of the Achievement Bonus. However, I did not see evidence in all departments, that the assessment criteria, which included competencies, were continually reinforced through a development or performance management process.

Inconsistent design and implementation of competency models was evident

The design and implementation of competency models is also inconsistent. While competencies are being introduced in each department, they are not always well integrated into performance management processes or with corporate human resource strategies. Competency models have often been implemented as a supplemental initiative rather than the anchor for all other human resource strategies, as indicated in the APS Competency Model.

Other examples of issues related to competency utilization observed in some departments include:

- Competency models have been developed for management employees, but not non-management employees.
- Software packages are being used to develop and evaluate the competencies prior to the development and communication of a competency model.
- Competency models were developed and implemented without employee involvement.
- Competency model usage varies. In some departments, they were used for evaluation, in others they were used for allocation of bonuses, and in yet others for learning and development.
- Methods to assess employees' competencies differ.

Corporate strategies may be jeopardized by the inconsistent application of performance development

Departments need flexibility in implementing human resource strategies to best address departmental priorities and objectives. I do not expect that every department's strategy implementation be identical. However, due to the extent of the disparity in the manner in which employee performance management systems and competency models are being developed and implemented, corporate leadership development may not be well supported. Further, the goals of the Management Rewards Strategy may not be achieved.

Corporate guidance is needed

The APS Performance Management Framework and Competency Model provide general support to achieve government goals. PAO assists departments in linking pay with performance and in the development and implementation of performance and competency models. However, further guidance is required to assist departments in the development and implementation of competency models and performance management systems. I understand

that PAO has plans in place to provide further assistance to departments in 1999-2000.

Oversight could be accomplished through a committee

It does not have to be exclusively PAO's responsibility to provide the corporate monitoring and review function. Peer review or best practice committees could be established, with PAO facilitating and guiding the process. The opportunity for success is increased with the involvement of the stakeholders in providing advice on the development, implementation and evaluation of employee performance management systems.

Performance management systems need to support desired goals

Reinforcing desired performance and ensuring linkages to business objectives is critical to the success of the government. Given the evidence of the inconsistent implementation of performance management and competency models, Departments and PAO should work together to ensure employee performance management systems are meeting desired objectives.

Monitoring the effectiveness of employee performance management systems

It is recommended that departments, with assistance from PAO, establish a mechanism to measure the effectiveness of their employee performance management systems.

It is further recommended that PAO and departments determine common indicators to provide a consistent basis to evaluate the effectiveness of employee performance management systems government-wide.

Employee performance management systems vary across government

As noted, each department has a unique and separate system for managing employee and organizational performance. The extent to which departments conform to the APS Performance Management Framework differs. Therefore, a mechanism to ensure effectiveness of performance systems across government is required.

Measures of performance management effectiveness are required

Performance management, if implemented properly, is a tool that contributes to the development of staff and ensures individual goals are supportive of departmental and corporate goals. Because performance management is one of the most significant human resource strategies to be implemented, common measures to provide a broader view of whether employee performance management systems are meeting corporate and Ministry objectives are necessary. Departments also require an internal evaluation process to

ensure that their employee performance management systems support their employees in achieving departmental objectives.

A method to ensure the effectiveness of employee performance management systems was not evident

I understand that some departments do have mechanisms to track performance appraisals to ensure that they are completed. However, I saw little evidence of systems to monitor the effectiveness of performance management, and to ensure that the setting of objectives and provision of feedback was occurring on a continual basis.

Performance information should be collected

Information on how well the employee performance management systems in the departments are meeting their objectives is required. Similar information should also be compiled corporately to demonstrate how well employee performance management systems are meeting objectives. To accomplish this, consensus should be reached on what measures or survey questions would provide the best information about the success of performance management processes.

An agreed set of performance indicators should be developed

Key indicators are required that measure, for example, employee perception of:

- How well the employee performance management system in their department contributes to their job performance
- How well the employee performance management system in their department contributes to their personal development
- How well the use of competencies contributes to career development

Asking government employees a core set of questions pertaining to the effectiveness of employee performance management would assist each department in assessing how their systems were operating in relation to accepted indicators and to other government systems.

Evaluation of results will help develop action plans and form a corporate view

Evaluating results will help departments develop action plans to address potential issues. Reviewing the effectiveness of employee performance management systems using common measures will also help in forming a corporate view of which systems appear to be the most effective. Maintaining a corporate perspective provides a means to ensure that all

departments are utilizing the most appropriate employee performance management system necessary to facilitate the accomplishment of government objectives.

Governance

Background

There are over 100 significant government agencies, boards and commissions

The Government of Alberta and its Ministries have delegated program and service delivery to a significant number of board governed organizations. These organizations include:

- regulatory authorities,
- administrative tribunals,
- government businesses,
- non-profit organizations,
- post secondary institutions,
- delegated administrative organizations,
- school boards,
- regional health authorities,
- pension plans, and
- trusts.

A Personnel Administration Office (PAO) staffing directive for the recruitment and appointment of members to agencies, boards and commissions (ABCs) indicates that there are over 100 significant government ABCs.

The responsibilities of ABCs are significant and contribute to the overall objectives of the government

Most of these ABCs have been established by legislation that outlines their broad roles and responsibilities which may be defined generally as governing, advisory, regulatory or policy development. These responsibilities are significant, and contribute to the overall objectives of each Ministry and the government as a whole.

The government sets the policy direction for each ABC

The Minister, on behalf of the government, sets the policy direction for the agency, board or commission (ABC) and defines the specific responsibilities. Also, the government provides each ABC with either funds through grants, or the ability to raise revenues. The Minister then relies on the ABC to provide cost effective programs and services within its mandate. To ensure that this occurs, the Minister must agree on performance expectations of the ABC and hold the ABC accountable for achieving results.

A board of directors is responsible for governing the operations of each ABC

A board of directors governs the operations of each ABC. Therefore, the ability of the Ministry to achieve its mission or execute its public policy is, at least in part, a function of the effectiveness of each of these boards. The board of the ABC is responsible for setting the strategic direction of the ABC including establishing performance expectations, monitoring actual performance and reporting to the Minister on the achievement of results.

Management of the ABC provides the required services or programs in accordance with strategic direction and policies

The board members in turn rely on the management of the ABCs to provide the required services or programs. Management must implement the goals and strategies established by the board in accordance with legislation and the policies as set by the board and the Minister.

The Minister, board and management must work together to achieve the goals of the ABC

Each party is dependent on the other to achieve a common goal. Each Ministry, in support of the Minister, should have systems in place to ensure that its boards are working effectively. In addition, boards should be satisfied that the organizations they govern are operating effectively.

Effective governing bodies adhere to good governance principles

Governing bodies that adhere to good governance principles understand the public policy as established by the Minister and the goals of the ABC they govern. They understand and obtain appropriate information to govern and fulfill their accountability obligations by reporting on the ABC's performance against agreed upon goals and targets. They are comprised of members who have the necessary knowledge, skills and abilities to fulfill their responsibilities.

Governance Principles for Agencies, Boards and Commissions

Recommendation No. 9

It is recommended that the Deputy Minister of Executive Council work with other Ministries to set out governance principles for all agencies, boards and commissions.

Ministers need to ensure that ABCs adhere to good governance principles

Most Ministers are dependent on the effectiveness of one or more boards to fulfill their responsibilities. Therefore, Ministers need to ensure that ABCs adhere to sound governance principles. In my view, the government should provide guidance to assist Ministers in establishing and agreeing on governance practices for ABCs.

The governance practices of ABCs should be improved

Over the past few years, I have observed several instances where the governance practices of ABCs could be improved. While these instances are specific to each ABC, I believe that they further illustrate the need for government wide guidance on governance principles. The following are examples of possible deficiencies in governance practices.

A selection process, including selection criteria, is not used by all ABCs

The PAO staffing directive relating to appointment of members to ABCs, which the Premier introduced in 1992, has improved the recruitment practices of the government. The directive outlined the components of a sound selection process. The most important component is the development of selection criteria that reflect the requirements of the position and the ABC as a whole. Some boards have adopted the process outlined in the directive and have established selection processes for the appointment of board members. I have seen evidence, however, that a selection process is not used by all ABCs. A sound selection process provides the Minister with assurance that the successful candidate has the desired skill set and mitigates the risk of appointing board members that do not meet the needs of the particular organization.

There continues to be a need to improve the accountability processes of ABCs

Under the government's management model, Ministers are expected to implement accountability processes to manage the performance of an ABC. I note that accountability frameworks have been established for some ABCs, however, I continue to see the need to improve the accountability of a significant number of ABCs. For example I have noted the need to improve business planning and reporting for ABCs such as Regional Health Authorities (RHAs), Child and Family Service Authorities and post secondary institutions. I have also noted many instances of the need to improve accountability for grant funding provided to ABCs such as CKUA Radio Foundation.

There is limited reporting by boards on their governance practices

One principle that has emerged in the private sector is the need for boards to report on their governance practices. This practice allows stakeholders to assess the board's effectiveness and the potential for sustaining performance. There is limited reporting by the government boards on their governance practices. I have noted a need for the Ministry of Health to provide guidance to RHA boards on how to conduct self-evaluations and what governance reporting should encompass.

Boards need to assess the effectiveness of internal control systems

I have also noted the need for boards to assess the effectiveness of internal control systems established by management. I recently observed instances where boards of RHAs were not obtaining critical information on their control systems with respect to the payment of source deductions to Revenue Canada. This may indicate an increased risk that boards are not operating effectively and efficiently.

Orientation and training of board members should be improved

I believe that orientation and training of board members should be improved. I have observed that most orientation and training programs focus on administrative processes and do not include training on effective governance practices. In order to fulfill their governance responsibilities, all board members should receive information on their governance role and the public policy role of the ABC. Further, the Minister responsible for the ABC should ensure that this is occurring.

There are many respected sources of good governance principles

There are many sources of information on good governance practices. In recent years, respected organizations such as the Canadian Comprehensive Auditing Foundation, the Canadian Institute of Chartered Accountants, and the Toronto Stock Exchange have articulated good governance principles and developed guidance for boards on implementing good practices.

Guidance on good governance practices should clarify existing practices and provide consistency amongst ABCs

Establishing guidance on good governance principles would assist Ministers and ABCs in fulfilling their responsibilities. This guidance should clarify existing practices and provide consistency amongst all ABCs, including those that are outside the government reporting entity. This guidance should represent the government's standard for ABC governance practices.

The nature and extent of governance principles will vary by type of ABC

I acknowledge that there are several types of ABCs, with varying responsibilities. Therefore, the nature and extent of the application of governance principles may vary for each type of ABC. For example, the governance practices for a governing board may be more extensive than for an advisory board. However, all ABCs should adhere to effective governance principles.

We have also seen evidence of departments having identified principles of good governance for their ABCs.

Governance principles should identify good practice with respect to key board responsibilities

I believe that the governance principles should encompass the following areas:

- Roles and responsibilities of the Minister, board and management.
- Approving and monitoring mission, vision and strategy.
- Approving and monitoring the entity's ethical values.
- Overseeing external communications.
- Board appointments and composition.
- Appointments and evaluation of senior management.
- Setting board performance expectations.
- Assessing and reporting on board effectiveness.
- Assessing the effectiveness of internal control systems.
- Orientation and training practices.
- Measuring and reporting entity performance.
- Conflict of interest guidelines.

Established governance principles should be used to improve governance practices of ABCs

Established principles could then be used by each Minister and ABC to evaluate existing practices. Identified opportunities to improve governance practices should then be assessed in terms of business risks and issues facing the ABC.

I understand that the Government Reorganization Secretariat has recently undertaken a review of government ABCs. The review will include the accountability framework and governance of ABCs.

Year 2000

In my 1995-96 annual report, I made my first recommendations regarding the Year 2000 issue. I made further recommendations about the government's preparations for Year 2000 in my 1996-97 annual report. In last year's report, I recommended that the Office of the Chief Information Officer (OCIO) work with Ministry chief information officers and other relevant government organizations, such as Disaster Services, to identify remaining Year 2000 risks to the Province and to develop appropriate plans to mitigate these risks.

The problem - systems may not work as intended

Information systems may not operate as intended following the turning of the millennium. Many computer systems, in the interest of saving storage space, used only two digits to identify the year. Unless users make necessary changes to hardware and software, when the systems read the year 00 they may assume that the year 1900 has been reached rather than the year 2000. Therefore, they may stop operating properly. The failure of these systems is referred to as the Year 2000 problem.

My staff reviewed government action to prepare

In response to the Year 2000 problem, government has taken significant action over the last few years to identify the scope of its problems and to plan for and take corrective action. Also, it established a monitoring process, which required each department to report monthly on its effort to correct the problem. The Departments of Health and Education also took steps to monitor the Year 2000 efforts of organizations in their respective sectors. The monitoring efforts of Health included third party review of Year 2000 readiness in each Regional Health Authority.

Status shows 80% of mission critical systems are Year 2000 compliant

The information provided in the monitoring reports dated June 22, 1999 for the month of May 1999 show that about 80% of mission critical systems have reached the stage of being operationally sustainable or are fully compliant. The report showed that the remaining 20% would be Year 2000 compliant before the year-end. However, work on a number of systems will not be completed until the fall of 1999.

Management is aware of the risk that they face

My staff again examined the efforts of departments and Provincial agencies to prepare systems for the change in date. Based on this work, I concluded that government managers are aware of areas of risk facing departments and agencies with respect to the Year 2000 problem. I have discussed significant Year 2000 risks facing a particular Ministry in its own section.

Government acted to ensure information is available on the potential impact of Year 2000 on essential services

On October 6, 1998, at a meeting organized and chaired by the OCIO and the Executive Director, Alberta Disaster Services, senior representatives from key public and private sector organizations committed to an open exchange of information about the potential impacts of Year 2000 on essential services. The meeting was an important step towards identifying the preparedness of the electrical, telecommunications, natural gas, water and municipal emergency services. I have discussed the efforts of the

government to address this matter more fully in the Ministry of Transportation and Utilities section of this annual report.

In 90 days we will know if management's efforts have paid off

As an overall conclusion, I am satisfied that the government managers are aware of the potential risks related to the Year 2000 problem and have generally acted appropriately to mitigate the risks. However, work remained as of the writing of this section, and it has to be noted that regardless of people's best effort, some element of risk will remain. One thing is certain. In approximately 90 days we will know if management has been successful in dealing with the Year 2000 problem.

Shared Services

Definition of shared services

The government considers shared services to be where one government organization provides services to another, typically for administrative functions. These services are not a core business of the organization delivering the services, nor are they required by legislation to provide the services. For example, arrangements include one organization obtaining payroll processing services or information technology support from another organization. Based on the definition provided, the government would not call accommodation services provided by Public Works Supply and Services or legal services provided by Justice shared services. Nor would it include initiatives where responsibility is shared between organizations, for example, the Children's Services initiative and the Integrated Resource Management initiative. However, in my view, the administrative service centres established to serve the Child and Family Services Authorities, and Persons with Developmental Disabilities boards, are shared services.

Shared services are expected to increase

In recent years, the government has placed greater emphasis on establishing shared services arrangements. Shared services was one of the four main cross-government initiatives in 1998-99. In the May 1999 reorganization, there was further emphasis on implementing shared services arrangements. Currently, there are a number of shared service arrangements in government and we are expecting a significant increase in the next few years. The current arrangements are relatively small in scale, but the potential for the scale to increase is significant. For example, the Child and Family Services Authorities will receive all administrative services from the Department of Human

Resources and Employment.

*Shared services improves
cost effectiveness*

I understand that the government's move to share services amongst organizations is expected to provide economies of scale or to use excess capacity. It also allows specialized skills to be focussed where needed. In short, to do more with less.

*Key risks need to be
managed*

Shared services have been in operation in the government, on at least a limited basis, for many years. Shared services have also been in operation in the private sector and in other jurisdictions for a number of years. As a result, there is information available on good practice for shared services and therefore, I will not elaborate on these. Instead, based on recent experience, I have identified a few key risks which need to be managed in order to get the maximum value out of the shared services while respecting the need for organizations to meet their mandated responsibilities.

Guidelines for Shared Services Arrangements

Recommendation No. 10

It is recommended that the Deputy Minister responsible for the shared services initiative develop guidelines for shared services that mitigate identified risks and provide for the assessment of the cost effectiveness of each arrangement.

*Without access to skills to
manage shared services
arrangements,
organizations may not
meet their mandate*

Government believes that shared services have the potential of realizing improved quality of services for organizations while reducing their administrative costs. To provide cost-effective services, providers must focus on understanding and meeting the needs of the organizations they serve. Also, the recipient organizations must have access to the skills needed to manage the service provider, including the ability to assess the quality of services provided. Further, the recipient should have the ability to hold the service provider accountable if needs are not being met.

*Potential for conflict of
interest*

In the Family and Social Services section of this report, I have elaborated on the problems encountered by the community boards for persons with developmental disabilities with their services provider. The fundamental issue was that the boards could not get the services that they needed to fulfill their governance responsibilities. Nor did they seem to have the ability to influence the services being provided. In this case, the one provider was delivering all

services, from senior management to data entry. These same people also worked for the department, which was controlling the boards. Where services providers manage services, or regulate the board, the potential for conflict of interest arises. Any conflict of interest will result in an increase in the risk that the board will not fulfill its mandate.

Recipe for success

I have seen another circumstance in which a department successfully provided services to one of its boards. One reason for success in this case was that the department involved and its staff understood that while they were working on board matters, they were fully accountable to the board. Another reason was the commitment of the department to providing high-quality services.

Clear definition of roles and responsibilities is needed

The basic point is that where a department, or other organization, implements a shared services arrangement that includes senior management services, or where the department is also responsible for regulating the board, steps need to be taken to allow the board to fulfill its mandate. Service agreements and clear definition of roles and responsibilities within the service provider are tools that can be used to mitigate the risk of the board not fulfilling its mandate. Also important is a clear unwavering commitment to providing high-quality services.

Service agreements are needed

During the course of my attest audits, I noted a number of instances of shared services arrangements that were not supported by a service agreement. Though at this time there is no formal policy requiring such written agreements, it is recognized as a good practice. Also, the value of service agreements has been communicated throughout the government. I understand that the government is developing a service agreement template to assist organizations. However, the absence of this template is not a justification for the absence of an agreement in any form. In my opinion, there are circumstances in which the absence of agreements has contributed to the risks I have identified and could represent a potential governance failure.

*Government-wide
guidance is need*

In my view, shared services provide an excellent opportunity to improve the quality of administration provided to organizations and at the same time to reduce costs. In fact, I am working with other Legislative Officers in Alberta to consider if a shared services initiative will provide us with these benefits. However, as with any initiative, there are risks. Systems policies and practices need to be established to mitigate these risks. In this section, I have identified three key risks that:

- services will not meet the needs of the organization and it cannot address the problem,
- boards will not be able to fulfill their responsibilities or service staff will be in a conflict of interest position, and
- costs will not be properly allocated.

I believe these risks need to be examined at a government-wide level and appropriate systems and policies need to be developed.

Guidance to reader

In the Province's vision for the future of adult learning, Albertans are recognized globally for the excellence of their knowledge, skills, attitudes and experiences that enable them to take responsibility for shaping their futures, to participate in a changing economy and workforce, to create new knowledge and to enrich the quality of life in their communities.

The Department of Advanced Education and Career Development's mission is to "lead and work with other partners to set new directions for adult learning, and to provide Albertans with an accessible, responsive and affordable system of quality adult learning that is accountable for results." To help in the assessment of the performance of the Department in meeting the mission, key performance indicators have been established with respect to its goals of accessibility, responsiveness, affordability, research excellence and effectiveness.

In this report our reference to Ministry includes the Department of Advanced Education and Career Development, the Personnel Administration Office and the public post-secondary education institutions

The "other partners" referred to in the Department's mission statement are primarily the public post-secondary education institutions. In the government's view, the Ministry of Advanced Education and Career Development consists only of the Department of Advanced Education and Career Development (the Department) and the Personnel Administration Office (PAO). In my view, the Ministry also includes all the public post-secondary education institutions. Accordingly, when I refer to Ministry in this report I mean the Department, PAO and the public post-secondary education institutions.

The Department expended approximately \$923 million as support for adult learning and \$313 million to assist adult students

During 1998-99, the Department spent approximately \$1.3 billion. Approximately \$313 million of the departmental budget was used to provide financial assistance to adult students. Approximately \$923 million was used to support adult learning of which approximately \$884 million was provided to public post-secondary education institutions and approximately \$11 million to private post-secondary education institutions.

Improvements to the accountability framework supporting conditional grants are necessary

While most of the funding by the Department to post-secondary education institutions was in the form of operating grants, approximately \$123 million was expended as grants to support initiatives such as:

- improving access,
- enhancing learning,
- encouraging research excellence and intellectual infrastructure partnerships,
- renewing infrastructure facilities, and
- overall institutional performance.

I examined the Department's approval, monitoring and evaluation processes for four of the grant programs. My recommendation in this regard relates to improvements to the processes used to collect and verify grant information from the institutions.

Improved institutional controls are needed to ensure accurate key performance indicator data is provided to the Department for the performance envelope awards

At the request of the Department, over the course of 1997-98 and 1998-99, I reviewed the systems at each of the public post-secondary education institutions (institutions) used to generate the key performance indicator (KPI) data used in the calculation of the Department's performance envelope award. I found that controls are needed at institutions to improve reliability of KPI data.

Budgeting systems should be strengthened at the University of Calgary

In my 1996-97 and 1997-98 annual reports, I made recommendations designed to improve the quality of business plans provided by the public institutions and also capital planning in the sector. In addition to reviewing the initiatives by the Department in this regard, and at the request of the University of Calgary, I reviewed the budgeting process and related accounting practices at the University. In my view, strengthening budgeting systems is essential to enable the University to compare annual results with budgeted results.

Improvements in governance and accountability of the Academic Health Centres are needed

Working with Ernst & Young, I also reviewed the systems used for business planning at the Edmonton and Calgary Academic Health Centres (Centres). The Centres are responsible for educating health professionals, conducting research and providing clinical services. I estimate that approximately \$350 million of funding is provided annually to the Centres from the respective regional health authorities and universities, and others. My recommendations in this regard are designed to improve the governance and

accountability framework of the Centres.

Better construction management systems are needed at the University of Alberta to ensure construction activities are cost-effective

Once the capital needs of the institutions have been identified and funding provided, systems are required at the institutions for procurement and maintenance of capital assets. Over a twenty-month period the University of Alberta expended \$48 million on contracts for maintenance and construction. As the University anticipates more construction activity in the future, I reviewed the University's systems to approve and manage construction contracts. I concluded that a better system is needed to ensure the University is performing construction activities on a cost-effective basis. In addition, a mechanism needs to be established to ensure conflict of interest policies with respect to construction project management are being followed.

Clearer links between strategic planning, business planning and Board communication will improve governance at Medicine Hat College

At the request of the Board of Governors of Medicine Hat College, my staff reviewed the reporting to the Board by senior management. After developing a new model of governance over the past two years, the Board wanted to improve its reporting processes. Although I did not observe any instances where the established system had failed, I believe governance could be improved by establishing clearer links between strategic planning, the three-year business plan, the annual budget, and Board communication processes.

Ministry of Advanced Education and Career Development year ended March 31, 1999

Financial Statements

An adverse audit opinion was issued on Ministry financial statements because of the lack of consolidation of public post secondary education institutions

I issued an adverse audit opinion on the financial statements of the Ministry of Advanced Education and Career Development for the year ended March 31, 1999. The Ministry financial statements contain only the transactions of the Department and PAO. In my opinion, generally accepted accounting principles applicable to the public sector require public post-secondary education institutions to be consolidated in the Ministry financial statements. Had these institutions been consolidated, the information provided in the Ministry's financial statements would have been materially different.

There were other reasons as well for the reservation of opinion, and the auditor's report should be read for full details. I have provided a summary of the reasons for reservations in my auditor's reports on Ministry financial statements on page 262 of this report.

In addition, during the year, the Ministry of Advanced Education and Career Development (AECD) incurred \$6.8 million of expenditures delivering labour market training programs to clients of the Ministry of Family & Social Services (FSS). The voted appropriation for FSS included \$6.2 million since FSS intended to reimburse AECD for delivering these programs up to that amount. However, since FSS was projecting a Ministry budget overrun for 1998-99, an agreement was reached between the two Ministries that \$4.4 million of the \$6.8 million would be expensed by AECD instead. Consequently, FSS reduced its budget overrun and accordingly applied for a smaller supplementary vote than originally anticipated. AECD was legally entitled to deliver these programs and had sufficient available voted funds to absorb these costs. However, in my opinion, these costs should not have been reassigned without the Legislative Assembly's agreement to the revision of FSS and AECD performance expectations through, for example, use of the supplementary estimate process.

In addition to the annual financial audit of the Ministry of Advanced Education and Career Development, the following work was completed:

- Reporting on results of applying specified audit procedures on certain Key Performance Indicator data prepared by public post-secondary education institutions and used by the Department to determine the performance envelope grant.
- A follow-up with respect to my previous year recommendations concerning business planning, deferred maintenance and capital budgeting.

Performance Envelope Key Performance Indicators

Background

Key performance indicator data is used to calculate the performance envelope award

To promote accountability, the Alberta post-secondary education sector, working in concert with the Department of Advanced Education and Career Development, has developed a set of key performance indicators (KPIs). Beginning in 1997-98, certain KPIs formed the basis for the permanent, annual distribution of approximately \$15 million from the Department's performance funding envelope.

In order to obtain assurance that institutional systems used to generate key performance indicators were functioning appropriately, the Department requested my staff to perform specified audit procedures on the data submitted by institutions for the 1998-99 KPI performance envelope funding.

The sector is breaking new ground and is encouraged to continue

The KPI reporting process and performance based funding for the sector is new. The sector is breaking new ground in linking funding to performance. It has established KPIs to improve performance by rewarding success. The Department has created a sector-wide committee to deal with reporting issues that arise. I strongly encourage the sector to continue its endeavors to enhance the relevancy of performance measurement.

The process is not fully developed, and opportunities for improvement exist

Since the KPI reporting process is new, the underlying reporting principles and practices and related systems are not yet fully developed. Many of the related systems require manual processes and are not integrated with the institutions' management information systems. There is an opportunity for the sector to improve the reliability of the information that is provided, and to improve the efficiency of the process, through automation, development and implementation of appropriate control processes and through integration with existing management information systems.

Credit full load equivalent students, graduate employment rate and graduate satisfaction KPIs are three of the key measures of an institution's performance and also provide the majority of the weighting in the calculation of the performance envelope award. The following recommendation addresses issues regarding these KPIs.

KPI Reliability**Recommendation No. 11**

It is recommended that the Department of Learning work with the public post-secondary education institutions to improve the reliability of KPIs for credit full load equivalent student, graduate employment rate and graduate satisfaction.

Administration of surveys and accuracy and reliability of survey data could be improved

Graduate employment rate and graduate satisfaction are calculated from survey data. At many institutions, controls over data collection procedures need to be established and data collected needs to be reconciled to registrar records and survey populations. In some cases, staff conducting surveys are not adequately trained and are not sufficiently independent. Furthermore, at some institutions, data compilation and input is not double-checked. Consequently, some survey results are unreliable and a number of compilations, processing and inputting errors remain undetected.

Accuracy of full load equivalent data can be improved through reconciliations between institutional and Departmental systems

For the credit full load equivalent student KPI, some institutions transfer student information manually from the registration system to computer files that are uploaded onto the Department's Common Information System (CIS). Many institutions do not have procedures to reconcile CIS information with institutional records, including transcripts and program calendar information. Furthermore, when such procedures are in place, the results are not reviewed. Consequently, transcription errors occur and compilation, processing and input errors remain undetected.

KPI information can be more reliable with proper segregation of duties, proper documentation and use of reconciliations

To help ensure it has correct information upon which to base the performance awards, the Department should work with the institutions to develop a method that will provide staff with training on appropriate internal control processes. Such processes would include proper segregation of duties, proper control of survey forms, independent verification, reconciliations, and proper review and approval of key performance indicator data.

The Department and institutions could also reduce the risk of error and improve efficiency by exploring ways to facilitate an automated transfer of FLE data from institutional registration systems.

Business plans

In my 1997-98 annual report (page 37), I recommended that the Department, working with public post-secondary education institutions, develop strategies to ensure that institution business plans contain the planning information necessary to meet the needs of the institutions and the Department.

Revised guidelines have resulted in significant improvements in the institutional business plans

I am pleased to report that the revised Business Plan and Annual Report Guidelines issued by the Department in 1997-98 and the discussions held between the Department and the institutions have resulted in significant improvements in the institutional business plans. In general, the 1998-99 three-year business plans are providing more complete planning information regarding enrollment projections, facility needs and funding strategies. Additionally, initiatives described in the narrative portion of the business plans are more consistently reflected in the associated financial plans.

Deferred Maintenance**Recommendation No. 12**

It is recommended that the Department of Learning and the public post-secondary education institutions continue to improve the system to manage the infrastructure by evaluating the overall progress made towards addressing the critical health and safety risks relating to deferred maintenance.

Last year, my staff recommended that the Department and the public post-secondary education institutions improve the system to manage the infrastructure by evaluating the risks relating to unfunded deferred maintenance. I am pleased to report the Department has agreed with the recommendation.

Sufficient information is not available to determine the overall progress made towards addressing the critical health and safety risks relating to the deferred maintenance

The institutions are responsible for capital asset maintenance. Since 1997-98, a total of \$70 million has been granted through the Infrastructure Renewal Envelope to help institutions address the \$362 million backlog of deferred maintenance identified through a Departmental study in 1997. To date the institutions have submitted Infrastructure Renewal Funding plans and a first series of summary accountability reports listing the initiatives undertaken with the first allotment of Infrastructure funding. A second round of summary reports is expected in the fall. Neither the plans nor the reports, however, indicate which projects address critical health and safety concerns. Such concerns include

for example, elevator and structural safety and fire suppression systems. Therefore, although the Department conducts annual project site visits, sufficient information is not available to determine the overall progress made towards addressing the critical health and safety risks relating to deferred maintenance.

My staff will continue to monitor progress in managing the sector's unfunded deferred maintenance

The institutions are expected to complete their Infrastructure grant projects within three years. At the end of this period, the Department is considering conducting another comprehensive facility study to reassess the level of deferred maintenance within the sector and to evaluate the progress made with the \$105 million Infrastructure grant program. Future funding strategies to address the remaining deferred maintenance and the accumulating ongoing operational maintenance are also currently under review. My staff will continue to monitor the departmental and institutional progress in managing the sector's unfunded deferred maintenance.

Long Term Capital Planning

Recommendation No. 13

It is recommended that the Department of Learning, working with the public post-secondary education institutions, continue to develop a long-range capital planning system for Ministry infrastructure.

In my 1997-98 annual report (page 41), I recommended that the Department, working with the public post-secondary education institutions, develop a long-range capital planning system for post-secondary institutional infrastructure. The Department has agreed with the recommendation and has begun to take action.

The Department is currently working with all departments through a government-wide Capital Investment Planning Committee to develop a capital overview and a capital management system

The Department is currently working with all departments through a government-wide Capital Investment Planning Committee to develop a capital overview and establish the basic elements of a capital management system that will serve as an outline for each department. One of the primary objectives of this initiative is for each department to prepare a long-term strategic capital plan by March 2000. To begin the process, the Department conducted a review of the condition and the estimated replacement cost for each facility within the sector. The Department has also completed a study of the student capacity available in the system given the current capital structure.

A significant amount of detail remains to be collected from the institutions

I have repeated this recommendation as I believe that a long-range capital planning system for Ministry infrastructure is critical to the long-term success of the sector and a significant amount of detail remains to be collected from the institutions. To meet the requirements of the government-wide initiative, the institutions must prioritize and submit their long-term capital needs based on enrollment forecasts and proposed sources of funding to meet these requirements. The capital needs projections should also consider the impact of future changes to delivery methods. Once the information has been gathered, the Department must prepare a listing of prioritized projects within the sector and thereby determine the sector's overall capital needs. Such information will also assist the Department to justify the sector needs at a government-wide level.

Department of Advanced Education and Career Development year ended March 31, 1999

The following work was completed:

- The reporting of results of applying specified audit procedures to the Department's and PAO's core performance measures as presented in the Ministry's 1998-99 annual report.
- Audit of the 1997-98 and 1998-99 Province's Statement of Operations under the Labour Market Development Agreement between the Province and the Government of Canada.
- An examination of the processes followed by the Department to approve, monitor and evaluate Access, Learning Enhancement, Research Excellence and Infrastructure Renewal grant programs.

Audit of the Labour Market Development Agreement

The Department submits an audited statement of operations to the Government of Canada for the reimbursement of costs incurred to deliver labour market development programs

Under an agreement entered into in 1997, the Government of Canada agreed to reimburse the Department for delivering Labour Market Development Agreement (LMDA) programs. The programs range from assessing skill levels and selecting appropriate work experience opportunities for participants, to encouraging various employer groups to form local partnerships that develop strategies to deal with labour market issues. The Department is required to provide a statement of operations which indicates the allowable expenses incurred by the Province for these programs during the year and the contributions owing by the Government of Canada.

During my audit of the Department's 1997-98 claim to the Government of Canada, my staff reported to management that in our view, \$1.2 million of certain costs excluded by the Department from the Statement of Operations were claimable expenses under the agreement. I am pleased to report that during the course of my 1998-99 audit, the Government of Canada confirmed that these costs could be claimed. Subsequently, the Ministry applied for and received reimbursement of the full \$1.2 million. The Department has indicated to me that they will continue to include such costs in the Statement of Operations in the future.

Conditional Grants

During 1998-99, the Ministry issued conditional grants amounting to approximately \$85 million from four grant programs

In addition to unrestricted operating grants, the Department has in recent years begun to target specific initiatives within the advanced education sector by allocating conditional grants to post-secondary education institutions. During 1998-99, the Department issued conditional grants amounting to approximately \$85 million from four funding envelope grant programs. The Department expended approximately \$28 million from the Access Fund grant program for the purposes of increasing the number of students accessing Alberta's post-secondary system. Another \$10 million was spent to support the integration of technology into the sector through the Learning Enhancement Envelope program and \$3.5 million was allocated to assist universities in the recruitment and retention of quality faculty and graduate students through the Research Excellence Envelope program. A total of \$43 million was granted to institutions to help meet facility

and infrastructure maintenance needs via the Infrastructure Renewal Envelope program.

My staff conducted a review of the effectiveness of the processes followed by the Department to approve, monitor and evaluate the results of the institutions' spending of conditional grants for each of these four grant programs.

Conditional grant processes

Recommendation No. 14

It is recommended that the Department of Learning improve the processes used to collect and verify conditional grant information from the public post-secondary education institutions to facilitate the monitoring and evaluation of each conditional grant program.

The Department should expand the methods used to obtain assurance that the institutions have systems in place to ensure the projects are cost-effective and the accountability reports are accurate and reliable

As a condition to each grant program, the institutions are required to provide annual accountability reports to the Department. Given the significant dollars involved, the Department should enhance the methods used to obtain assurance that the institutions have processes in place to ensure the projects undertaken are cost-effective. The Department should also expand the processes used to ensure the institutions have systems that compile reliable and accurate information when completing the accountability reports. For example, one method the Department currently follows to evaluate the cost-effectiveness of the projects and the reasonableness of the submitted accountability reports is to conduct annual site visits to the Infrastructure program projects. Periodic site visits to Learning Enhancement projects, especially for projects where significant funding has been granted, should also be conducted. Observations obtained and conclusions reached during site visits should be documented.

The Department should gain additional assurance regarding the institutions' submitted financial and non-financial information

Furthermore, the Department could assess the accuracy of submitted financial information by agreeing amounts to the institutions' audited financial statements or by periodically examining the institutions' systems used to compile the information. Specifically, the Department could verify that the institutions have processes in place to properly monitor expenditures for individual projects. Moreover, wherever possible, non-financial information within the accountability reports could be corroborated with other information available within the Department. For example, since Access

funding seeks to expand the number of students, as measured by Full-Load Equivalents (FLEs), who are able to access the post-secondary educational system, institutions are required to report the number of additional FLEs entering the institutions. This information should be agreed to the data submitted by institutions for KPI reporting purposes to confirm that overall, the number of FLEs has increased at the institution.

Supplementary disclosure within the accountability reports would facilitate the Department's evaluation of progress within the sector

In addition to gaining more assurance regarding the accuracy of accountability reports, supplementary disclosure within the reports would facilitate the Department's evaluation of progress within the sector and identification of where problems may arise. For example, institutions should be required to clearly indicate within the accountability reports where projects have deviated from the institutions' original intentions or timelines.

The assessment of the overall impact of each grant program should be improved

Finally, the assessment of the overall impact of each grant program should be improved. The Department should evaluate the progress first in terms of achieving the individual grant program goals, and then on a higher level in terms of achieving the Departmental goals of accessibility, affordability, responsiveness, effectiveness and research excellence. The results of the latter comprehensive analyses should be included in the Department's annual report as a measure of the sector's performance towards achieving the Department's goals.

Comprehensive analyses of the achievement of individual grant program goals and overall Departmental goals have not been prepared for each of the grant programs

While the Department has recently prepared high level analyses for the Access Fund and Research Excellence grant programs, comprehensive analyses on both levels described above have not been prepared for each of the grant programs. For example, since a main goal of the Access Fund is to increase the number of FLEs at the institutions, the Department has determined and reported how many new FLE placements have been created. However, the sector's progress towards achieving a second goal of the Access Fund, which is to encourage innovation in creating learning opportunities, has not been measured and evaluated. To facilitate the preparation of such analyses, it is essential that the institutions submit to the Department all relevant data supporting the criteria used to evaluate the success of the projects. Additionally, certain grant program analyses could be made more meaningful by relating outcomes of the grant program to performance measures in the Department's

annual report. For example, research excellence is indicated in the Department's annual report by the average amount of sponsored research funding per faculty member received by each institution. However, these averages are only shown for the current year. Increasing the disclosure to include comparative figures would enable readers of the Department's annual report to appreciate the impact of the program over time.

Contract Management

It is recommended that the Department of Learning ensure that contract manager verification and follow-up procedures as established in the Department's contract procedures manual are satisfied before payments are made to contract service providers.

The Department has developed a comprehensive contract procedures manual

During 1997-98, the Department developed a contract procedures manual which includes detailed policies regarding contract tendering and negotiating procedures, managing on-going contracts and post-payment verification and monitoring. In my 1997-98 annual report (page 47), I stated I would continue to monitor the progress of the Department in implementing the new contract procedures manual. This year, my examination focussed on the latter stages of post-payment verification and monitoring of results.

The manual requires both contractors and departmental contract managers to follow-up on the results obtained from contract services

Contractor payments are based on services delivered and results obtained. An example of a result to be reported to the Department by contractors is the employment status of the clients served by labour market development programs. The manual therefore establishes two phases in the monitoring process to address the risk that payments may be made to contractors when the contract requirements have not been fulfilled. The first is a follow-up of the client to be performed and documented by the contractor and the second is a follow-up of the contractor and selected clients, performed by the Department contract manager.

Documentation of both follow-up procedures and invoice verification is not being prepared consistently by the Department's contract managers

My staff found that documentation of the follow-up by the Department's contract project managers is not being prepared consistently as required by the manual. The Department also conducted an internal review of the administration of program contracts. In summary, it was noted by the Department that a number of the contract files lacked sufficient documentation regarding contract manager reviews of the contractor's client files, on-site visits by the contract manager and communications made with the clients

or their employers. Although adequate documentation was not kept in these files, the Department maintains that in some cases follow-up work was completed. The Department also found that contract managers were not consistently documenting their verification of the appropriateness of invoice amounts.

Without documented follow-up information, the Department cannot substantiate whether contractors have fulfilled their obligations as stated in the contracts

Without documented follow-up information, the Department cannot substantiate whether contractors have fulfilled their obligations as stated in the contracts. As a result, there is a risk that contractors are receiving payment for services not fully rendered. Additionally, obtaining sufficient follow-up documentation is essential to the evaluation of Departmental programs such as for Labour Market Development initiatives.

Other entities

The audits of the **Non-Profit Private Colleges Foundation** and the **Public Colleges Foundation of Alberta** for the year ended March 31, 1999 were in progress as at the date of this report.

Matters related to public post-secondary educational institutions

Annual financial audits for Athabasca University and the University of Lethbridge were completed for the year ended March 31, 1999.

Annual financial audits, for the year ended June 30, 1999, of the following entities were in progress at the date of this report. Any findings arising from these audits will be included in my next annual report.

Alberta College of Art and Design
Northern Lakes College
Portage College
NorQuest College
Bow Valley Vocational College
Fairview College
Fairview College Foundation
Grande Prairie Regional College
Grande Prairie Regional College Foundation
Grant MacEwan Community College
Keyano College
Lakeland College
Lethbridge Community College
Lethbridge Community College Foundation
Medicine Hat College Foundation
Mount Royal College
Mount Royal College Foundation
Northern Alberta Institute of Technology
Olds College
Olds College Foundation
Red Deer College
Southern Alberta Institute of Technology

The University of Alberta year ended March 31, 1999

In addition to the annual financial audit of the University of Alberta, my staff completed the financial audit of the **University of Alberta 1991 Foundation** for the year ended March 31, 1999. The financial audits of the **Laser Institute** and **Research Technology Management Inc.** for the year ended March 31, 1999 were in progress as at the date of this report.

My staff, working with the University of Alberta's Internal Audit Department, also reviewed the University's systems to approve and manage construction projects.

Construction Project Management

Background

Over a twenty month period ended November 30, 1998 the University entered into approximately thirteen hundred construction contracts with a value of \$48 million. The construction projects relating to these contracts ranged from large projects to construct new facilities to small maintenance type of projects such as painting of offices. In

future years, the University anticipates increasing the amount of construction.

Contract project management

Recommendation No. 15

It is recommended that the University of Alberta strengthen its contract project management systems by:

- **ensuring contracts are executed in advance of the commencement of all construction projects,**
- **ensuring its competitive bidding policies are being followed and change orders are processed only when warranted, and**
- **improving the process to evaluate contractor performance.**

Execution of contracts

Executed contracts are not always in place prior to the work commencing

To ensure that a basis exists for assessing whether a contractor has met its performance obligations, an executed contract should be in place prior to the work commencing. However, in approximately 20% of the contracts that my staff reviewed, work commenced prior to having a contract in place. In the majority of these cases fee disputes arose which were more difficult to resolve in favour of the University since formal contracts including contract specifications had not been in place prior to the commencement of work. Part of the reason that contracts are not always in place prior to the commencement of work appears to be the tightness of the deadlines associated with completing the work. University staff have informed me that as a result of the tight deadline a more costly option may be used, based on perceived expediency, instead of a more cost-effective option.

The schedule of construction projects should be reviewed to ensure it is realistic

The University should review its scheduling of construction projects to ensure it is realistically attainable, so that projects can be completed on a cost-effective basis and contracts can be in place prior to the commencement of work.

Competitive Bidding and Control of Change Orders

A mechanism is needed to ensure University policy is always followed with respect to competitive bidding

Although the University has a policy specifying when competitive bidding should be used, a review of contract files and other correspondence indicates the policy is not always followed. A lack of competitive bidding can expose the University to the risk of potential failure to receive value for consideration paid. By failing to give consideration to other potential service providers, it is difficult for the University to judge the reasonability of costs proposed by a

vendor. Accordingly, the University needs to establish a mechanism to ensure its policy is enforced.

Sufficient information is not always in place to support the payment of change orders

Approximately 25% of the contracts with change orders examined by my staff were projects where the final cost exceeded the second lowest original competitive bid due to the processing of change orders. In some cases, sufficient documentation was not maintained in the project files to justify the payment of the change orders.

An improved process is needed to manage change orders

The University should improve the management of change orders. Prior to having a contractor commence additional work, a change order should be in place which includes the following:

- The sponsoring department's agreement that the change to the scope of the work is required and is approved.
- The construction project manager has reviewed the technical merits of the change.
- The construction project manager and the purchasing department agreement that the change order, as presented, does not represent work that should have been performed under the original contract.
- The construction project manager concurs in writing that the change order, as presented, represents fair value to the University.

Where, depending on the type of project, the number of change orders or the dollar amount of change orders exceeds a pre-defined limit, a review should be done to determine whether a weakness in the construction project management system may have caused the change orders to occur.

Contractor Performance Evaluation

Although a mechanism is in place to evaluate contractors, contractor evaluation is not consistently being done

Until very recently, the University has not had a formal process whereby the sponsoring department has had written feedback on the contractor's prior performance. In November 1998, the University's purchasing department introduced evaluation forms for post-construction contractor and consultant evaluation. However, by April 1999, the purchasing department had received only one contractor evaluation form.

Contractors with performance issues continue to be used by the University

During our interviews with University staff from all levels of the construction management process, my staff asked whether University staff members were aware of contractors with performance issues. For the majority of the interviewees, the answer was clearly “Yes”.

Continued use of inadequately performing contractors has many effects on the University including:

- Concerns over whether the University is receiving value for consideration paid when the work is sub-standard or not in accordance with the original contract, and
- Increased risk of liability arising from poorly completed construction or repair work.

The University needs to ensure contractor evaluations are consistently prepared upon completion of the construction project

To improve contractor performance the University should put more emphasis on requiring project managers to promptly complete contractor evaluation forms. The purchasing department can then use that information to promptly amend the standing order vendor list to include only those contractors that have provided adequate performance. In addition, as part of this process and to understand how the sponsoring departments are impacted by the contractor’s performance the University should consider having the sponsoring departments provide feedback and signoff that the project was completed.

Performing post-completion reviews may result in savings for the University

For larger dollar value or riskier contracts the University may wish to go further in contractor evaluation and consider building into its contracts the right to perform a post-completion contract audit. These type of audits may result in savings for the University by addressing issues such as the achievement of overall project objectives, budget overruns and user satisfaction levels.

Conflict of interest policy and code of conduct

It is recommended the University require annual disclosure of private interests that have a likelihood of creating a conflict of interest for those staff involved in procurement and project management, and for all other administrative supervisory staff. In addition, it is recommended that a code of conduct be defined for all staff and that the University put a mechanism in place to ensure that conflict of interests and code of conduct policies are being followed.

While the University has conflict of interest policies, no mechanism exists to ensure the policy is being followed by staff in procurement and project management

Currently, the University has conflict of interest policies in a number of different manuals and agreements. One of the most comprehensive policies appears in the General Faculties Council (GFC) Policy Manual. This policy requires for all staff that conflicts of interest be disclosed when a staff member is appointed and when actual conflict of interest situations arise. However, the University lacks a mechanism to ensure that the policy was being followed for staff involved in procurement and construction project management.

The policy also requires academic staff, in certain cases, to disclose annually private interests that have a likelihood of creating a conflict of interest. The same requirement should be in place for staff involved in procurement and project management, and for all other administrative supervisory staff.

As a minimum, staff involved in procurement and construction management should be required to provide written conflict of interest disclosures on an annual basis

Failure to have adequate disclosure of conflicts of interest could affect the integrity of administrative processes at the University including the management of construction projects. For example, project sponsors and construction project managers could be in a position to unduly influence contractor tendering and selection. Accordingly, persons in a position to contract or to provide influence over the competitive bidding process should be required to disclose conflicts of interest and annually private interests that have a likelihood of creating a conflict of interest.

A code of conduct should be defined for all staff

It would also be useful for the University to define a code of conduct for all staff. Such a code would include, for example, the dollar level, if any, of gifts and other benefits it would be acceptable for staff to receive from those who conduct business with the University.

Administrative Systems Renewal Project (ASRP) and Non-ASRP Applications

Considerable progress with ASRP implementation has occurred

In my 1997-98 annual report (page 49), I recommended that the University develop contingency plans to mitigate the potential adverse consequences of slippage in the Administrative Systems Renewal Project (ASRP) implementation schedule. The systems to be implemented as part of ASRP replace the major financial, student information and human resource systems used by the University. I noted that the timelines for successful implementation of the ASRP project were extremely tight and that slippage in delivery plans could result in serious difficulties for the University and have potentially adverse effects on the University's

ability to manage the risk of Year 2000 failures. Considerable progress with the ASRP implementation has occurred during the year. The University is looking at the risks remaining with the applications that have yet to be implemented and intends to make contingency plans where necessary.

Although the inventory of risk assessments for non ASRP systems was not complete by May, 1999, progress is being made

In my 1997-98 annual report (page 51), I also recommended that the University accelerate the process for assessing and identifying the mission critical Year 2000 risks, and potential costs to mitigate these risks, in the non-Administrative Systems Renewal Project systems. I commented on the significant logistical problems in administering a Year 2000 assessment project in an environment as extensive and decentralized as the University. My staff's observations this year indicate that significant senior management involvement is evident and that although the inventory of risk assessment was not complete by May 1999, that progress is being made and that more resources have been committed to move Year 2000 readiness forward.

As in the case with many organizations, despite the University's efforts to address the issue, it is not possible to be certain that all aspects of the Year 2000 problem affecting the University, including those related to the efforts of customers, suppliers and other third parties will be fully resolved before the Year 2000.

The University of Calgary year ended March 31, 1999

The audits of the **University of Calgary Foundation, University Technologies International Inc., Olympic Oval/Anneau Olympique** and the **Arctic Institute of North America** for the year ended March 31, 1999 were in progress as at the date of this report.

In addition to the annual financial audit of the University, my staff reviewed the University's budgeting systems.

University of Calgary's Budget Process and Related Accounting Practices

Purpose of review

At the request of the University, I have reviewed certain issues raised by the Students' Union in its presentation to the Board of Governors in March 1999.

Issues reviewed

The Students' Union argued that a tuition fee increase was not necessary. They alleged that certain budget components were inflated by management to mislead the Board in order to gain approval for a maximum tuition fee increase. The allegations included statements that reserves were excessive and that revenues were in excess of the University's requirements. Their argument was based on: their analysis of the University's consolidated financial statements for the year ended March 31, 1998, the University's previous years' consolidated financial statements, the budget documents including financial information supporting the budget, and the University's annual reports. The argument focussed on the University's financial operating results and financial position as presented in the budget and in the audited financial statements. Specific issues raised were:

- The accuracy of the budget surplus presented,
- Financial matters related to tuition fees,
- Salaries and benefits including the unfunded pension liability,
- Investment in capital assets including library acquisitions,
- Amortization of capital assets,
- Ancillary services revenue and expense,
- Restricted funding,
- Transfers to endowments, and
- Carryover reserves

Also, concerns over variances between budgeted and actual results were raised as were the differences between the methods used for budget accounting and the year-end generally accepted accounting principles (GAAP) accounting.

My review included an examination of:

- Consolidated financial statements,
- Budget process,
- Tuition Cap, and
- Student Support

Summary and Conclusions

My overall conclusions are that:

- The consolidated financial statements as at and for the year-ended March 31, 1998 as presented are appropriate and are prepared in accordance with generally accepted accounting principles.
- I did not find evidence of any matters in the budget designed to mislead the Board or that the reserves are excessive to the University's needs. The budget presented was consistent with the budget preparation and reporting practices of previous years. In fact, my analysis shows that the University's financial position is not strong enough to fully support the faculty carryover reserves as reported. Carryover reserves reflect the University's commitments to its faculties that annual budget savings can be used for faculty purposes in subsequent periods.
- There are significant differences in reporting practices between the approved budget and the annual year-end consolidated financial statements. As a result of the differences in practices between the approved budget and the annual year-end consolidated financial statements, it is difficult to compare or discuss planned to actual results. These differences result in significant reported variances in revenues, expenses and operating results and consequently resulted in argument and confusion over the amount of budgeted revenues, expenses and annual results.

The Students' Union focussed on certain of these differences in accounting practices between the budget and the annual year-end consolidated financial statements. They presented arguments for adjustments to capital and other costs included in the budget, which are not accounted for as expenses in the annual year-end consolidated financial statements. This led to their conclusion that the budget surplus was understated in the amount of \$44.9 million. I disagree with this conclusion because it fails to account for amortization and other accrued costs, which are used to determine the annual surplus as reported in the consolidated financial statements. Had amortization and accrued costs been included, the \$44.9 million adjustment would have been significantly reduced. The differences between the budget and the year-end consolidated financial statements led to the accusation that the University is "cooking the books". I

found no evidence that the University was generating excess surpluses. For example, the total available and unrestricted net assets at March 31, 1998 of \$28.1 million are not sufficient to support commitments of \$47.9 million to its faculties.

Budget process**Recommendation No. 16**

It is recommended that the University of Calgary's approved budget be prepared on an accrual basis reflecting all transactions that will be reported in its consolidated financial statements.

Refinements to budget methodology required

I believe that the University should employ GAAP based budget methodology in order to communicate its financial requirements, especially in the areas of capital acquisitions, and also to determine a balanced budget. The annual consolidated financial statement reporting practices have changed in recent years in response to changes in generally accepted accounting principles. However, the budget reporting has not kept pace with such changes. As a result, there are significant variances that arise between the two methods. The main differences arise in the following areas:

- The budget reflects as expenditure certain non-expense items such as capital acquisitions, carryover reserve adjustments, and internal transfers.
- The budget reflects certain expenditures on a net basis including ancillary operations and cost recovery projects.
- The budget does not account for amortization, donations, pension liability changes and certain restricted revenues and related expenses including sponsored research. It is acknowledged that certain of these items are presented as information in schedules to the budget.

Why amortization needs to be budgeted

Investment in capital assets is disclosed as expenditure in the budget whereas the consolidated financial statements report amortization expense. Disclosing capital asset transactions as investing activities in the budget presentation would serve to eliminate the confusion generated by including operating and capital items together as expenditure. Amortization represents the consumption of the value of the asset over the useful life of the asset. It also serves as a gauge to determine whether revenues are sufficient to cover the amortization cost. If amortization is not included in the budget, revenues

that should represent recovery of amortization costs are reported as available and the risk is that they will be spent and not be set aside for capital asset replacement (reserves).

Why amortization represents cash spent

Unless capital assets are donated, the acquisition of capital assets requires cash. Capital asset cash requirements are funded in basically two ways – capital contributions and through operating revenues including operating grants and tuition fees. Amortization represents a portion of the cash expenditure of other periods used to acquire the capital asset and where such cash, already expended, is not recovered either through capital contributions or operating revenue, the effect is that the institution is depleting its aggregate financial position. In short, it is downsizing. When amortization is viewed in its technical terms as a non-cash transaction, this view most often avoids the necessity to deal with the fact that unless sufficient revenues are available to meet the amortization expense, the cash costs of the asset are not being recovered.

Cash planning

In order for the University to continue to operate and provide educational services, it should determine how the replacement capital assets will be funded either through operating funds or through capital contributions. This is why I believe that the University should establish a position as to the appropriate level of reserves required for future capital investment.

Responsibility for the funding of capital assets

Typically, amortization on internally funded capital assets would result in an amount of cash at the end of the year that could be reinvested in capital assets. However, as indicated earlier, at March 31, 1998, the University had accumulated amortization of \$172 million relating to furnishings and equipment and only \$28.1 million in unrestricted net assets. In its May 1995 Accounting/Financial Policies memo, the Department of Advanced Education and Career Development indicated that the institutions were responsible for capital asset maintenance, replacement and betterment through the revenues provided in the operating grant. It is imperative that the University develop a capital budgeting plan which identifies the strategies the University plans to use to fund its long-term capital requirements. This includes determining how the capital assets will be funded, whether through contributions, financing or operations. If the University intends to replace assets through equity, then it must ensure that an amount equivalent to amortization is set

aside in reserves so that sufficient cash is generated to replace the capital assets at the end of their useful life. The University will need to make some assumptions about future government funding policies, and consider whether it should be restricting funds for future capital needs from its present annual operating surpluses. Not restricting funds from surpluses, when there is an expectation that the University will use operating grant funds to fund equipment, could result in the University being unable to fulfill its mandate.

Accrual methodology in budgets is required

I recognize that the budget process is more complicated than financial reporting and as a result, more difficult to adapt to match accounting changes. It is acknowledged that a reserve in the amount of \$18.9 million was established in the 1998-99 annual consolidated financial statements for equipment, construction, renovations and deferred maintenance. I also wish to acknowledge that a number of changes have been made since the 1997-98 budget year. Specifically, a restricted capital reserve has been established in the 1998-99 consolidated financial statements, a request for approval of the 1999-00 sponsored research budget was made and an estimate of amortization has been provided in the 1999-00 budget presentation. I further acknowledge that the current budget process was designed around cash-based fund accounting and would require significant modification to address the University's future needs. The issue of re-examining the cash-based budgeting process is important to the University because of changes in recent years to funding provided by government. The Department of Advanced Education and Career Development's policy guideline on capital asset maintenance and replacement sets out expectations that institutions must provide for capital asset maintenance, replacement and betterment through their operating revenues. In effect, this policy means that institutions must not only consider cash needs on an annual basis but also consider future cash required for capital needs in the future. This is why accrual concepts in budgeting have become more important. In my view, the budget should include all the components as reported in the annual audited consolidated financial statements, which include all operating, investing and financing transactions.

