Annual Report of the Auditor General of Alberta

1999-2000

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

I have the honour to transmit herewith my Report to the Legislative Assembly for the fiscal year ended March 31, 2000, to be laid before the Legislative Assembly in accordance with the requirements of section 19(4) of the Auditor General Act.

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

[Original Signed by Peter Valentine]
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
October 3, 2000

Report For The Year Ended March 31, 2000

Purpose of Auditor General annual reports

The purpose of the Annual Report of the Auditor General is to report on the scope and findings of the work carried out by the Office of the Auditor General.

Annual Reports serve to assist legislators, in particular the Public Accounts Committee, in their work to hold the executive accountable for the management of public resources. For this reason, the Legislative Assembly provides resources to identify and report on those instances in which systems and business practices can be improved. By identifying opportunities and proposing solutions for the improved use of public resources, and by improving and adding credibility to performance reporting, including financial reporting, to Albertans, we assist government and public agencies in improving their performance.

Scope of work

The scope and extent of audit work completed for 1999-2000 and recommended improvements to the specific financial and management control systems examined by the Office are described in section 2 of this Report.

For every financial statement audited, I have issued an Auditor's Report. Section 3 provides information on those auditor's reports that contained reservations or disclosed transactions that do not comply with legislation.

As a consequence of our work, I am satisfied that those transactions and activities examined in financial statement audits complied, in all significant respects, with relevant legislative authorities, apart from the instances of non-compliance described in Section 3 of this Report. However, due to the test nature of our examinations, I must caution readers that it would be inappropriate to draw a conclusion with respect to the legislative compliance of all transactions entered into by government.

Recommendations

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

This report contains 95 recommendations. Of these, the 49 recommendations that I consider particularly important and therefore warrant a formal government response are numbered. Of the 49 numbered recommendations, 33 are new. The other 16 are designed to maintain focus on previous recommendations that have not yet been fully implemented. An Appendix at page 331, Status Report of Recommendations, contains information on previous recommendations.

Improving the Financial Administration of the Province

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

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

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

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

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

Setting measurable goals, and responsibilities, and planning what needs to be done to achieve goals

17 (1999—20) of our numbered recommendations are designed to assist managers by having them focus on developing the processes for business planning and performance measurement. This effort includes developing comprehensive, timely business plans, and establishing the performance measures that will be used in reporting their

results and in evaluating the performance of entities to which they have delegated work or authority.

Doing the work and monitoring progress

19 (1999—15) of our numbered recommendations have to do with day-to-day business practice, and the conversion of plans into operating reality. They range from dealing with real risks to seizing opportunities to deliver services more efficiently, and to taking advantage of opportunities to provide needed guidance.

Reporting on results

14 (1999—13) of our numbered recommendations relate directly to improving reporting on results. It is my job as Auditor General not only to add credibility to performance reporting, including financial reporting, but also to recommend improvements in that reporting.

Analysis of numbered recommendations

Description of Categories:

- **Gov.** Governance
- **1-2** Set measurable goals, and responsibilities, and plan what needs to be done to achieve goals (including arranging contracted work)
- **3** Do the work and monitor progress (including managing contracted work)
- **4** Report on results
- **CWA** Compliance with authorities

		Category				
Rec. #		**Gov.**	**1-2**	**3**	**4**	**CWA**
	Cross-Government					
1.	Core measures and targets		x			
2.	Linking goals to core businesses		x			
3.	Targets		x			
4.	Integrated Results Analysis				x	
	Agriculture, Food and Rural Development					
5.	Core Businesses		x			
6.	Computer Services Computer control environment - Agriculture Financial Services			x		
	Children's Services					
7.	Shared services support		x	x		
8.	Business practices and accounting policies			x	x	
9.	Expenditure forecasts		x			
10.	Year-end accounting processes				x	
11.	Business planning		x			
	Economic Development					
12.	Assets recorded as grants				x	
	Environment					
13.	Consistent Action Plans		x			
14.	Monitoring system for DAOs			x		

Rec. #		Category Gov.	1-2	3	4	CWA
	Gaming					
15.	Accountability for the Casino Gaming Terminal Racetrack Program	x				
16.	Accountability of the Alberta Racing Corporation	x				
	Health and Wellness					
17.	Accountability for the cost and quality of health services	x				
18.	Business planning for health		x			
19.	Reporting the cost of outputs				x	
20.	Reporting population health costs				x	
21.	Using information to improve funding systems			x		
22.	Accountability for we//net results	x				
23.	Reporting financial results				x	
	Human Resources and Employment					
24.	Skills development program			x		
	Infrastructure					
25.	Monitoring the Ministry's implementation of the Capital Planning Initiative strategies			x		
26.	Long-term capital asset plans for owned and supported facilities		x			
27.	Ministry Infrastructure Management Systems			x		
	Innovation and Science					
28.	Information Technology			x		
29.	IMAGIS			x		
	Justice					
30.	Fines and costs				x	
	Learning					
31.	Long-term capital planning		x			
32.	Institution budgets		x			
33.	Deferred Maintenance			x		
34.	Information in strategic and divisional plans - Athabasca University		x			
35.	Internal control systems – University of Alberta			x		
36.	Basis of Measurement for Budget - University of Alberta		x			
37.	Net Assets – University of Alberta		x			
38.	Project Proposals – University of Calgary			x		
39.	Governance and accountability – Academic Health Centres	x				
40.	Long-range capital plan – Grant MacEwan College		x			
	Resource Development					
41.	Risks associated with the Crown royalty crude oil marketing system			x		
	Treasury					
42.	Corporate government accounting policies			x	x	
43.	Cost allocation			x	x	
44.	Strategies to improve reporting throughout the year			x	x	
45.	Earmarked assets				x	
46.	Reporting performance information				x	
47.	Performance measurement for social and economic development programs within the tax collection system		x		x	
48.	Forecasting corporate income tax revenue			x		
49.	Strengthening Internal Controls – Alberta Treasury Branches			x		

Performance Reporting – process concerns

The consolidated financial statements of the Province and Measuring Up are contained in the annual report of the Government of Alberta. Measuring Up is a report on the actual performance of the government in relation to targets set out in its business plan. As the Auditor General of Alberta, I am responsible for examining the consolidated financial statements and Measuring Up. Prior to finalizing my auditor's reports, I discuss them, together with matters arising from the audit work, with the Province's Audit Committee in accordance with section 23 of the *Auditor General Act*.

1999-2000 Consolidated financial statements of the Province

Contrary to normal practice, the Province's annual consolidated results were released prior to their review by the Audit Committee

It has been customary for the Provincial Treasurer to publicly release the Province's annual consolidated results after completion of my audit and a review of the results by the Audit Committee. That changed for the 1999-2000 fiscal year since the Provincial Treasurer released the results on June 13, 2000, prior to the Provincial Audit Committee meeting on June 22, 2000. I can appreciate the Treasurer's desire to release the good news contained in the financial results to Albertans at an early date. However, an early release of financial results prior to the completion of the audit, and prior to the meeting of the Audit Committee, should be avoided. An early release bears the risk that the auditor may not agree with the publicly released results, especially when the audit is ongoing at the time of release.

1999-2000 Measuring Up

The Measuring Up report was revised significantly a few days before and subsequent to the Audit Committee meeting

For the first time since I have been reporting on Measuring Up, the Treasurer revised the report a few days before the Audit Committee meeting. A component of the Resource Sustainability measure, which reported on the extent to which the goal of prolonging the reserve life of oil and gas was achieved, and several supplemental charts that were presented in prior years were removed from the report without explanation. In addition, background information and results analysis included in the report was reduced. The revised Measuring Up report was reviewed at the Audit Committee meeting. On the next day, which was the day scheduled for the release of my Auditor's Report, the previously removed component of the Resource Sustainability measure was replaced with different performance information. As a result, my Auditor's Report included two exceptions related to the Resource Sustainability measure. I was unable to discuss these exceptions with the Audit Committee.

Effectiveness of the Audit Committee

Last minute changes to and early release of a performance report reduce the effectiveness of the Audit Committee

Last minute changes to and early release of a performance report reduce the effectiveness of the Audit Committee, of which the Provincial Treasurer is a member. The Committee was established to review matters that the Auditor General considers should be brought to its attention to enable it to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audits. Traditionally, Audit Committee meetings have provided an opportunity for the Provincial Treasurer, Treasury management, and the Auditor General to express their views on matters of importance, including those that impact performance results and disclosures, and to obtain the advice of Committee members. I have always valued the Committee's insight on matters of disagreement between my staff and management. A dispassionate point of view can often point a way forward.

Conclusion

On this occasion, I was able to confirm that the consolidated financial results, although released early, were in fact presented fairly in accordance with the disclosed basis of accounting. I am particularly concerned, however, that it was necessary for me to include exceptions in my Auditor's Report on Measuring Up without the opportunity of discussing them with the members of the Audit Committee.

The Full Potential of the *Government Accountability Act*

Last year, I noted that the Province was ready to move out of the development mode and into one of taking full advantage of Alberta's planning and reporting systems. This year, in the same vein, I want to draw attention to two critical elements of the accountability framework that remain unfulfilled:

- Audit of performance information
- Evaluating results and providing feedback

Audit of performance information

Performance measurement is an integral part of the accountability framework.

Performance measurement—both financial and non-financial—is an integral part of the government accountability framework. When it is published, performance information should be audited. The rendering of an audit opinion on performance information provides users with assurance that the information is fairly presented.

Strategy for moving to an audit

It has been the intention that the Auditor General would provide a high level of assurance on non-financial performance measures

Since the beginning, the intention of both my Office and the government has been that the Auditor General would, in due course, perform an audit and provide a high level of assurance on non-financial performance measures. Use of the term "high level of assurance" refers to the highest reasonable level of assurance a practitioner can provide. Absolute assurance is not attainable. The strategy has been to use a staged approach beginning with a number of specified auditing procedures and then progressing to an audit as soon as both government organizations and my Office are ready.

Systems to collect and report information on performance are maturing

A critical part of the strategy requires the government and its ministries to design and put into operation sound systems to collect and report information on performance. As these systems have matured, my staff have begun to assess their effectiveness since we intend to rely on them when providing assurance on publicly reported measures of performance.

Specified auditing procedures

We have performed certain auditing procedures on Measuring Up and on Ministry performance measures, however these procedures do not constitute an audit

In 1995, the Government of Alberta issued its first non-financial performance report, entitled Measuring Up. Since then, at the request of the Provincial Treasurer, my staff has been performing certain specified auditing procedures with respect to the core measures included in Measuring Up. These procedures, however, do not constitute an audit. In 1997, we also began performing specified auditing procedures on Ministry performance measures.

This year, I have issued an expanded specified auditing procedures report on the information in Measuring Up. This new report includes several new procedures, but taking all the procedures together, they still do not constitute an audit.

What is an audit of non-financial performance information?

A high level of assurance, in the form of an audit opinion, can be provided when the auditor has gathered sufficient evidence to state that the subject matter (performance information) is consistent in all significant respects with an appropriate set of criteria. Put another way, the auditor is saying to a reader that the information provided can be used with confidence to formulate a conclusion on the overall performance of the organization. The information can be used to make decisions and to assess stewardship.

Readiness of organizations for an audit

Readiness from an organization's point of view means that it is capable of producing performance reports that set out the results achieved in relation to the business plan. From a management perspective, being ready means having the key components of an integrated performance management process in place. These key components include having:

- articulated the mission of the organization
- announced its core businesses and goals
- determined the measures to assess performance
- set targets
- integrated the measures into the management systems used by the organization

Readiness to perform an audit

Readiness from the auditor's point of view to conduct an audit of a performance report requires that:

- An appropriate set of audit criteria is available to the auditor.
- Management of the organization is able to represent that the performance report is consistent with appropriate criteria.
- Audit procedures can provide the necessary evidence.
- The auditor has the skill and understanding required to identify risks of error, plan and conduct the work, and evaluate the evidence.
- The auditor can communicate the conclusions formed in a report to the readers.

Criteria for an audit

In the absence of generally accepted standards, appropriate criteria developed through consultation may be used

In the absence of generally accepted standards, appropriate criteria must be developed and used to evaluate the performance reports that are the subject of the audit. In the course of developing appropriate criteria, my staff and I have consulted with government and obtained advice from experts in the public and private sectors.

The criteria that follow are intended to be a framework both for the preparation and for the audit of non-financial performance information. The framework has criteria relating to the performance report as a whole and to the individual measures.

Criteria for the performance report as a whole

The criteria we have developed for auditing the performance report as a whole are:

- The performance report should include aggregate costs of outputs for all core businesses.
- The performance information should be unbiased.
- The performance report should focus on results and achievements and as far as possible explain the linkage between achievements and activities.
- The benefits of the performance information should be greater than the cost of producing the performance report.

Sufficient:

- The performance report should include sufficient information to provide an overall understanding of an entity's performance.
- Measures should report on performance relating to each of the organization's goals, which should exist for each of the organization's core businesses.

Criteria for the individual measures

The criteria we have developed for auditing the individual measures are:

Relevant:

- The measure should be logically related to the goal and represent the extent to which the goal has been achieved.
- The results measured should be attributable to the programs and/or strategies used.
- The measure should meet the needs of primary stakeholders to assess performance and make decisions.

Reliable:

- The information should be free of significant error.
- The information provided should faithfully report the performance that it purports to represent, or that which it can reasonably be expected to represent.
- The information should be verifiable.
- The information obtained from independent sources, such as Statistics Canada, should be credible.

Understandable:

- The information should be presented in a way that can be understood by users.
- The information should explain how it could be used and how it was compiled, and how the measures relate to the desired outcomes.

Comparable:

- The information should facilitate comparison with similar organizations and should include time series information to allow users to assess results from year to year and to targets.

Next steps

My Office is currently assessing the relevance and sufficiency of the performance information that will be reported in Measuring Up 2001

Assessing the relevance and sufficiency of performance measures is the most difficult challenge. My Office is currently assessing the relevance and sufficiency of the performance information that will be reported in Measuring Up 2001. In my view, this is a critical step to complete in order to determine whether the government and my Office are ready to execute an audit of Measuring Up. I will be discussing my conclusions on readiness with the government in the near future.

Readiness for an audit of Ministry performance measures contained in Ministry annual reports will take some more time. As an initial step, I am considering expanding the specified auditing procedures performed on Ministry performance measures for the year ended March 31, 2001.

Evaluating results and providing feedback

Results need to be analyzed to determine whether value was received for money spent

A fundamental principle of accountability is that results should be evaluated in relation to planned performance in order to determine whether desired outcomes were achieved, progress was made, and value was received for money spent. Evaluating results also provides information necessary to determine what needs to change, how changes should be made, and how to improve future plans.

Operating entity heads, ministers, Cabinet, and Members of the Legislative Assembly are all responsible for the evaluation of performance.

Evaluations performed by the Legislative Assembly are critical to the accountability relationship between the government and Albertans

Evaluations performed by operating entity heads, ministers, and Cabinet are important internal management tools. Evaluations performed by the Legislative Assembly are critical to the accountability relationship between the government and Albertans.

In my 1997-98 Annual Report, I pointed out that generally we had not yet attempted to assess the extent and quality of the evaluation of results as I expected the state of reporting to improve considerably, and thereby facilitate evaluation. Since then, we have continued to make recommendations to improve both the setting of expectations in business plans, and the reporting of results in annual reports.

Variances should be examined and guide subsequent planning

Last year, with fundamental systems in place, I encouraged government managers to show that they are using performance information in the management of their organizations. I stated that it is not good enough to just report the actual results alongside what was planned. Variances must be critically examined and explained and should be seen to guide the next round of planning.

Results analysis of most ministries did not discuss reasons for variances

This year, in the Cross-Government section of this Report, I have found it necessary to recommend that ministries improve the results analysis included in their annual reports by integrating the analysis of financial and non-financial performance. We have found that the results analyses of most ministries, made public in September 1999, did not discuss the reasons for variances between planned and actual performance and did not integrate financial and non-financial performance.

Analysis of results indicates how well the management of an organization has fulfilled its stewardship obligation

My recommendations on improving the analysis of results are addressed to government managers and deputy ministers who must evaluate their own organizations' performance in order to develop the next year's plans. However, their analysis of the degree to which performance targets were achieved and how strategies contributed to the achievement of goals assists MLAs and the public (those who provide resources and receive services) to evaluate how well the management of each organization has fulfilled its stewardship obligation. It also assists them in understanding the likelihood of each organization meeting future targets.

Full potential of the Government Accountability Act will only be realized once results are evaluated and acted upon

As I have said in the directly preceding commentary on the Audit of Performance Information, my Office is closer to being able to provide an audit opinion with a high level of assurance on the government's Measuring Up report. A high level of assurance on Ministry performance reported in their annual reports will follow in due course. At that point, all those who have an interest in evaluating government performance will be assured that the information presented to them is fair. In my opinion, if by then the evaluation of results and the provision of feedback has become a vigorous and continual part of public discourse in Alberta, we will be achieving the full potential of the *Government Accountability Act*—that of looking at what government provides as well as at what is spent.

Failure may need to be tolerated in order to move forward

To work, the system needs to tolerate failure. Those evaluating the performance of people and organizations need to recognize that, even with the best effort, targets may not always be met. Put another way, coupled with challenging targets is the need to recognize the risk that some targets will not be met. A fair evaluation of performance includes recognizing the effect of uncontrollable factors on the results achieved.

Accountability is the obligation to demonstrate improving results in the context of fair and agreed expectations

In my opinion, real accountability is the obligation to demonstrate continually improving results in the context of fair and agreed expectations. All those involved need to be realistic as to what can usefully be measured to achieve better results.

It is not too early for everyone in Alberta who has an interest in evaluating government results and providing feedback, to reflect on how they plan to advance their use of performance information.

Capital Asset Management

Last year I indicated that planning was the key to managing the investment in infrastructure

Planning is the key to managing Albertans' investment in Provincial infrastructure. This was the message in my commentary on capital asset management last year. I focused on the information required by those responsible for managing the Province's capital assets. The rigorous analysis of policy options that I called for is dependent on instructive capital asset planning systems.

My conclusion was that capital asset planning needs to shift from annual cash availability thinking, to thinking about long-term cost and benefits.

I acknowledged that capital asset planning systems are being developed and I commended the government's initiatives to improve planning from a government-wide perspective.

This year, we examined the capital asset management systems of Infrastructure, who leads the government's Capital Planning Initiative

This year, we examined the capital asset management systems of the Ministry of Infrastructure. Our work was approached from a government-wide perspective as the Ministry of Infrastructure has been designated as the lead ministry for the government's Capital Planning Initiative.

The Ministry needs to develop processes for monitoring the implementation of the Initiative

We found that the Ministry has many of the elements of capital asset management systems in place or is in the process of developing these systems through the implementation of the Capital Planning Initiative. We concluded that the Ministry needs to develop processes for monitoring the implementation of the Initiative. This and other recommendations on capital asset management are presented in detail in the Infrastructure section of the Report.

Acknowledgments

Pursuant to section 19(1)(b) of the *Auditor General Act*, we can report that in carrying out our work we received all the information, reports and explanations that were required.

My use of "we" in the preceding paragraph, and throughout this Report, acknowledges the reality that a staff of approximately 125 members and 20 firms acting as my agent assist me in carrying out my functions under the *Auditor General Act*. Use of the corporate "we" does not alter the responsibilities that only I as Auditor General can have; it does, however, signal that the Report is the product of the efforts of all these people. In short, "we" stands for the Office of the Auditor General.

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

In May 2000, the Legislature, by a unanimous vote, reappointed me as the Auditor General for an additional two-year term ending on February 28, 2003. This action represents a positive vote of confidence by the Assembly in the work done by my Office. Without the professionalism, talent, dedication and hard work of my staff and the contribution of those professional service firms who act as my agent, such confidence would not be achievable. My gratitude is extended to each of them.

[Original Signed by Peter Valentine]
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
September 18, 2000

Guidance to reader

The government has the following three core businesses:

- People
- Prosperity
- Preservation

The 1999-2002 government business plan calls for concerted actions to develop and implement initiatives and priorities across ministries. Consistent with the government's corporate focus, ministries are working collaboratively to find innovative and productive ways to organize and execute government activities to meet the needs of Albertans. For each core business, goals, key strategies and core measures have been set. Each ministry has been delegated responsibility for the delivery of the key strategies that contribute to the achievement of core business goals. The plan also included the following four cross-government initiatives for1999-2000:

- Children's Initiative
- Corporate Human Resources Development Strategy
- Knowledge and Innovation
- Capital Planning

Due in part to the government's evolving business practices, issues arise that, in my view, need to be addressed by a number of ministries or by the government as a whole. I have highlighted these matters in this Cross-Government section. This section also references matters in other sections of the Report that will be of interest to all members of the Legislature and government managers.

Significant cross-government accountability systems

Systems have been designed to mitigate the risk of the Legislative Assembly not being able to hold the executive branch of government accountable. One such system is the reporting by operating entities to a Minister of results relative to plans, with the requirement for that Minister to provide such performance reports to the Legislative Assembly. Thus, the success of government depends, in part, on the effectiveness of the systems used to support accountability to the Legislative Assembly.

Under the current government structure, there are central agencies with broad corporate responsibilities, such as Executive Council, the Personnel Administration Office, the Department of Innovation and Science and the Department of Treasury. For example, Executive Council has responsibility for cross-government initiatives, the Department of Treasury has corporate responsibility for financial management and business planning, while the Personnel Administration Office has responsibility for human resource management. These agencies develop corporate policies, strategies and guidance that are designed to support the government goals. They establish the range of practices that ministries must operate within. These central agencies also develop systems to mitigate the risk that ministries may not properly implement corporate directives.

Scope of work

The focus of our cross-government work is on the operations of the Province's corporate accountability systems. We have also looked at the implementation of the government's broad policies within certain individual ministries and, where appropriate, included recommendations for improvement in relevant sections of this Annual Report.

Business plans

Business plans are the basis for accountability to the Legislature. Since government first started preparing business plans, we have observed continuous improvement in the plans. The government and ministries are making progress in implementing our prior year recommendations relating to improving the quality of business plans and the business planning process. However, some business plans could be further enhanced by clearly defining performance measures and targets and by linking goals to be achieved to core businesses.

Annual reports

Annual reports provide information on results achieved. We examined the annual reports for both government and ministries. We believe that the results analysis could be improved by integrating the reporting of financial and non-financial performance.

Human Resource Management

Effective human resource management systems are important to achieving government goals. In our view, the government is making significant progress in improving the human resource management framework for the public service.

Governance

The results achieved by agencies, boards and commissions (ABCs) make a significant contribution to the achievement of the goals of government and ministries. During the year, we monitored the government's progress in developing governance principles for ABCs.

Managing for results

The quality and usefulness of business plans and annual reports depend on the underlying management processes within ministries. For this reason, we completed an audit of the Ministry of Agriculture, Food and Rural Development's systems for managing for results.

Business Planning

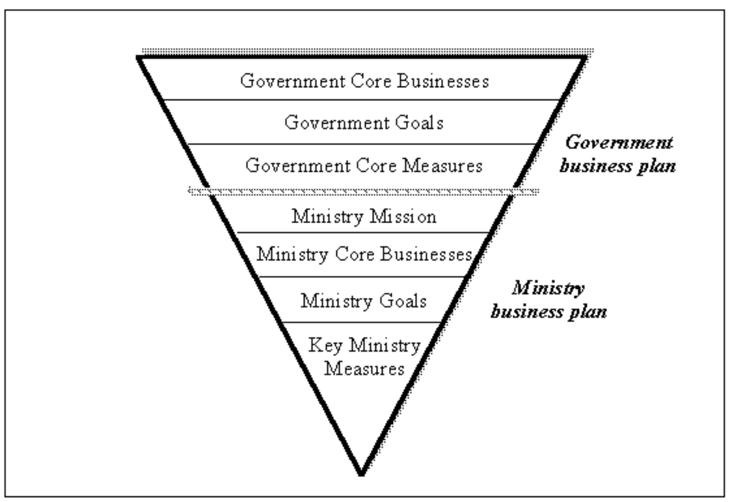
Background

The *Government Accountability Act* requires the government to prepare a three-year consolidated fiscal plan and a consolidated three-year business plan. Ministries are also required to prepare a three-year business plan, including a summary of revenue and expenditure targets. The Act requires that both the government and ministry plans include:

- the goals set for each of the core businesses
- the measures to be used in assessing the performance for each of the core businesses
- the results desired for each of the core businesses

Core businesses are defined as the key activities of an organization, and goals are the broad statements of what the organization wants to achieve.

The following model developed by the Department of Treasury, illustrates the relationship between the government and ministry business plans.



Source: *Measuring Performance – A Reference Guide Prepared by Alberta Treasury September 1996*

Government Business Plan

Core measures and targets

Recommendation No. 1

We recommend that the Department of Treasury, in conjunction with other ministries, clearly define the core measures and targets in the government business plan.

Brief description of measures and targets is not sufficient

The government business plan includes measures and targets for each goal. Measures are briefly described in short titles such as "Skill Development" and "Heritage Appreciation." In general, the brief titular description of the measure, even when considered with the target, does not clearly convey what will be measured and how it will be measured.

Definitions of measures with multiple components could be improved

This is of particular concern with respect to measures with multiple components such as Infrastructure Capacity and Resource Sustainability. For example, one of the components of the Infrastructure Capacity measure is simply described by a target of "continue to increase business and non-profit sponsored research." This component includes no title or other description indicating what is to be measured. It would be useful to indicate the units of measure, the kind of research and the types of entities (private and/or public sector) that will be included in the measure. Another example is the Resource Sustainability measure. This measure includes a component that is described only as "prolong the reserve life of oil and gas." This description provides room for interpretation as to how one would measure prolonged reserve life of oil and gas.

Other measures could also be more clearly defined

There are also measures with a single component where descriptions could be improved. For example, the Cost of Government measure has a target to "remain below the average of the nine other provinces." It is unclear as to what costs (operating and/or capital) are included in the measure or how they will be determined.

Effective accountability requires a clear definition of expected performance

The business plan is a performance contract with the Legislature and the public. When it does not clearly describe the performance measures then various interpretations are possible. Since the business plan is the basis against which performance is measured it is important that the desired measurement and expected results be clearly defined.

In our view, clearly defined measures and targets in the business plan should not require extensive additional disclosure.

While Treasury has overall responsibility for the government business plan, ministries are involved in the development of the core measures and, therefore, will have to work with Treasury to address this recommendation.

Ministry Business Plans

Linking goals to core businesses

Recommendation No. 2

We recommend that ministries, with assistance from the Department of Treasury, improve the link between goals and core businesses in ministry business plans.

The *Government Accountability Act* and the current government business-planning model require that ministry business plans include goals, measures and desired results for each core business.

Most ministries identify core businesses and goals but they are not linked

We have reviewed the 2000-2003 ministry business plans and noted that most plans identify core businesses and goals but the link between them is not clear. All ministries except the Ministry of Agriculture identify core businesses in their business plan. In addition, most ministries set out performance measures and strategies for each goal in the plan. However, a significant number of the ministries, over 60%, do not relate goals to the ministry's core businesses. In some instances, a reader may be able to determine the link from the information presented but often it is not clear.

Each ministry should define core businesses and set one or more goals for each business

In our view, each ministry should define its core businesses and set one or more goals for each business. Performance measures and targets should be focussed on these goals. Aligning core businesses, goals, performance measures and targets will provide a clear picture of what the Ministry does and why. This will also allow the reader to link results achieved with costs when ministry financial plans include the costs of core businesses.

Targets

Recommendation No. 3

We recommend that ministries, in conjunction with the Department of Treasury, ensure that all performance measures in ministry business plans include clearly defined targets.

A similar recommendation was made in 1998

In 1998, we made a similar recommendation that suggested that targets set in business plans be reviewed to ensure they are challenging and attainable. As a result of our review of ministry business plans, we identified the need to improve the definition of targets. We found that targets were often not explicit enough to enable stakeholders to use the targets as a way of monitoring performance.

Further improvements to targets is required

In our review of the 2000-2003 ministry business plans, we noted some improvements in the use and explicitness of targets, but further improvement is desirable. We found that:

- Most ministries did not have targets for all measures in their business plan.
- There was often a failure to indicate in which year the ministry wanted to achieve the target.
- Several ministries did not quantify targets, choosing to express qualitative targets such as "increase over time" or "continuous improvement."

  For example, the Ministry of Learning has a measure, "Average award to eligible post-secondary students by form of assistance", with a stated target of "increase average annual award to reflect rising costs." The Ministry of Environment has a measure titled "Pulp production versus amount of biochemical oxygen demand" with a stated target of "to show continuous improvement."

Targets are required for accountability

The targets presented in the business plan form the basis for measuring and reporting on performance. If the target is not clearly defined accountability for results is not apparent.

Cross-government initiatives

In 1998, we recommended that the government business plan elaborate on key cross government initiatives and that relevant ministry business plans more clearly demonstrate their ministry's respective contribution.

Reporting of cross government initiatives has improved

These recommended improvements to business plans have been made. The government business plan now includes information on key cross government initiatives. Most ministry business plans for 2000-2003 include some information on their contribution to these initiatives.

Guidance on best practices

Last year, our recommendation was that ministries collaborate with Treasury to articulate best practices in business planning.

A preliminary initiative is underway to address last year's recommendation

We understand that an initiative is starting to address this recommendation. We are advised that ministry business planners are interested in working with Treasury to develop standards for business planning. To date, a preliminary meeting has been held but future plans have not been finalized. It is expected that if this initiative goes forward, the standards would be available for the 2002-2005 business planning cycle. We will continue to monitor progress in this area.

Components of business plans

Core businesses, goals, strategies and performance measures needed to be defined

In 1998, we recommended that all ministry business plans provide information on a common set of components. Last year, we also recommended that ministries work with Treasury to develop a strategy to improve the definitions of the components of business plans.

Definitions have been developed and used by ministries

Improvements reflecting these recommendations have been made. The instructions for the 2000-2003 ministry business plans included definitions of the following business plan terms: mission, vision, core businesses, goals, strategies and types of performance measures. A review of the ministry business plans for 2000-2003 indicates that most ministries have used the common set of components provided by Treasury.

Financial implications of business plans

Last year, our recommendation was that ministries, together with Treasury, develop a strategy to combine ministry core businesses and programs so that ministry income statements clearly present the cost of implementing core businesses.

