



# Report of the Auditor General of Alberta

JULY 2016

**STAND-ALONE SYSTEMS AUDITING—NEW AUDITS**

Environment and Parks—Contracting Processes and the  
Kananaskis Country Golf Course

Justice and Solicitor General—Office of the Chief Medical Examiner—  
Contracting Transporters of Deceased Rural Albertans

**STAND-ALONE SYSTEMS AUDITING—FOLLOW-UP AUDITS**

Labour—Evaluating Occupational Health and Safety Systems

Transportation—Managing the Structural Safety of Bridges





Mr. David Shepherd, MLA  
Chair  
Standing Committee on Legislative Offices

I am pleased to submit my *Report of the Auditor General of Alberta—July 2016*.  
This report is being sent to Members of the Legislative Assembly of Alberta as  
required by Section 20(1) of the *Auditor General Act*.

[Original signed by Merwan N. Saher FCPA, FCA]  
Auditor General

Edmonton, Alberta  
June 27, 2016







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# Auditor General's Message and Recommendations

**REPORT OF THE AUDITOR GENERAL OF ALBERTA**

July 2016



# Auditor General's Message

As an independent legislative audit office, we strive to do relevant, reliable and reasonable cost auditing to make a difference in the lives of Albertans. Our audits identify opportunities to improve the performance of and confidence in the public service. Following is a summary of the systems audits contained in this report.

## New Systems Audits

### **ENVIRONMENT AND PARKS—CONTRACTING PROCESSES AND THE KANANASKIS COUNTRY GOLF COURSE (PAGE 13)**

In July 2013 the Kananaskis Country Golf Course (KCGC) was among the areas impacted by the severe flooding that occurred in southern Alberta. The golf course is operated by Kan-Alta Golf Management Ltd. The Department of Tourism, Parks and Recreation, now Environment and Parks, submitted a recommendation to a ministerial task force, which set direction and made decisions on behalf of Cabinet to support and coordinate flood response and recovery. The task force agreed that the proposal should go ahead and gave the department direction to restore the golf course and negotiate an amended operating agreement with Kan-Alta. In July 2014 the department amended one agreement and signed two new agreements, committing the government to an operating relationship with Kan-Alta until 2025.

We performed an audit to assess whether the new agreements provided value for money for Albertans and followed government contracting practices. Our auditors sought the answers to three questions:

- Did the department use a reasonable process in deciding whether to rebuild KCGC?
- How will the department protect KCGC from future flooding?
- Did the department use a reasonable process in deciding the risks and rewards to the Crown when entering into the 2014 agreements with Kan-Alta, given the pre-existence of the 1999 operating agreement with Kan-Alta and the 2013 flooding?

We found that the department used adequate contracting processes in 2014 when it recommended to Cabinet to rebuild KCGC and signed the three agreements with Kan-Alta in July 2014. The agreements made financial sense given the existing contractual commitments the department had with Kan-Alta at the time of the flood. We make no recommendations to the department.

### **JUSTICE AND SOLICITOR GENERAL—OFFICE OF THE CHIEF MEDICAL EXAMINER—CONTRACTING TRANSPORTERS OF DECEASED RURAL ALBERTANS (PAGE 19)**

When an Albertan in apparent good health dies unexpectedly, or in a violent or unexplained way, the Office of the Chief Medical Examiner (OCME) investigates the death. Sometimes, the investigation requires an examination of the body. In that case, the body is transported to medical examiners in Edmonton or Calgary. The OCME uses independent third-party service providers to transport bodies to these locations.

We found that the department's contracting process does not have clear and effective guidelines on:

- what information a program area, such as the OCME, must provide in a business case for an external services contract
- when a program area must create such a business case

If the OCME continues to use non-contracted rural transporters in the normal course of business, it is compromising the department's decision that all transporters be contracted. By not identifying circumstances in which the OCME may still need to use non-contracted vendors, the department may be putting itself at increased risk.

## Follow-up Audits

### LABOUR—OCCUPATIONAL HEALTH AND SAFETY SYSTEMS (PAGE 39)

The department works with employers to deliver various occupational health and safety (OHS) programs to promote, monitor and enforce laws. The department is also responsible for setting goals and objectives for its programs, analyzing them to ensure they achieve the desired results, and reporting those results to the minister.

We followed up for a second time on three outstanding recommendations from our April 2010 report,<sup>1</sup> in which we reported on how the department promotes, monitors, enforces and reports on its OHS goals and objectives.

In the six years since our original audit, the department has made a number of recommended improvements to OHS systems. However, the department has still not fully implemented process improvements to enforce compliance for all OHS orders issued and to evaluate and report on OHS program results analysis compared to desired results. The department is unable to demonstrate, with evidence, that it has a complete set of processes to apply department policies to keep Alberta's workers safe.

### TRANSPORTATION—MANAGING THE STRUCTURAL SAFETY OF BRIDGES (PAGE 49)

In 2012 we reported the results of our audit of the department's systems to manage the structural safety of bridges. We made nine recommendations to the department to improve processes related to inspection contracting, quality and frequency; contractor certification; bridge information system access; maintenance activity reporting; and capital planning submissions.

In 2015 we reported the results of our follow-up audit and concluded that the department had implemented seven of the recommendations, but we repeated two recommendations.

In this second follow-up audit we found the department implemented effective contracting processes to manage the structural safety of bridges. The department improved processes for contracting out bridge inspections and determining if contracting out inspections is cost effective.

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<sup>1</sup> *Report of the Auditor General of Alberta—April 2010*, pages 31–52. Three recommendations repeated in the *Report of the Auditor General of Alberta—July 2012*, pages 81–90.

# July 2016 Recommendations

We conducted our audits in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

This report contains two repeated and two new recommendations to government. The repeated recommendations have been made because we do not believe there has been sufficient action taken to implement our previous recommendations.

As part of the audit process, we provide recommendations to government in documents called management letters. We use public reporting to bring recommendations to the attention of Members of the Legislative Assembly. For example, members of the all-party Standing Committee on Public Accounts refer to the recommendations in our public reports during their meetings with representatives of government departments and agencies.

The auditor general is the auditor of every ministry, department, regulated fund and provincial agency. Under the *Government Organization Act*, ministers are responsible for administering departments and provincial legislation. Deputy ministers are delegated responsibility to support the minister in his or her role, and to act as the chief operating officer of a department. Ministers may also establish any boards, committees or councils they consider necessary to act in an advisory or administrative capacity for any matters under the minister's administration. A minister is responsible for oversight of the work and actions of the department and any provincial agencies under his or her administration. However, we make our recommendations to departments and provincial agencies rather than to the minister directly. Given the delegated operational responsibilities, departments are in the best position to respond to and implement our recommendations. With respect to recommendations related to ministerial oversight of a provincial agency, we generally make the recommendation to the department supporting and providing advice to the minister.

## Reporting the status of recommendations

We follow up on all recommendations. The timing of our follow-up audits depends on the nature of our recommendations. To encourage timely implementation and assist with the planning of our follow-up audits, we require a reasonable implementation timeline on all recommendations accepted by the government or the entities we audit that report to the government. We recognize some recommendations will take longer to fully implement than others, but we encourage full implementation within three years. Typically, we do not report on the progress of an outstanding recommendation until management has had sufficient time to implement the recommendation and we have completed our follow-up audit work.

We repeat a recommendation if we find that the implementation progress has been insufficient.

We report the status of our recommendations as:

- **Implemented**—We explain how the government implemented the recommendation.
- **Repeated**—We explain why we are repeating the recommendation and what the government must still do to implement it.

On occasion, we may make the following comments:

- **Satisfactory progress**—We may state that progress is satisfactory based on the results of a follow-up audit.
- **Progress report**—Although the recommendation is not fully implemented, we provide information when we consider it useful for MLAs to understand management's actions.

## SYSTEMS AUDITING—NEW AUDITS

### Justice and Solicitor General—Office of the Chief Medical Examiner— Contracting Transporters of Deceased Rural Albertans

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#### **RECOMMENDATION 1: DEVELOP GUIDELINES FOR CONTRACT REQUESTS**

We recommend that the Department of Justice and Solicitor General develop guidelines that clearly identify:

- when a program area must provide a business case to support a contract request and what information must be included
- who can make a decision not to require a business case and in what circumstances, and what must be documented to support this decision

#### **IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED**

If the department posts a contract for external services without taking all appropriate steps beforehand to assess if its terms and conditions are appropriate and reasonable, there is increased risk of disinterest or rejection by the target vendor community. This increased risk could negatively impact the department's ability to economically obtain the needed quality and level of service.

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#### **RECOMMENDATION 2: DETERMINE WHEN CONTRACTED VENDORS WILL BE USED**

We recommend that the Department of Justice and Solicitor General determine and include as part of its pre-qualification contract posting process:

- a date after which only vetted and contracted vendors are eligible to provide services in the normal course of business
- circumstances in which it may need to use non-contracted vendors

#### **IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED**

By continuing to use non-contracted transporters in the normal course of business and not identifying circumstances in which they may appropriately be used, the department may be putting itself at increased risk.

## SYSTEMS AUDITING—FOLLOW-UP AUDITS

### Labour—Evaluating Occupational Health and Safety Systems

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#### **RECOMMENDATION 3: IMPROVE PLANNING AND REPORTING—REPEATED FROM 2010**

We again recommend that the Department of Labour improve its planning and reporting systems for occupational health and safety by evaluating and reporting on whether key OHS programs and initiatives achieve the desired results.

#### **IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED**

Without appropriate and timely planning, performance measurement and reporting, the department cannot demonstrate that it achieves its objectives effectively and efficiently.

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#### **RECOMMENDATION 4: ENFORCE COMPLIANCE—REPEATED FROM 2010**

We again recommend that the Department of Labour clarify and enforce its procedures to approve giving employers extra time to fix worksite health and safety problems.

#### **IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED**

Without adequate systems to enforce compliance with occupational health and safety legislation for those employers and workers who persistently fail to comply, the health and safety of workers continue to be exposed to otherwise avoidable risks. Employers who choose not to comply with OHS orders may gain an unfair advantage over employers who spend the time and resources to deal with and avoid contraventions.





# Stand-alone Systems Auditing—New Audits

**REPORT OF THE AUDITOR GENERAL OF ALBERTA**

July 2016



# Environment and Parks — Contracting Processes and the Kananaskis Country Golf Course

## SUMMARY

Kananaskis Country Golf Course (KCGC) experienced severe flooding on June 30, 2013, along with many other parts of southern Alberta. Damage to KCGC was extensive, and most fairways and greens were damaged or destroyed. The flood did not affect buildings that were located on higher ground, such as the pro shop and clubhouse. KCGC has been closed since the flood occurred.

In April 2014 the Department of Tourism, Parks and Recreation<sup>1</sup> submitted a recommendation to the Southern Alberta Recovery Ministerial Task Force<sup>2</sup> to restore KCGC. The task force agreed that the proposal to restore KCGC should go ahead. The Minister of Tourism, Parks and Recreation, a member of the task force, gave the department direction to restore KCGC and negotiate an amended operating agreement with the operator, Kan-Alta Golf Management Ltd.