Balanced budgeting

Recommendation No. 17

It is recommended that the University of Calgary review its budgeting process to determine whether its current definition of a balanced budget is adequate to ensure programs and facilities are supported and will continue to be supported.

Balanced budgets must provide for appropriate reserves

The University defines a balanced budget as expected operating revenue equal to cash expenditure. Expenditures include the amount spent for capital replacement and renovations. Capital acquisitions are budgeted in the amount of revenues available after operating needs are met. Therefore, capital replacement can be delayed. The University should assess its needs and budget for the replacement of capital on a long-term basis. Using a cash-based budgeting model without generating a sufficient level of reserves presents the risk of downsizing of the University, as it becomes more difficult to replace capital assets and to perform deferred maintenance when the requisite resources are not available.

In Note 8 to its 1997-98 consolidated financial statements, the University reported carryover reserves at \$47.9 million. As previously indicated, the University does not have available net assets to support these carryover reserves.

It is my understanding that some faculties are building reserves for specific projects. As such, the reserves are commitments that cannot be met with existing available net assets. It appears that most of such reserves are targeted for much needed equipment replacement.

Reserve levels need to be reviewed

When viewed against the demands to replace furnishings and equipment already amortized to the extent of \$172 million, it is evident that the current accumulated operating equity and contributions received for capital assets are inadequate to fund the replacement of these assets. A planned policy of replacing diminished assets is required to maintain the operations. New information technologies are also placing pressure on the University to replace and upgrade facilities more frequently. Certain faculty members have indicated that the University, due to scarcity of funds, can not accommodate all of their information technology requests.

The level of capital base needed should be established

It would be useful to have the University define a balanced budget based on GAAP which is sufficient to maintain a capital base (equity) commensurate with the overall fiscal needs of the University. I believe that failure to deal with the balanced budget issue could result in the consumption of the existing capital base. I also believe that the current non-GAAP basis of budgeting focuses on cash payments and not on the overall resources including cash needs of the University.

Two key areas that the University deals with in the budget are:

- The amount of revenue, including tuition fee revenue, that is available to the University, and
- The allocation and matching of these revenues to the current operations (expenses) and to the capital infrastructure including future capital needs.

Matching is a key factor

The failure to match, on a GAAP basis, revenues generated with resources consumed could result in the consumption of the capital base and the eventual downsizing of the University infrastructure. My review indicates that the University is currently unable to adequately meet its infrastructure needs. Accordingly, I am recommending that the University consider defining a balanced budget with sufficient revenues necessary to generate the capital base that the University requires to sustain its future needs. Information to support the determination of an appropriate capital base for the University is needed. In making this recommendation, it is acknowledged that building a capital base could reduce funding for operational purposes or could require an increase in revenues.

Amortization of Buildings

In my 1997-98 annual report, I recommended that the University of Calgary ensure that the estimate of useful life for buildings is realistic by preparing supporting evidence. A similar recommendation was made to the Athabasca University and the University of Lethbridge. The Universities were amortizing the cost of their buildings over 60 years. The other public post-secondary education institutions were using 40 years or in one case 50 years. In addition the CICA Handbook recommends that the

amortization period for capital assets not exceed 40 years unless an extended period can be clearly demonstrated. For the 1999 financial statements all three Universities revised the period over which buildings are amortized to 40 years.

Council of Academic Health Centres of Alberta

Background

From mid-1998 to mid-1999 my staff participated with Ernst & Young in a project to assist the Council of Academic Health Centres of Alberta (the Council) to initiate business planning. The project report was issued in August 1999. This section is based on the findings of the business planning project.

Academic health centres educate future health professionals, conduct research and provide clinical services

The Calgary and Edmonton academic health centres have three primary functions, to:

- Educate future health professionals.
- Conduct biomedical and health sciences research.
- Provide a broad range of highly specialized clinical services.

The Centres' functions are carried out by a partnership of faculties, health service providers and faculty members

These functions are carried out by a partnership of three groups:

- **Faculties:**
Primarily the University of Calgary Faculty of Medicine and the University of Alberta Faculty of Medicine and Dentistry.
- **Health service providers:**
Primarily the Calgary and Capital regional health authorities and the Alberta Cancer Board (collectively referred to hereafter in this section as RHAs).
- **Individuals:**
Clinical and health sciences faculty members.
Clinical faculty members are practicing doctors, often called academic physicians, who may also teach and/or conduct research.

The Council consists of the two Deans of Medicine and the CEOs of the Capital and Calgary regions and the Alberta Cancer Board. Government funding for these groups is primarily through the Ministries of Health and Advanced Education and Career Development.

The Calgary and Edmonton academic health centres are unique within their University environments. They function in a hospital as well as a campus setting. They are subject to external accreditation, provide direct services to the public, have complex funding mechanisms, and have interdependencies with other institutions. Clinical services are regional but research and education can be national and international in scope.

The faculties and the RHAs are mutually dependent. The RHAs depend on the faculties to attract and retain top-notch professionals and to conduct cutting edge research. The faculties depend on the RHAs to provide the necessary clinical environment for education and research—an academic physician cannot teach or conduct research without access to a hospital and the opportunity to practise clinical medicine. As faculty members, academic physicians are subject to university governance. As clinicians, they are involved in hospital and RHA committees. Yet they are also independent practitioners.

The Calgary and Capital RHAs also differ from other RHAs in the Province owing to the academic affiliation: in the breadth and depth of services they provide and the resources they devote to supporting education and research. These resources include laboratories, classroom and office space, diagnostic services, and information systems as well as the academic physicians and related support staff.

Regionalization of health care has made the entity responsible for academic health harder to define

Regionalization of health care delivery has changed the traditional relationship between the faculties and hospitals. The entity responsible for academic health, at one time the “teaching hospital,” has become much harder to identify, thus obscuring information on financial status and performance and creating the perception of academic health as a “black box.” The rationalization of hospitals and the integration of RHA business processes have yet to be reconciled with the need for a harmonious working alliance with the faculties.

Structures, processes and systems should facilitate collaborative decision making between the partners

The incentives for these partners to cooperate toward common goals need to be expanded beyond merely their common interest in health care and their mutual interdependencies. Organization and governance structures, accountability processes, financial systems, and funding mechanisms should support rather than obstruct

collaborative decision making in such areas as the planning and allocation of financial resources, coordination of research, curriculum development and specialization, workforce planning, and sharing of physical and administrative infrastructure.

Shortcomings in management and information systems conceal risks

Consequently, academic health is beset with several serious risks:

- Lack of understanding of the scope of academic health and lack of transparency of the financing of academic health centres may cause funding agencies to be reluctant to accede to requests for proposed solutions to financial issues.
- Lack of information systems that can clearly present the financial status and performance of academic health centres contributes to the above problem and renders the task of managing resources and effecting accountability for them extremely difficult.
- Complexities and inequities in the remuneration of academic physicians may jeopardize the ability to attract and retain them in the future.
- Increasing dependence on extramural funding together with the hidden infrastructure costs it causes and the inadequacy of related information systems, at least renders the faculties vulnerable to fluctuations in revenues and at worst may result in inadequate delivery capacity, particularly for research.

While regionalization may have accentuated these risks, they are not new. They are fundamentally a consequence of the extraordinary complexity that is common to all academic health institutions to which there is no easy solution.

A workable governance structure and accountability process are required

To establish a workable governance structure and accountability process for the academic health centres and to put them on a sound financial footing, the Council and its members should:

- Recognize that the scope of academic health, including its financial resources and obligations, is significantly greater than is commonly understood.

- Define the boundaries of the entity or entities responsible for academic health and their mandate(s), role(s), and accountabilities.
- Develop performance management systems that will provide information to serve accountability processes.
- Restructure the methods of remuneration of academic physicians.
- Develop and implement a plan to redress infrastructure deficiencies.

The scope of academic health Recommendation No. 18

It is recommended that the full scope and magnitude of academic health activities and the consequences for accountability of the academic health centres be acknowledged by those responsible for managing and funding those activities.

The business planning project defined academic health to include:

- All the activities of the two faculties.
- Administrative and infrastructure support to the faculties by the universities.
- All payments by the RHAs to physicians who are full-time faculty members and related support staff costs.
- The clinical, fee-for-service incomes of those faculty members.
- RHAs' direct expenditures on clinical research.
- RHAs' indirect teaching and research costs—the additional operating costs owing the teaching of residents and the conduct of research in the hospital setting.

The total cost of academic health in 1997-98 was about \$350 million

While the inclusion of these activities and the exclusion of others may, and indeed should be debated, they represent a reasonable approximation of the scope of academic health. According to this definition, the total cost of academic health in 1997-98 was approximately \$350 million. The following table presents the sources of funding of this \$350 million.

Sources of Revenue	\$ million	% of total
Faculties		
University budgets (includes tuition)	40	11
University contributed services and facilities	39	11
Research agencies	87	25
RHAs	25	7
Physician practice plans	13	4
Endowment interest	11	3
Sales of goods and services	<u>7</u>	<u>2</u>
Total faculties	<u>222</u>	<u>63</u>
RHAs		
Alberta Health		
Medical education	39	11
Indirect teaching and research costs	30	9
Fees for clinical services	22	6
Research agencies	<u>28</u>	<u>8</u>
Total RHAs	119	34
Less transfers to faculties	<u>25</u>	<u>7</u>
Net RHAs	<u>94</u>	<u>27</u>
Academic physicians		
Clinical fees for service	47	14
Less contributions to faculties	<u>13</u>	<u>4</u>
Net physician fees	<u>34</u>	<u>10</u>
Total funding	<u>350</u>	<u>100</u>

Faculty accountability is limited to University budgets

Accountability for this \$350 million is confusing and disjointed. The current accountability process for faculties focuses on the budgets allocated to them by the universities, which amounted to about \$40 million of the \$222 million incurred by the faculties. Each faculty receives funding not only from its university (including tuition fees), but also from the RHA, research grants, sales of services, endowments, and physicians' practice plans. In addition, the universities provide facilities and administrative services, the costs of which are not allocated to the faculties.

RHA management systems do not separately identify Centre costs

As part of the \$1.7 billion of contributions from Alberta Health to the RHAs, about \$39 million was earmarked for medical education (resident and faculty salaries) and about \$30 million was estimated by the RHAs to be for indirect teaching and research costs. The cost of salaries can be tracked but the indirect costs cannot. RHAs also receive funds for research from a variety of sources and pay fees for other academic-related clinical services to faculty members. Expenditures on these items are not reported separately and many are very difficult to segregate from non-academic expenditures. The total cost of academic health to the RHAs

is estimated at about \$119 million, of which about \$25 million was transferred to the faculties.

The balance of the \$350 million consisted of the clinical, fee-for-service incomes of academic physicians (\$47 million) less their contributions to the faculties (\$13 million) for administrative support services.

Formal, distinct accountability can thus be said to exist for about 22% of total funding—accountability of the faculties to the universities for about 11% and of the RHAs to the Ministry of Health, via their boards, for medical education costs, also about 11%. The provincial government ultimately provides about 70% of the funds, directly or indirectly, to universities, RHAs, and individual practitioners. This dictates a requirement for accountability for expenditures and results achieved with them through a governance structure to the ministerial level.

Progress on the issues facing academic health requires all stakeholders—Council members, universities, Ministries, research agencies, and other members of the health care community—to acknowledge the scope and magnitude of academic health activities. The next task is to define the responsible entities and their accountabilities.

The accountable entity

The first step in improving accountability is to define the boundaries of an Academic Health Centre

Recommendation No. 19

It is recommended that the entity or entities responsible for academic health and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established.

At the root of the accountability issue is the definition of the boundaries of the entity or entities that make up an academic health centre. At present no single entity exists, in the sense of an organization to which resources are allocated and which is accountable for the use of those resources. It is also possible to consider an academic health centre as consisting of several entities—a faculty of medicine and certain components of an RHA and a cancer centre. However, none of these entities is sufficiently well identified at present for them to be held fully accountable. For example, faculty operating statements do not cover all the costs they incur and

no financial statement of faculty assets and liabilities exists. Neither statement exists for the academic component of RHAs.

To define the academic health centres, a number of major questions have to be answered, including the following.

Accountability of researchers tends to be to granting agencies

- Is medical research a faculty or an individual responsibility?

Almost half the faculties' funds come from research grants. Authority for soliciting grants and spending research funds is decentralized to the individual research scientists. Their accountability for research projects tends to be more to granting agencies than to the faculty. However, in my opinion, a number of considerations require the overall management of research to be included in the mandate of the academic health centres. Most importantly, research creates infrastructure requirements not funded by the grants. In addition, the future of research funding needs to be forecast as part of faculties' financial planning, and research strategies need to be planned by and coordinated between the faculties.

Should all the remuneration of academic physicians be included?

- Are clinical services provided by faculty members an academic health centre function or the responsibility of the RHA, outside academic health, or solely the responsibility of individual academic physicians?

It is the nature of medical education and research that it must be carried out in a clinical environment. Also, it is impossible in practice to segregate physicians' clinical activities from their research, teaching, and administrative activities. Therefore, we included all the remuneration of physicians who are full-time faculty members in the academic health centre.

This issue is relatively simple for full-time faculty members who receive a salary from the University but becomes progressively more problematic with respect to physicians who teach on a part-time basis with no or minimal compensation from the university. At the two universities, about 300 academic physicians are full-time faculty members, but approximately another 1,600 physicians have some form of affiliation with the faculties.

Accountability for infrastructure costs needs to be determined

- Who is accountable for the overhead or infrastructure costs—facilities and administrative services—provided by the universities and the RHAs and for the indirect teaching and research costs of the RHAs?

In the \$350 million, I included estimates of the faculty overhead costs borne by the universities and the indirect operating costs borne by the RHAs. I did not include RHA facility and administrative costs related to academic health because they are difficult to estimate and the information is not available. To the extent they are decided to be the responsibility of the academic health centre, proper definition of these activities and their costs will be required.

Alternative organization and governance structures can then be assessed

Once these issues have been resolved, the appropriate organization and governance structure can be put in place. The most promising alternatives appear to be:

- To maintain the present entities and the faculty and RHA relationships but with more precise definition of their respective responsibilities, resources and assets, and strong, accountable affiliation agreements that cement their commitments to one another.
- To create a single entity within the RHA structure in each region with an affiliation agreement with the University.
- Under either of these alternatives, to strengthen the Council's authority in such areas as medical manpower planning, coordination of research funding and concentration, location of academic specialties, faculty remuneration, and policies respecting affiliation agreements.

As part of the governance structure, the role of the Ministries of Advanced Education and Career Development, and Health should also be considered. For example, if an academic health centre becomes a separate entity, which Ministry funds medical education will need to be addressed. At present, Alberta Health funds post-graduate clinical education; Advanced Education and Career Development funds, via the universities, undergraduate medical, graduate science, and continuing medical education. If any funds for academic health are directed to the Council, the accountability of the Council to these Ministries will also need to be specified.

Information systems

It is recommended that university and RHA financial and management information systems be enhanced to meet the needs of accountability for the resources devoted to and the performance of academic health centres.

Financial and management systems need to change

To enhance transparency as well as accountability and to improve the quality of information required for planning and managing academic health, financial and management information systems need to change significantly. At present, agreement on the data required, let alone processes for collecting these data, are not in place. Once a definition of an academic health centre—the accountable entity—is agreed, then relevant and credible information should be developed to serve the entity's accountability.

Core academic health functions and information systems to measure their performance and costs need to be defined

Essential for business planning and accountability for the performance promised in the plan are adequate budgeting for and a clear accounting of financial resources and obligations. In both the faculties and the RHAs, the core academic functions of teaching, research, clinical service, and administration need to be precisely defined, with appropriate performance measures. Cost and performance information needs should be identified by function and common data definitions adopted. Current systems then need to be enhanced to inventory and value the entity's assets and liabilities and to record, allocate, and report actual performance, including all revenues and expenses, by function.

For example:

- Forecasts of research funding and the planning of research strategies require aggregate information on faculty and RHA research revenues and expenses by source of funds.
- Transparency of funding of the faculties by the RHAs requires segregation of University payroll recoveries by source and segregation of RHA payroll and accounts payable systems into academic and non-academic categories.
- The indirect costs to RHAs of supporting education and research need to be defined. Ways to measure these costs need to be developed rather than estimating them from other jurisdictions' studies as is the case at present.

- Proper assessment of the risk of losing faculty members owing to remuneration issues requires new systems to track physician incomes from all sources, as discussed in the next recommendation.
- A full appreciation of total faculty costs requires the allocation to the faculties of their portion of university overheads for faculty and administrative costs.
- Balance sheets should be prepared for faculties to disclose, for example, that unexpended research funds are deferred liabilities, not surpluses, and the status of endowments and of amortized capital assets.

Cross-funding of functions should be identified, budgeted and accounted for

A related issue is the cross subsidization of some functions with funds initially allocated to other functions. Funds are received from many different sources, often indirectly via intermediary organizations. Funding is often not matched to the clinical, research or education functions. For example, physicians' clinical incomes subsidize teaching activities; universities subsidize research overhead costs. Faculties find it difficult to forecast the money they may receive from RHAs out of funds provided by the Ministry of Health for academic health. Cross-subsidization may be a deliberate choice, but should be clearly identified, budgeted, and accounted for.

Remuneration of academic physicians

The remuneration of academic physicians is complex

It is recommended that the remuneration of academic physicians be rigorously reviewed to determine the best methods that will attract and retain the calibre of physicians desired.

A faculty member may receive a salary from both the RHA and the University, honoraria and other fees for clinical service from the RHA, research grants from federal, provincial or private sources, and clinical fees from Alberta Health. So complex is the remuneration of many academic physicians that it is uncertain whether the practice plans are capturing all of their clinical earnings and virtually impossible to obtain an accurate picture of their total incomes. In addition, demands from patients are increasingly compressing the time available for teaching and research and clinical earnings are tending to subsidize some of the costs of teaching and research.

Most physicians that are full-time faculty members are members of practice plans through which they contribute a portion of their fee-for-service incomes to their faculty for

services provided such as billing and secretarial support. Some of these contributions are used for subsidizing other physicians, funding research, and supporting other faculty activities. The total amount contributed was \$13 million in 1997-98. I estimate that the amount in excess of services received was about \$4 million.

Academic physicians are concerned that the costs of being a faculty member outweigh the benefits

There are growing concerns among academic physicians that their contributions are inequitable and that the costs of being a faculty member outweigh the benefits. The amount contributed can be over 60% of clinical earnings. The average is about 30%. Amounts paid for administrative services by non-academic physicians who have offices in RHAs are reported to be considerably less than this average.

These remuneration issues are increasing the risk that academic physicians will opt out of the academic health system. In some instances this is already happening. The academic health centres should:

- Establish systems to record, analyze, and report the total remuneration of academic physicians from all sources.
- Benchmark competitive methods and levels of compensation in the Canadian and North American marketplace and determine the potential impact of variances from these on the ability to attract and retain physicians.
- Develop a mutually agreed approach with the RHAs and the physicians to redesign the payment structures and methods and the practice plans and establish appropriate compensation policies accordingly.

Managing the infrastructure

It is recommended that policies and processes be established to assign responsibility for and to manage the infrastructure that supports academic health.

As noted earlier in this section of the report, capital assets in the advanced education sector are deteriorating and systems for capital planning and budgeting need to be established. Long-term capital asset planning is also key to the success of the academic health centres.

Ownership of, accountability for, and the value of the capital infrastructure need to be determined

As noted above, no balance sheets exist for academic health or its components. Therefore the value of these assets is not apparent. At present it is not always clear who owns the academic health facilities or what actual space the academic health centres occupy. Before any realistic planning can be undertaken, the centres need to inventory and value the existing capital assets, estimate their remaining useful life, and clearly determine the ownership of and accountability for these assets.

Research overhead costs need to be recognized

Of particular concern is the lack of recognition of the infrastructure costs related to faculty health research activities. Most research grants do not fund overhead costs. I estimate those costs for fiscal year 1997-98 at \$26 million, for university administrative support, facility and equipment maintenance and amortization, and faculty administrative costs. Funding for medical research is expected to grow significantly. To compete for these dollars, the faculties must ensure adequate investment in infrastructure. This requires that the full cost of research be identified and the role of the universities in providing the infrastructure be recognized. If university support cannot keep pace, other avenues will need to be pursued.

Summary

In this highly complex yet also high achievement environment, the structure of the partnership and what is expected of it by each partner, including government, needs to be formalized without compromising the excellence of which the Alberta academic health centres are justly proud. As stated in the Council's report on the business planning project:

"The Alberta academic health system has achieved great success, as evidenced by the growth in research funding, the world-renowned medical discoveries and the development of qualified physicians. In order to continue this success and enable their vision for the future, changes must be made to:

- *Establish a governance structure and accountability process that enables appropriate resource allocation and accountability for the use of resources both by the system and within the system.*
- *Clarify the missions and responsibilities of and interrelationships between the faculties and RHAs and between Edmonton and Calgary.*

- *Recognize and reward academic physicians equitably and restructure practice plans.*
- *Develop appropriate infrastructure for facilities, information systems, and research and administrative support.*
- *Continue to develop a formal business plan that includes both goals and the means to measure achievement of those goals.*
- *Create an effective and accountable organization structure as a first step toward integration of medical education, health sciences research, and related clinical service in a fully accountable academic health system.”*

Medicine Hat College year ended March 31, 1999

In addition to the annual audit, my staff completed a review of the planning, budgeting and performance information provided to the Board.

Reporting to the Board

It is recommended that Medicine Hat College work towards an integrated planning, monitoring, and reporting process that incorporates strategic planning, business planning, budgeting, performance targets and reports, and Board communication.

At the request of the Board of Governors, I reviewed the reporting to the Board by senior management. After developing a new model of governance over the past two years, the Board wanted to confirm or improve its reporting processes. The Board wants financial and performance information that will enable them to make the governance model work effectively.

The board is developing a strategic plan

In addition to the existing business planning and budgeting processes, the College is embarking on a strategic planning process. The Board has developed statements of mission, vision and guiding principles. Workshops are being held with staff to inform them of these and to ask for their input into strategic directions for the College. The Board has been briefed on the process and members have been invited to participate in the workshops. The Board should also ratify the strategic objectives and goals early in the process.

The strategic plan should be integrated with the business plan, the annual budget and Board communication processes

Clearer links need to be established between strategic planning, the three-year business plan, the annual budget, and Board communication processes. As the College implements strategic planning, it should ensure that planning and reporting mechanisms, including business planning, budgeting, performance monitoring, and communications, form an integrated system that sets expectations for the College and determines whether they are being achieved. Planning horizons should reflect the nature of the decisions being made and budgets should present the financial implications of the plan over the budgeting period.

The budget process and presentation have been improved substantially in the past few years. The Board is informed of the assumptions and trends underlying the budget. Areas of risk are identified. The Board is kept apprised of progress in developing the budget.

Performance measures should be established during the planning process and results reported to the Board and community

Board members believe that performance expectations and quality educational outcomes are being achieved. However, a complete set of objective measures of overall performance and student success is not in place. The College's performance should be measured against Board and community expectations of the Board established during the planning process, and reported both to the Board and the community. Performance measures might include:

- Tracking alumni and measuring their progress and success after a 3 to 5 year period.
- Identifying program costs and results.
- Determining a measure of community contribution.
- Improving measures of the personal improvement courses.
- Improving measures of success of students involved in academic upgrading.
- Determining measures for quality of instruction.

Successful performance of the College includes achieving annual financial targets; adequate planning for the future; delivery and completion of quality and relevant educational programs; and aversion of risk. The Board should look to best practices and potential benchmarks utilized at other colleges and institutions that may apply and incorporate reporting on performance measures, including student success, in its annual report.

The Board should monitor the implementation of its policies systematically

The Board should also monitor the implementation of its policies systematically. In its governance model, the Board has adopted ends policies and executive limitation policies that frame its expectations for the College and the President. Many of these policies are too new to have been through a cycle of monitoring.

The Board should adopt a plan to enhance communication with the community, staff, faculty and students

As an integral part of planning, the Board should adopt a communications plan to enhance linkages with the community and foster better communication with staff, faculty and students. The purposes of communications are: to provide input to planning; to seek feedback; to demonstrate leadership; and to raise awareness of the vision, mission and guiding principles of the College. While the Board uses a number of communications mechanisms, they are concerned as to how clearly the community understands the College's financial position. New strategies for reporting may help explain what the College can and can not do in the future.

Guidance to reader

The mission of the Ministry of Agriculture, Food and Rural Development is to enable the growth of a globally competitive, sustainable agriculture and food industry through essential policy, legislation, information and services. Its main functions are research, technology transfer, regulatory, industry development, risk management, public land management and lending. For financial statement purposes, the Ministry comprises the Department of Agriculture, Food and Rural Development, the Agriculture Financial Services Corporation, the Alberta Agricultural Research Institute, the Alberta Dairy Control Board, and the Crop Reinsurance Fund of Alberta. In 1998-99, total revenues and expenses for the Ministry were approximately \$343 million and \$531 million, respectively.

The development of a competitive agricultural industry presents certain risks to the Ministry. The increase in volume and diversity of agriculture products may have an adverse effect on the environment. Loans and grants provided to farmers and others may not be cost-effective. The Ministry may encourage farmers to grow certain crops based on expected markets which may never materialize. The move by the Ministry to outsourcing certain services may result in a loss in the effectiveness of these services. To be successful, the Ministry needs to manage these and other risks.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Agriculture, Food, and Rural Development for the year ended March 31, 1999. My auditor's reports contained reservations of opinion. The auditor's reports should be read for full details of the reasons for the reservation. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and Department financial statements.

Department of Agriculture, Food and Rural Development
year ended March 31, 1999**Scope of audit work**

In addition to the annual financial audit, the following work was completed:

- a follow-up on a recommendation I made in my last annual report with regard to the development of measurable targets to assess the achievement of Farm Income Disaster Program goals
- specified procedures applied to the performance measures to be included in the Ministry's 1998-99 annual report
- a review of Year 2000 readiness

Farm Income Disaster Program**Performance evaluation****Recommendation No. 20**

It is recommended that the Department of Agriculture, Food and Rural Development evaluate the performance of the Farm Income Disaster Program on a regular basis, and at least annually.

In my 1997-98 annual report (page 59), it was recommended that the Department of Agriculture, Food and Rural Development further develop measurable targets that can be used to assess the achievement of Farm Income Disaster Program (FIDP) goals. I was concerned that quantifiable measures and targets had not been set to measure the performance of FIDP.

Targets for the period evaluated should have been set at the beginning

An evaluation report of FIDP was completed in October 1998, after the end of the pilot three-year run of the program. My staff reviewed the descriptions of the performance measures and targets contained in this evaluation report and observed that some quantitative measures and targets have been adopted. My staff concluded, however, that to have been effective for management control purposes, all the targets should have been set at the commencement of the three-year period.

The Department intends to improve the performance measures by setting targets annually

My staff has been informed that the Department intends to set targets and compare results against targets annually. The FIDP Steering Committee, which comprises four members of senior management of the Ministry, has been assigned the responsibility for developing better evaluation measures.

FIDP grant expenditures for 1998-99 amounted to approximately \$56 million.

Agriculture Financial Services Corporation year ended March 31, 1999

Legislative amendments

In the 1997-98 annual report, it was recommended that the Minister seek an amendment to the *Agriculture Financial Services Act* to allow the Agriculture Financial Services Corporation to administer agriculture programs on behalf of governments outside Alberta. The Minister concluded an agreement with the government of British Columbia to deliver services through the Corporation under British Columbia's Whole Farm Insurance Program.

On March 23, 1999, the Act was amended to enable the Corporation to provide services outside the Province of Alberta.

Alberta Agricultural Research Institute
year ended March 31, 1999

My auditor's report on the financial statements of the Institute for the year ended March 31, 1999, contained a reservation of opinion. The auditor's report should be read for full details of the reservation.

Accounting systems

It is recommended that the Institute improve its accounting systems in order to produce timely and relevant financial information for its Board of Directors to carry out their responsibilities.

The Institute's accounting systems are inefficient

The Institute presently does not have an adequate accounting system to produce timely and useful financial information for on-going operating and financial statement purposes. The Institute presently maintains its accounting records on, and prepares its financial statements from, spreadsheets. The spreadsheets are supplemented by manual records in the form of journal entries derived from working papers summarizing the individual programs. The Institute had severe difficulties in meeting the deadline dates set by Treasury Department for the completion of year-end financial statements.

Other entities**Alberta Dairy Control Board**
Crop Reinsurance Fund of Alberta

My auditor's report on the financial statements of the Alberta Dairy Control Board, for the year ended March 31, 1999, contained a reservation of opinion. The auditor's report should be read for full details of the reservation.

Guidance to reader

The Ministry's purpose is to support community development, and through leadership, protection and partnership, help all Albertans participate fully in the social, cultural and economic life of the Province.

The Ministry delivers its programs and services through the Department of Community Development and several foundations, funds, commissions and agent volunteer societies. The Department provides administrative support services to most of the foundations, funds and commissions operating under the purview of the Ministry of Community Development.

The Ministry is responsible for:

- Supporting the independence and well-being of seniors by ensuring that supplementary income benefits and health care premium reductions are available to lower-income Alberta seniors. The cost of services to seniors in 1998-99 was \$186 million. Effective April 1, 1999, the responsibility for seniors' housing has been transferred from Municipal Affairs to this Ministry.
- Promoting the development of Alberta's communities, and increasing the capacity of community organizations for self-reliance; and supporting Alberta's quality of life through technical and financial support to the art, recreation, sport, library and volunteer sectors of the Province. The cost for community development services in 1998-99 was \$117 million. Effective April 1, 1999, the responsibility for the Community Lottery Board grants program (1999 expenses \$52 million) has been transferred to the Ministry of Gaming.
- Preventing and treating addictions through the operations of the Alberta Alcohol and Drug Abuse Commission. The cost of delivering this program in 1998-99 was \$34 million. This responsibility has been transferred to the Ministry of Health and Wellness effective April 1, 1999.
- Preserving, protecting and presenting Alberta's unique cultural and natural history. The cost of operating cultural facilities and historical sites in 1998-99 was \$22 million.

- Protecting human rights and promoting fairness and equal access for all Albertans to the social, cultural and economic life of the Province. The cost of delivering this program in 1998-99 was \$4 million.

In 1998-99, the Ministry's expenditures totaled \$369 million (1997-98: \$308 million) including \$6 million for ministerial support services.

Ministry of Community Development year ended March 31, 1999

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and the Department of Community Development for the year ended March 31, 1999. My auditor's reports contained a reservation of opinion. The auditor's reports should be read for full details of the reasons for the reservations. On page 262 of this report, I have provided a summary of the reasons for the reservations in my auditor's reports on the Ministry and department financial statements.

Scope of audit work

In addition to the audit of the Ministry's financial statements, my staff completed the following work:

Performance measures

- Specified audit procedures on the Ministry's key performance measures reported in its Annual Report for the fiscal year ended March 31, 1999; and

Review of excluded operations

- A review of the Ministry's responsibility to report in its financial statements all its revenues, expenses and net assets, even when some of these are being collected, incurred and held by volunteer societies, that as agents are operating the Ministry's museums, historic sites and Jubilee Auditoria. This review resulted in an additional reason for reserving my audit opinion on the Ministry's financial statements.

Excluded Operations

The Ministry's consolidated financial statements are not complete

In my opinion, based on my understanding of the operations, the Ministry's consolidated financial statements are incomplete. I believe that providing complete and accurate information about the Ministry's operations is critical to its accountability to the Legislative Assembly and to the public. The Legislative Assembly and the public need to know the extent of the revenues generated by Ministry assets, the

expenses incurred on Ministry operations and the surpluses (net assets) that are available for future use. To do this, the Ministry needs to include in its consolidated financial statements, its agent (volunteer society) generated revenues of \$5.3 million, expenses of \$3.7 million, and the surpluses of \$1.6 million retained by its agents for use in future operations or to improve the government's programs or assets. It should be noted that the Ministry is complying with Treasury Department accounting policies in not recording these transactions and the resulting surpluses (net assets).

Albertans are not given the complete picture

Simply, I am asking the Ministry to give Albertans a complete picture of all its assets and liabilities, and of all its revenues and expenses in its consolidated financial statements.

The benefits of reporting the relevant financial transactions of the agent volunteer societies in the Ministry's consolidated financial statements are:

Financial statements assist in improving performance

- The financial statements assist in improving performance. For good business decisions, it is critical that readers are made aware of the full scope of a Ministry's operations. After all, the Ministries are responsible for all assets consumed and expenses incurred by and for them.

Ministry of Community Development has delegated some of its duties to volunteer societies

- The revenues for the use of the Jubilee Auditoria and parkades, and the collection of admission fees at museums and historic sites are the responsibility of the Ministry of Community Development. Under contracts, the Minister has delegated to volunteer societies the duties and functions that are essential to the fulfillment of his responsibilities.

Volunteer societies use the resources of the Ministry to generate a substantial portion of their revenues

- The volunteer societies use the facilities of the Ministry to generate a substantial portion of their revenues. The government records the amortization and maintenance expenses for these facilities.

Volunteer societies use surpluses to improve government programs and assets

- The revenues earned by the volunteer societies are first applied to the costs incurred in the performance of their delegated duties. Any surpluses retained by the volunteer societies must be used in future operations or to improve the government's programs or assets.

Including agent transactions in the Ministry's consolidated financial statements would provide a complete view of the Ministry's operations and performance

Knowledge of costs improves decision-making

Ministry's consolidated financial statements are incomplete

- Inclusion of the relevant financial transactions of the volunteer societies in the Ministry's consolidated financial statements would bring together more of the accountability data of the Ministry. It would increase the usefulness of these consolidated financial statements by providing a complete view of the financial affairs and the resources for which the Minister is accountable.
- The Ministry's consolidated financial statements would provide a better understanding of the costs associated with the delivery of the Ministry's programs, the results achieved, and the resources available for the delivery of programs in the future. Understanding the components of the costs would allow the Ministry to better manage these costs and also allow it to compare its performance with other entities. Decision makers need this cost information for long-range financial planning, to make resource allocation decisions, and to assess stewardship. It would also allow other stakeholders to evaluate the financial operations and conditions of the Ministry's programs.

In my view, the Ministry's consolidated financial statements are incomplete so long as the agent-generated transactions of the Ministry are not reported.

Department of Community Development year ended March 31, 1999

Scope of audit work

Review of legislation relating to Health Insurance Premiums payable by seniors

In addition to the audit of the Department's financial statements, we reviewed the Seniors Benefit and the Health Insurance Premiums legislation to determine the changes needed to reflect the intent of the government to provide a single income-tested program for seniors through the Department of Community Development.

Transfer of funds from the Department of Community Development to the Department of Health

Government intent relating to health insurance premiums payable by seniors

In correspondence with the Ministry, Treasury Department and Alberta Health, I have expressed my concern with recording the transfer of funds from the Department of Community Development to the Department of Health as though these were health insurance premiums payable by seniors.

As stated in the *Alberta Seniors Benefit – Information Booklet*, the intent of the Alberta Seniors Benefit (ASB) program is to provide a cash benefit and lower health

insurance premiums for eligible seniors with low incomes. The Department of Community Development provides seniors with a cash benefit. The Department of Health, under Health Insurance Premiums (HIP) regulations, sets a lower premium rate for seniors, on the basis of their incomes. The legislation does not support the government's expressed intent of reporting both these costs of seniors' benefits in Community Development.

HIP obligations payable by seniors

The amounts that Health bills to Albertans, including some seniors, are recorded as revenue. For the seniors, these represent true premium obligations payable under Section 8.2 of the HIP Regulation. The seniors are parties that are external to Health and transactions with them have correctly been recorded as premium revenue.

Notional HIP revenues and its allocation between CD and Health

Where legislation does not require seniors to pay premiums, the two Departments have computed a notional premium amount for each senior, by assuming that every registered senior should be paying the full premium that would be paid by any other non-senior with the same marital status. They have also determined which Department is responsible for this notional amount based on the intent of the ASB program.

Incorrect accounting treatment for the notional HIP revenue that is deemed to be CD's responsibility

Health records revenue and Community Development records an expense for the part that is determined to be Community Development's notional responsibility. Making this entry inflates revenues and expenses, because under existing legislation there is no premium obligation for these seniors and, therefore, nobody can have any revenue from them.

Recording the transfer from CD to Health is possibly misleading

It is my view that the transfer from Community Development to Health of \$40.1 million in 1998-99, that is based on the lower rates for seniors' premiums, is not only notional but misleading.

Need for a consolidation eliminating entry

Only arm's length transactions should be reflected in the consolidated financial statements

It is important that the effects of inter-ministry transactions be eliminated with a consolidation entry so that the consolidated accounts of the Province do not overstate assets, liabilities, revenues or expenses because of such inter-ministry transactions. The consolidated financial statements should reflect only arm's length transactions with persons or entities outside of the reporting entity.

Including inter-ministry transactions overstates the revenues and expenses of the Province

The objective of financial statements, among other things, is to provide information about an entity's resources and its economic performance. The excess or deficiency of revenues over expenses is an important indicator to users of the financial statements about the extent to which an organization has been able to obtain resources to cover the cost of its services. Including inter-ministry transactions as revenues and expenses distorts this presentation and overstates the total revenues and expenses of the Province.

In 1997-98, Treasury was correct in making the consolidation eliminating entry

In 1998-99, Treasury did not make the consolidation entry to eliminate the effects of the Community Development transfer to Health on the revenues and expenses of the Province. In my view, Treasury was correct in 1997-98 when it did make such a consolidation eliminating entry.

Misstatement of revenues and expenses in the Province's financial statements

Based on my understanding of existing ASB and HIP legislation, I believe the consolidated financial statements misstate the revenues and expenses of the Province if the consolidation eliminating entry is not made.

Financial statements cannot be prepared incorrectly to meet budgetary needs or to reflect the government's intent

I acknowledge that this proposed consolidation eliminating entry results in a presentation that is not consistent with the program intent or the budget. However, I do not believe that the financial statements can be prepared incorrectly solely to satisfy these concerns. In the absence of legislative amendments, the government's intention for and effect of this program can be reported in other ways. For example, the government and the Ministries could indicate in other reports, the amount that Health would have collected from seniors, if seniors were required to pay the same premiums as other Albertans.

Need for amending legislation

As stated earlier, although the intent of ASB is to provide a cash benefit and a payment by Community Development to Health for the lower rate for health insurance premiums for eligible seniors with low incomes, unfortunately, the existing legislation does not support this intent.

Suggested legislation amendments

In a letter to the Provincial Treasurer, I suggested that to legitimize an arm's length relationship between Community Development and Health for the seniors' premiums, legislation could be amended to:

Require seniors to pay the same premiums under HIP legislation as other Albertans

1) Require seniors, under the HIP Act and Regulations, to pay the same premiums as other Albertans by removing certain clauses in Section 4 of the HIP Act and Section 8.2 of the HIP Regulation; and

Provide a premium subsidy to seniors under SB legislation

2) Provide the full benefits for eligible seniors with low incomes under the SB Act. The SB Act could also provide that the cost of lower health premiums would not be paid directly to seniors, but would be paid on their behalf to Health. In effect, the payment to Health for the lower premiums would be a deduction from the total benefit payable to seniors under the SB Act.

Premium subsidy to seniors under SB Act becomes reportable revenue for Health

Deductions from gross amounts payable to seniors under SB legislation would clearly be external revenue when received by Health. The proof is that the revenue is not created internally; the revenue is derived from transactions between the government and external individuals.

Change would not affect seniors and the transaction would not have to be eliminated on consolidation

The seniors would not be affected by these changes to legislation, as they would continue to receive the same net benefit and reduced premiums that they presently receive. These changes would allow Community Development to transfer to Health the funds it withholds for premiums from seniors. This would also allow Community Development to record an expense and Health to record premium revenue, and not require the transaction to be eliminated on consolidation as it would be “genuine” revenue for Health under its legislation.

Alberta Sport, Recreation, Parks and Wildlife Foundation year ended March 31, 1999

Scope of audit work

In addition to the annual financial audit, we examined the Foundation’s systems for issuing official receipts for income tax purposes for gifts received.

Use of official receipts for income tax purposes

Recommendation No. 21

It is recommended that the Alberta Sport, Recreation, Parks and Wildlife Foundation comply with the *Income Tax Act (Canada)* when issuing official receipts for income tax purposes.

The Foundation operates a Donation Fund program to collect gifts from individuals and corporations. The Foundation then makes grants from some of the gift revenues so received to Provincial sports associations to benefit their affiliated clubs and athletes designated by donors under its Adopt-An-Athlete program.

The Foundation has known for some time that some gifts for which it issues official receipts may not qualify as gifts under the Income Tax Act (Canada)

At least since 1988, the Foundation has known, through correspondence with accountants, lawyers and Revenue Canada, that some gifts, for which it issues official receipts for income tax purposes, may not qualify as gifts under the *Income Tax Act* (Canada). Donors of such non-qualifying gifts should not be issued official receipts for income tax purposes.

Income tax rules about gifts

In the *Income Tax Act* (Canada), section 110.1 permits corporations to deduct and section 118.1 permits individuals to claim income tax credits for gifts made to the Crown. References to the Crown in these sections include agents of the Crown such as the Foundation.

Revenue Canada's Interpretation Bulletin IT-110R3 states that a gift is made when a donor voluntarily transfers some property, usually cash, to the Crown without expectation of return. An official receipt for income tax purposes may not be issued if the donor has directed the funds to a specified person or family as opposed to a program. In reality, such a gift is made to the person or family and not to the Crown. Gifts can be subject to a general direction, if no benefit accrues to the donor, the directed gift does not benefit any person not dealing at arm's length with the donor, and decisions regarding specific beneficiaries and utilization of the gift within a program are the exclusive responsibility of the Crown.

Court ruling about non-qualifying gifts from parents

In 1988, the Alberta Sport Council (a predecessor of the Foundation) was informed by its consultants that the Courts had upheld a Revenue Canada decision to disallow a gift to a sports association because it was made to secure a material advantage for the donor's daughter. The consultants suggested that, to preserve the integrity of the Alberta Sport Council, a policy be established that official receipts would not be issued for gifts made to fund children's activities. This suggestion does not appear to have been adequately implemented by the Foundation.

In view of Revenue Canada's position on gifts directed to individuals, the Foundation has agreed to get a ruling from Revenue Canada on its Adopt-An-Athlete Program.

Ministry's Internal Audit findings

In April 1999, the Ministry's Internal Audit Branch reported to the Foundation that it had found numerous instances of gifts for which official receipts for income tax purposes should not have been issued. Several gifts designated for three sports associations and their athletes likely would not qualify for official receipts for income tax purposes. Also, one of these associations was giving all the designated funds it received to the designated athletes, and another association was giving designated athletes the surplus funds in their individual accounts. Through these associations, parents could transfer tax-free funds to their children and, at the same time, get official receipts for income tax purposes from the Foundation.

Our findings

During our examination, we found several instances of donations that likely would not qualify as gifts. We believe the doubtful gifts should have been investigated prior to official receipts for income tax purposes being issued. Some problems noted were:

- Apparent reciprocal gifts for \$10,000 in January 1998 between three parties. A reciprocal gift involves two or more parties making "donations" to benefit each other's dependants. There was another apparent reciprocal gift for \$1,200 between two families. In 1997, we had noted several instances of apparent reciprocal gifts. Such reciprocal gifts would likely not qualify for official receipts for income tax purposes.
- Gifts from a parent, a grandparent, an aunt and other donors with the same last names as the designated athletes. These are probably non-qualifying gifts from parents or guardians.
- Three gifts totaling \$7,000 from one person were designated for one athlete, five gifts totaling \$17,500 from a private corporation were designated for another athlete, and six gifts totaling \$4,900 from another donor were designated for a third athlete. The donation letter from the last-mentioned donor was copied to a person with the same last name as the designated athlete. These cases are unusual and should have been investigated.

- Gifts from several corporations for designated athletes were either not investigated, or the investigation procedures were not adequately documented, to ensure they qualified as gifts.
- Ten letters from individual donors did not specify relationships with designated athletes. In these situations, the Foundation is unable to determine whether the amounts qualify as gifts. Such gifts should be investigated.
- Parents of participants at two organizations could be getting official receipts for income tax purposes for their children's fees.

Receipting procedures should be improved

The Foundation improved some gift receipting procedures after Internal Audit reported its findings in December 1998. For example, the donation letters have been revised to require the relationships to designated athletes to be disclosed. However, in light of the above findings, I believe the Foundation should further improve its procedures to ensure that official receipts for income tax purposes are only issued for qualifying gifts.

Possibility of Revenue Canada sanctions

The Foundation and the Ministry should consider the impact on their operations and good reputation that would result if Revenue Canada questioned the validity of official receipts issued. This would seriously impair the Foundation's ability to raise funds from corporations for special events and for its programs.

The Wild Rose Foundation year ended March 31, 1999

Scope of audit work

In addition to the annual financial audit, we examined the Foundation's systems to obtain accountability for performance from recipients of Foundation grants.

Performance measurement

It is recommended that accountability for performance from grant recipients be improved.

Purposes of Foundation grants

The Wild Rose Foundation paid grants of approximately \$8.5 million in 1998-99 to fund Alberta volunteer organizations; and to promote or foster:

- volunteer services to Albertans; and
- charitable, philanthropic and humanitarian activities.

Performance measurement would improve grant accountability

It was observed that procedures are in place to ensure that grant funds are spent by recipients on the purposes for which they were intended, however the accountability would be improved if the Foundation were to build performance measurement into the granting and reporting requirements.

Grant proposals and accountability reports should include performance measures

Accountability may be best addressed by ensuring that expectations are not only well defined in each proposal for grant funding but are also expressed in measurable terms. Subsequently, the Foundation could require the grant recipients to report on the degree to which expectations were met using the measures identified in the authorized proposal.

The Foundation should report on performance measures for its programs

Having established a set of performance measures at the grant level, the Foundation will need to develop higher level measures for each program linked to the grant level measures. Through a comparison of results against expectations for these higher measures, Foundation management can gain assurance that its programs are being delivered effectively. Management will, in turn, be able to provide the Foundation Board and the Minister of Community Development with that assurance.

Foundation performance measures should link with Ministry goals

In order to fit into the Ministry's governance and accountability framework, the Foundation should link its program performance expectations with the Ministry goals and performance expectations.

Foundation does not provide formal reports on goal achievement to the Ministry

There is currently no formal process to ensure that there are linkages between the Ministry and the Foundation with respect to business planning and reporting. We observed that there is no formal reporting mechanism to inform the Ministry of the extent to which specific goals set by the Foundation have been achieved.

Foundation and Ministry should establish a framework for performance reporting

We believe that the Foundation and the Ministry should jointly establish a framework for performance reporting and we encourage Foundation management to liaise with its Board and the Ministry with this objective in mind.

Other entities

My auditor's reports on the financial statements of the following, for the year ended March 31, 1999, contained reservations of opinion. The auditor's reports should be read for full details of the reservations.

Alberta Alcohol and Drug Abuse Commission

Alberta Foundation for the Arts

The Alberta Historical Resources Foundation

**Alberta Sport, Recreation, Parks and Wildlife
Foundation**

The Government House Foundation

Historic Resources Fund

**Human Rights, Citizenship and Multiculturalism
Education Fund**

The Wild Rose Foundation

Guidance to reader*Department Mission and
Core businesses*

The mission of the Department of Economic Development is to be the most credible and reliable source of strategic information and competitive intelligence on doing business in Alberta and in helping Alberta businesses to succeed in a global economy. The Ministry's core businesses include the providing of strategic information and external relations, industry development and investment attraction, and trade, market and regional development.

*Mission of AGLC and
AOC*

In addition to the Department, the Ministry included for 1998-99 Alberta Gaming and Liquor Commission (AGLC) and Alberta Opportunity Company (AOC). AGLC's mission is to maintain the integrity of gaming and liquor activities in Alberta and collect revenues for the Province. AOC's mission is to advance the economic development of Alberta by providing loans to Alberta businesses that have viable business proposals, when such support is not available from conventional lenders.

AGLC earned a net income of \$1,255 million from liquor and lottery revenues, of which \$770 million was transferred to the Lottery Fund.

AOC disbursed \$36 million in loans to Alberta businesses and provided guarantees of an additional \$2.9 million. It operated this year at no net cost to government.

*Government changes
impacting the Ministry*

Subsequent to the year end, the government announced organizational changes affecting the Ministry. Alberta Opportunity Company became part of the Department of Agriculture, Food and Rural Development. Alberta Gaming and Liquor Commission became part of the new Ministry of Gaming.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Economic Development for the year ended March 31, 1999. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and Department financial statements.

**Accountability of Alberta
Racing Corporation**

The Ministry is accountable for monitoring the execution of Alberta Racing Corporation's responsibilities under the *Racing Corporation Act*.

Department has implemented a system to monitor the Corporation

In my 1997-98 Annual Report, I recommended that the Department of Economic Development establish a process to support the accountability of Alberta Racing Corporation to the Minister for the execution of its responsibilities. During the year the departmental management established a process to support the Minister that has satisfied my concerns. This process includes assignment of responsibility to a senior member of departmental staff, review of plans, reports and ongoing dialogue with the Corporation. Briefings are then provided to the Minister based on what has been learned. Since the year-end, the responsibility for the Alberta Racing Corporation has been moved from the Ministry of Economic Development to the Minister of Gaming. Based on discussion with the Deputy Minister of Gaming, I understand that the Department of Gaming will continue to monitor the Corporation in support of the Minister.

**Alberta Gaming and Liquor Commission
year ended March 31, 1999**

In addition to the annual financial audit, the following work was completed:

- An audit of a schedule disclosing the numbers of containers sold in conjunction with liquor sales for the year ended March 31, 1999.
- An examination of the systems used by the Commission to license gaming activities in Alberta.

Gaming licences

It is recommended that management controls over the issuance of gaming licences be strengthened. It is further recommended that the management of the Alberta Gaming and Liquor Commission provide the Board of the Commission with regular assessments of the operating effectiveness of controls over the issuance of gaming licences.

Charities and other groups earn over \$100 million annually from gaming activities

AGLC has a mandate to ensure integrity in the operation of gaming activities in Alberta and has been provided with authority to license operators of these activities under the *Alberta Gaming and Liquor Act*. AGLC licenses casino,

bingo, raffle and pull ticket operators and approximately 7,000 of these licences are issued annually. Gross revenues earned by licensed gaming operators total more than \$1 billion annually and annual net profits of more than \$100 million are earned by various charities, religious groups and other organizations.

AGLC has standards and procedures to mitigate risks

To ensure integrity of gaming operations, AGLC sets eligibility criteria for the issue of a licence and imposes operating conditions which come into effect when the licence is issued. The application of these criteria to individual circumstances and decisions as to the need for additional restrictions for individual licensees are crucial to managing risks. Such risks include:

- licences being issued to inappropriate organizations,
- funds earned being inappropriately used,
- organizations not having the financial strength to take on gaming risk, and
- the appearance of bias in issuing licences.

These risks are managed at the licensing stage by establishing standards and procedures supported by a framework whereby responsibilities and accountability requirements are defined for each level of management and staff.

Our examination identified three areas where controls over gaming licensing responsibilities should be improved:

Authority to approve a licence should be clarified

- The authority provided to the Board by the *Gaming and Liquor Act* to issue gaming licences has been delegated by the Board to management. However, the role, responsibility and the accountability requirements for each level of authority within management and staff has not been defined. With the exception of certain areas relating to raffles, there is no documentation to specify the situations that require the approval of a supervisor, manager, director or the Board.

Essentially, the majority of delegated activities are performed by licensing clerks. With the exception of raffles over \$10,000, the clerks approve the applications for, and the issuance of, gaming licences with no requirement for supervisors and managers to review these decisions.

Management should assess control effectiveness

- Management does not regularly assess the effectiveness of the administrative controls which operate to support the issue of gaming licences. Such an assessment should identify and determine the magnitude of the risks of failing to meet AGLC's purposes as gaming regulator, the extent and effectiveness of licensing controls specific to each risk, and conclusions as to the tolerance for risk, as a basis for operational decision making and accountability to the Board.

Providing the Board with the results of management's assessments of the effectiveness of these controls completes the accountability loop for delegated responsibility for the gaming licensing function between management and the Board.

Management needs to plan and measure results

- Work plans and stated business objectives for the licensing function were not supported by measurable targets and indicators. The business planning process would be improved if business objectives were linked to deliverables and outcomes for the gaming licensing division.

The results of monitoring performance against targets should form part of the accountability reporting by management to the Board.

Lottery Fund year ended March 31, 1999

In addition to the audit of the financial statements of the Lottery Fund, my staff followed up on a recommendation I made in my last Annual Report with regard to the accountability for grant expenditures made from the Fund.

Accountability for grant expenditures from the Lottery Fund

In the 1997-98 annual report (page 76) it was recommended that accountability for grant expenditures made from the Lottery Fund be improved. Lottery Fund grants were paid to support health, community development, culture, agriculture and recreation in response to requests from the various Ministries responsible for providing services and financial assistance in these areas. The Alberta Gaming and Liquor Commission, which is responsible for administering the Lottery Fund, was not obtaining accountability from the beneficiaries of these grants but was, instead, relying on the Ministries to perform this task.

I was concerned that the accountability “chain” for these grant expenditures did not extend through to the Legislature. The grant funds were not included as revenue and expenditures in the financial statements of the Ministries and thus the Ministries were not held accountable for performance results from these expenditures. If the Ministries were not accountable for the expenditures, the incentive to make the grant beneficiaries accountable was missing.

My concern did not apply to Lottery Fund grants made to Provincial agencies. The financial statements of the agencies and related Ministries contained the Lottery Fund grants as revenues and the Ministries and agencies were accountable to the Legislature for expenditures made from these revenues.

*Accountability to the
Legislative Assembly will
be improved*

I am pleased to report that, commencing in the 1999-2000 fiscal year, quarterly payments are made from the Lottery Fund to the Ministries requesting Lottery Fund grants and are deposited in the General Revenue Fund and included as revenue of the departments of those Ministries. The departments then draw cheques in favour of the Lottery Fund grant beneficiaries as needed. The effect is to place responsibility for providing accountability to the Legislature, and thus for obtaining accountability from grant recipients, firmly with the Ministries because the grant revenue from the Lottery Fund and the related expenditure transactions will be included in the Ministry financial statements. In the instances where provincial agencies were receiving grants directly from the Lottery Fund, there is no change in the procedures. Payments from the Lottery Fund continue to be made directly to the provincial agency and the expenditures made from these funds will be included in the agency and related Ministry financial statements. As in past years, the accountability chain for these grants from the beneficiary through to the Legislature is intact.

Where grants are paid directly from the Lottery Fund and are not made in response to a request from a Ministry, the Alberta Gaming and Liquor Commission is taking full responsibility for accountability from grant recipients. The Commission will be directly accountable for approximately \$56 million (Budget 99), which is approximately 7% of the payments planned to be made from the Fund. To assist in providing accountability to the Legislature, I encourage the

Commission to make a clear distinction in the 1999-2000 financial statements of the Lottery Fund between the grants paid to the other Ministries and the grants for which the Commission and the newly formed Ministry of Gaming are accountable.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1999.

Alberta Opportunity Company

An audit as at and for the nine months ended December 31, 1998 was also completed for the **Alberta Motion Picture Development Corporation** (*The Corporation ceased operations effective March 31, 1996 and has now been wound up*).

Guidance to reader

The mission of the Ministry of Education is to ensure that all students have the opportunity to acquire the knowledge, skills and attitudes needed to be self-reliant, responsible, caring and contributing members of society.

Education is delivered primarily through a network of schools within publicly funded school jurisdictions. Authority over these jurisdictions is given to publicly elected school boards. Schools are responsible for providing instructional programs that enable students to meet Provincial completion requirements and prepare them for entry into the workplace or post-secondary studies.