A strategy is being developed to plan and report the costs of core businesses

During the year, ministries and Treasury developed a strategy to address this recommendation. The stated strategy is that:

- Ministries define and identify core businesses in their business plans.
- Ministries link programs to core businesses.

- Information on the costs of core businesses is provided in the business plan and the annual report.

In our view the proposal is essentially sound and we are pleased that it will bring the reporting by government closer to linking the costs of business activities with results. We will continue to monitor the development and implementation of this strategy in the coming year.

Performance measures in business plans

Last year, we recommended that ministries, in conjunction with Treasury, develop a strategy to improve the quality of performance measures in business plans.

Progress is being made

Progress is being made in addressing this recommendation. Treasury has indicated that they will continue to provide leadership and support to ministries in improving performance measures. However, each ministry is responsible for improving the quality of their performance measures.

Most ministries were already in the process of preparing their business plans for 2001 when our 1998-99 Annual Report was released and, therefore, have not had time to implement this recommendation. We will continue to monitor the implementation of this recommendation in the next year.

Annual Reports

Government of Alberta 1999-2000 Annual Report

Consolidated Financial Statements

My staff completed an audit of the financial statements for the Government of Alberta as at and for the year ended March 31, 2000. The results of this examination can be found in the Treasury section of this report on page 269.

Measuring Up

We applied specified auditing procedures to the core measures and supplemental information for the year ended March 31, 2000. Exceptions were noted in the auditor's report. Information on the results of this examination can be found in the Treasury section of this report on page 271.

Ministry Annual Reports

Financial Statements of Ministries and Departments

My staff completed audits of the financial statements for Ministries and Departments as at and for the year ended March 31, 2000. The auditor's reports contained reservations of opinion due to certain corporate government accounting policies and reporting practices that, in my opinion, are not in accordance with generally accepted accounting principles. Information on the reasons for the reservations can be found in the Treasury section of this report on page 264.

Specified Procedures on Performance Measures

We applied specified auditing procedures to the performance measures included in ministry annual reports for the year ended March 31, 2000. Information on the results of applying these procedures can be found in the section of this report for each ministry.

Integrated Results Analysis

Recommendation No. 4

We recommend that ministries, with assistance from the Department of Treasury, enhance the results analysis included in ministry annual reports by providing an integrated analysis of financial and non-financial performance.

We have previously recommended that results analysis be improved

In 1998, we recommended that more emphasis be placed on discussing the reasons for variances between planned targets and actual performance, and that analysis of financial results be included in the results analysis section of ministry annual reports.

Results analysis does not integrate financial and non-financial performance

We reviewed the 1999 ministry annual reports and found some improvement in the analysis of financial results. However, we found that the results analysis of most ministries did not discuss the reasons for variances between planned and actual performance and did not present an integrated analysis of financial and non-financial performance for the year. An integrated analysis would include a discussion of performance results and the related costs.

Analysis of the achievement of performance targets provides useful information

An analysis of the degree to which performance targets were achieved and how strategies contributed to the achievement of goals helps the reader to evaluate how well the management of an organization has fulfilled its stewardship obligation. It also assists readers in understanding the likelihood of an organization meeting future targets. Discussions of external influences that have had a significant impact on achievement of targets are also useful in explaining the reasons for variances.

The Ministry Annual Report Standards indicate that a key element of annual reports is to provide a fair representation of the ministry's work and results. Unbiased disclosure is expected; good performance should be acknowledged and areas where performance did not meet expectations should be explained.

Costing core businesses will facilitate an integrated analysis of performance

Earlier in this Annual Report, we referred to strategies underway for ministries to provide information on the costs of core businesses in business plans and annual reports (page 21) and noted the need to link goals to core businesses (page 19). The availability of such information will allow ministries to include an integrated analysis of financial and non-financial performance in their results analysis in ministry annual reports. Such an analysis should include discussion of significant variances in actual costs relative to the planned and historical costs of the core business.

A fundamental principle of accountability is that results are compared to planned performance in order to explain the cost-effectiveness of the organization.

Each ministry is responsible for the results analysis included in their annual report and should ensure that an integrated analysis is presented. In our view, Treasury should provide leadership and support to ministries in developing such analyses.

Guidance to accountable organizations on annual report presentation

Last year, we recommended that ministries, supported by the Treasury Department, provide guidance to accountable organizations on best practices for annual report presentation.

Government is making progress

Treasury indicated that they would provide advice to ministries on request. In addition, we understand that this issue may be addressed as part of the Government Reorganization Secretariat's review of ABCs.

Satisfactory progress is being made. We will continue to monitor developments in this area in the next year.

Summary financial information

Guidelines for the use and content of abbreviated financial statements was needed

In our last annual report, we recommended that the Treasury Department develop guidelines for ministries and accountable organizations regarding the use and content of summary financial information. Summary financial information is a condensed version of an entity's full financial statements.

Guidance has been provided and is available on request

In the Ministry Annual Report Standards for the year ended March 31, 2000, Treasury has provided guidance relating to issuing extracts from ministry annual reports. In addition, Treasury will provide assistance on request.

We are satisfied that this recommendation has been addressed at a government-wide level.

Client Satisfaction Surveys

There has been an improvement in client satisfaction surveys

In 1997-98, we set out criteria for preparing client satisfaction surveys that produce meaningful results. Subsequently, both the Ministry of Treasury and the Personnel Administration Office (PAO) provided guidance to ministries on preparing client satisfaction surveys. We reviewed client satisfaction surveys used in preparing performance measures for the 1998-99 ministry annual reports. Overall, there has been an improvement in ministry client satisfaction surveys. In our view, this recommendation has been addressed at a government-wide level.

Human Resource Management

Background

PAO and Deputy Ministers share responsibility for developing and implementing human resource management strategies in government. PAO provides leadership in human resource management and develops corporate human resource strategies and Deputy Ministers are responsible for implementing these strategies within their ministries.

Improvements have been made to the government's human resource management systems

Over the past few years we have noted improvements in the human resource management systems within the Alberta public service. In 1998, we completed a review of human resource management and found that the components of the accountability framework for human resource management could be improved. Management has made significant progress in implementing the recommendations arising from the review.

Corporate human resource plan

Last year, we recommended that PAO, in conjunction with deputy ministers, enhance the Corporate Human Resource Plan (the Plan). Suggested improvements to the Plan included:

- Incorporating corporate policies, the Corporate Human Resource Development Strategy (the Strategy), and an accountability framework into the plan
- Defining roles and responsibilities of key parties participating in the implementation of human resource strategies

The corporate human resource plan has been enhanced

We have reviewed the Plan for 2000-2003 and noted that it now includes a summary of the Strategy and the government's policy statements that guide the development of corporate human resource strategies. The Plan outlines the corporate supports PAO provides to achieve the goals and strategies and also outlines the responsibilities of departments. The Plan now includes performance measures for each goal and objective, with targets for each measure. Several new measures have been added to the Plan to indicate results for each objective. In addition, a new goal related to employee well being has been added to complete the link between plan goals and the corporate policy statements.

The enhanced Plan also includes references to other key human resource management resources such as the Strategy, the Performance Management Framework and two new documents:

- *Strategic Human Resource Management – Human Resource Accountability Framework*
- *Responsibilities and Resources for Managers and Supervisors*

Accountability and responsibility for human resource management in government has been defined

These new documents focus on defining the accountabilities and responsibilities of various parties in the human resource management process.

In our view, suggested improvements to the Plan have been implemented.

Employee Performance Management Systems

Background

Successfully implementing the Corporate Human Resource Plan (the Plan) depends on effective systems to manage employee performance. Managing individual performance is critical to achieving government and organizational goals. For these reasons, last year we reviewed the corporate framework for employee performance management and noted opportunities to improve the effectiveness of the systems.

Employee performance management systems to support organizational goals

As a result of the review, we recommended that each deputy minister, in conjunction with PAO, ensure that employee performance management systems clearly support government and department objectives. Our suggestions to improve the systems include:

- Establishing clear individual performance expectations that are linked to organizational goals
- Ensuring that performance is evaluated based on results achieved
- Linking rewards, including achievement bonuses, to performance
- Improving the implementation of competency models and integration with performance management and rewards systems
- PAO providing further guidance on the use of competency models and performance management systems

Progress is being made

PAO and deputy ministers have made satisfactory progress in addressing this recommendation. In 2000, PAO established a performance management project to assist departments in linking employee performance to department and government performance through the effective use of the performance management system. PAO also identified an objective in their business plan to establish a closer link between performance and rewards and recognition.

A Performance Management Framework and Evaluation Guide is being developed

We have recently reviewed a draft Performance Management Framework and Evaluation Guide prepared by PAO with feedback from the human resource managers and line managers in government. We were notified that at least four departments have agreed to test the performance management guidebook. Testing of the guide will include a review of the ministries' performance management systems based on the good practice identified in the guide. PAO and department staff will conduct these pilot projects. The results of the projects will be shared amongst departments.

We will continue to monitor progress

It is our understanding that the guide will be finalized in 2000 and that there are other plans underway to improve department employee performance management systems. We will continue to monitor progress in the next year.

Governance

Governance principles for Agencies, Boards and Commissions

Governance principles should be developed for agencies, boards and commissions

Last year, we recommended that the Deputy Minister of Executive Council work with other ministries to set out governance principles for all agencies, boards and commissions (ABCs). This recommendation was accepted and we were notified that the Government Reorganization Secretariat would consider governance principles as part of its review of ABCs in the Government of Alberta.

Progress is being made

During the year, we have met with individuals involved with the review of ABCs. We understand that progress is being made in addressing this recommendation; however, at this time, the results of the review of ABCs have not been finalized. We will continue to follow up on this matter in the next year.

Cross-Government Audits Conducted In Specific Ministries

The following audits are highlighted in this section because they have cross-government impact.

Shared Services

Shared services are the provision of services by one government organization to another. Services provided may be in areas such as administration, finance and human resources. Information on shared services can be found on page 108 of this report.

Capital Asset Management

During the year we reviewed the capital asset management systems of several ministries. The results arising from this work can be found in the following sections:

- Infrastructure (page 179)
- Learning (page 205)

Information Technology

During the year we examined the information and technology systems of the Ministry of Innovation and Science. For details of this work see page 192 of this report.

Managing for Results

Ministries and their organizations use business planning to allocate resources, manage activities and control expenditures

The quality and usefulness of business plans and annual reports depend on the underlying management processes within ministries. Ministries and their organizations use business planning to allocate resources, manage activities, and control expenditures. Performance measurement enables ministries to determine the impact of their activities, set targets, and assess how well they are achieving them. Through reporting processes, ministries track performance, exercise control, and demonstrate accountability. Human resource processes link individual efforts to ministry goals and encourage employees to contribute to them. These processes must be successful within ministries for government accountability to be effective.

Experience has led to preferred practice

To date, ministries have been allowed considerable flexibility in preparing and presenting their accountability information. This experimentation has allowed experience to be gained and preferred practice to emerge. Now it is time to review the approaches taken.

We audited one ministry in depth

For these reasons, we undertook an audit of business planning, performance reporting, human resource management, and governance of agencies, boards and commissions in the Ministry of Agriculture, Food and Rural Development (the Ministry). The objectives of the audit were to:

- identify good practices in the Ministry's planning, reporting, human resource, and governance systems
- report opportunities and make recommendations for further improvement
- determine if the Ministry had implemented the recommendations made in the Cross-Government and Executive Council sections of my Annual Reports, 1996 to 1999, which were accepted in principle by government

A detailed report of our findings and recommendations is included in the Ministry section on page 33.

Guidance to reader

The Ministry consists of the Department of Agriculture, Food and Rural Development and the following nine agencies, boards, and commissions:

- Agriculture Financial Services Corporation (AFSC)
- Agriculture Products Marketing Council
- Alberta Dairy Control Board
- Alberta Grain Commission
- Alberta Opportunity Company (AOC)
- Farmers' Advocate
- Irrigation Council
- Land Compensation Board
- Surface Rights Board

In 1999-2000, the Ministry recorded expenses of $832 million (1998-99 $531 million), offset by revenue of $454 million (1998-99 $343 million), for a net operating result (deficit) of $378 million (1998-99 $188 million). Most of the expenses are in the Department ($343 million, excluding transfers to AFSC and AOC) and AFSC ($402 million). The Ministry develops and implements programs designed to facilitate sustainable development of the agriculture and food industry and of rural communities. These programs include agricultural trade, agricultural statistics, rural development, financial services, technology transfer, public land management, food safety, irrigation development, support to agricultural organizations, and monitoring regulatory compliance. To deliver these programs, the Department has approximately 1350 full-time equivalent staff and AFSC 500.

In the last four years, we have made numerous government-wide recommendations regarding business planning, performance measurement, and human resource management. The government has accepted these recommendations. To assess how successfully these recommendations have been implemented, we have examined how the Ministry of Agriculture, Food and Rural Development has addressed these important issues; we call this project "Managing for Results". Agriculture was chosen because of its reputation for quality in these areas. As a result of our work, we have been able to highlight existing good practices and make recommendations that will benefit the Ministry as it continues to improve its accountability systems.

As part of the annual Departmental financial statement audit, we identified two areas where controls can be enhanced. The Department is responsible for a fleet of about 960 rail hopper cars. The Department does not actively manage the fleet; rather, this is done under contract by two railway companies. In recent years, the monitoring and reporting of the activities and status of these rail cars by the Department has declined. The Department should reinstate a level of review appropriate to the size and risk of the rail hopper car program. As well, the Department is able to segregate human resource functions within IMAGIS (the government-wide financial and human resource system). We believe that this segregation of duties would strengthen controls in the Department's Human Resources Division.

During our annual financial statement audit at AFSC, we focused considerable attention on the Farm Income Disaster Program (FIDP). FIDP is a farm income safety-net program that, for the 1999 crop year, is expected to pay approximately $163 million to Alberta's farmers. We noted that documentation supporting the analysis of claims can be improved. As well, we examined AFSC's monitoring of its outsourced computer services. These computer services are critical to AFSC's program delivery. We believe that AFSC should seek objective evidence that its computer services provider is delivering a well controlled and managed computer environment.

Ministry of Agriculture, Food and Rural Development
for the year ended March 31, 2000

Ministry Financial Statements

Reservations in my auditor's reports

I conducted an audit of the financial statements of the Ministry and Department of Agriculture, Food and Rural Development for the year ended March 31, 2000. My auditor's reports contained two reservations of opinion. The auditor's reports should be read for full details of the reasons for the reservations. On page 264 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and Department financial statements.

Managing for results

Introduction

Purpose of audit

During the last four years, we have sought opportunities and made recommendations to ministries as a whole to improve the quality of the accountability information in their business plans and annual reports and their human resource management systems.

Improved performance and accountability depend on management processes within ministries

The quality and usefulness of business plans and annual reports depend on the underlying management processes within ministries. If business planning is to be effective, it must be the basis on which ministries and their organizations allocate resources, manage activities, and control expenditures. The value of performance measurement is in ministries' ability to determine the impact of their activities, set targets, and assess how well they are achieving them. Reporting processes enable ministries to track performance, exercise control, and demonstrate the accountability of their organizations. Human resource processes tie individual efforts to ministry goals and encourage employees to contribute to them. These processes, which we call collectively "managing for results", must be successful within ministries for government accountability to be effective.

We aimed to identify good practice, seek improvement opportunities, and determine if our recommendations had been implemented

For these reasons, this year we undertook an audit of the Ministry's systems for managing for results. The objectives of the audit were to:

- Identify good practices in the Ministry's planning, reporting, human resource, and governance systems.
- Report opportunities and make recommendations for further improvement.
- Determine whether the Ministry has implemented the recommendations made in the Cross-Government and Executive Council sections of our annual reports, 1996 to 1999.

Audit scope

The scope of the audit covered business planning, performance measurement and reporting, human resource management, and governance of agencies, boards and commissions (ABCs). Our work included review of key documents, including the Department's employee survey, interviews with management and staff, and focus groups.

Selection of Ministry

We selected this Ministry mainly because it has a long history of business planning and human resource development and because it includes several ABCs, so governance matters can be addressed.

Continuous improvement

The Ministry continuously strives to improve its processes

The Ministry has made many changes in its processes for planning and managing its business and its human resources over the last 15 years. Under the impetus of the Agriculture Summit and an internal functional review, as well as its recognition of the past experiences, the Ministry is undergoing a thorough review of its approach.

The practices occurring in this Ministry clearly illustrate that management processes can and should evolve through continuous improvement. We encourage the Ministry to continue its efforts to improve its systems for business planning, performance reporting, human resource management, and governance. We trust that this audit will contribute to that improvement and also help other interested ministries in recognizing and applying good practices. As other ministries choose to learn from the practices of the Ministry of Agriculture, Food and Rural Development identified in this report, they should recognize that the material presented is specific to the Ministry and therefore may need to be modified to fit other circumstances.

Business planning and performance measurement

Summary

Business planning is pervasive

The Ministry has an extensive business planning process and has grappled with many performance measurement issues. The Department has made strenuous efforts to set goals, develop strategies, measure results, and instil business planning and performance measurement throughout the organization, down to the individual employee.

The Ministry intends to change its planning process

Business planning at the division/branch level exhibits many aspects of good practice; problems arise in integrating divisional and ABC plans and budgets into a Ministry plan focused on industry-wide goals and performance measures. The Ministry intends to change its business planning process to improve resource allocation decisions and the reporting of and accountability for results.

Core businesses should be defined and the Department plan should be differentiated from the Ministry plan

In doing so, the Ministry should define its core businesses and set goals and related performance targets and budgets for each business, thereby portraying clearly the expected results and costs of the Ministry plan. In turn, the Department should distinguish further the objectives and performance measures in its business plan from the Ministry plan.

Current process

The Ministry began business planning in the mid 1980s. In 1993, the Ministry engaged in an industry-wide consultation process, “Creating Tomorrow,” which launched the strategic and business planning process followed by the Ministry today.

The business plan contains the Ministry’s mission, vision, goals, key results, strategies, actions, performance measures, and the income statement

The Ministry’s 2000-2003 business plan consists of:

- An introduction summarizing the state of the industry and statements of the Ministry’s vision and mission.
- The core of the plan organized into eight goals, each with one or more key results and performance measures, and the strategies and actions proposed to achieve the results.
- A separate presentation of six-macro performance measures, such as farm cash receipts and employment in agriculture and food, in terms of benchmarks, history and forecasts.
- The Ministry income statement presenting expenses by programs.

All levels of management and staff participate in planning

The process followed for the preparation of the 2000-2003 business plan was as follows:

- An environmental scan was completed in January 1999.
- A Ministry-wide committee reviewed the vision, mission, goals, strategies, key results, and performance measures.
- Product teams consulted with industry in March 1999 and prepared their strategic plans.

- The Executive set the Ministry’s strategic direction. The Deputy Minister communicated this direction and instructed divisions and ABCs to prepare their business plans by June 1999. Meanwhile Finance staff worked on budget parameters and targets.
- These businesses plans were consolidated into the Ministry plan by a Business Plan Writing Committee, which submitted the plan to the Executive in September 1999.
- The Executive compared the budget targets with the requests from divisions and ABCs and finalized the plan and budget for submission to Treasury Board in November 1999. Revisions were made in January 2000 and the plan was issued in February 2000.
- In March 2000 all Department staff were required to prepare individual work plans based on division business plans.

Good practice

The Ministry’s current business plan and planning process exhibits many features of good practice. The process is driven by senior management who take an active role in scoping the plan.

Ministry business plan sets out intentions

The Ministry business plan:

- Defines a mission that provides a clear focus on ministry affairs and is results-oriented.
- Presents goals that define Ministry-wide purposes and high-level outcomes.
- Quantifies industry performance with outcome-oriented measures and targets.
- Defines at least one outcome-oriented performance measure for each goal.
- Covers all activities of the Ministry, not just new initiatives.
- Summarizes divisional and ABC plans.
- Is presented in a simple and clear style, with effective use of charts, that is easy to read.

Divisions prepare business plans

Planning within the Department is based on division business plans. These plans generally:

- Define results-oriented roles and responsibilities.
- Cover all activities of the division.
- Propose expected results, strategies, budget, staffing, and new initiatives.
- Quantify some expected results with performance measures and targets.
- Integrate budget and performance targets with strategies and actions.
- Include a human resource plan and an information technology plan.
- Are clearly presented with appropriate format and language.

The planning process is authentic

The Ministry's business planning process exhibits the following good features:

- The environmental scan and consultation with industry help ensure that the plan addresses industry needs and priorities.
- Long-term strategies are set and communicated, particularly this year as a result of the Ag Summit.
- Guidance is given to planners covering goals, strategies and budget parameters.
- New programs and their resource requirements are examined thoroughly.
- Business planning within the Department is pervasive from senior management to the individual employee. Sector and division heads participate directly and most divisions involve staff in developing the plan. Individual work plans tie into division business plans.
- Individual work plans specify key results to be achieved and how progress will be measured. Staff members indicate that preparing the plans helps them in their work and most agree that their work unit's plan is clearly linked to the Department's business plan.

- All outputs of the planning process, except the individual plans, are made available to all staff.

Planned changes

The new process will be goal focused

The Ministry plans to modify its business planning process by adopting "goal focused planning." Under this process, the Executive will set the Ministry's strategic direction, including goals. Goal teams led by assistant deputy ministers and including directors and ABC representatives, will build goal plans. These will include key results, priorized strategies with resource requirements, performance targets and time lines, and new initiatives. After the Executive reviews the goal plans and finalizes strategies and resource allocations, the business plan will be compiled from the goal plans.

Divisions will build operational plans

Once the business plan is approved, divisions will build one-year operational plans in January/February for their contribution to the business plan for the coming year. Staff will then prepare their work plans in March/April based on the divisional operational plans.

Progress will be tracked

A system for reporting the results of operational plans is to be developed. Goal teams will be accountable for the implementation of goal plans and for reporting results achieved compared to plans. Goal progress reports will be the basis for the Ministry annual report.

Improved accountability is desired

From these changes, the Ministry expects more integrated planning, better resource allocation decisions, clearer and more accurately measured outcomes, stronger results reporting, and increased accountability for results. Divisions will prepare operational plans closer to the start of the new budget year. It should be easier to connect individual work plans to operational plans than to the Ministry plan. The process is intended to be less time-consuming.

The Ministry's intentions, as well as its achievements to date, indicate a commitment to making business planning effective for presentation of its intentions, allocating and managing resources, measuring performance, and accounting for results achieved.

Core businesses

Recommendation No. 5

We recommend that the Ministry of Agriculture, Food and Rural Development business plan be enhanced by structuring it around core businesses, each embracing one or more goals, performance targets related to those goals, strategies designed to achieve those goals, and the budget for the necessary resources.

More coherence is needed in business plans

The Ministry recognizes, and we concur with, the need to develop more coherent business plans that bring planned strategies, actions, expected results, and the allocation of resources into clearer focus with Ministry goals.

Use core businesses to integrate goals, performance measures, and costs

Like most complex ministries, the Ministry has to manage multiple dimensions of its business. This challenge is evident in the business plan. Macro performance measures are presented separately from the goals. Goals are not consistent with programs, so that the cost of achieving the goals is not presented. The plan implies that there is only one core business, but it is not described. In our view the best approach is to use core businesses as the basis for an integrated presentation of goals, performance measures, strategies, and costs.

Existing goals make resource allocation difficult

The Ministry intends to revisit its current eight goals. The first four goals overlap: some activities affect more than one goal resulting in some arbitrary allocation of activities to goals. The level of detail of the activities under each goal makes it difficult for the reader to gain an overall view of what the Ministry does.

Functions are a different dimension

Internally the department is reviewing resource allocation by functions, such as applied research and technology transfer, which are different from programs, goals, and organizational units. In addition the department has to coordinate these dimensions with product teams and regions.

Plan components and costs should be interrelated

Among our government-wide recommendations were that financial information be presented in a form similar to the rest of the plan and that the Ministry income statement presents the costs of implementing core businesses. Under the Ministry's current model, which presents the business plan by goal, the income statement should link to the goals so that the reader is informed of what the pursuit of a goal would cost.

The lynch pin is core businesses

In our view, the Ministry can resolve these issues by defining its core businesses. A core business is a major grouping of related strategies and actions that collectively contribute to desired Ministry outcomes and that provide the primary framework for allocating resources. A core business also portrays succinctly what the Ministry does and why.

In implementing changes to its business planning process, the Ministry should:

- Define core businesses, which preferably would be a small number.
- Prepare and present the Ministry income statement by core business.
- Set one or more goals for each business and focus its performance measures, with targets, on these goals.
- Develop strategies to achieve these goals and assign responsibility to the Department and ABCs to carry out these strategies and achieve the performance targets.

Core businesses should be comprehensive

One approach would be to summarize programs into core businesses, such as activities in support of production, processing, infrastructure, food safety, and risk management. Another would be to consider core businesses as sub-sectors of the agriculture sector, such as production, processing, trade, and finance. In defining core businesses the Ministry should take into account all its dimensions: goals and performance measures, programs, organization structure, product teams, functions, and ABCs. Core businesses should define and cover all the programs and activities of the Ministry and provide readers with sufficient information to understand what the Ministry does.

Core businesses portray what the Ministry does and its value

In short, adopting core businesses would enhance the Ministry's ability to portray succinctly what the Ministry does and why and to be held accountable for results planned and achieved for resources budgeted and consumed.

Other suggestions

Other improvements are possible

In addition, in line with our government-wide recommendations, we encourage the Ministry to:

- Make its longer-term strategies more evident in the business plan and communicate changes in policy, goals, and strategies.
- Describe the Ministry's capacity to adapt and meet future challenges.
- Place greater emphasis on the third year of the business plan.
- Identify factors that could impact achievement of the goals.
- Demonstrate how the Ministry plan relates to the government business plan.

Department business plan

We recommend that the Department's business plan be further differentiated from the Ministry plan to facilitate Departmental accountability while reflecting its contribution to Ministry goals.

The Department plan should be more specific

The current Ministry goals and performance measures are consistent with the model implemented by government and the Ministry mission. However, the Department and ABCs need more immediate objectives and measures, consistent with but more specific than those in the Ministry plan.

Many factors influence Ministry goals

While departmental and ABC programs contribute to Ministry goals, other factors such as commodity prices and foreign exchange rates, also influence them. Since management does not control the outcomes, they are reluctant to be held accountable for them.

Linking division performance to Ministry goals is difficult

The Department has been striving to define relevant measures that relate to results that it can control. An initial list of over 500 measures has been condensed into 25 key results in the Ministry plan. Reliability and cost issues have prevented adoption of these measures. Most divisions have performance measures, many with targets. Determining how they contribute to goals and meaningful measures in the Ministry plan is the challenge.

In other words, while the Ministry goals are appropriate, it is difficult to use them for Department and ABC resource allocation and to put accountability for results into practice.

The Ministry sets the program and resources; the Department is responsible for program quality and cost

The Ministry plan encompasses both the programs delivered by the Department and ABCs and the policy framework established through the political process. Public policy sets out the programs to be delivered and the resources provided to deliver them. The Department and the ABCs take on the task of delivering the programs at a cost and quality requested by the policy.

Differentiating the Department plan enables it to be accountable

Preparing a Department plan consistent with this role will allow management to state how it contributes to Ministry goals and the more immediate objectives it has agreed to achieve in terms of its focus on the cost and quality of program delivery. In this way the Department can be held accountable for delivering its plan. Differentiation of the Department plan would enable stronger links between individual, unit, and division plans and the Department plan. Meanwhile the Ministry plan could continue to focus on the overall functioning of the Ministry, including the ABCs.

Performance reporting

Summary

Annual reports meet requirements except linking actions to financial results

The Ministry’s annual report exhibits many features of good practice. The report addresses each of the actions proposed in the business plan and analyzes the financial results. Performance measures are reported and variances from targets are explained. However, the report suffers from the same limitation as the business plan: the connection between performance measures, actions undertaken, and financial results should be explained. The Ministry recognizes the need to improve these linkages.

Management needs performance information

Performance reporting within the Department can also be enhanced so that management has better information for making decisions to improve performance.

Background

Progress monitoring is mostly informal

Divisions submit their contributions to the Ministry annual report in May. No interim progress reports are prepared at the Ministry or Department level. A few divisions prepare quarterly reports on activities completed and outputs produced. Most progress monitoring is informal and on an exception basis, typically through monthly management meetings.

Measures are linked to multiple goals

The Ministry macro performance measures are linked to several goals each in the annual report, rather than to one goal.

Budgetary control is in place

The budgetary control system provides on-line access to budgets and actuals by organizational unit and project down to the transaction level. Financial Services also provides quarterly variance analysis and year-end forecasts.

Good practice

The annual report analyzes results

With respect to our cross-government recommendations on annual reports, the Ministry Annual Report:

- describes what the Ministry does and its goals and strategies
- describes how performance measures are determined and how they link to the goals
- explains changes in performance (for macro measures) from the previous year
- includes analysis of financial results
- is presented clearly and concisely

Internally, management of the Department receives timely reports on actual and forecast expenditures, highlighting variances, compared to budget.

Improved management information

We recommend that the Department improve performance reporting by individuals, branches and divisions and thereby provide better management information for decision-making and also enable the Ministry to improve the alignment of the annual report with the business plan.

Management needs performance information

A prerequisite of accountability is that results be not only reported but also evaluated and acted upon. Management needs information on results and costs compared to plan to determine whether action is required to improve performance.

Systems for reporting progress need to be improved

Within the Department, plans for individuals, branches and divisions define expected results but reporting of results achieved is limited. The Department is aware of the need to improve its internal systems for reporting progress against business plans. Improvement in reporting processes of the Department will depend, in part, upon success in implementing goal focused planning.

Progress reporting should be formalized

In our view, the Department needs to take a corporate approach to performance reporting. This approach should formalize regular reporting of progress at all levels against plans and budgets, including monitoring of key results and program costs. The purpose is to realize fully the benefits of planning—through reporting against the plan, opportunities to improve strategies and priorities are realized. The process should not be burdensome. For example, reports against operational plans and budgets could be made on an exception basis. Management should then feedback to staff the decisions made, which in effect are modifications to the plans.

The Ministry is experiencing difficulty relating the annual report to the plan

The Ministry is also conscious of the difficulty of linking the annual report to the business plan. The difficulty divisions of the Department have in doing this is the same difficulty they have in relating their programs and activities to the Ministry business plan goals. The key to making these linkages is again to clarify the Ministry's core businesses, define achievable goals for each core business, and differentiate the Department plan from the Ministry plan.