In July 2014 the department amended one agreement and signed two new agreements with Kan-Alta. These agreements committed the government to an operating relationship with Kan-Alta until 2025.

In April 2015 a member of the Legislative Assembly requested the auditor general perform an audit of the department's decision to sign these agreements with Kan-Alta. The MLA's request occurred subsequent to media reports that the department made \$9.3 million in payments to Kan-Alta and that the department had extended the operating agreement. We decided to perform an audit to assess whether the new agreements:

- provided value for money for Albertans
- followed government contracting practices

## What we examined

We examined whether the department used adequate contracting processes in 2014 when it recommended to Cabinet that the government should:

- rebuild the golf course
- amend the operating agreement with Kan-Alta
- provide flood compensation to Kan-Alta
- lease land for housing for Kan-Alta staff

## What we found/overall conclusion

The department used adequate contracting processes in 2014 when it recommended to Cabinet to rebuild KCGC and signed the three agreements with Kan-Alta in July 2014. The agreements made financial sense given the existing contractual commitments the department had with Kan-Alta at the time of the flood. We make no recommendations to the department.

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<sup>1</sup> The Parks Division is now part of the Department of Environment and Parks.

<sup>2</sup> The ministerial task force comprised ministers led by the Minister of Municipal Affairs. It set direction and made decisions on behalf of Cabinet to support and coordinate the flood response and recovery.

## Why this is important to Albertans

Albertans need assurance that the department's decision to rebuild the golf course and sign a new long-term agreement with the operator was in the best interests of Alberta taxpayers.

## AUDIT OBJECTIVE AND SCOPE

Our objective was to assess whether the department used adequate contracting processes in 2014 when it recommended to Cabinet that the government should rebuild the golf course, amend the operating agreement with Kan-Alta, provide flood compensation to Kan-Alta and lease land for housing for Kan-Alta staff.

We asked three questions:

- Did the department use a reasonable process in deciding whether to rebuild KCGC?
- How will the department protect KCGC from future flooding?
- Did the department use a reasonable process in deciding the risks and rewards to the Crown when entering into the 2014 agreements with Kan-Alta, given the pre-existence of the 1999 operating agreement with Kan-Alta and the 2013 flooding?

We conducted our field work from September 2015 to March 2016. We substantially completed our audit on April 1, 2016. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

Our audit did not examine the department's contracting processes to enter into the 1999 operating agreement. We did not set out to conclude whether the department should be running golf courses. At the time of the audit, the government was in a long-term contract with Kan-Alta.

We also reviewed the August 2015 KCGC contracts report commissioned by the Department of Treasury Board and Finance. We used that report where we could in carrying out our audit.

## BACKGROUND

In 1978 Premier Lougheed officially dedicated Kananaskis Country and Kananaskis Provincial Park.<sup>3</sup> The overall management direction<sup>4</sup> of this park is to:

- provide high-quality, safe and enjoyable recreation experiences for visitors in well-designed and maintained facilities, as well as acting as staging areas for recreation opportunities on adjacent Crown lands
- support the development of healthy, sustainable tourism activities that complement park features and facilities, as well as nearby community initiatives
- protect significant natural, cultural and scenic values within the areas
- provide interpretation and educational opportunities at appropriate sites

KCGC opened in 1983 and has been operated by Kan-Alta from the beginning. The Department of Environment and Parks<sup>5</sup> is responsible for KCGC and the business relationship with Kan-Alta.

<sup>3</sup> Now called Peter Lougheed Provincial Park.

<sup>4</sup> <http://www.albertaparks.ca/media/447248/kcpraandbcppmgmtplan.pdf>

<sup>5</sup> The Department of Recreation and Parks was initially responsible for the golf course. Responsibility was then transferred to the Department of Community Development and then to the Department of Tourism, Parks and Recreation.

The Operation, Lease and Redevelopment Agreement between the Government of Alberta and Kan-Alta was signed on April 1, 1999. It was amended three times between 1999 and January 2010. The amendments covered changes such as the amount of rent, the term length of the agreement and the amount of redevelopment work and additional maintenance.

## FINDINGS

### Contracting processes

#### CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have adequate contracting processes to support its business decision to rebuild KCGC, extend the operating agreement with Kan-Alta, provide flood compensation to Kan-Alta and lease land for housing for Kan-Alta staff. Adequate contracting processes should ensure compliance with department contracting policies and practices, such as:

- identifying alternatives
- assessing the costs, benefits and risks associated with each alternative
- seeking expert advice
- making a recommendation

#### OUR AUDIT FINDINGS

##### KEY FINDINGS

The department:

- used expert advice in various stages of its analysis
- identified possible alternatives in operating the golf course
- assessed the costs, benefits and risks for each alternative
- made a recommendation to Cabinet
- began flood mitigation work on the waterways adjacent to the golf course

#### Renegotiation of the operating agreement

The department used adequate contracting processes when it recommended to Cabinet in 2014 that the government should rebuild the golf course, amend the operating agreement with Kan-Alta, provide flood compensation to Kan-Alta and lease land for housing for Kan-Alta staff.

The department sought expert advice throughout the process. The first steps taken were to assess the damage to the golf course. Independent golf course architecture companies completed two separate damage assessment reports<sup>6</sup> in 2013, with one being updated in 2014. In addition, the department hired a consultant to assess the damage to the two cart bridges, restore the waterways adjacent to the golf course to their pre-flood condition and provide options and estimated costs to prevent or minimize damage from future floods.

The department also engaged a firm to analyze the operator's lost profits resulting from the closure of the golf course and its ongoing expenses. The analysis included a review of Kan-Alta's previous financial statements and its revenue and expenses from January 2013 to the time of the flood. The 1999 agreement stated the Crown was responsible for damages over \$100,000 to the operator resulting from the effects of the adjacent Kananaskis and Evan Thomas waterways.

<sup>6</sup> The department hired one company, and Kan-Alta hired the second company.

The department hired a firm to review the different business options available to the Crown in deciding whether KCGC should reopen and how it should be operated if so. The options were:

- keeping the existing operator
- going to a new operator
- taking over the operation of the golf course
- closing KCGC and returning the land to its original state or using the land for another purpose

The department also conducted its own analysis of the different options. It examined the strengths, weaknesses, opportunities and threats for each business model.

The department received legal advice on the existing operating agreement with Kan-Alta. The department wanted to know its options and financial liabilities under the existing agreement.

With the various reports it had, the department conducted an assessment to identify the costs with each business option. The assessment included:

- the economic impact KCGC had on Kananaskis Country and the extended area
- the cost to restore KCGC
- the flood compensation that Kan-Alta should receive
- the cost of terminating the contract with Kan-Alta
- the cost of flood mitigation
- funding from the Disaster Financial Assistance Arrangement<sup>7</sup>

In March 2014 the department prepared two funding requests<sup>8</sup> to the Ministerial Task Force, one for \$18,025,000 to restore KCGC and one for \$13,900,000 for contractual commitments to Kan-Alta under the 1999 operating agreement. The department used expert reports and its own analysis to support these requests. The task force approved both funding requests, and the minister gave direction to the department to negotiate an amended operating agreement.

The department's negotiations with Kan-Alta resulted in several key results:

- a new end date in 2025, when there will be a request for proposals for the next operator
- a reduced financial risk to the government through:
  - eliminating payments to Kan-Alta in the event of another flood
  - capping the amount Kan-Alta would receive should the golf course be closed for other reasons<sup>9</sup> at the request of the department
- an increased total return to the Crown

The 11-year term of the amended agreements (2014–2025) is in line with similar leases that other Canadian governments have signed with operators.

### Flood mitigation

After the June 2013 flood, the department assessed the cost of mitigating the effects of future floods. The assessment included the cost of flood mitigation for the waterways adjacent to the golf course. The department's initial cost estimate for repairing the waterways was \$2.8 million, but the estimate was later increased to \$7.8 million for enhanced flood protection.

<sup>7</sup> The costs of disaster recovery may be eligible for cost sharing with this Government of Canada program.

<sup>8</sup> There were also two similar funding requests in September 2013 that were not approved.

<sup>9</sup> Major repairs, emergencies and public safety.

The department has begun the flood mitigation work on the waterways responsible for the flooding: the Evan Thomas and the Kananaskis. As a result, Evan Thomas Creek is now wider than it was pre-flood, and the creek berms that protect the golf course have been raised from two metres to three metres.

Improvements to the waterways will resume in the spring of 2016. The department plans to complete the remaining portion of the flood mitigation for the creek prior to the spring runoff, which usually starts after May 15.

### Project manager for the restoration

The department selected Kan-Alta to act as the project manager for the restoration of the golf course. We found the decision to engage Kan-Alta to act as the project manager was reasonable. Kan-Alta, as the operator since the course opened, had a history of performing redevelopment work (capital expenditures) over the years as part of the 1999 operating agreement, and it knew the site well. Kan-Alta also had a vested interest in seeing the restoration proceed properly and efficiently. The department engaged a golf course architecture company to assist in the oversight of the project to ensure the restoration proceeded properly.

### Consolidated Housing Agreement

Before the department signed the Consolidated Housing Agreement, the residences leased to Kan-Alta were in three different agreements: the 1999 agreement and two agreements signed in June 2008, when two new residences were built. The department wanted to consolidate the three leasing arrangements for the residences in one agreement. The resulting Consolidated Housing Agreement ensures consistency in the terms and conditions for all the residences and has the same end date (2025) as in the 2014 amended agreement.

Included in the Consolidated Housing Agreement was a change to the purchase value of the residences from fair market to assessed value. The department intends to purchase Kan-Alta's residences before 2025. Owning all of the residences would allow the department to combine the golf course and the residences in one package in future requests for proposals.

### Payments to Kan-Alta

We examined the payments to Kan-Alta from April 2014 to October 2015 to ensure they complied with the existing agreements or letters of authorization<sup>10</sup> to restore the golf course. The payments of \$9.6 million complied with the existing agreements or letters of authorization.

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<sup>10</sup> Two letters issued to Kan-Alta in August and September 2014 authorizing restoration work.



# Justice and Solicitor General—Office of the Chief Medical Examiner—Contracting Transporters of Deceased Rural Albertans

## SUMMARY

When an Albertan in apparent good health dies unexpectedly, or in a violent or unexplained way, the Office of the Chief Medical Examiner (OCME) investigates the death. Sometimes, the investigation requires an examination of the body. In that case, the body is transported to medical examiners in Edmonton or Calgary. The OCME uses independent third-party service providers to transport bodies to these locations. We refer to any such company as a “transporter” in this report.