The Department of Education provides approximately \$1.7 billion of financial assistance to schools in addition to the \$1.2 billion raised from property assessments that are distributed through the Alberta School Foundation Fund. Total operating expenditure for the Ministry of Education is as follows:

1993-94 \$3.0 billion
 1994-95 \$2.7 billion
 1995-96 \$2.7 billion
 1996-97 \$2.7 billion
 1997-98 \$2.9 billion
 1998-99 \$3.0 billion

The Ministry's budget for 1999-2000 is \$3.2 billion, which is intended to reflect both an anticipated growth in enrolment as well as a general increase in funding rates of approximately 3%.

*Departmental monitoring
and evaluation*

The Minister's responsibilities for the delivery of education are laid out in the *School Act*. In order for the Minister to ensure that his primary responsibilities are being met, the Ministry must monitor the activities and results of school jurisdictions. The following section includes a recommendation related to the Ministry's monitoring of school jurisdictions. I believe that a more comprehensive, risk-based approach to the Ministry's planning of monitoring activities would result in greater confidence that all of the Minister's critical responsibilities are being met, as well as improving the overall delivery of education in the Province.

In previous years, I have commented on specific aspects of the education system where the Department should seek to maximize the opportunities to improve student performance. Although I have noted improvements in certain areas, I am repeating recommendations relating to local target setting by school jurisdictions, charter school reporting and accountability, and financial reporting of expenses for the delivery of special needs education.

School facilities

As a result of the government reorganization on May 25, 1999, the Ministry of Education now forms part of the Ministry of Learning. As part of this reorganization, the School Facilities branch has been transferred to the Ministry of Infrastructure. During 1998-99, the Ministry of Education developed a plan to implement recommendations made by an MLA School Facilities Task Force. During the year, my staff reviewed progress with respect to this plan.

Financial reporting by school jurisdictions

Section 19(3.1) of the *Auditor General Act* requires me to report on the results of my examinations of school jurisdictions' audited financial statements. Except for Northland School Division, I am not the auditor of any school jurisdictions. Where I am not the auditor of school jurisdictions, the *Auditor General Act* requires school board auditors to provide me with a copy of the audited financial statements and management letters containing observations arising from the audits. My staff has reviewed the results of these audits and the financial statements. This section includes the resulting recommendation on school jurisdiction accounting treatment of restricted net assets.

**Ministry of Education
year ended March 31, 1999**

**Ministry Financial
Statements**

I conducted an audit of the financial statements of the Ministry of Education for the year ended March 31, 1999. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and department financial statements.

**Consolidated reporting
entity**

The Ministry of Education does not currently consolidate the financial results of school jurisdictions in the consolidated financial statements of the Ministry. The consolidation of school jurisdictions' results with that of the Ministry would provide better information to government for decision-making purposes. For example, consolidated results would provide a more complete understanding the costs associated with the delivery of education and the total value of assets available for the delivery of education. Complete information on full costs would help guide the allocation of resources among competing sectors.

**Department of Education
year ended March 31, 1999****Scope of audit work**

In addition to the annual financial audit, the following work was carried out:

- An examination of the systems used by the Department to plan and conduct its monitoring activities as required under the *School Act*.
- A follow-up on the advancement of accountability in charter schools.
- A follow-up on the advancement of financial reporting and the analysis of academic performance for special needs education.
- A follow-up on the advancement of local target setting for Provincial achievement tests.
- An examination of the Department's systems to monitor the quality of education delivered to Aboriginal students.
- A review of the results from school jurisdiction audits for the fiscal year ended August 31, 1998, in accordance with the reporting requirement of section 19(3.1) of the *Auditor General Act*.
- Specified audit procedures on the Ministry's performance measures.

**Departmental monitoring
and evaluation****Recommendation No. 22**

It is recommended that the Department of Learning conduct a comprehensive review of all significant legislative, business and financial risks to improve the effectiveness of its monitoring of school jurisdictions.

Departmental monitoring and evaluation is conducted independently by several branches

The Department undertakes the monitoring and evaluation of school jurisdictions to determine compliance with relevant legislation, regulations and policies. Currently, monitoring and evaluation is conducted independently by several branches within the Department. This structure was put in place because areas of specialization are required to effectively monitor and evaluate. For example, the Learning Technologies Branch monitors the information technology that is in place in the school jurisdictions. The School Business and Legislative Services branch monitors activities relating to audited financial statements and budget plans received from school jurisdictions. The Regional Office and Native Education branch conducts the majority of the more general monitoring activities, such as reviewing school jurisdiction three-year plans and annual results reports, as well as monitoring compliance with regulations related to private schools, charter schools, and home education, etc.

The Department does not conduct a comprehensive review of all significant risks

Because monitoring is dispersed throughout the Department, planning for monitoring and evaluation is also carried out by each branch, prior to approval by the Executive Committee of the Department. This approval process does not result from a comprehensive review of all the significant Departmental legislative, business and financial risks. Such a review would help to allocate resources to monitoring activities based on Department-wide priorities, established based on significant risks.

Once the Department has identified its most significant risks, issues can be prioritized and a comprehensive plan can be established

In order to effectively fulfill the Minister's obligations under the *School Act*, the Department should identify all of its most significant legislative, business and financial risks. Once these have been identified, the Department can prioritize the issues and establish a comprehensive, long-term plan for its monitoring activities.

Charter School
Accountability

Recommendation No. 23

It is recommended that the Department of Learning ensure that each charter school's charter contain measurable outcomes so that there is a base from which to measure and evaluate the charter school's results against its mandate.

In my 1997-98 annual report (page 87) and my 1996-97 annual report (page 86), I stated that the Department of Education does not ensure that each charter school's business plan identifies mandate-related performance measures to demonstrate the expected improvement in results occurring from innovative learning practices. I also stated that the business plans do not contain the criteria against which the renewal of the charter will be evaluated.

Although charter schools' business plans contain mandate-related goals and measures, this may not provide a sufficient basis against which to evaluate the charter schools' success in relation to its mandate

I understand that the Department has developed guidelines for charter schools' business plans, which include the requirement for a mandate-related goal and measure. However, the measures currently contained in business plans, which are mainly operational measures, may not be useful in evaluating the overall success of a charter school in achieving its mandate, particularly when determining whether a charter should be renewed. Each charter school was created on the approval of a charter, an agreement between a school board or the Minister of Education and the individual or group establishing the charter school. A charter is approved for a three to five year term. Each charter should contain goals, stated as measurable outcomes, so that there is a base from which to measure and evaluate the charter school's results against its mandate.

The regulation requiring mandate-related learning outcomes in a school's charter has not yet received approval

Currently, the requirement for learning outcomes, specifically related to the mandate, in a school's charter is included in a draft regulation. However, this regulation has not been implemented because it has not yet received approval. Last year, the Department indicated that the regulations would be approved in December 1998. It is now expected that the regulations will be approved in September 2000. Consequently, any new charter approvals prior to the 2000-2001 school year will not be required to include learning outcomes. In addition, any charter renewals occurring prior to the 2000-2001 school year may not be subject to a rigorous evaluation against criteria established at the beginning of the charter term.

Special Needs Education**Financial Reporting****Recommendation No. 24**

It is again recommended that the Department of Learning work with school jurisdictions to improve the accuracy of the financial reporting of special needs expenses by school jurisdictions.

Reported school jurisdiction expenses related to the delivery of special needs education continues to be unreliable

In my 1997-98 annual report (page 84), I stated that the Department of Education was not able to use information reported in school jurisdiction financial statements relating to special needs expenses because of concerns that the expenses for special needs students do not reflect all the related costs. This concern still exists. It is important that the Department work with school jurisdictions to develop guidelines, including definitions of which types of expenses should be included in this reporting, and how they should be calculated. The Department should also have procedures in place to monitor the reporting of these expenses to ensure that they are reasonable and that there is consistency in the reporting of incremental costs related to the delivery of special needs education.

Analysis of academic performance

Steps have been taken to improve the evaluation of academic performance for students with special needs

In my 1997-98 annual report (page 85), I stated that the Department should analyze the academic performance of students with special needs at the Provincial level to facilitate the identification and utilization of effective learning strategies. I can report that steps are being taken to improve the evaluation of the academic performance of special needs students. For special needs students who write the Provincial achievement tests, the participation rates and academic performance are being monitored. Stricter guidelines have been developed to encourage school jurisdictions to improve participation rates. For special needs students who are unable to write Provincial achievement tests, the Department is currently implementing the Alternative Assessment Program, in which performance will be strictly monitored and measured against benchmarked tasks for children with similar needs. The Department expects to be able to measure the academic performance of all children in Alberta schools within two years.

Local Target Setting

Recommendation No. 25

It is recommended that the Department of Learning work with school jurisdictions to ensure that school jurisdictions set local targets for academic achievement on Provincially administered examinations that strive for improved academic results.

In the past, I have recommended that school jurisdictions and schools strive for improvements by setting local targets

In my 1995-96 annual report, I stated that the Department should encourage schools and school boards to strive for achievable improvements by requiring school boards to include local targets for Provincially administered examinations in their three-year plans. In this way, schools and boards that historically have performed well below Provincial standards and which cannot expect to achieve those standards immediately, will be able to move towards achieving Provincial standards over time. Provincial standards are set by the Department to indicate acceptable and excellent performance in Provincially administered examinations. Every school board is expected to achieve Provincial standards. Local targets would also encourage schools and boards, which consistently perform above Provincial standards, to strive for even better results. In addition, I recommended that similar schools be grouped together for comparison purposes in order to identify best practices, and that other learning outcomes also be considered in evaluations of student performance.

Local targets should focus on gains to be made so that strategies are designed to improve performance

Although the Department has now communicated the requirement and suggested methodology for setting local targets, there is a concern that school jurisdictions may not be fully utilizing local targets to assist in setting strategies and working towards improved learning. A review of the 1999-2000 school jurisdiction plans indicates that, of 53 plans filed with the Department, 19 (36%) of the school boards set local targets that differed from the Provincial standards, and of those 19, only 11 (21%) of the plans show targets by grade and subject area. It is acknowledged that for some school boards, the Provincial standard is an appropriate target; however, for others it is not appropriate. There is a risk that school jurisdictions may be establishing targets without due consideration of what is challenging but achievable over a three to five year period. Local targets, focussed on gains to be made, should reflect past performance and local issues so that strategies are designed to improve performance.

The Department should monitor local targets and assist jurisdictions and their schools

The Department does not review the school jurisdiction plans to determine if the school jurisdictions' targets are meaningful. The Department should monitor local targets and provide assistance to school jurisdictions to help the school jurisdictions and their schools to improve their target setting.

Aboriginal Education

Last year, I reported that my Office had commenced an examination of the Department's systems to monitor the quality of education delivered to Aboriginal students. My Office met with a number of Aboriginal representatives and local representatives of the federal government, and reviewed the Department's Native Education policy. As a result of our work, a number of observations were discussed with Department management.

In particular, my staff noted that the Provincial Native Education Policy Statement, which was established in 1987, has never been reviewed to determine its effectiveness. We also indicated that it would be beneficial for the Department to work with First Nations, school jurisdictions, and the federal Department of Indian and Northern Affairs Canada to identify opportunities for improvements in the delivery of education to Treaty Indians on reserve. Although the *Indian Act* (Canada) gives First Nations jurisdiction over education to Treaty Indians on reserve, the funding provided to First Nations by the federal government to deliver this education is conditional on Bands following the Provincial curriculum and on using Provincially certified teachers.

The Department has since committed \$1.8 million over three years, commencing in 1999-2000, to initiate a full review of the Native Education Project at the Department and to expand the monitoring of Native Education projects. In addition, the Department has indicated to us that it has commenced discussions with the federal government to seek opportunities to improve the delivery of education to Aboriginal students.

Financial Reporting in the Education Sector

School Generated Funds

For the year ended August 31, 1998, 58% of school jurisdiction audited financial statements were qualified for SGF, compared to 77% in 1997

In my 1997-98 report, I stated that 77% of school jurisdictions' auditor's reports for the year ended August 31, 1997 were qualified because controls over the completeness of school generated funds were not adequate. For the year ended August 31, 1998, 58% of school jurisdictions' auditor's reports were qualified because of inadequate controls over school generated funds. Although it is the responsibility of school jurisdiction management to establish rules, regulations, and procedures for the control of school generated funds, the Department and the Association of School Business Officials of Alberta have worked during the past year towards providing guidance to school jurisdictions and their auditors to assist them in establishing appropriate controls. I am satisfied that the Department is making progress on this issue. It is important that school jurisdictions establish appropriate controls over the collection and recording of school generated funds, so that school jurisdiction financial statements accurately reflect all revenues and expenditures, and an accurate determination of total student education costs can be achieved.

Unrestricted net assets

It is not appropriate for school jurisdictions to transfer amounts to internally restricted net assets if such a transfer would result in a negative balance in unrestricted net assets

It is recommended that the Department of Learning work with school jurisdictions to ensure that proper financial reporting practices are being adhered to with respect to internally restricted net assets.

School jurisdictions in Alberta are required to follow the financial reporting practices established for not-for-profit organizations. These practices require that unrestricted net assets, which represent resources available for general operating purposes, be reported as a separate category from internally restricted net assets. Internal restrictions on net assets are usually imposed by a formal decision of the Board. It is inappropriate to transfer amounts to internally restricted net assets (formerly referred to as reserves) if such a transfer would leave the school jurisdiction with a negative balance in its unrestricted net assets. Such a transfer could mislead financial statement readers to believe that there are insufficient funds available for operating purposes.

10% of school jurisdictions reported transfers to internally restricted net assets which resulted in a negative balance in unrestricted net assets for the year ended August 31, 1998

For the year ended August 31, 1998, 7 of 69 audited financial statements (10%) of school jurisdictions reported an increase in internally restricted net assets, while also reporting a deficit in unrestricted net assets. The Task Force Report on School Board Reporting in Alberta, issued in April 1996 by the Institute of Chartered Accountants of Alberta, specifically requires that “reserves...not be set up or increased...where an accumulated operating deficit would be created.” The Department should work with school jurisdictions to ensure that all school jurisdictions understand and conform to appropriate accounting treatment for restricted and unrestricted net assets.

Other entities

Financial audits of the following were also completed:

Northland School Division No. 61 - year ended
August 31, 1998

Teachers’ Retirement Fund - year ended August 31, 1998

In addition, my auditor’s reports on the financial statements of the following, for the year ended March 31, 1999, contained reservations of opinion. The auditor’s reports should be read for full details of the reservations.

Alberta School Foundation Fund - year ended
March 31, 1999

Education Revolving Fund - year ended March 31, 1999

Guidance to reader

The Ministry of Energy comprises two organizations, the Department of Energy and the Alberta Energy and Utilities Board. In addition, the Alberta Petroleum Marketing Commission is directed and operated by staff of the Department. Until February 1999, the Alberta Oils Sands Technology and Research Authority was also a Departmental operation. At that time, ministerial responsibility for the Authority was transferred to the Minister Responsible for Science, Research and Information Technology. The mission of the Ministry of Energy is “to optimize the sustained contribution from Alberta’s resources in the interests of Albertans”. In 1998-99, the Ministry generated \$2.8 billion of revenue while expending \$130 million on operations.

After the 1998-99 year end, there was a restructuring within the Government of Alberta. The Energy Ministry became the Ministry of Resource Development. As mentioned, the Alberta Oils Sands Technology and Research Authority had already moved to another Ministry. The government-wide restructuring will bring certain forestry-related planning responsibilities into Resource Development. In terms of revenues and expenditures, the restructuring is expected to have little impact on the Ministry.

Information Technology (IT) is a critical foundation for the Ministry’s success. Without current, accurate, and accessible information, optimal decisions concerning resource development cannot be made. For this reason, my staff dedicates a significant portion of its time to the review of IT functions throughout the Ministry. In 1998-99, we reviewed the computerized well and production systems at the Alberta Energy and Utilities Board, paying special attention to plans for their upgrade or replacement. These Board systems are reaching the end of their life cycle and decisions regarding upgrade or replacement will be made in an environment of uncertainty due to an ongoing joint Ministry/industry initiative to streamline data collection and storage. This year my staff also reviewed progress against two recommendations that I made to the Department in last year’s report related to IT security controls and natural gas subsystems.

The Ministry must also adapt to changes in the way it does business. This year I am recommending that the Board and Department enhance financial management with regard to their shared data processing services.

Ministry Financial Statements year ended March 31, 1999

*Reservations in my
auditor's reports*

I conducted an audit of the financial statements of the Ministry and Department of Energy for the year ended March 31, 1999. My auditor's reports contained three reservations of opinion that resulted from the Ministry and Department following the corporate government accounting policies and reporting practices as established by Treasury Department. The auditor's reports themselves should be read for full details of the reasons for the reservations. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on the Ministry and department financial statements.

*Energy intended to
transfer its research and
technology program to
SRIT*

In addition to the three reservations mentioned above, my auditor's reports contained another reservation. As mentioned in the Guidance to Reader, in 1998-99 the Ministries of Energy and Science, Research and Information Technology (SRIT) arranged for Energy's research and technology program to be transferred to SRIT. The original intent was to transfer the responsibility for the *Oil Sands Technology and Research Authority Act* as well as the Department of Energy employees who administered the Alberta Oil Sands Technology and Research Authority (AOSTRA). While there was executive and ministerial agreement that the transfer should take place in 1998-99, details related to the transfer of manpower and related expenses were not finalized by the year end.

*Budgeted and actual
expenditures were
transferred from Energy
to ASRA*

As a result, the *Designation and Transfer Amendment Regulation* (Alberta Regulation 18/99 filed February 3, 1999) was made pursuant to section 16 of the *Government Organization Act*. The Regulation transferred only the responsibility for the *Oil Sands Technology and Research Authority Act* from Energy to SRIT. The Regulation did not transfer either the Energy employees or any portion of Energy's appropriation to SRIT. In fact, those administering AOSTRA remained and were paid as Department of Energy employees for the remainder of the fiscal year. Nevertheless, accounting adjustments were

processed to shift voted appropriations of \$1,480,000 and actual expenses of \$1,360,000 from the Department of Energy to SRIT. These expenditures relate primarily to manpower costs borne by the Department of Energy in administering AOSTRA throughout 1998-99.

The expenditures were the responsibility of and should be reported by Energy

In my view, the Department of Energy was voted and legally spent the appropriated funds discussed above. The Regulation under the *Government Organization Act* did not provide authority to transfer the AOSTRA appropriation nor its related expenses to SRIT. In the absence of proper legislative authority, I believe that the financial statements for the Ministry and Department of Energy do not reflect the operational results of the year's activities. In the interests of accountability, Departmental financial statements should reflect the legislative approvals that govern the entity.

Energy's financial statements are qualified for not recording their full expenditures

In my auditor's reports, I concluded that administration costs incurred by the Department related to AOSTRA have not been properly recorded in Energy's financial statements. In a management letter to the Deputy Minister of Energy, my staff recommended that proper legislative authority be obtained to transfer responsibility between Ministries. In his response to our letter, the Deputy Minister commented that "in future we will make sure that proper authority is obtained prior to transferring budget and expenditure to another entity".

Department of Energy year ended March 31, 1999

Scope of audit work

In addition to the annual financial audits, the following work was completed:

- A follow-up of last year's recommendation regarding the Department's information technology security controls.
- A follow-up of last year's recommendation regarding controls over the Department's natural gas and by-products royalty subsystems.
- A review of the Department's plans to address the Year 2000 issue with regard to its many automated systems.
- Specified audit procedures applied to the performance measures that appear in the Ministry's Annual Report.

**Information technology
security controls**

*Last year I reported that
IT security controls could
be enhanced*

In 1997-98, my staff reviewed the general controls around the Department's computerized infrastructure. My review included an analysis of the structure of the organization, control over changes to programs, and access to information systems. In general, I concluded that, for the purpose of reporting on the Department's financial statements, controls related to its supporting information technology infrastructure were adequate. While controls were generally sound, I was able to make a number of suggestions for improvement, centered on the theme of security. Therefore, I recommended that the Department of Energy enhance the security controls related to its information technology and systems.

*Four key issues have yet
to be fully addressed*

In the course of this year's audit, my staff reviewed the Department's progress with regard to my suggestions. Our review confirmed that most of the prior year's suggestions have been successfully implemented. However, four important components of general information technology security had yet to be fully implemented by the 1998-99 year end.

- The Department's executive has not yet approved a policy to identify its security objectives with regard to the Department's computerized information and systems.
- In 1997-98, we suggested that the Department appoint an individual who would be responsible for reviewing security procedures to ensure that such procedures are consistently applied and that overall security objectives are achieved. In 1998-99, two individuals without system administration duties were designated to fulfill that role. However, we felt that these administrators had not yet been able to exercise their responsibilities fully. This was due to the absence of both policy direction and a precise definition of the scope of the security administrators' responsibilities.
- The Department has not yet identified the information that it considers confidential to the information systems process. With this information identified, the Department can ensure that policies and procedures are in place to provide adequate protection.

- The Department has yet to test disaster recovery plans for its major applications, as well as its primary servers, telecommunication links, and network servers.

I will continue to monitor the Department's progress

Overall, I believe that the Department has made considerable progress in implementing the suggestions that my staff brought forward as a result of our 1997-98 review. I also acknowledge that progress is being made on the four important issues noted above. I will continue to monitor the Department's progress in the coming year.

Natural gas and by-products subsystems' controls

Natural gas and by-products subsystems are responsible for important business functionality

In my 1997-98 Annual Report (page 95), I recommended that the Department of Energy strengthen the processes and controls related to its natural gas and by-products subsystems. The Department relies on its Mineral Revenue Information System (MRIS) to calculate, invoice, and monitor the majority of the natural gas and by-products royalty business. However, there are a number of subsystems that, while not part of MRIS itself, play an important role in the gas royalty business.

The Department has corrected the problems outlined in my 1997-98 report

In last year's Report, I highlighted a number of opportunities to strengthen the controls related to these subsystems. Most importantly, I reported that the miscalculation of the Unit Operating Cost Rate (UOCR) resulted in a \$25 million "over-allowance" to industry, directly impacting gas royalty collection from industry. I am pleased to report that numerous improvements have been made. For example, in 1998-99 the UOCR was correctly calculated and the \$25 million "over-allowed" in previous years was collected from industry. As well, 1998-99 should be the last year for the manual calculation of these rates, as UOCR functionality is being moved into MRIS itself. In summary, I believe that the Department has adequately addressed the concerns that I raised in 1997-98.

Alberta Energy and Utilities Board

year ended March 31, 1999

Scope of audit work

In addition to the annual financial statement audit, the following work was completed:

- A review of the controls related to the Board's well and production reporting systems. This included a review of the Board's plans to upgrade or replace these critical systems.
- A review of plans to address the Year 2000 issue with regard to the Board's many automated systems.

Well and production reporting systems

The Board operates three computer systems that are critical to its own and others' success. The three systems, which I will refer to collectively as the Board's well and production systems, are:

There are three critical Board systems

- The Basic Well Data system, which records well characteristics such as location, depth, drilling date, and operational status.
- The Production, Injection and Disposition system, which collects and records the monthly production and disposition of oil, gas and other fluids.
- The Gas Gathering and Processing system, which collects and records the monthly volumes of gas gathered at and processed by gas plants.

The Board uses the data from these systems to monitor, regulate, and report industry activities. As well, these systems interface with Department of Energy systems that calculate royalties and freehold mineral tax and that administer resource allocation in the Province.

The Board needs to upgrade or replace these systems

For many years, the Board has considered the upgrade or replacement of these three systems. The technology used in the systems has been superseded and the Board's three-year plan calls for a migration of these systems to newer technology. The systems themselves are reaching the end of their life cycle. In particular, the Gas Gathering and Processing system is antiquated, inefficient, and limited in its functionality. For example, there is no on-line inquiry available; all queries are run in batch and printed overnight. As a result, it is difficult to determine which Gas Gathering

and Processing data errors have been corrected and which errors have not.

Broader strategic reviews in the Ministry have preempted the system upgrades/replacements

While the Board would like to upgrade its well and production systems, the Ministry has for several years been attempting to streamline the process of industry data reporting, collection, and storage. As a result, to the Board it always seemed imprudent to press forward with upgrade or replacement while the broader strategic reviews were underway. The effect has been that the upgrade or replacement of the Board's systems has been delayed for a number of years.

The Ministry again plans to streamline the reporting and storage of data

The most recent of these strategic reviews began in 1997. By January 1998, a joint Department, Board, and industry task force made a number of recommendations intended to simplify the natural gas and by-product business, including production reporting, data storage, and royalty calculation. One recommendation called for the rationalization of data collection and storage within the Ministry by combining ownership data collected by the Department with the production data collected by the Board.

There is still uncertainty regarding VIPIR's scope and impact

Carrying forward the task force's findings, the Ministry initiated the Volumetric Infrastructure Petroleum Information Registry (VIPIR) project. VIPIR is the project that will implement the task force recommendations. The total budget for the VIPIR project is \$22 million over three years; a management structure has been created and work began in 1999-2000. One of VIPIR's first tasks will be to scope out in detail the deliverables, costs, and benefits of the task force recommendations. At this writing, VIPIR, in consultation with the Ministry and industry, has not yet concluded how much of the Board's production data will be combined with the Department's data in the proposed Shared Information Registry, or even whether the Registry is a viable concept. In addition, the impact of VIPIR on the existing Board and Departmental systems has not yet been clearly defined.

I have two concerns with regard to the Board's three systems

In my view, two risks have evolved as a result of these circumstances. First, because decisions have again been delayed by a broader strategic review, the Board does not have a plan to upgrade or replace its three well and production systems. Second, key controls related to these three systems should be immediately enhanced, thereby reducing risks to data integrity. Data integrity is critical to

the quality of resource allocation decisions and to the calculation of resource revenues.

Strategic information systems plan

Recommendation No. 26

It is recommended that, once the scope of the Volumetric Infrastructure Petroleum Information Registry project is determined, the Alberta Energy and Utilities Board develop a strategic information systems plan to support the business needs now served by its well and production systems.

Currently the Board does not have a strategic plan regarding these systems

Due to the uncertainty generated by initiatives such as VIPIR, strategic plans have not been prepared with regard to the Board's well and production systems. Until this year, annual operational plans had been prepared, but none were created for 1999-2000 due to the uncertainty created by the VIPIR project. Should the Shared Information Registry concept go forward, management has indicated that the VIPIR project will fund any new interfaces required to link the Board's systems with the Registry. If, in addition to building new interfaces, the VIPIR project finances the upgrade or replacement of the Board's systems, the Board will have an answer for its systems funding issues. However, any other scenario is likely to pose challenges for the Board. The cost of upgrading or replacing these systems will be significant and other IT projects within the Board have higher priority.

A strategic plan would be the foundation for responding to the Board's business needs

A strategic plan would establish the business needs for the Board's well and production data and consequently the requirements for the functionality of its systems. In particular, the Board should be prepared to upgrade or replace the Gas Gathering and Processing system if the VIPIR project does not do so. Once the scope of VIPIR is determined, strategic plans should be developed for the well and production systems in order to facilitate a well planned and resourced transition to systems that can respond to the Board's business needs.

Controls over existing systems

It is recommended that the Board review the key controls for its well and production systems to ensure that data integrity is maintained.

Data integrity is critical to both Board and Departmental business

Data from the well and production systems is critical to a number of processes in the Ministry. For example, well and production data from the Board forms the basis for the

Department of Energy's calculation of royalties and freehold mineral tax. The data is also critical to resource allocation decisions at the Board and the Department; these are decisions concerning the assignment of mineral rights to industry applicants. When the data entered into the Board's well and production systems is inaccurate or incomplete, it will require correction through a subsequent refiling. Refiled well and production data will cause royalties or mineral tax (as applicable) to be retroactively recalculated. The work involved in processing refiled data and tracking restated royalty and mineral tax amounts is difficult to quantify but is probably substantial. These problems may also cause resource allocation decisions to be retroactively restated.

Automated edit and validation checks within the well and production systems can also be enhanced

Many of the automated edit and validation checks designed to ensure data integrity in these systems are no longer being investigated and resolved. In the past, these edit checks were considered key to controlling the accuracy and completeness of data. As I understand it, their discontinuance was not the result of a review of assurance requirements; rather, it was based on manpower constraints. A review of data assurance requirements will establish which edits and validation are now key to well and production data integrity. This review should be undertaken as soon as possible.

The Board can strengthen controls related to its overall computer environment

In the general computer environment, a disaster recovery plan should be documented. Formal documentation and coordination of a plan are important since staff from both the Board and their service providers, Public Works, Supply and Services, would be involved in the recovery. As well, the Board should review its controls over physical and logical access to its computer systems. For example, issues such as restrictions on the number of log-in attempts, automatic log-offs at unused stations, and password-protected screensavers for the Board's many networked computers should be reviewed. These general controls around the computer environment protect the Board's ability to collect, store, and distribute accurate and timely data to its many stakeholders.

**Shared computing services at
the Calgary Data Center***Background*

In February 1998, the Department of Energy and the Board amalgamated their mainframe information processing requirements by agreeing to operate on a shared computer. This computer is owned and operated by Public Works, Supply and Services (PWSS), and is housed at the Calgary Data Center. While the Department and Board paid the capital outlay for the machine and are the major users of this machine, PWSS can enlist other users who would then share the computing power on this machine. I understand that PWSS and the Ministry of Energy have drafted a written service agreement that governs the performance requirements for the Calgary Data Center; this agreement will be signed in the near future. This shared service arrangement reduced each participant's mainframe computing operating costs.

**Formal agreement regarding
computing services***PWSS invoices the
Department, which then
invoices the Board*

It is recommended that the Alberta Energy and Utilities Board and the Department of Energy establish a written agreement to govern the financial aspects of the shared data processing facilities at the Calgary Data Center.

Currently, the arrangement for the computer at the Calgary Data Center calls for PWSS to invoice the Department monthly for estimated operating costs related to Department and Board processing. The Department then invoices the Board for its portion of the cost. In 1998, the Department and Board agreed to a costing formula based on usage at the Calgary Data Center. However there is no written agreement that defines the distribution of costs within the Ministry of Energy.

*PWSS costs were higher
than anticipated; the
Board did not pay its
share for February and
March*

At the end of 1998-99, PWSS updated its cost estimates for the year's service and invoiced the Department approximately \$250,000 more than anticipated. In addition, due to budget constraints, the Board was unable to pay its February and March 1999 share of the cost, estimated at \$315,000. As the Department was in a surplus position at the year end, it was able to absorb the extra costs invoiced by PWSS and also to pay for that portion of the processing costs that the Board was unable to pay.

*Financial accountability is
compromised by these
transactions*

The Ministry, through the Department's payment of the Board's share of costs, has in effect increased its financial support to the Board. This increase in support is not reflected in the entities' financial statements; fortunately the amounts are not material to the two entities' financial statements. Full accountability requires that all costs related to the operation of an entity be reported. Such information is critical to the assessment of program effectiveness and managerial responsibility. As well, with a written agreement in place, all parties would be in a better position to manage this important service.

Other entities

A financial statement audit was also completed for:

Alberta Petroleum Marketing Commission - year ended
December 31, 1998

Guidance to reader

At March 31, 1999, the Ministry comprised the Department of Environmental Protection, the Environmental Protection and Enhancement Fund, the Natural Resources Conservation Board, and the Environmental Appeal Board. Until November 1, 1998, the Ministry also included the Alberta Special Waste Management Corporation (ASWMC). At that time, the *Special Waste Management Repeal Act* was proclaimed and the remaining assets, liabilities, and obligations of ASWMC were transferred to the Environmental Protection and Enhancement Fund.

The Ministry's mission emphasizes the stewardship and sustainable development of Alberta's renewable natural resources. The Ministry implements its mission through its two core businesses, resource management and environmental hazard management. Program delivery within the Ministry has evolved in recent years, focusing now on community level service, shared services, shared responsibility, and public involvement. For example, the Ministry has established six Delegated Administrative Organizations to deliver programs as diverse as the promotion of tire recycling and the regulation of professional outfitters and guides. To be successful in this context, the Ministry's management and sharing of information as well as fiscal and operational accountability will be critical.

My work examines the systems and reporting that support the Ministry's mission, core businesses, and goals. I have focussed on areas where there has been significant recent change in program delivery or accountability structure.

The Ministry is responsible for fighting forest fires in the "green" (or non-agricultural) area of the Province. The Ministry's business approach to fire fighting has changed in recent years. Five years ago, the Ministry delivered all fire fighting services themselves, including support services such as fire camps and meal service; now many of these services are contracted to the private sector. In addition, the 1998 fire season that ran from April through September was unusually active. This gave my staff the opportunity to examine the Ministry's financial administration systems in a year when more than \$230 million was spent on fire fighting. As a result of this examination, I have several recommendations.

In a busy fire year such as 1998, the Environmental Protection and Enhancement Fund funds the majority of the fire fighting effort. More than \$210 million of the costs were borne by the Enhancement Fund, which is financed annually by a portion of the timber royalties collected by the Department. As I believe that annual budgets should be approved by the Legislative vote process, I am recommending that the budget approval for fire fighting be reconsidered so that government accountability can be strengthened.

The Ministry's role in managing sustainable development includes reviewing and approving applications to build or alter projects such as plants, dams, etc. The approval process sets the environmental impact standards for a wide variety of developments in the Province. This year, my staff examined the regulatory approval process related to applications under the authority of the *Environmental Protection and Enhancement Act*.

Ministry of Environmental Protection Financial Statements For the year ended March 31, 1999

I conducted an audit of the financial statements of the Ministry and Department of Environmental Protection for the year ended March 31, 1999. My auditor's reports contained four reservations of opinion that resulted from the Ministry and Department following the corporate government accounting policies and reporting practices as established by Treasury Department. The auditor's reports themselves should be read for full details of the reasons for the reservations. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on the Ministry and department financial statements.

Department of Environmental Protection year ended March 31, 1999

In addition to the annual financial audit of the Department of Environmental Protection, the following work was completed:

- An examination of the financial administration systems related to the Department's forest fire fighting activities

- An examination of the systems that control the regulatory approval process. These are the approvals required under the authority of the *Environmental Protection and Enhancement Act*
- A follow-up review of the Department's monitoring of the performance of its Delegated Administrative Organizations
- A follow-up of my recommendation from last year regarding the Department's Timber Production and Revenue System
- A follow-up of my recommendation from last year regarding Integrated Resource Management
- Specified audit procedures applied to the performance measures that appear in the Ministry's Annual Report
- A review of the Department's plans to address the Year 2000 issue with regard to its many automated systems.

Financial Administration of Fire Fighting

Forest fire fighting is a major responsibility for the Department's Land and Forest Service

Fire fighting operations are the responsibility of the Department's Land and Forest Service (the Service). Fire fighting operations are managed through Edmonton headquarters, four regional offices, and seventeen area or district offices across the Province. Responsibility for the financial administration of fire operations is distributed amongst these central, regional, and area offices. The regional and area offices, in conjunction with the central Edmonton warehouse, maintain an estimated \$70 million in equipment and inventory. During the peak of the season, the fire fighting effort can involve several thousand people, including contracted personnel, full time staff, and seasonal workers.

There have been changes in the way the Service fulfills its fire fighting duties

In recent years, downsizing, decentralization, and new computerized systems have had an impact on the management of fire operations. Downsizing within the Department, in conjunction with the contracting of key services by private sector firms, means that many fire fighting activities are no longer delivered directly by Departmental staff. With decentralization, many of the operational and financial functions previously handled centrally have migrated to the regions. New computer systems provide the Service with access to and analysis of Province-wide information quickly and efficiently.

The severe 1998 fire season highlighted a number of operational weaknesses

The 1998 fire season was one of the most extreme in Alberta history. The Service dealt with 1,696 fires that consumed 734,815 hectares of Alberta's timber. For the 1998 fire season, Environmental Protection's fire fighting costs exceeded \$230 million. By comparison, the average annual fire fighting cost over the last five years had been \$87 million. The severity of the fire season tested all aspects of the Service's operations and highlighted several areas that could be improved. For example, the 1998 fire season was expected to be severe, yet fire stations were not fully manned before major fires broke out. Fire fighting teams were not manned and ready at the beginning of the season. Arrangements for infrastructure such as transportation, base camps, and equipment were not in place at the beginning of the fire year.

The Service has undertaken initiatives to improve field operations

Recognizing that it can improve its fire fighting operations, the Service has sought the input of stakeholders, peers, and consultants to review its 1998 performance. For example, under the direction of a joint Service-industry steering committee, an extensive external review of fire fighting is underway. In addition, the Service has instituted a number of internal committees to review specific aspects of fire fighting. As part of my annual audits, I will be monitoring the progress, findings, and results of these reviews.

My work focuses on financial administration systems

My examination focussed on the systems that support the financial administration of the forest fire fighting activity, such as business planning and budgeting, personnel and training, accounting controls, contract management, and the recovery of expenses.

Many financial weaknesses noted in 1998 have been corrected for the 1999 fire season

As was the case with its operations, the Service encountered a number of problems with its financial administration of fire fighting in 1998. In many cases I have been able to confirm that administrative weaknesses have been corrected in time for the 1999 fire season. For example, in 1998 very few contracts with key suppliers were in place at the beginning of the fire season. The absence of contracts exposed the Service to volatility in the rates charged by contractors negotiating on short notice in a busy season. However, in 1999 this situation has been corrected and contract arrangements were in place before the start of the fire season.

My recommendations may apply to operational matters as well

In my recommendations regarding financial administration, I have targeted strategic, policy, and procedural preparedness by the Service and the Department. I believe that these processes establish a structure for sound financial administration. However, as these recommendations are strategic in nature, they may also apply to the operational efficiency and effectiveness of fire fighting. I encourage the Department to consider their impact on functions more broadly defined than financial administration.

Budgeting fire fighting

Special warrants were used in the past

Prior 1994, forest fire fighting was budgeted within the Department budget at approximately \$12 million per year. At that time, the average fire season cost about \$50 million, so there was understood to be a funding shortfall before the fiscal year began. The shortfall would then be funded by Special Warrants that were issued through the year.

The Environmental Protection and Enhancement Fund now funds fire fighting

In 1994, the government changed its funding strategies. As Special Warrants would no longer be used to finance the fighting of fires, the Environmental Protection and Enhancement Fund was used to provide funding flexibility within the Ministry. The *Environmental Protection and Enhancement Act* states that the Fund can be used “with respect to any matter that is under the administration of the Minister”. A transfer of revenues from the Department of Environmental Protection finances the Fund. Each year, the Department calculates a “base revenue”, which is the total budgeted revenues less budgeted dedicated revenues. Actual revenues in excess of the base revenue are transferred to the Fund. In 1998-99, the transfer totaled \$79 million.

The Ministry's fire fighting budget has been set at \$50 million

In 1994, Environmental Protection and Treasury also agreed to budget for an average fire year. The ten year average cost was used to establish a Ministry-wide fire fighting budget of approximately \$50 million. Within the Ministry, the Department would budget the annual pre-suppression costs, which total about \$38 million per year. Pre-suppression costs are essentially the fixed costs required to prepare for the upcoming fire season, including such items as water bomber contracts. The Fund would then budget for the remaining fire suppression costs of about \$12 million. This arrangement was still in place for the 1998-99 fiscal year, with dollar values unchanged from 1994.

Annual fire fighting costs in excess of \$50 million are treated as emergency expenditures in the Fund

The Department has stated that forest fire fighting is, by its nature, an emergency activity. Under the current conditions, the base \$50 million Ministry-wide budget tends to be expended very early in the fiscal year. As a result, the Fund then finances fire fighting operations through the rest of the year without relying on Legislative supplemental estimates or special warrants. Expenditures from the Fund are governed by the review exercised by Treasury Board and the Standing Policy Committee. Fire fighting costs are reported in the financial statements of both the Department and the Fund. The total Ministry fire fighting cost is not specifically reported in the Ministry financial statements.

Budgeting annual fire fighting costs

Recommendation No. 27

It is recommended that the Department of Environment budget for the expected annual fire fighting costs based on the most current information. Further, it is recommended that the fire fighting budget be subject to legislative approval, including approval for any supplemental estimates required during the year.

In my view, the fire fighting budget should be controlled by the Legislative vote process

The Fund provides the opportunity for expenditure without legislative approval. It is a fund to be distributed at the discretion of the Minister, subject to guidelines established by Treasury Board. However, I believe that the controls embodied in the annual Legislative estimate and vote process are important to the accountability process. As well, given that the Ministry is required to operate financially within centrally approved financial parameters, I question whether the separate Fund arrangement offers significantly greater flexibility than budgeting through the Legislative vote process. The Department has the ability to forecast a severe

fire season early in the fiscal year, so preparing for supplemental estimates should not be a compelling reason to avoid the Legislative process. If the fire season turns out to be less expensive than expected, any unused funding could be allowed to lapse.

Best estimates for the year should form the budget request

I also believe that the Department's annual fire fighting responsibilities are routine in the sense that the Department must address these challenges each year. Prudent management and accountability dictate that an organization should budget for its expected annual expenditures based on the most current information available. To calculate its expected expenditures, the Department has the benefit of recent historical results plus sophisticated predictive capacity based on systems that monitor and analyze weather, vegetation, and other significant forest fire factors. I recognize that the ability to predict the severity of a fire season is not synonymous with predicting the eventual actual costs for the fire season. As well, I understand that the timetable for budget preparation means that initial budgets will often be best estimates only. Nevertheless, I believe that the process can support more accurate budgeting. In the past few years, the Ministry's overall \$50 million fire fighting budget has only been sufficient to fund a few months' activities. The average of the last five years' actual fire fighting costs has reached \$87 million. The most current results are even higher. In 1998-99, fire fighting costs exceeded \$230 million; for 1999-2000, they are expected to reach \$170 million.

Upcoming replacements and upgrades should also be budgeted

Of increasing concern in recent years, the Department needs to plan for the replacement or upgrade of its fire fighting infrastructure. For example, the Department feels that community airports need to be upgraded and aircraft and equipment replaced. These types of expenditure should also be budgeted annually as they support the essential service.

Financial reporting issues can also be resolved through Departmental budgeting

Budgeting through the Department would also offer a solution to existing financial reporting issues. As mentioned, there is no financial statement that reports the total cost of fire fighting. As well, the Fund purchases assets (both capital and inventory) that are critical to fire fighting, yet the assets are not reported in the Fund nor the Department. Having all expenditures budgeted and reported through the Department would eliminate these problems.

The need for the Enhancement Fund should also be reviewed

There is a corollary to my discussion of budgeting fire fighting through the Department. As mentioned, fire fighting is now largely financed through the Fund. For example, in 1998-99, \$211 million was spent from the Fund to finance forest fire fighting activities. If these expenses were moved to the Department's financial statement, then all that remains in the Fund's expenses is \$6 million, spent on various programs. With much of its program activities gone, the continuing need for the Fund should be reviewed.

Consistency in regional plans and operations

Recommendation No. 28

It is recommended that the Land and Forest Service of the Department of Environment ensure that its strategies, goals, and processes are effectively implemented through regional business plans and operations.

Business planning is the foundation for successful financial administration

Financial control begins with sound business planning. Business planning sets the priorities for the organization and allocates scarce resources to the activities of greatest benefit. The Service should ensure that regional business plans embrace critical Departmental and Service strategies and goals. Appropriate measurable criteria within these plans would also assist the Service in monitoring each region's success against organizational objectives.

Regional, Service, and Departmental business plans can be better aligned

The Service is still in the process of developing its processes to ensure that its critical business plan goals are being addressed by regional business plans. At the time of our examination, only one region had completed an annual plan. I understand that the other regions are developing their first plans. We also found that the Service business plan did not contain quantifiable financial goals against which to measure success. The Service should also consider training its regional managers in business planning. A better-integrated planning process would ensure that all regions consistently address critical Departmental and Service objectives.

Central monitoring of regional financial practices should be enhanced

Financial control in a decentralized environment also requires consistently applied financial practices. Central control should exist to ensure that accounting policies and procedures are being followed at regional offices and that the accounting practices are efficient and effective. For example, the Edmonton headquarters does not monitor the regional inventory counts for timeliness and accuracy. In

our testing, we also found that areas differed in their accounting practices; some had stringent accounting controls while others were more relaxed in their practices. For example, in some regions, personnel can make purchases from local merchants on Environmental Protection's account without a purchase order; in others, a purchase order would be required. Some form of central review or audit function may be an effective way to ensure that accounting practices are followed consistently in the area and regional offices.

Contract management**Recommendation No. 29**

It is recommended that the Land and Forest Service of the Department of Environment refine its contract management processes.

Cost-benefit analysis should be prepared to support outsourcing decisions

The decision to outsource services should weigh the costs and benefits of contracting against other alternatives, including providing those services in house. The cost-benefit analysis should consider all relevant costs, including borrowing, costs to secure contractors' equipment, and so on. My review showed that few cost-benefit analyses supported decisions to outsource, and those analyses that had been prepared were often completed after the contracting decision had been made. In my view, none of these analyses considered all relevant costs. The Service could assist the regional personnel who are charged with this responsibility by providing training and guidance.

Where significant, qualitative analysis should support the contracting decision

For some services, the cost-benefit analysis should be supplemented by further qualitative analysis. A catering contract is an example where quality of service is difficult to quantify yet has an impact on the morale and health of the fire crews. Once the contractor has been engaged there may be little recourse if the quality of service is unsatisfactory. The Service may wish to procure these types of service by way of a request for proposals rather than through tendering. Under tendering, I understand that the Department is generally obligated to accept the lowest bid unless unsatisfactory past performance can be proven. Requests for proposals offer greater flexibility in contractor selection.

Monitoring of contracts can be strengthened

Once the contract has been awarded, management should monitor the delivery of the service to ensure that the contractor is meeting the requirements of the contract. We found that the approach used for monitoring contracts varied

from area to area. For example, in some areas workers were required to sign for all meals, while other areas simply relied on their reckoning of the number of workers on the site. As well, at the conclusion of many contracts it would be useful to analyze the performance of the contractor, and compare actual performance against expectations and competitive arrangements. In our testing, we found that some areas completed a contract completion report, while other areas did not. Guidelines or standards for post-contract analysis would be useful as not all contracts are of sufficient size or importance to warrant the exercise.

Duplication of manual data entry

There are several cases of duplicate manual data entry to computer systems

The elimination of duplication offers a number of benefits

It is recommended that the Department review its systems to identify opportunities to eliminate the duplication of manual data entry.

The Department currently relies on several computer systems, both financial and non-financial, into which its employees must manually enter the same information. For example, thousands of invoices are manually entered to the Service's fire management program FIRES, and these same invoices are also manually entered into IMAGIS, the Department's integrated accounts payable and general ledger system. As well, information concerning fire contracts is manually entered into the FIRES system; this same information is then manually re-entered into the Department's contract system, CONR.

Some of these systems may be replaced in the foreseeable future. In those cases it may be feasible to integrate the functionality of the overlapping systems and thereby eliminate duplicate manual entry. For those systems that will not be replaced, electronic integration offers significant benefits. Integration would save staff time and costs related to the manual re-entry of identical information. As well, one point of entry for data would mean that only one set of input controls need be relied upon in the edit and validation process. The reduction in duplicate data entry may also eliminate the need for manual reconciliation of data between systems that contain the same information. For example, the reconciliation of the costs in FIRES (the operational system) to those in IMAGIS (the financial system) has been time and resource intensive. In part because the data in these two systems was not reconciled on a timely basis, forecasts of total fire fighting costs were underestimated throughout the 1998 fire season.

Timber fees are another example of duplication of manual data entry

In an example not directly related to fire operations, timber fees represent the Service's largest revenue stream. Royalties are entered into the Service's TPRS system both manually and electronically (through the Internet). The assessed amounts are then manually re-entered into the Department's CARS accounts receivable system, which tracks the revenue received. Summary information from the CARS system is then manually entered into the IMAGIS system.

Regional financial training and support

It is recommended that the Land and Forest Service ensure that its field personnel have sufficient financial background and training, supported by up-to-date financial policies and procedures.

Training is critical to sound financial administration

We noted in our previous recommendations that further training is needed in the areas of business planning and contract management. Training for the Service's computerized fire accounting systems is also essential to ensure that appropriate financial decisions can be made. In the course of our examination, we found that a lack of training in FIRES slowed data entry, resulting in uncertainty as to overall expenditures at any given point in the 1998 fire season. The Department has recently acquired another computerized accounting system capable of tracking the Service's inventory throughout Province. To succeed with this system, sufficient training will be essential, especially if the Department plans to have temporary staff working with this system.

Qualifications for incoming field staff with financial responsibilities may need to be enhanced

With the decentralization of the Department, regional offices are responsible for more financial decision making and analysis than in the past. However, the position requirements for regional staff have not changed for several years. Presently no more than a high school clerical background is required for any financial position in a regional office or on a fire line. For smaller fires this may be appropriate, but large fires can employ hundreds of people and cost millions of dollars. In other jurisdictions, we are beginning to see the use of sophisticated fire costing models to weigh the costs and benefits of different strategies for fighting forest fires. Alberta's regional fire fighters may soon be making similar decisions. Having persons in the regions with the background and training to apply such models may result in cost savings to the Province.

Up-to-date documentation of policies and procedures is key to financial administration

Effective financial administration requires that financial controls be documented and made available to staff. In my review, I found that the inventory procedures manual was out-of-date. Staff no longer use this manual, relying instead on verbal instructions from the Edmonton headquarters. As noted, the Department manages inventory and equipment estimated at \$70 million through 22 warehouses across the Province. To ensure consistent and integrated control and management, regional staff should be supported by timely and complete documentation.

Regulatory Approvals Systems

Projects that could impact the environment are reviewed

Environmental Protection reviews proposed or existing projects that could cause an adverse impact on the environment, including air, land and water. The *Environmental Protection and Enhancement Act* and its regulations set out those activities that require approvals and the process for obtaining approvals.

Approvals are reviewed at six regional offices

The Environmental Service within the Department has established six regional offices that are responsible for reviewing and issuing regulatory approvals, renewals, and amendments. Head office, which until recently had administered the approval process centrally, now supports the program delivery in the regions. The regulatory approval process includes receiving applications and charging the appropriate fee, notifying the public, reviewing the completed applications and the public's statements of concern, processing appeals, and issuing the final approvals. Depending on the type of facility, the terms and conditions require regular performance reporting from the approval holder. Also, if surface disturbance is an issue, adequate financial security must be retained to ensure that the land is reclaimed to its original condition when the facility is closed.

**Financial Security Risk
Assessment Model****Recommendation No. 30**

It is recommended that the Financial Security Risk Assessment Model be implemented and that the Department of Environment ensure that it has the resources to assess the documentation that governs the calculation of the security.

The process for calculating security should be prudent and consistent

Financial security, usually in the form of a letter of credit at a bank, is intended to cover the costs related to eventual site reclamation. The financial security process recognizes that the Departmental Director has final authority in determining the basis and amount of security. My concerns with regard to the process are that adequate security be taken to protect the environment and that the process be consistent throughout the Province.

Existing securities may not be consistent

My review suggests that some types of projects are required to provide financial security, while others are not. For those that are required to provide security, differing methods were used to evaluate the need for and actual amount of financial security. In some cases, the security is based on the estimated cost of reclamation; in other cases it is based on an estimate of the value of permanent structural improvements.

A Financial Security Risk Assessment Model has been developed

To address the issues of consistency and appropriate levels of financial security, Environmental Protection, in conjunction with other government entities and stakeholder groups, developed the Financial Security Risk Assessment Model. The Model consists of an activity screening process, environmental and economic risk assessment surveys, and a matrix to calculate the amount of financial security required for the proposed activity. The model determines the amount of financial security that will be required based on a percentage of the estimated cost of reclamation. I understand that many of the financial considerations in the Model, such as the financial health of the applicant and the likelihood of financial success in its proposed venture, are new to the security decision making process.

Project applicants submit information; regional staff will analyze it

The project applicant is to complete the surveys, plot the values on the matrix, and submit them to the Department along with supporting documentation. The six regional offices will determine the need for financial security based on this assessment of environmental risks measured against the financial and business risk of the applicant. I am

especially concerned that appropriate financial expertise be developed in each region to handle these responsibilities. However, I believe that, as a result of completing the matrix, each applicant will understand its reclamation responsibilities better and that consistency of process will be enhanced.

The Model has not been implemented

The Model was forwarded to the Department Executive in June 1998. The Financial Security Risk Assessment Model has not yet been implemented.

Enhancing the approvals systems

It is recommended that the Department of Environment enhance the systems that support the Approvals process. Attention should be directed to issues of management information and data completeness.

The EMS supports the approvals process

The Environment Management System (EMS) is the key automated, shared system supporting the approvals business. In the Department's decentralized decision making environment, regional staff must rely on and be proficient with EMS, and the information on the system must be complete, accurate, and timely. My work suggests that EMS has not completely addressed such issues as tracking the timeliness of the approvals process, electronic search capabilities, and completeness of data.

There is no system to track how long it takes to process an approval

The Department's systems do not track the amount of time that it takes to process an approval, renewal, or amendment. Although references are made to the timely delivery of programs in various Departmental documents, my staff found no definition to clarify the term "processed in a timely fashion". A system to track processing time would provide valuable information to both management and clients. For example, the intent of the Department's fee is to recover a portion of the cost incurred in processing an application. Cost is largely dependent on time spent in processing, but without sound data to support it, the fee schedule may not be consistent between types of application.

Some approvals cannot be reviewed on EMS's Document Viewer

One aspect of EMS functionality is the Approval Document Viewer, which will bring up an electronic version of each approval, renewal, or amendment issued under the Act. This functionality offers ease of access to regional staff who would otherwise have to locate a hard copy of each approval. However, as many as 1,700 of the 5,900 Approval related documents are not accessible through the Approval

Document Viewer.

EMS does not support approval searches by area in the Province

Another intended EMS functionality is the ability to search for approvals and related information by area, as defined by legal land description or geographic coordinates. However, this functionality has not yet been developed. A number of issues arise as a result. For example, there are now 305 Approvals on EMS that have no legal land description recorded. Should the area search functionality be implemented, these sites would not be captured by searches. As well, a Contaminated Sites component is under construction on EMS. Part of this component is intended to be an inventory of sites currently maintained on a manual listing that is not readily available to regional staff. However, this part of the component will not be built until the land search capability issue has been resolved.

A number of landfills have not been recorded on EMS

EMS contains information about landfills on public lands in a component called Solid Waste Management. In 1996, the Department of Health transferred to Environmental Protection the responsibility for monitoring a number of landfills. However there does not appear to be a definitive list of these transferred landfills that can be entered into EMS. I understand that the regions will need to become involved to complete an inventory of these sites.

The data entry of monitoring reports received from industry is backlogged

The Department receives routine monitoring reports from facility operators for water- and air-related approvals under the Act. These hard copy reports are circulated to the appropriate region for compliance review, then are entered onto EMS (for water-related reports) or a separate Paradox database (for air-related reports). However, the data entry of water monitoring reports for industrial waste water has an 18 month backlog while air reports have a six month backlog. These reports provide an early warning system for potential problems and are critical to ensure that the Department is aware of any issues of concern.

Delegated Administrative Organizations (DAOs)**Monitoring Delegated
Administrative
Organizations**

Last year I was told that implementation of a structure for monitoring DAOs was imminent

Standard Departmental reviews have not been completed

It is recommended that the Department of Environment implement the system that it has designed for monitoring its Delegated Administrative Organizations.

The six DAOs that conduct Environmental Protection business are the:

- Beverage Container Management Board
- Alberta Used Oil Management Association
- Forest Resource Improvement Association
- Tire Recycling Management Association
- Alberta Professional Outfitters Society
- Alberta Conservation Association

Last year, we encouraged the Department to implement a system to ensure that the Environmental Protection programs delivered by DAOs are being satisfactorily delivered. We noted at that time that the Department had developed a DAO evaluation workbook and was planning full-scale implementation in the foreseeable future. The system would include the review of each DAO's annual plan, budget, and report by a designated Departmental manager. As well, Environmental Protection's managers would monitor each DAO against defined performance measures and communicate regularly with each DAO to ensure that the Ministry's business objectives are being fulfilled.

My staff reviewed progress against this plan in April and May 1999. We found that, for four of the six DAOs responsible for Environmental Protection business, formal monitoring had not progressed in the past year. I am told that the process has been delayed due to Freedom of Information and Privacy and record management issues. The Department's managers responsible for DAO monitoring believe that they will have their monitoring and paperwork up-to-date within a few months. Because the programs delegated to DAOs are important to the success of the Ministry, I feel that increased attention and formal documentation should be applied to these arrangements.

Timber Production and Revenue System (TPRS)

Last year's recommendation focussed on post implementation review and stability of TPRS

In last year's report, I recommended that the Department of Environmental Protection review the status of the Timber Production and Revenue System implementation, then prepare and execute a project plan to bring TPRS to a current, stable status.