Other suggestions to improve the Ministry annual report

Performance reporting within the Department and ABCs should form the basis for the Ministry annual report. Taking into account our cross-government recommendations for annual reports and previous recommendations to the Ministry, other suggestions to improve the Ministry annual report include:

- link performance achieved to business plan goals
- disclose the influence the Ministry has on results and the impact of external factors

In particular, the Ministry should present, in the annual report, the costs of core businesses. The Ministry's annual report reflects the percentage of operating expenses incurred for each goal but the financial statements are presented by program. It would be useful for readers if the financial statements were presented on the same basis as the results analysis. Defining and costing core businesses would accomplish this.

Human resource management

Summary

Managing human resources is integrated with managing for results

Human resource planning is integrated with business planning and addresses government corporate human resource initiatives. Employee performance management systems are designed to support both department and government objectives. Continual emphasis on skill and knowledge development over many years appears to be paying off in employee satisfaction. Employee performance management and connecting performance and rewards remain challenges.

Human Resource Planning

Human resource planning is part of business planning

The Department views human resource planning as integral to business planning. A key result in the business plan is competent and versatile employees. A key result of the human resource development plan is that employees participate in the development and implementation of their unit's business plans. A major strategy in the business plan is to improve human resource development planning and programming. Human resource planning is addressed in most divisions' business plans.

The human resources plan addresses corporate initiatives

The human resource development plan prioritizes initiatives to be resourced including corporate initiatives. Each area in the corporate plan—employee alignment, employee commitment, employee competence, and organizational versatility—is addressed in the plan. The Department's scores on the core measures survey used to assess performance against the corporate plan are consistently higher than the public service average.

The plan emphasizes employee participation

The Department's plan focuses on employee participation in business planning, continuous learning, use of information technology, use of competencies, career development, succession planning, performance management, and employee recognition. The plan is approved by the Executive, updated annually, and revised every three years.

A committee representing all levels of employees develops and monitors the plan. The committee consults extensively with staff through focus groups and workshops. Progress is monitored and results are measured by an employee survey, completion rates for individual work plans and performance appraisals, training hours, and the core measures survey.

Training focuses on competencies

The plan emphasizes training, particularly leadership training, because of a shift from generalists to specialists in the mid-90s and in anticipation of significant pending retirements. The Department operates a central training fund for development of corporate competencies and of leading-edge technical skills. Corporate competencies were developed through focus groups. The employee performance and development process is designed to measure competency development.

Department culture supports human resource strategies

Based on many interviews at all levels, we concluded that the Department has fostered a supportive culture that emphasizes teamwork, open communication, training, and client service. Employees understand and appreciate these human resource strategies because they are visibly supported and endorsed by senior management.

Employee Performance and Development Process

Performance management and development is an employee driven process. The aim is to coordinate individual performance management and development with business planning.

Employees prepare individual work plans

Once the business plan is finalized, each employee is required to complete a form that is the guiding document for work planning, performance management, and staff development. It contains the individual work plan, which specifies results to be achieved, and how progress will be measured. It indicates how corporate competencies will be applied and developmental opportunities to be pursued. At year-end, the employee reports results achieved use of competencies, developmental opportunities undertaken, and career aspirations. When potential for enhanced performance is indicated, required training should be defined.

Performance is not rated

The form was developed before the institution of achievement bonuses. It concentrates on work planning and results and on learning and development. It does not incorporate a rating system to support pay adjustments or bonus allocation decisions.
In the past year, the Human Resource Services Branch reported that 92% of managers and 76% of non-managers had completed their forms.

Good practice

Our recommendations and criteria have been addressed

We consider that the Department has met our recommendations and criteria on human resource planning:

- Human resource planning is incorporated into the business planning process.
- The human resource plan is aligned with the corporate plan.
- The plan is communicated to all Department staff.

The Department has a system that, in its design, also meets most of our recommendations and criteria for employee performance management:

- The performance development process supports corporate human resource strategies and business goals.
- Work expectations are linked to the achievement of organizational objectives.
- The employee is evaluated against the agreed expectations.
- The process assists in defining actions to improve employee performance.
- The effectiveness of the performance management system is measured.

Overall, the Department has a positive trend in staff satisfaction according to employee surveys.

In our view, the Department owes much of its success in human resource management to its recognition that it is the responsibility of all managers, not just the human resource staff.

Monitoring performance

We recommend that the Department strengthen the monitoring and review of employee performance and development.

Performance management objectives are not always met

The performance development process falls somewhat short of expectations in implementation. Employees told us that the purposes of the process are important but are not always realized in practice. To a degree, this is to be expected. In this area improvement is always possible and complete success is unlikely. Thus continued vigilance and reinforcement is needed to maintain momentum and to reap continuing benefits.

We found that:

The performance management process needs to be fully implemented

- While many staff told us that the process helps them plan their work and know their performance, according to the employee survey about one third of non-management staff do not use it for planning their work and monitoring the results they achieve.
- One third of staff are also not aware and one third are only moderately aware of the performance measures used to monitor the results achieved by their work units.
- The biggest issue with the process from all levels of staff is lack of feedback. Discussions of performance throughout the review period are relatively rare. Many staff also indicated that the year-end review was either not done or was perfunctory.
- Some employees say the process doesn't help much in defining competencies and ensuring they are addressed.

Allocation of bonuses

We recommend that the Department ensure that the employee performance management system supports the allocation of achievement bonuses and salary increases.

Management promotes achievement

The Department recognizes the importance of rewarding performance. It promotes and celebrates success though achievement awards. Management visibly supports award events. The emphasis on training is also seen by staff as positive recognition.

The performance development process was designed before the introduction of the achievement bonus. The old system of evaluating employees on whether they exceeded, met, or did not meet expectations was dropped in favour of concentrating on work planning and staff development.

Bonus allocation should reflect performance

The practice for bonus allocation has been to award 50% of the pool equally to all staff with satisfactory or better performance, according to government guidelines, and 50% equally among one third of the staff with superior performance. Management determines the ratings independently of the performance development process. The prevailing view among staff is that allocation of the variable portion of the bonus is not consistent across divisions. Staff we interviewed perceives that rewards only somewhat reflect performance and that the process should, but does not help.

Criteria for superior performance are needed and team bonuses would be preferable

Criteria for superior performance need to be developed. Since the Department emphasizes teamwork, the effectiveness of bonuses would be facilitated if the Department were allowed to allocate them to teams rather than only to individuals.

Rewards need to be more closely related to performance

The Department needs a more effective process to support the allocation of bonuses and salary increases and to ensure that employees understand the connection between performance and rewards.

Governance

Summary

Required processes are in place

As required by the *Government Accountability Act,* business plans and annual reports are provided to the Minister and consolidated with those of the Department for the Ministry as a whole. Some ABCs have board member selection and training processes that reflect good practice. While the roles of the ABCs and the degree of their interaction with the Department differ, the Minister should receive assurance that they are adhering to effective governance principles.

Background

Business plans and annual reports are prepared

Each of the Ministry’s nine ABCs has a different role and interacts with the Department and the Minister to varying degrees. Each ABC demonstrates its accountability to the Minister by providing a business plan and an annual report.

Each ABC develops its own business plan based on the Ministry strategic direction. This plan is incorporated into the Ministry plan. Some ABCs are involved in the Ministry business planning process, others are not.

ABCs provide the Ministry with quarterly reports on actual and forecasted expenditures, and an analysis of variances compared to budget. Reporting on non-financial performance usually occurs annually. Some ABCs produce separate annual reports. Results of all of the ABCs are incorporated into the Ministry annual report. Some of the ABCs meet with the Minister annually to discuss their business plan and the results of the previous year.

Selection and training processes vary

Processes for selection and training of board members vary among ABCs, since they are viewed as the responsibility of each individual ABC.

Good practice

An accountability framework exists

The minimum criteria for an accountability framework are in place for each ABC:

- Each ABC prepares a business plan, including goals, and some with performance measures, and provides the plan to the Minister which is incorporated in the Ministry business plan.
- Quarterly financial reports are provided to the Ministry.
- ABC's report on annual results to the Minister and these results are included in the ministry annual report.

Selection and training processes for board members of some ABCs include the following good features:

- Policies and procedures exist for board member recruitment and training.
- Selection criteria are developed prior to recruiting board members.
- Interviews are conducted and candidates are evaluated against the criteria.
- Board members are informed of the board's role and their responsibilities.

Establish governance principles

We recommend that governance principles be established for all ABCs within the Ministry.

The success of the Ministry is dependent on ABCs and their boards

The success of the Ministry is dependent on the success of the Department and each ABC within the Ministry. For the Ministry to be successful, the boards of agencies must govern effectively. Governance can be viewed as the responsibility to determine the principles by which an organization will function–what an organization is to do. Effective boards adhere to good governance principles and understand the public policy role and goals of the ABC they govern.

Governance practices of ABCs vary

We noted that existing governance practices vary significantly among ABCs. We noted that some ABCs have developed governance practices related to board appointments, board member orientation, defining board governance, and board performance self assessments. However, we also noted that one ABC has no established processes for appointing or training board members.

Assurance is needed that good governance principles are followed

Differences in the governance practices of ABCs may be appropriate given the varying roles and responsibilities of the ABCs, however, the Ministry should have some assurance that all ABCs are governing effectively.

Governance principles should be established

The governance principles that ABCs operate within should be established and agreed upon. The nature and extent of the principles will depend on the type of ABC and the role of the board (governing, advisory, regulatory). These principles should consider the following areas:

- roles and responsibilities of the Minister, board and management
- assessing the board's effectiveness
- planning, monitoring and reporting results
- processes for board appointments and composition
- setting ABC performance expectations
- appointments and evaluations of senior management

Last year we recommended that governance principles be established for all ABCs in government. We understand that the government's current review of agencies, boards and commissions may provide the Ministry with some guidance on establishing governance principles for all ABCs.

Department of Agriculture, Food and Rural Development
year ended March 31, 2000

Scope of audit work

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

- In 1998-99, we recommended an annual evaluation for the Farm Income Disaster Program (FIDP). Due to the timing of FIDP submissions by farmers for the 1999 crop year, the Ministry is still at a preliminary stage in developing its evaluation program. It is expected that the evaluation for the 1999 crop year will be completed by December 2000. We will conclude this follow up in 2000-01.
- At the request of the Ministry, we reviewed and commented on the surveys that the Ministry is considering as part of its FIDP evaluation.
- Specified auditing procedures applied to the performance measures included in the Ministry's 1999-2000 annual report.

Rail Hopper Cars

Monitoring and reporting rail cars

We recommend that the Department of Agriculture, Food and Rural Development establish routine procedures to monitor and report the status of its rail hopper cars.

Rail hopper cars are a significant capital investment that are operated by arm's length companies

The Alberta Heritage Savings Trust Fund purchased the Province's rail hopper car fleet in 1983; responsibility for the fleet was transferred to the Department in 1993. Originally, the fleet of about 1,000 cars was part of a strategy by western provinces to ensure that grain crops could be moved to market efficiently. These cars are now in the last half of their expected useful life, but still represent a significant portion of the Department's assets; their net book value exceeds $23.5 million at March 31, 2000. The Department has operating agreements with two railway companies; these companies have exclusive use of these cars. As part of their agreements, the railway companies report car movements, report damage, and calculate and remit revenue to the Department. Revenue tends to be between $500,000 and $1 million per year, depending on usage. On the whole, the Department relies on the railway companies to verify the existence and valuation of these assets.

In the past, rail hopper cars were routinely monitored by the Department

The railways provide monthly car activity data that is downloaded into the Department's Rail Hopper Tracking System (RHTS), an in-house application. In the past, Department staff used RHTS data to monitor and analyze car movements; they would then investigate unusual transactions or anomalies. They also generated routine reports from RHTS for management review and arranged on-site inspections of damaged cars. While monthly car activity data is still being loaded into RHTS, no routine reports or analysis are currently being generated from the system.

Now relatively little monitoring is done

Currently, the Department's monitoring is limited to reviewing damaged cars reports. The Department also uses a separate spreadsheet application to identify monthly billable movements to the railways. However, little is done to follow up invoicing anomalies with the railway companies. There are no controls in place to ensure that the revenues eventually received are complete and accurate according to the operating agreements. A comparison of identified billable movements to actual receipts from the railway companies could provide this assurance. The Department has never exercised its contractual right to review the records and transactions of the railway companies to ensure that they are complying with the agreements, and that the reported car movements are accurate and complete.

The Department should analyze risks in order to determine monitoring requirements

At present, the Department continues to support the costs of maintaining RHTS and of performing the few procedures that it routinely undertakes. On the other hand, the data in RHTS is rarely used and the existing procedures provide limited assurance regarding asset existence and revenue completeness. The Department should design and implement a monitoring and reporting process to address its stewardship responsibilities. The process should be cost effective, based on an assessment of program objectives and the risks related to the fleet. With adequate monitoring of the rail hopper cars, the Department enhances the safeguarding of its capital assets and ensures that it is receiving all the revenue to which it is entitled.

Segregation of Duties in the Human Resources Division

Segregation of duties in Human Resources

We recommend that the Department enhance control by segregating duties within the Human Resources Division.

Payroll personnel set up and maintain employee master files, as well as process paycheques

The Human Resources (HR) Division is currently set up with two distinct groups: Pay and Benefits and HR Operations. The Pay and Benefits staff create and maintain employee data and files in IMAGIS; Pay and Benefits staff also process payroll runs. In this situation, Pay and Benefits staff can both set up and pay employees; they can also process changes to employees' status and salaries. We advocate a segregation of duties where HR Operations set up and maintain employees' master files on IMAGIS, while the Pay and Benefits process the cheques.

HR Division has the system and enough staff to implement segregation of controls

The segregation of employee master file maintenance from payroll functions can be effected in IMAGIS by restricting individual employees' access to specific functions. The government's IMAGIS Project Team recommended a segregated process in its Process Description Manual, issued in 1997. As well, the current staff complement in the HR Division (seven in Payroll and Benefits, five in HR Operations) is sufficient to segregate duties effectively. We understand that HR functions will be (if they have not already been) transferred to Alberta Corporate Services Centre. However, for the foreseeable future, the same HR personnel will be doing their same work at the direction of the Department. And in the longer run, the Department will still be responsible for defining the level of control to be exercised on their behalf by the shared services initiative. We believe that the Department's staff complement of more than 1,300 full time equivalent staff warrants this preventive control.

Segregation of duties strengthens preventive controls in HR and payroll

We acknowledge that the Department has implemented a number of human resources controls, including the review of monthly detailed payroll transactions by expenditure officers. This control is detective and relies on the diligence of the expenditure officers to scrutinize the reports in detail. A preventive control, such as proper segregation of duties, will strengthen the Department's control over HR and payroll transactions.

Alberta Opportunity Company
year ended March 31, 2000

Disclosure of business practices

We recommend that Alberta Opportunity Company (AOC) improve its disclosure of its business practices for managing credit and interest rate risk.

AOC is exposed to credit risk and interest rate risk

AOC is exposed to significant risk due to its concentrations of loans to groups of borrowers in the same industry and within the same geographic location. It also faces risk that the interest rates charged to its customers, over the period of the loans, are not adjusted to reflect changes in the costs of funding the loans.

AOC limits its exposure to certain groups of borrowers

AOC manages credit risk by limiting exposures to certain concentrations of groups of borrowers. Details of the policies used, including maximum credit risk exposures and a summary of loans by industry type, should be included in the financial statements. AOC should also provide details of the general economic trends and relevant factors taken into consideration in support of the general allowance for loan losses.

Financial assets should be matched to financial liabilities

AOC would improve its disclosure of its strategies for managing exposure to interest rate risk by reporting the differences between the amounts of financial assets and financial liabilities that are due to mature at certain points in the future.

Agriculture Financial Services Corporation
year ended March 31, 2000

Scope of audit work

In addition to the annual financial audit, an examination of the system of assurance and management controls used by Agriculture Financial Services Corporation (AFSC) over the computer environment of its outsourced computer services was completed.

Farm Income Disaster Program

Documentation of variances

We recommend that Agriculture Financial Services Corporation completely document variance explanations performed on Farm Income Disaster Program claims.

Farmers who experience extreme reductions in farm income beyond their control receive financial assistance

The Farm Income Disaster Program (FIDP) is administered by AFSC on behalf of the Ministry of Agriculture, Food and Rural Development. FIDP is a whole farm income safety-net program which provides financial assistance to farmers who experience extreme reductions in farm income for reasons beyond their control. The FIDP expenditure for the year ended March 31, 2000 was $236.3 million.

Data generated from revenue tests is used to determine the reasonableness of FIDP claims

Management relies on the data generated from revenue tests for assessing reasonableness of FIDP claims. It is important that this information is properly assessed and reviewed. If these tests are not properly performed, there is a risk that inaccurate claims may be approved. Adequate documentation of variance analysis in the claim file provides evidence that the claim has been properly reviewed and allows management to efficiently assess the claim.

A large proportion of the samples examined had unexplained variances

During the course of our audit, we randomly sampled FIDP claims. Of the 15 claims selected, we observed six instances where approved claims had feed and/or revenue variances in excess of 15% between the current and prior year with no documented explanations for the variance. There is a procedure included in the FIDP procedures manual that requires FIDP staff to document variances in excess of 15% and assess their reasonableness.

We are informed that AFSC has provided additional training to staff in order to ensure that all variances in excess of 15% are properly reviewed and documented.

Computer Services

Computer control environment

Recommendation No. 6

We recommend that Agriculture Financial Services Corporation obtain assurance on the control environment of their outsourced computer services provider.

AFSC outsources all of its computer services

AFSC outsources all of its computer services to a computer services provider. The base amount of this contract for the year-ended March 31, 2000 was $3.1 million with an additional $4.4 million for new system development.

The computer services functions at AFSC are an essential element in the support of the delivery of services to its clients. There were approximately 10,000 loan files, 23,000 insurance files and 4,000 FIDP claims processed this year.

Investment in and reliance on computers will continue to increase

One of the goals of AFSC's 2000-2003 business plan is to have the capability to provide at least 50% of services to clients via electronic means by March 31, 2003. The investment in and reliance on the computer environment for service delivery will continue to increase. In the near future, there may be additional risks associated with the processing of client transactions over the Internet.

AFSC needs to obtain independent assurance that the control environment within the computer services provider is operating effectively

With the high level of reliance on computer services, management of AFSC needs to obtain assurance from an objective and independent source that the control environment within their computer services provider is operating as expected. There are two methods of obtaining objective and independent assurance. The first is a Canadian Institute of Chartered Accountants (CICA) section 5900-opinion on control procedures at a service organization. This provides an opinion on the design, effective operation and continuity of control procedures at a computer services provider. The second is a SysTrust opinion that was recently developed by the joint effort of the CICA and the American Institute of Certified Public Accountants. This provides an opinion on the four principles of a reliable computer system which are as follows:

- availability as defined in the service-level agreement
- security to prevent unauthorized physical and logical access
- integrity to ensure system processing is complete, accurate, timely and authorized
- maintainability to ensure that the system can be updated when required in a manner that continues to provide for system availability, security and integrity

If there are weaknesses, AFSC can request the services provider to strengthen control

AFSC management is responsible to ensure that the internal control environment at its computer services provider is effective. Management will benefit from an objective detailed examination of the control environment at its computer services provider. If this examination identifies areas of possible weakness, AFSC can request the services provider to strengthen control. Management should ensure that service contracts with outsourced providers acknowledge the rights of AFSC to obtain the control assurance required.

Other entities

Financial statements of the following entities were also completed for the year ended March 31, 2000, or in the case of the Western Irrigation District, November 30, 1999. My auditor's report on the financial statements of the Alberta Dairy Control Board contained a reservation of opinion. The auditor's report should be read for full details of the reservation.

Alberta Dairy Control Board
Crop Reinsurance Fund of Alberta
Western Irrigation District

Guidance to reader

The mission of the Ministry of Children's Services, as stated in its 2000-2003 business plan is "working together to enhance the ability of families and communities to develop nurturing and safe environments for children, youth and individuals." The strategy is to place greater emphasis on:

- community and personal responsibility for children
- integration of government services to children
- appropriate access to quality services for children
- prevention of abuse to children

On May 23, 1999 the government announced the creation of the Ministry as part of a major reorganization. The Ministry was given responsibility for a number of services to children and families; including the following:

- Child welfare ($289 million)
- Handicapped children services ($44 million)
- Day care programs ($64 million)
- Early intervention services ($20 million)
- Prevention of family violence ($11 million)
- Family and community support services ($36 million)

The government established 18 Child and Family Services Authorities to deliver the majority of the services. Calgary Rocky View Child and Family Services Authority was established during 1998-99; the other 17 during 1999-2000. The Ministry expensed $506 million in the year ended March 31, 2000. Of this amount, $458 million was spent in support of or through the Authorities. The balance of $48 million was expensed on programs administered directly by the Department of Children's Services ($16 million) and for ministry support services ($32 million).

The Ministry received $90 million in revenue, $81 million of which arose from the following transfers from the Government of Canada:

- Canada health and social transfer ($64 million)
- child welfare special allowance ($9 million)
- reimbursement for services provided to children normally resident on First Nations reserves ($8 million)

1999-2000 was a year of many challenges. Coupled with the creation of 18 Authorities, the Department of Children's Services developed a new management team. We focused on the following systems used by the Authorities, which we regard as critical to the success of the new program delivery model:

- Financial management and reporting
- Governance
- Business planning

The recommendations in the Department of Children's Services section of this report are grouped under the above headings.

Ministry of Children's Services
year ended March 31, 2000

I conducted audits of the financial statements of the Ministry and the Department as at and for the year ended March 31, 2000 and of the following 18 Authorities:

- Sun Country Child and Family Services Authority
- Southeast Alberta Child and Family Services Authority
- Windsong Child and Family Services Authority
- Calgary Rocky View Child and Family Services Authority
- Hearthstone Child and Family Services Authority
- Diamond Willow Child and Family Services Authority
- Ribstone Child and Family Services Authority
- West Yellowhead Child and Family Services Authority
- Keystone Child and Family Services Authority
- Ma'Mowe Capital Region Child and Family Services Authority
- Sakaw-Askiy Child and Family Services Authority
- Sakaigun Asky Child and Family Services Authority
- Child and Family Services Authority – Region 13
- Region 14 Child and Family Services Authority
- Neegan Awas'sak Child and Family Services Authority
- Awasak Child and Family Services Authority
- Silver Birch Child and Family Services Authority
- Metis Settlements Child and Family Services Authority

My auditor's reports attached to the financial statements of the Ministry, the Department and the above listed Authorities contained reservations of opinion with respect to the application of corporate accounting policies established by Alberta Treasury. On pages 264 of this report, an explanation of the reasons for these reservations is provided.

Also, my reports on the financial statements of the Department and the Authorities contained reservations because certain employment and administrative costs were not allocated to the Authorities. Other reservations of opinions, contained in my auditor's reports on the Authorities' financial statements, are summarized in the Child and Family Services Authorities section of this report.

Scope of audit work

In addition to the financial statements audits of the Ministry, Department and each Authority, the following work was completed:

- Application of specified audit procedures on the Ministry's performance measures
- A follow up review of the systems used by the Department of Human Resources and Employment to deliver shared services to the Authorities
- A follow up review of the systems used by the Department to review and approve the business plans of the Authorities
- A follow up review of the accounting systems used by Calgary Rocky View Child and Family Services Authority
- Review of the governance systems of the Authorities

Department of Children's Services
year ended March 31, 2000

Financial Management and Reporting

Inter-Authority Protocol Agreement

We recommend that the Department of Children's Services, in collaboration with the Child and Family Services Authorities, fully implement an agreement for the recovery of costs incurred by an Authority on behalf of another.

Authorities can recover costs from other Authorities

A fundamental principle of the Ministry is that a child in need of services can receive them from any Authority regardless of the child's residency. A second principle is that the Authority in which the child is normally resident will bear the cost of these services. As a result, Inter-Authority billings are generated to recover any costs incurred by one Authority for services to children normally resident in another Authority.

The original agreement was found to be unworkable by the Authorities, so certain Authorities began to develop separate agreements

During 1999, an Inter-Authority Protocol Agreement was developed and approved. The Agreement contained criteria to assist in determining residency of children. However, the criteria were found to be unworkable by the Authorities. Staff at one of the Authorities was of the opinion that the agreement had only received approval in principle and had not actually been implemented. In place of implementing the agreement, certain Authorities began to develop a number of separate agreements amongst themselves. These could be for a single child or for a group of children or services. We noted that a number of these agreements were not formally completed. Authorities in which the child was normally resident had little or no influence on the nature or cost of services provided and some of the invoices received were either unexpected or appeared excessive. This is because financial management systems do not, and in some cases cannot, take into account the financial commitments made relative to these children. We also noted, that there was limited information on children's files relating to the costs of the services provided. It is important that the systems provide the Authorities with timely financial information needed to manage resources.

New agreement has been developed

In response, to the above problems, the Department and the Authorities have developed, but not implemented, a replacement Inter-Authority Protocol Agreement.

Shared services support

Recommendation No. 7

We again recommend that the Department of Children's Services and the Child and Family Services Authorities examine the support services, including shared services, for opportunities to improve cost effectiveness. We also again recommend that the Department and Authorities enter into service agreements with their service providers.

The nature and quality of information received by the Authorities has improved during the year

On page 168 of the 1998-99 Annual Report, we recommended that Human Resources and Employment prepare a plan and agreement for the delivery of shared services to the Authorities. We found that considerable improvement was made during the year on the nature and quality of information received by the Authorities. We also concluded that shared services providers were making significant progress in moving from a control focus to a service focus.

Department cannot determine whether funds are spent economically

The Ministry spent $32 million on support services during the year. Also, front line workers carry out certain activities, such as data entry for expenditure transactions, which could be classified as support services. Of the expenditure on support services, $21 million was for shared support services provided by Human Resources and Employment through Shared Services Support Centres. We also noted that support services costs do not include accommodation and certain indirect costs. The Department does not have information on whether the cost of support services is reasonable. Therefore, the Department is unable to determine whether or not the funds were spent economically.

Support services should be reviewed to identify potential improvements

Support services are necessary for the effective running of any organization. However, funds directed to inefficient or ineffective support services would be better used in the delivery of services to children and families. With over two years of experience in shared services delivery and one year in the running of the Authorities, it is timely to review support services to identify potential improvements. Also, systems should be put in place to provide ongoing information on the cost effectiveness of services. On page 56 of my 1998-99 Annual Report, I recommended that government organizations should enter into service agreements with their service providers to improve accountability over the quality and cost of shared services.

Accounting officers

We recommend that the Department work with the Authorities to establish policy directives to assist accounting officers in the execution of their duties.

The Department directed the Authorities to appoint employees of Shared Services Support Centres as their accounting officers

Each Authority is required to designate at least one person as its accounting officer under the *Financial Administration Act*. This Act also prescribes the duties of an accounting officer, which is to fulfill an expenditure control function for the Authority. Under the direction and advice of the Department, the Authorities appointed employees of Shared Services Support Centres as their accounting officers.

Accounting officers have potential conflicts of interest

Shared service centres are expected to process payments, on behalf of the Authorities, on a timely basis. Shared Services Support Centres regard the Authorities' staff as being responsible for authorizing the transactions. Situations arise where accounting officers are required by law to reject payment requests. In some of these cases, a dispute arises between staff working for the authority and the accounting officers. To assist with resolution of these disputes, an informal practice emerged, whereby the Senior Financial Officer of the Department is asked by the accounting officer to intercede with the Authority on disputed matters. This practice was followed in a number of cases. However, it is not an ideal solution in that it involves the Department in what is essentially an internal matter of the Authority. Nor does it recognize that, since the accounting officer is working for the Authority, it is the Authority who should be providing direction to the accounting officer to resolve issues.

Policy for questionable payments needs to be developed

In order to assist accounting officers, each Authority should establish a policy which provides direction on how accounting officers are to deal with payments they are required to reject.

Business practices and accounting policies

Recommendation No. 8

We recommend that the Department of Children Services work in collaboration with the Child and Family Services Authorities to clarify business practices and ensure financial statements comply with generally accepted accounting principles.

Financial statements should be prepared in accordance with generally accepted accounting policies

The Authorities are Provincial corporations under the Financial Administration Act. This means that they are each responsible for their financial management and account to the Minister and stakeholders for meeting this responsibility by issuing financial statements. For statements to be useful for this purpose, they need to be prepared in accordance with relevant standards that are understood by users. The most relevant standards are generally accepted accounting principles established by the Canadian Institute of Chartered Accountants. The Minister has the authority under the Child and Family Services Authorities Act to determine the accounting policies to be followed by the Authorities in preparation of financial statements. We do acknowledge that directions from the Minister must also comply with the accounting policies and reporting practices established by Alberta Treasury.

Authorities' financial statements do not conform to generally accepted accounting principles

During the audits of the Authorities' financial statements, we noted that financial statements did not conform to generally accepted accounting principles and therefore their usefulness was materially impaired. This situation arose in part because of the decision by the Department to require financial statements to be based on the standards established by Alberta Treasury for departmental financial statements. This decision was problematic, since departmental financial statements are unique in that they are a segment of the General Revenue Fund. Also, departmental financial statements must satisfy the need to report back against the use of appropriated funds. These two conditions have caused Alberta Treasury to establish policies that are applicable only to departmental financial statements. After we brought this matter to the attention of the Department, a number of changes were made. However, some policies were reconfirmed in part because there was insufficient time to make adjustments. Examples of policies that continued to be used, which do not comply with generally accepted accounting principles are as follows:

- Revenues from the Department and other Authorities for services to children normally resident on First Nations reserves or within the boundaries of other Authorities were netted against expenses. As a result, significant portions of some Authorities financial activities are not reported in their financial statements.
- The Department's financial statements recognized the costs of financial, human resource and computer support services provided to the Authorities. Also, the liability for vacation pay and achievement bonuses payable to Authority staff was included in the Department's financial statements and not the Authorities. Again, significant financial activities of Authorities were excluded from their financial statements.

- The Authorities were required to follow the capital asset capitalization limits established for departments by Alberta Treasury. In general, Provincial corporations set their own limits.