In 2012 the OCME wanted to ensure consistent service standards and payment practices for all transporters it used to transport bodies from rural Alberta. The OCME decided to pre-qualify rural transporters and enter into contracts with them to accomplish this, similar to the contract the department had with the transporter it used for these services in Edmonton and Calgary. Before then, there had only been contracts between the department and a few individual transporters to provide service for specifically defined rural areas.<sup>1</sup>

## What we examined

We examined whether the Department of Justice and Solicitor General had adequate systems to:

- develop the pre-qualification request and contracts for rural transporters
- enforce the terms and conditions of these contracts

## Overall conclusion

The department’s contracting process does not have clear and effective guidelines on:

- what information a program area, such as the OCME, must provide in a business case for an external services contract
- when a program area must create such a business case

Current guidelines on preparing business cases are undocumented and ambiguous. Without being given all the pertinent information, the department cannot properly evaluate whether the requesting program area has satisfactorily done all necessary due diligence in developing the best terms and conditions of service for a contract it wants prospective vendors to meet.

If the OCME continues to use non-contracted rural transporters in the normal course of business, it is compromising the department’s decision that all transporters be contracted. By not identifying circumstances in which the OCME may still need to use non-contracted vendors, the department may be putting itself at increased risk.

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<sup>1</sup> For the purposes of this report we refer to any locations outside of metro Edmonton and Calgary as rural. In previous years, the OCME has used anywhere from 64 to 75 rural transporters throughout the year depending on number of deaths, their location and availability of service providers. Almost all of these transporters were not under contract.

## What we found

The department considers it best practice for a program area to prepare a business case for contracted services totalling more than \$75,000, but it otherwise has no specific guidelines on when a business case is required and what information it should include. The OCME did not prepare a business case to support its request for new contracts with rural body transporters, worth \$1.3 million. We found no documentation to explain why this occurred. The department based its approval on a five-page proposal form that had no details about why the OCME wanted a contract. The proposal form lacked information about what, if any, due diligence and planning the OCME had done in developing contractual terms and conditions it expected transporters to meet or what alternatives it had considered in light of identified risks and costs.

Many transporters were dissatisfied with the first posted contract because of a perceived lack of prior consultation by the OCME with industry in developing the contract's terms and conditions. Department staff subsequently spent considerable time and effort over several months dealing with transporters' concerns, and the department posted a second, revised contract on November 14, 2014.

Two years after the department decided all rural transporters had to be under contract, the OCME continues to use non-contracted transporters in the normal course of business—just over 29 per cent of transporters used by the OCME have yet to apply to be pre-qualified for a contract. The pre-qualification posting gives no specific date after which the OCME will use only pre-qualified and contracted transporters in the normal course of business. Neither does it set out circumstances in which the OCME may still need to use non-contracted vendors. The department did not determine a minimum number or appropriate geographical distribution of contracted rural transporters the OCME would need to effectively meet its regular operational needs and how long this would take to achieve.

## What needs to be done

The department needs to develop guidelines that clearly identify:

- when a program area must provide a business case to support a contract request
- what information must be included in a business case
- who can make a decision not to require a business case and in what circumstances, and what must be documented to support this decision

The department also needs to determine and include in a pre-qualification contract posting a date after which it will use only vetted and contracted vendors in the ordinary course of business. If there is no such date, and if it is not enforced, there is reduced incentive for businesses to apply to be approved. The department should also determine and include in the contract posting those circumstances in which it may need to use non-contracted vendors as required.

## Why this is important to Albertans

Albertans expect the department to show good business sense by ensuring it has obtained and considered all relevant information before approving and posting a contract for external goods or services. Good contracting processes reduce the risk of the department not getting the level or quality of service it wants. Albertans also expect the department to avoid any unnecessary legal risks and costs by identifying the circumstances permitting the continued use of non-contracted vendors after deciding that only contracted vendors should provide a service.

## AUDIT OBJECTIVE AND SCOPE

The objective of our audit was to assess whether the department had adequate processes in place to:

- develop the pre-qualification request and contracts for rural transporters
- enforce the terms and conditions of these contracts

We conducted our field work between July and October 2015, and we substantially completed our audit on May 27, 2016. Our audit was conducted in accordance with the *Auditor General Act* and the standards for assurance engagements set out in the CPA Canada Handbook—Assurance.

## BACKGROUND

The *Fatality Inquiries Act*<sup>2</sup> requires Alberta's OCME be notified of all deaths that occur under specific circumstances, such as when an Albertan in apparent good health dies unexpectedly or in a violent or unexplained way. The OCME shall conduct investigations of these deaths when required. An investigation may require either an external examination of the body or an autopsy. In 2015 there were approximately 20,000 deaths in Alberta; the OCME examined about 20 per cent of these. See Appendix A for examples of deaths set out in the Act requiring notification of a medical examiner<sup>3</sup> or investigator<sup>4</sup> and the purpose of investigating these deaths.

In Alberta, medical examiners work in department facilities in either Edmonton or Calgary. Therefore, whenever a body needs to be seen by a medical examiner, the body must be transported to one of these facilities. The OCME uses independent third-party service providers for the transportation. In the fiscal year 2015–2016 it paid just under \$1.8 million for these services, in rural and urban areas, out of its total authorized operating budget of \$12.3 million.

One particular transporter does all of the transporting within the metro Edmonton and metro Calgary areas under separate contracts with the department.<sup>5</sup> Each contract with this transporter includes a fee-for-service schedule and sets out various terms and conditions that the transporter must comply with, such as:

- employee criminal record checks
- 24/7/365 vehicle and staff availability
- dress and conduct of its employees when they attend the scene of a death
- type and mechanical condition of transport vehicles

In contrast, funeral homes located in the immediate area of the scene of death have historically transported bodies from rural Alberta. OCME investigators contact these businesses on an as-needed and rotating basis.<sup>6</sup> Although the department had previously contracted with some transporters to provide service for specifically defined rural areas, it had no existing contracts with most rural

<sup>2</sup> *Fatality Inquiries Act, RSA2000*, Chapter F-9.

<sup>3</sup> Medical examiners are physicians appointed by the minister under Section 7 of the *Fatality Inquiries Act*.

<sup>4</sup> Investigator refers to a medical examiner's investigator under Section 6 of the *Fatality Inquiries Act*, to a member of the RCMP, or to other Alberta police service or designated peace officer as set out in Section 9 of the Act.

<sup>5</sup> This company is not a funeral home and has had these contracts since 2008. It operates under two separate contracts: one for Edmonton and one for Calgary. The OCME considers the company's normal service area to be within an 80 kilometer radius of either city, although the company will pick up or transport a body anywhere within Alberta if requested by the OCME.

<sup>6</sup> Any person or company with the appropriate vehicles and other necessary equipment can transport bodies. There is no operational or statutory requirement that only a funeral home can make transports.

transporters. In the absence of contracts, the OCME paid these companies according to a fee schedule set out in Section 3 of the *Fatality Inquiries Regulation*<sup>7</sup> (see Appendix B). There were no documented terms and conditions of service that rural transporters were required to follow.

## FINDINGS AND RECOMMENDATIONS

### Lack of guidelines on when a business case is needed

#### BACKGROUND

In 2012 the then Chief Medical Examiner began the process to develop a standard contract for transporters based in rural areas. The overall goal was to establish documented service and conduct standards for rural transporters that would be similar to the standards in the existing contracts with the transporter for metro Edmonton and metro Calgary. The OCME identified the need for such standards after receiving complaints about the on-scene performance of some rural companies' employees, including inappropriate behaviour, unprofessional attire and mechanical problems with vehicles. The Regulation does not include any such standards.

Another reason for creating a contract was to ensure consistent payment practices by defining what constituted a transport route and how often businesses could charge the fixed initial fee set out in the Regulation. While the legislation specifies mileage-based fixed and variable rates<sup>8</sup> for transporting bodies, it says nothing about how these are applied or about the definition of a transport route. There were consequently differences in opinion between the OCME and some rural transporters over whether a transport could be broken into stages (depending on travel interruptions) with the fixed rate charged at the beginning of each stage, or whether the charge should be applied just once per transport job.

The OCME decided the best way to ensure transporters met the office's expectations was to develop a contract for rural transporters, similar to what it had for its urban transporter. A pre-qualification request<sup>9</sup> was issued, since no one rural business would be exclusively contracted with or guaranteed a minimum amount of work. The OCME expected to have enough vetted and pre-qualified contractors to be able to call on when needed.

#### RECOMMENDATION 1: DEVELOP GUIDELINES FOR CONTRACT REQUESTS

We recommend that the Department of Justice and Solicitor General develop guidelines that clearly identify:

- when a program area must provide a business case to support a contract request and what information must be included
- who can make a decision not to require a business case and in what circumstances, and what must be documented to support this decision

#### CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have processes to:

- develop and approve contract requests for body transportation, including adequate oversight and vetting by the procurement unit, the contract review committee and legal services
- invite feedback from transporters on any concerns they have with the proposed contract

<sup>7</sup> *Fatality Inquiries Regulation, Alberta Regulation 65/2000*, with amendments up to and including *Alberta Regulation 170/2012*.

<sup>8</sup> Currently a maximum of \$300 per vehicle for the first 20 kilometres and a maximum variable rate of \$1.13 per kilometre thereafter.

<sup>9</sup> A pre-qualification request is in contrast to a request for proposals, where a number of vendors competitively bid for a contract to exclusively provide an identified product or service.

## OUR AUDIT FINDINGS

### KEY FINDINGS

- The OCME did not prepare a business case to support its contract request since the department has no mandatory guidelines on when a business case is required. The department considers it a best practice to make a business case for contracting services worth more than a certain threshold. However, we found no documentation to explain why the department did not require a business case for its contract with transporters, even though the services amounted to over 10 times that threshold.
- The only document we found on which the department's contract review committee based its approval was a contract proposal form that contained no details or supporting information from the OCME.
- The lack of a business case meant the review committee approved the OCME's contract request without being fully informed.
- Many vendors were dissatisfied with the first posted contract because of a perceived lack of prior consultation by the OCME with industry about the terms and conditions of the contract. After spending considerable time and effort over several months addressing vendors' concerns, department staff created and posted a second, revised contract.

### No evidence the department considered other alternatives

Rather than the OCME entering into contracts with transporters, the department could have sought an amendment to the Regulation to include the OCME's requirements for transporters. Contracts would then not have been needed, since transporters are obliged to follow the Regulation. However, we found no evidence the OCME or department considered this or other alternatives.

### No documentation as to why a business case was not made

The department requires a business case for any contract over a certain threshold, which was \$100,000 at the time the OCME made its request for a contract.<sup>10</sup> The department views this requirement as a best practice, but it has no guidelines on situations where it would be mandatory, or even beneficial, to provide a business case. There are also no guidelines on what information should be included in a business case.

The OCME represented the cumulative value of the rural transport contracts at \$1.3 million on its contract proposal form.<sup>11</sup> We found no documentation to explain why the department did not require the OCME to complete a supporting business case. On the proposal form itself, alongside the line specifying whether a business case had been completed, there was simply one word—No.