The post implementation review is complete and TPRS stability is improved

I am pleased to report that the Department had a consultant complete its post implementation review in December 1998. As well, considerable progress has been made toward entry and processing of data on a current basis. For example, at the 1997-98 year end, only 50% of revenues had been successfully entered and calculated on TPRS. At the 1998-99 year end, the equivalent figure is 83%, with further improvement expected. Because of the importance of TPRS in the calculation of timber royalties, I intend to examine this system again in the course of my 1999-2000 financial audit. At that time, I will be able to conclude on my original recommendation.

Integrated Resource Management (IRM)

Last year's recommendation focussed on a responsible management group and performance measurement

Last year I recommended that performance measures be identified to assess the contribution of Integrated Resource Management to the Province's resource management business. I also recommended that a specific management group be designated responsible for directing, monitoring, and reporting the progress of the IRM initiative in government.

A new Ecological Landscape Division has been established to facilitate IRM progress

Since my report, there has been a significant development in the implementation of IRM concepts in the government. A new Ecological Landscape Division has been established within the Land and Forest Service of the Department that satisfies my recommendation with regard to a responsible management group. The new Division will act as a center where processes and models related to IRM are facilitated for final implementation by regional Boards and Committees. The mandate of the new Division is time-limited; it is intended to perform its coordinating tasks and disband within three years. Part of its mandate is to design and implement a performance measurement regime that will help to assess the success of all levels of IRM including economic and environmental sustainability, cooperation between responsible parties, and progress of the new Division. My

staff has met with members of the Division to share their knowledge of performance measurement approaches. I will be monitoring the progress of IRM and the new Division in the coming year.

Other entities

Financial audits of the following were also completed for the year ended March 31, 1999, or in the case of the Alberta Special Waste Management Corporation, November 1, 1998. My auditor's reports contained reservations of opinion that resulted from these entities following the corporate government accounting policies and reporting practices established by Treasury Department. The auditor's reports themselves should be read for full details of the reasons for the reservations. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports.

**Environmental Protection and Enhancement Fund
Natural Resources Conservation Board
Alberta Special Waste Management Corporation** (on November 1, 1998, the entity ceased operations and all assets and liabilities were transferred to the Environmental Protection and Enhancement Fund)

Guidance to reader

The Ministry of Executive Council consists of three programs:

- Office of the Premier/General Administration,
- Northern Alberta Development Council, and
- Public Affairs Bureau.

In 1999, expenditures for the Executive Council totaled \$12.8 million (1998 \$13.2 million). This amount included the expenditures of the Personnel Administration Office, which is no longer a part of the Ministry of Executive Council. Estimated expenditures for 1999-2000 are \$14.0 million.

Ministry and Department Financial Statements

I conducted an audit of the financial statements of the Ministry of Executive Council for the year ended March 31, 1999. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 262, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and Departmental financial statements.

In addition, I reserved my opinion on the financial statements for the year ended March 31, 1999 with respect to Ministry expenses amounting to approximately \$504,000, which were charged to the supply votes of other Ministries. In my view, these expenses should have been charged to the Ministry of Executive Council's supply vote. As set out by management in the Related Party Transactions Note 7 to the Ministry financial statements, certain transitional costs "to support a new policy role and information technology function for the Ministry amounting to an additional \$504,000 were borne and reflected by other Ministries in their financial statements." The expenses related to:

- information technology costs of approximately \$406,000 charged to the Department of Public Works Supply and Services (PWSS),

- the salary of the Executive Director - Policy Coordination of approximately \$76,000 charged to the Department of Intergovernmental and Aboriginal Affairs (IAA), and
- the salary of the Director - Research and Analysis of approximately \$22,000 charged to the Department of Community Development.

In my opinion, the amounts charged to the supply votes of PWSS and IAA were contrary to both the *Appropriation Act (1998)* and section 38(6) of the *Financial Administration Act*.

Charging Ministry expenses to the supply vote of another Ministry frustrates the fundamental expenditure control exercised by the Legislative Assembly. The proper course of action when there is insufficient spending authority is to obtain Legislative Assembly approval for a supplementary supply vote. I understand that the approved 1999-2000 budget of the Office of the Premier/General Administration includes an increase of \$800,000 to address information technology needs and the Ministry's new policy role.

Scope of work

In addition to the annual financial audit, the following work was completed:

- Application of specified audit procedures to key performance measures reported in the Ministry's 1997-98 annual report
- A review of the Ministry's progress in addressing the Year 2000 problem

Guidance to reader

The mission of the Ministry of Family and Social Services as stated in its 1998-2001 business plan is to “help families to be responsible and accountable, help adults to be independent, and keep children safe.” The business plan indicated that the Ministry will consist of four basic components:

- A delivery system for income and employment programs that is fully coordinated with complementary provincial and federal programs.
- An integrated, community based delivery system for services to children and families.
- A coordinated community based delivery system for services to persons with developmental disabilities.
- Service centres that provide administrative systems for the above three systems.

The main expenditure programs in the Ministry of Family and Social Services for 1998-99 were:

	<u>Budget</u>	<u>Actual</u>
	(in thousands)	
Income Support to Individuals and Families	677,249	632,334
Services for Children and Families	364,384	393,784
Services to Persons with Developmental Disabilities	277,822	301,345

Starting in April 1998, six community boards for Persons with Developmental Disabilities along with a Provincial Board and a Facility Board (Michener Centre) became responsible for the management of all services to persons with developmental disabilities. The initiative is intended to give communities more opportunities to plan and deliver services that meet local and regional needs.

The structure for these boards is established under the *Persons with Developmental Disabilities Community Governance Act*. The Act sets out the powers of the different boards and establishes that the programs are for adults with developmental disabilities. The Act also prohibits boards, with the exception of the Provincial Board, from hiring and paying staff. The financial and

administrative support for board operations was to be provided by regional and head office resources of the Department of Family and Social Services. Program delivery staff were to be employed by the Department and the costs to be assigned to the boards.

Calgary Rocky View Child and Family Service Authority commenced operations on April 1, 1998. The remaining seventeen Child and Family Services Authorities (CFSAs) became responsible for the delivery of services to children and families after March 31, 1999.

Our risk assessment concluded that there was considerable risk associated with the reorganization of community based services. As a result, emphasis was placed in this area during our audit work.

Subsequent to the year ended March 31, 1999, the government announced organizational changes affecting the Ministry. The Persons with Developmental Disabilities boards now report to the Minister of Health and Wellness. The CFSAs report to the Minister of Children's Services and the remaining programs within the Department form part of the Human Resources and Employment Department.

On July 8, 1999, the Minister of Health and Wellness appointed his Associate Minister to conduct a review of the programs, funding and accountability of the Persons with Developmental Disabilities Boards. A final report is to be presented to the Minister by the end of December 1999.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Family and Social Services for the year ended March 31, 1999 together with the following entities:

- Persons with Developmental Disabilities Foundation
- Persons with Developmental Disabilities Provincial Board
- Persons with Developmental Disabilities Northwest Alberta Community Board

- Persons with Developmental Disabilities Northeast Alberta Community Board
- Persons with Developmental Disabilities Central Alberta Community Board
- Persons with Developmental Disabilities Calgary Region Community Board
- Persons with Developmental Disabilities South Alberta Community Board
- Edmonton Community Board for Persons with Developmental Disabilities
- The Michener Centre Facility Board
- Calgary Rocky View Child and Family Services Authority

My auditor's reports contained reservations of opinion on all of the above except for the Foundation, and each auditor's report should be read for full details of the reasons for the reservations. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry, Department and other entity financial statements with respect to corporate accounting policies.

Also, my report on the financial statements of the Department of Family and Social Services was reserved because certain costs related to employees assigned to the PDD boards were not allocated to the boards. Costs associated with the provision of certain services to children were not reflected in the Department's financial statements.

In addition the Ministry of Advanced Education and Career Development (AECD) incurred \$6.8 million delivering labour market training programs to clients of the Ministry of Family and Social Services (F&SS). The voted appropriation for F&SS included \$6.2 million since F&SS intended to reimburse AECD for delivering these programs up to that amount. However, since F&SS was projecting a Ministry budget overrun for 1998-99, an agreement was reached between the two Ministries that \$4.4 million of the \$6.8 million would be expensed by AECD instead, such that F&SS reduced its budget overrun and accordingly applied for a smaller supplementary vote than originally anticipated. AECD was legally entitled to deliver these programs and had sufficient available voted funds to absorb these costs. However, in my

opinion, these costs should not have been reassigned without the Legislative Assembly's agreement to the revision of F&SS and AECD performance expectations.

Scope of audit work

In addition to the annual financial audits, the following work was completed:

- A review of shared services.
- Application of specified audit procedures on the Ministry's performance measures
- An examination of the systems used by the Department to review and approve business plans of the child and family service authorities to ensure proper accountability.

Department of Family and Social Services
Year ended March 31, 1999

**Shared services for
community based programs**

Recommendation No. 31

It is recommended that the Department of Human Resources and Employment prepare a plan and agreement for the delivery of shared services for community boards and children's authorities which will support the management of their operations.

Support service areas were established to provide financial and administrative support

The Department of Family and Social Services' structure changed with the establishment of the Persons with Developmental Disabilities (PDD) Boards and the Calgary Rocky View Child and Family Services Authority. Regional and Head Office support service areas were established that were to provide administrative systems for these new organizations and existing Departmental programs. This arrangement continued throughout the 1998-99 fiscal year.

In order for shared services to be delivered successfully, the following matters should have been identified and dealt with in a plan and agreement:

- The financial and administrative requirements of the new entities needed to be identified and met.
- Existing systems needed to be adequate or modified to support the new entities.

- A mechanism for establishing priorities and resolving performance problems needed to be established.
- The approach proposed for the delivery of support services needed to be evaluated and tested.
- Existing legislation needed to be considered to ensure it was complied with.
- Staff needed the appropriate skills to deliver the services.
- Training needs had to be met and any expert services made available on a timely basis.
- Reporting structures and performance management for staff had to be clear and understood.
- Details of costs associated with providing the support required had to be available and a mechanism had to be in place for passing those costs on to the area being provided with the service.

The consequence of not having proper systems in place was that significant risks were not identified and managed

The Department did not have adequate systems in place to identify and address all the above matters related to the reorganization of PDD boards and the children's authority. As a result, the operations of the PDD boards and Calgary Rocky View Child and Family Services Authority were subject to significant risks relating to finance and administration, allocation of costs, and compliance with authorities.

While a statement of services to be provided was issued by the Department in March 1999, it does not represent an agreement that meets key accountability requirements. Since parties to shared services are dependent on each other, a mutually agreed service agreement would help ensure that appropriate systems are in place to meet their expectations. In our view, the absence of an appropriate agreement likely contributed to the following problems.

Accurate and complete accounting information was not available for most of the year

Certain systems required to allocate expenses to the appropriate PDD boards and Calgary Rocky View were not functional at April 1, 1998. As a result, a large number of transactions had to be re-coded. Although the problem was identified early in 1998, the majority of coding corrections were not started until December 1998 and not completed until April 1999. This resulted in boards and Calgary Rocky View not being able to manage and control their operations effectively. For example, the comparison of actual and budgeted expenditures for most boards could not be relied upon.

The Client Service System was not available at April 1, 1998. Even when available the CSS did not provide information that was required by PDD board management

When delivery of services by the PDD boards commenced on April 1, 1998, the Client Service System (CSS) was not operational. CSS was intended to both assist the PDD boards manage the delivery of services to their clients and to provide support for the financial statements of the PDD boards. System changes, unsuccessful training efforts and failure of users to understand the capabilities of the CSS, resulted in inaccurate and incomplete information. As a result, some PDD boards chose to develop alternative methods of obtaining information.

Accounts payable errors amounted to \$1.5 million

As a result of PDD boards being unable to utilize the CSS system properly, errors were made in year-end accounts payable balances. One of the features of CSS is that it creates budgeted monthly expenditures for each client in accordance with authorized agreements. Details from client invoices are entered into CSS. A calculation of accounts payable is available by subtracting year to date invoices paid from total budgeted expenditures on a client by client basis. These amounts then need to be reviewed by the related case worker and adjusted to reflect current circumstances. Audit procedures identified \$1.5 million in overstatements of accounts payable.

In addition to the above observations there is also a need to measure the success of the plans and determine the cost of providing services to PDD boards and CFSAAs.

Measuring the costs of services provided

It is recommended that the Department of Human Resources and Employment measure the costs of providing financial and administrative support services and allocate them to each supported entity.

As there were no formal agreements for the shared services, there was no measurement and assessment of costs and results. Further, there was no allocation by the Department of these costs to PDD boards or to Calgary Rocky View.

The current statement of service does not prescribe for measuring the cost of providing services

The success of shared services can be measured by customer satisfaction and the successful and timely meeting of objectives for an appropriate cost. The current statement of services provides service descriptions and indicators of performance, however it does not require that costs of providing services be measured and allocated. It is important to measure the cost of delivering the services so that it can be compared with budget estimates and the cost of alternative service delivery models.

Costs of providing services should be charged to the entity receiving the service

Once the Department has determined the cost of the shared service, the cost of providing that service should be charged to the appropriate board or authority to provide the appropriate accountability for services provided.

Services to children provided by Persons with Developmental Disabilities boards

Recommendation No. 32

It is recommended that the Department of Health and Wellness ensure that services to children with developmental disabilities continue to be provided in accordance with existing legislative authority and that such services should not be provided under the *Persons With Developmental Disabilities Community Governance Act* unless and until the Act is amended to extend its provisions to children.

The PDD boards provided services that they had no authority in their legislation to provide

During the year ended March 31, 1999, the PDD boards provided services to children with a total cost of approximately \$6.4 million. The Department has provided services to children with disabilities for many years. Certain children were using the same agencies as the adults with disabilities, and some children were also using facilities that became the responsibility of the PDD boards. The Department found it administratively convenient to continue providing these services through the PDD boards. However, with the introduction of the *Persons with Developmental Disabilities Community Governance Act*, the PDD boards are restricted, under section 11, to providing services to adults. Responsibility for children who have disabilities was that of the Department of Family and Social Services or Calgary Rocky View Child and Family Services Authority during the

year ended March 31, 1999. In future years, the responsibility for children with disabilities will be with the 18 CFSAs.

The provision of services to children by PDD boards occurred without the proper legislative authority. It is understood that agreements are currently being negotiated relating to the transfer of responsibility and related funding of these services to CFSAs.

The needs of the children are recognized as being most important and to best protect their interests it may be necessary to have the legislation amended.

Ministry Performance Measures

Performance measures for the Persons with Developmental Disabilities Program

In my 1997-98 annual report (page 115), I recommended that the Department of Family and Social Services establish appropriate performance measures for reporting the accomplishments of the Persons with Developmental Disabilities program.

The Department agreed with the recommendation and has developed performance measures in its 1999-2002 business plan to address my concern in this area. I will continue to monitor the progress of the Department with respect to this recommendation.

Strategy to improve performance measures

Goals set for each core business need to be measured by at least one performance measure

Recommendation No. 33

It is recommended that the Ministry of Human Resources and Employment improve the quality of performance measures in its annual reports.

A critical factor in the ability of readers to assess performance of Ministries is the linkage between organizational goals stated in the business plan and performance measures disclosed in the Ministry's annual report. In order for a reader to assess performance of the Ministry's core businesses, there should be at least one measure for each goal. The Ministry's 1998-2001 business plan identified organizational goals that were not subject to performance measurement.

Improved descriptions will help readers of the annual report more fully understand the performance being measured

One of the purposes of the disclosure of performance measures is to report results of an entity's operation. In order for readers of this information to comprehend the results, sufficient information that describes how each measure has been derived or calculated and where performance information is gathered from should be presented. In addition, the Ministry should also disclose what external factors may have an affect on performance outcomes.

Persons with Developmental Disabilities Provincial Board

Agreement related to the use of staff

It is recommended that the Department of Health and Wellness clarify the agreement between the Provincial Board and the former Department of Family and Social Services related to staff.

A clearer agreement should be prepared that addresses the staff costs to be borne in each organisation

The *Persons with Developmental Disabilities Community Governance Act* prohibits community boards and the facility board from engaging staff. As the boards require staff to operate their programs, an agreement related to staff was made between the Provincial Board and the Department of Family and Social Services. The agreement does not adequately explain the assignment of staff to PDD boards and in particular how the Department will assign the costs of those staff. The lack of clarity led to problems in determining the organization that should bear the cost of vacation pay and certain expenses related to pensions for the staff assigned.

Persons with Developmental Disabilities Community Boards

Systems to ensure there is no duplication of funding

It is recommended that the community boards develop an automated system to ensure there is no duplicate funding arising under the two funding mechanisms used to provide support to individuals

Improved automation can help boards avoid the possibility of duplicate funding

PDD boards deliver program services through two main funding mechanisms; payments to individuals and payment to agencies. There is a risk that individuals receiving services from one funding mechanism may be also receiving similar or duplicate services under the other funding mechanism. To prevent such occurrences, the boards have implemented manual systems. Automated systems, which would be more effective, should be developed to assist the boards with these checks.

Child and Family Services Authorities

Background

Seventeen of the eighteen Child and Family Services Authorities (CFSAs) became responsible for the delivery of services to children and families after March 31, 1999. One Authority commenced operations on April 1, 1998. Before the CFSAs were able to take over the delivery of services, they were required to submit three-year business plans to the Department of Family and Social Services for approval. The approval process included a review by a group of representatives from the partnering Ministries: Family and Social Services, Health, Education, Justice and Community Development.

The most significant risk facing the Ministry and CFSAs is that services will be delivered in a manner that will fail to adequately protect the safety and security of Alberta's children and families. In order to address this risk, four fundamental initiatives ("four pillars") were identified in consultations with Albertans as the foundation of the redesign of service delivery. The four pillars require that services be delivered by systems that are community based, focus on early intervention strategies, provide improved services for aboriginal children and families, and are integrated at the community, regional and Provincial levels. My staff assessed whether CFSAs have adequate plans to effectively deliver services in accordance with the four pillars as part of the review of all the three-year business plans of the CFSAs. The findings from this review are covered by the following recommendation to ensure that all future business plans incorporate relevant measures and strategies to improve the overall accountability and effectiveness of CFSAs.

In addition to program delivery risks, CFSAs also face operational risks. Operational risks relate to the risk of loss occurring as a result of the failure to have in place internal controls, policies and procedures, and systems to prevent loss from human error or fraud, system failure, and non-compliance with legislation. Operational problems experienced by Calgary Rocky View Child and Family Services Authority are addressed in the following recommendation to maintain accurate accounting systems.

During the year ended March 31, 1999, the Ministers of Family and Social Services, Health, Education, Justice, and Community Development, together with the Minister Without Portfolio Responsible for Children's Services jointly-approved a Business Plan for Alberta's Children, "The Alberta Children's Initiative". This plan reflects the intent of the Government of Alberta to strengthen communities in Alberta by encouraging collaborative systems for planning and delivering services and requires the partnering Ministries to look for new and better ways of working together to plan and coordinate services for children. The plan also requires the partners to share joint accountability for the successful achievement of the goals of Alberta's children being well cared-for, safe, successful at learning and healthy.

In response to the goals in the Alberta Children's Initiative, interdepartmental initiatives are being developed and implemented to support areas identified as immediate priorities, including Fetal Alcohol Syndrome, Protection of Children Involved in Prostitution, Children's Mental Health and Student Health. For example, the Student Health Initiative announced on March 17, 1999, provides \$25.6 million annually to build strong partnerships that will strengthen the collective capacity to deliver health and related support services to children with special needs registered in school programs. The review of the CFSA three-year business plans by the partnering Ministries also verified that the priorities of the Alberta Children Initiative were addressed.

Business Planning

The Department provided the CSAs with guidance on business planning

Recommendation No. 34

It is recommended that the Department of Children's Services require the business plans of Child and Family Services Authorities (CSAs) to incorporate relevant measures and strategies to improve the overall accountability and effectiveness of CSAs.

The Department's review process of the seventeen new regional authorities involved a review of each of the plans by a partnering Ministry group as well as by the Department itself. The Department provided guidance to the CSAs in the form of "Handbook III," which outlined the required elements of a business plan. The Department also used additional criteria when reviewing the plans, which focussed

on the critical aspects of transition and operational viability. Although I realize that these are the first business plans for most regions and that this year's plans are largely concerned with the issues of transition of services, I found that some of the business plans did not satisfy all of the requirements of Handbook III.

Some business plans lack elements that are critical to accountability and effectiveness

Some of the submitted plans were lacking in areas that are critical to the overall accountability and effectiveness of CFSA's. Handbook III had required the identification of significant trends and issues in each region, as well as proposed solutions to deal with these issues. This requirement was not adequately covered by six of the regions. By not adequately identifying trends and issues, there is a risk that the strategies these regions developed were not based on the specific needs of the region. Eight regions had not completed the process of defining measurable indicators. In order for the CFSA's to measure their progress, relevant performance measures are needed that, in the future, can be compared to previous years' statistics and targets. Also, the foundations of the redesign of services for children and families ("the four pillars") were not reflected adequately in the performance measures. Any mention of the four pillars in the business plans was quite often very general and it was not possible to determine the effect of integrating the four pillars into service delivery. The effectiveness with which the CFSA's provide their services depends upon the four pillars being integrated into service delivery strategies.

Calgary Rocky View Child and Family Services Authority

My auditor's report on Calgary Rocky View's financial statements contained a scope limitation

My auditor's report on the Calgary Rocky View Child and Family Services Authority financial statements contained reservations of opinion, including a scope limitation. Because adequate accounting records relating to child welfare costs were not maintained for the Authority throughout the year, I was unable to confirm the accuracy of the child welfare contract costs in the amount of \$36 million allocated to the Authority by the Department of Family and Social Services. Consequently, I was unable to determine whether any adjustments might have been necessary to expenses, revenues, net operating results, accounts payable and accrued liabilities, and accounts receivable. This matter is discussed further in the recommendation below. In addition to the scope limitation, I concluded that the

exclusion of certain accommodation and administration expenses incurred in the operation of the Authority is a departure from generally accepted accounting principles.

Deficient Accounting Systems

Recommendation No. 35

It is recommended that the Calgary Rocky View Child and Family Services Authority and the Department of Children's Services maintain accounting systems that can be relied upon for the preparation of accurate financial control information.

Unreliable financial control information prevents management and board members from performing their control and monitoring responsibilities

Management is responsible for maintaining adequate internal controls and making fair representations in the financial statements. The accounting records serve as the prime source for the preparation of financial statements. If the accounting records are deficient this will directly impact the financial statements and their related assertions. Unreliable financial control information prevents management and board members from performing their control and monitoring responsibilities.

For most of the 1998-99 fiscal year, the Authority's accounting records were incomplete

For the fiscal year ended March 31, 1999, Family and Social Services assumed the responsibility for providing financial services to the Authority. For most of the 1998-99 fiscal year the Authority's accounting records were incomplete. For example, day care costs of approximately \$15.4 million, relating to services provided by Calgary Rocky View were incorrectly coded to Family and Social Services. These costs were not transferred to Calgary Rocky View until the end of the fiscal year.

\$21 million of costs transferred to the Authority at year-end were insufficiently supported

In addition, at year-end an additional \$21 million was transferred from the Department of Family and Social Services to Calgary Rocky View's financial records. The Department of Family and Social Services was not able to provide sufficient appropriate evidence to my staff to support the assumptions underlying the amount transferred. The problem in tracking expenditure allocations throughout the year was caused by a system design deficiency.

Management and the Board of the Authority did not have the financial information required to manage

The lack of complete accounting records was the major reason that management and the Board of the Authority did not have the financial information they required during the year, to monitor and manage the Authority's operations. The lack of information created a serious situation where management and the Board were unsure as to whether or not there were financial issues, such as budgetary overspending, that needed to be addressed.

Guidance to reader

The Minister of Health is accountable for performance of the public health system

The vision expressed by the government for the health system is “*healthy Albertans in a healthy Alberta*”. This incorporates the idea of providing services for those who are ill, and promoting and protecting the health of those who are well. The mission of the Ministry is to improve the health of Albertans and the quality of the health system. The strategy is to place greater emphasis on preventing illness, greater community and personal responsibility for health, integration of health services, and appropriate access to quality health services.

The Minister of Health is accountable for what has been achieved from the allocation of \$4.4 billion to programs and services delivered through a decentralized structure. The scope and complexity of the health system poses the challenge of coordinating many stakeholders in the achievement of common goals and improvement of the health system.

In addition to the Department of Health, seventeen regional health authorities and two health boards are accountable to the Minister of Health. In turn, health authorities are governed by boards and maintain working relationships with many health foundations, community health councils, and voluntary and private health care operators. There are also about twenty advisory boards, committees and other bodies established under the authority of the Minister. Also, committees and working groups are created to address issues or to coordinate various functions and activities.

The expenditure history of the Ministry of Health is as follows (unadjusted for inflation):

1994-95	\$3.9 billion
1995-96	\$3.7 billion
1996-97	\$3.8 billion
1997-98	\$4.2 billion
1998-99	\$4.4 billion

In March 1999, the government planned Provincial health spending to increase to \$4.8 billion for 1999-2000 (8.7% increase). About 64% of health system funding for 1999-2000 will go to health authorities, 20% to fee-for-service health practitioners, and 16% for various Provincial programs.

While progress is being made, systems of accountability need to be improved

Overall, the result of audit work continues to show that information and risk management are key to maintaining a cohesive and accountable health system. While progress is being made, systems still need to be advanced in order to better establish clear expectations, maintain budgetary control, and to measure and report results achieved for money spent. The following main points are aimed at achieving more cost-effective health services:

- The risk is still present of delay in implementing authorized business plans for health authorities. The Joint Business Planning Group is to find ways of mitigating this risk and improving business planning. Until strategic direction and expectations are established in a timely manner, the accountability system will not work as well as intended.
- The Department is working on a strategic approach for performance reporting and determining priorities in business planning expectations and performance measures. Analysis of annual reports indicates that a better link should be made between planned and actual performance reporting. Moreover, improvements in financial reporting can be made through consolidated reporting of health authorities and better use of financial analysis.
- The risk of not meeting equipment requirements has been reduced by the issuance of new guidance to health authorities. However, the guidance may not be sufficient to ensure that an appropriate capital base is sustained for equipment.
- The Department of Health is in the preliminary stages of establishing a stronger role in the coordinated planning of health facilities. The Ministry of Health should further develop systems for planning health facilities on a Provincial basis, notably acquiring information to support evidence-based forecasting of facility needs.
- The Department of Health needs to combine a high level of customer service with improved control over registration for health care services. The system must keep pace with increasing transactions while demonstrating that registration is provided only to eligible persons.

- Improvements to physician funding systems are in progress with results yet to be demonstrated. The Department needs to establish a method for measuring how much of a variance in the medical services budget should be covered by increased funding. Also, the Department should establish a process for assessing the benefits and cost of issuing clinical practice guidelines.
- The We//net Project Office should continue developing systems of accountability so as to manage risks, maximize the prospect of meeting expectations within budget, and to render accountability for results achieved with the costs incurred.
- The Department of Health has been pro-active in preparing for the Year 2000. The Department must address remaining risks in preparing equipment and systems for the Year 2000.

Ministry of Health year ended March 31, 1999

Scope of audit work

In addition to the annual audit of Ministry financial statements, the focus of systems work was to follow-up on selected audit recommendations and to conduct additional review in areas of business planning, performance and governance reporting, capital assets management, health care registration, physician funding, and preparing equipment and systems for the Year 2000.

Also reported are the results of auditing Ministry financial statements for the year ended March 31, 1999 and the audits of health authorities for the year ending March 31, 1998.

Business planning for health

Recommendation No. 36

It is again recommended that the Department of Health and Wellness and health authorities implement a joint strategy for improving the timely implementation of authorized business plans.

Last year we reported that the implementation of business planning was a significant accomplishment. However, the 1998-99 business plans of 13 health authorities were not finalized and approved by the Minister of Health until late in 1998 when more than half the business year was over.

Having authorized business plans in place for health authorities at the beginning of a fiscal year is necessary for setting an agreed basis of action throughout the year. When this does not happen, the value of business plans, as instruments of accountability, is diminished.

The amount of time to finalize business plans for fiscal year 1998-99 had to do, in good part, with health authorities forecasting deficits in original business plan submissions after initial funding allocations had been made by the Ministry of Health. A series of additional funding allocations for the health system were then made between March 1998 and October 1998. Subsequently, the Minister approved 1998-99 business plans and health authorities prepared revised budgets. Avoiding the experience of 1998-99 would enhance business plans as instruments of accountability and strengthen the linkage between business plan expectations and budget.

The challenge is to reconcile health system funding with the achievement of balanced budgets by health authorities. To begin, for the past three years the target funding level for each fiscal year of the three-year Ministry business plan have increased for the same fiscal year from one year to the next, one business plan to the next. Within each fiscal year, annual supplementary estimates have been required. For 1998-99 these amounted to \$245.7 million, and of this, \$127.9 million was additional funding of health authorities.

In view of this, during 1998-99 the Department modified its method of determining budget increases for the next business planning cycle starting April 1, 1999. This was also done to help reduce the need for additional funding after Ministry business plans are prepared and to help avoid delay in finalizing the business plans of health authorities. In addition to a 3% minimum budget increase for 1999-2000, the Department modified basic cost drivers to incorporate additional amounts for population increase (but not aging), for the effects of population-based funding allocations, and for other specific items recommended by committees. The result was an overall budget increase of \$386 million for 1999-2000. Of this, \$261 million is to go to health authorities.

The Minister provided additional funding on the understanding that health authorities would balance their budgets

The Minister provided additional funding for 1998-99 on the expectation that health authorities would balance their budgets for 1998-99. While this was the expectation, there was no agreement about the definition of a balanced budget at the time when ten health authorities were budgeting operating deficits for 1998-99 totaling \$32.4 million after additional funding. Subject to the finalization of all audited financial statements for the year ended March 31, 1999, actual results indicate that 12 health authorities incurred operating deficits amounting to \$31.7 million (with seven posting excess of revenues over expenses amounting to \$7.1 million).

Agreement was reached between the Department of Health and health authorities on what defines a balanced budget

In April 1999 agreement was reached between the Department of Health and health authorities on the definition of a balanced budget (revenue equal to expenses based on generally accepted accounting principles). This should assist in removing uncertainty about the basic measurement of annual budget performance. The Department is currently working on further guidance to health authorities for determining when deficits would be recommended to the Minister for approval.

While a basic definition of a balanced budget has been determined, it is uncertain what would constitute an appropriately approved budget of a health authority as an integral part of approved business plans. For the past two years, health authorities variously reported their budgets as having been approved by the Minister (only), by the board and the Minister, approved by the board and submitted to the Minister, or having been submitted to the Minister (but not necessarily approved). At the same time, health authorities described what budget approvals took place in relation to original business plan submission and additional funding amounts.

As of June 1999, the Joint Alberta Health/Health Authority Business Planning Group was considering factors affecting timeliness of business plans and ways to improve this for the next business planning cycle for 2000-2001. There was not sufficient time to do this for 1999-2000 while also finalizing business plans for 1998-99. As of July 1999, the 1999-2000 business plans of health authorities were in the process of being given final review by the Department of Health in order to recommend them for Minister approval some four months after the start of the fiscal year.

The Joint Business Planning Group is encouraged to find ways of improving business planning

The Joint Business Planning Group is encouraged to find ways of improving business planning. Possibilities include assessing ways to improve the forecasting and control of budgets, aligning resources with business strategies, the sharing of best practices, issuance of a self-assessment tool for health authorities to improve business planning, and clarifying what constitutes an appropriately approved budget. All of these could contribute to the timely implementation of effective business plans.

In conclusion, while progress is being made, the risk is still present of delay in implementing authorized business plans. Therefore, we repeat the recommendation that the Department of Health and health authorities should implement a joint strategy for improving the timeliness of business plans. Until strategic direction and expectations are established in a timely manner, the accountability system is not working as well as intended.

How well the accountability system is working should also be evident in the way results are measured and reported. The following section makes further observations and recommendations in this regard.

Performance measurement and reporting

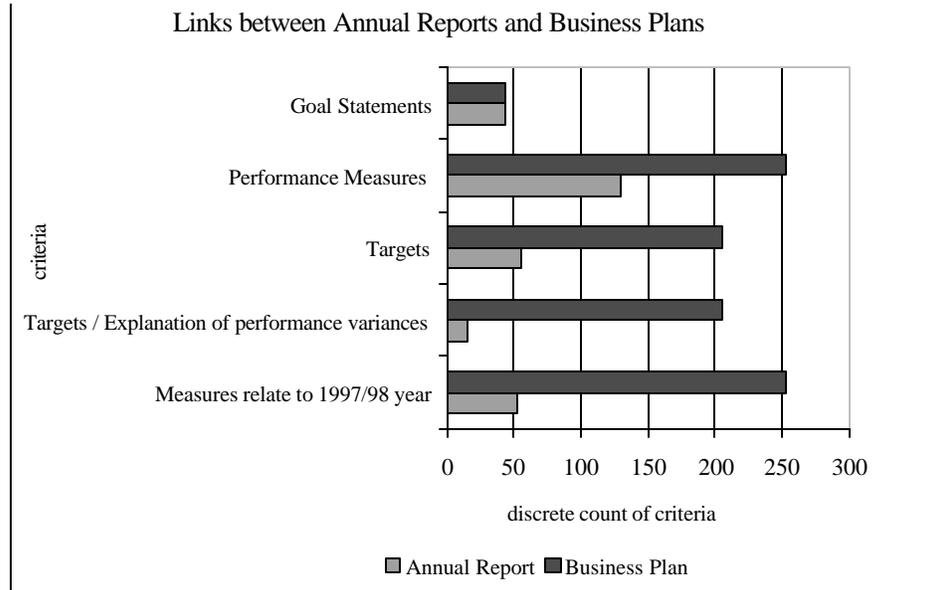
Recommendation No. 37

It is again recommended that the Department of Health and Wellness and health authorities implement a plan to improve performance measurement and reporting, including better reporting of results achieved compared to plan.

In 1997 it was recommended that the Department encourage health authorities and boards to improve the reporting of performance in annual reports in terms of measuring results and linking them to performance expectations established in business plans. In 1998 it was further recommended that the Department of Health and health authorities collectively implement a plan to improve performance measurement and reporting. In particular, service output and patient outcome measurements were not visible compared to indicators of process activity and resource inputs.

Annual reports do not yet fully link results achieved with the goals and strategies set out in business plans

To gauge progress, we analyzed five annual reports of health authorities for 1998 as representative samples. The chart below shows that annual reports do not yet fully link results achieved with the goals and strategies set out in business plans.



Note: This chart has been prepared on the basis that performance measurements contained in business plans for 1997-98 were to be reported for that year unless otherwise specified that results are only to be reported in future years.

The first pair of bar lines indicates that goals stated in business plans compare closely to annual reports. The second set indicates the total number of performance measures in business plans and the extent to which they were included in annual reports. The third set compares those performance measures that had a target (number, date, or other) in business plans to the reporting of performance against the target. The fourth pair of lines indicates the extent to which there were variances from target that were explained. The last set indicates for all performance measures the extent to which actual results for the fiscal year have been reported using 1997-98 data.

As the chart indicates, the loop of accountability needs to be closed by better reporting of results achieved compared to expectations set out in business plans. Closing the gap to improve accountability will require changes in setting expectations and in the reporting of results compared to plan.

An annual report should disclose actual results against targets in the business plan. In total for the five health authorities analyzed, measurements for 69% of the targets identified in health authority business plans were not included in annual reports for 1998. Therefore it is difficult to determine if results were what was intended and whether they require corrective action.

Business plans and annual reports indicate that several performance targets are missing and need to be determined. These include, for example, lists for seniors waiting placement, number of health promotion initiatives available for seniors, acute care average length of stay and number of patient separations. If a target can not be determined, management should consider whether the goal is clearly stated or that a better measure of the goal exists.

Too many measures may create confusion and there is a need to sort out what is most relevant

There is a risk that too many measures create confusion and there is a need to sort out what is most relevant for health authorities to report and for the Department of Health to report. Three health authorities each reported up to 65 measures or indicators in an attempt to cover all of the health authority's business planning goals, including measures required by the Department of Health as part of business planning. The reporting in these cases can be further improved by highlighting those measures which are key in assessing performance or by indicating which measures are influenced by factors within or beyond the control of the health authority. This type of description would help a reader understand the measure's relative importance to the organization.

There is risk of confusion about what requires a performance target and when a variance from target ought to be explained by health authorities. The Department of Health makes the differentiation that a performance measure requires a target but an indicator does not. We understand this is done so that information on items of interest is reported even though a performance target is considered not possible or advisable. Also, indicators allow monitoring of trends in order to help determine goals and strategies (as would be contained in business plans) and possibly set performance targets in the future.

Where there are no performance targets (or variance limits

for indicators) the question becomes at what point are corrective steps to be taken or should performance targets be established using indicator information. Also, given the volume of measures, there may be benefits in clarifying when particular performance measures are best reported rather than reporting all measures each year, and to give more emphasis to targets that require measurement.

In general, annual reports up until 1997-98 did not contain management discussion of performance using information such as cost of outputs and patient outcomes, analysis of financial operating results, or assessment of financial condition and risks.

It is expected that performance measurement and reporting will improve

While making the preceding observations, it is expected that performance measurement and reporting will improve. Health authorities are aware of the need to improve performance information and the Department assists them by providing data for use in preparing business plans and annual reports.

New indicators for access to health care were introduced in April 1999 as part of reporting requirements for health authorities during 1999-2000. Quarterly reporting to the Minister is intended to monitor the impacts on access to health services as the results of increased funding to health authorities. These do not set performance expectations to be achieved (targets) but will indicate change in, for example, home care clients served, wait lists for long term care, surgery cancellations, and people waiting for major joint replacement. However, health authorities are expected to set performance targets. When this takes place, the particular results to be achieved from increased funding should be more certain.

As recommended in 1998, the Department continues to work on developing a strategic approach for performance reporting and discussing priority areas for developing expectations and measures for both itself and health authorities. Because of the importance of this, we repeat the recommendation of last year, adding that a better link should be made between planned performance and actual results reported.

The next sections on managing equipment and planning health facilities also illustrates the need for better information and the integration of business planning with

other systems.

Managing capital assets

As at March 1998, health authorities collectively report \$216 million in equipment and \$2.2 billion in property (land and buildings). There are about 350 buildings housing all types of health services and programs in Alberta that provide more than two million square metres of floor space. The cost to construct similar capacity today could exceed \$5.5 billion.

In 1998 it was recommended that the Department of Health provide guidance for establishing an appropriate equipment and building base for each health authority

In 1998 it was recommended that the Department of Health provide guidance for establishing an appropriate equipment and building base for each health authority. It was further recommended that the Department work with health authorities to improve systems for planning and funding capital assets.

We reviewed the steps taken by the Department in response to these recommendations and conducted further review of systems at the Department of Health for planning health facilities. We did not examine the management of capital projects by Public Works, Supply and Services (PWSS) nor did we review the capital management systems of individual health authorities.

This section first deals with equipment and then health facilities.

Meeting equipment needs

Recommendation No. 38

It is recommended that the Department of Health and Wellness assess the impact of new requirements for managing equipment and determine whether they have sufficiently diminished the risk of health authorities not meeting equipment needs.

Last year we reported on the issue of how the Department of Health and health authorities would ensure that sufficient capital funding was in place to meet equipment needs. In particular, since health authorities did not include equipment amortization in determining a “balanced budget”, there was a risk that health authorities would not accumulate sufficient funds for needed equipment purchases.

New requirements now expect the business plans of health authorities to include a comprehensive capital equipment plan

Progress has been made on the audit recommendations made in 1998. New requirements now expect the business plans of health authorities to include a comprehensive three-year capital equipment plan including strategies to replace internally and externally funded equipment. Health authorities are to inform the Minister of the funding available to support acquisitions and how any funding shortfall will be financed.

Further, the Department and health authorities agreed in April 1999 on the basic definition of a balanced budget. The definition adopted means that the annual allowance for depreciation of assets is to be considered in achieving a balanced budget. This could potentially enable the creation of reserves for replacing equipment.

However, a proposal to set financial reserve targets was not accepted by health authorities. While the Department would set expectations and a reporting process, it was agreed that each health authority should decide how to ensure necessary equipment will be available as part of planning services and preparing business plans. There is still a question of what should health authorities do to accumulate revenues in excess of expenses so they are in a sound financial position to make capital acquisitions.

It was agreed that health authorities will annually set aside cash

As a minimum it was agreed with the Department of Health that beginning in 1999-2000 health authorities will annually set aside cash (or cash equivalent) amounting to a minimum of the annual internally funded capital equipment amortization not reinvested in capital equipment. That is, if a health authority does not purchase equipment at a cost at least equal to the amount of annual depreciation of equipment it previously acquired with its own money, it should put the difference aside for future equipment purchases.

New requirements may not be sufficient

The risk of not meeting equipment requirements is reduced by these new requirements. However, they may not be sufficient to ensure that an equipment base is sustained. Reasons include:

- The setting aside of cash to replace equipment would likely only cover up to 50% of equipment in use since about half is externally funded.

- The high cost associated with newer technology, inflation in the cost of equipment replacements, or more growth in services would not necessarily be covered by money that health authorities set aside.

Accordingly, in addition to our recommendation made last year and as part of ongoing communication with health authorities, the Department of Health should monitor the effect of recent system changes and assess whether the risk of not meeting equipment needs has been reduced.

Planning health facilities

Health authorities are responsible for deciding services and allocating operating resources including the planning and running of facilities. PWSS (now Alberta Infrastructure) and the Department of Health are jointly responsible for the review and prioritization of capital funding and for recommending capital grants for the upgrade, expansion or replacement of health facilities or the construction of new facilities within funds available.

In 1995, a planning manual was issued by the Department and PWSS as a guide to approving new capital projects. This was part of a process for planning and assessing capital needs where health authorities are asked to develop infrastructure plans linked to service and financial plans and to support requests for major capital projects. Requests by health authorities are subject to review by the Department of Health for approval by the Minister of Health. PWSS works with health authorities to confirm the needed scope and cost of proposed projects.

In 1996, a policy was introduced stipulating requirements and conditions for the disposal of surplus property (buildings and land) owned by health authorities. And, in 1998, an extensive condition survey of all public and voluntary health facilities was undertaken by PWSS. Building on this, during 1999-2000 PWSS is developing and implementing an information system to report on the condition of facilities and the cost to keep them functional.

The Department has begun responding to the challenge of multi-year planning of health infrastructure

In cooperation with PWSS and health authorities, the Department has begun responding to the challenge of multi-year planning of health infrastructure as part of the government-wide (corporate) approach being taken to manage the capital infrastructure of Alberta.

**Systems for planning
facilities****Recommendation No. 39**

It is recommended that the Department of Health and Wellness, in cooperation with health authorities and other departments, further develop systems for planning health facilities and obtain better information to support decisions.

The Department of Health is in the preliminary stages of establishing a stronger role

We found that the Department of Health is in the preliminary stages of establishing a stronger role in the coordinated planning of health facilities (infrastructure) that will support health system and inter-ministry decision making.

In 1999, a capital planning position was re-established in the Corporate Services Division of the Department. A template was introduced for presenting data to support the review by the Department of individual capital projects proposed by health authorities. Provincial capital rating criteria were updated in July 1999. The criteria are designed to rate each health capital project in relation to demonstrated need and priorities such as increasing service capacity in a region, meeting a system-wide priority such as long-term care and improving access to and/or utilization of health services. The Department also asked health authorities to commit to developing longer-term capital plans as part of business planning.

The Department of Health needs to further develop systems for planning health facilities

While a basis has been established, the Department of Health needs to further develop systems for planning health facilities, notably in information collection and use and the development of a strategic work plan. Health facility planning should also be linked to service strategies and business plans as developed by health authorities.

In so doing, the Department is aware that it must adopt a planning process that recognizes the responsibility of health authorities to determine service needs and incorporate the expertise of PWSS in planning and managing capital programs.

Advancing systems for planning the preservation, development and disposition of health facilities on a Provincial basis will require a number of things, including:

- clarifying and documenting the respective roles and responsibilities of the Department of Health, PWSS, and health authorities as it relates to defining service needs and planning and providing facilities, both owned and non-owned;
- preparation of a management work plan that includes principles and strategies for the future building and maintaining of health infrastructure;
- updating policies and establishing benchmarks for assessing capital plans that are linked to service standards and to business plans and budgets;
- establishing a framework to guide decision making not only with respect to acquiring, preserving and rehabilitating facilities but also assessing alternative use of space, divesting surplus space, and assessing alternative methods of funding capital projects;
- using information to identify risks and to incorporate facility utilization into planning decisions for the health system.

Pro-active planning of health facilities needs good information

Pro-active planning of health facilities requires good information to support evidence-based forecasting of facility needs in relation to service and program needs. Without good information, the risk increases of not providing facilities that will efficiently and effectively respond to needs and be in the right place at the right time for the right purpose.

The information and charts provided below outline some risk factors and illustrate the importance and complexity of facility planning. We have used bed data as a standard way of analyzing facility use. It is emphasized that while beds are a key component of facility based care, this does not mean that facility planning should be strictly a function of beds. Community and home based care services are also to be factored into deciding what should be built and maintained as are services relating to ambulatory, diagnostic, and other treatment services.

While service and facility planning are separate functions, they should closely link with each other. Therefore, it should be understood that facility planning would incorporate alternatives to building and owning bed space. Indeed, health prevention and promotion can be viewed as the business strategy to minimize the need for institutional beds. And, innovative care models are also properly factored into the development of a Provincial plan for health facilities.

Aging facilities. The average age of about 160 acute care facilities is approaching 20 years. Of these, about 44 facilities are more than 25 years old. The average age of long-term care facilities is about 24 years with 58 facilities (about 1/3) in the range of 30 to 40 years old. In total, there are 88 facilities reported as being older than 30 years, housing about 27% of acute care beds and 42% of long-term care beds in service.

Older facilities may not meet standards

With increasing age, there is a risk of older facilities not meeting standards of care as well as increased cost to maintain or upgrade them. On a preliminary basis, PWSS estimates costs to fully maintain facilities would exceed \$70 million in each of the next two years. The current level of capital budgets is estimated to cover 42% of maintenance and minor upgrading needs. This signals a risk of backlog in meeting maintenance needs. PWSS is undertaking more in-depth evaluation of the condition of facilities and assisting health authorities to develop multi-year asset maintenance and upgrading plans.

As time passes, the need increases to systematically decide which facilities should be replaced or upgraded and where new facilities should be built. Criteria supported by information are needed for making such decisions on a consistent and comparable basis between and within health regions.

Change in facilities. Between 1993 and 1998, five facilities were closed and not replaced. In total, about 1,315 acute care beds were removed from the health system. About 20 hospitals were converted to accommodate community health and/or continuing care programs. Approximately 180 additional long-term care beds were created by converting closed acute care beds in six regions.

There is some uncertainty as to what facilities make up the present inventory

While change in the use of facilities was taking place, the Department's role had changed such that it no longer maintained current and complete information on facilities. Consequently, the Department does not have an up-to-date inventory of Provincial health facilities that shows bed capacity available and in service. As a result, there is some uncertainty as to what facilities make up the present inventory for which information should be collected and for which governing legislative authorities and desired service standards would apply for operating facilities.

Distribution of facilities. As of March 1998, available data shows that about 6,250 acute care beds and 13,300 long-term care beds were in service in Alberta plus 625 additional beds prospectively in service for capital projects under construction as of March 1998. There are also 892 beds identified for mental health services and about 900 other continuing care "beds" in the form of assisted living, group homes and other settings. The majority (about 51%) of beds are located in the Calgary and Capital health regions.

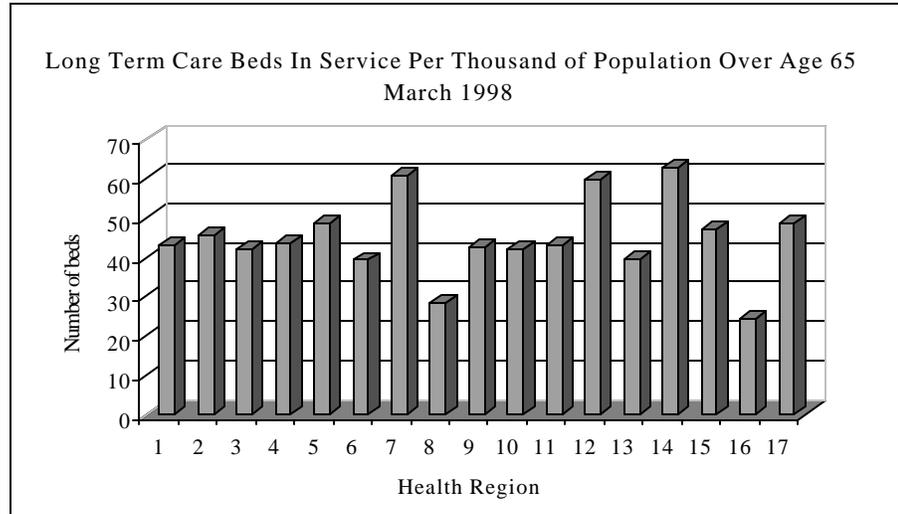
A conventional way of measuring the allocation of facility resources is the number of acute care beds per 1,000 of regional population. As at March 1998, this ratio varied from less than 1 to 2.9 beds per 1,000 population of each of 17 regions. The difficulty comes in trying to understand the significance of a three-fold difference. Is it the result of such factors as differences in acuity of patient care, population age distributions, or some other factors such as differences in levels or types of service? More relevant information would be needed to understand the appropriate distribution of the existing facility base in relation to service utilization and costs.

A limitation is lack of benchmarks or standards to understand what should be in place

Regardless of how the distribution or use of facilities is measured, a limitation is lack of benchmarks or standards to understand what should be in place. Are 1.5 beds per 1,000 population or 20 beds per 1,000 acute care patient too much, too little, or just about right? Having goals and information to assess the costs and benefit of changing the allocation of facility resources in relation to service requirements would be an important feature of a planning system.

Since long-term care facilities primarily service the elderly, the chart below analyzes the distribution of long-term care beds for regional population over age 65 as at March 1998.

Chart 1



Based on data provided by the Department of Health, Chart 1 shows that regions varied from about 24 to 73 long-term care beds per 1000 over age 65. Whether or not long-term care facilities are optimally located within and between regions would require in depth study. Again, whether 24 is too little, 73 too many, or an average of 48 is about right cannot be gauged because agreed benchmarks are not established on a Provincial or regional basis. Indeed, whether age 65 should be a standard for planning facilities can be reviewed for its continuing relevance.

Health facilities may be under or over utilized

Use of facilities. Information on use of facility space is not readily available. The utilization of present facilities, capability of meeting service standards, consideration of alternative use of space, and the disposition of surplus space would be important features of facility planning. Based on information gathered, there is a risk of under and over utilization of health facilities.

Chart 2

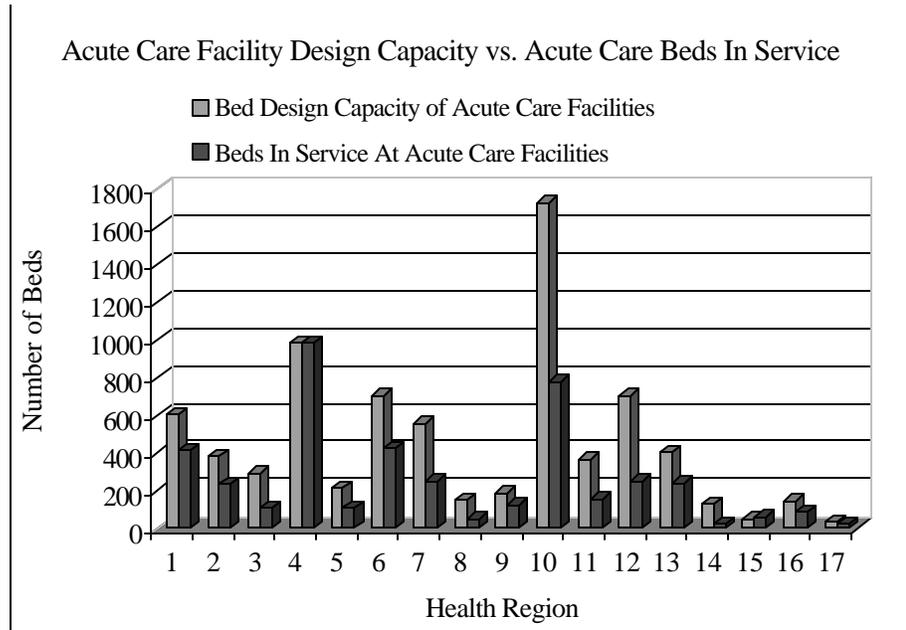


Chart 2 presents analysis of data kept by the Department of Health covering 104 facilities (out of about 160 possible) still in use. It does not include all facilities since information is not readily available.

Chart 2 indicates a considerable gap between beds in service as at March 1998 compared to the number of beds that facilities were designed to operate. On a Province-wide basis, as much as 40% of built design capacity is not used for its original purpose – inpatient care and the operation of associated beds. This underscores the need for better information about how existing space is used and how that affects service costs and future health facility requirements.

A difference between bed design capacity and beds in service does not mean that space is not used. Shifts from inpatient to outpatient services over past years have involved a change in use of facilities.

For example, Health Authority 10 recently determined that out of total built space for 3,478 acute care beds, an estimated “residual” space of 1,246 beds was calculated by deducting beds now in service and beds potentially in service over the next three years. It was estimated that 40% of this “residual” bed space is used for clinical services, 30% for lab and office space, and 30% for other purposes such as offices

for home care previously located in rented space. Health Authority 4 determined that it has total space built for 1,925 acute care beds compared to 1,788 beds in service. This type of information puts health authorities in a better position to consider options in changing the use of facilities and planning facility requirements.

For purpose of planning facilities at the Provincial level, similar information should be gathered for all regions. Current information on design capacity, beds in service and other space use would help health authorities, the Department and PWSS analyze whether service needs can be met with existing space as compared to building new space. This would be particularly important to understand the inter-regional effects of capital decisions.

Planning is needed to respond to an aging population

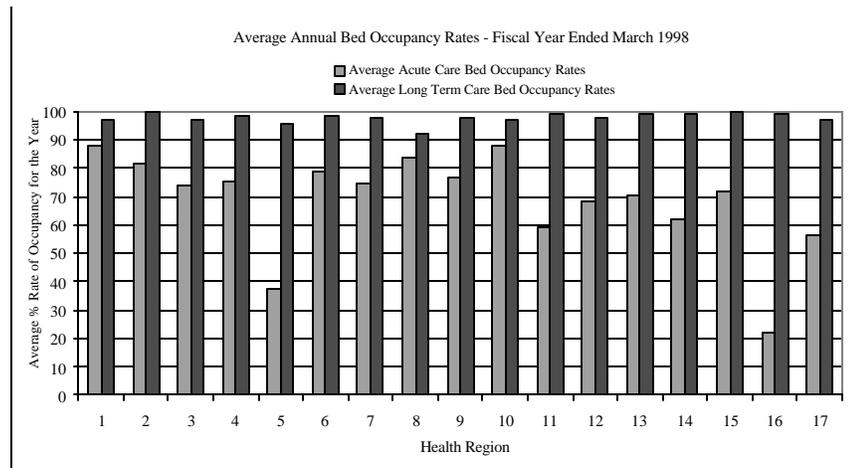
Similar analysis of long-term care facilities shows they have little difference between the number of beds they were designed to operate and what they now hold. Also, beds are almost fully occupied all year. This portends increasing pressure on long-term care facilities from a growing and aging population.

The pressure on long-term care facilities may be considerable. For example, assuming that a Provincial average of 48 long-term care beds per 1,000 population over age 65 is to be maintained, one estimate by PWSS is that additional space would be needed within ten years to accommodate as many as 6,000 more beds. This would represent a 44% growth in current facility capacity. This further illustrates the need for coordinated planning of health facilities in relation to service planning, including reasonable precision as to how many beds should be planned, the cost, and the assessment of funding alternatives.

Long-term care is currently the subject of a special committee review (Long Term Care Policy Advisory Committee) that is tasked with developing policies and strategies to respond to an aging population. A report is expected in November 1999 to recommend planning targets for a range of programs that can be used as a basis for planning health facilities.

Utilization of beds in service. Planning of health facilities should consider the use of beds now in service.