Not-for-profit accounting standards should be used

Of significant concern to us is that in Note 2 of each Authority's financial statements, it is disclosed that the statements were prepared in accordance with standards set by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. However, these standards require that government organizations select a basis of accounting that is most appropriate to their objectives and circumstances. We have not been provided with any evidence of this being done. In our opinion, if this assessment had been completed, not-for-profit standards would have been selected as the most relevant to Authorities.

Authorities regard certain policies, which they believe have been established by the Department, as restricting their ability to meet legislative objectives

The Authorities regard certain policies as restricting their ability to meet legislative objectives. In the opinion of the Authorities, the Department established these policies. Examples of these policies are as follows:

- In a letter dated March 17, 1999 the former Ministry of Family and Social Services stated that operating surpluses realized by Authorities might not be available to the Authorities in subsequent years. Currently, the financial statements have been prepared on the basis that surpluses will be useable by the Authorities. In discussing this matter with members of various Authorities, we learned that there is considerable confusion about the interpretation and application of this policy.
- We noted that a number of agreements with private agencies that deliver services for an Authority require that where a surplus is recovered from the agency, it is to be paid to the Department. We understand that if a recovery is received within the same year as the contract payments, then the recovery is accounted for as revenue of the Authority. However, if it is recovered in a year subsequent to the year the payment was made, it is to be accounted for as revenue of the Department. This direction from the Department has resulted in a range of approaches by the Authorities. For example, one Authority required agencies to estimate and pay the surplus before the year-end, thus recording the surpluses as revenue. Another Authority

sought to record the estimated surplus as a receivable of the Authority, but was discouraged by the Department. In our view, generally accepted accounting principles require the recording of estimated surpluses as receivables. We also heard from various Authorities that they did not have a clear understanding about what was to happen with surpluses realized by agencies.

Authorities should be encouraged to exercise their legislative powers

We were unable to obtain evidence that the items noted above were, or were not, departmental policy. In either case, the Authorities should be provided with clear direction. In preparing this direction, Authorities should be encouraged to use their legislative powers to assist them in meeting the Ministry's and the Authorities' goals.

Banking arrangements

We recommend that the Department review the banking arrangements established for Child and Family Services Authorities and ensure that the needs of Authorities and the Department are met.

Alberta Treasury established bank accounts in the names of individual Authorities at the request of the Department

The Department requested Alberta Treasury to establish bank accounts in the names of the individual Authorities. These accounts were opened in 1999 and are part of the government-wide bank and cash management system administered by Alberta Treasury.

At year-end the bank accounts were overdrawn because reimbursements from the Department to cover program payments were delayed

The bank accounts are used to process and fund payments made by Authorities. At the year-end, the accounts were in a net overdraft position of approximately $14 million. The overdraft arose because the reimbursements from the Department, to cover program payments made from the accounts before the year-end, were delayed. Alberta Treasury pays any costs associated with the overdrafts.

The processing of transactions through the bank accounts involved actions by:

- Authorities who initiated and authorized expenditures that were ultimately funded from these bank accounts.
- Alberta Treasury who initiated and authorized transfers out of these bank accounts to reimburse bank accounts initially charged with expenditures. Alberta Treasury also performed the bank reconciliations.

- Department of Human Resources and Employment who, as the service provider, processed the accounting entries for Authorities and the Department.
- Department of Children's Services who authorized the reimbursement of the bank accounts. These reimbursements were charged against the Department's supply vote.

The Authorities did not have access to or knowledge of these bank accounts.

Ownership and responsibility for the bank accounts was not clear

The complex arrangements resulted in confusion and uncertainty as to ownership and responsibility for the bank accounts. Also, we noted during a number of discussions with the Authorities that they were unable to or found it difficult to process or deposit cash receipts from outside sources. Access to the bank accounts would assist them in managing cash receipts.

We understand that the Department has made changes to the banking arrangements and is now funding Authorities in advance of program payments being made.

Expenditure forecasts

Recommendation No. 9

We recommend that the Department of Children's Services review the funding formula to ensure that the allocation of resources is consistent with the expected needs of each Child and Family Services Authority. We further recommend that the Department and Authorities obtain appropriate information to assist in forecasting and managing costs.

Prior to the establishment of the Authorities, the Department developed a funding formula to allocate resources to the Authorities. The funding formula is a population needs-based model.

Funding formula to be introduced over three years

The model is used to allocate resources to the Authorities from funds provided to the Department by the Legislative Assembly. The Department intends to fully implement the funding formula over the first three years of operations of the Authorities. For the year ended March 31, 2000, the formula was adjusted based on the actual expenses incurred in the third quarter of 1997- 98. Additional supplemental amounts were also provided to Authorities during the year. We observed that the amount actually spent by certain Authorities varied considerably from the amount originally allocated.

As Authorities are prohibited under their enabling legislation from borrowing funds, in order to deliver essential services and remain within budget allocations, the Authorities may need to reallocate resources

Under the legislation that governs their operations, the Authorities don't have discretion to withhold services where children or families are at risk. In addition, Authorities have been asked to allocate a proportion of their resources to priority initiatives, such as improved early intervention programs and prevention of family violence. However, the *Child and Family Services Authorities Act* prohibits Authorities from borrowing funds. In order to deliver essential services, and remain within their budget allocations, the Authorities may need to reallocate resources.

Funding formula will be enhanced

We understand that the Department plans to review the funding formula each year to further enhance it. We encourage the Department to do so, since we note that uncertainty around the amount of funds available to the Authorities makes cost management difficult. This uncertainty is increased because most of the Authorities do not have adequate systems to predict and manage the costs of future service commitments.

The Department does not have a system to forecast the costs of service delivery

The Department is responsible to forecast the cost of children's services in order to provide a budget proposal. However, the Department does not have the systems it needs to adequately forecast these costs. Without adequate systems to assess the needs for services for each Authority and the related costs, there is a risk that resources will not be allocated in such a way so as to allow the Ministry to meet its goals.

Of equal importance is the duty of the Authority to manage its costs; that is, to ensure that it is delivering services in the most cost-effective manner. Again, we noted that information to assist the Authorities in fulfilling this duty is deficient.

In summary, improvement is required in the information to accurately forecast total children's services cost. As well, the funding formula used to allocate funds made available by the Legislative Assembly can be improved. And finally, Authorities need better information on the cost of services they deliver. Strengthening each of these components is an important step in improving the overall management of the cost of children's services.

Year-end accounting processes

Recommendation No. 10

We recommend that the Department of Children's Services and the Authorities improve their year-end accounting processes in order to produce high quality, accurate and timely financial statements.

Twenty sets of financial statements were required within two months of the year end, resulting in a number of accounting and process issues

This is the first year of operations of the Department and seventeen of the eighteen Authorities. This presented a challenge to the accounting staff of preparing twenty sets of financial statements for entities within the Ministry in less than two months following the end of the fiscal year. Many accounting and process issues arose during this period. As a result, deadlines were not met and significant changes to the draft versions of financial statements were made. Management has acknowledged the need for considerable improvement in the process for next year. To facilitate this, a review of the year-end process should be carried out to identify those areas that need to be improved. Issues that should be considered include:

- clear assignment of responsibilities for various deliverables in the process

- resolution of reporting issues prior to the year-end
- establishment of a quality control process
- establishment of a realistic timetable

Also, the approval of financial statements by the board of an Authority should be made at the meeting at which my staff present their findings from the audit or subsequent to this meeting.

Accuracy and completeness of the financial statements is the responsibility of the Authorities

The allocation of roles and responsibilities needs to be clarified. Even though the Authority's financial statements are prepared by Shared Services Support Centres, the responsibility for their accuracy and completeness belongs to the Authorities. During our audits we often found that the staff at the Authorities deferred to the shared services for decisions relating to the financial statements.

An important step towards an efficient year-end process is the adoption and employment of sound accounting practices throughout the year.

Intra-ministry accounts should be reconciled regularly

Regular reconciliation of various accounts should be performed. This is particularly true of intra-ministry accounts such as amounts due to/from the Authorities. Information to support the elimination of intra-ministry transactions and balances was not readily available and involved significant extra effort by my staff during the audit. Also, we found significant errors in the allocation of federal revenue between the Department of Human Resources and Employment and the Department of Children's Services.

Governance

Introduction

We reviewed the systems of governance used by the Authorities to identify opportunities for new boards to improve their effectiveness. To assess these systems, a questionnaire was developed based on criteria set by the Canadian Institute of Chartered Accountants in its publication *Guidance for Directors—Governance Processes for Control*. The completed questionnaires for each Authority, combining self-assessment and individual interviews with board co-chairs and chief executive officers, formed the basis for the overall assessment. The more significant findings from the review are as follows:

Governance systems

We recommend that the Department of Children's Services, in collaboration with the Authorities, improve the systems of governance employed by the Authority boards.

Many of the annual budget and three-year plans were not formally approved by the Authority boards

Many Authority boards did not formally pass and minute a board motion to provide evidence of the board's review and approval of the annual budget and three-year plan. We noted that not all boards have formally approved the mission and vision of their respective Authority. The vision is the future conditions the Authority desires, while the mission is the organization's reason for being. The mission and vision are instrumental in aiding the Authority to maintain focus, and are key guiding elements that should be approved by the board. As well, the approval of the budget and plan demonstrates the Authority's commitment to them.

Management control

Many of the Authorities indicated that they are not confident that the information provided to them by the Department is accurate. This applies to both financial and non-financial data. Furthermore, most Authorities have not completed an assessment of the Authority's information needs and the reliability of the systems to provide this information accurately. Accurate and up-to-date information is essential to Authorities for effective decision-making.

Legislative and regulatory requirements

We noted that the majority of Authorities have not adopted formal procedures to ensure that the Authority's responsibilities under section 9 of the *Child and Family Services Authorities Act* are met. Many of the Authority co-chairs indicated that their boards would benefit from some further instruction from the Department on an Authority's legislative and regulatory requirements.

Senior management

In discussion with Authority boards, we observed that many of them do not have a formal CEO evaluation process. Evaluation of the CEO is crucial to good governance as the CEO is accountable to the board for directing the Authority and implementing board decisions. Authorities should share knowledge on this process among themselves, so that Authorities without a CEO evaluation process can learn from those with a successful process. We also noted that very few Authorities have developed a formal succession plan for senior management. This is vital to ensure that the balance of skills required by senior management to lead the Authority in the future is met.

Boards' effectiveness

Most of the Authority co-chairs indicated that their boards do not have a formal self-evaluation process either for individual board members or the board as a whole. As board members are appointed by the Minister of Children's Services, the Department of Children's Services should also conduct an independent evaluation of board members and boards. We understand that the Department has commenced the evaluation of one Authority board. The periodic evaluation of board members and boards is an essential part of well-functioning governance. The Department should encourage the Authorities to share best practices among themselves regarding successful evaluation processes.

Board vacancies

Many Authority boards have vacancies, which in certain cases are proving difficult to fill. Also, board co-chairs indicated that their boards do not have a diverse membership, especially with regards to aboriginal representation. We understand that the Department has commenced the task of identifying appropriate members of the public to fill these vacancies.

Business planning

Recommendation No. 11

We again recommend that the business plans of the Child and Family Services Authorities provide clear links between the social and economic factors affecting service delivery and the attendant strategies to mitigate their effect on service delivery. We also recommend that each Authority develop an appropriate number of performance measures to monitor the effectiveness of services.

Improvements have been made to the business plans

In my 1998-99 annual report (page 175), I stated that the Department of Children's Services should require that business plans incorporate relevant measures and strategies to improve the overall accountability and effectiveness of the Authorities. All of the 1999-2000 business plans identified social and economic factors, defined measurable indicators and incorporated the foundations of the redesign of services for children and families.

The Department provided a business-planning guide

The Department undertook a review of the Authorities' 2000-2003 business plans. The Department provided guidance to the Authorities by providing a business-planning guide, which outlined the required elements of a three-year business plan.

Impact on service delivery not adequately covered in all plans

We reviewed the business plans to check for compliance with the Department's guidelines. Some of the plans were deficient in areas that will have a significant impact on the overall accountability and effectiveness of the Authorities. The business-planning guide requires that the business plans clearly identify how social and economic factors will impact service delivery. This requirement was not adequately covered by 13 of the plans reviewed. In order that goals and strategies set out in a business plan effectively serve the specific needs of communities, they should be linked to the issues and trends.

Most plans have an unmanageable number of performance measures

Thirteen of the Authorities included an unmanageable number of performance measures. It will be very difficult to collect the data for such a large quantity of measures and still provide meaningful information in the annual reports and to management. Eight of the Authorities included performance measures that were in fact strategies or goals. The Department should give better guidance to the Authorities on what constitutes appropriate performance measures and how the Authorities can use them in business planning. Fourteen of the

Authorities did not clearly illustrate how a strategy is intended to achieve a related goal or indicate a time frame in which the Authority expects to achieve the goal. For Authorities to be accountable, they should incorporate expected time frames in meeting their goals and illustrate how they will achieve these goals.

Child and Family Services Authorities
Year ended March 31, 2000

My auditor's reports on the following financial statements contained reservations of opinion that was specific to the noted Authority.

Calgary Rocky View Child and Family Services Authority
In my auditor's report at March 31, 2000, I drew attention to the fact that my auditor's report for the prior period contained a reservation of opinion indicating that I was unable to confirm the accuracy of the child welfare contract costs in the amount of $36 million. As I was unable to determine whether any adjustments might be necessary to expenses, revenues, net operating results, accounts payable and accrued liabilities, and accounts receivable, the comparability of the current and comparative figures was impaired.

Keystone Child and Family Services Authority
My auditor's report on the Keystone Child and Family Services Authority financial statements as at and for the year ended March 31, 2000 contains an adverse opinion resulting from significant departures from generally accepted accounting principles that have a material impact on information provided.

In my opinion, the Authority had inadequate systems for the identification and the collection of costs from the Department for services the Authority provided to children normally resident on First Nations reserves. The Authority also paid for and recorded as expenses costs of providing children's services that should have been borne by other Authorities.

Region 14 Child and Family Services Authority
My auditor's report on the Region 14 Child and Family Services Authority's financial statements as at and for the year ended March 31, 2000 contained a reservation of opinion as handicapped children services were overstated by $52,000

Metis Settlements Child and Family Services Authority
My auditor's report of the Metis Settlements Child and Family Services Authority financial statements as at and for the year ended March 31, 2000 contained a reservation of opinion as the Authority had not recorded revenue of $133,000 and expenses of $130,000 relating to the delivery of a program funded by the Government of Canada, in their financial statements.

Awasak Child and Family Services Authority
My auditor's report of the Awasak Child and Family Services Authority financial statements contained a reservation of opinion as the Authority had not recorded revenues or expenses of $180,000, relating to the delivery of a program funded by a school jurisdiction, in their financial statements.

Guidance to reader

The Ministry's purpose, as stated in its 2000-03 business plan, is "to support community development, and through leadership, protection and partnership, help all Albertans participate fully in the social, cultural and economic life of the province." The Ministry supports community development mainly through the funding of various initiatives, in the areas of human rights, social housing, seniors benefits, arts and culture, sports, recreation and parks activities, library activities, volunteerism, and maintenance and access to historical resources.

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

Total expenses for the Ministry were $458 million for 1999-2000 ($369 million for 1998-99). Revenues were approximately $102 million, including a transfer from Canada Mortgage and Housing Corporation of $66 million.

The Ministry of Community Development underwent significant changes due to the government reorganization in May 1999. Various programs and entities were both added to and transferred from the Ministry.

Many of the Minister's program delivery responsibilities have been delegated to other organizations. The Ministry has entered into contracts with not-for-profit volunteer societies to deliver a significant portion of its operations at facilities such as the Jubilee Auditoria, museums, and historic sites. As part of the government reorganization, the Ministry is now responsible for social housing services. This is implemented through 149 management bodies.

Although the large numbers of entities that deliver services are diverse and often located at remote sites, accounting for transactions occurs centrally. Consequently, there is a risk that certain transactions of the Ministry may not be accurately and completely recorded in the financial records. In this section we make a recommendation that the Ministry strengthen its internal controls over the recording of transactions in the financial records.

A significant challenge for the Ministry is determining whether it is achieving its overall mandate through the delivery mechanisms that are available to it. A recommendation relating to board governance was made in the 1998-99 Annual Report and a related recommendation has been made in this report.

Ministry of Community Development
year ended March 31, 2000

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and the Department of Community Development as at and for the year ended March 31, 2000. My auditor's report for the Ministry contained an adverse opinion and my auditor's report for the Department contains a qualified opinion. The auditor's reports should be read for full details of the reasons for the reservations. On page 264 of this report, I have provided a summary of the reasons for the reservations in my auditor's reports on the Ministry and Department financial statements.

Scope of audit work

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

- A review of board governance, as part of a follow-up of cross-government recommendations made last year regarding selection and training of board members
- An examination of the systems used by Alberta Social Housing Corporation to forecast housing assistance needs
- A follow-up of the use of official receipts for income tax purposes by the Alberta Sport, Recreation, Parks and Wildlife Foundation
- Specified audit procedures on the Ministry's key performance measures reported in its Annual Report for the year ended March 31, 2000
- Audits of the 1998-99 and 1999-2000 cost-sharing claims under the *National Housing Act* (Canada)

Foundation governance

We recommend that the Department review its relationship with the Ministry's foundations to determine how the Ministry can best meet its objectives.

The Department supports the foundations by providing administrative services

The Ministry of Community Development seeks to achieve its goals by delivering its programs through a number of entities, including five foundations. The Department supports these entities by providing administrative services. The Department needs to consider how it can best provide support services needed by the foundations.

For example, the Board of the Alberta Sport, Recreation, Parks and Wildlife Foundation sought to obtain legal advice to review a ruling received from Canada Customs and Revenue Agency (CCRA) concerning their Donation Fund Program. The initial ruling from CCRA was very restrictive and appeared to directly impact the Foundation's ability to continue to operate this program. While this issue had direct implications for the Foundation, the Department prevented the Board from seeking legal clarification on the ruling. The Board felt the ability to seek external advice was within its mandate to govern.

The Department needs to review its relationship to the Ministry's foundations

The Department should review its relationship with the foundations in order to ensure the support it provides is consistent with the desired roles and responsibilities of the foundations.

Housing assistance

We recommend that the Ministry of Community Development improve its system to determine housing assistance needs.

The Ministry maintains an infrastructure of government owned housing projects, and supplies additional housing units through agreements with private landlords

The Ministry provides subsidized housing to Albertans in need. Housing programs are administered by management bodies on behalf of the Ministry. The Ministry maintains an infrastructure of government owned housing projects, and supplies additional housing units through agreements with private landlords. The Ministry also assists in the funding of approved capital projects initiated by management bodies or other community organizations.

Rents have been increasing in Alberta resulting in demand for increased subsidies and increases in the number of families and seniors needing assistance

After a long period of relative stability in the housing market, rents have, for some time now, been increasing in Alberta and this trend seems likely to continue in step with the expanding job market. Increases in housing rents create a demand to increase subsidies to existing low income earners and can also result in increases in the number of families and seniors needing housing assistance. Without good information on the existing and future demand for housing assistance, there is a risk that the government will be faced with a significant problem without having developed a realistic response.

The Ministry is asking municipalities to assess their existing and future housing needs

The Ministry has recognized the urgency to quantify the growing demand for housing assistance. A "Policy Framework" developed for family and special purpose housing by the Ministry in July 2000 states that "communities must be encouraged to take the lead role in determining their current and future housing requirements." In effect, the Ministry is asking municipalities to assess their existing housing needs and predict the future demand.

In our view, this approach has considerable merit, as it will enable the Ministry to draw on the local knowledge that the municipalities possess.

The Ministry has not established common standards and a methodology for the assessment of demand

However, while the policy framework contains a vision statement and some guiding principles for the provision of housing assistance, the Ministry has not established common standards and methodology for the assessment of existing need and prediction of future need. Without some uniformity to this process it will be difficult for the Minister to:

- assemble existing and future demand for all municipalities on a comparable basis
- rank individuals and municipalities according to need

The Ministry needs to coordinate the process to assess the demand for housing

Municipalities will need varying amounts of direction depending on their size and abilities in order to produce reliable assessments and predictions. Failure by the Ministry to properly orchestrate the process to assess existing and forecast future demand may result in shortages of safe adequate and affordable housing, which might not be recognized until the problem becomes severe.

The Ministry is developing a policy framework for the delivery of seniors housing programs

The Ministry is in the process of developing a policy framework for the delivery of seniors housing programs. We have been advised that, as with family and special needs housing, the Ministry intends to involve communities to determine existing demand and forecast future needs. The Senior Housing Division will consult with regional health authorities, Non-Profit Housing sponsors and with the Ministry's management bodies. We trust that the Ministry will find our observations on the family and special purpose housing policy framework helpful to the development of the framework for seniors.

It is critical for the Ministry to be able to assess the existing and future housing needs of those needing assistance

The Ministry must be able to assess existing and predict future housing needs at both a total and community level as the results are crucial to the Ministry's plans for directing resources to those most in need of housing assistance. As a check on the reasonableness of the information supplied by municipalities, the Ministry should consider tracking and trending economic and other demographic impacts at a local and Province-wide level. The development and use of statistical tools would help in this exercise.

Department of Community Development
year ended March 31, 2000

Internal control weaknesses

We recommend that the Department improve internal controls to ensure that all transactions are properly authorized, and appropriately and completely reflected in the underlying financial records.

Management is responsible for maintaining adequate internal controls

Management is responsible for maintaining adequate internal controls to ensure that:

- assets are safeguarded
- error and fraud is prevented or detected promptly
- transactions are properly authorized
- all transactions are appropriately and completely reflected in the underlying financial records

For specific policies and procedures to operate effectively as internal controls, a sound control environment should be in place. The control environment reflects the overall attitude, awareness, commitment and actions of management concerning the importance of internal controls and its emphasis in the organization.

We observed a number of internal control weaknesses

During our audits of the Department and the various funds and foundations, we observed a number of internal control weaknesses, including the following:

- instances where material transactions were not completely and accurately recorded in the records
- instances of non-compliance with Ministerial policy regarding approval of contracts, purchases and payments to ensure that transactions were properly authorized
- a lack of a timely review of payroll transactions to ensure accurate and complete data entry of transactions

Unreliable financial control information prevents management from performing their control and monitoring responsibilities. Given the number of control weaknesses noted and the discovery of transactions that were not recorded, management should take action to improve its internal control environment.

Alberta Sport, Recreation, Parks and Wildlife Foundation
year ended March 31, 2000

In my 1998-99 Annual Report, I recommended that the Alberta Sport, Recreation, Parks and Wildlife Foundation comply with the *Income Tax Act* (Canada) when issuing official receipts for income tax purposes.

The Foundation has made satisfactory progress in the current year to ensure tax receipts issued are in compliance with governing legislation. During the year, the Canada Customs and Revenue Agency (CCRA) provided clarification concerning what is considered an appropriate tax receipt. CCRA confirmed that the Foundation’s Donation Fund Program, which supports Provincial associations for various athletic programs, could receive donations, provided the Foundation retains final decision-making powers as to what sport programs the funds are utilized towards. Based on this ruling, the Foundation created a Donation Program Policy. This policy outlines that the donor must sign a statement that there will be no personal gain from the donation, that the donor acknowledges the Foundation has final direction of the donation, and that a minimum donation is required. We will review the policy’s implementation and effectiveness in the next fiscal year.

Other entities

My auditor's reports on the financial statements of the following, for the year ended March 31, 2000, contained reservations of opinion. The auditor's reports should be read for full details of the reservations.

Alberta Foundation for the Arts
The Alberta Historical Resources Foundation
Alberta Sport, Recreation, Parks and Wildlife Foundation
The Government House Foundation
Historic Resources Fund
Human Rights, Citizenship and Multiculturalism Education Fund
The Wild Rose Foundation
Alberta Social Housing Corporation

Guidance to reader

Department mission and core businesses

The mission of the Ministry of Economic Development is to promote Alberta's continuing prosperity. The Ministry's core businesses are:

- providing strategic leadership for economic development policy and planning
- market development and investment attraction
- tourism marketing and development

The Ministry has two key partners, the Alberta Economic Development Authority and the Strategic Tourism Marketing Council, which coordinate private sector input.

During 1999-2000 the Ministry's operating expenses amounted to $47 million (1998-99 $35 million). Of this amount, $26 million (1998-99 $21 million) was for marketing and business development and $17 million (1998-99 $10 million) was for tourism programs. Marketing and business development includes two significant areas that focus on international trade and international marketing. Revenues for the year amounted to approximately $1 million (1998-99 $1 million).

Government changes impacting the Ministry

Government reorganization resulted in a significant reduction in the size of the Ministry with the Lottery Fund and the Alberta Gaming and Liquor Commission being transferred to the newly established Ministry of Gaming. Alberta Opportunity Company was moved to the Ministry of Agriculture, Food and Rural Development.

A new tourism framework was initiated

A new tourism framework was implemented in 1999-2000. It replaced the previous Alberta Tourism Partnership Corporation structure that was discontinued in 1998. During 1999-2000, the Department contracted out over $10 million worth of marketing and tourist information services.

Ministry of Economic Development
for the year ended March 31, 2000

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Economic Development as at and for the year ended March 31, 2000. My auditor's report contained two reservations of opinion. The first reservation resulted from the Ministry not recording all capital assets, the second from not recording all expenses that related to the Ministry operations. The auditor's report itself should be read for full details of the reasons for the reservation. On page 264 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry and Department financial statements.

Scope of the audit work

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

- A follow up examination of the business planning process
- An examination of the new tourism framework
- Application of specified audit procedures on the Ministry's Performance Measures

Controls over management of assets and payments

We recommend that the senior financial officer of the Department ensure that key internal controls over the management of assets and payments be complied with.

We identified the need for improved controls over the security of assets

We identified a number of concerns with the management of assets where the control procedures had been sound but because of work pressures or vacant positions, the control had not been followed. However, the senior financial officer has to ensure that controls are maintained at all times. Reconciliations of foreign bank accounts, follow up on outstanding staff advances and updating of the inventory listing of computer equipment did not occur in a timely manner.

We also identified the need for improved controls over payments

We also identified weaknesses in payment controls in the tourism program. For example, we observed overpayments to some contractors because invoices and reports were not adequately scrutinized. As a result, the Department and a contractor reviewed other payments and a total overpayment of $141,434 was identified. Also, the contractor agreed to improve the reporting and invoicing process to prevent future overpayments on partnered projects. However, the Department's own controls must be capable of preventing or detecting overpayments.

Assets recorded as grants

Recommendation No. 12

We recommend that the Department of Economic Development ensure that expenses and assets arising from new initiatives are disclosed in its financial statements based on the substance of the transactions.

The Department is participating with the private sector and other government organizations in a number of areas. One such arrangement was the promotion of Alberta's interests at Expo 2000 in Germany, from June through October 2000.

The Department failed to disclose a bank account in its financial statements

The Department entered into an agreement with a contractor to open and maintain a bank account for receiving contributions and payments of expenses for this project. At March 31, 2000 the Department had contributed over $700,000 into this account. This amount has been treated as a grant expense in the Department's financial statements. Although a contractor manages the account, that is done under the direction and supervision of the Department. As the bank account belongs to the Department, it should have been included in its financial statements as an asset and the transfer of funds into the bank account should not have been recorded as an expense.

Branch business plans

In our 1997-98 Annual Report, we made a recommendation that the Department prepare plans for each of its significant branch operations. Management agreed to this recommendation and we reviewed the actions taken to implement the recommendation. The branches in the Department have made significant improvements to their business plans and, in general, most criteria we used to assess branch plans have been met. However, we noted that plans did not cover all the significant activities of the Department and did not always include budget information.

Branch plans

We again recommend that the Department ensure that its branch plans encompass all significant activities of the Department's operations and indicate how all funds in the budget are to be used.

Branch plans did not include all significant areas of operation

The Department uses branch plans to manage the implementation of the Ministry business plan. We found however, that 35% of the Department's budget was not included in branch plans. For example, the Regional Development branch did not indicate how any of its $3.2 million budget was to be spent. Also, we found that not all significant areas of operation were included in branch plans. For example, the International Offices Branch did not include all its foreign operations.

Excluding significant activities reduces the usefulness of plans

The purpose of branch plans is to explain what is to be done with resources allocated to a branch. The exclusion of significant activities and relevant budget information reduces the usefulness of these plans.

Tourism

In our 1996-97 Annual Report, we made a recommendation that the Department of Economic Development consider re-negotiating the Agreement with Alberta Tourism Partnership Corporation to improve the accountability framework and performance reporting. This recommendation was accepted.

The audit assessed the new tourism marketing system, and confirmed that our recommendation had been satisfactorily dealt with

In January 1998, the Minister cancelled the contract with Alberta Tourism Partnership Corporation. Subsequently, the Ministry initiated a process to develop an alternative system for delivering tourism marketing in Alberta. During 1999-2000, the Ministry established a number of contracts and processes under the new system. The primary purpose of the audit was to assess whether or not the recommendations made in 1996-97 had been implemented. Our work assessed the new system in relation to the criteria we used in evaluating the former contract. In addition, we examined the bidding process and contract monitoring and reporting for the tourism marketing and call centre contracts. Based on the evidence obtained during the audit, we concluded that the criteria were substantially met and therefore our recommendation has been satisfactorily dealt with.

Guidance to reader

The Ministry comprises the Department of Environment, the Environmental Protection and Enhancement Fund, the Natural Resources Conservation Board, and the Environmental Appeal Board. The Ministry's mission emphasizes the stewardship and sustainable development of Alberta's renewable natural resources. The Ministry implements its mission through its two core businesses, resource management and environmental hazard management. In 1999-2000, the Ministry recorded $174 million (1998-99 $156 million) of external revenue while expending $449 million (1998-99 $484 million) on its businesses.

The Department has wide-ranging responsibilities, including forestry management, wildlife management, fish management, habitat preservation, and regulatory functions. The Department has developed numerous automated and manual systems to manage and report their businesses. This year, we revisited some of the systems used to manage fish populations in the Province. Since our recommendations concerning fish management in 1993-94, the Department has redesigned its planning processes and has designed, developed, and implemented two major database systems. These systems represent a significant improvement in the Department's ability to manage the fish resource. Our work this year indicates that the Department's challenge now is to ensure that these systems are consistently applied, capture critical data, and are effectively utilized to manage fish populations in the Province.

A number of systems have been implemented in the past few years that impact the financial administration of the Ministry. These systems include IMAGIS (the government-wide financial and human resource system) and TPRS, the Timber Production and Revenue System. We examined the controls in and around these critical systems and found opportunities where control and efficiency can be enhanced.