The five-page contract proposal form, approved on November 7, 2013,<sup>12</sup> was the only document we found on which the department's contract review committee based its approval. The only case the document makes to justify the contract is a high-level narrative on the first page, setting out the need in very general terms rather than in any detail. It contains no reference to the service complaints made against some rural transporters, nor does it mention the OCME's concerns with how some businesses billed the fixed rate component of the fee. Neither does the minutes from the meeting, where the contract review committee discussed OCME body removal contracts, make reference to these service complaints or billing concerns.

<sup>10</sup> The threshold is now \$75,000.

<sup>11</sup> This is approximately what the OCME paid to 70 rural based businesses in 2012–2013 to transport bodies.

<sup>12</sup> The department's procurement guidelines require that contracts for services greater than \$50,000 go to the contract review committee for approval. The committee includes representatives from the department's procurement unit, financial services and legal services.

### Importance of a business case

The lack of a business case meant the review committee approved the OCME's contract request without being fully informed.

In general, a business case would clearly document to the review committee why a contract is necessary. It would also help them better evaluate whether the requesting program area has done all appropriate due diligence and planning in developing the terms and conditions of service it wants in the contract.

A business case should document what, if any, preliminary discussions took place with vendors about proposed contractual terms and conditions of service, as well as vendors' responses. Such documentation is important when staff on the review committee may be unfamiliar with the logistical and operational aspects of the needed service, particularly regarding the large distances bodies have to be transported. Furthermore, in this situation the OCME was proposing to fundamentally change a long-standing informal business relationship. Businesses seeking to qualify for a contract would have incurred new up front costs in meeting the office's proposed changes, even though the contract offered no guarantee of work.<sup>13</sup> We would expect, at a minimum, the department would want to know what the service providers' expected reactions would be to the proposed contract before finalizing and approving it.

The information contained in a business case would also benefit other areas of the department involved in developing contracts, such as the procurement unit and legal services. After the review committee's approval, these areas work with the initiating program area to ensure the contract's wording meets applicable Government of Alberta and department standards, and clearly sets out the terms and conditions the program area requires prospective vendors to meet.

See Appendix C for relevant information that we expected would have been included by the OCME in a business case, had one been made. We have based this on business case and development guidelines as set out in the Government of Alberta Procurement Accountability Framework Manual, since the department does not have its own specific guidelines.

### Significant negative reaction from transporters to the first posted contract

The department posted an approved contract on the Alberta Purchasing Connection website on March 10, 2014.<sup>14</sup> Shortly after the posting, there was a significant negative reaction from a number of rural funeral home operators. The primary concern was that the OCME had not consulted with the industry about the contract and the conditions, and requirements transporters now had to meet. The largest association of funeral service providers<sup>15</sup> passed a motion at its April 2014 annual general meeting to reject the contract. Fifty funeral home operators sent letters to the OCME, through the association, stating they would not sign the contract. Some individual businesses also complained directly to their local Members of the Legislative Assembly, who in turn forwarded these concerns to the then Minister of Justice.

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<sup>13</sup> The costs for required employee criminal record checks and mechanical inspections are borne by businesses applying for approval.

<sup>14</sup> <http://www.purchasingconnection.ca/>

<sup>15</sup> Largest by membership; for more information see <http://www.afsa.ca/>.

There were a number of outcomes from this reaction:

- the then Minister of Justice and other senior department officials met with association representatives to hear members' concerns
- several working sessions between senior department management, the OCME, the procurement unit and industry representatives were held, at which the parties discussed and agreed to revisions to the contract's terms and conditions
- the department replaced the first contract with a second, revised contract on November 14, 2014.<sup>16</sup> The revised contract came after five individual contracts had been signed with rural transporters under the terms of the initial posting.<sup>17</sup>

A satisfactory business case would have helped the OCME identify the transporters' concerns beforehand. Instead, various department staff had to spend considerable time and effort over several months to listen to and deal with the concerns.

### IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

If the department posts a contract for external services without taking all appropriate steps beforehand to assess if its terms and conditions are appropriate and reasonable, there is increased risk of disinterest or rejection by the target vendor community. This increased risk could negatively impact the department's ability to economically obtain the needed quality and level of service.

## Continued use of non-contracted rural transporters

### BACKGROUND

An evaluation team from the OCME assesses a transporter's contract submission. Once the applicant meets all required criteria in the posted pre-qualification request document, the procurement unit completes the actual contract for signing by the department's and applicant's representatives. Submissions with shortcomings are returned and will be processed further only once the applicant has made the necessary corrections.

The use of some non-contracted transporters in the normal course of business was to continue until enough vetted and qualified transporters were in place, since the OCME still needed the capability to have rural bodies transported to its Edmonton and Calgary facilities.

### RECOMMENDATION 2: DETERMINE WHEN CONTRACTED VENDORS WILL BE USED

We recommend that the Department of Justice and Solicitor General determine and include as part of its pre-qualification contract posting process:

- a date after which only vetted and contracted vendors are eligible to provide services in the normal course of business
- circumstances in which it may need to use non-contracted vendors

### CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have processes to ensure:

- all body transportation contracts are signed and vendors adhere to all terms and conditions
- it uses only contracted vendors for transporting bodies

<sup>16</sup> <http://vendor.purchasingconnection.ca/Opportunity.aspx?Guid=0BDEEF32-3AE7-464A-B7EF-9B4D2D318D00&>

<sup>17</sup> The department replaced these contracts with the revised second contract and its associated terms and conditions.

## OUR AUDIT FINDINGS

### KEY FINDINGS

- Two years after the department decided rural transporters needed to be under contract, just over 29 per cent of vendors the OCME continues to use for transports to its facilities have yet to apply to be vetted for a contract.
- The department did not determine a minimum number or appropriate geographical distribution of contracted rural transporters the OCME would need to effectively meet its regular day-to-day operational needs, nor how long it would take to achieve such a minimum.
- The contract posting did not include a date after which only pre-qualified contracted rural transporters would be used in the normal course of business. There is, therefore, reduced incentive for some transporters to apply for approval.
- The contract posting does not identify and set out circumstances when non-contracted vendors may still need to be used as required.

### Non-contracted transporters still used

As of April 2016, two years after deciding rural transporters needed to be under contract, the department had approved or signed contracts with 22 transporters. These 22 included five contracts signed with funeral home operators under the original March 2014 posting. An additional 26 transporters had submitted applications, which were in various stages of evaluation while the applicants corrected deficiencies.

The following chart shows the breakdown for the 51 businesses used by the OCME to transport deceased persons in rural Alberta to its facilities in the fiscal year 2015–2016.<sup>18</sup>

### Rural Transporters Used



<sup>18</sup> This number only takes into account transporters contacted by OCME investigators to bring bodies to the Edmonton and Calgary facilities. After the OCME is finished its investigation, families may choose to make their own arrangements for transportation of the deceased, which may include using transporters not under contract with the OCME. Also, the totals in the chart shown for transporters used under contract or submitted applications are not the same as those shown as of April 2016, since vendors are only used as needed.

### No cut-off date identified in the contract posting

One reason some vendors have not submitted applications is that the department permits the OCME to continue using them for transports to its facilities in the normal course of business, whether or not they are under contract.

There is nothing in the contract posting on the Alberta Purchasing Connection website stating that after a specific date, the OCME will use only pre-qualified and contracted vendors in the normal course of business for rural body transports. The only timelines set out in the posting are in the schedule of events. These are:

- an evaluation of an applicant's initial submission will be completed within two weeks of it being received
- notification of conditional acceptance of submission to be made one week after the response is evaluated

The department did not determine a minimum number of contracted rural transporters the OCME would need to effectively meet its day-to-day regular operational needs, nor how long it would take to achieve such a minimum. One way to help determine a minimum is through a business case, with an appropriate risk assessment and mitigation plan component, as referenced in Appendix C.

Without the department determining and including in its contract posting a date after which the OCME will only use pre-qualified and contracted rural transporters in the normal course of business, there is reduced incentive for transporters to seek to become approved.

### Identify circumstances when non-contracted vendors may be used

There may be circumstances, such as a mass fatality or a body requiring transport from an isolated rural location, when the OCME may be unable to use only contracted vendors. The department should clearly identify in the contract posting what these circumstances are and articulate they are acceptable exceptions to the use of contracted vendors. The current posting does not address this.

### IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED

By continuing to use non-contracted transporters in the normal course of business and not identifying circumstances in which they may appropriately be used, the department may be putting itself at increased risk.



## CRITERIA FOR REPORTING AND INVESTIGATION OF DEATHS AS SET OUT IN THE FATALITY INQUIRIES ACT

Fatality Inquiries Act  
RSA 2000 – Chapter F-9

### Reporting of deaths as required by the Act

#### Deaths that require notification

##### Section 10

(1) Any person having knowledge or reason to believe that a person has died under any of the circumstances referred to in Subsection (2) or Section 11, 12 or 13 shall immediately notify a medical examiner or an investigator.

(2) Deaths that occur under any of the following circumstances require notification under Subsection (1):

- (a) deaths that occur unexplainably;
- (b) deaths that occur unexpectedly when the deceased was in apparent good health;
- (c) deaths that occur as the result of violence, accident or suicide;
- (d) maternal deaths that occur during or following pregnancy and that might reasonably be related to pregnancy;
- (e) deaths that may have occurred as the result of improper or negligent treatment by any person;
- (f) deaths that occur
  - (i) during an operative procedure,
  - (ii) within 10 days after an operative procedure,
  - (iii) while under anesthesia, or
  - (iv) any time after anesthesia and that may reasonably be attributed to that anesthesia;
- (g) deaths that are the result of poisoning;
- (h) deaths that occur while the deceased person was not under the care of a physician;
- (i) deaths that occur while the deceased person was in the custody of a peace officer or as a result of the use of force by a peace officer while on duty;
- (j) deaths that are due to
  - (i) any disease or ill-health contracted or incurred by the deceased,
  - (ii) any injury sustained by the deceased, or
  - (iii) any toxic substance introduced into the deceased, as a direct result of the deceased's employment or occupation or in the course of one or more of the deceased's former employments or occupations.