Chart 3



On a regional average basis, the occupancy rate for acute care beds range from 22% to 89%

On a regional average basis, the occupancy rate for acute care beds range from 22% to 89%. On an individual facility basis, rates are as low as 14% to as high as 99%. Low ratios point to under utilization of resources while high ratios suggest facilities under stress. Occupancy rates of long-term care beds only vary slightly between 92% and 99%, either by region or by individual facility. Again, this poses the risk of lack of capacity to respond to changing service demand.

In conclusion, while steps have been taken, improved systems are needed for ensuring that necessary health facilities are in place. Looking forward, the Department of Health, PWSS and health authorities are aware of the importance of longer-term planning of health facilities and that this should take place in consort with business planning for the Ministry and individual health authorities. The availability of appropriate health facilities is fundamental to delivering health services for which health authorities are accountable.

Information about health facilities exists in different places and parts. We found gaps and anomalies in various data sources, probably because they were prepared at different times for different purposes by different people. Also, it is observed that a complete picture of spending on health facilities is not disclosed for public accountability. The total cost of approved capital projects, total authorized cost, and costs to date for each are not reported in the Estimates when annual funds are voted each year by the Legislature nor are they reported by the Department of Health, PWSS, or health authorities.

Better information would support improved planning of capital assets on a Province-wide and regional basis. A consolidating management information system that can be accessed by the various stakeholders should be in place that provides timely, reliable, and complete information.

Health care registration system

Last year we conducted an audit of systems for paying claims for health services. It was recommended that the Department assess the risk of incorrect payments and implement new strategies for improving the system for payment of health services. We followed this up and found the Department increased the number of claim investigators, was re-organizing the claims payment area and reviewing claim payment processes. Work has started on developing strategies for dealing with potential risks. A plan is to be designed by the fall of 1999 with improvements to the claims payment system to follow. The recommendations made in 1998 remain as work in progress and will be followed up again.

The payment of claims for health services is supposed to be for people who are eligible for health services

The payment of claims for health services is supposed to be for people who are eligible for health services as residents of Alberta unless otherwise identified. Alberta residents (with some specific exemptions) are required to register themselves and their dependents with the Alberta Health Care Insurance Plan (AHCIP).

Control over health registration

Recommendation No. 40

It is recommended that the Department of Health and Wellness improve control over health registration to reduce vulnerability of the health system to potential loss of revenue.

The healthcare registration system of the Department of Health provides access to publicly funded health services in Alberta by issuing a unique life-time personal health number (PHN) to individuals as recorded on their health card. The system maintains registration information for billing premiums, and for ensuring the eligibility of individuals to receive services. Costs for publicly funded health services provided to non-residents of Alberta are to be recovered.

The registration system features a database containing information on residents, other service recipients, health care providers, and health facilities involved with a service event. The database contains basic information on about four million individuals who have accessed or could potentially access health services in Alberta, including people residing in or outside Alberta. There are approximately 1.9 million active registrant accounts in the system. These include families (more than one individual) as well as individual registrant accounts.

The *Alberta Health Care Insurance Act* provides that entitlement to benefits is based on Alberta residency and in part defines “resident of Alberta” as a person lawfully entitled to be, or to remain in Canada, who makes their home and is ordinarily present in Alberta. The Act also states that a certificate of registration is prima facie proof that the person identified by the certificate is a resident of Alberta if the certificate was in effect at the time the health service was provided.

Several years ago, the Department moved away from the health card as documented proof of entitlement

Several years ago, the Department moved away from the health card as documented proof of entitlement to relying on a lifetime PHN and coverage as recorded in the healthcare registration system. The PHN is key to accessing public health services in Alberta including services billed to the Department by health service providers, and services provided by health authorities. Presentation of a health card is evidence that the person named thereon was, at some time, deemed eligible and documents the individual PHN. It does not necessarily mean the person is currently eligible for AHCIP coverage. Service providers are advised by the Department to always verify that a patient has coverage since possession of a health card itself does not assure the person is eligible.

The Customer Services and Registration Branch of the Department (the Branch) is responsible for registering Albertans for health services. Screening of applications is required by Branch staff to ensure that an application form is properly completed and anomalies are resolved. The Branch has approximately 133 staff and emphasizes client service. An appreciation of the work required can be taken from the following. In the 12 months ended September 1998, the Branch reports it received 1.1 million phone calls, processed 717,101 documents for registration, served 109,989 walk in

clients, and received 11,962 immigration inquiries.

The registration system operates primarily based on good faith

The registration system relies primarily on the good faith of those applying for a PHN. The Branch has not established rules or protocols for validating registration to prevent the issuance of a PHN (health card) to ineligible persons.

The application form for a PHN and registration requires the signature of the applicant certifying they are a resident of Alberta and authorizes the Minister of Health to verify information with immigration authorities, agencies and persons as appropriate. If a person is 65 or older, the applicant is required to provide proof of age. Proof of residency is only required if persons disclose they have arrived from outside Canada. Otherwise, proof of residency is usually not obtained.

The Department needs to design and implement a control strategy

The Department needs to design and implement a control strategy for ensuring that:

- the person registering is who the person claims to be;
- the person is lawfully entitled to be or remain in Canada; and
- the person is a resident of Alberta.

The Branch is considering procedures requiring proof of residency upon registering for publicly funded health care. Possibilities include requesting (on a periodic or statistical basis) documents as representing reasonable evidence of the above. Documents may include a driver's license, a birth certificate, a lease agreement, a land title or a combination of these or other documents commonly accepted by businesses to safeguard against losses.

Benefits from improved control may be significant

Our examination found several indications of risks. Collectively they indicate that benefits from improved control may be significant, in particular in view of a growing population.

First, there are gaps in registry information. For example, as of April 1999 there were 39,000 registrant accounts (relating to 63,000 individuals) flagged as having incorrect addresses. Efforts to reduce the number did not work because many new addresses obtained turned out invalid.

Up until January 1999, the Department collected a social insurance number (S.I.N.) as optional information and ran a standard test to validate the number as one objective way of helping to ensure the integrity of an application. About 21% of registrant accounts do not have a S.I.N. The Department stopped recording S.I.N. and eliminated it from new application forms since it was not consistent with section 32 of the *Freedom of Information and Protection of Privacy Act*. Means to compensate for this have not yet been introduced.

The proposed development of a new registration system by 2003 affords the opportunity for the Department to review what information should be acquired and validated and to consider specifying this in statute or regulation pursuant to statute. Other than a clause in the *Alberta Health Care Insurance Act* providing for a prescribed form to be determined by the Minister, none of the information presently collected and used for health care registration is specified by legislation.

Secondly, risk is also indicated by increasing investigations of questionable residency, going from 322 in 1996 to 919 in 1998. The Branch conducts investigations in response to potential problems as may be reported to the Branch and not as the result of systematic risk analysis using available data. Also, the ability to share investigation information with the Department of Justice is limited or precluded since authority to do so is missing. Penalties are not levied and legal action is not taken where there has been ineligible access to health services.

Third, based on one month's data, about 22% of registration transactions are for requests to replace cards previously issued. And, there are about 680 cases of individuals recorded as having been issued more than ten health cards. The Department does not use a set of checks when issuing replacement cards.

Fourth, in response to requests from service providers, health authorities and others, 348,000 searches of registration data banks were made for the Branch to communicate a valid PHN and coverage during 1998-99. Validation results are tracked when the Department's automated phone system is used (representing about 35% of searches) to validate numbers a caller does have. Some 20% (24,600) of the numbers dialed

in were signaled as not being a valid PHN and/or coverage not being active. The data indicate that a considerable amount of services start without a valid PHN and/or coverage being known, stakeholders do not make good use of the automated validation system, and many ineligible claims are likely identified well after service has been provided.

In conclusion, the Department of Health should combine a high level of service with improved control. The health care registration system needs to keep pace with increasing transactions while demonstrating that registration is provided only to eligible persons. The aim should be to reduce vulnerability and for the Department to be in a position to assert with reasonable confidence that a personal health number is provided only to eligible persons.

Physician funding systems

Recommendation No. 41

It is recommended that the Department of Health and Wellness establish methods for measuring how much of a medical service budget variance should be attributed to each of the various factors included in the agreement with the Alberta Medical Association (AMA).

Physician funding systems have been the object of audit observations and recommendations for several years

Physician funding systems have been the object of audit observations and recommendations for several years:

- In 1995 it was recommended that the Department foster the implementation of systems that focus on enhancing the health of the population. An effective remuneration system would likely need to contain several compensation systems since the fee-for-service payment system contained no obvious strategy to promote more cost-effective services.
- In 1996 an assessment of fee-for-service rates was recommended to ensure that rates set in the Schedule of Medical Benefits represented reasonable compensation for services within the current medical practice environment.
- In 1997 it was recommended that a new process address risks and opportunities in physician funding and fee-for-service payments systems in cooperation with the AMA. The previous agreement had not worked well with budget limits having been exceeded and savings in drug costs not shown to be achieved.

- In 1998 it was recommended that the Department monitor the implementation of the new agreement with physicians since it held renewed promise for addressing previous concerns.

Changing physician funding systems is a complex undertaking with a history of taking time

Changing physician funding systems is a complex undertaking with a history of taking time and much effort. Our follow-up concludes that while progress is being made, after one year of a five-year agreement, results expected are yet to be demonstrated. Until this occurs, we cannot say that past recommendations have been successfully implemented.

The agreement reached in April 1998 with the AMA increased the medical services budget by \$182 million to reach \$919 million for the fiscal Year 2000-2001, an overall increase of 24% over three years. However, in the first year of the agreement, the 1998-99 budget was over-spent by approximately \$19 million. To cover the excess, \$20 million was added to the physician budget cap (a further 2.3% annual budget increase).

Increasing the physician budget avoided the need to apply the default price mechanism that would have otherwise reduced fee-for-service rates paid to doctors. The reason for adding \$20 million is indicated to be in response to an increase in physician numbers and/or utilization of services.

Article 4.14 of the new agreement provides for possible adjustment to the medical service budget in response to a net change in physician services. This was to be defined in a physician resource plan pursuant to article 14 of the agreement (see paragraph following). The agreement also recognizes that change in physician supply affects the medical services budget and indicates that some funding had already been added into the budget to cover the cost of additional services delivered by an increase in physician supply.

The agreement itself is not clear on whether it is only physician supply (number and types) or also possibly change in service volumes that would be considered in changing medical service budget limits (hard caps). This appears to be left to the discretion of the Department and the Minister to interpret and apply.

Article 14 created the Physician Resource Planning Committee (PRPC) and called for definition of regional requirements for physicians including number, types and location based on criteria such as the definition of a full time physician, physician to population ratios, and physician demographics. A physician resource plan was to be submitted to the Minister no later than December 30, 1998.

While progress was made, a physician resource plan has yet to be finalized

While progress was made, a physician resource plan has yet to be finalized. The PRPC submitted an interim report in December 1998 outlining what has been done and what more needs to be done. The report indicates that determining physician supply is a complex undertaking. An immediate budget challenge was assigned to a separate review process to be carried out by the Finance Committee, also established pursuant to agreement. This process would analyze current changes in physician utilization and its relationship to physician resources.

Until methods and measurable benchmarks are established, it is difficult to objectively determine how much of a medical budget variance for 1998-99 or future years can or should be attributed to a change in physician numbers and/or utilization of services since April 1998.

It is also observed that:

- Work is taking place to update fee rates based on relative value of service provided. A one year extension was given for finalizing new rates so that further consultation could take place with physicians. In the event that the joint commission of the Department and the AMA does not report on new relative value rates, the Minister can unilaterally update fees in the Schedule of Medical Benefits to reflect the current medical environment.
- The introduction of alternative plans for paying physicians is progressing. After more than two years of effort, eight projects are to be finalized during 1999-2000 involving about 1% of physicians. Two projects are in place and working with a service agreement signed and with funding agreements undergoing some amendments. Others are at various stages including the development of principles and guidelines, proposed remuneration methods and rates, and draft agreements. Two more are being considered with a timeframe not determined.

- About half (\$2.5 million) of innovation funds to encourage certain changes in health practices and to support alternative payment plans were diverted to cover fee-for-service payments in excess of budget caps. This indicates risk of not achieving desired improvements since the volume driven fee-for-service system consumes more resources than planned.
- A drug utilization committee has been established. Ways of reducing the use of prescription drugs are to be recommended and implemented in cooperation with doctors. This is intended to help contain increasing drug costs as was the intent of the previous agreement.

In conclusion, implementation of the new agreement is active work in progress with final results to be demonstrated. At this point in time, we believe it is important to clearly establish the basis and method for measuring how much of a budget variance should be attributed to change in physician supply as a basis for increasing the medical services budget. This should be done before the end of the next medical service budget period.

Clinical practice guidelines

Recommendation No. 42

It is again recommended that the Department of Health and Wellness establish a process for assessing the benefits and cost of issuing clinical practice guidelines as part of accounting for performance under the new agreement with physicians.

Clinical best practice guidelines are a tool in helping to increase the effectiveness of treatment

Clinical best practice guidelines (CPGs) are a tool in helping to increase the effectiveness of treatment of illnesses and in promoting effective use of health care dollars. They are intended to assist practitioner and patient decisions. CPGs are an education device and represent suggested practice in a given topic area to assist doctors in treating individuals.

In 1997 it was recommended that the Department of Health, in collaboration with stakeholders, establish priorities for the issuance of CPGs and report on the benefits achieved from the spending of public money to develop guidelines. The first part of this recommendation has been largely met while the second part remains outstanding.

As part of the new agreement reached with physicians in April 1998, parties renewed commitment to CPGs and

committees were established to oversee the program and to accelerate and streamline the development of CPGs.

A template was developed to aid in setting priorities for CPGs. Although goals/outcomes are included on the template, they are not the prime determinate for setting priorities and selecting topics. We understand topics are chosen where there is a body of evidence to work with and there is stakeholder interest to issue a clinical practice guideline. Topics are not necessarily derived in relation to a set of essential health services, the extent of the illness among Albertans, or the degree to which a particular clinical practice may vary. Neither are they based on an assessment of potential cost-effectiveness gains in the delivery of health services.

After five years and expenditures of \$2.7 million (50% funded by the Department and 50% through the medical services budget), 18 CPGs have been issued to March 1999 with about 12 in progress. We understand that it can take a year to develop one CPG because of subject complexity, the research involved and the process for achieving consensus.

With respect to the determination of results achieved by the issuance of CPGs :

- The work plan for CPGs aims to accelerate and streamline the development of CPGs. Ten CPGs are listed for production in 1998-99, which can be assumed as being the performance target. However, where time lines are stated, most have not been met.
- A system is not in place for tracking the cost of producing CPGs. We calculate an average direct cost per guideline ranging from \$86,000 (assuming 12 guidelines in progress were substantially completed as at March 31, 1999) to about \$150,000 (based on completed guidelines). The cost of time spent by Departmental staff is not included nor is the cost of supporting infrastructure.
- Evaluation has also yet to be done on the impact of CPGs on health services and the extent to which their purpose has been achieved. This would include review of incentives to use CPGs, the extent of CPG use, and their value added in relation to other sources of guidance or standards as available to health practitioners.

Accordingly, the Department should establish means of determining and reporting the cost of issuing guidelines and the impact of having issued them on healthcare practices. This could be done on a planned basis for selected CPGs considered as being most significant to changing practice behaviors and improving health outcomes.

Information Management

The development and use of health information systems is a subject of continuing importance to my Office. This year we followed up recommendations made last year regarding the Alberta *we//net* initiative, reviewed specific projects, and performed an update on the progress being made to address the Year 2000 risk as embedded in equipment and computer systems.

Development of information systems - The *we//net* initiative

We//net is a major undertaking with the vision of “better information for better health”. The concept is a Province-wide network to enable information sharing among patients, service providers (physicians, hospitals, pharmacists, laboratories, and others), health authorities, and the Department of Health. *We//net* is not just about technology. It is a business change initiative of considerable scope and importance to the health system of Alberta.

Last year we reported that many risks needed to be addressed to ensure that we//net stayed in control

Last year we reported that many risks needed to be addressed to ensure that *we//net* produced benefits at an affordable cost. These included:

- Risk, inherent in any large information system project, of cost and time overruns and lack of user acceptance.
- The capability, readiness, and willingness of health care providers to participate.
- The challenge of ensuring accountability in a multi-stakeholder environment.

Accordingly, in 1998 we recommended that the Department of Health:

- Ensure that management processes maximize the prospect of meeting expectations and keeping the cost of a Province-wide information network affordable.

- Address outstanding issues in development of a business plan for *we//net*.
- Include the projected cost of *we//net* in its business plans and publish a status report in its annual report to gain support and to render accountability for this important undertaking.

The organization structure for we//net has changed

Since making these recommendations, the organization structure for *we//net* has changed and funding has been reduced. Starting February 1999, *we//net* became the responsibility of the Deputy Minister responsible for strategic information and technology initiatives for the government as a whole. The Deputy was accountable to the Minister of Health for *we//net*.

Establishing accountability for results achieved by *we//net*

Recommendation No. 43

It is again recommended that the *We//net* Project Office continue to improve systems of accountability in order to manage risks, maximize the prospect of meeting expectations within budget, and to render accountability for results achieved for costs incurred.

*The *We//net* Project Office is working on a business plan*

The *We//net* Project Office is working on a business plan that is to meet reduced annual spending and sets out clear expectations and deliverables. In May 1999, a revised plan that met reduced spending limits was prepared. The revised plan set out spending priorities but did not describe specific deliverables in each of the three fiscal years beginning April 1, 1999. Linking deliverables to authorized spending would allow better monitoring and reporting of what has been achieved with money invested. During May 1999 the *We//net* Project Office developed a method for doing this.

The Minister received a presentation in July 1999 that provided statements, in general terms, of deliverables to March 2000. Further, the strategic partner for *we//net* has been asked to prepare a multi-year plan and related project deliverables for the next three years. These steps are encouraged. Until results and performance measures are in place, it is uncertain what the expectations are against which the *We//net* Project Office can render accountability.

We//net must advance within a coherent system of accountability

While a technical foundation for *we//net* has been designed, how to implement and maintain the *we//net* infrastructure is yet to be defined. As part of addressing this, *we//net* must advance within a coherent system of accountability.

During the spring of 1999, a revised accountability structure was established to clarify lines of decision-making authority. Building on this, it is necessary to determine the particular accountability of the *We//net* Project Office and how that fits with the responsibilities of other stakeholders. Including a framework of accountability in the business plan would help implement the plan and establish respective accountabilities with more certainty. We understand that the forthcoming multi-year plan will more clearly define accountabilities and that steps are planned to introduce more routine processes for making decisions.

Another task is to coordinate the reporting of *we//net* in the business plans and annual reports of the Department of Health to ensure that appropriate accountability is rendered for results achieved for costs incurred. Last year it was recommended that the Department of Health include the projected cost of *we//net* in its business plan and publish a status report on *we//net* in its annual report.

The latest business plan of the Ministry of Health does not contain information about the projected cost and specific results to be achieved. The Ministry of Health Annual Report for 1998-99 provides some information about *we//net* but does not provide information on what has been accomplished for some \$47.2 million invested to March 1999 and what would explain a reported budget variance for 1998-99. In August 1999, we were told that the *We//net* Project Office will publish its new business plan and will publish a separate report for 1998-99 and future years. This will be coordinated with the Department of Health and will provide a more complete accounting of total source and use of funds showing that *we//net* operated within its total budget for 1998-99.

Other areas of risk have also been identified that will need to be continuously addressed as *we//net* progresses. These relate to maintaining stakeholder support for *we//net*, determining who will own and operate technology platforms, ensuring privacy safeguards, and avoiding unnecessary costs by the adoption of system standards in conjunction with the

Chief Information Officer for Health.

We//net Project Office is aware of risks and is further developing processes to mitigate them

In conclusion, the potential benefits and risks for *we//net* remain. The *We//net* Project Office is further developing processes to mitigate risks and to ensure that *we//net* improves access to quality health services. It sees its accountability as ensuring the success of *we//net* at a minimum investment cost. Accordingly, our recommendation is that the *We//net* Project Office continue developing systems of accountability by better defining responsibilities, results to be achieved, and corresponding measures of performance.

We also reviewed three projects associated with *we//net*.

Pharmaceutical information network

The Pharmaceutical Information Network (PIN) is designed to capture and distribute information about drug prescribing and purchasing across Alberta. Physicians, pharmacists, hospitals, mental institutions and others will have to enter information about drugs prescribed and dispensed. The protocols and processes for data exchange would be intricate requiring means of ensuring information is complete and reliable and to avoid unnecessary costs by integrating various systems.

There is also a need to assess change management risks associated with the introduction of PIN and means to assure the completeness and accuracy of information. For example, health practitioners may not be prepared to use technology to capture patient information. In order to capture prescriptions issued, service providers will have to implement technology and train staff to use it. Providing incentives and managing change will be important elements of making PIN and *we//net* work efficiently and effectively. With this in mind, work sessions have begun with physicians to help prepare for making necessary changes in the administrative practices of health care providers.

Telehealth

In January 1999, we were asked by the Chief Operating Officer for *we//net* to review the process used to manage a request for proposal (RFP) issued in December 1998 to procure equipment, software and services for 18 telehealth sites. The results were reported in a management letter to the Deputy Minister, Strategic Information and Technology Initiatives.

It was recommended that residual risks associated with equipment specifications, RFP evaluation, and costs be addressed prior to contract finalization. It was further recommended that a process be defined for contracting goods and services associated with *we//net* projects. The *We//net* Project Office agreed and took immediate action on the particular RFP. It also indicated that it has or will undertake the following:

- Work with Public Works, Supply and Services to develop a product selection process.
- As a first step in an RFP process, define roles and responsibilities and accountability of its stakeholders.
- Develop a new conflict of interest policy that precludes bidding for services or product work if there has been involvement by a vendor in developing or evaluating a related RFP.

Clinical Practice System for Cancer Patients

Another system associated with *we//net* is the development of the Integrated Cancer Care System by the Alberta Cancer Board (ACB). The system is to assist ACB staff in assessing the clinical protocols being used for the delivery of cancer treatments. We reviewed the processes and risks for introducing the system that is scheduled for implementation on August 31, 1999. A report was issued to ACB with the following recommendations to:

- Identify an individual accountable for the project and an individual responsible for user acceptance testing.
- Assess the risk of the network infrastructure functioning adequately so that the new system is available when required.
- Develop contingency plans to define actions to be taken should service locations not have access to the new system for a period of time that would affect patient treatment.
- Take the opportunity afforded by the new system to implement consistent administrative practices.

**Preparing for the Year 2000
– An update**

It is recommended that the Department of Health and Wellness address remaining risk in preparing systems for the Year 2000.

In 1998 we recommended that the Chief Information Officer for Health implement a reporting process for determining the results being achieved by health authorities in reducing the Year 2000 risk associated with equipment and computer systems. This recommendation was implemented.

The Department of Health has been pro-active preparing for the Year 2000

The Department of Health has been pro-active in preparing for the Year 2000. This is evident by:

- The Department managing and reporting progress on its own systems to the Alberta 2000 Office with no indication of unacceptable risk being reported. External certification of mission critical systems has been completed. Certain other systems are as yet to be assessed and appropriately remedied.
- Establishing terms and conditions for the use of and accounting for \$198 million allocated or potentially allocated over three fiscal years to health authorities in order to remedy equipment and premises.
- Monthly reporting of the status of Year 2000 work by each health authority with identification of issues and those health authorities requiring particular attention. Reporting has been reinforced by establishing the requirement for health authorities to complete independent reviews of Year 2000 readiness.
- Providing health authorities with guidelines for certain situations with a view to minimizing risk to patients, continuity of services and the prudent use of resources. Such situations relate to power outages, stockpiling of supplies, determining spending priorities, contracting requirements and employee vacations on or around January 1, 2000.

No one guarantees or would assert there will be no problems

While steps have been taken to reduce risk, no one guarantees or would assert there will be no problems. While testing of systems was carried out, this was not intended to warranty that date dependent systems would function normally come January 1, 2000. Also, there are other risks known to the Department and health authorities that are to be worked on over the months remaining:

- As of June 1999, 11 of 19 health authorities completed independent reviews of their Year 2000 readiness and reported the results to the Department of Health. Reports indicate that health authorities are in various states of readiness. Risks or weakness in the process of due diligence are reported in the areas of developing strategy, identification of systems that may fail, review of contracts and insurance, testing of systems, change control, and contingency planning. We understand that health authorities are taking steps to address risks as reported by independent review.
- Contingency plans are to be put in place and tested for the Department and health authorities so as to prepare for unexpected disruption of services and/or unexpected failure in core systems.
- The Department will need to ensure that it has sufficiently documented its due diligence process and decisions and that there is sufficient evidence that funds provided for Year 2000 readiness were consumed for purposes intended.
- Lastly, the Department recognizes the need to ensure that lessons learned over the past two years are incorporated into ongoing management practices to ensure systems remain Year 2000 compliant and that preparation for emergency events is maintained during and after the Year 2000.

Accordingly, the Department of Health should address such remaining risks as part of the existing process for preparing systems for the Year 2000 so that it and health authorities can collectively demonstrate due diligence has been exercised on behalf of the Minister of Health.

Population-based funding

Last year it was recommended that the Department of Health:

- improve the quality and timeliness of the information used in the population-based funding formula,
- improve the consistency and predictability of the formula,
- analyze reasons for utilization and cost differences between regions,
- review the continuing application of the no-loss provision, and
- develop better methods of forecasting funding requirements.

Follow-up on this recommendation has begun but was not completed in time to report in this annual report.

Financial reporting for the health sector

The audit of the Ministry's financial statement was completed and with the full cooperation of the Department of Health. All information necessary to complete the audit was received.

A reserved audit opinion was issued on the Ministry financial statements for the year ending March 31, 1999

A reserved audit opinion was issued on the Ministry financial statements for the year ending March 31, 1999. The reasons for reporting that financial position and results of operation are not presented fairly are summarized below. The reservation results from the accounting policies established by Treasury Department. We continue to work to resolve them.

Reporting entity: non consolidation of health authorities.

In our opinion, health authorities should be included in the reporting entity and consolidated in the Ministry's financial statements. These entities are accountable to and controlled by the Minister of Health. As reported last year, we continue to believe that consolidated financial statements will provide senior management and Members of the Legislative Assembly with a more complete reporting of the health system's financial performance in a convenient manner.

Lack of disclosure of related party transactions.

Government accounting policies stipulate that related parties include only those organizations that are a part of the government reporting entity. Since, under the government

accounting policy, health authorities are technically not considered part of government, transactions with health authorities are not disclosed in the financial statements as transactions with related parties. Under generally accepted accounting principles, health authorities are related parties of the Ministry of Health. A description of the nature of the relationship and extent of the Ministry's transactions with them should be referenced in notes to the financial statements.

Liabilities understated and expenses overstated. A pension liability of approximately \$2.8 million is not included in the Ministry financial statements. As a result of excluding the pension liability, Ministry expenses for 1998-99 were overstated by approximately \$1.3 million. The overstatement of expenses arises because there was a reduction in the year in the excluded liability. The liability is included in the financial statements of the Department of Treasury.

Costs excluded. Accommodation costs of approximately \$3 million and certain other administration costs incurred by other Ministries on behalf of the Department have not been included in expenses. These are recorded by the Department that pays expenses on behalf of the Department of Health.

Regional Health Authorities and Provincial Health Boards

Governance reporting

Good progress has been made

Previous audit reports encouraged the implementation of governance reporting by health authorities. Good progress has been made. The Department of Health provided new guidance on governance reporting in its 1997-98 annual report requirements for health authorities. In November 1998, the Department was pro-active in issuing detailed expectations for the governance of health authorities, including an instrument to help assess board performance.

Eleven of thirteen annual reports by health authorities for 1997-98 included reporting on board governance. The majority of the reports had descriptions of the board's roles and responsibilities, its relations with management, and varied accounts of board activity. Two annual reports did not comment on board governance, while five annual reports were issued late.

In terms of the content of governance reporting, it is anticipated that this will improve each year in response to guidance provided by the Department and the conduct of self-assessments by each board. Using 1998 Annual Reports, we compared the governance reporting content to various sources of good practice. We observe that reporting on governance could be further advanced by indicating self-assessment has been performed by the board and by describing methods to maintain board transparency, how the board goes about risk management, and how the board ensures business plans are implemented and appropriate systems of control are maintained.

The Department of Health is seeking ways to improve governance reporting. We will continue to monitor progress and how governance reporting improves in response to the guidance provided by the Department of Health in November 1998 and initiatives of health authorities.

**Report under Section 19(3.1)
of the Auditor General Act**

Under Section 19 (3.1) of the *Auditor General Act*, the Auditor General of Alberta is required to report the results of examinations by the auditors of regional health authorities, health boards, subsidiary health corporations, and community health councils. This applies to all regional authorities as defined under Section 16.1(1) of the *Auditor General Act* and includes all audit examinations whether performed by the Auditor General as the appointed auditor or by another person appointed as auditor of a regional authority. The Auditor General is currently the appointed auditor of eleven regional health authorities.

The Auditor General is also designated by statute as the auditor of the Alberta Mental Health Board, the Alberta Cancer Board, and the Alberta Cancer Foundation. Collectively, the entities and regional health authorities are generally called “health authorities.”

It is not practical to complete a consolidating analysis of annual reports and financial statements of health authorities in time for reporting in September of the same year. This is why a reporting of the audits for the year ended March 31, 1998 is included in my 1999 Annual Report to the Legislature.

All financial statements for the year ended March 31, 1998 received unqualified audit opinions

All health authority financial statements for the year ended March 31, 1998 received unqualified audit opinions. The financial position, results of operations, and changes in financial position were presented fairly in accordance with generally accepted accounting principles.

Previous reports under Section 19 (3.1) of the *Auditor General Act* included recommendations that the Department, in co-operation with health authorities, improve areas of financial reporting, performance reporting, and internal control. While progress is indicated, our review of 1998 shows that systems of accountability can be further advanced.

A detailed report was issued to all health authorities and the Department. It was recommended that health authorities: advance the quality of financial reporting; review systems of internal control; improve the link of performance measures in annual reports with business goals and strategies; and ensure annual reports are completed in a timely manner. The following are the main findings:

Instances of non-compliance were observed

- Instances of non-compliance with financial reporting standards were observed. These include:
 - eight health authorities not disclosing the Provincial government as a related party;
 - six health authorities not presenting comparative budgets in the statement of changes in financial position;
 - ten not disclosing the expense categories associated with \$517 million of payments to voluntary and private sector operators;
 - four health authorities applying mixed classification in reporting restricted funding.

Individually, these instances were not significant enough to warrant reservation to the audit opinion on the financial statements of each health authority.

Most annual reports do not yet contain management discussion of performance using information such as cost of outputs

- Most annual reports do not yet contain management discussion of performance using information such as cost of outputs, analysis of financial operating results, or assessment of financial condition and risks.

- Auditors report recurring weaknesses in basic controls such as bank reconciliations, recording of capital assets, and payroll controls.
- Many 1998 annual reports presented information on health determinants or population characteristics and generally how they impact the ability to provide health services. Annual reports also provided a general description of future challenges and directions. However, many did not disclose significant business risks and describe how the health authority addressed them. Such risks might relate, for example, to the availability and deployment of human resources, the maintenance and upgrading of buildings and equipment, under or over utilization of health facilities, integration of health services, and the ability to control costs and balance budgets.

As part of our work pursuant to Section 19 (3.1) of the *Auditor General Act* and in support of our review of business planning, we reviewed the business planning process of the Chinook Regional Health Authority and the WestView Regional Health Authority. A report was issued to each with recommendations to improve business planning systems within the health authority. These were considered in formulating our observations and recommendations on business planning as reported earlier in this section of our annual report.

WestView Regional Health Authority

At the request of the Minister of Health, we completed a special examination of the WestView Regional Health Authority (WRHA).

The primary reason for the review was that WRHA had been operating with deficits. It was found that WRHA funding had been correctly calculated in accordance with rules for population-based funding, that WRHA exercised reasonable diligence in implementing programs, and that WRHA had been negatively impacted by inherited financial position and infrastructure. However, there was a need to improve the budget process and financial and clinical activity data to support business planning.

Council of Academic Health Centres of Alberta

During 1998 and 1999, my Office participated in a project to help the Council of Academic Health Centres of Alberta initiate business planning. A report was issued in August 1999. The findings are reported in Annual Report

Section 2 – Advanced Education and Career Development. Recommendations have been made to define the scope of, and accountability for, academic health activities. Recommendations were also made to enhance systems of performance management, physician remuneration and infrastructure management in order to meet needs of accountability.

Financial statement audits of the following were also completed for the year ended March 31, 1999 for those health authorities where the Auditor General is the appointed auditor:

Regional Health Authorities:

Capital Health Authority
Calgary Regional Health Authority
Chinook Regional Health Authority
East Central Regional Health Authority
Headwaters Health Authority
Keeweenok Lakes Regional Health Authority
Lakeland Regional Health Authority
Northern Lights Regional Health Authority
Peace Regional Health Authority
Regional Health Authority 5
WestView Regional Health Authority

Alberta Cancer Board
Alberta Cancer Foundation
Alberta Mental Health Board

Crown Foundations: The Auditor General is the auditor of Crown Foundations pursuant to section 12(a) of the *Auditor General Act*. Three Crown Foundations became active and financial audits were completed in 1998. As of December 1998, such entities were wound up requiring no further audits to be done.

Guidance to reader

The mission of the Ministry is to lead the development of government-wide policies and strategies for Alberta's relations with other Canadian governments (federal, provincial and Aboriginal), the Aboriginal community, and international governments and organizations.

For financial statement reporting purposes, the Ministry consists of the Department of Intergovernmental and Aboriginal Affairs. Agencies not included in the Ministry financial statements, but which report to the Minister, include the Metis Settlements Transition Commission, the Metis Settlements Appeal Tribunal, and the Francophone Secretariat.

In 1998-99, the total expenses of the Ministry were approximately \$35.4 million, including \$22.5 million in respect of obligations and administration of the *Metis Settlements Accord Implementation Act*. The cost of other Aboriginal Relations initiatives, including settlement of Indian land claims, was \$5.5 million. International Relations, Trade Policy, and Canadian Intergovernmental Relations programs accounted for spending of \$4.7 million, with the balance of funding applied to Ministry administration. The Department has a staff of approximately 90 persons.

A key objective of the Ministry is to assist the establishment of sustainable, self-reliant Metis settlements. Between 1990-91 and 1998-99, the Province paid a total of \$253 million in support of eight Metis settlements pursuant to the *Metis Settlements Accord Implementation Act*. Additional payments totaling \$80 million, plus certain matching payments to be determined, are also required by this legislation to be paid between 1999-2000 and 2006-2007. A significant risk facing the Ministry is whether these funds will achieve their intended purpose. My work continues to be focussed on reviewing the business planning processes of the settlements.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Intergovernmental and Aboriginal Affairs for the year ended March 31, 1999. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 262 of this report, I have provided a summary of the reasons for the reservations on Ministry financial statements.

In my auditor's report, I also reported that the Ministry paid approximately \$76,000 for certain salary costs of another Ministry. The individual being paid was not an employee of the Ministry and the related program was approved under the other Ministry's supply vote for the year. In my opinion, the *Appropriation Act, 1998* does not provide for such payments on behalf of other Ministries. Therefore, these payments were made without proper legislative authority.

Metis Settlement Transition Commission year ended March 31, 1999

Metis Settlements Business Plans

*Improvements to business
planning processes were
recommended*

*We will continue to
monitor progress*

In my previous annual report (page 160), I recommended that the Metis Settlement Transition Commission help to further develop the business planning processes of the Metis settlements to ensure significant expectations are clearly identified and achievement is measured.

The Commission agreed with the recommendation and has undertaken to address the deficiencies I noted last year. I acknowledge that changes in planning processes typically take more than one business cycle to successfully implement. Accordingly, I will continue to monitor the progress of the Commission with respect to this recommendation.

Other entities

A financial audit for the **Metis Settlement Transition Commission** was completed for the year ended March 31, 1999.

Guidance to reader

The mission of the Ministry of Justice is to ensure equality and fairness in the administration of justice.

Justice's core business functions are policing, prosecution and trial, sanctions, legal services and providing legally oriented social programs. These social programs provide support to victims of crime, families dependent on court-ordered maintenance payments, people unable to protect their own financial interests and people who cannot afford legal counsel.

To manage the risks of not providing effective programs, the Department needs quality information systems to facilitate the monitoring and measurement of service delivery. This year, my staff continued to focus on the adequacy of management information systems in the area of policy, protection of the financial interests of Albertans at risk, and fine collection.

The Ministry comprises the Department and the Victims of Crime Fund, which is a regulated fund. The Department's expenses reach nearly \$400 million, of which approximately a half is spent on manpower. Its most significant programs center around correctional services (\$104 million), public security (\$95 million) and court services (\$72 million). Justice is also responsible for administering payments required under the *Motor Vehicle Accident Claims Act*.

The Department's main income sources are fees (\$32 million), fines and related late payment penalties (\$29 million), and transfers from the federal government primarily for cost-sharing agreements (\$26 million).

To fulfil legislative responsibilities for policing throughout the Province, the Minister has contracted for the provision of policing services to small communities and rural areas in Alberta, by the RCMP. The actual cost of these services was approximately \$78 million in 1999, with future commitments estimated at \$244 million. In addition, the Minister has signed tripartite agreements for policing of some First Nations, and in other cases municipalities have made their own policing arrangements.

The Ministry is also responsible for administering sanctions imposed through the courts, which includes collecting most fines in Alberta. In doing so, it receives about \$85 million from a volume of approximately one million fines, much of which belongs to municipalities in Alberta or the federal government.

A significant aspect of Justice's activities is the management of funds on behalf of others. The fund balances in these accounts total over \$400 million. Of these, trusts administered by the Office of the Public Trustee represent about 85%.

The Office of the Public Trustee is one of Justice's social programs whose role is to protect the financial interests of vulnerable Albertans by administering estates on their behalf.

Financial statements

I conducted audits of the 1999 financial statements of the Ministry of Justice, Department of Justice and one other entity, the Victims of Crime Fund. My auditor's reports contain reservations of opinion for the reasons summarized on page 262 of this report. The auditor's reports should be read for full details of the basis for these reservations.

Scope of audit work

In addition to the annual financial audits, the following work was completed:

- A review of certain systems used by the Public Trustee to report and safeguard estates held on behalf of vulnerable Albertans.
- A review of the Ministry's progress in implementing the recommendation I made last year to set measurable performance objectives for policing services delivery.
- Continued monitoring of the Department's progress in implementing my 1995 recommendation to report the results and costs of its fine collection activities.
- Performance of specified procedures on the Ministry's performance measures. Suggestions for improvements were made to add credibility to accountability reporting.
- A review of the Ministry's plans to address the Year 2000 compliance issue with regard to its computer systems.

Public Trustee

Background

The Office of the Public Trustee manages funds on behalf of Albertans who are unable to do so themselves. Strong financial management of the investment portfolio is a critical element in protecting its clients' interests. The Public Trustee pools and invests certain money in a common fund. Interest earnings are paid to clients' accounts based on rates set in regulation by the Public Trustee under the *Public Trustee Act*. The financial statements of the Office of the Public Trustee are included in the Public Trustee Annual Report as unaudited financial statements.

Special Reserve Fund

Recommendation No. 44

It is recommended that the Public Trustee determine and plan for the level of funding required to meet the legislative purposes of the Special Reserve Fund.

The purposes of the Special Reserve Fund (SRF) are described in the *Public Trustee Act*. It operates as a contingency fund to provide for future financial obligations resulting from errors or omissions of the Public Trustee. In doing so, the SRF absorbs surpluses or provides for shortages between the regulated earnings paid to clients and actual earnings.

The SRF more than doubled its net assets during the nine-year period ending March 31, 1999, reaching approximately \$52 million. The Public Trustee's investment policy states that "...the Special Reserve will be maintained in a range that is between 6% and 12% of the Common Fund investments." However, the fund is currently being maintained at a ratio of about 20%. Much of this growth is from earnings on the SRF's investments and deposits; however, some came from surplus interest earnings over amounts paid to clients.

Strong financial plans are needed

The Public Trustee needs to determine the appropriate balance to retain in the SRF and decide on the distribution of any excess funds. However, turnover in clients' accounts makes it difficult to allocate earnings to the accounts that gave rise to the earnings.

The Public Trustee has already started to address my concerns

The Public Trustee has commenced a review of the relationship of the Special Reserve Fund with the Common Fund and its investment policy.

Investment management

It is recommended that the Public Trustee set performance measurement targets that can be compared with actual investment returns.

At March 31, 1999, the Public Trustee managed about \$310 million on behalf of its clients. To measure the Public Trustee's performance in managing these trust funds, appropriate performance targets should be set for investment income.

Investment performance targets are needed

Although the Public Trustee measures and reports the regulated rate of return paid to clients, more information is needed to evaluate the success of investment strategies. Actual earnings can differ from those applied to clients' accounts.

The Public Trustee should set targets for investment earnings. An appropriate target would take into consideration the type of investments permitted under governing legislation, and the Public Trustee's investment policy. The reporting of actual results against targets and benchmarks would provide management, clients, MLA's and other interested parties with information regarding the success of the Public Trustee's investment strategies.

Fines and costs

Performance information

Recommendation No. 45

It is again recommended that the Department of Justice report the results and costs of its fines collection activities.

Justice needs performance information on the results of its fines collection activities

In my 1995-96 annual report (page 141) I commented on the progress the Department made towards implementing my 1994-95 recommendation to disclose the results and costs of its fines collection activities. At that time, I noted some improvements in reporting fines had been made. My staff has continued to monitor the Department's progress in implementing this recommendation.

The recommendation is repeated this year because the Department has yet to establish the systems needed to produce the information required for proper performance reporting on the results and costs of its fines collection activities. It needs to determine summaries of fines imposed, satisfied, discontinued, or outstanding. For example, the Department cannot readily determine the extent to which it has successfully pursued fines imposed to out-of-province offenders or to young offenders.

A collection pilot project is under way

A pilot project, relating to collection of Criminal Code fines in the Edmonton area, is underway. This project includes management and performance reporting and will likely be expanded Province wide. However, the Department needs to make certain enhancements to its computerized systems before proceeding further with summarized performance reporting of all fines.

The information in the reports would be a basis from which to begin measuring the impact of the fines imposed: that is, the degree to which they are deterring or punishing crime.

We will continue to monitor the Department's progress in developing reports for performance information about fines.

Policing services

First steps towards implementation of performance objectives are being made

In the 1997-98 annual report (page 165), it was recommended that the Department of Justice in collaboration with policing services set measurable performance objectives for service delivery in the Province. This recommendation was based on observations that the Department had insufficient systems to effectively monitor police services for adequacy and effectiveness, as required by the *Police Act*.

Justice has taken the initial steps towards defining adequate and effective policing levels, which will help it to establish criteria for evaluation of police services and to establish minimum levels of policing. It has also received some input from its stakeholders on the goals and objectives of policing services in Alberta.

My staff will continue to monitor the Department's progress in implementing this recommendation.

Guidance to reader

Programs of the Ministry are delivered through the Department and The Worker's Compensation Board

The Ministry is responsible for programs designed to promote safe and healthy workplaces, support quality of working life, and provide comprehensive safety systems. Most of the Ministry's programs are delivered through the Department of Labour and The Workers' Compensation Board. In 1998-99, the Department's program expenses were approximately \$28 million (1997-98 \$28 million). The WCB's revenues for the year ended December 31, 1998 were approximately \$759 million (1997 \$638 million) and expenses were \$619 million (1997 \$527 million).

The Department has delegated many program delivery responsibilities to other organizations

The Department has delegated many program delivery responsibilities to other organizations such as municipalities, delegated administrative organizations (DAOs) and other private sector entities. These organizations and entities are authorized to provide various services but remain accountable to the Minister.

Safety services are now delivered by approximately 600 delegated entities

Under the *Safety Codes Act*, the Minister is responsible for the regulation and delivery of safety services. To fulfill these responsibilities, the Department works with approximately 600 delegated entities. These entities include the Safety Codes Council, four DAOs and numerous accredited or authorized municipalities, agencies, corporations and contractors.

Proper accountability for delegated entities is critical to the achievement of the Ministry's goals

Proper accountability for delegated entities is critical to the achievement of the Ministry's goals. In prior years, I have noted a need to improve the monitoring of the delegated entities. Accordingly, I continue to focus my audit efforts on the accountability of these delegated entities.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Labour for the year ended March 31, 1999. My auditor's report contained an adverse audit opinion. In my opinion, generally accepted accounting principles require the Safety Codes Council and four DAOs (Alberta Boilers Safety Association, Alberta Elevating Devices and Amusement Rides Safety Association, Alberta Propane Vehicle Administration Organization Ltd., and Petroleum Tank Management Association of Alberta) to be consolidated in the Ministry financial statements. Had these entities been consolidated, the information provided in the Ministry's

financial statements would have been materially different.

There were other reasons as well for the reservation of opinion, and the auditor's report itself should be read for full details. On page 262 of this report, I have provided a summary of the reasons for the reservations in my auditor's reports on Ministry and department financial statements.

Reporting entity

The Safety Codes Council and the four DAOs assist the Minister in achieving his objectives under the Safety Codes Act

In Alberta, safety services administration is the responsibility of the Minister of Labour. The Safety Codes Council was incorporated under the *Safety Codes Act*. Under the *Government Organization Act*, the Minister has delegated many of his duties to the four DAOs and numerous other delegated authorities. The *Safety Codes Act* authorizes the Safety Codes Council, the four DAOs and the other delegated entities to perform duties and functions that are integral to the achievement of the Minister's responsibilities under the Act.

The Council and the DAOs are accountable to and controlled by the Minister

In my view, the Council and the DAOs are both accountable to and controlled by the Minister and therefore should form part of the Ministry's reporting entity.

The provisions of the Safety Codes Act establish the Council as accountable to and controlled by the Minister

All the powers and duties of the Safety Codes Council are established by the *Safety Codes Act*. The Act establishes the accountability and control relationship between the Minister and the Council. The Council must provide the Minister with a business plan and annual report and is, therefore, responsible to the Minister for its overall operations. The Minister controls the operations through the approval of the fees charged by the Council and all bylaws governing its operations. The Council is also required to perform any duty or function requested by the Minister. In addition, while the Council is operated as a separate entity it is dependent on the Department. The Department provides certain services, equipment and office space to the Council at no cost and provides technical advisors for each of the Council's nine technical councils. The Minister also appoints 40% of the Council members. Based on the nature of the relationship between the Council and the Minister, I have concluded that the Council should be included in the Ministry's reporting entity.

The DAOs are accountable to and controlled by the Minister for all delegated functions, which represents substantially all of the DAOs' operations

The relationship between the four DAOs and the Minister is defined by safety codes regulations and agreements with the Minister. The DAOs are accountable to the Minister for their overall operations in that they are required to submit an annual report and business plan to the Minister and are responsible to the Minister for the performance of their delegated functions. The Minister controls the operations of the DAOs through the approval of bylaws and fees related to their delegated functions. In addition, revenues earned by these delegated entities must be applied to costs arising from the performance of their delegated functions and cannot be used for any other purpose. While the relationship between the DAOs and the Minister is limited to delegated functions, these functions form the majority of the DAOs' operations. Therefore, I have concluded that the DAOs are accountable to and controlled by the Minister with respect to their overall operations.

Consolidation would provide a complete overview of the Ministry's operations and performance

Consolidation of the financial statements of the Safety Codes Council and DAOs with the Department would provide a complete overview of the full nature and extent of the financial affairs and resources for which the Minister is accountable. For the Ministry to measure its performance, all costs and outcomes associated with the Ministry's goals should be included in the Ministry financial statements. Consolidation of the financial statements of the Safety Codes Council and DAOs and the Department would bring together all the relevant accountability data of the Ministry in the safety services area and increase the overall usefulness of the Ministry's financial statements.

Other delegated entities are not part of the Ministry reporting entity

In my view, the other delegated entities (accredited municipalities, agencies and corporations, authorized accredited agencies, and authorized contractors) are appropriately excluded from the Ministry's reporting entity. Although these entities are accountable to the Minister for the performance of delegated functions, the Minister does not control their operations.

Scope of audit work

In addition to the annual financial audit, the following work was completed:

- Application of specified audit procedures to key performance measures reported in the Ministry's 1998-99 annual report.
- A review of the issue of whether the financial results of the Safety Codes Council, the DAOs and other accredited or authorized organizations should be included within the Ministry reporting entity.
- A follow-up of my prior year recommendations regarding the monitoring of the performance of delegated entities, and the backlog of in-service inspections of pressure equipment.
- A follow-up of my prior year recommendation regarding the Ministry's progress in addressing the Year 2000 issue.

**Department of Labour
year ended March 31, 1999**

**Monitoring the performance
of delegated entities**

Last year I recommended improvements to monitoring the performance of delegated entities

The Department has developed and implemented monitoring processes for most of the 600 delegated entities that deliver safety services

In my 1997-98 annual report (page 172), I recommended that the Department continue to improve its processes for monitoring the performance of delegated entities based on an assessment of risks. The Department agreed with this recommendation and indicated that they would introduce a risk based monitoring program for the delegated entities.

I am pleased to report that the Department has developed and implemented monitoring procedures and processes for most of the 600 delegated entities responsible for safety services. Due to the close relationship between the Department and the four DAOs and authorized accredited agencies, the Department continues to concentrate its resources on monitoring these entities. This year, the Department also completed the first monitoring phase for approximately 50% of the 320 accredited municipalities. Accredited municipalities maintain records of the work completed by accredited agencies; therefore, monitoring of the accredited agencies is completed in conjunction with the accredited municipalities. Plans exist to commence the monitoring of accredited corporations during 1999.

In my view, the Department continues to make good progress in improving and refining the procedures and processes for monitoring the performance of delegated entities. I will continue to monitor the progress made in this area.

**In-service inspection backlog
– pressure equipment**

In 1997-98, I recommended that a plan for eliminating the in-service inspection backlog be developed

A backlog elimination plan has been developed and implemented

ABSA and the Department have implemented processes to achieve the plan

The backlog of in-service inspections has been reduced by 14%

In my 1997-98 annual report (page 173), I recommended that the Department of Labour work with the Alberta Boilers Safety Association (ABSA) to develop a comprehensive plan for eliminating the backlog of in-service inspections of pressure equipment. The Department agreed and indicated that they were working with ABSA to produce a detailed plan for eliminating the backlog.

The Department and ABSA have developed and implemented a backlog elimination plan. The plan is risk focussed and assigns priority to higher risk areas such as pressure equipment located in public facilities. The plan outlines the goals for backlog elimination for the next three years. It is anticipated that the number of overdue in-service inspections will be reduced from 32,000 at June 1998, representing 39% of all vessels requiring in-service inspections, to 6,000 at November 2001.

To achieve the plan, ABSA has hired additional inspectors and has implemented new processes to encourage pressure equipment owners to obtain owner-user status that enables them to inspect their own equipment. These owner-users are then subject to audits by ABSA. In addition, the Department has developed and implemented processes to facilitate its monitoring of backlog elimination progress.

The backlog of in-service inspections has been reduced and results to date indicate that ABSA is on schedule with its backlog elimination efforts. At June 1999, 25% (20,500) of inspections were overdue. This is a 14% reduction in the backlog since June 1998. Results to date indicate that ABSA will be able to meet its target to reduce the backlog to less than 22% (18,000) by November 1, 1999.

I will continue to monitor the progress of the Department and ABSA in eliminating the backlog of in-service inspections of pressure equipment.

Year 2000

Last year I recommended that the Department take action to ensure that its critical systems are Year 2000 compliant

In my 1997-98 annual report (page 174), I recommended that the Department of Labour take action to ensure that its information systems and critical systems of external stakeholders are Year 2000 compliant. At that time, the Department was in the process of establishing a Year 2000 project and was developing the necessary plans to ensure that its business would not be adversely affected by the Year 2000 issue.

The Department has developed and implemented a Year 2000 plan

I am pleased to report that the Department has made progress in addressing the Year 2000 issue. The Department has prepared a Year 2000 project plan that includes its mission and process critical systems (hardware, software and interfaces). This plan includes all interfaces with external stakeholders and processes for tracking the Year 2000 readiness of the four DAOs responsible for administering the safety codes regulations. For each critical system, the Department has completed an impact analysis to determine the appropriate compliance approach, developed plans for repairing or replacing the systems and is implementing the necessary changes.

Implementation and user acceptance testing are still in progress

To date the Department has not completed the implementation and user acceptance testing phases of the plan for some of its critical systems. In addition, information on the Year 2000 readiness of external stakeholders, other than the four DAOs, has not yet been obtained. The Department plans to obtain information about the Year 2000 readiness of these entities by October 1999.

A business continuity plan has been drafted

In order to address the potential impact on the Department's operations of information systems failure, a business continuity plan has been drafted. The plan outlines the actions that would be taken should any of the Department's critical systems, or those of external stakeholders, fail as a result of the Year 2000 issue.

The Workers' Compensation Board

Financial Statements

The annual financial audit for the year ended December 31, 1998 was completed by a private sector audit firm under my direction.

Contract Management

The fundamental principles of accountability apply to contract management

The fundamental principle of accountability remains the same regardless of whether services are provided by government or a private sector contractor. These principles consist of defining the roles and responsibilities of the parties, agreement of measurable expectations to be achieved, effective monitoring and reporting of actual performance in relationship to expectations, and analysis and subsequent refinement based on results.

Sufficient resources must be committed to ensure a rigorous contract review process

Contract performance must be monitored, results must be analyzed, and corrective action must be taken on a timely basis. This can only be achieved if sufficient and appropriate resources are dedicated to a rigorous contract management process.

The WCB has recognized the need to improve its contract management process of private health care providers

During the year, my staff completed a review of the 1997 billing errors arising from a comprehensive billing audit performed by the Workers' Compensation Board (WCB) of one of its major private health care providers. As a result of the billing audit, the WCB identified the need to review and improve its contract management process of private health care providers used by the WCB.

My Office will continue to monitor the progress being made by the WCB on this matter.

Other entities

A financial audit was also completed for the **Joint Standards Directorate** for the year ended March 31, 1999.

Guidance to reader

The Legislative Assembly has six legislative Offices whose expenses in 1998-99 were as follows:

Legislative Assembly Office	\$20.8 million
Office of the Auditor General	\$11.8 million
Office of the Chief Electoral Officer	\$1.2 million
Office of the Ombudsman	\$1.3 million
Office of the Ethics Commissioner	\$0.1 million
Office of the Information and Privacy Commissioner	\$1.3 million

These Offices do not administer significant revenue systems.

*The legislative Offices
produced a first set of
financial statements*

The five legislative Offices other than the Office of the Auditor General are not required to produce annual financial statements. I am pleased to report, however, that these five Offices are producing financial statements for the years ended March 31, 1998, and March 31, 1999. I am expecting that for 1999-2000 all legislative Offices will be preparing financial statements on a timely basis, for inclusion in their annual reports.

The financial statements of the Office of the Auditor General for the year ended March 31, 1999, were audited by a private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices. The financial statements are included in this report starting on page 305.

All the legislative Offices included, or have agreed to include, salary and benefit disclosures within their financial statements. The Offices have thus agreed to follow the disclosure requirements established by the Treasury Board for government, to allow the salaries and benefits costs of these Offices to be compared to those of government entities.

Guidance to reader

The mandate of the Ministry of Municipal Affairs is to facilitate the development of good local government; to ensure that those in greatest need have access to basic shelter; to ensure registration and licensing services meet public needs; and to encourage a fair marketplace for consumer goods and services in Alberta. Ministry expenditures for 1998-99 amounted to approximately \$327 million and revenues amounted to \$392 million. The revenue consists mostly of registry licenses and fees. The Ministry works to accomplish its mandate through four core businesses:

- Local Government Services
- Housing - including Alberta Social Housing Corporation
- Consumer Services
- Registry Services

The Ministry's housing programs are delivered through 149 management bodies, and its registry services are provided by 228 registry agents.

There are risks associated with the delegation of services. For instance, the Ministry must ensure that all revenues are collected from registry agents, and that the agents follow Ministry privacy protection policies regarding information maintained in Alberta Registries' systems. Also, the Ministry must ensure that housing management bodies only spend funds that are directed towards Ministry programs and only provide housing to those in need.

There are risks associated with the services provided to local government. For instance, the Ministry's responsibilities include overseeing property tax assessments raised by municipalities. Property tax assessments, which are used as a basis for providing funds for education, should be equitable throughout the Province.