The Ministry has created six Delegated Administrative Organizations (DAOs), independent entities that deliver programs on behalf of the Minister. Monitoring the effectiveness of these DAOs is important because, given the arm's length relationship of the parties, the Ministry does not exercise direct control over the programs for which it continues to be responsible. We have examined the Ministry's monitoring of DAOs since 1997-98; this year, we followed up the recommendation that we made in 1998-99. Monitoring appears to be strong for four of the six DAOs. However, we have made recommendations for improvement with regard to monitoring and managing the relationship between the Ministry and the other two DAOs.

Ministry of Environment
year ended March 31, 2000

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Environment for the year ended March 31, 2000. My auditor's reports contained four reservations of opinion that resulted from the Ministry and Department following the corporate government accounting policies and reporting practices as established by Treasury Department. The auditor's reports themselves should be read for full details of the reasons for the reservations. On page 264 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on the ministry and department financial statements.

Department of Environment
year ended March 31, 2000

Scope of the audit work

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

- A follow-up of two fish stocking management recommendations from the 1993-94 Auditor General's Report
- A follow-up of last year's recommendations related to the Department's monitoring of its Delegated Administrative Organizations
- A follow-up of last year's recommendations related to the Department's regulatory approval process required under the authority of the *Environmental Protection and Enhancement Act*
- A follow-up of our recommendation from 1997-98 regarding Integrated Resource Management (IRM), including providing advice to the Department on related performance measures

- A follow-up of our recommendation from 1997-98 regarding the Department's Timber Production and Revenue System
- At the request of the Deputy Minister, we are reviewing and commenting on the Ministry's initiative to improve its performance measurement and reporting
- Specified audit procedures applied to the performance measures that appear in the Ministry's Annual Report

Fish Stocking Management

We reviewed the Department's progress in addressing two recommendations made in 1993-94

In the 1993-94 Auditor General's Annual Report, we made two recommendations regarding fish stocking and management in the Province. In 1999-2000, we reviewed the Department's progress in addressing these recommendations. The first recommendation from 1993-94 encouraged the Department to set measurable goals against which the performance of its fish management activities can be measured, and to obtain better information to enable the Department to evaluate and report on the success of those activities.

Setting measurable goals

A new planning model and a new system, FMIS, have recently been implemented

In the past six years, the Department has implemented a new planning model for fish management in the Province. This model produces the following strategic and operational documents:

- a Fish Conservation Strategy for Alberta
- the Fish Stocking Process for Alberta
- Management and Recovery Plans for individual species
- Actions Plans for specific areas of the Province

In addition, the Department designed, developed, and implemented a new automated system called the Fish Management Information System (FMIS).

The Fish Conservation Strategy defines high level goals and objectives

The Fish Conservation Strategy states that the Department's mission is to "sustain the abundance, distribution and diversity of fish populations at the carrying capacity of their habitats." he Strategy discusses three interrelated goals: habitat maintenance, fish conservation, and fish-use allocation. Our review focused primarily, although not exclusively, on fish conservation issues.

Plans have been developed for six species

Management and Recovery Plans have been established for six species: walleye, northern pike, bull trout, golden trout, Arctic grayling and lake sturgeon. The fish use objective in the Plans is “to recover collapsed and vulnerable populations and to sustain stable … ones.” In practice, the Department has prioritized its activities so that the majority of its resources will be directed toward the management of the two most important sport species, walleye and northern pike, in 160 high profile lakes. These are lakes that attract the greatest angling pressure. With these Plans in place, the Department has set the measurable goals against which its performance can be measured.

Annually, managers prepare an Action Plan for each area in the Province

The Department’s Natural Resources Service has divided the Province into six regions, and within those six regions, 17 areas. The manager of each area prepares an annual Action Plan. Action Plans align area activities to the Department’s business plan and budgeting process, establish work priorities on an annual basis, and provide a basis for developing performance agreements with staff and measuring the achievements at the end of the year. Each Action Plan should incorporate the fish management activities relevant to that area.

Consistent Action Plans

Recommendation No. 13

We recommend that the Department of Environment’s regional and area Action Plans used in the planning process be completed on a consistent basis. There are 17 areas covering the Province for which Action Plans are prepared by the Department’s Natural Resources Service.

Action Plans have not been consistent across the Province

We reviewed the 1999-2000 regional and area action planning process. Many Action Plans did not include information on staffing, the timing of activities, and performance measures. This information is critical to planning, monitoring, and reporting on activities in the regions. Many Action Plans did not seem to be consistent with the Province-wide Fish Conservation Strategy. For example, in only two of the seventeen area Action Plans was the principle of no net loss of productive fish habitats mentioned. This key principle in the Fish Conservation Strategy is an integral part of the mission for the Fisheries and Wildlife Management Division, but is rarely referenced at the regional level. As well, Action Plans should also be consistent with the issues and processes outlined in the Management and Recovery Plans. Of course, each species is area specific and should only be included in those area Action Plans where it exists. However, there were no activities related to managing golden trout in any of the area Action Plans. Not all areas that should be managing walleye, northern pike, or Arctic grayling commented on these species in their Action Plans. In two areas, there was no fishery staff to manage the species, so no mention was made of those species in the Plans. In another case, staff were managing lake sturgeon in the Edmonton/Cold Lake area, but did not include this activity in their Action Plan.

Action Plans can be clearer

In many cases, the activities and expected results outlined in the Action Plans can be more clearly expressed. One Action Plan described an activity "to develop and implement fisheries management plans within existing policy programs and legislative frameworks that ensure conservation of the resource while allocating sustainable use in a fair and equitable manner." The performance measure for this activity was "Fisheries Resource is sustainable and resource is adequately conserved." Clarity and precision in the Action Plans help staff focus on critical Departmental activities and objectives.

Coordination issues need to be addressed

Regional directors and area managers have indicated that their staff have numerous tasks to perform and relatively little time to devote to planning. However, consistent planning across the Province would ensure that limited resources will be assigned to critical functions. Area and regional Action Plans should be reviewed and coordinated centrally by Fisheries Management Division in Edmonton to ensure that plans are prepared in a consistent fashion and that activities are neither duplicated nor omitted. Otherwise, strategies to maintain and ultimately increase fish production through habitat protection and natural reproduction could be compromised.

Collecting scientific data

Current baseline data is being collected for high profile lakes

The Management and Recovery Plans note that "management will be based on …factual information," and that it will be necessary to "conduct inventories of walleye [and pike] populations" at specific water bodies. The Department relies on such data collection techniques as creel surveys, test netting, and biological sampling to determine the growth and age of fish. Since 1996, the Alberta Conservation Association has collected the majority of this data on behalf of the Department. In the past year, assessments to establish baseline data for walleye and northern pike populations have been completed at 80 of the Province's 160 "high profile walleye/northern pike lakes." Assessments for the remaining high profile lakes should be completed in the coming year. High profile lakes will then be reassessed on a five-year cycle. Under the overall Management and Recovery Plans for each species, specific operational and lake-specific management plans are also to be developed.

FMIS will capture a wealth of fisheries information

The Fisheries Management Information System (FMIS) has been implemented to:

- Create a comprehensive fisheries database that covers all business needs.
- Support data capture and retrieval at locations throughout the Province.
- Standardize data collection, storage and reporting.

FMIS will capture a wealth of information, much of which had previously filled filing cabinets in the 17 areas across the Province. For example, FMIS will hold information on more than 18,000 water bodies, including data on fish habitat, fish population, and related departmental planning documents.

FMIS can play a critical role in managing fisheries

Departmental employees expect FMIS to play an important role in helping them manage fisheries better. For example, FMIS has the capacity to produce maps; these can portray detailed information regarding high-risk fishery management areas, such as spawning sites. Even users outside government will be able to access its functionality. For example, in planning new projects, developers will be able to download pertinent legislation, regulations, codes of practice, and maps from FMIS via the Internet.

Entry of critical data into FMIS

We recommend that the Department of Environment ensure that critical data is collected and entered into the Fish Management Information System.

Data for other species and lower profile lakes needs to be collected

Fisheries data collection can be enhanced. Data collection is well underway for the walleye and northern pike in the Province's high profile lakes. However, the plan to collect current scientific data to meet the objectives of the other four species' Management and Recovery Plans is not clearly defined. Likewise, the plan to acquire timely, science-based data for the walleye and northern pike populations in the Province's lower profile lakes has not been defined. The Department anticipates that lower profile walleye/northern pike lakes will be assessed based only on discussions with area managers. We realize that data collection for the other four species and for the lower profile lakes need not be as rigorous as for walleye and pike in the high profile lakes. However, plans for baseline data collection in the field should be developed to satisfy the principle of management based on fundamental ecological principles and scientific information.

Area managers face challenges in loading historical data into FMIS

Communication of the need for and progress toward FMIS data collection can be improved. During our review, few of the regional directors or area managers that we contacted seemed to be aware of the data collection activities directed from Edmonton and performed by Alberta Conservation Association staff. In addition, area managers indicate that, due to matters of priority, they have not been able to convert historical hard copy data into an electronic format for entry into FMIS. Some have indicated that decades-old historical data is not very useful, a view that is not held by those who designed the system. Others have commented that the system is difficult to use and should be more user friendly. For FMIS to operate as intended, the Department should clarify the need for, and extent and timing of, data entry to be performed in the regions.

FMIS training would smooth the implementation of the system

To ensure that FMIS becomes fully operational and used to its full capacity, a training schedule should be implemented. FMIS is a relatively new system that may evolve over time; staff using the system will need to stay current. Training should be incorporated into the Action Plans and included in staff performance agreements. It is also suggested that staff be shown not only the technical functions of the system, but also how FMIS can help them do their jobs more effectively.

Costing fish production

The second recommendation from 1993-94 has not been fully addressed

The second recommendation from 1993-94 encourages the Department to improve its costing of the types and sizes of fish produced in its hatcheries, and to include all costs. While the Department has implemented a new system, this recommendation has not been fully addressed.

Environment did not allocate full costs of production to each batch of finished fish

To stock Alberta's water bodies with small fish, the Department relies on four facilities: two brood stations (to produce eggs) and two hatcheries (to rear the young fish). Infrastructure (formerly Public Works, Supply and Services) owns and maintains these four facilities; the Fisheries Resources, Allocation and Use Branch operate the fish rearing programs. In 1993-94, we noted that Fisheries Management did not capture all costs relevant to operating its programs, and did not allocate those costs to finished batches of fish. As a result, Fisheries Management could not fully cost any particular batch of fish. This information would be useful in decision-making. For example, while a larger fish enjoys better survivability when released, it also costs considerably more to produce. Cost per batch would also be useful should management ever consider outsourcing this activity.

FCIS was developed to manage fish stocking activities

To address this recommendation, Fisheries Management designed, developed, and implemented the Fish Culture Information System (FCIS). FCIS incorporates many information needs of fish culture. For example, FCIS collects costs by task and then allocates those costs to individual batches of fish. In addition, it performs operational tasks such as calculating the feed requirements for individual batches of fish as those fish hatch and mature. FCIS was designed to interface with FMIS. For example, FMIS would alert FCIS of fish stocking requests, and FCIS would upload information to FMIS about the delivery of a batch of fish to a particular water body.

Financial systems for hatcheries and brood stations

We recommend that IMAGIS treat each hatchery or brood station as a cost centre, and that the financial data entry for IMAGIS and FCIS be integrated. Further, we recommend that FCIS capture all relevant costs.

FCIS can handle cost allocation, but is not used

Management initially believed that IMAGIS (the government-wide financial system) would define each hatchery and brood station as a cost centre. As a result, costs recorded on FCIS for each facility would be consistent with cost centre information on IMAGIS. However, when IMAGIS was delivered, it did not record costs at the facility level; costs were accumulated at the higher branch level. As a result, the idea of operating a full cost system, integrated with IMAGIS, was dropped. We understand that to set up the hatcheries and brood stations as cost centres on IMAGIS would not be a difficult task. With cost centres defined in IMAGIS, FCIS could perform the cost allocation function for which it was designed.

Duplicate entry of financial data and subsequent reconciliation issues could be eliminated

In place of costing individual batches of fish using FCIS, the hatcheries and brood stations have developed spreadsheets to capture and allocate costs. Invoices are currently received, coded, and logged in a spreadsheet at each facility. Because IMAGIS has not been "rolled out" to the hatcheries or brood stations, invoices are then sent to the head office in Edmonton for entry to IMAGIS. Monthly reports are generated from IMAGIS in Edmonton and sent back to the hatcheries and brood stations where they are reconciled to the spreadsheets. These duplication of entry and reconciliation processes are inefficient and prone to error. If IMAGIS was available by cost centre at each hatchery and brood station, recording and reconciliation issues could be minimized. Ideally, a single, integrated data entry point would eliminate these problems.

Indirect costs need to be captured in order to fully cost batches of fish

Fisheries Management did not collect the capital, labour, and utility costs (such as heat, light, and water) required to run the hatcheries and brood stations. However, Infrastructure costs for each building are distributed to the Department of Environment annually and include amortization and operating costs. These costs will need to be entered into FCIS and allocated to tasks for the costing of fish batches to be complete. Similarly, certain branch and divisional administration costs would have to be captured. However, FCIS was not designed to accommodate such indirect costs and would have to be amended to produce full costing.

Delegated Administrative Organizations (DAOs)

Environment relies on six DAOs to deliver programs

The Minister of Environment has delegated the operation of certain programs to independent DAOs. The six DAOs that conduct Environment business are the:

- Beverage Container Management Board
- Alberta Used Oil Management Association
- Forest Resource Improvement Association of Alberta
- Tire Recycling Management Association of Alberta
- Alberta Professional Outfitters Society
- Alberta Conservation Association

Because the programs delegated to DAOs are important to the success of the Ministry, Department staff should perform routine, documented reviews of these arrangements.

Last year, four of six DAOs had not implemented the Department's monitoring system

The Department developed a system to monitor and evaluate its DAOs. The key to the system is a workbook, which is an extensive checklist of monitoring activities to be undertaken by the designated Departmental manager. The checklist includes the review of each DAO's annual plan, budget, and annual report. As well, Environment's managers monitor each DAO against defined performance measures and communicate regularly with their DAO to ensure that the Ministry's business objectives are being fulfilled. Last year, my staff reviewed progress in implementing this system. We found that, for four of the six DAOs, formal monitoring had not progressed. We were told that the Department would have its monitoring and paperwork up-to-date within a few months.

This year's review shows that monitoring and intervention should be strengthened

This year, we again reviewed the Department's monitoring. While there has been progress, we found that the Department's system has not been implemented for one DAO, the system itself might be enhanced, and one DAO is facing significant challenges. As a result, we have made two recommendations to the Department.

Monitoring system for DAOs

Recommendation No. 14

We recommend that the Department of Environment fully implement and continue to refine its system for monitoring its Delegated Administrative Organizations.

The monitoring system has not yet been implemented for one DAO

This year, at the time of our review, no progress had been made in the completion of the workbook for the Forest Resource Improvement Association of Alberta. This is a compliance issue because the Department's established monitoring process has not been followed. However, the main concern is that failure to follow the process means that the Department cannot demonstrate that it has monitored and considered the effectiveness of the activities of this DAO.

The workbook system could include an analysis of risk for each DAO

The DAO evaluation workbook describes the generic monitoring and analysis expected for each DAO. However, the risks associated with each DAO are unique. We believe that an annual assessment of risk, as an integral part of each workbook, would help to determine how much and what type of monitoring is appropriate for each DAO. Currently, the degree of attention given to each DAO varies considerably. For example, Environment's legal counsel reviewed the Tire Recycling Management Association's governance documents in depth, while other DAOs were not subject to such a detailed analysis. However, no analysis of risk supports the differing degrees of attention accorded these DAOs. As well, risk analysis may offer efficiencies for the monitoring process. For example, where a detailed analysis of some aspect of a DAO's operation has already been performed, future monitoring in that area might be restricted to changes in that DAO or its business.

Governance issues at the ACA

We recommend that the Department of Environment encourage the Alberta Conservation Association to resolve its governance issues.

The Department and ACA share common objectives

The Alberta Conservation Association (ACA) was established under the *Societies Act*; seven existing organizations that shared an interest in conservation issues became the founding members of the ACA. Under Schedule 2 of the Wildlife Regulation, the Lieutenant Governor in Council delegated the ACA a mandate to address a wide range of conservation activities. The ACA is primarily funded by a portion of the revenue generated by hunting and fishing licences in the Province. The ACA's conservation responsibilities and activities complement those of the Department. Therefore, for the Ministry to succeed in its conservation objectives, the ACA needs to succeed. For its part, the Department has viewed its relationship with the ACA as a partnership in which both organizations work to effect common goals.

The Alberta Fish and Game Association strongly influences the ACA

Prior to the formation of the ACA, the Department had a long-standing working relationship with the Alberta Fish and Game Association (the Association). The Association became one of the founding members of the ACA, and has more members on the ACA's Board of Directors than any other organization. As a result of its Board presence, and also because fishing and hunting licences provide the majority of ACA's funding, the Association has been able to exercise considerable influence over the activities of the ACA. That influence has meant that the ACA's projects tend to deal with hunting and fishing issues. As well, to maximize its contribution to the Ministry's conservation mandate, the ACA should enlist broader support for its mandate from land-use stakeholders such as the oil and gas, forestry, and agriculture sectors. This would mean reduced influence by the Association. Board minutes and interviews with Board members demonstrate a rift that needs to be addressed.

The relationship between the Department and the ACA can be strengthened

ACA Board Members have had difficulty in defining the ACA's relationship with the Department. In our review of the ACA's Board minutes, we found that board members complained of the "lack of understanding of the mandate and programs ACA inherited" from the Department and that "the mandate of the ACA is too broad for the funds available." The minutes noted, "Some members of the Board expressed concern regarding the…relationship between ACA and the government. [These board members'] continued involvement will be contingent upon the resolution of these issues." The Department should clarify its expectations of the ACA. Some form of contract or consultation to clarify existing regulations might help to define and agree expectations and activities. It may also be useful to establish a mediation mechanism to assist the parties in resolving any conflicts that may arise. A clear mutual understanding of mandates will help to ensure that the ACA contributes to the Ministry's conservation goals.

Conflict of interest issues at the ACA represent a risk to the Minister

The ACA has developed and approved a conflict of interest policy. The policy says that when "a conflict arises, the affected [board] member must declare the conflict, fully disclose any personal interest he may have in the transaction, and refrain from voting upon the matter." From review and discussion, we understand that the ACA board members have interpreted this policy to mean that a board member will declare a conflict of interest only where there might be a direct personal benefit. However, where there is a conflict "as a result of their associations with organizations having dealings with the ACA" (as the policy says), no conflict of interest is being declared. The risks related to conflict of interest are clearly defined in the policy: "participation in any matter in which [a board member has] a conflict could invalidate the decision and could result in embarrassment to both the ACA and the affected organization. If the conflict is significant, public confidence in the ACA could suffer." As the ACA delivers services on behalf of the Minister, the risks of non-compliance are shared by Environment. This issue should be raised at the ACA by the Minister's representative on the Board, by the Departmental manager who monitors the ACA, or by other means. Close monitoring will also be required.

Initial steps have been taken by the Minister

The previous Minister of Environment began to address these issues. In April 2000, he asked "to receive a plan from you [the ACA], by July 31, 2000, which describes the ACA's new directions and implementation strategy". On July 17, the ACA responded by letter to the current Minister, but has yet to provide a complete plan that would address these governance issues.

Controls over Automated Systems

We examined five automated systems used by Environment

As part of this year's attest audits, my staff examined the controls and operations of five automated systems in the Department. These systems were chosen because they are critical to the financial operations of the Department. They are:

- IMAGIS, the government-wide integrated financial and human resource system
- the Timber Production and Revenue System (TPRS)
- the Corporate Accounting and Reporting System (CARS); this system is owned and operated by the Department of Resource Development, and is used by Environment to record, control, and report revenues and receivables
- the Contract Registry system
- the Utilities system

Issues related to TPRS, as reported in 1997-98, have been resolved

In 1997-98, we recommended that the Department review the status of TPRS, then prepare and execute a project plan to bring TPRS to a current, stable status. In our 1998-99 Annual Report, we reported that the post implementation review was complete and TPRS stability improved. Based on the examination completed this year, we have concluded that TPRS is current with regard to data entry and processing, and that the Department has successfully actioned our original recommendation. In the course of this year's work, we have identified the following opportunities for improvement.

Automated information systems controls and interfaces

We recommend that the Department of Environment enhance the controls over and interfaces for its automated information systems.

Security profiles are defined in a security table for each system

The functions within a system to which a user has access, as well as the user's ability to read or write data, is restricted by the user's security profile. Security profiles are defined in a security table for each system. The security table lists each user and the assigned access privileges. An appropriate individual should authorize access.

TPRS and IMAGIS security administration can be enhanced

Security administration for TPRS can be enhanced. First, the individual who maintains the security profiles of users should also maintain a transaction listing. This listing would evidence that existing access privileges have been appropriately authorized. Second, a department employee should regularly review the TPRS security table. Through error, omission, or intent, the security table may be granting access privileges to inappropriate persons (for example, terminated staff) or providing inappropriate levels of access to legitimate employees. Third, a security administrator should be designated. This individual would be responsible for monitoring unauthorized attempts to access the TPRS system and for ensuring that authorizations granted to individuals are appropriate. Similarly, the IMAGIS security administrator should regularly review the IMAGIS Accounts Payable and Human Resource security tables. Currently, these tables are only reviewed occasionally. This review in IMAGIS is particularly important. Central authorities such as Treasury can assign access to Environment's business units, and IMAGIS does not automatically generate a report of changes to access privileges for Environment's IMAGIS security administrator.

Migration control can be strengthened in TPRS

Controls surrounding the migration of program changes to the TPRS production environment can be strengthened. If not properly controlled, program changes may result in loss of data or incorrect processing by the system. To avoid such problems, there should be a segregation of duties between the TPRS development team and the individual who migrates approved program changes to the production environment. However, for reasons of efficiency, passwords enabling migration from the test or development environment to the production environment have been granted to several development team members. As well, there is no transaction listing to identify the originator of each program change. Some migration controls are in place, such as email authorization of migrations by the corporate database administrator or the occasional comparison of the acceptance environment to the production environment. However, segregation of duties and a clear transaction listing would enhance program migration control.

An automated link between TPRS and CARS would enhance efficiency and effectiveness

An automated link between TPRS and CARS would enhance Departmental efficiency and effectiveness. Currently, the information from individual timber returns recorded in TPRS is agreed manually to individual entries in CARS. However, there is no overall reconciliation of timber revenues in TPRS with those recorded in CARS. An automated link would eliminate the manual work and ensure that timber revenues are completely and accurately recorded in CARS. As well, in order to determine the year-end financial statement accrual, timber revenue staff now have to identify and list the timber returns entered on TPRS that have not yet been entered on CARS. An automated link would eliminate this manual year-end process.

Regulatory Approvals Systems

Last year we recommended that the Financial Security Risk Assessment Model be implemented

In our 1998-99 Annual Report (page 157), we recommended that the Department implement the Financial Security Risk Assessment Model. The Model had been developed by the Department of Environment in consultation with government and private sector stakeholders. The Model addressed our concerns that the process for determining the amount and type of security for projects that could cause an adverse impact on the environment should be prudent and consistent across the Province. While we expressed concerns about the skill sets required to administer the Model, we felt that it would be an improvement over the existing situation.

The Department is revisiting the appropriateness of the Model

As a first step toward implementation, the Department of Environment, in consultation with other departments, re-examined the Model to validate that it meets the government's objectives. During this exercise, recent events caused the Department to reconsider the appropriateness of the Model. For example, the recent bankruptcy of Smoky River Coal Limited may leave the Province at least partially responsible for site restoration costs. The Department's re-examination is still underway. Under the circumstances, we feel that it is prudent for the Department to reconsider how it can best balance its environmental and financial risk management objectives. We will follow up this recommendation during 2000-01.

Integrated Resource Management (IRM)

IRM is progressing; we will continue to monitor and report its progress

The new Ecological Landscape Division on which we commented in last year's report (see pages 161 and 162) continues to evolve. The Division has been renamed the Integrated Resource Management Division; it has assisted in the development of two Regional Sustainable Development Strategies in the past year. As well, progress has been made toward a suite of performance measurements that will monitor the success of the IRM initiative throughout the government. Given the timing of the activities and outputs of the IRM Division, we believe that 2000-01 will be the most appropriate time to follow up our 1997-98 recommendation in detail.

Financial Administration of Fire Fighting

We will follow up our fire fighting recommendations in 2000-01

Last year we made five recommendations in our Annual Report regarding the financial administration of fire fighting (see pages 147 to 156). In addition to our recommendations, the Department received dozens of other fire fighting-related recommendations as the result of internal operational reviews. In order to give the Department time to decide its priorities and to implement changes, we will wait until 2000-01 to follow up progress against our recommendations.

Other entities

Financial audits of the following were also completed for the year ended March 31, 2000. My auditor's reports contained reservations of opinion that resulted from these entities following the corporate government accounting policies and reporting practices established by Treasury Department. The auditor's reports themselves should be read for full details of the reasons for the reservations.

Environmental Protection and Enhancement Fund
Natural Resources Conservation Board

Guidance to reader

The Ministry of Executive Council is responsible for coordinating and implementing the government's overall agenda including policy coordination, administrative support, and effective communication.

The Ministry underwent some changes because of the government reorganization in May 1999. The Northern Alberta Development Council was transferred to the Ministry of Resource Development and the Protocol program was received from the Ministry of International and Intergovernmental Relations. The Ministry of Executive Council includes:

- Offices of the Premier and Lieutenant Governor
- Public Affairs Bureau
- General Administration (including the Alberta Corporate Services Centre)

The Alberta Corporate Services Centre was established in October 1999

The Alberta Corporate Services Centre (ACSC) was established by government in October 1999 to deliver common services to government organizations in the areas of human resources, finance, administration and information technology. During the year, the Ministry focused on developing plans for the ACSC. The ACSC began operations on April 1, 2000.

The Ministry's total expenses in 1999-2000 were $13.2 million (1999 $12.3 million). These expenses comprised $4.5 million (1999 $4.1 million, including $.5 million of expenses paid by other ministries) for the Office of the Premier/General Administration and $8.7 million (1999 $8.6 million) for the Public Affairs Bureau. Revenues of the Ministry, mainly from the Queen's Printer Bookstores, amounted to $1.8 million (1999 $2.0 million).

Shared services arrangements present risks to government

Shared services involve the provision of services by one government organization to another, typically for administrative functions. Last year we identified certain concerns with shared services arrangements. In our view, while shared services arrangements may provide opportunities to government to improve quality and reduce administrative costs, they do present potential business risks. Overall, there is a risk that the shared services may not be provided in the most cost effective manner and therefore, may negatively impact program delivery. During the year we observed the Ministry's progress in establishing the ACSC and developing guidelines for shared services arrangements that mitigate the inherent risks related to these arrangements.

Ministry of Executive Council
for the year ended March 31, 2000

I conducted an audit of the financial statements of the Ministry of Executive Council as at and for the year ended March 31, 2000. My auditor's report contained a reservation of opinion. The auditor's report should be read for full details of the reasons for the reservation. On page 264, I have provided a summary of the reasons for reservations in my auditor's reports on Ministry financial statements.

Scope of audit work

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

- Application of specified audit procedures to key performance measures reported in the Ministry's 1999-2000 annual report
- A follow-up of my recommendation from last year regarding guidelines for shared services arrangements

Shared Services

Last year we recommended the development of guidelines to mitigate identified risks

Last year we recommended that the Deputy Minister responsible for the shared services initiative develop guidelines for shared services that mitigate identified risks and provide for the assessment of the cost effectiveness of each arrangement. In our view, shared service arrangements should be designed to address the risk that:

- services will not meet the needs of the recipient organization
- executive management and board of directors will not have sufficient information to fulfil their responsibilities
- the costs of services will not be properly allocated

Specific issues related to shared service arrangements are discussed in other sections of this report

The establishment of the ACSC will ultimately have a significant impact on shared services in government. Shared service arrangements that existed prior to the inception of ACSC have continued pending the full implementation of the ACSC. This year we identified issues relating to some of these shared service arrangements. These issues are discussed in other sections of this report including Health and Wellness and Children Services.

Service level agreements and standards for ACSC are being developed

During the year, we observed the progress of the ACSC. As of April 1, 2000, the ACSC officially began operations by entering into a Memorandum of Understanding with each Deputy Minister. Currently, the ACSC and Deputy Ministers are developing the service level agreements and standards for the delivery of ACSC services. These agreements and standards are expected to be in place for April 1, 2001.

We continue to monitor the evolution of the ACSC

We have been advised that the service level agreements implemented by the ACSC will be designed to mitigate the risks related to shared service arrangements. We will continue to monitor the evolution of the ACSC and follow-up on this matter in the coming year.

Guidance to reader

The Ministry of Gaming and the Department of Gaming were established as part of the government's May 1999 reorganization. The entities in the Ministry reporting entity also include the Alberta Gaming and Liquor Commission (AGLC or "the Commission") and the Lottery Fund, both reported in the Ministry of Economic Development in 1998-99. The Minister of Gaming is also responsible for the administration of the *Racing Corporation Act* and accountable for the performance of the Alberta Racing Corporation under this legislation.

The mission of the Ministry, as stated in its annual report, is "to maintain the integrity of gaming and liquor activities in Alberta and collect revenues for the Province." In 1999-2000, the Ministry's net revenues from liquor and gambling operations totalled $456 million and $856 million, respectively.

The Ministry faces a number of significant risks. From a policy perspective, the Ministry has the difficult task of balancing the interests of the government, the public, charitable organizations, and private businesses in decisions about future growth of the gaming and liquor industries. From a regulatory perspective, the Ministry faces the challenges of monitoring compliance with liquor, gaming and tobacco laws and agreements. This is a broad responsibility, involving activities such as inspecting licensed premises, checking the personal and business backgrounds of licence applicants, monitoring the use of gaming proceeds, and investigating illegal activities, including liquor and tobacco smuggling and unlicensed gambling. From an operational perspective, the Ministry is responsible for ensuring the integrity and efficiency of the large, complex systems that control liquor distribution and electronic gaming activities in the Province.