RSA 1980 cF-6 s10;1984 c9 s1;1991 c21 s9;1999 c26 s9

**Notification of death of a prisoner****Section 11**

If a person dies while

- (a) detained in a correctional institution as defined in the *Corrections Act* or a jail, including a military guard room, remand centre, penitentiary, secure services facility as defined in the *Child, Youth and Family Enhancement Act*, facility or place designated as a place of open or secure custody pursuant to the *Youth Criminal Justice Act* (Canada), detention centre or a place where a person is held under a warrant of a judge,
  - (b) a formal patient in any facility as defined by the *Mental Health Act*, or
  - (c) an inmate or patient in any institution specified in the regulations, the person in charge of that institution, jail, facility or other place shall immediately notify a medical examiner.
- RSA 2000 cF-9 s11; 2003 c16 s117; 2003 c41 s4(32)

**Notification of death of prisoner not in custody****Section 12**

If a person dies while

- (a) committed to a correctional institution as defined in the *Corrections Act* or a jail, including a military guard room, remand centre, penitentiary, secure services facility as defined in the *Child, Youth and Family Enhancement Act*, facility or place designated as a place of open or secure custody pursuant to the *Youth Criminal Justice Act* (Canada), detention centre or a place where a person is held under a warrant of a judge,
  - (b) a formal patient in any facility as defined by the *Mental Health Act*, or
  - (c) an inmate or patient in any institution specified in the regulations, but while not on the premises or in actual custody of that facility or institution, jail or other place, the person in charge of that facility or institution, jail or other place, shall, immediately on receiving notice of the death, notify a medical examiner.
- RSA 2000 cF-9 s12; 2003 c16 s117; 2003 c41 s4(32)

**Notification of death of child****Section 13**

A director under the *Child, Youth and Family Enhancement Act* shall immediately notify a medical examiner of the death of any child under the director's guardianship or in the director's custody.

RSA 2000 cF-9 s13; 2003 c16 s117

## Death investigations

### Duties of medical examiner

#### Section 19

(1) If a medical examiner receives notification of a death and is satisfied that the death occurred under any of the circumstances referred to in Section 10, 11, 12, 13 or 17, the medical examiner shall investigate the death and establish where possible

- (a) the identity of the deceased,
- (b) the date, time and place of death,
- (c) the circumstances under which the death occurred,
- (d) the cause of death, and
- (e) the manner of death.

(1.1) Where the Minister makes an order under Section 14.1, the Chief Medical Examiner shall, in investigating the death, establish, where possible, the matters set out in Subsection (1).

(2) Notwithstanding Subsection (1), when a medical examiner is unable to investigate a death of which the medical examiner receives notification, the medical examiner shall

- (a) notify another medical examiner if the death occurred under any of the circumstances referred to in Section 10, 11, 12, 13 or 17, and
- (b) keep a record of the death including the reasons why the death was not investigated by the medical examiner.

(3) A medical examiner shall keep a record of all deaths of which the medical examiner is notified pursuant to this Act or the *Vital Statistics Act* and shall immediately report to the Chief Medical Examiner all investigations that the medical examiner or an investigator under the medical examiner's supervision make into a death.

(4) When a medical examiner has investigated a death and has determined the manner of death and the cause of death, the medical examiner shall immediately, in addition to making a report under Subsection (3) complete a medical certificate of death in accordance with the *Vital Statistics Act*.

(5) Notwithstanding Subsection (1), a medical examiner is not required to investigate a death that occurred through natural causes or in the circumstances described in Section 10(2)(f)(i) or (ii) if

- (a) a physician is able to certify the information in Subsection (6)(a) to (e), and
- (b) the medical examiner is satisfied that an investigation is not required.

(6) A medical examiner who does not investigate a death under Subsection (5) shall, based on information provided by the physician, record

- (a) the identity of the deceased;
- (b) the date, time and place of death;
- (c) the circumstances under which the death occurred;
- (d) the cause of death;
- (e) the manner of death;
- (f) the name of the physician who provided the information.

(7) If a medical examiner does not conduct an investigation under Subsection (5), the physician is authorized to complete and sign the medical certificate of death referred to in Section 33 of the *Vital Statistics Act*.

RSA 2000 cF-9 s19;2005 c11 s3;2007 cV-4.1 s83

#### **Investigation or autopsy**

##### **Section 20**

The Chief Medical Examiner may at any time

- (a) direct a medical examiner to make an investigation into any death at any place in Alberta, or
- (b) authorize an autopsy of the body of any person who died under the circumstances described in Section 10, 11, 12 or 13.

RSA 1980 cF-6 s21

## SCHEDULE OF FEES FOR BODY TRANSPORTATION AS SET OUT IN FATALITY INQUIRIES REGULATION

### Schedule Fees

#### Section 3

(1) The fee payable to a person who transports a body is up to \$300 per vehicle for the first 20 kilometres and up to \$1.13 a kilometre thereafter for transportation and attendant services.

(2) In addition to the fees payable under Subsection (1), a person who transports a body that is in an infested, putrid or dismembered state may be paid up to \$26 in respect of that body.

(3) Where authorized in writing by a medical examiner or an investigator, a fee for waiting time in excess of one hour may be paid at a rate of up to \$41 per hour for the 2nd, 3rd and 4th hours to a person who transports a body.

(4) No fee is payable with respect to waiting time in excess of 4 hours.

(5) A person who transports more than one body in a vehicle must, in addition to the fees prescribed in Subsection (1), be paid a fee of \$41 for each additional body transported in the vehicle, but in that case the person may not be paid any fees under Subsections (2) and (3) for each additional body transported.

(6) If the autopsy or examination is performed at a place other than where the death occurred, payment per kilometre for transporting the body may only be made in respect of transporting the body

(a) from the place where the death occurred to the place where the autopsy or examination is performed, and

(b) from the place where the autopsy or examination is performed back to the place where the death occurred.



## INFORMATION THAT SHOULD HAVE BEEN INCLUDED BY THE OFFICE OF THE CHIEF MEDICAL EXAMINER IN A BUSINESS CASE

### Information that should have been included in a business case

The OCME did not provide a business case in its request for a contract with transporters. As set out in the Government of Alberta's Procurement Accountability Framework Manual,<sup>19</sup> a business case for a contract should include:

- a clear description of the need for the contract
- evidence of stakeholder consultation
- risk assessment and mitigation plans
- a financial analysis

### Clear description of the need for a contract

Two of the OCME's primary reasons for a contract were to:

- establish service standards following complaints about the behaviour of some companies' employees when attending the scene of a death
- define what constituted a transport route and how often businesses could charge the fixed initial fee throughout a transportation

However, the OCME did not document any details of these alleged complaints or what remedial action it had taken with specific transporters. It also had no documented examples of invoices where it and the transporter disagreed about the billing, or any financial analysis to show how these practices were impacting its budget.

### Stakeholder consultation

The OCME did not meet with or seek feedback from the business community before developing the terms and conditions of service it put in the first contract and did not document its reasons why. The Accountability Framework Manual leaves it to the discretion of the program area to decide whether to do this; however, consultation with transporters would have helped the OCME and the department assess how resistant rural transporters were to formalizing a long-standing informal business relationship.

The OCME was proposing to significantly change the engagement process and introduce mandatory terms and conditions of service, including how it would define and pay for transport. The changes were to include specific stipulations as to:

- condition, type and age of vehicles
- on-scene responder dress
- specifying certain prohibited activities
- requirements for employee criminal records checks

Meeting some of these requirements would require new up front costs for businesses to be able to qualify for and sign a contract, even though the contract offered no guarantee of work.

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<sup>19</sup> The manual has an entire appendix devoted to business case development and content guidelines, although it does not specify when to create a business case.

### Risk assessment and mitigation plans

The OCME did not evaluate how feasible alternative transport strategies would be if it could not get enough qualified, contracted transporters in some rural regions. One alternative available to the OCME was to use its existing contracted urban transport company. However, each alternative would have its own risks that would need assessing, including:

- how much longer it would take a non-local transporter to arrive and remove a body from a scene, and what increased costs there would be to the OCME if alternative transporters had to travel longer distances or incorporate more round trips into an engagement (no associated costing models were prepared)
- how much longer other first responders, such as police and fire crews, would have to wait on-scene

### Financial analysis

The OCME did not prepare any financial analysis to show how existing transporter billing practices were negatively impacting its budget, what savings it would get from the new contract or any costing models associated to alternative transport strategies.



# Stand-alone Systems Auditing — Follow-up Audits

**REPORT OF THE AUDITOR GENERAL OF ALBERTA**

July 2016



# Labour—Evaluating Occupational Health and Safety Systems Follow-up

## SUMMARY

Virtually all occupational injuries, diseases and fatalities are preventable. The *Occupational Health and Safety Act, Regulation and Code* exist to help employers in Alberta minimize occupational hazards at work. The Department of Labour is responsible for implementing occupational health and safety policies.

The Act requires employers to reasonably ensure the health and safety of workers and make workers aware of their responsibilities and duties. The department works with employers to deliver various occupational health and safety (OHS) programs to promote, monitor and enforce laws. The department is also responsible for setting goals and objectives for its programs, analyzing them to ensure they achieve the desired results, and reporting those results to the minister.

The department spent about \$42 million on OHS programs in fiscal 2016 and plans to spend \$47 million in fiscal 2017. If the department does not regularly evaluate, analyze and report on its OHS programs, the Minister of Labour cannot provide effective oversight or assure Albertans that OHS programs are achieving desired results and providing value.

## What we examined

We followed up for a second time on three outstanding recommendations from our April 2010 report,<sup>1</sup> in which we reported on how the department promotes, monitors, enforces and reports on its OHS goals and objectives. The outstanding recommendations were that the department:

- promote and enforce compliance with the law
- evaluate and report on whether its programs achieve the desired results
- obtain assurance over the work of auditors who issue certificates of recognition

## Overall conclusion

In the six years since our original audit, the department has made a number of recommended improvements to OHS systems. However, the department has still not fully implemented process improvements to enforce compliance for all OHS orders issued, and to evaluate and report on OHS program results analysis compared to desired results. The department is unable to demonstrate, with evidence, that it has a complete set of processes to apply department policies to keep Alberta's workers safe.

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<sup>1</sup> *Report of the Auditor General of Alberta—April 2010*, pages 31–52. Three recommendations repeated in the *Report of the Auditor General of Alberta—July 2012*, pages 81–90.

## What we found

The department has:

- obtained assurance that certificates of recognition<sup>2</sup> (CORs) are properly issued and maintained
- implemented controls over the quality of data in its computer system
- improved its processes to identify high-risk employers
- started issuing fines, tickets and administrative penalties to employers and workers who continue to break the law

The department does not regularly evaluate and report whether the programs it uses to improve worksite health and safety achieve set goals and objectives. The department has abandoned multiple attempts to complete a Work Safe Alberta strategy. The department will instead use the work previously completed on the strategy to guide the development of workplace health and safety programs. The lack of evaluation and reporting on OHS programs means the Minister of Labour cannot assure Albertans that programs are achieving desired results and providing value to Albertans.

The department lacks effective systems to document required managerial approval to give employers additional time to fix worksite problems. Some department staff provided employers with multiple time extensions to fix problems, contrary to departmental operating procedures.

## Why this is important to Albertans

The impact of workplace injuries, illnesses and fatalities reaches well beyond workers and their families and leads to broader negative economic and social consequences, which include:

- workers losing their level of income and health, and sometimes their lives
- employers facing costs such as legal expenses, additional hiring and training costs, loss of productivity and Workers' Compensation Board premium increases
- the healthcare system ultimately funding and treating unreported injuries and diseases
- pressures on government resources to inspect, investigate and prosecute

## AUDIT OBJECTIVE AND SCOPE

Our objective was to determine if the department implemented the three outstanding recommendations from our 2010 audit to improve its systems to promote, monitor, enforce and report on OHS goals and objectives.