On May 25, 1999, the government announced a major reorganization, effective April 1, 1999. Responsibility for Consumer Services and Registry Services was transferred to the new Ministry of Government Services. The seniors housing operations of the Ministry of Municipal Affairs were transferred to the Ministry of Community Development.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Municipal affairs for the year ended March 31, 1999. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and department financial statements.

Reporting Entity

The most significant issue is that the assets, liabilities, revenues and expenses of the housing management bodies have not been consolidated into the Ministry's financial statements.

The management bodies were established as a means of delivering the Ministry's housing programs. They use the resources of the Ministry and, with certain exceptions, the housing properties are owned by the Ministry through the Alberta Social Housing Corporation. The management bodies' budgets are approved by the Minister, and their operations are governed by Provincial regulations.

Under the *Alberta Housing Act*, the Minister has the authority to direct the operations of the management bodies, and appoint their boards.

The Minister is still responsible for the success of the programs, and the management bodies are held accountable by the Minister for their delivery. In my view, the financial statements of the Ministry are incomplete so long as the assets, liabilities, revenues and expenses of the management bodies remain unconsolidated.

Scope of Audit Work

In addition to the annual financial audit, the following work was completed:

- A follow-up of the prior year's recommendation regarding the monitoring of management bodies to ensure that Ministry goals are met.
- A follow-up of the prior year's recommendations made following an audit of Alberta Registries performed in conjunction with the Office of the Information and Privacy Commissioner.

- At the request of the Minister of Municipal Affairs, an audit of the interim financial statements of the Municipal District of Bonnyville No. 87 for the six months ended June 30, 1998. I was appointed by the Minister to audit these financial statements pursuant to the provisions of the *Municipal Government Act*, and my appointment was approved by the Select Standing Committee on Legislative Offices. The audit was performed to assist in the allocation of assets and liabilities between the continuing Municipal District of Bonnyville No. 87 and the newly established Lakeland County.
- A review of the Ministry's progress in addressing the Year 2000 compliance issue with regard to the Ministry's many automated systems.
- Audits of the 1997-98 cost-sharing claims under the *National Housing Act (Canada)*.
- Specified audit procedures applied to the performance measures to be included in the Ministry's 1998-99 annual report.

Performance Measures

Setting targets in the Ministry business plan

It is recommended that the Ministry of Municipal Affairs set targets for the performance measures in its business plan.

A critical part of the government accountability framework is the development and disclosure in Ministry business plans of not only performance measures, but also the results, in terms of these measures, that the Ministries plan to achieve. Setting performance targets provides a basis for determining the extent to which goals have been achieved. Management and stakeholders will thus gain a better view of the Ministry's performance and management will become more accountable for results.

The Ministry did not provide target results in its business plans

In the 1999-2002 business plan of the Ministry, performance measures have been provided for all core business activities, but no desired results were presented in the business plan for any of these activities.

Housing Programs

In my 1997-98 annual report (page 181), I recommended that the Ministry of Municipal Affairs request management bodies to set measurable expectations to allow comparison of actual results to stated expectations. I commented that goals and expectations of the management bodies should reflect the goals and expectations of the Ministry.

The Ministry has established a new accountability framework for management bodies

I am pleased to report that, in consultation with management bodies, the Ministry has developed a new accountability framework for management bodies. The guidelines contained in the handbook issued to management bodies have been revised and now call for a more comprehensive business planning process to be undertaken by the management bodies. The business plan guideline asks for each management body to review and evaluate its three-year business plans annually, and for its business plans to:

- state its mission and the goals needed to achieve its mission;
- explain how the goals compare with those of the Ministry;
- identify risks and obstacles to achieving its objectives;
- state its strategies and action plans for achieving its objectives;
- outline how all the components of the business plan will be monitored and evaluated on an on-going basis.

The new accountability framework will help the Ministry improve the accountability of management bodies

I recognize that it will take time to bring management bodies up to the planning and reporting standards set by the Ministry under the new accountability framework. The focus of my work in future audits will be to assess whether the Ministry's systems to monitor on-going compliance with these standards are effective.

Joint Audit of Alberta Registries*Background*

In my 1997-98 annual report (page 229), I outlined the terms of an engagement whereby my staff and staff of the Office of the Information and Privacy Commissioner jointly performed an audit of Alberta Registries. The purpose of the audit was to determine:

- whether there are adequate policies, procedures and controls to ensure that Alberta Registries and the private registry agents are complying with fair information practices as represented by the *Freedom of Information and Protection of Privacy Act* (the FOIP Act),
- whether there are adequate policies, procedures and controls to ensure the security of personal information in Alberta Registries databases, and
- whether there are adequate controls and monitoring systems in place to ensure that registry operations provide high-quality accessible and cost-effective services to Albertans.

21 recommendations were made relating to protection of privacy and security of registry systems

The 21 recommendations contained in the joint audit report applied to practices for the collection, use and disclosure of personal information by Alberta Registries, as well as the security and integrity of information in the Motor Vehicle Registry. I also commented on the controls over registry agents in respect of all registry operations.

All recommendations were accepted in principle

Alberta Registries accepted in principle all 21 recommendations included in the joint audit report. The Minister indicated that consultation with other stakeholders was required to determine the most appropriate implementation for five of the recommendations.

We recognize that a relatively short period has elapsed since the completion of the joint audit and Alberta Registries will need more time before these recommendations can be fully implemented.

In this report, we are providing comments on progress made towards implementing the main recommendations included in the 1997-98 annual report.

Application of the *Freedom of Information and Protection of Privacy Act*

In my 1997-98 annual report (page 233), it was recommended that the Minister responsible for Alberta Registries consider the advisability of making personal information in the Office of the Registrar of Motor Vehicles Services fully subject to Part 2 of the FOIP Act. Alternatively, it was recommended that, if the FOIP Act was not extended to the Motor Vehicles Registry, Alberta Registries consider adopting fair information practices equivalent to the FOIP Act with respect to the use, disclosure and protection of personal information in the Motor Vehicles Registry.

Alberta Registries has developed standards that reflect fair information practices

Alberta Registries has developed standards for the collection, use, disclosure, and protection of personal information that offer equivalent protection to that which would have been provided by the FOIP Act. These standards cover the information not only in the Motor Vehicles Registry, but also in the Vital Statistics Registry and prohibit registry agents from using the personal information they gather to market their services.

Approval is required before certain of the standards are adopted

The proposed standards, as they relate to the use and disclosure of personal information only, are to be approved by a Standing Policy Committee (the SPC) before implementation. After these standards are approved, Alberta Registries plans to pursue incorporation of the standards into the *Traffic Safety Act*.

Training Private Registry Agents

In my 1997-98 annual report (page 235), it was recommended that Alberta Registries educate and train private registry agents about the FOIP Act and its implications for registry service delivery. If the policies of Alberta Registries for the protection of privacy are to be effective, the staff of the registry agents must be aware of the requirements and implications of this Act.

Alberta Registries has developed a training program that covers the FOIP Act

Alberta Registries has developed a FOIP Awareness Training Program for registry agent staff to make them aware of the requirements of the Act. This program provides a good overview of the requirements of the Act and stresses the importance of familiarity with Alberta Registry policies.

Some training has been provided to registry agents

We understand that this program has been provided to most registry agent staff. In addition, Alberta Registries plans to offer further training with respect to the standards for the use and disclosure of personal information after they are approved by SPC.

Motor Vehicles and Driver Licensing Information Systems

In my 1997-98 annual report (page 237), it was recommended that Alberta Registries ensure that the service bureau responsible for the operation of the Motor Vehicles and Driver Licensing Systems address deficiencies in control procedures and report quarterly on the progress made towards correcting these deficiencies.

The service bureau has eliminated most of the deficiencies

A plan has been developed to deal with all the deficiencies that were identified. To date, most of the deficiencies have been eliminated.

Computer Services Performed by a Service Bureau

In my 1997-98 annual report (page 236), it was recommended that Alberta Registries obtain annually a letter of representation from the service bureau responsible for Alberta Registries' computer systems. The letter should confirm that the control procedures have been established and are operating effectively in all areas affecting the security and integrity of information processed and maintained by the service bureau. It was further recommended that this letter be supported by a report by an external auditor and that Alberta Registries receive quarterly updates on progress towards correcting any deficiencies identified by the auditor.

Alberta registries has requested annual representation letters supported by an audit

Alberta Registries has requested an annual letter of representation from the service bureau that confirms that control procedures for registry systems have been established and have operated effectively throughout the year. Alberta Registries has also requested an annual audit to verify that the control procedures are in place and were effective throughout the year. The first audit was performed in 1999 and identified several instances where controls could be improved. The service bureau is developing a plan to improve these controls.

**Monitoring Private Registry
Agents**

In my 1997-98 annual report (page 238), it was recommended that Alberta Registries strengthen its policy and procedures for monitoring the activities and performance of registry agents and ensure that monitoring resources are allocated based on the risk that the registry agents will not provide registry services in accordance with the registry agent agreement.

Alberta Registries has improved the monitoring of private registry agents

In response to this recommendation, Alberta Registries has established a more detailed and improved checklist for on-site reviews of agents by Registry Customer Service Coordinators (CSCs). These checklists ensure that the reviews by the CSCs are more extensive and more consistently performed than the very limited reviews performed prior to the completion of the joint audit. Also, there is more coordination between the CSC reviews and the periodic audits performed by Alberta Registries. The frequency of these audits is determined from an assessment of risks.

Other entities

Financial audits were also completed for the following:

For the year ended December 31, 1998

**Improvement District Nos. 4, 9, 12, 13 and 24
Special Areas Trust Account**

For the year ended March 31, 1999

Albert Social Housing Corporation

Guidance to reader

The Ministry of Public Works, Supply and Services (PWSS) is a central agency responsible for providing capital infrastructure, accommodation, information technology, procurement and disposal, air transportation, and records management services to support government program delivery. The mission of the Ministry, as described in *Budget 99*, is “to facilitate effective government program delivery by providing quality, cost-effective, shared services and professional expertise.”

For 1998-99, the Ministry of PWSS was comprised of the Department of PWSS and the PWSS Revolving Fund. The Revolving Fund was wound up on March 31, 1999 and its operations, including central computing, telecommunications and air transportation services provided to other government users on a charge-back basis, were transferred to the Department.

In 1998-99, the revenues of the Ministry were approximately \$57 million and expenses were approximately \$465 million. The Ministry employs approximately 1,100 full-time staff and is responsible for the management of a significant portion of the Province’s capital assets. At March 31, 1999, the approximate cost and net book value of PWSS capital assets used in providing services, principally to government organizations, were:

	<u>Cost</u>	<u>Net Book Value</u>
	(millions)	
Buildings	\$ 1,661	\$ 965
Land and improvements	568	568
Equipment and other	142	48
Aircraft	<u>43</u>	<u>30</u>
	<u>\$ 2,414</u>	<u>\$ 1,611</u>

As a central supply agency, the outputs of the Ministry are inputs to other Ministries in producing the ultimate outputs of the government. The Ministry is working to develop performance measures and benchmarks to demonstrate whether its services provide value-for-money. Our observations relating to PWSS performance measures are reported later in this section.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Public Works, Supply and Services for the year ended March 31, 1999. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and department financial statements.

In my auditor's report, I also reported that the Ministry paid approximately \$406,000 from its supply vote for costs incurred by another Ministry. These costs were for certain information technology goods and services provided directly to the other Ministry by various organizations. In my opinion, the *Appropriation Act, 1998* does not provide for such payments on behalf of other Ministries. Therefore, these payments were made without proper legislative authority.

**Department of Public Works, Supply and Services
year ended March 31, 1999****Scope of Audit Work**

In addition to the annual financial audit, the following work was completed:

- A follow-up of my 1997-98 review of the systems used by PWSS to measure and report the quality and cost-effectiveness of its services.
- Specified audit procedures on the performance measures reported in the Department's annual report.

Performance Measures

In my last Annual Report (page 186), it was recommended that the Ministry improve its reporting of performance measures to better demonstrate its cost-effectiveness. This recommendation was accepted.

As a central supply agency, the outputs of the Ministry are primarily inputs to other Ministries. Performance measures are therefore critical in reporting the efficiency and quality of these services in relation to competing sources of supply from the private sector.

While client satisfaction is an important measure of service quality, I noted in the previous year that only two of the Ministry's performance measures focussed on cost-effectiveness (i.e. operating costs in owned space and administrative costs as a proportion of procurement services costs). In my view, further efficiency measures were necessary to effectively report the scope of the Ministry's performance.

The Ministry has made progress in this regard. In its 1999-2000 business plan, PWSS has indicated it will report the relative efficiency of the government's utilization of accommodation, expressed as the density of workers per square meter of office space. This measure will be benchmarked against 55 private and public sector entities to provide peer comparison.

I support the Ministry's continuing efforts to improve its performance reporting. The development of efficiency measures for each of its major service areas, including management of capital projects and information technology services, will help to achieve this goal.

Other entity

A financial audit of the **Public Works, Supply and Services Revolving Fund** was also completed for the year ended March 31, 1999.

Guidance to reader

The Ministry of Science, Research and Information Technology was comprised of the Alberta Science and Research Authority (ASRA), the Alberta Research Council (ARC), the Science and Research Fund and, in accordance with the government's accounting policies, effective April 1, 1998, the Alberta Oil Sands Technology and Research Authority (AOSTRA). The consolidated expenses for the Ministry in 1999 were \$85 million (1998 \$53 million).

The mission of Science, Research and Information Technology is to enhance the contribution of Science and Research to the sustainable prosperity and quality of life of all Albertans. The Ministry's three core businesses are:

1. Managing strategic investments in science and research.
2. Coordinating government science and research.
3. Providing strategic leadership for science and research in Alberta.

On April 1, 1999, the *Alberta Science, Research and Technology Authority Act* came into force. The Act dissolved ASRA and the Science and Research Fund and continued ARC under the name Alberta Science, Research and Technology Authority. A new subsidiary of the Authority, Alberta Research Council Inc., has been incorporated under the *Business Corporations Act*. During the 1998-99 year, responsibility for the *Oil Sands Technology and Research Authority Act* was transferred from the Minister of Energy to the Minister responsible for Science, Research and Information Technology. Certain matters relating to the transfer are discussed in the following section.

ASRA's objective was to stimulate science and research throughout the Province while ARC was to undertake technology development and commercialization in co-operation with the private sector. With the commencement of the Authority's operations this year, it is unclear how the entities' purposes and objectives may change.

One of ASRA's (now the Authority's) legislated responsibilities was to conduct an annual review and evaluation of government science and research policies,

priorities and programs. Therefore, one of the major risks the Ministry faces is whether it is able to identify the projects with the greatest socio-economic benefit to Alberta through its annual review of research activities government-wide. If this is not done, ASRA may not maximize its opportunities to stimulate science and research developments in the Province.

As a result of the government reorganization, announced on May 25, 1999, the Ministry's responsibilities for the Authority and AOSTRA became part of the newly established Ministry of Innovation and Science.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Science, Research and Information Technology for the year ended March 31, 1999. My auditor's report contains a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and department financial statements.

In addition to the reservations resulting from the Ministry's conformity to corporate government accounting policies, my auditor's report contained another reservation. As noted in the Guidance to Reader, responsibility for the *Oil Sands Technology and Research Authority Act* was transferred from the Minister of Energy to the Minister responsible for Science, Research and Information Technology during 1998-99.

The Designation and Transfer Amendment Regulation (Alberta Regulation 18/99 filed February 3, 1999), made pursuant to section 16 of the *Government Organization Act*, transferred responsibility for the Act. The Ministry reflected an appropriation of \$1.48 million and expenses of \$1.36 million in its financial statements to reflect costs related to the administration of AOSTRA which were incurred by the Department of Energy. However, the Regulation did not provide the legislative authority to transfer the appropriation and administration costs from the Minister of Energy to the Minister Responsible for Science, Research and Information Technology. Consequently, for the year ended March 31, 1999, the Ministry's budgeted appropriation and expenses reported in these financial

statements are overstated by \$1.48 million and \$1.36 million respectively. In my auditor's report, I conclude that administration costs incurred by the Ministry of Energy related to AOSTRA should not have been recorded in the Ministry of Science, Research and Information Technology's statement of operations. Instead, the budget appropriation of \$1.48 million and related actual expenses of \$1.36 million should have been recorded in the financial statements of the Ministry of Energy.

Alberta Science and Research Authority year ended March 31, 1999

Scope of audit work

In addition to the annual financial audit, my staff performed specified audit procedures on performance measures which appear in the Ministry's annual report.

Alberta Oil Sands Technology and Research Authority year ended March 31, 1999

Fund and cash balances

In my 1997-98 annual report, I recommended that the Alberta Oil Sands Technology and Research Authority address the growing fund balance with a reasonable and achievable business plan. At March 31, 1998, AOSTRA had a fund balance of \$24 million and a cash balance of \$26 million. The balances had accumulated over the previous four years as a result of expenditures falling short of projections and revenues exceeding projections. Based on changes in the oil and gas sector and possible reductions to government's involvement in the development and approval of research projects, it was not clear if the balances were required or would be put to use on a timely basis.

The fund balance has declined by \$6 million in the past year, to \$18 million. I understand that the annual grant of \$8.2 million will be suspended for the next two years, which should further reduce the fund balance. The reductions to date and planned further reductions are consistent with AOSTRA's business plan and should not restrict AOSTRA's ability to accomplish its goals. I am satisfied that this matter has been adequately addressed.

Other entities

Financial audits of the following were completed for the year ended March 31, 1999:

Alberta Research Council
**Alberta Heritage Foundation for Medical
Research**
Alberta Foundation for Health Research

In addition, my auditor's reports for the financial audits for the year ended March 31, 1999 of the **Science and Research Fund** and **Alberta Oil Sands Technology and Research Authority** contained a reservation of opinion. The auditor's reports should be read for the full details of the reason for the reservation.

Guidance to reader

The Ministry of Transportation and Utilities is responsible for ensuring the provision of:

- an effective transportation system;
- essential utility services to rural areas; and
- disaster and emergency services.

During the 1998-99 fiscal year, the Ministry's operating and capital expenditures were approximately \$855 million (1997-98 \$825 million). The majority of these expenditures, \$794 million (1997-98 \$720 million), were used to fund the construction and operation of transportation systems in the Province.

The Ministry is responsible for the maintenance and construction of transportation systems in the Province

The Ministry is responsible for the maintenance and construction of transportation systems in the Province. To maintain Alberta's infrastructure at an acceptable standard, the Ministry must ensure that its limited resources are used effectively and efficiently.

The Ministry is implementing a system to assist with identifying Province-wide needs and priorities for maintaining and constructing highways and bridges

In order to assist the Ministry in identifying Province-wide needs and priorities for maintenance and construction of transportation systems, the Ministry is developing an Infrastructure Management System (IMS). The successful implementation and use of this system will be critical to the success of the Ministry in future years. Accordingly, I am continuing to monitor the development of IMS.

The Year 2000 problem may affect the public safety of Albertans

There is a risk that the Year 2000 problem may affect public safety. Therefore, I have reviewed the Disaster Services Branch's plans for assessing and addressing any risks to public safety arising from the Year 2000 problem.

In 1998 the Province signed an agreement to lease all vehicles required for its operations from a private firm

In 1998, the Ministry, on behalf of the Province, signed an agreement to lease all vehicles required for its operations from a private firm. This lease agreement has significant impact on all Ministries in the government. During the year, I reviewed the agreement to assess the appropriateness of the proposed accounting treatment for the lease.

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Transportation and Utilities for the year ended March 31, 1999. My auditor's report contained a reservation of opinion. The auditor's report should be read for full details of the reasons for the reservation. On page 262 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and department financial statements.

Department of Transportation and Utilities year ended March 31, 1999

Scope of Audit Work

In addition to the annual financial audit the following work was completed:

- A follow-up of my prior year's recommendation relating to the transportation Infrastructure Management System.
- A follow-up of my prior year's recommendation relating to the plans of the Disaster Services Branch with respect to addressing the risks to public safety arising from the Year 2000 computer problem.
- A review of the Department's plans to address the risk of its information systems not being Year 2000 compliant.
- A review of the Province's central vehicle fleet leasing agreement.
- Application of specified audit procedures to key performance measures included in the Ministry's 1998-99 annual report.

Infrastructure Management System

Background

In April 1996, the Department commenced development of the Infrastructure Management System (IMS) to assist in its management of highways and bridges in the Province. This system will replace approximately 34 separate systems that are currently being used for this purpose.

IMS is an Internet based system that is being developed on a modular basis. There are seven releases to be developed and implemented. Each release provides incremental benefits. It is expected that implementation of the final module will be completed in March 2002. The costs of developing the system are estimated at \$15 million; total development and maintenance costs over the 10-year life of the system are expected to be \$26 million.

The Department has completed release 1 of IMS and is currently implementing phases of releases 2, 3 and 4. To date, the Department has spent approximately \$6.4 million (1997-98 \$ 3.5 million) on the development of the system, including operating expenses.

IMS Project Reporting

Recommendation No. 46

It is recommended that the Department of Infrastructure improve processes for reporting on the status of the Infrastructure Management System in order to ensure that the objectives of the system are achieved.

In my prior year's annual report (page 196), I recommended that the Department integrate the Infrastructure Management System (IMS) cost-benefit analysis into the project management process. The Department accepted this recommendation and committed to continuing to update the cost-benefit analysis as modules of the system are being developed.

The cost-benefit analysis has not been integrated into the project management process

To date, the Department has not completed the update of the cost-benefit analysis. During the year, the Department began preparing an updated cost-benefit analysis but determined that they did not have adequate cost information with respect to on-going licensing and support costs.

Senior management should be provided with relevant information to monitor the project and make key decisions

Project management has indicated that further work on the cost-benefit analysis would not assist in monitoring the achievement of the system objectives. However, I continue to believe that senior management needs better information to monitor the progress of the project and make key decisions such as changes in the project scope.

While there is some reporting on the project, further information is required

I acknowledge that the project steering committee receives information on project costs, issues and timelines. However, summary information is required to provide senior management with a comprehensive overview of the project status.

Senior management should receive periodic status reports

Senior management and the project team should agree on a more comprehensive reporting process. This should include periodic status reports on the progress of the IMS project development. The status report should be a high level overview of the project and include information on:

- Project Scope – notification and approval of changes.
- Timelines – revisions compared to estimate.
- Costs of the system (development, licensing, support and administrative) – comparison to original estimates and current year budgets, forecasts for the project.
- Risk management activities and incidents.
- Benefits achieved compared to original expectations.

Comprehensive reporting is required to monitor the achievement of the IMS system objectives

The IMS project is a long-term project with significant costs. As with other similar information technology projects, there is a risk that IMS may not achieve its objectives and be completed on a timely basis or within budget. In order to manage these risks, management requires comprehensive status reports on a periodic basis to make decisions with respect to the project.

Management is considering an independent review of the project

I understand that management is considering obtaining an independent review of the project. I support the need for this review. I expect that it will provide senior management with some of the information that I have suggested is necessary and may assist in improving project reporting processes.

Disaster Services**Planning for Year 2000**

In my 1997-98 annual report (page 199), I recommended that the Department assess the potential risks to public safety arising from the Year 2000 computer problem and take action to ensure that necessary emergency preparedness measures are established. The Department agreed and indicated that the Disaster Services Branch would undertake initiatives to assess the potential consequences of the Year 2000 problem and develop contingency plans to address identified risks.

Disaster Services has taken steps to assess the risks from the Year 2000 problem

The Disaster Services Branch has taken steps to assess the risks rising from the Year 2000 problem. In October 1998, the Branch co-chaired a meeting of representatives from all essential service providers in the Province and various representatives from all three levels of government. At this meeting the Y2K Alberta Steering Group was established.

A Year 2000 Working Group consisting of members from over 50 essential service providers was established to work together on the Year 2000 issue

The Steering Group then established a Year 2000 Working Group of representatives from over 50 essential service providers including utilities and industry associations, all three levels of government, health care organizations, educational institutions, and businesses. The Year 2000 working group has met every two months under the chairmanship of the Branch to collaboratively assess and address the Year 2000 issue.

The Year 2000 Working Group has focussed their efforts on obtaining information regarding the Year 2000 readiness of essential service providers

The Year 2000 working group focussed on obtaining information regarding Year 2000 readiness of essential services providers and government. As part of this process, the group has received and reviewed reports on the Year 2000 readiness of essential service providers and municipalities. They have also focussed on communication of the Year 2000 issue to the public to achieve consistent and accurate dissemination of information. Efforts of the group and the Branch are being coordinated with the National Contingency Planning Group.

Disaster Services is preparing a Consequence Management Plan

The Branch is drafting a Consequence Management Plan for review by the Year 2000 working group. This plan is intended to supplement other existing emergency preparedness plans including the National Support Plan, Alberta Emergency Plan, Municipal Emergency Plans, and other Provincial plans. The plan will be a two-part document with public and operational components.

The public portion of the plan will include an evaluation of the risks arising from the Year 2000 problem and recommendations with respect to emergency preparedness measures

The public portion of the Consequence Management Plan will include an overall conclusion and evaluation of the risks arising from the Year 2000 problem and recommendations with respect to emergency preparedness measures. The plan will include details of the work done to develop the plan, an explanation of the relationship between the plan and other emergency preparedness plans, an assessment of risks relating to the Province, an assessment of national and international risks and a summary of recommended resources for Year 2000.

The operational component of the plan will provide support in case of a disaster arising from the Year 2000 problem

The operational component of the plan will be used to assist the Disaster Services Branch in the event of a disaster arising from the Year 2000 problem. The operational plan includes key contacts for all government and essential service providers, a backup telecommunications procedures, early warning systems procedures and draft ministerial orders.

The Consequence Management plan will be tested

It is anticipated that the Consequence Management Plan will be validated during testing which will be completed in conjunction with the National Contingency Planning Group. The results of the testing may lead to revisions in the plan. It is expected that the plan will be approved by the Year 2000 Working Group and Steering Group before finalization in November 1999.

Guidance to reader

*Services provided by the
Ministry*

The Ministry provides financial and administrative services within government and externally through the Department of Treasury and a number of Provincial agencies, including Alberta Treasury Branches, Alberta Municipal Financing Corporation, Alberta Pensions Administration Corporation, and the Credit Union Deposit Guarantee Corporation. In addition, the Department is responsible for the administration of a number of funds, the most significant of which is the Alberta Heritage Savings Trust Fund.

*The Ministry of Treasury
manages significant
financial resources*

The Ministry of Treasury manages significant financial resources. In 1998-99 the amounts were as follows:

- Revenues \$8.9 billion
includes \$6.2 billion of income taxes, \$1.6 billion of investment income and \$1.1 billion of other taxes.
- Expenses \$2 billion
comprises principally debt servicing costs of \$1.7 billion.
- Assets \$19.3 billion
includes \$12.1 billion of portfolio investments and \$4.1 billion of loans and advances.
- Liabilities \$18.9 billion
includes \$13 billion of unmatured debt borrowings for general government purposes and \$3.8 billion of debt borrowings by Alberta Municipal Financing Corporation.

Further, the Ministry of Treasury manages trust funds under administration of \$18.1 billion, mostly in connection with public sector pension plans.

Treasury Department also has responsibility for the Province's consolidated financial statements

Responsibility for the integrity and objectivity of the Province's consolidated financial statements rests with the government. As a Ministry of the government, Treasury Department has a part of that total responsibility and the particular responsibility to establish the government's corporate accounting policies and reporting practices. Also, Treasury Department prepares the Province's consolidated financial statements. In 1998-99 the Province's consolidated financial statements included⁴:

- Revenues \$16.9 billion
Includes \$6.2 billion of income taxes, \$2.4 billion of non-renewable resource revenue and \$2.3 billion of other taxes, mostly school property tax.
- Expenses \$15.8 billion
Includes \$4.6 billion for health, \$4.3 billion for education and \$1.6 billion for social services.
- Surplus for the year \$1.1 billion
- Assets \$20.5 billion
Includes \$12.1 billion of portfolio investments and \$4.9 billion of loans and advances.
- Liabilities \$25.4 billion
Includes \$13 billion of unmatured debt borrowings for general government purposes, \$3.8 billion of debt borrowings by Alberta Municipal Financing Corporation and \$4.8 billion of public sector pension obligations, mostly for teachers.
- Net debt \$4.9 billion (includes \$4.8 billion of pension obligations).

⁴ These amounts are after consolidation adjustments and therefore will not be the same as the amounts reported by individual Ministries.

Ministry goals

The following goals are set out in the Ministry's 1998-2001 business plan:

1. A healthy and sustainable financial position.
2. An accountable government.
3. A fair, competitive, and simple provincial tax system managed efficiently and effectively.
4. Investment returns maximized and borrowing costs minimized subject to acceptable risk.
5. An efficient, fair and competitive capital market and an efficient and fair regulatory environment for financial institutions.
6. Quality financial services to Albertans through Alberta Treasury Branches, Alberta Municipal Financing Corporation, and Alberta Pensions Administration Corporation.

First two goals

Risks associated with the first two goals include business decisions being made based on incomplete and/or incorrect financial information. In this regard, I have made several recommendations to improve the usefulness of the Province's financial statements. Most of these recommendations have been made previously. Although Treasury Department has accepted my prior recommendations in principle, I am required to repeat them because they have not been fully implemented to my satisfaction.

Third goal

A risk associated with the third goal is that Albertans do not have information to enable them to assess the accountability of the Ministry for financial support to particular groups. This can arise from the use of reductions in Provincial revenues, rather than direct expenditures that require a formal legislative approval process. Also, the performance measures related to the financial support need to be identified.

Fourth goal

Concerning the fourth goal of maximizing investment returns subject to acceptable risk, Treasury Department manages \$34 billion in investments on behalf of various funds. Independent review and formal approval of risk management policies exist for all of the funds except for the Provincial Judges and Masters in Chambers Plan Fund. In the section dealing with the Provincial Judges and Masters in Chambers Plan Fund, I have commented on the need for an appropriate governance structure that segregates policy making from day-to-day management.

Fifth goal

In connection with the fifth goal of an efficient fair and competitive capital market, I have recommended in the section dealing with the Alberta Securities Commission that the Commission establishes an appropriate accountability framework to measure and evaluate the performance of grant recipients.

Sixth goal

Concerning risks related to the sixth goal of providing financial services, I have focussed on Alberta Treasury Branches with recommendations for improvement in risk management systems. Also included is reference to my report on the 1994 refinancing of West Edmonton Mall. Further, in the section dealing with the Alberta Pensions Administration Corporation, I have noted the need for the more timely issuance of the financial statements of the public sector pension plans.

Financial Statements of the Ministries and departments*Basis of accounting*

Ministries and departments are required to follow the corporate government accounting policies and reporting practices. Those accounting policies have been established by Treasury Department and are consistent across Ministries and departments. For the 1998-99 fiscal year, there continue to be matters that have given rise to reservations in my auditor's reports on the financial statements of Ministries and departments.

**Corporate government
accounting policies****Recommendation No. 47**

It is again recommended that the Treasury Department management initiate changes to the corporate government accounting policies in order to improve accountability.

Allocation of significant costs Recommendation No. 48

It is again recommended that the Department of Treasury develop a methodology to allocate all significant costs to the entities responsible for delivering outputs.

Progress is being made

Before dealing with the specific issues of 1998-99, I wish to acknowledge that a major audit disclosure concern was resolved by having the financial statements of the Ministry of Education, rather than those of the Ministry of Treasury, report the Teachers' Pension Plan liability and expense for 1998-99. I am also aware that actions have been taken or are planned to be taken by Treasury, with involvement of the senior financial officers of the Ministries, that may address some other financial statement disclosure concerns.

Working together on unresolved issues

My Office and Treasury Department continue to work together with Ministries to seek solutions to issues where there is currently no agreement. Until then, I will continue to include reservations in my auditor's reports on the financial statements of the Ministries and departments.

Specific issues remaining in 1998-99

Similar to the 1997-98 fiscal year, there are reservations in my auditor's reports on the 1998-99 financial statements of all of the Ministries and all of the departments. The nature of the reservations is described in more detail in the following paragraphs.

Purpose of audit reservations is to focus on improved accountability and alert readers that the financial statements are not complete and accurate

The purpose of these audit reservations is to maintain a focus on all of the assets, liabilities, revenues and expenses for which the management of the Ministries are accountable, including performance measurement and financial management responsibilities. The reservations alert readers that the related financial statements are not complete and accurate. Also, where possible, the reservations provide the reader of the financial statements with the supplementary information that was missing from the financial statements. Further, they are intended to identify circumstances where decision makers are at risk of arriving at faulty conclusions.

Assets, liabilities, revenues and expenses

Financial statements of the Ministries and departments should include all assets, liabilities, revenues and expenses that relate to a Ministry and department.

Pension liabilities are not allocated to departments

Pensions

Currently, liabilities for pensions are not allocated to the departments whose service delivery activities give rise to the obligations. All of my auditor's reports on the financial statements of the Ministries and departments contained reservations because they did not report their share of pension liabilities and expenses.

Treasury considers the pension allocation problem will be resolved

Treasury Department has indicated that this issue may be resolved as the public sector pension plans become fully funded. As a result, there will not be a liability to allocate to, and within, Ministries.

My view of pension allocations

However, it is possible that employers may need to continue to report a liability because accounting for pension obligations is significantly different for employers than for the plans. Specifically, employers are required to amortize any actuarial gains and losses over the remaining expected service period of existing employees to reduce volatility in the financial statements. In contrast, actuarial gains and losses for plan accounting purposes are recognized immediately to determine the extent that a plan is fully funded. Further, the issue of the allocation of pension liabilities may be replaced with the allocation of pension assets, under certain conditions. As a result, I have not concluded that the "pension liability problem" will disappear simply because the plans are fully funded.

All costs not allocated to departments

Cost allocation

Reservations of opinion have also resulted from certain administrative expenses, principally accommodation costs of about \$150 million incurred annually by the Public Works, Supply and Services Department, which are not allocated to individual departments benefiting from the accommodation.

Cost allocation is a difficult matter to resolve

As I reported last year, this will be one of the more difficult matters to resolve. The issue is not merely numeric accounting, but rather accountability by the management of an entity to achieve the targets established for the resources provided.

Initial progress

My recommendation last year that the Department of Treasury develop a methodology for cost allocation was accepted in principle. Treasury Department has started to review the practical issues related to implementation. I understand that Treasury Department's initial aim is to consider implementing a model for cost allocation, perhaps on a pilot basis.

*I agree with Treasury
Department's view*

I agree with the Department of Treasury's view that implementation of a cost allocation model should be applied to assist in managing government in the broad sense rather than be considered as a mere mechanical exercise for financial reporting purposes.

*Assets are not recorded***Assets**

The lack of recognition of inventories gave rise to a reservation on one Ministry's financial statements. In addition, there were reservations in the financial statements of several Ministries as a result of the entities applying a corporate government minimum threshold to capitalize assets. Due to the varying sizes of government entities, the application of the corporate minimum threshold can result in misleading financial statements for a smaller entity. I continue to believe this issue arises because fundamentally there is a lack of an appropriate definition of a capital asset addition.

*The reporting entity
should be expanded***Reporting entity**

In my view, certain entities have been inappropriately excluded from the reporting entity. For example, I continue to believe that regional health authorities, universities and colleges, and school boards should be consolidated respectively in the financial statements of the Ministries of Health, Advanced Education and Career Development, and Education, as well as in the consolidated financial statements of the Province. This matter is also discussed in greater detail in the sections on the Ministries of Advanced Education and Career Development, Community Development, Education, Health, Labour and Municipal Affairs.

There continue to be audit reservations on this issue

For 1998-99 there were reservations on this matter in my auditor's reports on the financial statements of those Ministries.

*This matter also impacts the Province's consolidated financial statements
Treasury's initiative in seeking a solution*

This matter also impacts the Province's consolidated financial statements.

I appreciate the Department of Treasury's initiative in requesting action on this issue by the Public Sector Accounting Board (PSAB), in view of the fact that we have divergent views on the exclusion of significant government organizations, such as regional health authorities, from the Province's consolidated financial statements. Specifically, the Department of Treasury requested PSAB to clarify the recommendations made on this topic because there are some government jurisdictions where the government and the auditor have different interpretations of the recommendations.

My Office's initiative

My Office is working with other Canadian legislative audit offices to study whether there are unique circumstances for not applying the recommendations in PSAB's Financial Reporting Entity standards.

New reservations in auditor's reports in 1998-99

Expenses

There were also new reservations in my auditor's reports for some Ministries because the expenses attributable to, and budgeted for, a Ministry were actually reported by another Ministry. It appeared that this practice had been applied to enable Ministries to stay within their budget targets. There is a risk that this practice can circumvent accountability.

Strategies to improve year-end reporting

It is recommended that the Department of Treasury continue to refine strategies to improve year-end reporting processes, including methods to advance the timing of year-end reporting.

Improvement noted in 1998-99

Concerning the ability of other Ministries to provide the Treasury Ministry with year-end information for the Province's consolidated financial statements and to effect their own year-end financial closes, the experience of 1998-99 shows that generally there has been an improvement in financial management practices compared to the prior year. However, further improvement is possible.

Treasury's leadership and initiative is acknowledged

We acknowledge Treasury's leadership and initiative in identifying and monitoring strategies for Ministries to apply for interim and year-end reporting, such as interim trial balances and supporting working papers.

Unnecessary time and effort still required

However, at the year-end, there continues to be a significant volume of adjustments, estimated in the hundreds, requested and made during the year-end accounting process. In addition, some Ministries produce several subsequent versions of the financial statements and in some instances the quality of the draft financial statements requires improvement.

Particular difficulties at Ministry of Family and Social Services

In particular, in the Ministry of Family and Social Services, the newly formed Persons with Developmental Disabilities boards experienced considerable delay and confusion initially in financial reporting. This matter is also discussed in greater detail in the section on the Ministry of Family and Social Services.

Treasury and other Ministries quickly averted another potential problem on timely reporting

Another critical issue that arose in 1998-99 was access by Ministries to the central reporting server computer. Due to the quick intervention by Treasury staff and the staff of the other Ministries collectively agreeing to assign specific days and times for access by specific Ministries, this potentially major problem was substantially diminished for the year-end financial closing.

Year-end closing still seems to be a once a year "add on" activity

It still appears that financial information for year-end closing is an "add on" activity only relevant at year-end, rather than an essential integrated element of the ongoing business reporting process.

Financial records need to be complete and accurate throughout the year

Ministries continue to need to apply good financial management practices and have sound systems and processes to make sure that their financial records are complete and accurate throughout the year rather than tending to review and prepare significantly all of their annual year-end financial information subsequent to the year-end. Financial records need to be closed off on a timely basis for each reporting period, for example, monthly or at least quarterly.

Good fundamental processes and systems are needed

As stated by this Office last year, ongoing complete and accurate records are necessary for accurate quarterly and monthly reporting, and also to reduce the cost of administration. This framework needs to be supported by fundamental systems and processes and solid plans to achieve deadlines.

A significant step forward has occurred

A significant step forward towards meaningful interim financial reporting was the public reporting of accrual-based interim quarterly results of the Province for the third quarter ended December 31, 1998, as discussed in more detail in the section on consolidated quarterly reports and budgets. I acknowledge the success of Treasury Department and the other Ministries in achieving this goal.

An opportunity for progress

Now that financial information is available quarterly on the same basis as the annual consolidated financial statements of the Province, an opportunity exists to improve the year-end closing. For example, the third quarter results through December could be used as the basis for a hard-close, an equivalent to a year-end close, including detailed management reviews to apply their judgement and to establish adjustments. This could include updated management decisions on provisions on accounts receivable and estimates of accrued liabilities. Thus, much of the present year-end work could be moved forward earlier in the fiscal cycle, to ease the existing burden on resources at the fiscal year-end. If implemented, this suggestion would not likely result in any significant additional work for Ministries. The earlier hard-close with a roll-forward of transactions to the fiscal year-end could be a substitute for the existing full fiscal year-end close. Audit activities would be focussed on the earlier hard-close period thereby easing the burden on staff resources of Ministries at the fiscal year-end. The quality of the information used to enable a hard-close should stand up to the rigour of an audit and include, for example, management's supporting schedules analyzing the details of the accounts and providing explanations of significant variances.

Consolidated Financial Statements of the Province year ended March 31, 1999

Province's consolidated financial statements are in the Government of Alberta Annual Report

The Province's consolidated financial statements are published in the Government of Alberta Annual Report. The notes to the consolidated financial statements explain the accounting policies and reporting practices applied.

My report on the Province's 1998-99 consolidated financial statements is dated June 18, 1999

On June 18, 1999, I was able to report without reservation on the Province's consolidated financial statements for the year ended March 31, 1999, which are prepared on a disclosed basis of accounting. The disclosed basis is appropriate for the government's summary consolidated financial statements because it focuses on the net debt which is the model commonly used for summary financial reporting by governments in Canada. My auditor's report is reproduced in section 3 of this annual report.

Timeliness of financial reporting

The *Government Accountability Act* requires that the Province's consolidated financial statements for 1998-99 be made public by June 30, 1999. This target was successfully achieved as the Provincial Treasurer released publicly the audited financial statements on June 28, 1999.

The Province continues to provide the earliest reporting in Canada.

Future improvements

The following recommendations identify further improvements that could be made to the Province's consolidated financial statements.

Disclosure of earmarked assets

Earmarked assets

It is recommended that the Province's consolidated financial statements and the Ministry of Treasury financial statements provide expanded disclosure of assets set aside for particular purposes.

Earmarked assets are assets that the government has set aside for a specific purpose.

Extent of earmarked assets

Such assets exist in three entities within the Treasury Ministry and consequently in the Province's consolidated entity, namely, the Alberta Heritage Savings Trust Fund (AHSTF), the Alberta Heritage Foundation for Medical Research Endowment Fund (MREF) and the Alberta Heritage Scholarship Fund (AHSF). The total earmarked assets of these Funds were \$13.2 billion as at March 31, 1999, comprising:

AHSTF: \$12.0 billion (\$3.8 billion in the endowment portfolio and \$8.2 billion in the transition portfolio),

MREF: \$0.9 billion (\$0.3 billion in the endowment and \$0.6 billion in retained earnings), and

AHSF: \$0.3 billion (\$0.1 billion in the endowment and \$0.2 billion in retained earnings).

Earmarked assets of the AHSTF

The AHSTF's assets are earmarked to provide short-term to medium-term income support to the government's fiscal plan (the transition portfolio) as well as to maximize long-term financial returns (the endowment portfolio).

Earmarked assets of the MREF

The MREF's assets are set aside for a particular purpose. The endowment is to be maintained in perpetuity and the retained earnings are available to the Alberta Heritage Foundation for Medical Research (an entity separate from the MREF), at its call exclusively, for grants for medical research.

Earmarked assets of the AHSF

The AHSF's assets are set aside for a particular purpose. The endowment is to be maintained in perpetuity. Retained earnings are available to the Students Finance Board, at its call exclusively, for scholarship grants to post-secondary education students.

Possible misconception about extent of Province's consolidated assets available to settle liabilities under existing legislation

Without clear disclosure to permit understanding of this situation, a reader of the Province's consolidated financial statements might assume incorrectly, that all of the assets of \$20.6 billion as at March 31, 1999 were available to settle the non-pension liabilities of \$20.6 billion at that date. Since \$13.2 billion are earmarked assets in these Funds, only \$7.4 billion of assets were in fact readily available to settle the \$20.6 billion of non-pension liabilities as at March 31, 1999.

	(in billions)
Province's Consolidated assets	<u>\$ 20.6</u>
Less earmarked assets:	
Alberta Heritage Savings Trust Fund	12.0
Alberta Heritage Medical Research Endowment Fund	0.9
Alberta Heritage Scholarship Fund	<u>0.3</u>
	<u>13.2</u>
	<u>\$ 7.4</u>
Province's Consolidated liabilities	\$ 25.4
Less pension obligations	<u>4.8</u>
	<u>\$ 20.6</u>

Existing disclosure of such assets in Province's consolidated financials

Note 3 to the Province's consolidated financial statements on the topic of "Risk Management – Asset Management" alludes to the restrictive nature of the earmarked assets of these Funds. However, in my view, its focus and text do not clearly explain the significance of the information provided, namely, that the Province has a deficiency in unencumbered assets to settle the non-pension liabilities.

The same situation applies to the Ministry of Treasury

The same deficiency in disclosure also occurs in the Ministry of Treasury financial statements.

Seniors' health insurance premiums

Seniors' health insurance premiums

Recommendation No. 49

It is recommended that the Department of Treasury facilitate obtaining the legislative amendments required to formalize an arm's length relationship between the Departments of Community Development and Health for seniors' health insurance premiums.

Although there were no audit reservations arising from the accounting for seniors' health insurance premiums in 1998-99, a situation exists which should be rectified.

Accounting for seniors' premiums is a concern

In prior correspondence with Treasury Department, I had outlined my concern about the reporting of premium amounts as revenues and expenses in the 1998-99 Province's consolidated financial statements, as well as equivalent accounting in the financial statements of the Ministries of Health and Community Development. I had also proposed a solution, including suggested amendments to existing legislation.

Temporary solution accepted for 1998-99

At that time, I had stated that I was prepared to accept for 1998-99 the Treasury position that the Province's consolidated financial statements include notional health insurance premiums paid to Alberta Health by Alberta Community Development as expenses and as revenue. However, this acceptance was based on the understanding that the government will promptly seek the legislative amendments that will allow Alberta Health to record as revenue the funds that Alberta Community Development transfers to it. This matter is also discussed in greater detail in the section on the Ministry of Community Development.

Crown-controlled Organizations

Identification of these organizations

The financial statements of the three Crown-controlled organizations are included in the Treasury Ministry's Annual Report 1998-99. Those organizations are Alberta Insurance Council, Chembiomed Ltd. and Gainers Inc.

Access to information

Section 16 of the *Auditor General Act* provides the Auditor General with access to information concerning these organizations if the Auditor General is not the auditor of the organization.

All information needed by the Auditor General has been supplied

I am pleased to report that all of the information which I required to properly fulfill my obligations concerning these organizations has been made available to me.

**Ministry of Treasury
year ended March 31, 1999****Financial statements**

*Auditor's reservation on
financial statements*

I conducted an audit of the financial statements of the Ministry and Department of Treasury for the year ended March 31, 1999. My auditor's report contained a reservation of opinion. My auditor's report should be read for full details of the reason for the reservation.

**Annual report – social
programs within the tax
collection system**

*Existence of social
programs within the tax
collection system*

There are social programs within the tax collection system the cost of which are reductions of tax revenues on income and consumption. In quantifying the impact of these items in the discussion that follows, the amounts shown are actual revenues foregone. The cost of these social programs typically arises through the use of tax deductions, exemptions, credits, incentives, preferential rates and deferrals. These programs promote social or economic purposes to a specific group.

*Extent of cost of these
social programs is not
clearly known publicly*

There is a view that these social programs within the tax collection system are an alternative to direct expenditures as a form of government assistance or subsidy. However, such programs avoid the stringent scrutiny of the Legislative Assembly which is applied during the process of approving the Budget expenditure and related performance measurement.

*Is a dollar of foregone
revenue the same as a
dollar spent?*

Some may ask "Why this difference in accountability? Isn't a dollar of foregone revenue just as important as a dollar spent?"

A preliminary estimate indicates that the cost of these social programs is significant

A limited review by this Office of 1998-99 financial information indicates that for programs administered solely by the Province, there were disclosed costs of about \$300 million for royalty tax credits and undisclosed social program costs of approximately \$700 million, of which 60% were corporate small business deductions. In addition, because the Province's assessments for personal income tax are based on the federal personal income tax collection system, there are effectively other Provincial revenue reductions as a result of this arrangement. The latest information available, which is for the 1996 tax year, shows that the Province had additional costs for social programs within the tax collection system of about \$1 billion, ignoring the impact of the basic personal tax credit which every taxpayer receives. The largest items were for retirement and pensions deductions amounting to about \$300 million. These are all significant amounts.

Other governments provide information about such social programs

The federal government and certain other provincial governments provide information about the costs of social programs within the tax collection system.

No performance measures evident

However, in none of these instances is there disclosure of performance targets and results. The Department of Treasury should consider incorporating these program costs into its performance measures.

I will examine this matter further

My staff will discuss this matter in more detail with the Department of Treasury in the next audit cycle.

Department of Treasury year ended March 31, 1999

Scope of audit work

In addition to the audit of the annual financial statements, the following work was completed:

- reporting on the results of applying specified auditing procedures to the government's core measures in Measuring Up 1998-99,
- reporting on the results of applying specified auditing procedures to the Ministry's key performance measures in the Treasury Annual Report 1998-99, and
- a review to identify impacts on the Ministry's operations if its information systems are not Year 2000 compliant.

Consolidated quarterly reports and budgets

I had previously recommended several improvements in budgeting which have been implemented

Over the past few years, this Office has made several recommendations, which have been implemented, to improve the government's accountability by establishing a meaningful "front-end" to the accountability cycle, namely, the consolidated budget process. I acknowledge that the government has made significant improvements to the budget and forecasting process in the past few years and, looking ahead, there will likely be further refinements to the process.

Quarterly reports

Last year it was recommended that the Department of Treasury report the actual results to date for revenues, expenses and surplus on the accrual basis in the quarterly report's Consolidated Fiscal Summary.

Last year's recommendation now implemented

I note that the Department of Treasury implemented the recommendation in the 1998-99 Third Quarter Update. However, at this point my staff have not carried out any work to review the completeness and accuracy of the financial information.

Last year's recommendation was accepted in principle

Quarterly budgets

Last year it was recommended that when the Department of Treasury prepares the Province's annual consolidated budget, the planned financial results for each of the four quarters also be included. The Department accepted this recommendation in principle.

No quarterly budgeting on comparable basis to financial statements

At present, the consolidated budget is only prepared on an annual basis. Quarterly budgeting would facilitate the comparison of the quarter's actual financial results in relation to the budget targets and so assist prompt business decisions.

Treasury has agreed to explore implementation of my recommendation

I understand that the Department's view is that once there is a history of quarterly actual results on a full accrual basis, Treasury will be able to explore the practicalities and value added of preparing quarterly consolidated budgets.

I will continue to monitor progress

I will continue to monitor progress to ensure implementation of the recommendation once there is an adequate history of reported quarterly actual results on a full accrual basis.

Revolving funds

Last year, it was noted that the Ministry management was planning to discontinue the two remaining revolving funds by March 31, 1999.

*Prior recommendation
now fully implemented*

I am pleased to report that no revolving funds existed as at March 31, 1999.

Bank reconciliation control**Recommendation No. 50**

It is recommended that the Province's bank accounts be reconciled promptly.

*Importance of a bank
reconciliation control*

A bank reconciliation is a fundamental control that is used to safeguard bank/cash by comparing, for example, monthly payments recorded in the books of account with bank withdrawals in the same period, then identifying and examining the validity of any differences. Differences are typically amounts of outstanding cheques, namely, cheque payments recorded in the books but which have not been cleared through the bank by the end of the month.

*We monitored difficulties
in 1998-99*

During 1998-99, we noted delays in preparing bank reconciliations for these accounts. We also found that the reconciliations included items identified as unreconciled differences, meaning that the items were not specifically identified with a particular payment. The range of these unreconciled differences during 1998-99 was occasionally up to \$1 million and in one instance was about \$53 million. Treasury Department management was aware of the situation and worked to resolve the difficulties such that the problem was resolved as at the fiscal year-end of March 31, 1999.

*Reasons for difficulties
that arose*

We believe that the problems were systemic, due to the very considerable volumes of transactions and a lack of knowledge of the staff performing the reconciliations of the government's management and financial system. As a result, items were incorrectly reported as outstanding when in fact they were paid from the bank account.

*Treasury Department is
implementing an action
plan*

We understand that the Department of Treasury is implementing an action plan that includes a detailed review of the bank reconciliations for the payables and payroll accounts of 1998-99 as well as critically examining the reconciliation procedures.

**Payroll bank account
balance**

It is recommended that the Department of Treasury ensure that the payroll payment bank account maintains a balance that does not exceed the amount of cheques outstanding.

*Large bank account
balance*

We found that the payroll payment bank account had a balance in the bank of about \$200 million as at March 31, 1999. This amount seems excessive given that the average monthly payroll of the government is about \$100 million. Further, taking into account the regular mid-month payroll advances to employees, we believe the balance in the bank account should not exceed the amount of cheques outstanding.

**Investment management –
business plan**

Last year, it was recommended that the Department of Treasury develop a business plan for the Investment Management Division.

*Prior recommendation
now implemented*

I am pleased to report that Treasury's business plan for the Investment Management Division has been prepared and is integrated into the Treasury Ministry's business plan for 1999-2001.

**Provincial Judges and Masters in Chambers Pension Plan Fund
year ended March 31, 1999****Independent review**

It is recommended that the Department of Treasury establish a committee to review and approve risk management policies and to oversee the administration of the Provincial Judges and Masters in Chambers Pension Plan.

*Policy makers should be
segregated from
day-to-day management*

A key element of effective governance is that policy makers should be segregated from day-to-day management. A committee should be responsible for setting policy, approving management's plans and decisions, monitoring compliance with policies and plans, and assessing the performance of management. Management would be responsible and accountable to the committee for carrying out approved plans, managing the day-to-day administration of the organization and reporting to the committee on its performance. Under this framework, there is a clear separation of duties and responsibilities.

Fundamental to good governance are risk management policies that are consistent with the organization's objectives and tolerance to risk

The establishment of risk management policies is also a principal aspect of governance. The process of establishing such policies includes identifying and understanding the risks and financial objectives of the organization, the experience and capabilities of management and the risk tolerance of the stakeholders. Risk management policies establish the guidelines that balance an organization's risk tolerance with financial objectives.

Independent review and approval of risk management policies is critical

The need for an independent review and approval of all risk management policies is critical. Management is accountable for implementing policy. Its focus and performance is evaluated based on its success in implementing that policy.

Treasury Department manages investments on behalf of various funds and organizations

The Department of Treasury manages investments on behalf of various Provincial agencies, boards, and funds, including the Provincial Judges and Masters in Chambers Pension Plan (the Plan). As at March 31, 1999, the Plan had investments of \$81 million (1998 \$78 million).

Independent review and approval of risk management policies exists for other funds and organizations

Independent review and formal approval of risk management policies exists for these organizations except for the Plan. For example, the public sector pension plan boards are responsible for establishing investment policies appropriate for their respective plans.

There is no independent review – policies are reviewed by management of Treasury Department

In contrast, the Department of Treasury, on behalf of the Provincial Treasurer, establishes the investment policies for the Provincial Judges and Masters in Chambers Pension Plan. This means that management staff is accountable for both defining and implementing investment policy. As a result, policies may not be reviewed by those best able to define and understand the Plan's tolerance to risk and its objectives. We also found that the investment risk management policies established for the Plan had not been reviewed since March 1994.

A committee should oversee risk management policies and the administration of the Plan

In addition to the review and approval of risk management policies, a committee should also be responsible for arranging and reviewing actuarial valuations and reviewing administration decisions to ensure the Plan is administered effectively. The need for independent oversight has been heightened due to a change to the Plan whereby members began making contributions to the Plan effective April 1, 1999.

Alberta Pensions Administration Corporation year ended December 31, 1998

Timely issue of the financial statements of the public sector pension plans

Financial statements need to be issued on a timely basis to be relevant

Most of the Alberta public sector pension plan financial statements are not issued promptly

Similar pension plans issue their financial statements on a more timely basis

It is recommended that Alberta Pensions Administration Corporation work with the public sector pension boards to enable the audited financial statements of the respective pension plans to be issued on a timely basis.

Information provided in financial statements is used to inform plan stakeholders of the performance of the pension plan. For the information to be useful, it must be relevant. A key characteristic of relevant information is that it be timely, as the usefulness of information for decision making declines as time elapses.

The Provincial Treasurer and Alberta Pensions Administration Corporation (the Corporation) are responsible for the financial statements of the Local Authorities Pension Plan, Management Employees Pension Plan, Public Service Management (Closed Membership) Pension Plan, Public Service Pension Plan, Special Forces Pension Plan and the Universities Academic Pension Plan. Management and the respective pension boards approve these financial statements. The earliest any of these audited financial statements were issued was 153 days after the December 31, 1998 year-end. Three of the plans are expected to issue their audited financial statements in September 1999, over 240 days after their fiscal year-ends.