In my 1998-99 Annual Report, I recommended that the Commission improve its administration of bingo, casino and pull ticket licences. I also recommended that the Commission assess the effectiveness of its Gaming Licensing Division by linking business objectives to measurable targets and indicators. These recommendations were accepted and my staff continues to monitor the Commission's progress in this area.

In 1999-2000, my staff reviewed the accountability relationship between the Ministry and the Alberta Racing Corporation. We also reviewed the payments made by the Commission to the Corporation and to racetrack operators under the government's Racing Industry Renewal Initiative.

The Racing Industry Renewal Initiative

Background

The Provincial government's responsibility to regulate horse racing has been delegated to the Alberta Racing Corporation

The regulation of horse racing in Alberta is a responsibility of the Provincial government. In October 1996, the authority to exercise this function was delegated to the Alberta Racing Corporation, a private, not-for-profit agency formed under the *Racing Corporation Act* (the Act). The Corporation was created as part of the government's Racing Industry Renewal Initiative, a policy designed to revitalize the horse racing industry in Alberta. The Corporation's mandate is:

- to govern, direct, control, regulate, manage, market and promote horse racing in any or all of its forms
- to protect the health, safety and welfare of race horses, racing participants and officials, and
- to safeguard the general public's interests in horse racing

The major source of funding for the Corporation is a fee levied on pari-mutuel wagers

The primary source of funding for the Corporation is a charge levied on all pari-mutuel wagers at racetrack and off-track gambling sites. Prior to the legal form of this revenue stream being changed by legislation in 1996, these funds were public money in the form of the pari-mutuel tax. The Act provides this revenue source to the Corporation on a perpetual basis without the requirement for an annual appropriation by the Legislature. For the year ended December 31, 1999, this revenue was approximately $6.8 million.

The Racing Industry Renewal Initiative has also directed a portion of racetrack slot machine revenues to purse supplements and racetrack operating and capital costs

The second major component of the Racing Industry Renewal Initiative is the Casino Gaming Terminal (CGT or "slot machine") Racetrack Program, the objectives of which are:

- to supplement horse race purses. Funding for these supplements is provided by a 33 1/3% share of slot machine revenues at racetracks in Edmonton and Lethbridge. Since the program started in 1997, these funds have been paid by the Alberta Gaming and Liquor Commission, which owns and operates the machines, to the Alberta Racing Corporation.

- to offset the operating and capital costs of racetrack operators in conducting live horse racing. This funding is provided by a 33 1/3% share of slot machine revenues at racetracks in Edmonton, Calgary and Lethbridge. The Alberta Gaming and Liquor Commission has paid these funds to the racetrack operators as "retailer commissions."

Certain payments under the Initiative have not complied with legislation, and the accountability for use of public resources and execution of responsibilities has not been adequate

My concerns with respect to the Racing Industry Renewal Initiative are:

1. Slot machine revenues paid to date to the Alberta Racing Corporation and the racetrack operators have not complied with governing legislation.

2. The accountability for slot machine revenues paid to date to the Alberta Racing Corporation and the racetrack operators has not been adequate.

3. The accountability of the Ministry for the performance of the Alberta Racing Corporation is not adequate.

Legislative Non-compliance

My staff reviewed agreements under the Casino Gaming Terminal program

At the request of the management of the Alberta Gaming and Liquor Commission, my staff reviewed the arrangement between the Commission, the Alberta Racing Corporation, and Northlands Park with respect to proceeds from slot machines at the racetrack in Edmonton. Similar arrangements exist between the Commission, the Corporation, and the racetrack operator in Lethbridge, and between the Commission and the racetrack operator in Calgary.

Amounts paid to the Alberta Racing Corporation, and amounts paid to racetrack operators in excess of normal retailer commissions, do not comply with legislation

Based on this review, and supported by legal opinions subsequently obtained by the Ministry, my Auditor's Report on the financial statements of the Commission for the year ended March 31, 2000, contained the following paragraph relating to legislative non-compliance:

> "I also report that certain expenditures made by the Commission are not in compliance with the applicable governing legislation. The normal commission paid to retailers for operating the Commission's electronic gaming activities on their premises is 15% of gaming revenues (wagers less prizes). However, as disclosed in Note 11 of the financial statements, agreements between the Commission, the Alberta Racing Corporation, and racetrack operators Northlands Park and Rocky Mountain Turf Club Inc. (the "Operators") provide for payment of 33 $^{1}/_{3}$% of gaming revenues at these facilities to the Alberta Racing

Corporation and 33 $^{1}/_{3}$% to the Operator. A separate agreement with the Calgary Exhibition and Stampede (the "Stampede") provides that 33 $^{1}/_{3}$% of gaming revenues from electronic gaming activities at the Stampede charitable casino are to be paid to the Stampede, but does not provide for payment to the Alberta Racing Corporation. Section 26 of the *Gaming and Liquor Act* requires all lottery revenue, after payment of certain costs including retailers' commissions, to be transferred to the Lottery Fund. In my opinion, the payments to the Alberta Racing Corporation, and the payments to the Operators and the Stampede in excess of the normal retailer commission of 15%, appear to be payments intended to support the Racing Industry Renewal Initiative and are not retailer commissions. As a result, payments to the Alberta Racing Corporation totalling $5,891,000 (1999 - $4,465,000), and payments to the Operators and the Stampede totalling $4,794,000 (1999 - $2,820,000) do not comply with s.26 of the *Gaming and Liquor Act* because this lottery revenue was not transferred to the Lottery Fund. In addition, these expenditures are not in accordance with the *Appropriation Act, 1999* and therefore have not been approved by the Legislature."

The Commission has taken several steps to address my concerns

The Commission has since taken the following actions:

- Effective September 11, 2000, the agreements with the Alberta Racing Corporation and the racetrack operators were terminated.
- New agreements are being negotiated with the racetrack operators, providing them a commission rate of 15% consistent with the rate paid to all other operators of slot machines and video lottery terminals in the Province.
- Future payments to subsidize racetrack operating and capital costs and to supplement horse racing purses are to be made to racetrack operators from the Lottery Fund through an annual appropriation approved by the Legislature.

The Commission's actions will bring future payments into compliance with legislation

I am satisfied that these actions will bring future payments under the Racing Industry Renewal Initiative into compliance with the provisions of the *Gaming and Liquor Act*. The Ministry may also wish to obtain legal advice to determine whether legislative approval is required for amounts already spent under this program.

Accountability for the Casino Gaming Terminal Racetrack Program

Recommendation No. 15

We recommend that the Ministry of Gaming establish an appropriate accountability system to determine whether public resources provided to the horse racing industry have been spent for their intended purposes and have achieved their objectives.

The legislative and contractual framework that has existed to date does not provide adequate accountability

The Ministry of Gaming has a duty to hold the Alberta Racing Corporation and the racetrack operators accountable for spending the funding they receive in a manner consistent with the intent of the Racing Industry Renewal Initiative. In my view, the legislative and contractual framework that has existed since the initiative began, including the *Racing Corporation Act* and the agreements under the CGT Racetrack Program, have not provided the Minister with the tools needed to fulfill this obligation. In particular, the agreements to date have not:

- defined the types of expenditures permitted by the Corporation or the racetrack operators, or how the achievement of program objectives will be measured
- required the Corporation or the racetrack operators to report on the use of funds under the agreements
- provided for sanctions against the Corporation or the racetrack operators if they use the funds for purposes other than the Racing Industry Renewal Initiative

Proper accountability requires clear agreement on the terms of the grant program

A proper grant accountability system requires a clear and comprehensive contract between the grantor and grantee specifying the terms of the program. In the absence of this system, there is a risk that funds will be spent for other than their intended purpose and the objectives of the program will not be achieved.

A review by the Commission has identified several problems that the agreements to date have failed to prevent or rectify

A review by the Alberta Gaming and Liquor Commission to determine how one racetrack operator has spent slot machine revenues received under the program confirms this risk. The review identified several problems, including failure to maintain adequate accounting records and operating controls related to slot machine revenues, the use of funds for purposes other than the Racing Industry Renewal Initiative, and instances of non-compliance with gaming rules and regulations. Moreover, the limitations of the agreements to date do not give the Ministry the ability to recover the misspent funds or otherwise cause them to be redirected to their intended use.

In developing new agreements, the Ministry should address previous weaknesses

As discussed above, the Ministry is working to put new agreements in place to manage this program. In developing the new accountability system, the Ministry should work to resolve the significant deficiencies in the previous structure.

Accountability of the Alberta Racing Corporation

Recommendation No. 16

We recommend that the Ministry of Gaming take appropriate steps to hold the Alberta Racing Corporation accountable for the performance of its delegated responsibilities.

The Minister's accountability to the Legislative Assembly for the Alberta Racing Corporation is partially met through the filing of the Corporation's annual report

With the Alberta Racing Corporation as its policy setting and enforcement body, the horse racing industry in Alberta is now substantially self-regulated. However, the Minister of Gaming is ultimately responsible for the administration of the Act and accountable to the Legislative Assembly for the performance of the Corporation. This accountability is met in part by a requirement for the Corporation to file its annual report with the Minister of Gaming, who in turn lays it before the Legislative Assembly. Under the Act, the Minister may also direct the Corporation to report on other specific matters.

The Alberta Racing Corporation has resisted attempts by the Ministry to direct how it should spend the resources provided to it

The *Racing Corporation Act* requires the Corporation to operate in accordance with the policies and directions of the government with respect to gaming, but the Minister does not have the authority to control its day-to-day operating decisions. The Corporation has asserted exclusive control over all aspects of horse racing regulation, and has resisted the Ministry's attempts to direct how the Corporation should spend the public resources provided to it. The Minister's difficulty in influencing the actions of the Corporation is illustrated by the fact that the Ministry intended the Corporation to use all, or virtually all, of the funds it received under the CGT Racetrack Program for purse supplements. However, the Corporation has used only 80% of these funds for this purpose – the remainder has been used for promotional and other expenses. In addition, the Corporation has withheld payment of purse supplements until the fiscal year following their receipt from the Alberta Gaming and Liquor Commission, and has used the interest earned on the withheld amounts for its Industry Development program, of which only a portion goes to supplement purses and prizes.

The Corporation's business plan is not public information and is not updated annually for changing circumstances

In my view, the accountability of the Ministry for the overall performance of the Corporation could be improved. Accountability begins with the business planning process, where the goals of the Corporation should be expressed in terms of measurable targets and expectations. Since the Corporation is not defined as an accountable organization under the *Government Accountability Act*, it is not required to file a business plan with the Minister each year or required to make a copy of its plan available to the public. The Corporation has provided a copy of its annual plan to the Ministry as a courtesy, but the Ministry has not established a process to review, provide comments on, or approve the plan. The Racing Industry Renewal Initiative also called for the Corporation to produce an annual and rolling five-year business plan. The Corporation developed a five-year strategic business plan for the period 1997-2002, but this plan has not been subsequently updated. As a result, the strategic plan may no longer be relevant, as evidenced by the fact that the budget figures in the Corporation's 2000 annual plan are significantly different from the respective amounts in the 1997-2002 plan.

The Corporation has not reported on certain critical success factors and other key results are not presented in relation to measurable targets

In general, although the goals of the Corporation are listed in its business plan and annual report, they have not been quantified. Certain critical success factors such as the satisfaction of industry stakeholders with the performance of the Corporation, the quality of racing and racing facilities, and the effectiveness of the Corporation's regulation of the industry are not reported. Other results, such as pari-mutuel wagering activity and horse ownership and breeding statistics, are not explained or presented in relation to expectations. For example, the annual report does not discuss the impacts on the Provincial horse racing industry of a 23% overall decrease in pari-mutuel wagering since 1995, including a decrease of 60% in wagers on Alberta live and simulcast races and an increase of 70% in wagers on foreign simulcast races. The effects of the Corporation's licensing and promotional activities on reported outcomes are also not described.

The activities of the independent Appeals Tribunal are not reported

As described in the Racing Industry Renewal Initiative, a central part of the accountability framework for the industry is the independent Appeals Tribunal, appointed by the Minister and funded by the Corporation to hear appeals of industry participants against rulings made by the Corporation.

However, no reference to the activities of the Tribunal is made in the annual report of the Corporation or the Ministry.

The Ministry requires improved accountability by the Corporation to measure and report the success of the Racing Industry Renewal Initiative

The Ministry of Gaming's three-year business plan includes among its key strategies the need to work with the Alberta Racing Corporation to determine the success of the Racing Industry Renewal Initiative. This acknowledges the Minister's overall responsibility to report to the Legislative Assembly on the results of the Initiative. Strengthening all aspects of the accountability of the Corporation will assist the Ministry in implementing this strategy.

Other entities

Financial statement audits of the following were also completed for the year ended March 31, 2000.

Department of Gaming
Ministry of Gaming
Alberta Gaming and Liquor Commission
Lottery Fund

Guidance to reader

New ministry created

This new Ministry's mission is to help ensure a fair marketplace, guarantee high quality and accessible registry information service for Albertans, and be committed to effectiveness and affordability in the delivery of its services.

The Ministry was created in May 1999, as part of the government-wide reorganization, to assume responsibility for Registries and Consumer Affairs and improving Albertans' one-window access to services. For the most part, the Ministry is accountable for established programs previously under the responsibility of Alberta Municipal Affairs.

Two core businesses

The Ministry has two core businesses, namely, registries and consumer affairs. The registries core business is to deliver licensing, registration and information services to Albertans. The consumer affairs core business is to promote a fair market place for Albertans where competition is fair and consumers are confident.

Financial results

For the year ended March 31, 2000, ministry revenues totalled $288 million (1998-99 $291 million), with the main income sources being motor vehicles licensing and registration ($200 million) and land titles ($56 million). Expenses incurred for this period were $48 million of which $35 million was incurred on registries programs and $6 million on consumer affairs.

Ministry of Government Services
for the year ended March 31, 2000

Ministry Financial Statements

Auditor's reservation on financial statements

I conducted an audit of the financial statements of the Ministry as at and for the year ended March 31, 2000. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reason for the reservation. On page 264 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements.

Additional work – key performance measures

In addition to the audit of the annual financial statements, I reported on the results of applying specified auditing procedures to the Ministry's key performance measures in the Ministry's Annual Report 1999-2000.

Joint Audit of Alberta Registries

Most of the previous recommendations have been implemented

During 1999-2000, we followed-up on previous recommendations made following an audit of Alberta Registries performed in conjunction with the Office of the Information and Privacy Commissioner. On page 243 of the 1998-99 Auditor General's annual report, we commented that all 21 of the recommendations made were accepted. However, more time was needed to fully implement five of these recommendations.

The recommendations still to be implemented relate to:

- application of the *Freedom of Information and Protection of Privacy Act* (the *FOIP Act*) to the motor vehicles registry services or adopting fair information practices equivalent to the *FOIP Act*
- training private registry agents
- elimination of deficiencies in control procedures at the service bureau responsible for the operation of the motor vehicles and driver licensing systems
- assurance needed annually on the control procedures of the service bureau responsible for the registries' computer systems
- monitoring private registry agents

Current status of recommendations not implemented

The Ministry continues to work towards implementation of these five recommendations. Concerning the application of the *FOIP Act* to motor vehicles registry services, legislative changes are needed before the recommendation can be fully implemented. To date, the Ministry has developed new standards to identify who can have access to motor vehicles information and has a plan for implementing these standards.

We will continue to monitor

We will continue to monitor the Ministry's progress towards full implementation of the recommendations.

Guidance to reader

The vision expressed by the government for the health system is “healthy Albertans in a healthy Alberta.” This incorporates the concept of providing services for those who are ill, and promoting and protecting the health of those who are well. The mission of the Ministry of Health and Wellness is stated as improving the health of Albertans and the quality of the health system.

To carry out the mission, Alberta Health and Wellness (the Department) defines four core businesses:

- setting strategic directions, policy, and Provincial standards for the health system that are clear, coordinated and understood
- determining the scope of financial, capital and human resources required to address Albertan’s health needs and allocating resources in a manner that is fair, meets needs, and promotes efficiency and effectiveness
- working with health authorities and health practitioner representatives to ensure that health services are accessible, appropriate and well managed to achieve best value
- measuring and reporting performance across the health system to ensure continuous learning and improvement

In 1999, the Ministry identified key strategic challenges to be addressed:

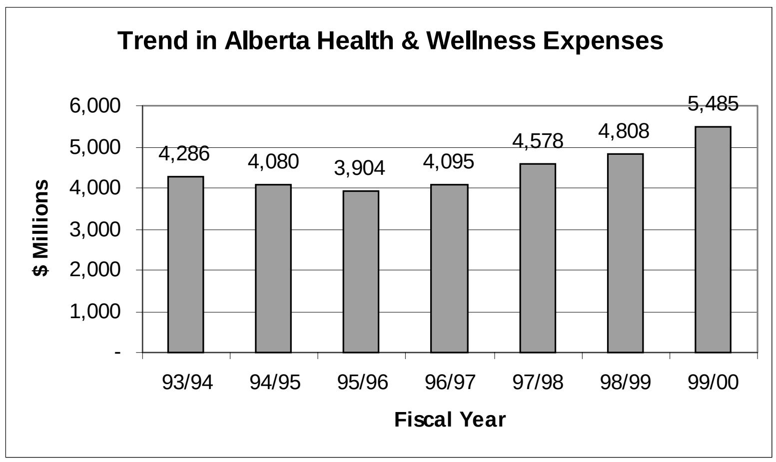
- Increasing focus on health prevention and promotion requiring close working relationships with other ministries and sectors to affect the various determinants of health (education, social and economic status etc.) especially for infants and children.
- Preparing for the needs of a growing and aging population and to develop new technologies.
- Ensuring Albertans get the care they need.
- Improving accountability for results and information for decision-making.

The Minister of Health and Wellness is accountable for more than 30 Acts and for what has been achieved from the allocation of money to programs and services delivered through a decentralized structure. The main entities accountable to the Minister are the Department, 17 regional health authorities (RHAs), two health boards (mental health, cancer), and commencing in 1999-2000 the Alberta Alcohol and Drug Abuse Commission (AADAC), eight Persons with Developmental Disabilities Boards (PDDs), and the Persons with Developmental Disabilities Foundation.

Health authorities are governed by appointed boards and maintain working relationships with many health foundations, community health councils, and voluntary and private health care operators.

Public funds spent on health represents about 33% of total program spending of the Alberta government. A comparable expenditure profile (unadjusted for inflation) of the Ministry (including the new entities) is presented in this chart:

Chart 1



Of total expenses of $5.5 billion for 1999-2000, approximately:

- $3.4 billion (about 60%) was for contributions to health authorities (RHAs and health boards)
- $1.0 billion (18%) was for remunerating health practitioners including physicians and allied health practitioners such as oral surgeons, chiropractors, optometrists, and others
- $261 million was for drug programs under the Alberta Health Care Insurance Plan (AHCIP)
- $357 million for PDDs and $35 million for AADAC

With respect to risks and opportunities for the health system, participants in the 1999 Alberta's Health Summit were provided information in response to the question: "What changes are required to the way health services are delivered by health providers and managed by the health system to meet Albertans' changing health needs?" Issues identified included:

- need for more accountability and a clearer understanding of who is responsible for what in the health system
- lack of integration and some gaps and barriers between services delivered in hospitals, in the community and in people's homes
- health professionals were focused on their own scope of practice rather than working together with others both inside and outside the health system to address people's health needs
- lack of good information and evidence to guide decisions
- lack of controls on the use of health resources, making it difficult to set standards and manage access to treatments

Summary of audit results

Our audit continues to show that information and risk management are key to maintaining a cohesive and accountable health system

Overall, our audit work corroborates the above points and continues to show that information and risk management are key to maintaining a cohesive and accountable health system. Systems still need to be advanced in order to achieve accountability for the cost and quality of health services, to better establish clear expectations, and to maintain budgetary control.

Evidence-based decision-making requires well-designed and applied systems that result in the best use of available resources in providing quality health services to people. From 1995 to 1999, I made 37 recommendations to the Department for improving systems of accountability.

The Department continues to make progress on previous audit recommendations

The Department continues to make progress on all previous audit observations and recommendations. It can take a long time to improve systems. There are several reasons for this. Recommendations deal with complex matters requiring sustained leadership to overcome resistance to change. Stakeholders must be engaged and competing self-interests reconciled. There can be organizational changes including mergers and staff turnover that may disrupt or delay progress. Lastly, audit recommendations have to be addressed in conjunction with program priorities and there may not be sufficient time and resources available.

There are areas where improvement is taking time

Areas where improvement is particularly important and taking time are:

- accountability relationships between physician, health authorities and the Department
- planning and budgeting
- information in support of evidence based decision-making and accountability

Accordingly, this year I recommend that the Department:

- Further develop a process for defining and reporting the respective accountability of those affecting the cost and quality of health services.
- Implement a joint strategy with health authorities for improving the implementation of authorized business plans.
- Continue implementation steps in cooperation with health authorities for improving performance measurement and reporting on the quality of health services.
- Take a lead role in working with health authorities in reporting the cost of key service outputs and report the full cost of delivering health services for the population of each health region.
- Examine regional differences in the utilization and cost of health services with a view to improving the system for allocating funds to health authorities.
- Review the alignment of accounting, funding, and accountability for Alberta We//net to better ensure the achievement of benefits for costs incurred.
- Strengthen systems for contracting and managing air ambulance services.
- Improve the reporting of financial results in the Ministry and Department financial statements.
- Review policies relating to when accounts receivable are written-off for accounting purposes and the processes used to estimate uncollectible health premiums.

Ministry of Health and Wellness
year ended March 31, 2000

Scope of audit work

In addition to the annual audit of Ministry financial statements, the focus of systems work was to follow-up prior audit recommendations and to review contracting of air ambulance services. Also reported are the results of auditing Ministry financial statements for the fiscal year ending March 31, 2000 and the audits of health authorities for the two years ending March 31, 1999 and March 31, 2000.

It is noted that health authorities report $725 million for contracted health services during 1999-2000. Amounts spent each year have been increasing. Also, amounts spent by the Department on contracted services is reported to have more than doubled since 1996 to about $45 million in 1999-2000 with a further $23 million paid in contracted data services. In view of this, we are further examining contract management systems used by health authorities and the Department. Results will be reported when completed.

Accountability for the cost and quality of health services

Recommendation No. 17

We recommend that the Department of Health and Wellness further develop a process for defining and reporting the respective accountability of those affecting the cost and quality of health services.

In 1996 we recommended the development of a reporting framework that would provide information for governance and accountability purposes and that the Department and health authorities work toward ensuring optimum use of public funds provided to community, voluntary and private organizations for the purpose of delivering regional health services.

In 1997 progress was reported where the Department had issued a draft accountability framework (issued in November 1998 in final form) and had introduced new reporting requirements for the business plans, annual reports and financial statements of health authorities. At that time the opportunity remained to articulate the accountability relationships for physicians and organizations such as the Alberta Medical Association (AMA).

More certainty was needed about accountability for results achieved for costs incurred

More certainty was needed about accountability for results achieved for costs incurred under AHCIP, in particular as relating to consumption of physician services and the management of drug costs. From 1997 to 1999, various associated audit observations and recommendations were made regarding physician funding, drug costs, clinical practice guidelines, claim payments, and the need to report results achieved under agreements with the AMA (representing physicians). The Department has been making progress in response to these observations and recommendations.

Relating to these matters, a key initiative was undertaken between 1995 and 1998 known as the tripartite process on health care restructuring. This was intended to involve physicians in developing innovative and alternative health care payment and delivery models and integrating the models into a comprehensive, regional based, health care system. In November 1998, the tripartite process was terminated. The need for a successor process was identified to address outstanding concerns.

Minister initiated the Medical Services Project

In February 1999, the Minister initiated the Medical Services Project (MSP) with the objective of developing a proposed policy framework to provide integrated accountability and alignment of key components of Alberta's health care system and to specify the roles of each of the key players. This project is endeavouring to deal with a long-standing accountability issue.

The MSP has advanced to the point of describing aspects of the problem and these have been communicated to key stakeholders. A paper has been issued for review and the Department is waiting for feedback to validate findings. The project has set out principles for moving forward. In our view, for success it will need further development of a process for setting change priorities and moving forward with specific implementation steps. This is an important undertaking for which a collaborative process should be established with the active support of all key stakeholders.

Following are some reasons why this is a significant matter. Numbers used in this section come from AHCIP statistical data produced by the Department and from information provided to us on request to the Department.

Physician resource plan needed

Strategic items to be addressed. The development and implementation of a physician resource plan and a rural health action plan are items that the Department has been working on but remain open and need to be based on a critical assessment of the present allocation and use of resources.

Bringing physicians and health authorities together is a significant challenge

Achieving integrated accountability. What health physicians do in treating patients drives much of health system costs that health authorities are expected to manage within budget. Changes made by health authorities in the way services are delivered can impact physicians and the physician budget. Bringing the two together is a significant challenge since physicians and health authorities may have different agendas, values and behaviours.

According to findings of the Medical Services Project and other sources, physicians believe that professional independence is mandatory and are concerned about the influence of RHAs on clinical practice. On the other hand, because physicians are expected to meet patient rather than RHA or population needs as a priority, RHAs believe they lack sufficient control for the delivery of a cost-effective regional health delivery system for the collective benefit of people. The result can be tension between the two that needs to be recognized and constructively addressed. One risk is that increasing numbers of doctors may distance themselves from RHAs by not seeking admitting privileges with hospitals. This can diminish continuity of patient care and increase system costs.

In December 1999, the Health Information Act was passed (not yet proclaimed into law). This could help integrated accountability since sections 27 and 47 would enable health authorities to request information from physicians and other custodians under specific circumstances for health system purposes (e.g. planning, management, and research).

Accountability for physician payments. With respect to physician payments made under AHCIP, according to latest reported statistical data, the number of physicians paid under AHCIP increased from 4,330 in 1994-95 to a reported 4,422 in 1998-99 (2,468 general/family, 1,954 specialists). In addition, about 1,135 allied practitioners (oral surgery, chiropractic, optometry, podiatry) billed AHCIP during 1998-99.

In 1999-2000, physicians were paid about $903 million in fee-for-service payments and a further $22 million in benefits. Benefits include, for example, practice insurance for physicians totaling $16 million. In 1998-99, payments to physicians totalled $864 million. For these two fiscal years, physician payments exceeded annual funding limits that were agreed in 1998. A further $35 million has been added to the annual funding cap in accordance with a provision of the agreement between the Department and the AMA.

While payments to physicians have increased, questions of accountability remain

While payments to physicians have increased, questions of accountability remain. Since preparing an accountability framework in 1998, the Department has recognized that physicians receiving AHCIP payments do not report on results achieved for costs incurred. This has not changed.

For example, who is accountable for explaining what is driving payment patterns and communicating what is accomplished, for example, when about 31% of physician fee-for-service payments (about $257 million during 1998-99) were for “other assessments” – about twice that for all surgeries and six times the amount for care in a hospital or nursing home? Other assessments would include such things as a “routine visit” to a doctor’s office. In terms of the “disease” treated, who would inform about 19% of physician payments reported for treating ill-defined conditions or non-standard codes. Who asserts to reliability of service event coding and how might information be improved to better understand the health of the population and what is achieved for money spent?

Physician payments are a function of a volume driven fee-for-service payment system that does not yet contain obvious incentives for improving the cost-effectiveness of health services. Some physicians and others believe the fee-for-service payment method is inconsistent with the objectives of quality and continuity of care. While alternative payment methods are being introduced, they are slow to come into being and currently involve only about 60 physicians. A pilot project approach has been taken by the Department over the past four years to enable gradual introduction of alternative payment methods with learning experiences to be applied on an ongoing basis.

While the Department has made progress in improving control over claim payments, the Department investigated less than 10% of medical claim payments that were flagged in 1999-2000 as questionable. We note that investigations are indicated to be increasing during 2000-01. And, Alberta is one of two provinces where the Department does not have authority to examine patient records in support of claim payments so that informed views are possible as part of the Department's monitoring of how public funds are used. There is also the opportunity for health practitioners to be informed of claim payment and drug utilization data to help monitor risks to quality health services.

While steps have been taken by the Department to contain drug costs in Alberta, costs continue to increase significantly

Constraints in managing costs. According to the federal Patented Medicine Prices Review Board, during 1999 sales of patented drug products in Canada increased by 27%. While steps have been taken by the Department to contain drug costs in Alberta, costs continue to increase significantly without agreed strategies among stakeholders to influence drug utilization and to improve information. Net drug expenses under AHCIP increased from about $159 million in 1994-95 to about $261 million in 1999-2000. The number of prescriptions increased year over year from about 5.7 million in 1994-95 to about 7.8 million in 1999-2000.

Prior agreements with physicians to achieve savings in drug utilization did not result in savings and so far nothing has emerged in savings as anticipated by the latest agreement reached in April 1998 with the Alberta Medical Association.

There is a risk that the use and corresponding cost of drugs is at variance with that anticipated or represented by drug manufacturers when drugs are initially approved for the drug benefit list. For example, one new drug was recently forecast to cost $2.5 million a year, but has quickly grown to an estimated $12 million a year. This experience has caused the Department to reflect on the importance of analysis and accountability for what happens after a drug is placed on the AHCIP benefit list.

Other than eleven product-listing agreements with certain drug manufacturers and some specialty drugs requiring specific authorization by the Department for use, AHCIP systems do not feature checks and balances to ensure cost-effective spending of public dollars. The challenge is to implement means of influencing prescribing behaviour and providing information for that purpose.

The Department has limited information to compare planned and actual drug use and costs

The Department has limited information to systematically compare planned and actual drug use and costs over time. Even if the information was generated, it is not clear who takes accountability for variances and who would be responsible for what in acting on significant variances.

The establishment of a drug utilization review program is taking longer than expected by the Department. While a structure is now in place and data is being collected, reviews are yet to be completed including review of drugs that account for the top ten most commonly prescribed drugs paid under AHCIP. The Department is not yet in a good position to know whether the cost from drug use is appropriate and whether there is an opportunity to appropriately alter utilization of drugs. It is not clear who should be accountable and how that would be demonstrated.

Under we//net, the introduction of a pharmaceutical information network (scheduled for April 2001) should afford the opportunity for physicians and pharmacists to be better informed on drug utilization and treatment options. This should also allow greater participation of health practitioners in systems of accountability.

In conclusion, absence of information and clear and effective accountability relationships among stakeholders increases the risk that desired directions and results for the health system will not be achieved and full accountability rendered for approximately $1.2 billion of costs associated with physician payments and prescription drugs.