We conducted our field work between May 1, 2015 and March 14, 2016. We substantially completed our audit on April 14, 2016. We conducted our audit in accordance with the *Auditor General Act* and the standards for assurance engagements set by the CPA Canada Handbook—Assurance.

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<sup>2</sup> A certificate of recognition is a voluntary program where employers with appropriate health and safety programs can receive WCB rebates of up to 20 per cent.

## FINDINGS AND RECOMMENDATIONS

### Improve health and safety program planning and reporting—repeated

#### BACKGROUND

In our April 2010<sup>3</sup> and July 2012<sup>4</sup> reports we recommended that the department improve its planning and reporting systems for occupational health and safety by:

- obtaining data on chronic injuries and diseases to identify potential occupational health and safety risks
- completing the current update of the Work Safe Alberta Strategic Plan
- measuring and reporting the performance of occupational health and safety programs and initiatives that support key themes of the strategic plan

Our 2012 follow-up audit found:

- the department had still not developed a final Work Safe Alberta strategic plan
- the department had just initiated projects to obtain data on chronic injuries and diseases to report on the effectiveness of key OHS programs and initiatives

We repeat our recommendation as the department has still not implemented planning and reporting systems to measure the effectiveness of OHS program goals and objectives compared to desired results.

We focused our first two audits on the department's plans and expectations on implementing and communicating publicly a Work Safe Alberta strategic plan. As the department is no longer proceeding with that plan, we modified our repeated recommendation to remove specific reference to it.

#### **RECOMMENDATION 3: IMPROVE PLANNING AND REPORTING—REPEATED FROM 2010**

We again recommend that the Department of Labour improve its planning and reporting systems for occupational health and safety by evaluating and reporting on whether key OHS programs and initiatives achieve the desired results.

#### CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should monitor, measure and report on its progress against OHS program goals and objectives, and assess the cost effectiveness of programs. To achieve this, the department should:

- obtain and analyze data to identify OHS risks, including a process to collaborate with other provincial and national OHS stakeholders
- measure and report on its progress in achieving its goals and objectives

#### OUR AUDIT FINDINGS

##### KEY FINDING

The department has identified key programs it will use to meet its goals and objectives, but it has not yet evaluated and reported whether those programs effectively achieve desired results.

The department developed Work Safe Alberta strategies for 2009–2012 and 2011–2014 and updated the strategy again in 2015. The strategy was to identify the department's OHS initiatives and its plans to report on how it is achieving them. No version of the strategy received minister approval.

<sup>3</sup> Report of the Auditor General of Alberta—April 2010, page 43.

<sup>4</sup> Report of the Auditor General of Alberta—July 2012, page 87.

The department indicated in 2016 that it would not proceed with a public release of the Work Safe Alberta strategy. The department will instead use the work previously completed on the strategy to guide the development of workplace health and safety programs.

Prior to 2015, the department met with more than one thousand Albertans throughout the province to identify workplace risks and needs. The department also communicated with other groups affected by OHS such as industry and employer groups, the Workers' Compensation Board and other governments.

Having safe, fair and healthy workplaces is one of the department's five desired outcomes in its 2015–2018 business plan. The department's publicly posted business plan identifies seven priority initiatives and three performance measures to help achieve the outcome.

The performance measures are:

- reducing the lost-time claim rate<sup>5</sup>
- reducing the disabling injury rate<sup>6</sup>
- percentage of employed Albertans who perceive Alberta workplaces are safe

The department's internal Occupational Health and Safety Joint Strategic Plan also identifies six internal goals to achieve the occupational health and safety vision of "healthy and safe is how Alberta works."<sup>7</sup>

The department identified 10 key programs to achieve its vision, goals and objectives. However, the department has not yet clearly defined how it will regularly evaluate and report whether its programs achieved the desired results.

The department does some internal reporting on OHS programs or achieving specific parts of programs. However, only some of this information is published publicly. The department also annually reports on the achievement of reducing the lost-time claim rate, the disabling injury rate and the perception of Alberta as a safe workplace.

Three of the 10 OHS programs began in 2015 and therefore did not yet have annual evaluations. Two programs met specific objectives, such as reviewing and updating the *Occupational Health and Safety Regulation or Code*.

The remaining programs had defined goals or objectives to achieve. But the department did not analyze them using relevant performance measures and overall did not report to senior management or Albertans whether the programs were:

- effective in achieving the desired outcomes
- providing value for the money spent

## **IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED**

Without appropriate and timely planning, performance measurement and reporting, the department cannot demonstrate that it achieves its objectives effectively and efficiently.

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<sup>5</sup> Number of lost-time claims per 100 person-years worked.

<sup>6</sup> Number of disabling injuries per 100 person-years worked.

<sup>7</sup> Occupational Health and Safety Joint Strategic Plan May 2015.

## Promoting and enforcing compliance—repeated

### BACKGROUND

In our April 2010<sup>8</sup> report we recommended that the department ensure employers and workers comply with the *Occupational Health and Safety Act*, particularly those who were repeat offenders. In our July 2012<sup>9</sup> follow-up audit we re-emphasized that the department should enforce compliance with the law by high-risk employers and workers.

In our 2012 report we found the department:

- had implemented a new inspection reporting system, but some of the data was inaccurate and some approvals not documented
- had developed a policy to identify COR employers with poor health and safety systems, but did not implement the policy consistently
- had developed an escalating compliance policy, but had not sufficiently defined high-risk employers and workers
- was pursuing administrative penalties and fines for high-risk employers and workers

The department is responsible for implementing the government's occupational health and safety policy. The department's Occupational Health and Safety branch enforces compliance with provincial legislation through education, worksite inspections and other enforcement measures. OHS also works with industry to help prevent work-related injuries, illnesses and fatalities. The Alberta Workers' Compensation Board administers compensation programs and helps workers return to the workplace.

The department uses OHS officers to visit worksites throughout Alberta to promote and enforce workplace health and safety. When an OHS officer sees employers or workers not following the *Occupational Health and Safety Act, Regulation or Code*, the officer issues a compliance order.<sup>10</sup> Violations that are more serious result in a stop-work or stop-use order. Requirements for the three types of orders are defined in Sections 9, 10 and 11 of the *Occupational Health and Safety Act*.

The department fulfilled most of the requirements needed to implement the recommendation. However, we are repeating the recommendation specific to the department's processes to approve time extensions for employers to fix safety violations specified in compliance orders issued by the department. These processes are still not effective and occasionally do not follow department policy.

### RECOMMENDATION 4: ENFORCE COMPLIANCE—REPEATED FROM 2010

We again recommend that the Department of Labour clarify and enforce its procedures to approve giving employers extra time to fix worksite health and safety problems.

### CRITERIA: THE STANDARDS FOR OUR AUDIT

The department should have clear procedures for OHS officers when they give employers and workers extra time to fix worksite health and safety problems, specifically:

- obtaining and documenting a manager's approval
- documenting the number of times an extension can be given
- ensuring extensions are given only when necessary

<sup>8</sup> *Report of the Auditor General of Alberta—April 2010*, page 39.

<sup>9</sup> *Report of the Auditor General of Alberta—July 2012*, page 83.

<sup>10</sup> <https://work.alberta.ca/occupational-health-safety/compliance-orders.html>

## OUR AUDIT FINDINGS

### KEY FINDINGS

- The department implemented processes to improve the accuracy of data used in enforcement, training of officers, identification of employers with poor health and safety records, defining high-risk employers and performing employer reviews, and fining and penalizing OHS standard violators.
- The department still lacks effective processes to document manager approval of time extensions for employers to remediate compliance orders.
- Officers documented time extensions on stop-work and stop-use orders when none were required.

### Documenting a manager's approval

Department officers issue compliance orders under Section 9 of the *Occupational Health and Safety Act*. Compliance orders cite worksite problems such as inadequate health and safety program documentation or a lack of proper labelling of hazardous products.

The department's operating procedures are clear in allowing officers to give employers an initial 30-day period to fix a problem in a compliance order and an additional 30-day extension, to a maximum of 60 days, with a manager's approval. However, the operating procedures do not mandate how the officer should request or document that approval.

The department informed us that officers seek managerial approval for extensions. However, the documentation provided by the department lacked information on managerial approval for the majority of the second 30-day extensions. Documenting approval is a best practice to verify the procedure occurred. For the documented approvals we examined, the OHS officer and not the manager inputted the notes in the inspection reporting system about the manager's approval. Therefore, we could not confirm the authenticity of the approvals.

The department's quality training and operations unit implemented a new training program for OHS officers. As of 2016, OHS officers undergo training about the need for obtaining and documenting a manager's approval to give employers an additional 30 days to fix a problem. However, as of March 2016, the operating procedures still did not indicate managerial approval must be documented, how that approval should be documented or who should document it.

### Stop-use and stop-work orders

Department officers issue a stop-work order under Section 10 of the *Occupational Health and Safety Act* when work is being done in an unhealthy or unsafe way. Officers issue a stop-use order under Section 11 of the *Occupational Health and Safety Act* when the use of a piece of equipment or tool is unsafe or being used in a way that may seriously injure an employee.

Safety violations specified in stop-use or stop-work orders must be fixed before the equipment can be used or work on the site can resume. OHS officers tag and monitor equipment or close worksites to ensure work does not continue in unsafe conditions.

OHS officers record the date that stop-work and stop-use orders are issued in the inspection reporting system. A stop-use or stop-work order remains in place until the employer demonstrates the equipment or worksite is safe and workers are not in danger. Therefore, there is no need to document a future date of compliance, or to use a time extension to fix the problem.

However, in the documentation the department provided, we found instances where stop-work and stop-use orders had time extensions unnecessarily entered in the compliance management information system. After discussing our findings with the department, the quality training and operations unit updated future OHS officer training to clarify proper documentation of stop-work and stop-use orders in the system.

## **Process improvements implemented by the department**

### **Three initiatives**

In our 2012 follow-up audit the department informed us it planned three projects to help implement the recommendation. Our current follow-up audit confirmed the department had implemented:

- a quality and training operations group
- effective systems to identify high-risk employers and workers
- effective systems to identify problems at worksites and to issue tickets, fines and administrative penalties

### **Inspection reporting systems**

The department's quality, training and operations unit created a quality assurance team in October 2014. The quality assurance team implemented new systems and processes to help ensure the data in the department's inspection reporting system used for compliance is complete and accurate.

The team implemented validation controls over data entering the computer system and conducted ongoing technical reviews of data and reports in the system. The quality, training and operations unit also developed new operational procedures for ongoing training for OHS officers to communicate the changes to, and improve the use of, the inspection reporting system.

We observed the new controls and tested the ongoing technical reviews the department uses to ensure the data in the inspection reporting system is complete and accurate. We also observed the processes the department uses to obtain data from the WCB, ensure it is accurate and combine it with its own data to create the OHS index. We found the department's systems and controls reasonably ensured the data in its inspection reporting system was complete and accurate.