Financial reporting on a timely basis is provided by similar pension plans. For example, the Ontario Teachers' Pension Plan Board and the Ontario Municipal Employees Retirement Fund issued their financial statements within 115 days of their December 31, 1998 fiscal year-ends. These entities were able to release their audited financial statements on a timely basis even though an actuarial valuation was performed.

There are viable alternatives to improving the timing of the issuance of financial statements

The timing of financial reporting for pension plans is affected by whether the accrued pension liability is based on an actuarial valuation or an extrapolation. Generally, financial statements are issued later when an actuarial valuation is performed due to the need to compile the statistical data to perform the valuation. However, there are alternative methods to improve the timely issuance of financial statements in a year when an actuarial valuation is performed. For example, valuations can be performed using measurement data from a time other than the year-end.

The Corporation needs to identify ways to issue plans' financial statements earlier

The Corporation, in consultation with the pension boards and their respective actuaries, should identify ways in which the pension liability can be determined on a more timely basis, to enable the pension plans' financial statements to be issued earlier.

Alberta Securities Commission year ended March 31, 1999

Accountability framework for grants issued

It is recommended that when the Commission provides grant funds to an organization, an appropriate accountability framework be established to enable the recipient's performance to be measured and evaluated.

An accountability framework has not been established to measure and evaluate the performance of the Foundation

The Alberta Securities Commission (Commission) provided a \$1 million unconditional grant for the establishment of the Alberta Capital Market Foundation (Foundation). The Foundation will work to educate the general public on investment products and assist entrepreneurs in accessing capital. My staff found that the Commission has not established an accountability framework to enable the Foundation's performance to be measured and evaluated.

Minimal requirements for an effective accountability framework

Organizations are accountable for the results obtained from expenditure of public money. An accountability framework will enable the Commission to monitor the performance of the Foundation against established goals to be achieved with the grant. At a minimum, the accountability framework should include the following:

- outputs and outcomes to be achieved with the grant and performance measures of the Foundation should be clearly defined,

- periodic reporting to the Commission on the Foundation's progress towards achieving the agreed goals,
- audited financial statements within a reasonable period (e.g. 90 days) of the Foundation's year-end, and
- a process to address the circumstance should the Foundation not deliver the services agreed upon.

Alberta Treasury Branches year ended March 31, 1999

Guidance to Reader

Alberta Treasury Branches (ATB) made financial progress in the year ended March 31, 1999. For the first time in 14 years, ATB has a positive year-end equity position, in excess of \$44 million. A positive equity position helps ATB manage liquidity risk by improving its liquidity ratio. The net income for the year of \$111 million was the largest recorded since ATB's inception on September 29, 1938. The management of ATB attributes this success to a solid Alberta economy and ATB's strong commitment to three goals set in its 1998-2001 business plan. These goals are as follows:

- Focus on core target markets – individual financial services, agri-industry and independent business.
- Increase profitability.
- Get the best value for every dollar spent.

ATB intends to pursue continuous improvement and re-engineer how it does business while keeping costs in line. Productivity ratios have been improved substantially and the target is to match the best in the financial sector.

In order for ATB to continue to be financially successful, it must manage four significant business risks: credit risk, market risk, liquidity risk and operations risk. All of these risks can be affected by potential Year 2000 problems. On page 221 of my 1997-98 report, I provided descriptions of these risks, together with the strategies used by ATB to manage risk.

While management is responsible for managing risk in their respective operations, senior management committees have been established to formulate and evaluate risk management policies and to monitor related exposures. In addition, the Chief Inspector evaluates the effectiveness of internal

controls over the significant risks. My staff also evaluates the effectiveness of the systems used by management to manage risk. The following recommendations on the Borrower Risk Rating system and the general loan loss allowances indicate improvements that could be made to the systems used to manage credit risk and liquidity risk.

ATB began correcting many of its Year 2000 computer system problems as early as 1994. In June 1997, ATB established an organization-wide project team and developed a plan to address potential risks arising from the Year 2000 issue. The plan involved compiling a detailed inventory of all systems, and conducting an assessment of the magnitude of risk and resources needed to correct and test for compliance. The plan also included remediation tasks, compliance tests, certification processes and contingency plans.

ATB had substantially completed Year 2000 remediation and compliance testing by March 1999. A press release was issued by ATB on July 7, 1999 announcing that ATB's critical systems were Year 2000 ready. My staff has monitored the progress made by ATB to address the Year 2000 issue.

Scope of audit work

In addition to the annual financial statement audit, the following work was completed:

- Reviews of interim financial statements were performed and review reports were issued to the Board of Directors.
- Audits of ATB Investment Services Inc. and Business Improvement Loans.
- The Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall.

Risk Rating System

It is recommended that Alberta Treasury Branches improve the information in its Borrower Risk Rating system and ensure the information supports loan-pricing decisions.

Tendency to use middle ratings

There appears to be a tendency for ATB to group a large percentage of its loans into the medium risk categories in its Borrower Risk Rating (BRR) system. My staff observed instances where apparently strong loans were still assessed relatively high risk rating scores. This observation was further supported by an analysis of ATB's large commercial loans, which indicated few loans were falling into the lower-risk categories.

Refinements to BRR can be made

For the BRR system to be a useful management decision system, it should be able to accurately differentiate different risk levels, from very safe through to impaired. While we are satisfied that the BRR system does an adequate job in rating the riskier loans, we are of the view that refinements to increase its accuracy on the safer loans would provide more reliable information to management. This information should be used to monitor trends in the loan portfolio and to assist with loan pricing decisions.

Loan pricing should accurately reflect a borrower's credit risk

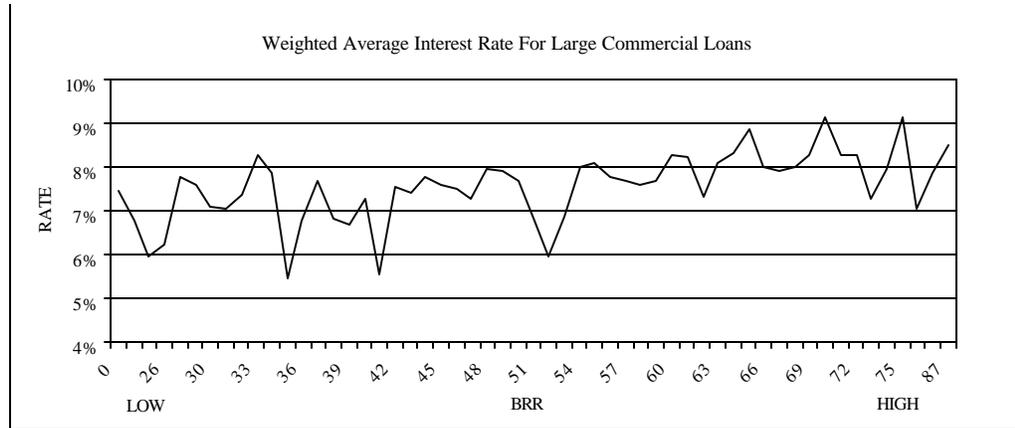
One of the primary areas in which the risk evaluation of individual borrowers has an effect on day-to-day operations is in the pricing of loans. Currently, ATB does not have a formalized process to incorporate the BRR risk rating into loan pricing decisions.

My staff reviewed correlation of BRR and pricing decisions on loans

As risk increases, the interest rate charged to a borrower should increase to reflect the increased risk of loan default and the increased costs of monitoring the loan. If the BRR rating and pricing decisions both accurately represented the risk inherent in individual loans, there would be a strong correlation between the BRR rating and the interest rate charged. To test for correlation, we performed some analysis on ATB's large commercial loans.

Correlation on existing loans is not strong

As indicated by the following graph, the correlation between BRR ratings and the interest rates on large commercial loans is not particularly strong. If the correlation were strong, as BRR ratings increased so would loan interest rates charged to commercial loan customers. Without a strong correlation, there is a risk that either ATB's pricing decisions or their BRR ratings are not consistently reflecting the credit risk of individual borrowers.



General Loan Loss Allowances

It is recommended that Alberta Treasury Branches continue to refine its procedures to calculate and record the various components of the general loan loss allowance, which includes the Borrower Risk Rating and the general economic allowance.

Borrower Risk Rating assumptions should be evaluated

In determining a significant portion of the general loan loss allowance, provisions are determined by applying standard percentages to classes of loans that have been determined to have higher risk.

Reasonable verification and justification of assumptions is needed

While we acknowledge that the determination of general loan loss allowances must necessarily involve a significant degree of estimation and management judgement, there should be a reasonable verification and justification of the assumptions made. This is particularly important given the magnitude of the figures involved in this calculation. The Borrower Risk Rating (BRR) based allowance is a significant component of the \$140 million general loan loss allowance as at March 31, 1999.

ATB should now be in a position to review prior assumptions

While it is recognized that the original choice of BRR percentages was somewhat arbitrary, we believe that ATB should now be in a position to begin determining if those percentages are warranted. A periodic analysis of recent and historic trends of actual resulting losses could be performed to support the percentages used in this significant calculation.

The procedures for the determination of the general economic allowance need to be refined

The calculation of the general economic allowance, which also forms a significant component of the general loan loss allowance, is subject to a significant degree of debate between interested parties, particularly the Federal Office of the Superintendent of Financial Institutions, the banks and their auditors. At this time, there appears to be little consensus on how to calculate a general economic allowance.

Timing of review is important as current economic cycle may turn down

ATB considers its historic loss experience in the determination of the general economic allowance. This factor is used to determine the maximum amount the allowance should reach as an economic cycle nears its peak. However, the strength of the Alberta economy should be considered each year to adjust the amount of the general economic allowance.

Unclaimed Customer Balances

In my 1997-98 annual report (page 224), I recommended that ATB seek amendments to the ATB Act for the disposition of unclaimed customer balances to recognize the ongoing liability for repayment of these balances.

The ATB Act does not provide for disposition of unclaimed balances. It is noted that the *Bank Act*, Alberta's *Loan and Trust Corporations Act* and regulations, and the *Credit Union Act* include detailed rules regarding unclaimed balances. Presently, unclaimed balances in the amount of \$6 million are recorded as a liability and a record of customer details is maintained.

Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall

On February 9, 1999, I completed a Report to the Executive Council on the 1994 Refinancing of West Edmonton Mall. The Report was delivered the same day to the Premier who released it to the public on February 10, 1999. An extract of the introduction, and findings and conclusions section contained in the Report can be found in an Appendix to this annual report.

Provincial Trust Funds

The Province administers public money over which the Province has no power of appropriation. The money is therefore not included in the Province's consolidated financial statements. At March 31, 1999, trust funds under administration amounted to \$20,234 million. Summarized information of the funds making up this amount is provided in Note 7 to the Province's consolidated financial statements.

Other entities

Financial audits of the following were also completed:

**Alberta Heritage Foundation for Medical Research
Endowment Fund** - year ended March 31, 1999

Alberta Heritage Savings Trust Fund - year ended
March 31, 1999

Alberta Heritage Scholarship Fund - year ended
March 31, 1999

Alberta Municipal Financing Corporation - year ended
December 31, 1998

Alberta Risk Management Fund - year ended
March 31, 1999

ARCA Investments Inc. - year ended March 31, 1999

Consolidated Cash Investment Trust Fund - year ended
March 31, 1999

Credit Union Deposit Guarantee Corporation - year
ended December 31, 1998

N.A. Properties (1994) Ltd. - year ended March 31, 1999

Orion Properties Ltd. - year ended December 31, 1998

S C Financial Ltd. - year ended December 31, 1998

The Alberta Government Telephones Commission - year
ended December 31, 1998

Utility Companies Income Tax Rebates Fund - year
ended March 31, 1999

Pension related, for the year ended December 31, 1998:

Local Authorities Pension Plan
Management Employees Pension Plan
Public Service Management (Closed Membership)
Pension Plan
Public Service Pension Plan
Special Forces Pension Plan
Universities Academic Pension Plan

Pursuant to section 12(b) of the *Auditor General Act*, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1998-99 fiscal year, the Auditor General acted as auditor of the following organizations:

- 771045 Alberta Ltd.
- Alberta Centre for International Education
- Alberta Hospital Edmonton Foundation
- Calgary Regional Health Authority
- Capital Health Authority
- Chinook Regional Health Authority
- East Central Regional Health Authority
- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Headwaters Health Authority
- Keeweenok Lakes Regional Health Authority
- Lakeland Regional Health Authority
- Northern Lights Regional Health Authority
- Olds College Foundation
- Peace Regional Health Authority
- Regional Health Authority 5
- Western Irrigation District
- WestView Regional Health Authority

Legislative Mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the *Auditor General Act*. The Auditor General is the auditor of all government Ministries, departments, funds containing public money, Provincial agencies, including publicly owned advanced education institutions, and most regional health authorities.

The Act deals with my responsibilities as Auditor General by stating what I must and can report, to whom, and when.

Section 18 report and other audit reports

In my section 18 report, I state whether, in my opinion, the consolidated financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1998-99 consolidated financial statements is reproduced later in this section of the annual report. Similar reports were issued on the financial statements of all entities of which I am the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 19 Reports

The report you are reading is my section 19 report for 1998-99. Section 19 reports are annual reports to the Legislative Assembly on the work of my Office. These reports include audit observations and recommendations arising from that work, together with any other matters that I believe should be brought to the attention of the Legislative Assembly.

Section 17 reports

Under section 17 of the *Auditor General Act*, the Legislative Assembly or the Executive Council may ask me to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1998-99 fiscal year, I received a direction from the Executive Council to perform a special duty. On February 9, 1999, I transmitted to the President of the Executive Council a report entitled "Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall".

Section 20 reports

The Auditor General can report under section 20 to the Legislative Assembly on any matters of importance or urgency which, in his opinion, should not be delayed until the next annual report.

No reports have been issued under section 20 of the Act since the last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 291 of this report, is to communicate to management recommendations for improving financial administration.

Management letters are addressed to the Deputy Minister or senior executive officer of the audited entity. A copy is sent to the Minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the *Financial Administration Act*.

Mission

The following statement continues to guide the work of the Auditor General's Office:

The mission of the Office of the Auditor General of Alberta is to identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.

Proposing solutions for the improved use of public resources

All of our clients face risks which, if not well understood and managed, could jeopardize their success. Business risks are sometimes difficult to identify and they are constantly changing. We believe we can maximize the value of our advice and recommendations by helping our clients to identify their changing business risks. We can then help them address and manage these risks, and thereby improve their programs. We do this by providing professional services which help them find opportunities to reduce or eliminate their risks, to improve their use of public resources, and to better meet their goals.

Adding credibility

Each set of financial statements included in the Public Accounts reflects management's view of the entity's financial position at year end, the results of its operations and the changes in its financial position.

My responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Legislative Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

We believe that effective performance reporting, which includes financial statement reporting, is essential for effective governance and accountability. We encourage our clients to develop improved measures of performance. Through our assurance services, we will also validate the resulting information and help to interpret expanded performance reports. We believe that measuring results and linking them to specific costs is critical to evaluating cost effectiveness, and will lead to improved management of public resources.

Types of audit

Throughout section 2 of this report, the term "financial audit" is used. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken for 1998-99 is identified in section 2 of this report.

All audit findings, conclusions and recommendations arising from all types of audit activity relating to 1998-99 have been reported to management.

Reporting Process

The audit observations and recommendations contained in this report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

Meetings (exit conferences and audit committee meetings) were held at the conclusion of audits to discuss significant audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of this Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management and boards understood the audit findings, to discuss recommendations, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. Minutes of these meetings were prepared and circulated by my staff to minimize the risk of misunderstandings on matters discussed.

Audit recommendations judged to be of concern to management were incorporated into management letters to the responsible Deputy Minister or senior executive officer. Copies of management letters were forwarded to the appropriate Minister, except for those addressed to Provincial agencies referred to in section 2(5) of the *Financial Administration Act*.

Subsequently, recommendations considered important enough to be reported to Ministers, Public Accounts Committee members, other MLAs and the public were selected for inclusion in this report. When determining significance, I take into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee. Also, all Ministers and Deputy Ministers or chief executive officers were informed of observations that relate to areas for which they are responsible.

The Provincial Treasurer, on behalf of the government, responded publicly to the numbered recommendations in the 1997-98 annual report on December 1, 1998. Of the 51 numbered recommendations, 44 were accepted, four were accepted in principle, and three were rejected.

Reservations in Audit Reports on Financial Statements

Section 19(2) of the *Auditor General Act* requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements.

As described in detail in Section 2, on page 262, I reserved my opinion on all 1999 Ministry and department financial statements because of significant departures from generally accepted accounting principles.

Further, my 1999 auditor's reports for the following contained reservations of opinion for the reasons described:

Excluded direct costs

- Fifteen Funds, Foundations and Provincial agencies including Alberta Social Housing Corporation, Alberta Alcohol and Drug Abuse Commission and Alberta Dairy Control Board
- Persons with Developmental Disabilities Provincial Board
- Six Persons with Developmental Disabilities boards

Excluded direct costs and accuracy of contract costs

- Calgary Rocky View Child and Family Services Authority

Excluded direct costs, inventories, revenue and capital assets

- Michener Centre Facility Board

Expensing of capital assets

- Environmental Protection and Enhancement Fund

Valuation of donated artwork

- Grande Prairie Regional College Foundation (1998 report)

Inappropriate disclosure of related party transactions

- Medicine Hat College (1998 report)

Revenue that could not be audited for completeness

- Northland School Division No. 61 (1998 report)
- Lethbridge Community College Foundation (1998 report)
- University of Alberta 1991 Foundation

Other Information Included in Audit Reports on Financial Statements

Additional information

The 1999 auditor's reports for the financial statements of:

- Ministry of Public Works, Supply and Services
- Ministry of Intergovernmental and Aboriginal Affairs
- Ministry of Advanced Education and Career Development
- Ministry of Family and Social Services
- Persons with Developmental Disabilities boards

contained additional information describing payments on behalf of or by others without proper legislative authority.

Report under Section 18 of the *Auditor General Act*

Section 18 of the *Auditor General Act* requires that I report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements and any other comments related to my audit of the financial statements, and to state my reasons for any reservation of opinion.

Opinion on the financial statements

My Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 1999, is attached to the consolidated financial statements and reads:

"I have audited the consolidated statement of financial position and capital assets of the Province of Alberta as at March 31, 1999 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

"I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

"In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position and capital assets of the Province of Alberta as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements."

The Auditor's Report was dated June 18, 1999.

Public Accounts**Audit**

The 1998-99 Public Accounts will comprise the Annual Report of the Government of Alberta (including the audited Province's consolidated financial statements and Measuring up) plus the eighteen Ministry Annual Reports, including for each Ministry the audited financial statements of the Ministry and its components.

Consolidated financial statements

The 1998-99 consolidated financial statements report on the Province's financial condition and capital assets, results of operations and cash flows.

The consolidated financial statements are an aggregation of most, but not all, of the entities controlled by the Province of Alberta. They combine the operating results, financial positions and cash flows of all the entities of Ministries whose financial statements are published in Ministry Annual Reports, including for example, departments, revolving funds, and regulated funds such as the Alberta Heritage Savings Trust Fund. The consolidation, however, does not include certain Provincial agencies such as universities, public colleges and technical institutes, and regional health authorities and school boards.

Accounting Principles and Auditing Standards

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting Board of the Institute issues accounting statements. These statements apply to and guide accounting in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to encourage the consistent and fair disclosure of financial information.

Auditing standards

The work of the Auditor General's Office is carried out in accordance with the auditing standards and recommendations published by the Canadian Institute of Chartered Accountants.

Our contribution

Apart from providing comments on draft accounting and auditing standards, the Auditor General's Office contributes directly to professional accounting organizations:

Peter Valentine, FCA, is a member of the Board of Governors of the Canadian Comprehensive Auditing Foundation (CCAF), a Canadian research and education foundation dedicated to building knowledge for meaningful accountability and effective governance, management and audit. He is also a member of the Criteria of Control Board of the Canadian Institute of Chartered Accountants, and a member of the Canadian Academic Accounting Association.

Ken Hoffman, CA, is a participant on the CCAF Public Performance Reporting Program Board of Governors Advisory Group. He is also a member of the Advisory Committee of the University of Alberta's Centre for Performance Measurement and Management, and a member of the Conference Board of Canada's Government Performance and Accountability Network.

Nick Shandro, CA, is Chair of a fund raising committee for the Institute of Chartered Accountants of Alberta Education Foundation.

Lori Ostafichuk, CMA, served on the Public Practice Review Committee of the Society of Management Accountants of Alberta.

Cathy Ludwig, CA, and Lawrence Taylor, CA, served as members of the Institute of Chartered Accountants of Alberta Task Force on School Board Reporting.

Office of the Auditor General

1998-99 Annual Reporting

Management Discussion and Analysis – June 1999

Our business is legislative auditing.

The Office of the Auditor General provides audit services to the Legislative Assembly. We are in the business of legislative auditing. Accountable to the members of the Legislative Assembly, we are ultimately responsible to the public who require assurance that the government's performance reporting is credible. We do this by providing cost effective professional assurance services (opinions) which add credibility to the performance reporting of organizations accountable to the Assembly. In addition, we provide advice in the form of recommendations designed to improve the use of public resources. Our mission is derived from the *Auditor General Act* and is:

“To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.”

Our goal is to help our clients identify and manage risks.

The best way to improve the use of public resources is to focus on areas of greatest risk. All of our clients face risks, which if not well understood and managed, could jeopardize their success. Business risks are sometimes difficult to identify and they are constantly changing. We maximize the value of our advice and recommendations by helping our clients identify changing business risks. We can then help address and manage these risks, thereby improving their programs. We do this by providing professional services which help them find opportunities to reduce or eliminate risks, to improve their use of public resources, and to better meet their goals.

The audited performance information in the Office's financial statements shows that we continue to provide significant numbers of recommendations accepted by government. We classify our recommendations as primary recommendations (those for which we anticipate a formal government response) and secondary recommendations. Schedule 2 to our financial statements indicates that in our last annual report we made 51 primary recommendations, as compared to 28 in the previous year. The acceptance rate of our recommendations was 86%, the same as in the previous year, but below our target of 95% acceptance. The target of having each primary recommendation implemented within three years of its acceptance has been met.

Our goal is to be leaders in validating and interpreting performance information.

We believe that effective performance reporting, which includes financial statement reporting, is essential for effective governance and accountability. We encourage our clients to develop improved measures of performance. Through our assurance services, we validate the resulting information and help to interpret performance reports, including financial statements. We believe that measuring results and linking them to specific costs is critical to evaluating cost effectiveness, and will lead to improved management of public resources.

The Province's consolidated financial statements record that we audit revenues of \$18 billion, expenses of \$15 billion, financial assets of \$20 billion and liabilities of \$26 billion. Further, for commercial enterprises we audit revenues of \$2 billion, expenses of \$1 billion and assets and liabilities of \$10 billion. We are also responsible for the audit of the Province's unconsumed capital assets amounting to \$7 billion, trust fund assets of \$20 billion, and the transactions, assets and liabilities of advanced education institutions and significant regional health authorities.

Of the recommendations made to government to improve performance reporting, one is particularly critical and has not been implemented. We have asked the government to give Albertans the clearest possible picture of all the assets and liabilities, and all the revenues and expenses, for which the government is ultimately responsible. Until the regional health authorities, universities and colleges, and school boards are included in the Province's consolidated financial statements, those statements are incomplete. The scope of the government reporting entity varies across Canada. In order to support our advice to the government, the Office is taking the lead in identifying why, and to what extent, the scope of the reporting entity differs.

While it is primarily to our clients' credit, the extent to which our clients have identified, monitored and reported their key performance indicators reflects our success in achieving our goals. The Alberta government is viewed as the leader in Canada in the reporting and use of performance measures. Through advice in our annual report, the Office has assisted the government in establishing and advancing its program of reporting performance measures. The government and each Ministry include performance measures in their respective annual reports. These annual reports replace the old volumes 2, 3 and 4 of Public Accounts, thus providing for a review of both non-financial and financial performance by the Standing Committee on Public Accounts. With respect to providing non-financial performance information, the Office provided a report on the application of specified audit procedures for each of these annual reports. Also several agencies include performance measures in their annual reports. Perhaps the greatest information systems challenge the Province faces is in improving the measurement and reporting of health services outputs and the quality of patient care. Our 1998-99 annual report includes recommendations for making the health care system more accountable for results achieved for costs incurred.

The Office continues to work with the government and professional colleagues to develop the capability of providing a high level of assurance on the government's non-financial performance reporting, in accordance with generally accepted auditing standards. We are working with the Canadian Council of Legislative Auditors, the Canadian Comprehensive Auditing Foundation,

and the Conference Board of Canada to develop the practice of auditing performance measures, as well as the establishment of an appropriate set of reporting criteria. We also sit as observers on a number of government committees that are charged with advancing performance measurement.

The interpretation of performance information is improving, as evidenced by the quality of the results analysis in ministry annual reports. Members of the Office assisted Alberta Treasury by communicating best practices to staff charged with preparing their ministry's results analysis.

Demand for the Office's audit services is growing because the audit environment is changing.

With the introduction of departmental and ministry financial statements, the number of statutory audits is growing as the government changes the way it does business. To improve the cost effectiveness of services, the government is creating new organizations and delegating service delivery to them. Coupled with this delegation is the use of audited accountability information to ensure that government goals are being achieved. The need to provide assurance on this accountability information and examine management control systems increases the demand for audit services.

As the government and its agencies search for ways to make better use of public resources, new planning and budgeting systems are being introduced which must be audited. The government is operating with a new centralized accounting and reporting system. A change of this magnitude has inherent risk from an audit standpoint. Generally, the risk of misstatement, which the audit process is designed to assess and address, increases in an environment in which management's internal controls are changing rapidly. It is our goal to rely on internal controls to the maximum extent commensurate with their operating effectiveness and provide advice for improvement where necessary.

Our goal is to provide a positive working climate, where our people can develop their careers as leading edge professionals in the business of legislative auditing.

More than 85 percent of our operating expenses go towards human resources. And our major business challenge continues to be a shortage of trained professional staff. To meet the increasing demands for our services, we need to attract and retain excellent professional staff, and with today's expanding economy, qualified accountants are in short supply.

One way we meet our staffing needs is to employ agents. For the past two decades we have made extensive use of CA firms to assist with our audit work as agents. In the past year, we used 12 public accounting firms in eight communities across the Province. The split of audit work to be undertaken by our staff and agents' staff is a matter of determining a mix that can be managed most effectively. By using agents, our practice benefits for reasons including:

- we are able to supplement our staff to meet the demands of peak work periods;
- we can use particular skills cost-effectively;
- we gain a point of reference for comparing our methodology and cost; and
- we save travel costs.

However, we can not use agents to solve staffing shortages. They are expensive, and only make sense in certain situations. The average rate for audit work done by agents in the past year exceeded our own staff rate by \$29.60 per hour (39%).

In the past year, we were not able to attract and retain enough permanent staff, and we made extensive use of short-term staff borrowed from accounting firms and manpower agencies. The following table shows that this amounted to 10% of our total audit hours, versus 3% the previous year.

Source of audit resources

	1998-99		1997-98	
	Number	%	Number	%
Office audit hours				
Regular staff	111,891	76%	114,503	84%
Short-term borrowed staff	15,229	10%	3,903	3%
Total Office hours	127,120	86%	118,406	86%
Agent Audit Hours	20,042	14%	18,664	14%
Total audit hours	147,162	100%	137,070	100%

Although there are potential cost savings in using some temporary staff, there are important negative effects if their numbers are large. The costs and logistics of training them for the short term are difficult to manage. They usually cannot do systems audit work, as they lack sufficient knowledge of our clients, and at the same time, since they need extra supervision, they divert our own audit staff from systems work that they might otherwise be doing. Therefore our target is to keep the use of short-term borrowed staff below 2.5% of Office audit hours.

Financial Condition and Results

The general activity and cost of Office operations increased this year. Total audit hours increased by 10,000 to 147,000, a 7% increase. The following sections provide more specific information about various cost elements in the audited financial statements.

Manpower expense

Salaries, wages and services expense increased by about \$930,000 for several reasons:

- The number of full time equivalent positions increased from 114 to 120.
- We implemented a new pay-for-performance compensation strategy consistent with government practice, and salaries of our current professional staff were increased by 10%, from an average of \$59,427 at March 31, 1998 to an average of \$65,574 at March 31, 1999. These increases were made to help reduce our professional staff turnover rate, which has dropped from a high of 32% in October 1997, to 23% in March 1999. Our target is to reduce turnover of professional staff to less than 15% by March 31, 2000, a target that is ambitious, but achievable.
- The cost for temporary manpower services increased by \$550,000 to \$927,000 (146%) and was necessitated by our inability to hire full-time professionals.
- Employee related consulting costs include professional development training provided to staff by consultants, amounts paid to employment agencies for staff recruiting, and staff relocation costs. We did more training and increased our efforts to recruit new people, with the result that these costs increased \$85,000 or 79%.

For the fourth consecutive year, the Office's unfunded pension liability decreased by a significant amount (1996 \$373,375, 1997 \$543,470, 1998 \$679,749, 1999 \$253,666). The remaining unfunded pension liability as at March 31, 1999 is \$440,745. Employer contributions to the pension plans were \$268,859.

Supplies and services

In total, supplies and services expense increased by about \$300,000 (18%) over the previous year.

Travel costs accounted for an increase of \$110,000 (56%). Part of this was due to an increase in travel for Calgary staff to attend training in Edmonton. As well, travel costs were incurred because, due to staff shortages, we staffed some of our Calgary audits with Edmonton staff.

Professional services increased by \$116,000 (56%). This was primarily due to legal fees paid in relation to the Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall.

The cost of materials and supplies increased by \$62,000 (37%), primarily due to upgrading of Microsoft Office computer software on all machines at a total cost of \$40,000.

Computer service costs increased by \$53,000 (30%). This was partly due to additional costs of the new IMAGIS accounting and human resources system. This is a government-wide system, and as a user of the system, we are responsible for our share of the amortization and operating costs. In addition, we made changes to our audit management system, AMS.

Annual Report work in progress

The cost of work in progress on recommendations for the ensuing Annual Report is reported on the balance sheet. The amount of work in progress decreased by about \$374,000. This is because the Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall was issued before the year end, and hence its costs were expensed.

Capital Construction

During the past year we constructed a centralized client services centre and re-developed our reception area at a cost of \$87,000. This will allow more efficient use of our internal client services staff. A new filing system was developed to better manage and control our audit and administrative files.

Risks and Opportunities

Increasing our client service requires attracting and retaining professional staff.

Our systems audit work is focussed on improving the use of public resources, and by its nature, results in more recommendations per audit hour than does assurance work. Therefore our long-term objective is to increase our systems audit work to 30% of our total audit work. In the past year it was 24%, down from 27% in 1998. In order to spend more time on systems work, we need to spend less time on opinion work. But this has not proven to be achievable because of our staffing difficulties. High levels of professional staff turnover and the extensive use of short-term borrowed staff requires our audit staff to do more training, supervision and review of assurance work, with the result that less time is available for systems auditing. We anticipate that if we are successful in recruiting more full-time audit staff we will be able to meet our target for systems auditing.

To improve our systems audit practice, we hired Brian Corbishley, Assistant Auditor General Responsible for Systems Auditing, to develop improved practices and training for the Office in the area of systems auditing. Brian has extensive experience in the private sector as a consultant in this area of our practice. New training of staff has begun, and we are confident that this will have benefits in the coming year.

In addition to implementing a more competitive compensation package for professionals, we have established a Web-Site (www.oag.ab.ca) to provide information about the Office and allow interested professionals to submit employment applications.

The success of the Office in meeting its goals to the fullest possible extent is highly dependent on the Office reaching the authorized level of full-time permanent staff. Our recruitment effort is therefore critical.

Year 2000

The year 2000 non-compliance issues are extensive and because we rely heavily on information technology in our Office, we are at risk. With this in mind, we identified the impact that year 2000 would have on the Office's information systems. After reviewing existing hardware and software, computer purchasing procedures and office forms, we have determined that the Office's risks associated with year 2000 are low. More specifically:

- Our information technology plan has established that all notebooks, desktops, and servers which are not year 2000 compliant will be replaced prior to July 31, 1999.
- Our new file interrogation software (SuperProbe) is year 2000 compliant. SuperProbe replaces old software which was not year 2000 compliant.
- The internal computer system for budgeting, recording, and reporting staff time is year 2000 compliant.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements have been audited by Kingston Ross Pasnak, Chartered Accountants, on behalf of the members of the Legislative Assembly.

Peter Valentine, FCA
Auditor General
May 21, 1999

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

FINANCIAL STATEMENTS

MARCH 31, 1999

Auditor's Report

Balance Sheet

Statement of Operations

Statement of Changes in Financial Position

Notes to the Financial Statements

Schedule of Output Costs by Ministry

Schedule of Recommendation Work and Status of Recommendations

Schedule of Other Performance Information

AUDITORS' REPORT

To the Chairman, Standing Committee on Legislative Offices:

We have audited the balance sheet of the Office of the Auditor General as at March 31, 1999 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Kingston Ross Pasnak
Chartered Accountants

May 21, 1999
Edmonton, Alberta

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

BALANCE SHEET

AS AT MARCH 31, 1999

	<u>1999</u>	<u>1998</u>
ASSETS		
Audit fees receivable	\$ 761,490	\$ 730,202
Other receivables and advances	21,441	26,387
Work in progress	583,833	957,513
Capital assets (Note 4)	<u>916,296</u>	<u>921,964</u>
	<u>\$ 2,283,060</u>	<u>\$ 2,636,066</u>
LIABILITIES		
Accounts payable	\$ 933,406	\$ 804,386
Accrued vacation pay	652,447	626,700
Pension liability (Note 5)	440,745	694,411
Deferred contributions related to capital assets	<u>862,296</u>	<u>759,968</u>
	<u>2,888,894</u>	<u>2,885,465</u>
NET LIABILITIES		
Net liabilities at beginning of year	(249,399)	(409,213)
Net operating results	(9,608,396)	(6,996,695)
Net transfer from general revenues	9,695,190	7,637,565
Deferred contributions related to capital asset additions	<u>(443,229)</u>	<u>(481,056)</u>
	<u>(605,834)</u>	<u>(249,399)</u>
	<u>\$ 2,283,060</u>	<u>\$ 2,636,066</u>

The accompanying notes and schedules are part of these financial statements.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 1999

	1999		1998
	Budget	Actual	Actual
	(Note 6)		
Expenses:			
Manpower:			
Salaries, wages and services (Note 8)	\$ 6,177,766	\$ 6,628,896	\$ 5,697,546
Employer contributions	851,622	723,584	799,397
Employee related consulting costs	200,000	192,991	107,810
Professional fees, training and development	265,107	137,549	141,657
	7,494,495	7,683,020	6,746,410
Supplies and services:			
Office leases	230,000	201,972	200,545
Travel	223,300	306,172	196,725
Professional services	297,946	321,453	205,483
Materials and supplies	230,000	228,869	166,933
Amortization of capital assets	438,042	448,898	507,483
Repairs and maintenance	14,000	24,598	10,938
Telephone and communications	91,000	77,976	75,558
Rental of office equipment	38,000	33,376	35,335
Computer services	231,160	230,436	177,363
Miscellaneous	46,500	61,933	63,063
	1,839,948	1,935,683	1,639,426
Total Office professional services	9,334,443	9,618,703	8,385,836
Agent professional services	2,984,767	2,092,776	2,014,385
Expenses before work in progress adjustment	\$ 12,319,210	11,711,479	10,400,221
Change in Annual Report work in progress		373,680	(250,260)
Change in pension liability (Note 5)		(253,666)	(679,749)
Total expenses for the year		11,831,493	9,470,212
Less:			
Audit fee revenue		(1,666,573)	(1,861,312)
Amortization of deferred contributions related to capital assets		(340,902)	(398,910)
Contribution of services provided at no charge		(215,622)	(213,295)
Net cost of operations for the year (Note 3)		\$ 9,608,396	\$ 6,996,695

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1999

	<u>1999</u>	<u>1998</u>
Operating activities:		
Net cost of operations for the year	\$ (9,608,396)	\$ (6,996,695)
Non-cash transactions:		
Amortization of capital assets	448,898	507,483
Change in pension liability	(253,666)	(679,749)
Amortization of deferred contributions related to capital assets	<u>(340,902)</u>	<u>(398,910)</u>
	(9,754,066)	(7,567,871)
Decrease (increase) in audit fees receivable	(31,288)	80,836
Decrease (increase) in other receivables and advances	4,946	3,026
Decrease (increase) in work in progress	373,680	(250,260)
Increase (decrease) in accounts payable	129,020	353,159
Increase (decrease) in accrued vacation pay	<u>25,747</u>	<u>224,601</u>
Net cash provided (used) by operating transactions	<u>(9,251,961)</u>	<u>(7,156,509)</u>
Investing activity:		
Purchase of capital assets	<u>(443,229)</u>	<u>(481,056)</u>
Financing activities:		
Net transfer (to) from general revenues	<u>9,695,190</u>	<u>7,637,565</u>
Net cash provided (used)	<u>-</u>	<u>-</u>
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u>\$ -</u>	<u>\$ -</u>

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 1999

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature who operates under the authority of the Auditor General Act, Chapter A-49, Revised Statutes of Alberta 1980. The net cost of operations of the Office of the Auditor General is financed by general revenues of the Province of Alberta. Annual operating and capital budgets are reviewed by the Select Standing Committee on Legislative Offices.

The Auditor General provides opinions on accountability reports and issues an Annual Report to the Legislative Assembly containing recommendations designed to improve the financial administration of the Province. The 1997-98 Annual Report of the Auditor General was released in the 1999 fiscal year covered by these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Audit fees

Audit fee revenue is recognized when billable opinion work is performed. Audit fees are charged to organizations which are funded primarily from sources other than Provincial general revenues.

(b) Output costs

Schedule 1 reports costs for three types of output. Opinion Projects result in Auditor's Reports on financial statements. Recommendation Projects are initially undertaken to produce recommendations and observations for the Auditor General's Annual Report to the Legislative Assembly. Other Client Services represent various types of assistance provided to audit clients, such as advising task forces, and other special projects which may or may not lead to recommendations for the Annual Report and do not result in audited financial statements.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(c) Work in progress

Work in progress includes the cost of work on recommendations for the ensuing Annual Report. The cost of recommendation work is reflected in the statement of operations in the year in which the Annual Report is published. In this way, the cost of the output is matched with the delivery of the output.

(d) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	20%
Office equipment	10%
Leasehold improvements	term of the lease

(e) Deferred contributions related to capital assets

Contributions from general revenues that have been received and expended for the acquisition of capital assets are deferred and amortized to the statement of operations as the capital assets are depreciated.

(f) Pension expense

Pension expense included in employer contributions comprises:

- (i) the cost of pension benefits earned by employees during the year,
- (ii) interest on the Office's share of the unfunded pension liability,
- (iii) amortization of deferred adjustments over the expected average remaining service life of employees,
- (iv) adjustments to the pension obligation in the event that there is reasonable assurance that a gain or loss has been realized, and
- (v) the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities.

(g) Supplementary performance information

These financial statements contain supplementary performance information designed to assist in evaluating the Office's performance. In management's opinion, this quantifiable information is relevant and reliable.

Note 3 Net Cost of Operations

In the financial statements of the prior year, amortization of deferred contributions related to capital assets equal to \$398,910, and contribution of services provided at no charge amounting to \$213,295, were disclosed as financing transactions. Management is of the view that presenting these amounts as revenues, thereby matching them against their associated costs, results in a better measure of the net cost of operations for the year. The effect of this change in presentation is to reduce the net cost of operations for 1997-98 from \$7,608,900, as previously stated, to \$6,996,695.

Note 4 Capital Assets

	1999		1998	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer hardware	\$ 1,671,383	\$ 1,401,292	\$ 270,091	\$ 197,613
Computer software	731,298	643,848	87,450	205,423
Office equipment	565,394	149,945	415,449	428,838
Leasehold improvements	<u>227,766</u>	<u>84,460</u>	<u>143,306</u>	<u>90,090</u>
	<u>\$ 3,195,841</u>	<u>\$ 2,279,545</u>	<u>\$ 916,296</u>	<u>\$ 921,964</u>

Note 5 Pension Liability

During the year, employees of the Office participated in the Public Service Pension Plan and the Management Employees Pension Plan. The Office's portion of the unfunded liability for pre-1992 pensionable service for these two plans is as follows:

	<u>1999</u>	<u>1998</u>
Public Service Pension Plan	\$ 62,148	\$ 64,609
Management Employees Pension Plan	<u>378,597</u>	<u>629,802</u>
	<u>\$ 440,745</u>	<u>\$ 694,411</u>

Note 5 Pension Liability (continued)

The liability was determined by actuarial valuations as at December 31, 1997 extrapolated to March 31, 1999. The actuarial valuations used the projected benefit method prorated on service. Assumptions used in the valuations are based on the pension boards' best estimate of future events. The plans' future experience will inevitably vary, perhaps significantly, from the assumptions. Differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will be amortized over the expected average remaining service life of the employee group.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan which will be funded by employers, employees and Government. The Office's liability is based on its percentage of the total pensionable payroll of all employers in each plan.

Note 6 Budget

The budget shown on the statement of operations is based on the budgeted expenses reviewed by the Standing Committee on Legislative Offices on December 16, 1997, and subsequently voted by the Legislative Assembly.

The actual amount of expenses voted to the Office was \$12,089,210, which is \$230,000 less than the budget shown on the statement of operations. The difference relates to expenses voted to others who were to pay certain of the Office's costs.

The following is a comparison of actual expenses to the authorized voted budget:

Budget shown on statement of operations	\$ 12,319,210
Less amounts included to be paid by others	<u>230,000</u>
Voted budget	12,089,210
Voted supplementary	<u>256,000</u>
	12,345,210
Less amount overexpended in 1997-98	<u>73,326</u>
1998-99 authorized budget	<u>12,271,884</u>
Actual expenses (before valuation adjustments) shown on statement of operations	11,711,479
Less amounts included paid by others	<u>215,622</u>
1998-99 actual expenses for comparison with authorized budget	<u>11,495,857</u>
1998-99 Unexpended	<u><u>\$ 776,027</u></u>

Note 7 Lease Commitments

Minimum rental commitments for leased accommodations are as follows:

Fiscal	
2000	\$ 211,744
2001	\$ 202,836
2002	\$ 135,061
2003	\$ Nil

Note 8 Salaries and Benefits

Salaries and benefits of the Auditor General and his five Assistants are comprised of the following:

	1999			1998
	Salary ⁽¹⁾	Benefits and Allowances ⁽²⁾	Total	Total
Auditor General ⁽³⁾	\$ 148,500	\$ 15,945	\$ 164,445	\$ 133,889
Assistant Auditor General ⁽⁴⁾	108,028	31,182	139,210	110,664
Assistant Auditor General ⁽⁵⁾	115,500	15,952	131,452	114,349
Assistant Auditor General ⁽⁶⁾	106,092	23,551	129,643	110,912
Assistant Auditor General ⁽⁷⁾	97,200	30,084	127,284	97,446
Assistant Auditor General ⁽⁸⁾	83,100	13,991	97,091	-
Assistant Auditor General ⁽⁹⁾	35,431	20,757	56,188	109,290
Assistant Auditor General ⁽¹⁰⁾	-	-	-	46,662
Assistant Auditor General ⁽¹¹⁾	-	-	-	37,805
	<u>\$ 693,851</u>	<u>\$ 151,462</u>	<u>\$ 845,313</u>	<u>\$ 761,017</u>

(1) Salary includes regular pay and accrued achievement awards.

(2) Benefits and allowances include the Office's share of all employee benefits and contributions including health care, dental coverage, group life insurance, and short and long-term disability plans.

Note 8 Salaries and Benefits (continued)

Benefits and allowances also include any payments for vacation entitlements. With respect to executives, the payments were as follows:

	<u>1999</u>	<u>1998</u>
Assistant Auditor General ⁽⁴⁾	\$ 15,189	\$ -
Assistant Auditor General ⁽⁶⁾	\$ 7,458	\$ 5,954
Assistant Auditor General ⁽⁷⁾	\$ 14,138	\$ -
Assistant Auditor General ⁽⁹⁾	\$ 18,769	\$ 6,233
Assistant Auditor General ⁽¹⁰⁾	\$ -	\$ 10,776
Assistant Auditor General ⁽¹¹⁾	\$ -	\$ 12,117

- (3) Automobile provided to Auditor General, no amount included in benefits.
- (4) Major responsibilities - Treasury, Energy, Transportation and Municipal Affairs.
- (5) Major responsibilities - Health, Advanced Education, Education and Social Services.
- (6) Major responsibilities - Professional Practice and Quality Assurance.
- (7) Major responsibilities - Performance Measurement.
- (8) Major responsibilities – Systems Auditing (from June 1, 1998).
- (9) Major responsibilities – Internal Client Services (until August 14, 1998).
- (10) Major responsibilities – Financial Institutions and Instruments (until August 31, 1997).
- (11) Major responsibilities – Social Services, Agriculture, Education and Universities (until June 30, 1997).

Note 9 Uncertainty Due to the Year 2000

The year 2000 issue is the result of some computer systems using two digits rather than four to define the applicable year. Computer systems that have date sensitive software may recognize a date using “00” as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise in some systems if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity’s ability to conduct normal operations. Despite the Office’s efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 issue affecting the Office, including those related to the efforts of suppliers or other third parties, will be fully resolved.

Note 10 Comparative Figures

Certain 1998 comparative figures have been reclassified to conform to 1999 presentation.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

SCHEDULE OF OUTPUT COSTS BY MINISTRY

FOR THE YEAR ENDED MARCH 31, 1999

	1999				1998		
	Opinion	Recommendation	Other Client	Total	Annual Report	Total	Annual Report
	Projects	Projects	Services		Recommendations		Recommendations
Work performed by Office staff:							
Treasury	\$ 1,309,993	\$ 874,898	\$ 136,989	\$ 2,321,880	9	\$ 1,736,150	14
Advanced Education and Career Development	1,697,263	74,566	3,156	1,774,986	6	1,542,328	10
Health	346,075	748,678	55,980	1,150,733	11	855,057	10
Municipal Affairs	441,779	110,809	-	552,588	5	390,596	4
Executive Council	107,876	212,671	139,069	459,616	10	283,457	4
Family and Social Services	262,519	178,500	-	441,019	4	322,394	4
Energy	351,519	35,621	22,845	409,985	3	379,730	2
Agriculture, Food and Rural Development	332,530	39,909	21,309	393,747	2	297,278	3
Education	221,416	102,872	36,778	361,065	6	308,458	3
Community Development	320,861	15,758	123	336,742	0	328,129	1
Environmental Protection	195,741	29,999	55,679	281,419	2	273,066	2
Economic Development	214,456	56,632	-	271,088	6	218,635	3
Transportation and Utilities	230,600	14,159	-	244,759	3	150,224	3
Public Works, Supply and Services	142,220	46,964	-	189,184	1	178,680	0
Justice	96,555	36,796	-	133,351	2	77,487	0
Labour	98,537	24,806	-	123,343	3	98,388	4
Science, Research and Information Technology	83,735	18,292	-	102,027	0	91,886	1
Legislative Assembly	84,817	-	-	84,817	0	54,034	1
Intergovernmental and Aboriginal Affairs	55,571	1,874	-	57,446	1	53,511	0
	<u>6,594,063</u>	<u>2,623,804</u>	<u>471,928</u>	<u>9,689,795</u>	<u>74</u>	<u>7,639,488</u>	<u>69</u>
Work performed by agents:							
Health	747,512	283,069	-	1,030,581	0	668,452	0
Advanced Education and Career Development	445,286	-	-	445,286	0	511,911	0
Economic Development	119,392	14,861	-	134,253	3	77,492	0
Treasury	94,050	25,376	-	119,426	0	246,140	0
Labour	114,800	-	-	114,800	0	94,800	0
Public Works, Supply and Services	92,257	2,700	-	94,957	0	54,334	0
Education	85,193	-	-	85,193	0	80,947	0
Science, Research and Information Technology	57,287	-	-	57,287	0	60,981	0
Municipal Affairs	-	40,000	-	40,000	1	11,267	0
Agriculture, Food and Rural Development	12,415	-	-	12,415	0	12,400	0
Energy	7,500	-	-	7,500	-	-	-
Family and Social Services	-	-	-	-	0	12,000	0
	<u>1,775,692</u>	<u>366,006</u>	<u>-</u>	<u>2,141,698</u>	<u>4</u>	<u>1,830,724</u>	<u>0</u>
	<u>\$ 8,369,755</u>	<u>\$ 2,989,810</u>	<u>\$ 471,928</u>	<u>\$ 11,831,493</u>	<u>78</u>	<u>\$ 9,470,212</u>	<u>69</u>

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF RECOMMENDATION WORK AND STATUS OF RECOMMENDATIONS
FOR THE YEAR ENDED MARCH 31, 1999

Focus of Work

	1997-98		1996-97	
	Recommendations		Recommendations	
	Primary	Secondary	Primary	Secondary
Governance	4	4	1	3
Planning what needs to be done to achieve goals	19	7	12	11
Doing the work and monitoring progress	10	10	9	20
Reporting on results	7	3	5	3
Year 2000	6	1	1	1
Compliance with authorities, and matters of probity	-	2	-	3
Joint Audit of Alberta Registries	5	-	-	-
	<u>51</u>	<u>27</u>	<u>28</u>	<u>41</u>

Government Response to Recommendations

	December 1, 1998		December 10, 1997	
	%		%	
Accepted	44	86%	24	86%
Accepted in principle	4	8%	2	7%
Under review	-	0%	2	7%
Rejected*	3	6%	-	0%
	<u>51</u>	<u>100%</u>	<u>28</u>	<u>100%</u>

* Recommendations described by the government as "partially accepted" are considered rejected until such time as they are fully accepted.

Analysis of Recommendations

The response to a primary recommendation, and any remedial action taken, is reported in the subsequent Annual Report. When the Auditor General considers that insufficient progress has been made in implementing a recommendation, it is repeated. Recommendations not repeated either have been, or are being, implemented satisfactorily. On occasion, a recommendation is neither implemented nor repeated due to changed circumstances.

	1997-98		1996-97	
	Annual Report		Annual Report	
	%		%	
New recommendations	45	88%	26	93%
Repeat recommendations	6	12%	2	7%
Total primary recommendations	<u>51</u>	<u>100%</u>	<u>28</u>	<u>100%</u>

Performance Measurement

The Office has set performance targets as follows:

- Each primary recommendation will be implemented within three years of its acceptance.

Actual Performance:

The Office has met the target. By September 1998, all recommendations accepted prior to September 1995 had been implemented.

- 95% of primary recommendations will be accepted.

Actual Performance:

The Office has not met the target. As shown above, 86% of the primary recommendations were accepted.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL

SCHEDULE OF OTHER PERFORMANCE INFORMATION

FOR THE YEAR ENDED MARCH 31, 1999

Average Hourly Costs

	<u>Auditor General*</u>		<u>Agents**</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Overall average	\$ 75.51	\$ 70.65	\$ 105.11	\$ 91.81

Average hourly costs as a percentage of agent average hourly costs

The Office has set a performance target as follows:

1. Average hourly costs will not exceed 80% of agent average hourly costs.

The Office has met the target as indicated below.

<u>Target</u>	<u>1999</u>	<u>1998</u>
Not greater than 80%	72%	77%

* Costs do not include reduction in pension liability.

** Average based on fees paid to major agents in metropolitan centres.

Public Reporting

	<u>1997-98 Reports</u>	<u>1996-97 Reports</u>
Auditor General's Annual Report:		
Date of Report	September 23, 1998	September 15, 1997
Date of public release	October 6, 1998	September 24, 1997
Consolidated financial statements:		
Date of the Auditor's Report	June 17, 1998	June 13, 1997
Date of public release	June 24, 1998	June 26, 1997

Committees and Agents

Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on May 18, 1999, the day the Assembly last adjourned were:

Paul Langevin	Chair
Gary Friedel	Deputy Chair
Pam Barrett	
Gary Dickson, QC	
Yvonne Fritz	
Ron Hierath	
Wayne Jaques	
Mary O'Neill	
Sue Olsen	

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

E. Susan Evans, QC	Chair
The Hon. Stockwell Day	
Patrick Daniel	
Brian McCook, CA	
Alastair Ross	
Beverly Wittmack, CA	

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

Lance White	Chair
Shiraz Shariff	Deputy Chair
Moe Amery	
Laurie Blakeman	
Denis Ducharme	
Ron Hierath	
Mark Hlady	
LeRoy Johnson	
Albert Klapstein	
Rob Lougheed	
Greg Melchin	

Committees and Agents

Sue Olsen
Mary O'Neill
Raj Pannu
Howard Sapers
Ron Stevens, QC
Julius Yankowsky

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the *Auditor General Act*, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 1999, were as follows:

Collins Barrow
Deloitte & Touche LLP
Ernst & Young LLP
Grant Thornton
Johnston, Morrison, Hunter & Co.
K.A. Gregory, CA
King & Company
KPMG
PricewaterhouseCoopers
Roy, Solbak, Walsh & Co.
Young, Parkyn, McNab & Co.

Explanation of Some Financial Terminology

Financial Terminology

1. Surplus, Deficit, Net Debt and Debt

In order to properly understand the Province's financial condition and results, it is necessary to understand the terminology used in the Public Accounts. For example, SURPLUS, DEFICIT, NET DEBT and DEBT are terms with particular meanings in the consolidated financial statements of the Province. Unfortunately, sometimes the terms are given different meanings by those not familiar with them.

The following table presents a summary of the Consolidated Statement of Operations for the fiscal year ended March 31, 1999, and the Consolidated Statement of Financial Position at March 31, 1999.

	In Millions	
	<u>1999</u>	<u>1998</u>
Revenues	\$ 16,922	\$ 17,854
Expenses/expenditures (see following comments)	<u>(15,819)</u>	<u>(15,124)</u>
Surplus for the year	1,103	2,730
Net debt at beginning of year	<u>(5,979)</u>	<u>(8,709)</u>
Net debt at end of year	<u>\$ (4,876)</u>	<u>\$ (5,979)</u>
Assets	\$ 20,562	\$ 20,368
Liabilities	<u>(25,438)</u>	<u>(26,347)</u>
Net Debt	<u>\$ (4,876)</u>	<u>\$ (5,979)</u>

Surplus/Deficit

A surplus results when the Province's consolidated revenue exceeds expenditure for a fiscal year.

A deficit results when the Province's consolidated expenditure exceeds revenue for a fiscal year.

Explanation of Some Financial Terminology

Net Debt/Consolidated Net Debt

Annual deficits have exceeded annual surpluses in the past, so the net accumulated annual deficits are reported as consolidated net debt. The terms net debt and consolidated net debt are used interchangeably. Net debt represents the difference between the Province's liabilities and assets (1999 \$4,876 million, 1998 \$5,979 million). The term "accumulated deficit" is sometimes used to describe the net accumulated annual deficits incurred over time, and is synonymous with "net debt."

The net debt arises from the consolidated financial position of 18 Ministries, comprising departments, revolving funds, the Alberta Heritage Savings Trust Fund and other regulated funds, provincial agencies and Crown-controlled corporations, including those agencies and corporations designated as commercial enterprises. Provincial agencies such as universities, public colleges, technical institutes, school boards, and regional health authorities are not included.

The assets of the Province include cash and temporary investments, receivables, investments, equity in commercial enterprises, loans and advances, and some inventories. Capital assets such as land, buildings and infrastructure are currently excluded.

The liabilities of the Province include accounts payable, unmatured debt, pension obligations and other accrued liabilities.

Debt

The word debt is used by some commentators to describe the total liabilities of the Province (1999 \$25,438 million, 1998 \$26,347 million) without taking into account the fact that the Province has financial assets available to offset against part of the total liabilities.

However, the word debt is also used to describe the unmatured debt including debt of Alberta Municipal Financing Corporation, (1999 \$16,863 million, 1998 \$17,296 million), which is a part of the Province's liabilities. It is therefore important to be alert to the context in which the word debt is being used.

But note that debt, however used, is significantly different from net debt (1999 \$4,876 million, 1998 \$5,979 million) determined by netting the assets and liabilities of the Province.