Planning and budget

Having authorized business plans and budgets in place for health authorities at the beginning of a fiscal year is necessary for setting an agreed basis of action throughout the year. When this does not happen, the value of business plans as instruments of accountability is seriously diminished. The prospect of achieving desired results increases when expectations are set and agreed at the beginning of the year.

We previously reported delay in finalizing business plans

We previously reported that the 1998-99 business plans of 13 health authorities were not finalized and approved by the Minister until about November 1998 when more than half the business year was over. The amount of time to finalize business plans had to do, in good part, with health authorities forecasting deficits in original business plan submissions after initial funding allocations had been made by the Minister. A series of additional funding allocations for the health system were made after which the Minister approved 1998-99 business plans and health authorities prepared revised budgets.

Target funding levels for each fiscal year of the three year Ministry business plan have increased for the same fiscal year from one year to the next, one business plan to the next. Also, within each fiscal year, annual supplementary estimates have been required.

In order to achieve timely business plans and budgets, the challenge was to reasonably forecast system funding requirements and to reconcile health system funding with the achievement of balanced budgets by health authorities.

Business planning for health

Recommendation No. 18

We again recommend that the Department of Health and Wellness and health authorities implement a joint strategy for improving the implementation of authorized business plans.

Our follow-up found that during 1999, the Joint Alberta Health/Health Authority Business Planning Group considered factors affecting timeliness of business plans and ways to improve this starting in 2000-2001. Items identified for implementation include:

- deadline for submission of health authority business plans being set at eight weeks after health authorities are informed of their budget allocation, target timelines for completing business plan, budget and annual report processes, and forums for the sharing of related best practices among health authorities
- preliminary steps to improve the timeliness of data supporting business planning such as morbidity (illness patterns) data on inpatient hospital services

The pattern of prior years continues

Although budget increases and other steps have been taken, the pattern of prior years continues. The 1999-2000 health authority business plans were not settled until well into the fiscal year. Most health authorities were asked for resubmissions or addendums to be provided to the Minister in the fall of 1999 when, again, more than half the year was over and the process of preparing new or updated business plans should begin again covering the next three fiscal years.

The need to improve planning capabilities is also indicated by the extent of continuous additional funding announcements sometimes described for "one-time" purposes. These often repeat for such things as buying equipment, hiring more health care workers, covering physician payments in excess of planned limits, and eliminating debt and deficits of health authorities.

Health budget has increased more from interim funding than from annual budget increases

While budgeting should accommodate some flexibility, for the past two completed fiscal years the health budget has increased in total more from additional subsequent interim funding than from the annual budgeting process. Between January 1998 and May 2000, more than 25 additional funding decisions were announced that affected health system operations.

Additional funding is authorized by the Legislature through supplementary estimates. As with prior years, supplementary estimates were provided in 1999-2000. These amounted to $332.7 million, of which $235.7 million (71%) went to health authorities. This included special one-time funding announced in November 1999 in the form of $115 million extra per capita funding for regional health authorities and a further $59.7 million for the purpose of eliminating deficits accumulated by seven authorities to March 31, 1999.

While subsequent additional funding may provide relief from immediate budget pressures, it is not conducive to good budget management since repetition may create the expectation of continuing amounts in addition to planned annual budget increases. This is evident in the latest business plan submissions where, again, many health authorities are forecasting operating deficits for the fiscal year 2000-01. The Department is again asking health authorities for more information about strategies, performance targets, risks and assumptions, and corresponding financial plans.

Heath authorities usually submit deficit budget plans

Part of the issue is that after being advised of funding allocations, health authorities usually submit budget plans showing they will expense more than planned revenues with resulting deficits that the Minister must then negotiate. This causes delay in approving business plans and budgets.

At no point in the system is final Minister approval of health authority business plans communicated in writing to health authorities. Minister approval is assumed to be given once the Department determines the conditions of a conditional approval have been met.

Health authorities continue to variously report budgets as being approved by the Minister (only), by the board and the Minister, or having been submitted to the Minister (but not necessarily approved). In one case we noted the budget of one regional health authority is reported to be exactly equal on a line-by-line basis to actual revenues and expenses for 1999-2000. No variances were reported between budget and actual results.

Such observations raise several potential risks. These include a disconnection between the expectation of business plans and the corresponding budgets, and uncertainty as to the relevance of business plans and budgets to managing operations. Business planning may be little more than a paper exercise or a device to negotiate more money rather than an effective system of accountability.

To address these risks, the Department will need to advance its planning capabilities and expect health authorities to do the same. This may include adopting new methods for understanding and forecasting health costs, comparing these to what is affordable and sustainable, and articulating the impacts of any difference on the health system.

The Ministry will also need to work to improve the linkage between various systems for planning human, physical and financial resources including systems for allocating funds to RHAs. And, there needs to be consideration of appropriate incentives (rewards and sanctions) to implement business plans, manage budgets, and to report performance in a complete and timely manner.

In conclusion, a number of fundamental issues need to be addressed in order to achieve timely and relevant business plans and budgets.

Measuring and reporting the performance of the health system

We recommend that the Department of Health and Wellness, in cooperation with health authorities, continue with implementation steps for improving performance measurement and reporting on the quality of health services.

Health authority boards and management are responsible for preparing and submitting timely, accurate and useful reports to fulfill their obligation to account for performance. Performance reports include quarterly reports and the health authority's annual report. Information contained in performance reports is critical to assist the Minister in making business planning and resource allocation decisions.

In following up recommendations made in prior years, we found the Department has:

- taken steps to clarify internal roles and responsibilities for performance reporting
- provided feedback to health authorities on performance reporting
- issued new health authority business plan requirements so as to improve the link between goals, objectives and performance measures
- held discussion with health authorities regarding improvement to performance measures

The Department is advancing performance measurement and reporting

The Department is advancing performance measurement and reporting. For example, a Measures Steering Committee (of Branch Directors) is to identify relevant performance information that should be reported regularly to the Executive of the Department. The Committee is expected to identify gaps in current measures and priorities for the Department.

After consultation with stakeholders, in July 1999 the Department issued a document setting out Provincial priorities for the development of health system expectations and measures. It set out primary responsibilities and work items consistent with a Provincial framework. The document also set out 18 priority areas for the development of expectations and measures relating to health services, population health, and governance and management. A work plan of existing activities was prepared with various completion dates or indication of ongoing work.

The document recognized the need for greater emphasis on setting expectations and communicating results in terms of service outputs and outcomes. The document did not outline a process for how the Department and health authorities would collaborate in developing and implementing measures of the quality of health services. Work had not progressed to specifying new measures with implementation timelines other than those instituted in 1999-2000 in connection with new funding that was in response to particular service pressure points in the health system.

The Department also reviews measures reported by health authorities in business plans and annual reports and communicates areas for improvement. With the existing practices and the planning and reporting cycle, the timeframe in which resulting reporting changes appear could be more than two years. The impact of new reporting requirements will not be seen until the annual reports of health authorities for 1999-2000 are issued.

As yet, there is not much change in reporting outputs and outcomes

Our review of the latest available annual reports for 1998-99 indicates not much change from prior years in reporting outputs and outcomes. In some instances, certain significant measurements were dropped by RHAs from 1998-99 reporting that were previously reported in 1997-98. The measurements dropped related to hospital-acquired infection rates, surgery wait lists and wait times, and the number of patients waiting for an MRI. The Department subsequently reinstated most of these measurements as required reporting in 1999-2000 in connection with additional funding provided to RHAs.

The Department also recently began working with the Capital and Calgary Regional Health Authorities to advance comparative performance measurement (benchmarking). The project is at the stage of finalizing terms of reference with these RHAs.

As previously mentioned, quarterly reporting to the Minister was introduced in 1999-2000 to monitor the impacts on access to particular services (an aspect of quality) as a result of additional funding to health authorities. These were to indicate such things as an increase in home care services, reduction in wait lists for long-term care, reduction in surgery cancellations, and reduction in the number and wait time of people waiting for certain surgeries (heart, joint repair).

There are opportunities to improve measurement of the quality of health services

Health authorities submitted most of the required information to the Department. However, the experience revealed opportunities to improve measurement of the quality of health services. For example:

- reliable information on home care was not available
- some regions were not able to provide baseline data on surgeries so that increases or decreases could be reliably determined
- surgery cancellations were not reported consistently among regions
- comparable measurements of wait time for surgeries and MRIs needed more work

Along with additional new funding, RHAs were also required to set targets as they considered appropriate and report to the Minister on whether they were met. This represents progress in setting expectations and measuring performance. Most RHAs set targets and reported against them. However, targets were set in different ways for the same type of service. For example, in long-term (continuing) care some RHAs set wait list targets, others set targets for how many people were to be placed, and others had both. For surgeries, RHAs variously set targets for volumes, wait lists, and wait times.

As a result, while it is possible for the Department to gauge an increase or decrease Provincially in surgeries or access to continuing care as the result of additional funding, it is difficult to measure completely and consistently if planned (targeted) results were achieved on a system-wide basis. This is indicative of the need to continue efforts for improving data, defining and setting targets, linking clinical and financial information, and relating planned to actual performance.

In conclusion, new funding provided an impetus for improved measurement and reporting. While progress is being made, the challenge remains of providing information so that decision makers can better understand what is happening to the quality of health services. Continuing the implementation steps of the Department is important so as to marshal and coordinate energies and to sustain focus on measurement priorities that will lead to improved measurement of outputs and outcomes being reported for the health system on a consistent and comparable basis.

Timely reporting

We recommend that the Department of Health and Wellness and health authorities ensure performance reports are timely.

Timely annual reporting by health authorities also needs to be addressed. No health authority produced an annual report for 1998-99 in keeping with the time set by regulations under the *Regional Health Authorities Act* requiring a health authority to provide its annual report to the Minister by July 31 each year. This is likely to be the case again for 1999-2000. The result is that the Minister and the Department may be constrained in exercising timely oversight and there is a limitation of information in preparing Ministry business plans and budgets.

Reporting the cost of outputs

Recommendation No. 19

We again recommend that the Department of Health and Wellness take a lead role in working with health authorities in reporting the costs of key service outputs.

In 1997, we recommended that the Department, in cooperation with health authorities, advance the financial reporting of health authorities by reporting measurements of key outputs and the costs of achieving them. We also noted that the Department and health authorities should make better use of financial analysis to enhance management discussion of financial performance in annual reports and to identify business risks.

There has been little change in reporting the cost of outputs

To date, there has been little change in reporting the cost of outputs. Linking costs with outputs would assist resource allocation and provide readers of annual reports with meaningful information about an authority's operations. Such measures should also be used in the management, discussion and analysis portion of the health authority's annual report and can be used to compare performance among health authorities.

Our review of fifteen annual reports issued by RHAs in 1999 indicates twelve did not contain management discussion of financial position and risks. Fourteen reports did not present information on the costs of outputs.

Chinook, Capital and Calgary health authorities have taken steps to advance reporting of financial analysis. Also, the reporting of Province-wide service costs by Capital Health Authority provides another good example of cost reporting. The development of costing for the purpose of the population-based funding system also represents advancement in costing abilities.

In December 1999, the Department issued guidelines to health authorities about disclosure of management discussion and analysis of operating results. These guidelines included seven selected key financial indicators as requirements for health authority's business plans and annual reports for 2000-2001. We anticipate that management discussion and analysis of financial position and risks will improve in response to these new requirements. These requirements do not, however, include costing of service activity and outputs that would assist resource allocation and support the reporting of operating results.

Costing outputs is a complex but important undertaking

Costing outputs is a complex but important undertaking. While some health authorities may have started or have tried developing costing capabilities, there does not yet appear to be a concerted and focused effort across the health system. For example, development of costing systems for management purposes is not on the priority list of common opportunity information systems that was recently developed by Alberta We//net in cooperation with health authorities. Our review of the Mistahia Regional Health Authority completed in June 2000 found that the Authority did not have systems to cost service activity or outputs and that business decisions were often made without knowing costs and budget impacts.

In November 1999, the Department began a project to review how financial information is used in the health system and to address a number of issues raised by the Joint Alberta Health & Wellness/Health Authority Business Planning Committee concerning improvements required in mechanisms for planning and measuring financial performance.

The Department recognizes there is lack of good financial information

In June 2000, the financial information project steering committee issued a report laying out a “road map” for achieving a desired state of reporting. The report recognizes that the lack of good financial information has been a barrier in optimizing resources and improving accountability. It advocates building on what has been done to date so that service costing and interpretation of costing results becomes a core competency across the health system.

Developing systems and methods of costing outputs would be important in supporting the management of resources and to better relate financial and non-financial information. It would assist health authorities make resource allocation decisions and to identify opportunities for improved performance.

Concerted effort is needed to achieve a breakthrough in measuring and publicly reporting the costs of outputs

Given the need for cost information has been noted in my Reports since 1996, a concerted effort is needed to achieve a breakthrough in measuring and publicly reporting the costs of outputs, such as cost per type of service. Garnering the demand and support for costing will likely require the demonstration of cases where costing of service outputs proved useful in making decisions regarding the delivery of health services.

Reporting population health costs

Recommendation No. 20

We recommend that the Department of Health and Wellness develop a process for reporting the full cost of delivering health services for the population of each health region of Alberta as a means of supporting business planning decisions and the accountability of regional health authorities.

Financial reporting for the health system is designed to report the expenses of regional health authorities as distinct operating entities. There is no consolidated financial reporting. We have for several years advocated financial reporting of Ministry operations on a basis that would consolidate the operations of health authorities. This has yet to occur, but is still being considered by the Ministry and the Department of Treasury.

There is no information accounting for the full cost of health services provided to regional populations

What also needs to be understood and discussed is that there is no information accounting for the consolidated full cost of health services provided to the *population* of each of the health regions of Alberta since:

- Some $1 billion of physician related payments and benefits are not allocated/reported together with the expenses of each health authority.
- About $261 million of drugs costs are not reported by region and added into the composite cost of providing health care for regional populations.
- Some $257 million of Province-wide services are not reported by region of patient residence.
- About $249 million of consolidated mental and cancer care services are not allocated and reported for each health region.
- Some $186 million of import-export funding adjustments are not disclosed in relation to the movement of people between regions for care.

Imports and exports are a case in point illustration.

Because population-based funding of RHAs is based solely on each region's resident population, the Department adjusts funding allocations to health authorities to recognize that individuals cross regional boundaries to receive service. The table following gauges the significance of the flow between regions and the consequential re-allocation of funds among regional health authorities.

Funding re-allocations for import/exports ($million)

Health region	Net imports	Net exports	% of initial population funding
Chinook		$ 6.5	4.4%
Palliser		8.6	10.3%
Headwaters		17.0	28.7%
Calgary	$ 62.5		9.2%
Region 5		15.8	31.3%
David Thompson		18.8	11.3%
East Central		19.8	18.7%
Westview		27.7	44.7%
Crossroads		2.8	7.8%
Capital	123.7		17.9%
Aspen		23.6	34.5%
Lakeland		23.7	23.6%
Mistahia		3.1	4.9%
Peace		2.8	17.1%
Keeweetinok		6.9	34.7%
Northern Lights		4.1	19.7%
Northwestern		5.0	36.0%
Totals	$ 186.2	$ 186.2	

For purpose of 2000-2001 budget/fund allocations, Capital Health Authority (Edmonton) received $123.7 million of additional revenue in order to cover the estimated cost of servicing people from other regions. Calgary received $62.5 million. This recognizes that in each of these regions more people came into that regional health system for service than went to other regions.

The impact on the other 15 regional health authorities that are net exporters (more residents going out of region for service than come in) varies from 4.4% of original population-based funding for Chinook to 44.7% for WestView.

The reported cost of RHA operations does not, of and by itself, constitute the full cost of health services

Financial reporting by the Department and by RHAs does not disclose the impact of imports and exports among health authorities. This does not mean that financial reporting by RHAs as operating entities is incorrect. The issue is that the reported cost of RHA operations does not, of and by itself, constitute the full cost of health services made available to the regional population.

For example, on the face of the annual financial statements of the WestView RHA for 1998-99, a reader might assume that it cost $8.8 million to provide facility-based inpatient and ambulatory services for the residents of the WestView region. In fact, about $35 million was consumed for that purpose. Many WestView residents go outside the region for service.

WestView is a "net exporting" region. Thus the cost of providing care for residents of WestView is contained both in the expenses reported by WestView RHA and by other RHAs (primarily Capital).

The creation of a report showing the make up of composite health costs by each health region would, in our view, assist business planning, resource allocation decisions, and the accountability of RHAs. It would bring together information that could be used to emphasize the interdependency between the Department, health authorities, and health practitioners and the various component parts of the health budget. Such information would enable a more comprehensive and integrated process for understanding and measuring costs in meeting population health needs and priorities.

Understanding population-based funding

Population-based funding is a mechanism to allocate available funds

The population-based funding formula does not determine total funding for the health system and health authorities. It is a mechanism to allocate available funds to regional health authorities on the basis of population adjusted for age, gender and socio-economic status. The methodology allocates funds to regions on the basis of the average health expenditure consumption rate incurred for various demographic groups in each funding area (eg. inpatient care, ambulatory care, continuing care etc). This recognizes that different demographic groups have different health care needs and costs.

The system used by the Department to allocate funds among 17 RHAs has several components. First, there is calculation of basic population funding amounts using a standard method and formula. Added or subtracted for each health authority are adjustments for population import and export between regions. Added are amounts for minimum budget guarantee, population growth, no-loss increment as necessary for certain health authorities, and other amounts.

As determined by the Department in March 2000, the annual "population" funding for RHAs for 2000-01 is as follows (source: *RHA global funding manual*):

Funding for RHAs - 2000-01	$000
Initial population based allocations among 17 RHAs	$ 2,386,602
Net import adjustments	186,196
Net export adjustments	(186,196)
Amounts for:	
Minimum budget increase guarantee	89,886
Projected population growth	39,830
No loss provision (6 RHAs)	11,758
Total deemed as population funding	2,528,076
Other items:	
Community laboratory services	66,625
Community rehabilitation	41,146
Assured access adjustment (for 15 RHAs)	20,293
Cost of doing business adjustment (for 6 RHAs)	7,662
Public health services	3,394
Cover RHA contracts with physicians (for 6 RHAs)	10,099
Other items (for 8 RHAs)	9,456
Total "population" operating funding allocated among 17 RHAs	$ 2,686,751

Note: The above amounts do not include $304 million allocated for Calgary and Capital for Province-wide services, $276 million for the Alberta Mental Health Board and Alberta Cancer Board, and $38 million in supplemental funding for equipment. Total funding initially allocated for health authorities is $3.4 billion for 2000-01.

Funding allocated to an RHA is not determined by the actual service utilization and costs

The funding allocated to an RHA is not determined by the actual service utilization and costs incurred by that RHA. The population-based formula uses historical utilization and costs for the Province as a whole applying standard average pricing.

In total, 124 demographic categories are used to define the Alberta population, including 20 age groups, two sexes and four socio-economic groups. The goal of the formula is to distribute funds to RHAs in a neutral and unbiased manner. It does this by providing equal funding to each region for every Albertan in each demographic group living in that region.

People in younger age groups incur significantly lower health costs per capita on average compared to people over the age of 65. In general, the more people a region has in the "older" age brackets, the more funding it will receive. This is reflected in the per capita population funding rates for each health authority for the year 2000-01 that range from $506.70 for Northern Lights to $1,017.20 for East Central Region.

Using information to improve funding systems

Recommendation No. 21

We again recommend that the Department of Health and Wellness examine regional differences in the utilization and cost of health services with a view to improving the system for allocating funds to health authorities.

In 1998 we recommended that the Department:

- Improve the quality and timeliness of information used in the population-based funding formula and improve the consistency and predictability of the formula.
- Review the continuing application of the no loss provision.
- Develop better methods of forecasting funding requirements.
- Analyze reasons for utilization and cost differences between regions.

Progress made, but no consensus on how to recognize utilization and cost differences

Our follow-up found that:

- Progress is being made to improve data quality and consistency with work needed in continuing to improve regional data on ambulatory and other services.
- While the intent was to phase out the no-loss provision it continues (at lower amounts) as a means to prevent certain RHAs from experiencing major financial difficulties.
- With respect to methods of forecasting funding requirements, the Department continues using a simple demographic forecasting approach and a basic cost component method to provide 3-year forecasting figures.
- While the Department analyzes data in certain ways, no consensus has been reached as to how to recognize within population-based funding the utilization and cost differences among regions. The Department had not yet analyzed the reasons for differences and how the funding system might be appropriately adjusted.

By basing funding on Provincial averages, the formula is intended to encourage regions that use more or cost more than the average to use less or spend less. Conversely, the formula may allow regions that use less services or cost less to use more or spend more, which may be appropriate if services have been under-provided. While this may be the theory, there is no evidence of systems or a formula for ensuring that this happens.

As yet, the funding system does not consider the total cost of providing health services in each region and the underlying structural differences. We are not aware of health authorities comparing actual costs of operations on the same basis as funds are provided. Measurement systems are not available to compare the efficient use of resources by RHAs. Analysis is not generated that would determine if costs incurred by health authorities are significantly interrelated with, and affected by, differences in the way health services are configured or by the distribution of physician resources among regions.

In order to demonstrate the potential use of population-based data in planning and managing resources, we compared the utilization of health services in each health region to that predicted and funded by population-based funding.

For each region (and each age group) we determined the value of service utilization by multiplying the average price (relative value weight) by the number of service events. This was compared to the funding each RHA received. We used data maintained by the Department and the same method for computing population-based funding. The data includes the information provided to the Department by each RHA on the use of services using the standard system for reporting the activity of hospitals and nursing homes.

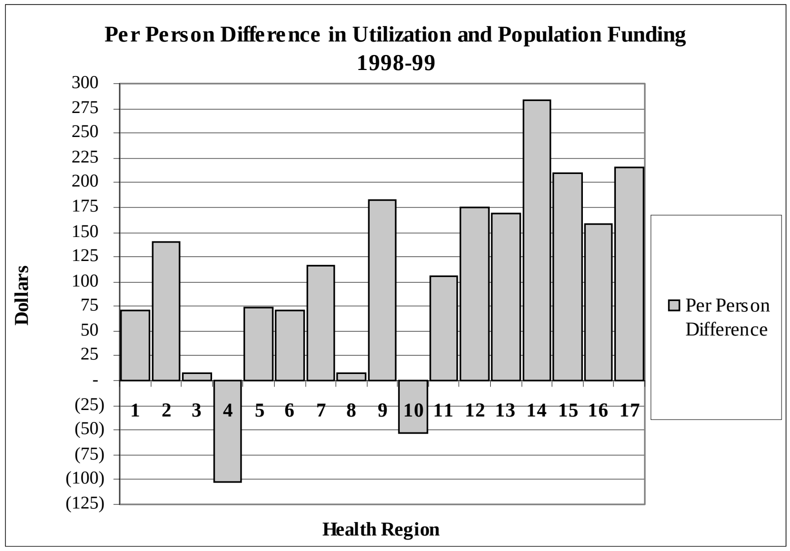
There is a risk of all ambulatory data not being reported to the Department

I emphasize that our analysis is based on data contained in the system for population-based funding. There is a risk of all ambulatory data not being reported to the Department and being incomplete for some regions. While the pattern would likely not change, the amount of the difference between utilization and funding for ambulatory services could be less for those regions who did not report all such activity for 1998-99.

Moreover, I caution that the following analysis showing differences between actual utilization and that expected by population-based funding does not prove RHAs are under or over funded.

Chart 2 below measures, in per capita terms, the difference between the utilization of RHA acute and ambulatory services compared to that predicted and funded by the population-based funding formula.

Chart 2



Most non-urban health regions experience utilization of services higher than that anticipated by population-based funding

Charts 2, indicates underlying differences in service between urban and non-urban (rural) health regions. Most non-urban regions experience utilization of RHA services higher than the population-based funding formula says they would or should based on averages. The reverse holds for the two urban regions of Calgary (Region 4) and Capital (Region 10). That is, utilization was less than that anticipated by population-based funding.

There may be several reasons for the differences including people in urban regions making greater use of services outside of a hospital or other RHA facility. People in rural regions may commonly go to a hospital for care because they do not have a family doctor. There may also be particular differences in morbidity (incidence of illness) patterns affecting utilization.

The Department needs to examine causes of differences

Our work is intended to flag to the Department a need for an examination of causes of differences and possible adjustments to the system for allocating funds to RHAs. The Department would need to examine size and complexity factors and to know if funding adjustments appropriately address differences between utilization of services and population–based funding. Data quality in population-based funding is important and there are structural type differences (reflected in utilization differences) that funding systems do not address in a systematic manner. Certain adjustments are made in a piece-meal fashion. We believe that this warrants further examination by the Department.

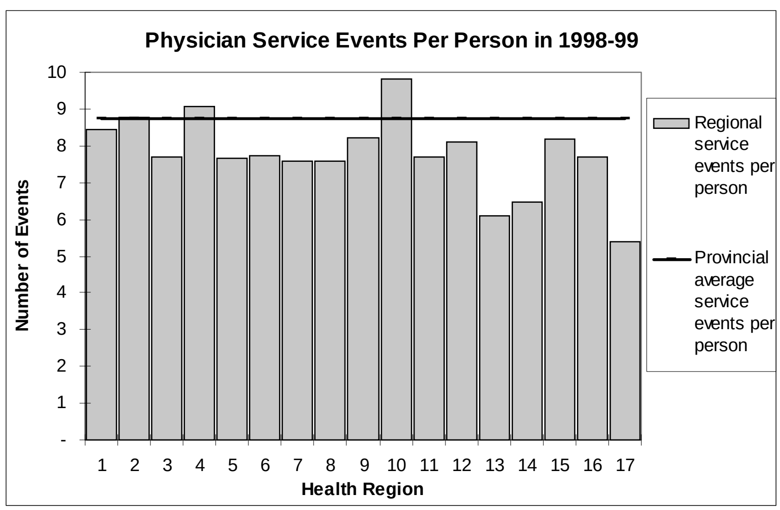
Utilization of health services delivered by RHAs is only a piece of the puzzle

What we also learned is that review of utilization of health services delivered by RHAs is only a piece of the puzzle. The total cost of providing health services to regional residents should be taken into consideration for possible adjustment to funding systems. The following explains why.

Using available AHCIP data, we analyzed physician payments and service volumes that account for the consumption of services paid for by the Department (not RHAs) under AHCIP and charged against the centrally administered physician budget.

Chart 3 following shows the consumption of physician services by the place of regional residence of the patient and as paid under AHCIP.

Chart 3



While the population of non-urban regions tend to utilize proportionally more of the resources under the administration of their RHA, there is less use of the physician budget resource. Conversely, while urban populations feature relatively less utilization of RHA resources, there is proportionally greater use of health services provided by physicians and paid from centrally administered physician funds.

Such analysis points to the need for the Department and RHAs to do more homework in collaboration with health practitioners to diagnose the interrelationship between utilization of health authority resources, physician practice patterns, population demographics and behaviour, and the health needs of the population.

There may be merit in making adjustments in the system for allocating funds

There may be merit in making adjustments in the system for allocating funds to RHAs in view of regional differences in the way services are delivered that creates more or less demand on the central physician budget. This would create an incentive for greater consideration of full costs when decisions are taken that would otherwise simply shift costs between RHAs and the physician budget. It may also provide improved equity, without funding inefficiency, for RHAs that have little or practical alternatives available in providing primary health services.

In conclusion, we still see an opportunity for enhanced equity in resource allocation by examining the utilization and cost of health services by RHAs and the total cost of regional health services. Such information can increase the awareness of differences and the interrelationships between component parts of the health system that are separately administered.

Information Management – Alberta We//net

We//net is a major undertaking with the vision of "better information for better health." The concept is a Province-wide network to enable information sharing among patients, service providers (physicians, hospitals, pharmacists, laboratories, and others), health authorities, and the Department. It is a business change initiative of considerable scope and importance to the health system of Alberta. It officially began July 1997 and is an "umbrella" under which a series of multi-stakeholder information technology initiatives take place.

In prior years we reported that many risks needed to be addressed

In prior years we reported that many risks needed to be addressed to ensure that we//net stayed in control to produce benefits at an affordable cost. These risks included:

- risk inherent in any large information system project of cost and time overruns and lack of user acceptance
- the capability, readiness, and willingness of health care providers to participate and use common or linked systems
- the challenge of ensuring accountability in a multi stakeholder environment—until results and performance measures were in place, it was uncertain what the expectations were against which the Alberta We//net Project Office could render accountability

Last year we reported that the Alberta We//net Project Office was aware of risks and that a number of things were being done or were to be done to ensure that we//net improves the quality of health services. It was recommended that the We//net Office continue to improve systems of accountability in order to manage risks, maximize the prospect of meeting expectations within budget, and to render accountability for results achieved for costs incurred.

Progress continues to be made on prior year observations and recommendations

Our follow-up indicates that progress continues to be made on prior year observations and recommendations. A master plan has been developed to provide guidance for annual operating plans, a process has been put in place to report on we//net, and a process has been established to facilitate the pursuit of opportunities for developing information systems among health authorities that would reduce multiple or fragmented systems. For example, three health authorities collaborated on the introduction of a common financial system that decreased the number of system platforms from nine to one.

Accountability for we//net results

Recommendation No. 22

We recommend that the Department of Health and Wellness and the Alberta We//net Project Office review the alignment of accounting, funding, and accountability for we//net to better ensure the achievement of benefits for costs incurred.

$78.8 million spent over the past three years

About $78.8 million has been spent on we//net over the past three years. For the fiscal year ending March 31, 2000, we//net reports using $36.2 million for developing some ten systems for promoting health and well being, improving access to and utilization of services, and improving health system management and accountability. The Department funded $19.7 million and health authorities provided $15 million. The Department provides funds to RHAs who then contribute funds to we//net. A further $1.5 million was provided for we//net from other sources.

We examined how the accounting for we//net might evidence benefits being realized. If expenditures were being recorded as an asset (capitalized), it would reflect the expectation of future benefits.

We found that accounting for we//net is complex and not easily reconciled since funding is shared and costs split among the Department and health authorities. The Department provided guidance to health authorities for the accounting of we//net costs, but left accounting decisions up to them.