### **Systems to identify high-risk employers and workers**

The department improved its systems and processes to identify employers and workers with poor health and safety records.

We assessed the processes and controls the department uses to ensure the data in the inspection reporting system is complete and accurate. We also assessed the processes the department uses to obtain worker incident data from the WCB and to combine the data with its own records of worksite inspections.

We also found the processes the department used to ensure it had complete and accurate data to identify high-risk employers worked reasonably. The improvement over the accuracy and completeness of data in its computer systems allowed the department to improve the criteria and measures it uses to create its OHS index. The OHS index identifies high-risk employers and workers who do not comply with the law, or have above average worksite problems and incidents over four-year periods.

The OHS index also identifies the employers and workers at a higher risk in different categories and industries. The department uses these indexes to put employers into proactive programs to prevent incidents before they happen or to conduct reviews of employers holding a certificate of recognition.

### **Proactive programs and employer reviews**

The department has multiple proactive programs to help higher-risk employers implement new or improve existing health and safety programs. Proactive employer programs are not optional and help promote health and safety in the workplace before additional or more serious incidents happen.

Employers that hold certificates of recognition and have had above average numbers of serious workplace related incidents go through an employer review process to identify and fix deficiencies in their health and safety management systems. In 2012 we found that this process was backlogged and that some employers had their WCB certificate of recognition rebates reinstated before their action plans to fix their deficiencies were completed and approved.

We confirmed that the employer review process is more effective and the backlog has been eliminated. We found the department regularly runs the OHS index to identify employers for the review process and that the process starts within a reasonable time after identification. The department also provided documentation showing that it now notifies the WCB monthly of all employers from which it needs to withhold rebates.

### **Tickets, fines and administrative penalties**

In June 2013 the *Alberta Provincial Offences Procedure Regulations* were updated. The updated regulations gave OHS officers the authority to issue tickets at a worksite for prescribed occupational health and safety Regulation and Code violations.

The department provided documentation for all of the tickets its officers handed out at worksites since the start of the program in January 2014. We walked through the process with the department. We found OHS officers issued tickets consistently over the period and in accordance with the ticketing policy.

The department also provided us with data from its inspection reporting system of all stop-work, stop-use and regular orders given to employers. The *Administrative Penalty Regulation* was updated in October 2013 to allow OHS officers to give administrative penalties to employers with multiple OHS compliance orders. We reviewed the criteria for giving an administrative penalty.<sup>11</sup> We found that any employer that met the criteria of having three or more stop-work or stop-use orders in the prior year received an administrative penalty.

## **IMPLICATIONS AND RISKS IF RECOMMENDATION NOT IMPLEMENTED**

Without adequate systems to enforce compliance with occupational health and safety legislation for those employers and workers who persistently fail to comply, the health and safety of workers continue to be exposed to otherwise avoidable risks. Employers who choose not to comply with OHS orders may gain an unfair advantage over employers who spend the time and resources to deal with and avoid contraventions.

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<sup>11</sup> Section 40.3 of the *Occupational Health and Safety Act* provides for the issuance of administrative penalties for contraventions of the Act, Regulation or Code and of orders, acceptances or approvals issued under the Act.

## Certificate of recognition—implemented

### BACKGROUND

In our April 2010 report<sup>12</sup> we recommended that the department improve its systems to issue certificates of recognition<sup>13</sup> by:

- obtaining assurance on audit work done by COR auditors working for certifying partners
- consistently following up on recommendations the department made to certifying partners

In our 2012 follow-up audit we found the department had followed up on its recommendations to certifying partners, but it had not yet implemented quality reviews of COR auditors' work.<sup>14</sup>

The department's Partnerships in Injury Reduction unit works with 13 certifying partners<sup>15</sup> that issue certificates of recognition. The certifying partners train and certify auditors, who then conduct audits of an employer's occupational health and safety management system at the employer's worksite. The auditor determines whether the employer's health and safety management system meets the partnership's standards for certification, thereby qualifying the employer to hold a COR.

The department uses the voluntary COR program to help promote and support OHS goals for safe, fair and healthy workplaces. Employers that hold a COR and implement and maintain approved health and safety programs are eligible for WCB rebates of up to 20 per cent of their annual premiums. For 2014, as a group, COR holders had a 35.8 per cent lower loss ratio than non-COR holders, as measured by WCB.<sup>16</sup> The department is responsible for ensuring the certifying auditors follow partnership standards to issue CORs to employers.

### OUR AUDIT FINDINGS

The department implemented this recommendation by implementing effective processes to obtain assurance over the audit work done by certifying partners to issue CORs.

The PIR unit worked with the certifying partners to develop, approve and implement terms of reference, policies, procedures and a code of ethics for an on-site audit review program. The on-site audit review program sanctions the department to review and ensure that the field work of auditors performing COR audits on behalf of certifying partners meets all OHS standards and requirements.

<sup>12</sup> *Report of the Auditor General of Alberta—April 2010*, page 48.

<sup>13</sup> The WCB issues CORs and applicable rebates to participating COR employers under the WCB's Partnership in Injury Reduction (PIR) program.

<sup>14</sup> *Report of the Auditor General of Alberta—July 2012*, page 89.

<sup>15</sup> Certifying partners are non-governmental organizations responsible for assessing COR employers' health and safety management systems.

<sup>16</sup> The WCB calculates a loss ratio annually. It compares the claims costs of a group of employers to the WCB premiums that they pay. As a group, COR holders consistently out-performed non-COR holders. This performance is especially significant as most COR holders operate in industries with greater risk than non-COR holders.

We obtained the lists of the COR audits conducted by the certifying partners and the on-site audit reviews conducted by the department for 2015. Through review of the documentation obtained, interviews with staff and walk-throughs of the department's processes, we found the department selected an appropriate number and variety of certifying partners, industries and auditors to review.

We selected a representative sample of the on-site audit reviews completed by the department.

Our testing of the samples found:

- the department followed its on-site audit review policies, procedures and code of ethics
- on-site audit reviews provided assurance and supported a conclusion on the work of auditors employed by the certifying partners
- the department followed up on recommendations it had made to certifying partners

# Transportation—Managing the Structural Safety of Bridges Follow-up

## SUMMARY

In 2012<sup>1</sup> we reported the results of our audit of the Department of Transportation's systems to manage the structural safety of bridges. We made nine recommendations to the department to improve processes related to inspection contracting, quality and frequency; contractor certification; bridge information system access; maintenance activity reporting; and capital planning submissions.

In 2015<sup>2</sup> we reported the results of our follow-up audit and concluded that the department had implemented seven of the recommendations, but we repeated two recommendations for the department to:

- improve processes to contract inspections to independent third parties
- improve processes to determine if contracting inspections is cost effective

In 2016 we did a follow-up on the two outstanding recommendations. As the follow-up focused on contracting, we neither examined nor found evidence of unsafe bridges when completing our audit procedures.

## Overall conclusion

The department implemented effective contracting processes to manage the structural safety of bridges. The department improved processes for contracting out bridge inspections and determining if contracting out inspections is cost effective.

## What we found

The department has implemented both repeated recommendations by:

- improving processes to contract inspections by formalizing improved criteria as to how proposals are scored and contracts are awarded
- developing and performing an analysis to determine if contracting out inspections is cost effective

## Why this is important to Albertans

The Department of Transportation is responsible for ensuring the safety of bridges across Alberta. Well-maintained bridges are necessary to ensure the safety of Albertans and protect their investment. Many of Alberta's major industries rely on the highway system to move goods.

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<sup>1</sup> *Report of the Auditor General of Alberta—October 2012*, pages 17–33.

<sup>2</sup> *Report of the Auditor General of Alberta—July 2015*, pages 97–105.

## AUDIT OBJECTIVE AND SCOPE

Our audit objective was to determine if the department had implemented our two remaining recommendations. To perform the audit, we:

- interviewed management to learn what actions they took in response to our recommendations
- examined the department’s processes for contracting inspections

We conducted our work from February 2016 to March 2016. We substantially completed our audit on May 13, 2016. Our audit was done in accordance with the *Auditor General Act* and the standards for assurance engagements as set out in the CPA Canada Handbook—Assurance.

## BACKGROUND

The department is responsible for building and maintaining provincial highways, including the approximately 4,400 bridge structures on the highway network. Bridge structures managed by the department consist of major bridges, standard bridges and culverts.<sup>3</sup> Bridges and culverts on local roads are generally the responsibility of municipalities.

The department has an inspection program to assess the condition of bridges to determine if maintenance is needed and if bridge structures should be rehabilitated or replaced. The department has two levels of bridge inspections.

LEVEL	DESCRIPTION
1	visual assessments of the bridge’s condition, using basic tools and equipment, performed on all bridges and culverts with a diameter of 1,500 mm or larger
2	in-depth inspections using specialized equipment, conducted on bridges with known structural defects or those in need of frequent monitoring due to age, design or traffic

The department outsources bridge inspections. All bridge inspectors must complete the department’s training and certification program. Two levels of certification are available: class A inspectors can inspect all bridges while class B inspectors can inspect only standard bridges and culverts. External specialists are required on level 2 inspections given the specialized equipment and examinations needed for the specific defects identified.

Contracts for level 1 inspections are for three years and include performing the inspections, reviewing the results for completeness and compliance with standards, and data entry. For the three-year period 2015–2018, the department will use four contractors at a total cost of approximately \$3.2 million.

<sup>3</sup> Major bridges are typically river crossings, highway interchanges or railway crossings built from site-specific drawings or standard girder drawings. Standard bridges are typically river crossings built from standard bridge design drawings and composed of standard precast girders with steel or concrete substructure elements and supported on steel or concrete piles. Culverts are metal or concrete cylindrical structures with a diameter of at least 1,500 mm, made to manage the water flows under roadways.

## FINDINGS

### **Contracting level 1 bridge inspections—implemented**

#### **BACKGROUND**

We made the original recommendation in 2012<sup>4</sup> because without a rigorous, fair and transparent contracting process, the department may not be obtaining the best services for the best price.

In 2015<sup>5</sup> we repeated our recommendation because we found the department did not:

- document how it selected criteria for assessing contract proposals
- establish how it awards points for each criteria requirement
- demonstrate that it had applied criteria consistently

#### **OUR AUDIT FINDINGS**

The department has implemented this recommendation. It has established specific criteria as to how points are awarded for each evaluation category for contract proposals. Each category now has its own subcategory, with the scoring guide providing clear guidance for each. There is guidance for marking high, middle and low scores. The points awarded for the past performance and current bid categories are based on past work performed by the contractors that the department has evaluated and a clear calculation based on the cost indicated in the contract bid. To prevent contractors from being excluded, first-time bidders are awarded the average score on the past performance category.

We conclude that the department's design improvements to this process are effective. The department, however, will not be able to apply these process improvements until its next level 1 bridge inspection contracting cycle begins in late fiscal 2018. We will assess the operating effectiveness of the process during our fiscal 2018 financial statement audit of the department.