Explanation of Some Financial Terminology

2. Expense and Expenditure

The most significant of the changes initiated in the 1995-96 consolidated financial statements and now impacting the financial statements was reporting the expense instead of the expenditure of main functions, such as health, education, social services, etc. The EXPENSE method accounts for resources consumed in the accounting period, whereas the expenditure method accounts for resources acquired, whether consumed or not. For example, for capital assets, the expense method accounts for annual amortization of the capital cost of an asset over the years of its expected life. On the other hand, using the EXPENDITURE method, the full cost of an asset is reported as expenditure in the year of acquisition. A simple example is a truck purchased for \$20,000 at the beginning of the year which is worth \$14,000 at the end of the year. What is the cost of the truck's usage during the year? Under the expense method of accounting, the annual cost is the \$6,000 difference (called amortization) between the initial cost and the value at the end of the year. Under the expenditure method, the cost is \$20,000.

It should be noted, however, that even though the functional reporting within the Province's Consolidated Statement of Operations was expense based, the annual surplus for 1998-99 was still effectively an expenditure-based result.

This expenditure-based result was achieved in the Statement of Operations as follows. Firstly, the amount of expense of each main function was disclosed (including the annual amortization of capital assets). Then, further down the Statement, a line item described as "net change in capital assets affecting operations" reversed out the annual amortization and substituted the cost of capital assets acquired during the year.

This practice is not as strange as it may seem at first. Since no national government accounting standard requires expense-based reporting, most governments in Canada report their results using the expenditure method. It is claimed that expenditure-based reporting permits comparability across the nation. Also, credit rating agencies and existing and potential lenders are comfortable with that method.

It is very likely that a reader of the statements will find this practice quite difficult to understand. However, it is based on the current view of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, and is considered by me as a progressive step towards eventual expense accounting.

From a government's business management perspective, there is a current movement in Canada to realize the benefits of focusing on performance results using the expense method to provide better cost measurement of government outputs. As with many other government financial initiatives, Alberta is at the forefront of this initiative by having implemented expense functional reporting for the Province's consolidated financial statements.

Staff

The employees of the Office of the Auditor General as of the date of this report are:

Angela Nicoli-Griffiths, CA	Graeme Arklie, CA	Monika Jeske, CA
Ann Doram	Greg Hayes, CA	Murray Walford, CMA
Ann Phan	Harry Cheng	Myles Norton
Annie Shiu	Heather Miller	Nick Shandro, CA
AnnMarie DeProphetis	Ian Sneddon, CA	Pamela Tom, CMA
Barb Clay, CA	Jackie Di Lullo	Pat Doyle
Barry Timmons	Jane Staples, CA	Patty Hassink, CA
Bill Lawes, CA	Janice Lacher	Pelma Jore
Bob Ballachay, CA, CMA	Jeff Sittler	Peter Valentine, FCA
Bob Fitzsimmons	Jim Hug, CA	Peter Zuidhof, CGA
Brad Ireland	John Margitich	Ram Rajoo, CA
Brad Weiland	Karen Hunder, CA	Rene Boisson, CMA
Brenda Horen	Karen Lau	Richard Taylor, CA
Brett Armitage	Karen Schmidt	Robert Drotar, CA
Brian Corbishley, DBA, CMC	Kathleen Gora, CA	Roger Elvina
Bruce Laycock, Barrister and Solicitor	Kathy Anderson	Ronda White, CA
Cathy Ludwig, CA	Kelly Aldridge, CMA	Rupert, Cass, CA
Cecille Quinto	Ken Hoffman, CA	Sabi Ghavami, CA
Christian (CJ) Oets	Lawrence Taylor, CA	Salima Mawani
Cornell Dover, CA	Levy Castillo	Scott McIntyre, CA
Craig Gawryluik	Lisa Peterson	Sharon Johnson
Dale Beesley, CMA	Lori Ostafichuk, CMA	Shauna Bruce
Dale Borrmann	Lori Trudgeon	Sherry Hassen, CA
Dan Balderston, CA	Loulou Eng, CMA	Simon Lee
David Birkby, CA	Lynda Engelhardt, CMA	Stu Orr
David Chalupnik	Lynda Turpin	Sukh Johal
Debbie Brown	Marcela Gagnon, CA	Sylvia James
Debra Wampler	Marjorie Joyce	Sylvia Nemeth
Dennis Koa	Marnie Lewis	Tammy Bailey, CMA
Domenic Gallace, CMA	Marteen Fica	Teresa Mitchell
Don Gordon	Mary-Jane Dawson, CA	Theresa Politylo
Donna Banasch, CMA	Merwan Saher, CA	Trevor Mills, CA
Donna Chapman	Michael Reinhart	Trevor Shaw, CA, CMA
Doug Bewick, CCP, ISP	Michael Sendyk	Valerie Holmgren-Jones, CMA
Doug McKenzie, CA	Michelle Desrochers	Venus Lee
Doug Wylie, CMA	Mike Stratford, CA	Vivek Dharap, CA
Elizabeth Chen-Hu, MBA, CMA	Mohamed Khalfan	Will Poon
Gerry Lain, CA	Mohan Aggarwal, CA	

Status Report of Recommendations

Status of numbered recommendations

	<u>Total Numbered Recommendations</u>		<u>Accepted and Fully Implemented</u>		<u>Not Implemented Due to changed Circumstance</u>		<u>Not Yet Implemented</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
	1994-95	38	100%	27	71%	1	3%	10
1995-96	35	100%	21	60%	2	6%	12	34%
1996-97	28	100%	15	54%	0	0%	13	46%
1997-98	51	100%	9	18%	0	0%	42	82%

Status of recommendations not yet implemented

	<u>Total Not Yet Implemented</u>		<u>Progress</u>			
	<u>Number</u>	<u>%</u>	<u>Followed up with a Numbered Recommendation in 1998-99</u>		<u>Satisfactory</u>	
	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
1994-95	10	26%	7	18%	3	8%
1995-96	12	34%	2	5%	10	29%
1996-97	13	46%	7	25%	6	21%
1997-98	42	82%	15	29%	27	53%

Identification of recommendations not yet implemented

	<u>Followed up with a numbered recommendation</u>					<u>Satisfactory Progress</u>
	<u>Original Number</u>	<u>Number in 1996-97</u>	<u>Number in 1997-98</u>	<u>Number in 1998-99</u>		
1994-95	4		6	2 & 3	1994-95	9, 24, 25
	5		42	48		
	7			11		
	11	8		20		
	16		17	24		
	23		32	41		
	28			45		
1995-96	20		32	41	1995-96	6, 12, 13, 14, 15, 16, 17, 22, 23, 36
	21		32	41		
	-			25		
1996-97	6		11	13	1996-97	5, 7, 9, 15, 16, 21
	8			20		
	17			42		
	18		32	41		
	20		29	37		
	24		39	46		
	25		41	47		
1997-98	10			12	1997-98	1, 2, 3, 4, 5, 7, 8, 9, 18, 20, 22, 23, 27, 31, 33, 34, 35, 36, 37, 38, 40, 43, 47, 48, 49, 50, 51
	19			23		
	24			34		
	25			33		
	26			36		
	28			38 & 39		
	30			43		

Government's response to 1997-98 recommendations

Following are the numbered recommendations in the Auditor General's 1997-98 Annual Report and the government's response to them. Recommendations 47 to 51 relate to a joint audit of Alberta Registries by the Auditor General and the Information and Privacy Commissioner.

Auditor General's Observations

Comments on Accountability

The Auditor General makes several observations supporting Alberta's "new public accounts".

"For the first time, Ministry annual reports have been made public as part of the Public Accounts. This accomplishment is a significant milestone in the government's journey to become more open and accountable ..."

"Albertans now have the most informative set of public accounts in Canada."

"Ministry annual reports are now a solid foundation to build even more informative reports".

The Auditor General also makes some comments on where the government could improve Ministry reporting and encourages the government to take action.

"In simple words, I am asking the government to give Albertans the clearest picture of all the assets and liabilities, and all the revenues and expenses, for which the government is ultimately responsible."

Executive Council Recommendations

1. It is recommended that in each year's planning, a greater emphasis be placed on creating the third year of the government and Ministry business plans.
2. It is recommended that Ministries provide a longer-term context for business planning by setting and communicating longer-term strategies. It is further recommended that Ministries share proposed business plans amongst one another early in the planning process.
3. It is recommended that targets set in business plans in relation to goals be reviewed to ensure that they are challenging and attainable.

Government's Response

The re-engineering of Alberta's public accounts is a significant achievement that the government is proud of. The government thanks the Auditor General for his support and assistance over the last few years in getting to this stage.

As the Auditor General points out, there are still some areas where further refinements may be appropriate. The government will continue to review and consider the Auditor General's suggested improvements.

The government's response to several recommendations related to Treasury provide more specific comments.

Accepted in principle. The government will explore practical ways of putting increased focus on the third year.

Accepted. The Ministry business plans are already strategic documents since they provide a long-term context in terms of their statements of vision, mission, core businesses, and goals. The sharing of business planning information across ministries is already occurring informally. A more formal process of sharing information among ministries will be considered.

Accepted. Ongoing assessment of targets occurs throughout the process of ministries preparing and Standing Policy Committees reviewing business plans and annual reports.

Government's response to 1997-98 recommendations

Auditor General's Observations

4. It is recommended that the government business plan elaborate on key cross government initiatives and that relevant Ministry business plans more clearly demonstrate their ministry's respective contribution.
5. It is recommended that Ministry business plans include forecast information on factors which could significantly impact the successful implementation of their business plans.
6. It is recommended that all Ministry business plans provide information on a common set of components and that the plan's financial information be presented in a form similar to the rest of the plan.
7. It is recommended that Ministries ensure their client satisfaction survey methods produce valid and reliable results. It is also recommended that standards be developed for reporting survey information.
8. It is recommended that the Office of the Chief Information Officer work with Ministry chief information officers and other relevant government organizations, such as Disaster Services, to identify remaining Year 2000 risks to the Province and to develop appropriate plans to mitigate these risks.

Government's Response

Accepted. Elaboration of key cross government initiatives is already found in other public documents (e.g., "People and Prosperity") and efforts will be made to elaborate more in the government business plan. Ministries are being guided to identify their contribution to these initiatives more clearly.

Partially accepted. This information is currently being provided for consideration during the government's business plan development process. Published business plans focus on strategic direction and reflect all the government's policy decisions with material economic or fiscal implications. While not all of this detailed information is included in the plans, it could be provided to interested users of the published business plans on request.

Partially accepted. The government accepts that business plans should provide information on a common set of components. A common set of business plan components has already been established that includes vision, mission, goals, strategies, performance measures and targets. However, each Ministry tailors these components in developing their business plan to reflect the nature of their particular core business.

The part of the recommendation that financial information be presented in a form similar to the rest of the plan is not accepted. Financial information in a Ministry's business plan highlights the program components that management believes are significant. This is an appropriate and meaningful basis of financial reporting in business plans.

Accepted. Guidance is being provided to ministries to help improve survey methods.

Accepted. The Office of the Chief Information Officer, in conjunction with Alberta Disaster Services, Emergency Preparedness Canada and the Department of National Defence, is working with government ministries and private sector industries to review emergency preparedness planning issues relative to potential consequences arising from Year 2000 risks.

Government's response to 1997-98 recommendations

Auditor General's Observations

Advanced Education and Career Development Recommendations

9. It is recommended that the Department of Advanced Education and Career Development, working with post-secondary institutions, develop strategies to ensure that institution business plans will contain the planning information necessary to meet the needs of the institutions and the Department.
10. It is recommended that the Department of Advanced Education and Career Development and the post-secondary institutions improve the system to manage the infrastructure by evaluating the risks relating to the unfunded deferred maintenance.
11. It is recommended that the Department of Advanced Education and Career Development, working with the post-secondary institutions, develop a long-range capital planning system for post-secondary institutional infrastructure.
12. It is recommended that the University of Alberta develop contingency plans to mitigate the potential adverse consequences of slippage in the Administrative Systems Renewal Project implementation schedule.
13. It is recommended that the University of Alberta accelerate the process for assessing and identifying the mission critical Year2000 risks, and potential costs to mitigate these risks, in the non-Administrative Systems Renewal Project systems.
14. It is recommended that the University of Calgary ensure that the estimate of useful life for buildings is realistic by preparing supporting evidence. A similar recommendation was made to the Athabasca University and The University of Lethbridge.

Government's Response

Accepted. The Ministry will continue to work with post-secondary institutions to improve the guidelines on what information should be contained in institutional business plans.

Accepted. The Ministry in conjunction with the post-secondary institutions will continue to look at how priorities are established on deferred maintenance items in light of the Ministry's infrastructure goals. It is up to institutions to plan for and address their deferred maintenance.

Accepted. The Ministry will work with institutions as part of the guidelines on institutional business plans to address the need for institutions to link their long term capital planning objectives and needs into the institutions' business planning cycle. However, the Ministry cannot commit to funding for institutional capital infrastructure beyond the three years set out in the Ministry's business planning cycle.

Accepted. The University will continue monitoring the progress in the conversion. It is expected that the University will meet its targeted implementation dates. However, the University is prepared to turn to alternatives, manual or otherwise, if required.

Accepted. The University is accelerating the process and will develop and implement a standard approach to assess exposure in each faculty.

Accepted. The universities will continue to review the appropriateness of the amortization period for their buildings.

Government's response to 1997-98 recommendations

Auditor General's Observations

Government's Response

Economic Development Recommendations

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| 15. It is recommended that the Department of Economic Development establish a process to support the accountability of Alberta Racing Corporation to the Minister for the execution of its responsibilities. | Accepted. The Ministry is working to develop a formal process to monitor the accountability delegated to the Corporation. A working relationship with the Alberta Racing Corporation to better monitor the Corporation's activities and issues is being established. |
| 16. It is again recommended that the accountability framework for grant expenditures made from the Lottery Fund be improved. | Accepted. Substantial progress has been made to address the concerns expressed by the Auditor General. Changes to the approval of Lottery Fund spending are planned for the 1999-2000 budget cycle. A revised process has been developed to ensure the ministries that are the recipients of Lottery Funds are responsible and accountable for the spending of these funds. |

Education Recommendations

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| 17. It is recommended that the Department of Education work with school jurisdictions to improve the accuracy of the financial reporting of special needs expenses by school jurisdictions. | Accepted. The Ministry has added a new schedule as required disclosure to school jurisdictions' 1998-99 budget reports and audited financial statements. The schedule requires school jurisdictions to report supplemental information on expenses for students with special needs. Guidelines for reporting these costs have been provided to school jurisdictions. |
| 18. It is recommended that the Department of Education analyze the academic performance of students with special needs at the Provincial level to facilitate the identification and utilization of effective learning strategies. | Accepted. The Ministry has formed a Public Advisory Committee on Achievement Testing Programs to discuss students', including those with special needs, performance on achievement tests in relation to course standards. Discussion will focus on whether the standards reflected in the Provincial achievement tests are appropriate and whether students are meeting these standards. |
| 19. It is again recommended that the Department of Education ensure that each charter school's business plan identifies mandate-related performance measures, together with targets and strategies, that will be used to demonstrate the improved results occurring from innovative learning practices. | Accepted. The Ministry already has developed a new Guide for Charter School Planning and Reporting which requires charter boards to identify in their 1998-2001 Three-year Education Plan specific mandate-related goals, strategies, and performance measures. It is intended that performance measures will be designed to show the degree to which enhanced or improved student learning outcomes occur as a result of the school's specific charter focus.

Charter schools were expected to submit these Three-year Education Plans by September 1, 1998. Also by November 30, 1999, the Ministry will have access to the Annual Education Results Reports from charter boards which will include results regarding their mandate-related goal area(s). |

Government's response to 1997-98 recommendations

Auditor General's Observations

It is also recommended that the business plan contain the criteria against which the renewal of the charter will be evaluated.

20. It is recommended that the Department of Education work with school jurisdictions to provide guidance on systems of internal control over the collection and expenditure of School Generated Funds.

Government's Response

Charter boards continue to be responsible for developing a school evaluation process to be used in preparation for a renewal application of the charter. The Ministry expects renewal decisions to be based, in large part, on the ability of the charter school to achieve the provincial goals as well as its mandate-related goals.

Accepted. In the business planning cycle for 1999-2000 to 2001-02, the Ministry will collaborate with and assist the Association of School Business Officials of Alberta (ASBOA), school board auditors and school board secretary-treasurers to implement internal control procedures related to the collection and expenditure of school generated funds. The Ministry will serve on an ASBOA control systems committee and analyze school board auditors' comments with respect to school generated funds. This analysis will initiate the development of a list of "promising practices" for school boards in controlling school generated funds.

Energy Recommendation

21. It is recommended that the Department of Energy strengthen the processes and controls related to its natural gas and by-products subsystems.

Accepted. In January 1998, the Ministry initiated a control assurance project to evaluate the adequacy of the Gas Royalty Branch's internal controls. All major processes have been reviewed and a report with detailed recommendations for improvement was endorsed. The second phase of this project, to develop detailed plans to implement the recommendations, has commenced and will be completed in 1999.

Environmental Protection Recommendations

22. It is recommended that the Department of Environmental Protection review the status of the Timber Production and Revenue System implementation, then prepare and execute a project plan to bring the Timber Production and Revenue System to a current, stable status.
23. It is recommended that performance measures be identified to assess the contribution of Integrated Resource Management to the Province's resource management business. It is also recommended that a specific management group be designated responsible for directing, monitoring, and reporting the progress of the IRM initiative in government.

Accepted. The Ministry is undertaking a post implementation review of the Timber Production and Revenue System. The findings of this review will be used to formulate and execute a project plan aimed primarily at producing a current, stable system. The post implementation review will be completed in 1998-99.

Accepted. A management group has been formed to improve the integration of business plans and the development of performance measures for Integrated Resource Management. Recommendations on the monitoring process, organization and authority needed to hold decision-makers accountable for compliance with regional and provincial Integrated Resource Management policy will be made. In addition, this group will recommend performance measures and measurement processes to determine the effectiveness of the Province's resource management programs.

Government's response to 1997-98 recommendations

Auditor General's Observations

Government's Response

Family and Social Services Recommendations

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| 24. It is recommended that the Department of Family and Social Services require Child and Family Services Authorities to submit business plans that will achieve effective accountability. | Accepted. The Ministry is working with Child and Family Services Authorities to establish an efficient and effective process for reviewing and approving Authorities' business plans. This process will ensure all plans sufficiently address the issues of transition and ongoing service delivery. |
| 25. It is recommended that the Department of Family and Social Services establish appropriate performance measures for reporting the accomplishments of the Persons with Developmental Disabilities program. | Accepted. The Ministry will introduce new performance measures for the Persons with Developmental Disabilities program. In addition, the Persons with Developmental Disabilities Boards will produce their own business plans which will include more detailed measures of their accomplishments. |

Health Recommendations

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| 26. It is recommended that the Department of Health and health authorities implement a joint strategy for improving the timeliness of business plans. | Accepted. The Ministry has established a Business Plan Requirements Joint Working Group which includes representatives from health authorities to improve the health authority business plans for 1999-2000 to 2001-02. This Group will examine ways to improve business plan timeliness. |
| 27. It is recommended that the Department of Health: <ul style="list-style-type: none">• improve the quality and timeliness of the information used in the population-based funding formula;• improve the consistency and predictability of the formula;• analyze reasons for utilization and cost differences between regions;• review the continuing application of the no-loss provision, and• develop better methods of forecasting funding requirements. | Accepted. During the 1999-2000 to 2001-02 planning cycle, the Ministry will continue its efforts of seeking better and timely regional compliance for submission of information. The Ministry will also continue to examine ways to improve the consistency and predictability of the funding formula. The Ministry will also improve its analysis of utilization and cost differences between regions.

The no-loss provision under the existing funding methodology is one of the issues addressed by the Health System Funding Review (MLA Committee) as is the issue of sustainable funding within the context of population growth, aging and other cost drivers. |
| 28. It is recommended that the Department of Health provide guidance for establishing an appropriate and equitable building and equipment base for each regional health authority. It is further recommended that the Department work with regional health authorities to improve systems for planning and funding capital assets. | Accepted. The Ministry and the health authorities, through the Business Plan Requirements Joint Working Group, have undertaken to examine the definition of a balanced budget including the appropriate level of health authority capital base. The business plan requirements for 1999-2000 to 2001-02 will be improved to include capital replacement strategies. |

Government's response to 1997-98 recommendations

Auditor General's Observations

Government's Response

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| 29. It is recommended that the Department of Health and health authorities implement a plan to improve performance measurement and reporting. | Accepted. The Ministry will be developing, during 1999-2000 to 2001-02 business planning cycle, a framework of expectations for health authorities and the measures that will be used to monitor and evaluate these expectations. Priority areas for development of expectations and measures are currently being determined. |
| 30. It is recommended that the Department of Health ensure that management processes maximize the prospect of meeting expectations and keeping the cost of a Province-wide information network affordable. | Accepted. The Ministry's management teams and the We//net strategic alliances have been strengthened and appropriate practices and processes have been developed. Project plans, including the related costs and benefits, continue to be developed and refined during the 1999-2000 to 2001-02 planning cycle. The Ministry and its strategic partners will continue to review the management processes and make adjustments where appropriate. |
| 31. It is recommended that the Chief Information Officer for Health implement a reporting process for determining the results being achieved by health authorities in reducing the Year 2000 risk. | Accepted. A reporting mechanism has now been developed and will be implemented shortly. |
| 32. It is recommended that the Department of Health monitor the implementation of the new agreement with physicians and report annually on results achieved. | Accepted. The Ministry will monitor the implementation of the new agreement with physicians and report on the results achieved in the Ministry's annual report. |

Intergovernmental and Aboriginal Affairs Recommendation

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| 33. It is recommended that the Metis Settlement Transition Commission further develop the business planning process to help ensure significant expectations are clearly identified and that achievement is measured. | Accepted. Throughout the 1999-2000 to 2001-02 business plan cycle, the Ministry and the Metis Settlements Transition Commission will continue to assist the Metis Settlements in their efforts to utilize and improve business planning processes. The Transition Commission will also work with individual Settlements in establishing more performance measures which can be measured quantitatively. The Ministry and the Transition Commission will work with the Metis Settlements General Council to establish clearer criteria for performance-related funding. |
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Government's response to 1997-98 recommendations

Auditor General's Observations

Government's Response

Justice Recommendation

34. It is recommended that the Department of Justice in collaboration with policing services set measurable performance objectives for service delivery in the Province.
- Accepted. The Ministry agrees with the need to develop more targeted performance objectives in collaboration with policing services. The Ministry will continue to work towards this goal with the RCMP and other police services within the confines of the various policing agreements and relevant legislation. This process will be undertaken in the 2000-2001 to 2002-2003 business planning cycle.

Labour Recommendations

35. It is recommended that the Department of Labour continue to improve its processes for monitoring the performance of delegated entities based on an assessment of risks.
- Accepted. The Ministry continues to introduce a risk assessment based monitoring program for delegated entities to assist them in providing effective delivery of safety services. Information obtained through the monitoring process will form the basis for performance evaluations and identify areas that may be improved.
- A revised program for monitoring contract accredited agencies was introduced in April 1998 and sets out new performance standards and contract requirements for delivery of permit and inspection services.
36. It is recommended that the Department of Labour, in conjunction with the Alberta Boilers Safety Association, develop a comprehensive plan for eliminating the backlog of in-service inspections of pressure equipment.
- Accepted. Significant progress has been made in reducing the total number of inspections; however, increased economic activity in Alberta continues to add to the demand for in-service inspections. The Ministry is currently working with Alberta Boilers Safety Association to produce a detailed plan for eliminating the remainder of the backlog.
37. It is recommended that the Department of Labour take action to ensure that its information systems and critical systems of external stakeholders are Year 2000 compliant to reduce the risk of the Department's business operations being adversely affected by the Year 2000 issue.
- Accepted. An Information Technology Steering Committee has been created to manage the Year 2000 Project within the Ministry. Resources have been assigned, Year 2000 applications have been identified, and a project approach and methodology has been determined. An impact analysis is underway to assess vulnerability and to provide information about the magnitude of the change. Timelines have been set as a target for conversion, testing and implementation plans.
- Delegated Administrative Organizations, responsible for the Ministry's critical systems, have been requested to confirm their state of readiness.

Government's response to 1997-98 recommendations

Auditor General's Observations

Government's Response

Public Works, Supply and Services Recommendation

38. It is recommended that the Ministry of Public Works, Supply and Services improve its reporting of performance measures to better demonstrate its cost-effectiveness.

Accepted. The Ministry acknowledges that a broad range of measures is important for effective performance reporting. As part of the 1999-2000 to 2001-02 business planning process, new measures and benchmarks are being evaluated for future implementation.

Transportation and Utilities Recommendations

39. It is recommended that the Department of Transportation and Utilities integrate the Infrastructure Management System cost-benefit analysis into the project management process.

Accepted. The Ministry is continuing to validate the cost benefit analysis as subsequent modules of the system are being developed. Industry experts are brought in on an ongoing basis to help better define and quantify the system benefits among other things. Actual cost and benefit information will be incorporated periodically into the analysis, and a comparison will be made with projections.

40. It is recommended that the Disaster Services Branch of the Department of Transportation and Utilities assess the potential risks to public safety arising from the Year 2000 computer problem and take action to satisfy itself that any necessary emergency preparedness measures are established.

Accepted. The Ministry has recognized the importance of the Year 2000 problem and has focused its resources to date on raising awareness by making presentations to stakeholder groups and providing information by other means. Formal initiatives to specifically assess potential consequences in Alberta are now underway. During 1999, contingency plans will be developed to address identified Year 2000 risks.

Treasury Recommendations

41. It is recommended that the Treasury Department management initiate changes to the corporate government accounting policies in order to eliminate the reservations in auditor's reports on department and Ministry financial statements.

Partially accepted. In some cases plans are underway to address the matter (e.g. allocation of Teachers' Pension Plan liabilities and expenses to the Ministry of Education). In other cases the issues raised by the Auditor General require further review (e.g., timing of recognition of certain grants). The response to recommendation #44 provides comments on the reporting entity matter.

42. It is recommended that the Department of Treasury develop a methodology to allocate all significant costs to the entities responsible for delivering outputs.

Accepted in principle. The practical issues related to implementing this recommendation are currently under review. A key issue in addressing this recommendation is to consider methods that align responsibility to manage costs with cost allocation. Simply allocating costs without the related management responsibility would not add value.

43. It is recommended that the Department of Treasury develop strategies to improve year-end reporting processes for Ministries and agencies.

Accepted. Activities are already underway to address this recommendation.

Government's response to 1997-98 recommendations

Auditor General's Observations

44. It is again recommended that the Province's consolidated financial statements be prepared in accordance with generally accepted accounting principles for the summary financial statements of a government.

Government's Response

Accepted in principle. The government believes it is already preparing the Province's consolidated financial statements in accordance with generally accepted accounting principles. However, the Auditor General suggests school boards, post-secondary institutions and regional health authorities should be included in the government's reporting entity.

The government's fundamental belief is that the existing government reporting entity best represents the government's primary responsibilities and accountabilities for setting policy direction, setting performance expectations and providing funding. The government does not see itself involved directly with the delivery of the services these entities provide. The government values its existing relationships with these autonomous entities.

While the Auditor General indicates changes to these relationships are not a precondition to consolidation, in the government's view the reality is these relationships would change substantially if these entities were considered part of "government" and consolidated.

This matter has been an issue in the Auditor General's annual reports for many years. In view of the divergent views between government and the Auditor General and the fact that other jurisdictions in Canada have not reached a consensus about the reporting entity, resolution of this issue is not imminent.

45. It is again recommended that the Department of Treasury report the actual results to date for revenues, expense and surplus on the accrual basis in the quarterly report's Consolidated Fiscal Summary.
46. It is recommended that the Department of Treasury develop a business plan for the Investment Management Division.

Accepted. 1998-99 first quarter update included certain items on an accrual basis (e.g. non-renewable resource revenue). Plans are underway to move to full accrual accounting as soon as practicable.

Accepted. A draft business plan has been prepared.

Government's response to 1997-98 recommendations

Auditor General's Observations

Government's Response

Joint Audit of Alberta Registries Recommendations

Government's Response

47. In order to protect the personal information of Albertans from inappropriate disclosure and consequent misuse, it is recommended that the Minister responsible for Alberta Registries consider the advisability of making personal information in the Office of the Registrar of Motor Vehicles Services fully subject to Part 2 of the Freedom of Information and Protection of Privacy Act.

Accepted in principle. This recommendation has major legislative, policy and financial implications. Additional time is necessary to consult with the Motor Vehicles Registry stakeholders regarding implications of this recommendation and the manner in which it could be implemented.

Alternatively, it is recommended that Alberta Registries consider adopting fair information practices that are equivalent to the Freedom of Information and Protection of Privacy Act with respect to the use, disclosure and protection of personal information in the Motor Vehicles Registry.

48. It is recommended that Alberta Registries educate and train private registry agents on the Freedom of Information and Protection of Privacy Act and its implications to registry services delivery.
49. It is recommended that Alberta Registries obtain annually a letter of representation in a form acceptable to Alberta Registries, confirming that the control procedures relevant to the performance of services for Registries have been established and are operating effectively in all areas affecting the security and integrity of information processed and maintained by the service bureau responsible for the computer systems at Alberta Registries.

Accepted. Alberta Registries will develop and implement a training plan on Freedom of Information and Protection of Privacy Act specifically designed for the private registry agents. A staggered implementation of the training plan will be required, spanning a minimum of three years.

Accepted. Alberta Registries has requested, and the service bureau has agreed, to provide a letter of representation in a form and frequency acceptable to Alberta Registries.

Alberta Registries will also be provided with a quarterly report from the service bureau which details the progress made towards correcting any control deficiencies identified by Registries or by an external auditor.

It is further recommended that:

- the letter of representation be supported by a report by an external auditor of the service bureau on control procedures in a form and to a standard provided for by The Canadian Institute of Chartered Accountants.
- any control deficiencies identified by Alberta Registries, or by an external auditor, be made the subject of quarterly reports by the service bureau to Alberta Registries which detail the progress made towards correcting the deficiencies.

Government's response to 1997-98 recommendations

Auditor General's Observations

50. It is recommended that Alberta Registries ensure that the service bureau responsible for the operation of the Motor Vehicles and Driver Licensing Information Systems addresses the deficiencies in control procedures relating to the Information Systems identified during the joint audit and reports quarterly to Alberta Registries on the progress made towards correcting these deficiencies.
51. It is recommended that Alberta Registries strengthen its policy and procedures for monitoring the activities and performance of private registry agents, and ensure that monitoring resources are allocated based on the risk that registry agents will not provide registry services in accordance with the registry agent agreement.

Government's Response

Accepted. The service bureau has prepared and Alberta Registries has approved a work plan which provides details on how they will address outstanding deficiencies. The majority of the items will be actioned within 1998-99 fiscal year.

Items that have significant cost and/or performance implications will be reviewed at least quarterly as part of the review of control deficiencies by Alberta Registries or an external auditor.

Accepted. Alberta Registries has commenced work on a comprehensive policy which will include the following components:

- A framework outlining the functional responsibilities of each staff group for monitoring and auditing.
- Performance standards and related policy for private registry agents.
- Internal staff procedures for the application of the performance standards.
- Site visit procedures for customer service coordinators including an updated checklist.
- The current audit schedule for the registry agent network.

Procedures have also been developed for internal audit staff to maintain consistency in registry agent audits.

The 1997-98 Auditor General's Report comments on the progress being made to implement previous recommendations. The Auditor General has indicated that progress is satisfactory or the recommendation is resolved for 23 recommendations. However, progress was judged to be not satisfactory on five recommendations. It is the government's objective to work towards achieving a satisfactory grade on the recommendations that have not been implemented at a satisfactory level.

Extract from Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall

For brevity, the detailed sections and appendices to the actual report have been excluded. A copy of the complete report may be obtained from the Office of the Premier.

Assignment

On August 4, 1998, the Provincial Treasurer requested the Auditor General to review the loan agreements between Alberta Treasury Branches (ATB) and West Edmonton Mall (WEM) and related matters. A subsequent letter from the Executive Council on December 21, 1998, confirmed that the Provincial Treasurer's request was to be acted upon as a request to the Auditor General by the Executive Council to perform a special duty pursuant to section 17(2) of the *Auditor General Act*. The letters from the Provincial Treasurer and the Executive Council do not impose any restrictions on this review. Copies of their correspondence, and the response to the Provincial Treasurer's request are included in Appendix A of this report.

The request for a review arose because certain documents that current ATB management was not previously aware of were provided to ATB from WEM. In April and June 1998, WEM provided ATB with copies of agreements dated November 15, 1994, February 23, 1996 and March 25, 1996, that purport to amend the WEM refinancing agreements dated October 31, 1994. The agreements purport to extend the term of the guarantee, a further ten years, to 2014 and amend the terms of repayment and other provisions of the refinancing agreements.

Focus of this report

This report focuses on the 1994 refinancing of WEM and events that resulted in ATB's loan guarantee to the Toronto-Dominion Bank, including the question of whether there was political involvement resulting in an inappropriate use of public money. Comment is also provided on the accountability framework between ATB and elected officials.

Annual reports of the Auditor General have contained observations and recommendations arising from the regular audit activities in ATB. In particular, the 1995-96 annual report included key recommendations designed to improve ATB's management of its large commercial loans. Since I had already reported publicly about the need for improved systems in ATB, I was able to focus this review on the circumstances surrounding the WEM loan guarantee.

Extract from Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall

This assignment was particularly challenging because of ongoing legal actions between ATB and a former ATB Acting Superintendent and WEM. Many of the matters that I had to review in order to respond to the request are matters that are before the Court of Queen's Bench of Alberta. Out of concern that this work and report not interfere with the Court process, it was necessary to proceed carefully, constantly seeking independent legal advice.

Process to acquire evidence

The review process involved determining the potential sources of information about the circumstances leading to ATB providing financing to WEM in 1994. Having acquired information, it was necessary to extract and analyze relevant evidence and then form conclusions.

The sources of evidence relied on in preparing this report comprise:

- documents in the files of elected officials, ATB, the Departments of Treasury and Economic Development, the Court of Queen's Bench, and the Office of the Auditor General,
- minutes of Cabinet, Agenda and Priorities Committee, and Treasury Board meetings,
- interviews, and written responses to my questions under statutory declarations, and
- consultations with other professionals.

These sources of evidence collectively support my conclusions and, for that reason, they should not be considered separately.

My report is based on the information I gathered during my review. However, there is overlap among many of the matters I was requested to examine and the matters which are the subject of the various Court proceedings. Some persons, in view of these proceedings, have chosen not to respond to my enquiries. As I do not have the authority pursuant to the *Auditor General Act* to compel persons to respond to questions under oath, I was unable to obtain information from certain individuals. These persons may ultimately testify in the Court proceedings and reveal information of which I am currently unaware.

I obtained the information, reports and explanations that I required in order to prepare this report. The approach taken

Extract from Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall

with all parties from whom I sought information was to request that information be provided by way of statutory declaration. However, my efforts to gather information were hampered by the litigation between ATB, WEM and Mr. Leahy. Neither Mr. Leahy nor the Ghermezian brothers would respond to my questions by statutory declaration, as requested. Mr. Leahy referred me to his statutory declaration attached to the affidavit of Mr. Walrath, Vice-President of Corporate Finance of WEM Management Inc. I also reviewed other affidavit evidence submitted in the Court actions on behalf of WEM. Some of the financial institutions involved in the 1994 refinancing refused to answer my questions for reasons of client confidentiality.

There is a possibility that in the Court proceedings, the testimony of Mr. Leahy and the Ghermezian brothers, and the testimony under cross-examination of those who have provided me with statutory declarations, might reveal relevant information of which I am unaware. As such, there is a possibility that my conclusions based on the information disclosed to date may not accord with the conclusions drawn by the Court.

I indicated in my letter of September 2, 1998, to the Provincial Treasurer, that to the extent I could report on the results of my review without prejudicing litigation, I would, from time to time, do so. With full understanding of the limitations placed on my review, I am satisfied that I am in a position to make this report.

*Delay in completing this
report*

Completion of this review was delayed for several weeks because ATB wanted to ensure that it was able to maintain legal privilege over documents in its files. The documents were eventually provided to me. ATB also limited responses from certain individuals to some of my questions. Lawyers, who were engaged by ATB to provide advice during the 1994 refinancing of the Mall, were allowed to provide facts about the 1994 financing, but were prevented by ATB from providing any opinions in their answers. While ATB's actions have delayed my report, because of the wide range of information available to me, I do not believe the restrictions affected my conclusions.

**Extract from Report of the Auditor General on the
1994 Refinancing of West Edmonton Mall**

**Overview of ATB's
involvement with WEM**

West Edmonton Mall is a shopping centre located in the City of Edmonton, with over 800 shops and services. The Mall was constructed in four phases: 1981, 1983, 1985 and 1998. It is owned and operated by corporations controlled by the Ghermezians.

The following table summarizes ATB's involvement in the financing of WEM:

(\$ millions)

At March 31	WEM Loans (principal only)	WEM Guarantee	Cumulative WEM Loans and Guarantee Losses
1986	\$63 ^(a)	Nil	Nil
1990	\$60 ^(b)	Nil	Nil
1992	\$76 ^(c)	Nil	Nil
1993	\$76	Nil	\$20
1994	\$76	Nil	\$73
1995	\$65 ^(d)	\$353 ^(d)	\$75
1998	\$64	\$346	\$91
30/09/98	\$64	\$346	\$118 ^(f)

Cumulative WEM loans and guarantee losses, as above \$ 118

Add:

Losses on disposal of non-Mall assets transferred to
ATB as part of the October 31, 1994

WEM refinancing 34 ^(e)

Total \$ 152 ^(f)

- (a) ATB was part of a consortium that financed Phase III construction. ATB advances were secured by a first charge on Phase III and a second charge on Phases I and II.
- (b) Mall was refinanced for five years. ATB advances were secured by 3rd and 4th mortgages on the Mall.
- (c) ATB assumed all of Bank of Montreal's demand loan obligations and the assumed loan was secured by a 5th charge on the Mall.

Extract from Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall

- (d) Refinancing of WEM was completed in October 1994 through a loan agreement between Alberta Treasury Branches, Toronto-Dominion Bank and WEM. The Toronto-Dominion Bank provided a first mortgage loan of \$353,350,000 for 10 years at 30 day TD Bank Bankers Acceptance rate + 0.675% with an interest deficiency guarantee from ATB and an agreement by ATB to acquire Toronto-Dominion Bank's position, on the earlier date of privatization of ATB or the tenth anniversary of the loan. ATB assumed a second mortgage of \$65 million for 30 years without interest.
- (e) See page 23.
- (f) Includes actual and estimated losses to September 30, 1998. Changes to estimates since March 31, 1998, included in the September 30, 1998 quarterly results, have not been audited.

In June 1998, WEM filed caveats against its own lands. The caveats are based upon agreements that purport to amend the terms of the October 1994 WEM refinancing.

In August 1998, ATB filed a Statement of Claim and Notice of Motion against WEM, the Ghermezians and related companies, and Elmer Leahy. ATB is seeking control of the Mall and to have the 1994 financing agreements and all purported amending agreements struck down, alleging that the WEM refinancing was obtained by payment of bribes and that the Mall has not been properly maintained.

The Ghermezians and related companies filed a Statement of Defence in the action in December 1998, denying that the 1994 refinancing was procured by bribery and further denying that the agreements are in default. The Ghermezians allege (among other things) that the 1994 refinancing was prudent, negotiated at arm's length and included judicial sale proceedings confirmed by the Court of Queen's Bench. At the same time, several WEM companies commenced a Counterclaim against ATB, the Crown in Right of Alberta and Paul Haggis (current Chief Executive Officer of ATB) claiming \$495 million in damages and punitive damages caused by numerous alleged breaches of duties of good faith and confidentiality.

Elmer Leahy filed a Statement of Defence in January 1999, denying ATB's allegations of secret commissions and bribery, and alleging that the 1994 refinancing was reasonable,

Extract from Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall

prudent and done upon the instructions of the Province of Alberta. Mr. Leahy also issued a Counterclaim against ATB, the Crown in Right of Alberta, Stockwell Day (current Provincial Treasurer), Paul Haggis and Bryan McBean (Manager Security, ATB), alleging conspiracy to avoid ATB's obligations under the 1994 refinancing of WEM, abuse of process and other wrongful acts. Mr. Leahy claims damages and punitive damages totaling \$10.5 million.

Summary Conclusions

In this report, I identify circumstances leading to ATB providing financing to WEM in 1994 in the form of a guarantee and a second-mortgage loan. That financing, in my opinion, was not appropriate by reason of being made without commercial justification.

In order for me to conclude that there was political involvement resulting in an inappropriate use of public money, I must have evidence that the actions of elected officials caused the inappropriate financing. Other than Mr. Leahy's assertion that everything he did was with the knowledge of and at the direction of the members of the Cabinet, I could not find any evidence that any elected official gave a direct order for ATB to provide the October 1994 financing to WEM.

I believe I would be remiss in my duty if I did not comment on the capacity of elected officials to influence an outcome. Influence is a power seen only in its effects. Starting in October 1993 when Mr. Kowalski was appointed as the Minister to deal with all aspects of the government's interactions with Triple Five, Mr. Kowalski's actions with respect to this matter were focused consistently on reaching a consensual solution with respect to the refinancing of WEM, out of concern for the impact of foreclosure on WEM and, ultimately, the Province of Alberta. As Deputy Premier, Minister of Economic Development and Tourism, and the Minister responsible for the government's interactions with WEM, his authority and personal power to shape the actions of others was considerable.

I cannot measure the extent to which, if at all, the Premier's and Mr. Kowalski's concerns, about the impact of a WEM bankruptcy on the economy of Alberta, had an effect on Mr. Leahy's decision to have ATB enter into a \$353 million guarantee. I do believe, however, that Mr. Leahy, notwithstanding his statutory authority to act unilaterally,

Extract from Report of the Auditor General on the 1994 Refinancing of West Edmonton Mall

should have sought the written concurrence of the Agenda and Priorities Committee, or the Provincial Treasurer alone, for ATB to incur an exposure of this magnitude.

As a result of the changes in control, on ATB's incorporation as a Provincial agency in 1997, I am satisfied that ATB would not now enter into a financial arrangement similar to its 1994 financing of WEM.

Findings and Conclusions on Business Decisions

I am unable to identify the commercial justification for ATB entering into a \$353 million guarantee and providing an interest free \$65 million second-mortgage loan under the October 31, 1994 agreements. The level of risk assumed by ATB was not commensurate with the return. In particular:

- Under the refinancing arrangement, ATB, by providing the TD Bank with a full guarantee of interest and principal, absorbed all the risk in the refinancing.
- The total exposure to ATB as a result of the October 1994 financing was \$418 million, an amount that, in my opinion, constitutes an unacceptable level of risk for an organization the size of ATB. Using ATB's current legislation, which came into force in 1997, as a benchmark of what would constitute an acceptable concentration of risk, ATB's loans and guarantees to connected persons would be limited to 1% or less of ATB's assets. If the restriction were applied to the refinancing, ATB would have been restricted in 1994 to a credit exposure for WEM of \$80 million.
- Looking at the financing from the point of view of security identifies another deficiency. The security to support the October 31, 1994 financing was not adequate. ATB's own guidelines for commercial loans only allowed credit exposure up to 70% of security value. The appraised value of the Mall used for the judicial sale on October 26, 1994 was \$425 million. If the restriction in its guidelines had been applied, the maximum exposure allowed would have been \$298 million.
- The 0.85% guarantee fee (\$3 million per year) together with the 0% interest rate on the 30-year \$65 million second mortgage is, in my opinion, an inadequate return for the degree of risk assumed.

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Five purported amending agreements make significant changes to the October 31, 1994 loan agreements that would have the effect of further increasing ATB's risk. In my view, it is significant that:

- The purported amending agreement of November 15, 1994 does not allow ATB to change the manager of the Mall until 2014. Further, the agreement purports to extend the term of the guarantee to 2014 and requires ATB to fund any shortfalls, including operating costs and management fees, so that all payment defaults are precluded until 2014.
- The purported amending agreement of March 25, 1996, contains provisions for WEM to have the right of first refusal to purchase any interest ATB may have in WEM mortgages, with the effect that ATB's ability to realize its security position would be delayed or possibly impaired.

The March 10, 1994 Gentra/ATB agreement would have increased ATB's risk exposure at that time, but there was an improved security position and there was the prospect of receiving a return on the exposure and of retiring principal. In terms of comparison with the October 1994 agreements, the increased risk was substantially less. Under the Gentra/ATB agreement, ATB was required to advance an operating line of credit of \$20 million as part of the second-mortgage loans and provide a \$50 million guarantee against the first mortgage loans of approximately \$300 million. However, ATB's security position would have been much improved in that it would have had a second charge against the Mall. Also the chance of the guarantee being called upon was unlikely given the then \$425 million security value of the Mall.

Another viable alternative in March 1994 would have been for ATB to decide to allow its loans to mature in August 1994. In this way, ATB would have restricted its loan losses on WEM to \$73 million, excluding accrued interest, instead of the current projected losses of \$118 million. However, ATB believed that it could recover its losses by participating in a refinancing.

In June 1994, when Mr. Leahy became the Acting Superintendent, the refinancing strategy for WEM was significantly changed. He repudiated the Gentra/ATB agreement and sought other refinancing alternatives.

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Although ATB and WEM were hopeful in June 1994 that WEM could obtain a favourable bond rating with respect to the Nomura refinancing proposal, I believe that a favourable bond rating had never been a realistic expectation because WEM was in default on payment of its 1993 property taxes and interest on a significant amount of its debt, and because rating agencies were concerned with the number of lawsuits in which WEM was engaged.

In August 1994, it was confirmed that favorable bond ratings could not be obtained. ATB could have allowed its loans to mature or pursued a finalization of the March 10, 1994 Gentra/ATB agreement. However, ATB chose the alternative of a consensual arrangement with WEM which ultimately left it with no choice but to provide WEM with sizeable financial support, as predicted by Mr. Bray in his February 28, 1994 memorandum to the Provincial Treasurer.

In addition to the foregoing matters, I have two concerns with respect to the refinancing arrangements:

- The April 19, 1994 sale of the \$50 million third-mortgage loans for \$12.5 million to CS First Boston and Apollo was contrary to the intentions of the Gentra/ATB agreement, which at that date had not been repudiated. The Gentra/ATB agreement required these loans to be acquired by Newco.
- I have been unable to determine the reasons for ATB increasing its exposure by financing the purchase by WEM of the third-mortgage loans in July 1994 for \$15.25 million, without taking security. Likewise, in September 1994, ATB further increased its exposure by loaning \$4.3 million without taking security.

Findings and Conclusions on Political Involvement

On October 29, 1993, the Premier requested Mr. Kowalski to be “the Minister that deals with all aspects of the Government of Alberta’s interactions with Triple Five Corporation Ltd.” The appointment of Mr. Kowalski as the Minister responsible for the government’s interactions with Triple Five had the effect of involving two Ministers in the refinancing of WEM although ATB’s operations remained the responsibility of the Provincial Treasurer.

On February 14, 1994, the Agenda and Priorities Committee made a decision to delay the finalization of the Gentra/ATB

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agreement for the refinancing of WEM. The decision was based on the Committee's belief that the economy of the Province would suffer as a result of a WEM bankruptcy. Although the decision could be construed as advocacy on behalf of the Ghermezians, I could not find any evidence that the Committee was motivated by anything other than its concern for the economy. The Committee's decision was recorded in a February 22, 1994 memorandum from the Premier to Mr. Kowalski and Mr. Dinning. In my view, however, the Committee formed a conclusion about the economic impact of a WEM bankruptcy on the Province with incomplete analysis and support. Although the Committee received a briefing, which indicated the objectives of ATB in a refinancing, and representations from the Ghermezians, the Committee did not receive an analysis of the cost of foreclosure and change in ownership of the Mall on the Alberta economy. Also, it did not have an analysis of the potential risks and costs to ATB and the government of delaying the implementation of the Gentra/ATB agreement. Had these two analyses been compared, there would have been a supportable basis for the Committee to make a decision.

The Premier's February 22, 1994 memorandum to Mr. Kowalski and Mr. Dinning did not describe in practical terms the type of solution that would be acceptable to the Committee. Nor did the memorandum convey accurately the intent of the Committee—that the finalization of the Gentra/ATB agreement should be "delayed" rather than "not finalized." Given that the government decided to provide direction with respect to the WEM refinancing, I would have expected the memorandum to indicate precisely the degree to which, if any, ATB was to provide financing as part of "an Alberta solution." However, if a specific direction was not given out of concern that it would be construed as inappropriate political involvement, the memorandum should have been clear that it was the Superintendent's decision to decide whether to provide financing. Further, once it made the decision to delay finalizing the Gentra/ATB agreement, the Committee should have monitored progress so that it could revise decisions if necessary.

It could be argued that the Premier's February 22, 1994 memorandum could not be a direction to anyone other than the Ministers to whom it was addressed. In my view, there must have been an expectation that Mr. Dinning and/or

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Mr. Kowalski would have communicated the Committee's direction to those who were in a position to take the necessary action.

The Premier's direction to not finalize any agreement between ATB and Gentra was not followed by Mr. Bray with the concurrence of Mr. Dinning. An agreement between ATB and Gentra was signed with an effective date of March 10, 1994. In my view, this demonstrates that the Superintendent and the Provincial Treasurer believed at that time that the Gentra/ATB agreement was an appropriate commercial solution for ATB.

In June 1994, the Acting Superintendent, Mr. Leahy, repudiated the Gentra/ATB agreement. I was unable to discover any evidence to support his assertion that he took this action based on direction from elected officials.

In the period from December 1993 to August 1994, Mr. Kowalski received briefings from his senior advisor, Mr. Tadman. These briefings were based mainly on telephone conversations, between Mr. Tadman and Mr. Leahy, about the status of the refinancing negotiations. Mr. Kowalski also met with officials from Gentra and CS First Boston. In July 1994, Mr. Kowalski wrote to Mr. Leahy stating: "I believe that your predecessor was pursuing refinancing alternatives for West Edmonton Mall. To this end we would ask that you continue to actively pursue this file and extend the necessary help to resolve the refinancing of West Edmonton Mall." In August 1994, Mr. Kowalski wrote to Gentra encouraging Gentra to support a consensual financial restructuring for the Mall and requesting that Gentra take no precipitous action in enforcing its security against the Mall as he believed that such "could have devastating economic effects on thousands of Albertans." Gentra responded that it considered its March 1994 proposal to be the only basis upon which a consensual financial restructuring could occur. In my opinion, these interventions had the effect of further delaying foreclosure proceedings and thereby provided time for ATB and WEM to look for other refinancing alternatives.

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From March 1994 to August 1994, Mr. Dinning met at least once with Gentra. Also, he informed me that he had indicated to Mr. Leahy that although he would not tell Mr. Leahy how to conduct the banking business, his preference was for ATB not to have a banking relationship with WEM. Starting in September 1994, the Acting Superintendent agreed to meet monthly with Mr. McPherson, a Deputy Provincial Treasurer. Notwithstanding, the Deputy Provincial Treasurer has stated that he did not learn about the October 31, 1994 guarantee until after it had been provided.

On October 31, 1994, ATB entered into agreements to provide a WEM loan guarantee. I could discover no evidence to support Mr. Leahy's assertion that elected officials directed him to enter into these agreements. Further, I could discover no evidence that elected officials directed him to enter into the purported amending agreements.

The political involvement was not successful. It did not achieve its objective of providing sufficient time to develop a commercially prudent alternative financing to the Gentra/ATB agreement.

Findings and Conclusions on Controls

Prior to the establishment of the ATB Board, no standards had been identified by government to permit an assessment of whether ATB's performance and risk exposures were reasonable. Other than as outlined in ATB's annual reports, there was no formal document identifying the public policy role of ATB. Given that ATB was established as an instrument of public policy, the lack of clear policy direction by the government was an omission in the governance of ATB.

Prior to the establishment of the ATB Board, there were no controls to prevent elected officials becoming involved in ATB's lending decisions.

The control system today is significantly different from the system in place in 1994 when the Acting Superintendent authorized the WEM guarantee.

As a result of the changes in control, on ATB's incorporation as a Provincial agency in 1997, I am satisfied that ATB would not now enter into a financial arrangement similar to its 1994 financing of WEM.

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Historically, and at present, ATB is not subject to review by an independent regulator.

Public confidence in ATB's affairs would be improved if it were to demonstrate publicly how its standards compare to standards applicable to private sector financial institutions.

AUDITOR GENERAL ACT

CHAPTER A-49

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows

Definitions

1 In this Act,

- (a) “Auditor General” means the Auditor General of Alberta;
- (b) repealed 1993 c19 s17;
- (c) “department” means a department as defined in section 1 of the *Financial Administration Act* and includes
 - (i) the Legislative Assembly Office,
 - (ii) the Ombudsman and the staff of the Office of the Ombudsman,

- (iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer,
- (iv) the Ethics Commissioner and the staff of the Office of the Ethics Commissioner, and
- (v) the Information and Privacy Commissioner and the staff of the Office of the Information and Privacy Commissioner;
- (d) “employee of the Office of the Auditor General” includes a person engaged on a fee basis by the Auditor General;
- (e) “public money” means public money as defined in the *Financial Administration Act* and includes money owned or held by Alberta Treasury Branches;
- (f) “regulated fund” means a regulated fund as defined in the *Financial Administration Act*;
- (g) “Select Standing Committee” means the Select Standing Committee on Legislative Offices;
- (h) “voting share” means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57;1991 cC-22.1 s49;
1993 c19 s17;1994 cF-18.5 s93; 1997 cA-37.9 s39

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office	<p>6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.</p> <p>(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.</p> <p style="text-align: right;">RSA 1980 cA-49 s6</p>
Salary and benefits	<p>7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.</p> <p>(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.</p> <p style="text-align: right;">RSA 1980 cA-49 s7</p>
Acting Auditor General	<p>8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.</p> <p>(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).</p> <p>(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.</p> <p style="text-align: right;">RSA 1980 cA-49 s8</p>
Office of the Auditor General	<p>9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the <i>Public Service Act</i> as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.</p> <p>(2) On the recommendations of the Auditor General, the Select Standing Committee may order that</p> <ul style="list-style-type: none"> (a) any regulation, order or directive made under <i>the Financial Administration Act</i>, or (b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the <i>Public Service Act</i>,

be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) *The Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every ministry, department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12; 1995 cG-5.5 s17

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

- (a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and
- (b) reports that either
 - (i) there is no supply vote under which an expenditure with respect to that matter may be made, or
 - (ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General
may charge
fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

- (a) the records of a department, fund administrator or Provincial agency, and
- (b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

- (a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,
- (b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and
- (c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.

RSA 1980 cA-49 s16

Reliance on auditor

16.1(1) In this section, “regional authority” means a board under the School Act or a regional health authority, subsidiary health corporation, community health council or provincial health board under the Regional Health Authorities Act.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

- (a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person’s findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,
- (b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and
- (c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.

1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

- (a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,
- (b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and
- (c) include any other comments related to his audit of the financial statements that he considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report
of Auditor
General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

- (a) on the work of his office, and
- (b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

- (a) collections of public money
 - (i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,
 - (ii) have not been fully accounted for, or
 - (iii) have not been properly reflected in the accounts,
- (b) disbursements of public money
 - (i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,
 - (ii) have not complied with regulations, directives or orders applicable to those disbursements, or
 - (iii) have not been properly reflected in the accounts,
- (c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

- (d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or
- (e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

- (a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on
 - (i) the accounting policies employed, and
 - (ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,
- (b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and
- (c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(3.1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.1.

(4) A report under this section shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

RS cA-49 s19; 1995 cG5.5 s17; 1996 cA-27.01 s22

Special reports **20(1)** The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers	<p>27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.</p> <p style="text-align: right;">1977 c56 s27</p>
Report after examination	<p>28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.</p> <p style="text-align: right;">1977 c56 s28</p>
Advice on organization, systems, etc.	<p>29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.</p> <p style="text-align: right;">1977 c56 s29</p>
Annual audit	<p>30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.</p> <p>(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.</p> <p>(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.</p> <p>(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.</p> <p style="text-align: right;">1977 c56 s30</p>
Records Management	<p>31 On the recommendation of the Auditor General, the Select Standing Committee may make an order</p> <ul style="list-style-type: none"> (a) respecting the management of records in the custody or under the control of the Office of the Auditor General, including their creation, handling, control, organization, retention, maintenance, security, preservation, disposition, alienation and destruction and their transfer to the Provincial Archives of Alberta; (b) establishing or governing the establishment of programs for any matter referred to in clause (a); (c) defining and classifying records; (d) respecting the records or classes of records to which the order or any provision of it applies. <p style="text-align: right;">SA 1995 c34 s1</p>

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