### **Assessing whether to contract out inspections—implemented**

#### **BACKGROUND**

We made the original recommendation in 2012<sup>6</sup> because the department had not since 1997 made an assessment of the costs and benefits of contracting out bridge inspections to know if it was getting value for the money it spent on these services. In 2015,<sup>7</sup> we repeated our recommendation because the department had yet to complete an analysis.

#### **OUR AUDIT FINDINGS**

The department has implemented this recommendation. Department management completed an analysis in late 2015 assessing the cost effectiveness of outsourcing level 1 inspections. The analysis evaluates both quantitative and qualitative factors to reach a conclusion and includes relevant factors such as the risks and benefits, documented cost assumptions and consideration of the staffing costs. The analysis also includes consideration of other jurisdictions and how they approach bridge inspection activities. The department formalized the process by incorporating it into the annual bridge inspection report template for senior management.

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<sup>4</sup> *Report of the Auditor General of Alberta—October 2012*, no. 6, page 27.

<sup>5</sup> *Report of the Auditor General of Alberta—July 2015*, no. 10, page 99.

<sup>6</sup> *Report of the Auditor General of Alberta—October 2012*, no. 5, page 26.

<sup>7</sup> *Report of the Auditor General of Alberta—July 2015*, no. 11, page 101.

The department calculated that performing the inspections with internal staff would result in savings of approximately one million dollars over a three-year term when compared to outsourcing to external inspectors.<sup>8</sup> The department also considered risks and benefits of the two options including staffing, cost escalation, inspection errors, inspection standards, training, knowledge loss and sharing of work duties.

Considering both qualitative and quantitative factors, the department concluded that the historical policy of outsourcing bridge inspections requires further review. The department will conduct a detailed cost-benefit analysis when the current contract is approaching renewal. The department will also consider a pilot project involving one region to assess the impact of using internal staff. It will also examine anticipated market conditions for contract inputs in the year of renewal as these costs fluctuate annually. The outcome of the updated cost-benefit analysis and any pilot project will provide direction on the best method for the department to deliver the bridge inspection function.

We will examine the department's updated cost-benefit analysis as part of our department financial statement audit work prior to the next bridge inspection contracting cycle in 2018. As identified by the department, the time required to recruit and train internal staff may be significant. Consequently, we would anticipate that the department's conclusion on bridge inspection delivery will be required well in advance of 2018.

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<sup>8</sup> The analysis was completed using 2015 costs (Government of Alberta wage ranges for staffing costs, fuel costs for transportation to and from sites, and hotel costs for overnight stays).



# Glossary

**REPORT OF THE AUDITOR GENERAL OF ALBERTA**

July 2016



## GLOSSARY

**Accountability for results** The obligation to show continually improving results in the context of fair and agreed on expectations. For Albertans to receive value for money, all those who use public resources must:

- set and communicate measurable results and responsibilities
- plan what needs to be done to achieve results
- do the work and monitor progress
- report on results
- evaluate results and provide feedback (results analysis)



**Accrual basis of accounting** A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.

**Adverse auditor's opinion** An auditor's opinion that things audited do not meet the criteria that apply to them.

**Assurance** An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.

**Attest work, attest audit** Work an auditor does to express an opinion on the reliability of financial statements.

**Audit** An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

**Auditor** A person who examines systems and financial information.

## GLOSSARY

**Auditor's opinion** An auditor's written opinion on whether things audited meet the criteria that apply to them.

**Auditor's report** An auditor's written communication on the results of an audit.

**Business case** An assessment of a project's financial, social and economic impacts. A business case is a proposal that analyzes the costs, benefits and risks associated with the proposed investment, including reasonable alternatives.

**Capital asset** A long-term asset.

**COBIT** Abbreviation for Control Objectives for Information and Related Technology. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical matters, control needs and performance measurement requirements.

**COSO** Abbreviation for Committee of Sponsoring Organizations of the Treadway Commission. COSO is a joint initiative of five private sector organizations and is dedicated to development of frameworks and guidance on risk management, internal control and fraud deterrence.

**CPA Canada** Chartered Professional Accountants of Canada is the national professional accounting body established to support a unified Canadian accounting profession. It replaces the Canadian Institute of Chartered Accountants (CICA), the Society of Management Accountants of Canada (CMA Canada) and Certified General Accountants of Canada (CGA-Canada).

**Criteria** Reasonable and attainable standards of performance that auditors use to assess systems or information.

**Cross-ministry** A section of this report covering systems and problems that affect several ministries or the whole government.

**Crown** Government of Alberta.

**Deferred maintenance** Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.

**Disclosure of opinion** The auditors report they are unable to express an opinion on the subject matter because they have not been able to obtain evidence to determine the reliability of financial information, to evaluate compliance with laws or to report on the adequacy of management systems, controls and practices.

**Enterprise risk management (ERM)** The systems and processes within an organization used to identify and manage risks so it can achieve its goals and objectives. An ERM creates linkages between significant business risks and possible outcomes so that management can make informed decisions. An ERM framework helps organizations identify risks and opportunities, assess them for likelihood and magnitude of impact, and determine and monitor the organization's responses and actions to mitigate risk. A risk-based approach to managing an enterprise includes internal controls and strategic planning.

## GLOSSARY

**Enterprise resource planning (ERP)** ERP integrates and automates all data and processes of an organization into one comprehensive system. ERP may incorporate just a few processes, such as accounting and payroll, or may contain additional functions such as accounts payable, accounts receivable, purchasing, asset management, and/or other administrative processes. ERP achieves integration by running modules on standardized computer hardware with centralized databases used by all modules.

**Exception** Something that does not meet the criteria it should meet—see “Auditor’s opinion.”

**Expense** The cost of a thing over a specific time.

**IFRS** International Financial Reporting Standards (IFRS) are global accounting standards, adopted by the Accounting Standards Board of the Chartered Professional Accountants of Canada. They are required for government business enterprises for fiscal years beginning on or after January 1, 2011.

**GAAP** Abbreviation for “generally accepted accounting principles,” which are established by the Chartered Professional Accountants of Canada. GAAP are criteria for financial reporting.

**Governance** A process and structure that brings together capable people and relevant information to achieve results (the cost effective use of public resources).

**Government business enterprise** A commercial-type enterprise controlled by government. A government business enterprise primarily sells goods or services to individuals or organizations outside government, and is able to sustain its operations and meet its obligations from revenues received from sources outside government.

**Internal audit** A group of auditors within an organization that assesses and reports on the adequacy of the organization’s internal controls. The group typically reports its findings directly to the deputy minister or governing board. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources and effectiveness of operations.

**Internal control** A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization’s governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that:

- they understand the effectiveness and efficiency of operations
- internal and external reporting is reliable
- the organization is complying with laws, regulations and internal policies

**Management letter** Our letter to the management of an entity that we have audited. In the letter, we explain:

1. our work
2. our findings
3. our recommendation of what the entity should improve
4. the risks if the entity does not implement the recommendation

We also ask the entity to explain specifically how and when it will implement the recommendation.

**Material, materiality** Something important to decision makers.

## GLOSSARY

**Misstatement** A misrepresentation of financial information due to mistake, fraud or other irregularities.

**Outcomes** The results an organization tries to achieve based on its goals.

**Outputs** The goods and services an organization actually delivers to achieve outcomes. They show “how much” or “how many.”

**Oversight** The job of:

- being vigilant,
  - checking that processes/systems, including the accountability for results system, are working well, and
  - signaling preferred behaviour,
- all in the pursuit of desired results.

**Performance measure** Indicator of progress in achieving a desired result.

**Performance reporting** Reporting on financial and non-financial performance compared with plans.

**Performance target** The expected result for a performance measure.

**PSAB** Abbreviation for Public Sector Accounting Board, the body that sets public sector accounting standards.

**PSAS** Abbreviation for Public Sector Accounting Standards, which are applicable to federal, provincial, territorial and local governments.

**Qualified auditor’s opinion** An auditor’s opinion that things audited meet the criteria that apply to them, except for one or more specific areas—which cause the qualification.

**Recommendation** A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.

**Review** Reviews are different from audits in that the scope of a review is less than that of an audit and therefore the level of assurance is lower. A review consists primarily of inquiry, analytical procedures and discussion related to information supplied to the reviewer with the objective of assessing whether the information being reported on is plausible in relation to the criteria.

**Risk** Anything that impairs an organization’s ability to achieve its goals.

**Sample** A sample is a portion of a population. We use sampling to select items from a population. We perform audit tests on the sample items to obtain evidence and form a conclusion about the population as a whole. We use either statistical or judgmental selection of sample items, and we base our sample size, sample selection and evaluation of sample results on our judgment of risk, the nature of the items in the population and the specific audit objectives for which sampling is being used.

**Standards for systems audits** Systems audits are conducted in accordance with the assurance and value-for-money auditing standards established by the Chartered Professional Accountants of Canada.

**Systems (accounting)** A set of interrelated accounting control processes for revenue, spending, preservation or use of assets and determination of liabilities.

## GLOSSARY

**Systems (management)** A set of interrelated management control processes designed to achieve goals economically and efficiently.

**Systems audit** To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money. Paragraphs (d) and (e) of Subsection 19(2) of the *Auditor General Act* require us to report every case in which we observe that:

- an accounting system or management control system, including those designed to ensure economy and efficiency, was not in existence, or was inadequate or not complied with, or
- appropriate and reasonable procedures to measure and report on the effectiveness of programs were not established or complied with.

To meet this requirement, we do systems audits. Systems audits are conducted in accordance with the auditing standards established by the Chartered Professional Accountants of Canada. First, we develop criteria (the standards) that a system or procedure should meet. We always discuss our proposed criteria with management and try to gain their agreement to the criteria. Then we do our work to gather audit evidence. Next, we match our evidence to the criteria. If the audit evidence matches all the criteria, we conclude the system or procedure is operating properly. But if the evidence doesn't match all the criteria, we have an audit finding that leads us to recommend what the ministry or organization must do to ensure that the system or procedure will meet all the criteria. For example, if we have five criteria and a system meets three of them, the two unmet criteria lead to the recommendation. A systems audit should not be confused with assessing systems with a view to relying on them in an audit of financial statements.

**Unqualified auditor's opinion** An auditor's opinion that things audited meet the criteria that apply to them.

**Unqualified review engagement report** Although sufficient audit evidence has not been obtained to enable us to express an auditor's opinion, nothing has come to our attention that causes us to believe that the information being reported on is not, in all material respects, in accordance with appropriate criteria.

**Value for money** The concept underlying a systems audit is value for money. It is the "bottom line" for the public sector, analogous to profit in the private sector. The greater the value added by a government program, the more effective it is. The fewer resources used to create that value, the more economical or efficient the program is. "Value" in this context means the impact that the program is intended to achieve or promote on conditions such as public health, highway safety, crime, farm incomes, etc. To help improve the use of public resources, we audit and recommend improvements to systems designed to ensure value for money.







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