Health authorities expensed 85% of their we//net contributions

Health authorities expensed $12.8 million representing approximately 85% of their contributions to we//net. Eleven variously capitalized amounts that collectively add up to about $7 million. This included $2 million out of $9.8 million of Departmental contributions that the Department suggested health authorities could record as an asset if they chose to capitalize the related portion of their contribution to we//net.

The Department reports having expensed about $17 million representing the bulk of its we//net contribution. It capitalized $1.3 million relating to one information system used by the Department.

In the end, out of the some $36 million spent on we//net during 1999-2000, about 10 to 15% was considered an asset (cost for which the benefit would be realized in the future). More than 80% was charged as a current period expense (an expired benefit). This signals several issues:

- If the expensing pattern continues, there is risk of lack of demonstrated value-for-money from investing in we//net. By expensing costs, it appears that stakeholders now funding we//net and anticipated to benefit do not yet see how benefits will accrue in a manner they see as relevant to the delivery of health services for which they are accountable.

- Funding is not aligned with responsibility and accountability for costs and benefits. This complicates the monitoring and reconciliation of costs.

In conclusion, the Department and the Alberta We//net Project Office should review how the accounting for we//net costs appropriately aligns with funding arrangements and the accountability for results achieved for costs incurred. Accounting for we//net costs should be monitored by the Department and reconciled with funding. The Department would need to examine if diversity in accounting for similar projects creates uncertainty as to how to interpret the treatment of costs in relation to the realization of benefits.

Air ambulance operations

We recommend that the Department of Health and Wellness improve systems for contracting and managing air ambulance services by:

- **Conducting analysis of activity and costs in support of pricing and contract renewals.**
- **Monitoring compliance with contract provisions including potential conflict of interest and ensuring that all payments are in accordance with contract terms.**
- **Utilizing available data to verify the cost effective use of air transport services.**

Emergency air ambulance service is a unique program

Emergency air ambulance service is a unique program of the Department. It represents the one area where the Department retained responsibility for health care services during the creation of regional health authorities. The Department's goal is to provide air ambulance services to people regardless of location within Alberta. The Department spent about $18.5 million on air ambulance services during 1999-2000. The delivery of ground ambulance services is the responsibility of municipalities.

To cover the entire Province, the Department contracts with ten medivac/air transport providers and ten medical crews. The transport providers are at dispersed locations within Alberta and are "teamed" with medical crews in the same area. Each team has a preferential area but can serve any area if another team is busy. Only one service provider uses helicopter transportation.

The Department used an RFP process in 1994

The Department entered into a request for proposal (RFP) process in 1994 to obtain the best air ambulance services at the best price. The process of contracting involved the review of qualifications and bids.

An approved requester (physician, emergency medical team) must make all calls for an air ambulance. The calls are currently received through two contracted dispatch centres in the Province. Calls are routed to a service provider based on a medical assessment (priority) protocol and a chart of call (distance/cost effectiveness). The Department does annual inspections of medical crews and semi-annual inspections of air transport equipment owned by providers. The Department also receives incidence reports from the dispatchers.

Rates were increased during the original five-year terms of contracts and the contracts currently in place are primarily extensions to 1994 contracts without the Department undertaking a subsequent RFP process.

Our examination found:

There are a number of ways to improve the contracting and management of air ambulance services

- The Department has systems in place to check the accuracy of payments to contractors. It compensates providers for trips that meet eligibility criteria based on pre-determined rates charged for each flight (service) mission/event. Providers carry out the mission and submit an invoice to the Department. The invoice is matched to the dispatch record and if the two are in agreement, in terms of distance traveled and number of staff responding to the call, the invoice is paid based on rates set by contract.
- We could not locate adequate documentation supporting rate increases. The Department needs to carry out a rigorous financial review of operator requests for rate increases. For example, without the Department receiving information on the costs associated with contracted services in Alberta, it cannot be determined whether the increase in contracted rates was appropriately supported in relations to the cost of air ambulance services in Alberta as contracted with the Department.

- Payments covering multiple flights were made where documentation indicates payments did not comply with contract terms. In one case, contract terms provide that a payment can only be for flight dispatched by a government funded dispatch centre. However, the contractor initiated flights based on calls it received directly. The Department is taking steps to consolidate dispatch operations in order to improve the efficient and effective use of contracted services. In the other case, the Department settled unpaid invoices in dispute with the contractor in the amount of $146,000.
- The Department monitors some but not all of the contract provisions. For example, the contracts currently require an up-to-date list of management in order, for example, to identify potential conflict of interest. The Department has not formally monitored compliance with this provision and relies more on personal knowledge of staff than appropriate documentation.
- A committee has been reviewing the priority red calls to evaluate the reliability of dispatch rating criteria. Data indicates that at least 25% of priority red calls reviewed to date did not meet the criteria for that rating. This poses risk at busy times that a true priority-red is not appropriately responded to.
- To date, the Department had not utilized available data in verifying the cost-effective use of air ambulance operations and shared such information with health authorities.

In conclusion, the Department is monitoring aspects of air ambulance operations and checks accuracy of payments to contractors. However, there are a number of ways for the Department to improve systems for the contracting and management of air ambulance services.

Attest audit of Ministry financial statements for the year ending March 31, 2000

The audits of the Ministry and Department financial statements were completed with the full cooperation of the Department. All information necessary to complete the audit was received.

Adverse audit opinion issued

As in prior years, I issued an adverse audit opinion on the Ministry financial statements for the year ending March 31, 2000. The effects of non-consolidation led to my opinion that the financial statements do not present fairly the financial position of the Ministry as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Health authorities should be included in the reporting entity

Non consolidation of health authorities. The Department should provide a comprehensive reporting of the health system's financial performance to assist decision makers in the effective management of the health system. In our view, health authorities should be included in the reporting entity and consolidated in the Ministry's financial statements. These authorities are accountable to, and controlled by, the Minister. As reported last year, we continue to believe that consolidated financial statements would provide senior management and the Legislative Assembly with a more complete reporting of the health system's financial performance in a convenient manner. This matter continues to be discussed and considered by the Ministry and the Department of Treasury.

The Ministry financial statements currently do not provide complete information on the resources consumed in providing public health services in Alberta. For example, had health authorities been consolidated, the expenses for health services would have increased by $341 million (1998-99 $580 million) in the Ministry financial statements.

Currently, budget amounts and similar expenses are reported differently in the financial statements of the Ministry and health authorities. Moreover, the Ministry reports expenses by programs and activities while health authorities report expenses partially by health services, partially by function and partially by object of expense. Lack of consistent classification of expenses and fragmented reporting makes it difficult to identify how resources are consumed in the provision of health services.

Other qualifications were made to my audit opinion on the Ministry and/or Department financial statements.

Lack of disclosure of related party transactions. Government accounting policies stipulate that related parties include only those organizations that are a part of the government reporting entity. Since health authorities are technically not considered part of government, transactions with health authorities are not disclosed in the financial statements of the Ministry or the Department as transactions with related parties. Under generally accepted accounting principles, health authorities are related parties of the Ministry. A description of the nature of the relationship and extent of the Ministry's transactions with them should be referenced in notes to the financial statements.

Costs excluded. Accommodation and certain other administration costs incurred in the operation of the Ministry have not been included in expenses. These costs are estimated at $19 million and are recorded by the ministries which paid the expenses on behalf of the Ministry.

Understated provision for doubtful accounts. The provision for doubtful accounts in both the Ministry and Department statement of operations was not, in my opinion, in accordance with generally accepted accounting principles. The Department indicates that the allowance for doubtful accounts at March 31, 2000, was estimated based on an aging analysis of accounts receivable and past collection patterns. However, management's estimate of the extent to which health care insurance premiums are collectible incorporates the effect on collections of improved economic conditions. In our view, the Department's assertion that collections of health care insurance premiums will improve to the extent forecasted based on improved economic conditions is not supportable.

Had the provision for doubtful accounts been estimated based on the stated methodology, the provision of $29.7 million would be increased by $4.1 million and the allowance for doubtful accounts at March 31, 2000, amounting to $115 million, would be increased by $8.4 million.

Reporting financial results

Recommendation No. 23

We recommend that the Department of Health and Wellness improve the reporting of financial results in the Ministry and Department financial statements.

Current financial reporting makes it difficult to understand performance

The current method of reporting the financial results of operations makes it difficult to understand and analyze financial performance of the Department in relation to its described purpose. The present disclosure of expenses in the Ministry and Department financial statements does not provide readers with sufficient information to assess the full nature of the expenses incurred.

While non-financial performance information is partially linked to the core business statements in the Ministry Annual Report, it is difficult to assess financial performance in relation to the operations of the Department as currently reported in the financial statements. It is important that financial performance information be presented in a manner that facilitates an understanding of resources consumed by the Department in the provision of services for which it is responsible.

Expenses are partially reported by program in the Ministry and Department financial statements. The largest program expense line item in the statement of operations, which accounts for 90% of total expenses of the Ministry, is described as “health services” amounting to $4.9 billion. Ministry financial statements do not provide any details on this expense amount. No information is provided on the nature or extent of significant transactions including grants to health authorities, fee for service payments to physicians, and expenses related to the we//net initiative.

While there is disclosure of additional information on the health services expense line item in the Department financial statements, the current presentation makes it difficult to understand how resources have been consumed or allocated by the Department.

For example, schedule 5 to the financial statements provides details of program expenses inconsistently grouped by funding recipient or programs/initiatives. While health authorities are listed separately on this schedule, the amounts attributed to the health authorities do not comprise the total funding to each health authority. Approximately $391 million of funding to health authorities is disclosed in other line items on the schedule making it difficult for readers to determine the total funding provided to each health authority.

In addition, we//net expenses are reported under three captions on this same schedule making it difficult to readily identify total we//net expense in a given year. Further, there are two expense line items referred to only as dedicated program funding. Such a description does not enable the reader to differentiate the nature of these expenses.

Reporting accounts receivable

We recommend that the Department of Health and Wellness review its policies relating to when accounts receivables are written-off for accounting purposes and the processes used to estimate uncollectible health premiums.

The following table provides a profile of the Department's reported receivables as at March 31, 2000.

	Receivables Outstanding for < 1 year	Receivables Outstanding for > 1 year	Total receivables	Less: Allowance	Net Receivables
	(in millions of dollars)				
Receivables for premiums from individuals / families:					
With a balance < one year	$ 61	$ 0	$ 61	$ 27	$ 34
With amounts > one year	38	72	110	81	29
Bankruptcies *	6	0	6	6	0
Sub total	105	72	177	114	63
Receivables for premiums from employee groups and others	30	0	30	1	29
Government of Canada	43	0	43	0	43
Other receivables	44	0	44	0	44
Total	$ 222	$ 72	$ 294	$ 115	$ 179

*Note: Aging of bankrupt amounts not known – assigned to < 1 year outstanding.

41% of receivables outstanding for more than one year

The Department had approximately $177 million of gross accounts receivable from Albertans who are billed health premiums. Approximately $72 million of these receivables (41%) have been outstanding for more than one year. These receivables have increased by approximately $6 million in each of the last two years.

Department should use methodology consistently

The 1999-2000 financial statements disclose that the allowance for doubtful accounts ($115 million) was based on an aging analysis and past collection patterns. The Department's 1999-2000 working papers showed an analysis of past collections by aging period and an estimated overall uncollectible rate. The Department significantly decreased this rate (and the allowance) based on general economic forecasts and planned changes to improve its collection procedures. In our view, the decrease was too high based on experience. In the previous two years similar adjustments were made but not realized. The Department should use its stated methodology consistently to estimate the allowance for doubtful accounts. This would reduce the subjectivity of the estimate.

The Department does not have a set period of time after which an account will be written-off. After the collection attempts have failed, the account will not be written off if it is still active with the person receiving health services and premium billings. According to the Department's policy, a receivable will only be written off if an individual goes bankrupt, dies, receives social assistance, or the account is cancelled.

The Department should write-off or write down a receivable as soon as it is known to be uncollectible or not collectible in full. For example, a review of receivables shows that there are 516 individuals with balances that exceed $10,000 ($6.7 million in total). These receivables have been outstanding for more than one year. According to legislation, these accounts are subject to 18% annual interest applied to the full amount owing. This interest revenue is recorded but should only be recorded if it meets the recognition criteria including collectibility.

The Department's policies, related to when receivables are written-off, contribute to the difficulty in estimating uncollectible health premiums. Of the $177 million of gross receivables, the amounts related to individuals who had a balance outstanding for over one year had a total amount owing of $110 million ($72 million more than a year outstanding, $38 million less than one year). The likelihood of collecting most of these amounts is small. The Department does not track cash collections on these receivables separately.

Specified procedures applied to Ministry performance measures for the year ending Marcy 31, 2000

My report on the results of applying specified procedures to key performance measures included in the 1999-2000 Ministry annual report included an exception related to the appropriateness of the description of a measure's methodology.

Actual performance cannot be compared to target

The method of calculating the reported measure was changed from the one described in the business plan and used to determine the target. Consequently, actual performance cannot be compared with the target. The following table illustrates how the change in methodology affected what was reported in the Department's annual report.

Self-Reported Health Status for people surveyed between the ages of 18 and 64	1996 %	1997 %	1998 %	1999 %	2000 %	Target 2000
Based on target methodology - not reported (very good or excellent health)	68	65	67	67	66	**70%**
As reported by the Department (good, very good, or excellent health)	90	90	91	90	90	

We believe that where the Department significantly changes the methodology of a performance measure, the annual report should disclose a description of the change and what the results would have been if the change to the methodology had not been made.

Persons with Developmental Disabilities Boards
for the year ended March 31, 2000

We completed financial statement audits of the following entities:

- Michener Centre Facility Board
- Persons with Developmental Disabilities Foundation
- Persons with Developmental Disabilities Provincial Board
- Persons with Developmental Disabilities Northwest Alberta Community Board
- Persons with Developmental Disabilities Northeast Alberta Community Board
- Persons with Developmental Disabilities Calgary Region Community Board
- Edmonton Community Board for Persons with Developmental Disabilities
- Persons with Developmental Disabilities Central Alberta Community Board

- Persons with Developmental Disabilities South Alberta Board

Qualified audit opinions were given

Except for the Persons with Developmental Disabilities Foundation, my audit opinion on all board financial statements were qualified for not including all costs of providing services. This included costs for accommodation, financial and human resource and legal costs paid for by other ministries.

My audit opinion on the financial statements of the Michener Centre Facility Board was further qualified for other reasons. These were failing to record vacation pay liabilities, not accounting for a change in accounting for inventory on a retroactive basis, exclusion of maintenance fee revenue, and not recording computer equipment purchases as an asset.

Shared services

In my 1998-99 Report (page 168) I had recommended that the Department of Human Resources and Employment prepare a plan and agreement for the delivery of shared services for community boards (including PDDs) and children's authorities which would support the management of operations. Because the Department did not have adequate systems in place to address matters for the success of shared services, entities were subject to significant risks relating to finance and administration, allocation of costs, and compliance with authorities. Follow up on this item is reported in Children's Services.

On page 62 we recommend that support services, including shared services, be examined for opportunities to improve cost-effectiveness and that Authorities should enter into service agreements with their service providers. While a shift to a client service focus is taking place, information is needed to know if the cost of support services is reasonable. And, Authorities still need to enter agreements for shared services so as to improve accountability for the quality and cost of shared services. This also applies to PDDs.

Alberta Alcohol and Drug Abuse Commission
for the year ended March 31, 2000

Audit opinion qualified

The audit opinion on the financial statements of the Alberta Alcohol and Drug Abuse Commission (AADAC) for the year ending March 31, 2000 was qualified for two matters. One qualification related to excluded direct costs resulting from the accounting policies established by the Treasury Department. As with other entities, AADAC's financial statements do not include costs, incurred on its behalf by other Provincial entities, which represent services provided to the Commission at no charge.

The second qualification was necessary since there had been an expensing of capital assets that were not consumed during the year. This resulted from AADAC increasing its capitalization threshold from $500 to $5,000. The Commission wrote off previously capitalized assets under $5,000 in the amount of $919,044 and during 1999-2000 expensed purchased items that would have otherwise been recorded as an asset. As a net result, assets were understated and expenses for the year over stated by approximately $750,000.

Financial statements not approved by Members of the Commission

We also noted that, consistent with prior years, the financial statements of AADAC were approved by management and not Members of the Commission (the board). We understand AADAC will take this matter into consideration as part of its continuing review of governance issues in conjunction with other agents of the Crown including reporting pursuant to the *Alcohol and Drug Abuse Act.*

Audit of Health Authorities

Financial statement audits of the following health authorities were completed for the year ended March 31, 2000 for those health authorities where the Auditor General is the appointed auditor:

Regional Health Authorities (RHAs):

- Capital Health Authority
- Calgary Regional Health Authority
- Chinook Regional Health Authority
- East Central Regional Health Authority
- Headwaters Health Authority
- Keeweetinok Lakes Regional Health Authority
- Lakeland Regional Health Authority
- Northern Lights Regional Health Authority
- Peace Regional Health Authority
- Regional Health Authority 5
- WestView Regional Health Authority

Alberta Cancer Board
Alberta Cancer Foundation
Alberta Mental Health Board

Results of health authority audits

There are 17 regional health authorities and two Provincial health boards under the Ministry of Health and Wellness. The Auditor General is the appointed or statutory auditor of 11 regional health authorities and both Provincial health boards. A summary of the results of audits of all health authorities for the year ending March 31, 1999 and March 31, 2000 are included in this Annual Report to the Legislature. This covers the entities listed above and the six RHAs where I am not the appointed auditor.

Financial statements of health authorities received unqualified audit opinions

All RHA and Provincial health board (collectively called health authorities) financial statements for the fiscal years ended March 31, 1999 and March 31, 2000 received unqualified audit opinions. The financial position, results of operations, and changes in financial position were presented fairly in accordance with generally accepted accounting principles. It is also noted that health authorities corrected several problems in financial reporting that we previously reported. In particular, the expense categories of contracted health services are now reported by RHAs.

Health authorities need to be vigilant in maintaining good systems of control

Annual attest audits of financial statements are not designed to assess all key systems of accountability. However, auditors of health authorities communicate findings, if any, to management should control weaknesses come to their attention when auditing the financial statements. A summary follows of the audit findings and recommendations reported in writing to health authorities for fiscal years 1998-99 and 1999-2000.

With regard to the 1998-99 audits, three recommendations to management related to governance issues, ten to problems in financial reporting, and 47 related to various weaknesses in internal control.

For the 1999-2000 fiscal year, as of July 31, 2000, 17 of 19 health authorities received a management letter from the auditor. Collectively, these communicated six observations on financial reporting/accounting matters and 61 on control weaknesses.

Observations and recommendations to improve control were made to health authorities in areas such as planning and budget, performance reporting, human resource management and payroll, capital assets and inventories, information systems management, cash and receivables, purchases and payables, and other matters. The extent and nature of the audit observations indicates that health authorities need to be vigilant in maintaining good systems of control.

Certain of the observations are highlighted as follows.

Vacation pay liabilities

Health authorities owed $113 million in vacation pay to employees

An observation communicated to five RHAs related to increasing vacation pay liabilities to employees. At March 31, 1999, health authorities owed a total of $113 million in vacation pay to employees, and rising. Overall, there was a 14% increase in vacation pay liability from 1998 compared to an 8% increase in salary and benefit expense. The trend continued in 1999-2000 where vacation pay liabilities increased at a rate faster than the increase in salary expense. This is a flag warning the presence of a variety of risks.

For example, if salary increases are given, increasing amounts of unused vacation time will have a greater cost to the authority since it will be paid at higher rates. There may also be risks to workforce management. People may not take vacation because staffing is out of balance with workload and there are shortages in staff. Such situations can accelerate employee absenteeism, turnover and sick leave. It may be a case of employees taking other leave entitlements and banking vacation time for later use. There could also be lost productivity in terms of reduced patient service hours.

Accordingly, it was recommended to five health authorities that they assess whether there are significant risks that should be addressed by human resource management systems.

Chinook Regional Health Authority

We recommended that this Authority continue to work with the Department and Alberta Infrastructure in order to clarify the nature of the Authority's future responsibilities for, and control of, the St. Michael's Health Facility.

The Authority has completed construction of a dedicated 210 bed long-term care facility in Lethbridge on land owned by Alberta Infrastructure and using funds from Alberta Infrastructure. This replaced the existing facility and is known as the St. Micheal's Health Centre. Services are provided in the facility exclusively by the St. Michael's Health Centre Board, under terms of an operating agreement with the Authority.

Lease agreement not yet reached

With regard to the fiscal year ended March 31, 1999, we understood that a lease agreement for the facility was being drafted between the Authority, Alberta Infrastructure, and St. Michael's. Parties needed to clarify their roles for the facility in such an agreement to determine if continued capitalization of the facility on the books of the Authority was appropriate. The nature of such lease agreement would, in effect, establish who is responsible for the governance, control and accountability of the facility.

As at March 31, 2000, a lease agreement had not yet been reached. Minister correspondence back in August 1996 indicated that an agreement between parties must be reached before the capital project commenced. The issue remained open at the time of completing our audit. Subsequently, we have been informed that the Department and Alberta Infrastructure are working to resolve the matter.

Mistahia Regional Health Authority

The Board and management were concerned about capacity to deliver services within budget

In December 1999, the Board of the Mistahia Regional Health Authority (MRHA) asked us to review the operations of the Authority. The Board and management were concerned about the Authority's capacity to deliver services within budget. MRHA wanted to identify opportunities for narrowing the gap between expenses and revenues. Since 1997-98, MRHA expenses have exceeded revenues by about 2% to3% each year, eroding net equity. Consequently, MRHA was at risk of being unable to sustain operational viability unless the deficit trend reversed.

With full cooperation of MRHA, and without restriction as to areas of examination, the review examined the administration of MRHA and the operations of the Queen Elizabeth II Hospital-Grande Prairie. The scope of the review was comprehensive covering these subjects and related systems:

- Programming and service delivery
- Population funding and Mistahia
- Financial management and control
- Staffing and work load management

- Board governance

In early June 2000 we reported to the Board on the results of the review. The review resulted in 19 recommendations designed to improve key systems of accountability. The following summarizes our findings.

MRHA found to have strengths

MRHA was found to have strengths. These included:

- People are clearly committed to their work and the Board, management, and health care providers are aware of issues that need to be addressed.
- Basic systems are in place for MRHA to function. In particular, MRHA has a common operational and financial system that works and can be accessed by all.
- Budgets have been established for each responsibility centre and MRHA can reasonably forecast budget positions. Managers collect various data and information for monitoring activities and undertake innovations.
- The Board has established its operating policies, assessed its governing performance and was in the process of changing how it conducts business.

Many opportunities to improve accountability for the use of resources

So why had MRHA been unable to close a 3% gap between expenses and revenues? While it might seem to be a simple thing to do, it is not. In our view, it was the result of a combination of factors. It was not just a matter of spending within budget, but ensuring appropriate allocation of resources and achieving quality health services.

Environment and culture. Over time, camps of dividing interest had developed. These were characterized by competing objectives and unwillingness to compromise. At times, the Board felt pre-empted by events, constrained by local interests, lack of information, and unable to implement difficult decisions. Managers felt trapped between budgetary control and limited means to control costs since re-configuration of existing services were not supported by the Board nor entertained by medical staff.

Medical staff experienced increased work and indicated low confidence in the Board and Administration to help them. They felt isolated from decisions affecting them but at the same time seemed reluctant to participate in planning and budget decisions. Building constructive accountability relationships among MRHA stakeholders was seen as a pre-requisite for achieving accountability.

Systems. Systems, particularly with respect to planning, needed to be advanced to enable best use of resources and ensure accountability for the cost and quality of health services. MRHA needed to develop and use information to plan and influence the utilization and costs of services. There was also an absence of supporting systems and structures to plan and allocate human resources.

High utilization and costs. There was risk of excessive utilization of health services provided by MRHA, inefficient use of assets and other additional costs. Mistahia residents consume significantly more acute and ambulatory care resources than the Provincial average and what is anticipated by population-based funding for Mistahia. The difference between acute care utilization and funding, for example, translated to about $7.8 million.

Governance. Governance of MRHA had not sufficiently emphasized strategic direction for the region and ensuring that adequate systems of accountability were in place and working in MRHA. There was indication of the Board recently shifting toward key attributes of governance.

Accordingly, our review concluded that there were many opportunities for MRHA to mature systems of accountability that would enable the Board to achieve regional goals and to implement difficult choices in managing the budget. MRHA needed to:

- Develop a planning process that will set strategic direction for the region based on regional needs and produce approved business plans and budgets that implement long-term goals and serve as instruments of accountability. In the process, MRHA should affirm the extent of secondary services provided, establish priorities for the allocation of resources, and engage medical staff in planning decisions and assessing the utilization of services and managing risks to the quality and cost of health services.

- Devise an information strategy to support goals and to provide information on service utilization and costs in support of decision-making.
- Integrate management systems to better ensure decisions are taken knowing costs and budget impacts.
- Implement service systems and system supports (eg. medical bylaws, standards of care, and clinical guidelines) to allow systematic identification and assessment of risks and to guide service delivery.
- Deploy a system of staff workload and acuity indicators, in combination with professional judgment, to minimize the risk of over and underutilization of staff and to manage growing absenteeism, overtime and premium shift payments.
- Establish a comprehensive, transparent and specific cost management plan with targets and timelines by asking each budget manager to identify where costs can and should be reduced or contained within their control, what changes are needed to achieve them, providing clear and sustained Board support for seeing them through, and then holding people to account for what is achieved through the budget system.

MRHA accepted the 19 recommendations and is working to implement them in conjunction with stakeholders.

Guidance to reader

Human Resources and Employment is a new ministry, established in May 1999. The Ministry incorporates parts of the former Ministries of Advanced Education and Career Development, Labour, and Family and Social Services.

The Ministry's mission is to "contribute to the Alberta Advantage by working with partners to assist Albertans to: reach their full potential in society and the economy; foster safe, fair, productive innovative workplaces; and support those in need." The Ministry has established goals for each of the three components of its mission and key performance measures for each goal.

During 1999-2000, the Ministry spent approximately $976 million. Of this, approximately $274 million was spent on training and employment support; approximately $16 million in workplace services and labour relations adjudication; and approximately $649 million on support for those in need. The expenses of the Personnel Administration Office which became part of the Department of Human Resources and Employment at the inception of the Ministry, amounted to approximately $7 million.

Also, during 1999-2000, the Ministry provided administrative services to the Department of Children's Services and to child and family services regional authorities together amounting to approximately $21 million, and to Persons with Developmental Disabilities boards amounting to approximately $6 million. These amounts were respectively charged to Alberta Children's Services and Alberta Health and Wellness.

In past years, there have been problems with the controls over funds spent on training and employment support programs. In my 1996-97 annual report, I identified problems with the Integrated Training Pilot (ITP) Program administered by the former Alberta Advanced Education and Career Development (AAECD) that can result from inadequate program development, contract definition and contract management. There had been public allegations of inappropriate practices relating to services provided by a certain company, Career Designs Ltd., under the ITP Program. Also, in my 1996-97 report, I identified deficiencies in performance measurement in two training and employment support programs, namely the ITP Program and the Skills Development Program.

In my 1997-98 annual report, I commented on the considerable progress made by AAECD in addressing any previous concerns, but in my 1998-99 report, I identified instances of inadequate monitoring by AAECD which resulted in a risk that external providers of employment training under certain of AAECD's programs receive payment for services not fully rendered.

The risks associated with the administration of training and employment support programs, where reliance is placed on external service providers, are significant and require careful management. In the current year, we devoted considerable audit focus to these programs and, in particular, to the largest of these, the Skills Development Program.

Ministry of Human Resources and Employment
for the year ended March 31, 2000

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Human Resources and Employment as at and for the year ended March 31, 2000. My auditor's report on the Ministry financial statements contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 264 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on ministry financial statements.

Scope of audit work

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

- Specified audit procedures applied to the performance measures included in the Ministry's 1999-2000 annual report
- A follow-up of the prior year's recommendation that a plan and agreement for the delivery of shared services for Persons with Developmental Disabilities (PDD) boards and child and family services regional authorities be developed
- A review of the systems in place to administer the Workplace, Health and Safety Program
- A review of the systems in place to administer the Skills Development Program

- An audit of the Canada Assistance Plan Final Claim for the seven years ended March 31, 1996
- An audit of the claim for the year ended March 31, 1999 under the Canada-Alberta Agreement on Employability Assistance for People with Disabilities
- An audit of the Province's Statement of Operations for the year ended March 31, 2000 to support a claim under the Labour Market Development Agreement between the Province and the Government of Canada

Department of Human Resources and Employment
for the year ended March 31, 2000

Audit of claims for federal cost-sharing

We issued audit reports containing an opinion without reservation on each of the three federal cost-sharing claims for which audits, as indicated under the scope of audit work detailed above, were completed.

Preparation of claims for federal cost-sharing

We recommend that the Department strengthen its procedures to prepare, review and provide documentary support for claims on the federal government for cost-shared programs.

The Department has an ongoing responsibility for making claims on the federal government for certain cost shared programs.

The Final Claim under the Canada Assistance Plan (CAP) comprised adjustments to annual CAP claims made over the seven years 1989-90 to 1995-96 and amounted to approximately $11.4 million.

The draft final CAP Claim contained large errors

We observed that the Final Claim reviewed by this Office contained significant errors:

- The federal government had agreed that the Final Claim include adjustments for certain administration costs of Home Care Services for 1994-95 and 1995-96 that had not been included in the CAP claims for those years because of the then unavailability of information.

  We identified errors in the calculation of these adjustments which understated the amount claimed by $1.1 million.

- The federal government had limited annual CAP claims to a 5% yearly increase over the claim for 1989/90. Correcting adjustments to the Final Claim to remove certain ineligible costs included as part of the 1989-90 claim, also reduced the ceilings for 1991-92 and 1992-93.

  We identified errors in the calculations to reduce the maximum limits on the amounts claimable for 1991-92 and 1992-93 which resulted in an overstatement of the claim of approximately $2.5 million.

Errors were subsequently corrected

These errors were brought to the attention of the Department by this Office and subsequently corrected.

Also, the Department had failed to retain material to support the adjustments amounting to approximately $6.4 million to the 1995-96 claim for administrative costs incurred by the Province in providing Home Care services.

Skills development program

Recommendation No. 24

We recommend that procedures to monitor compliance by educational institutions with the terms of the Skills Development Program be improved.

The objective of the Skills Development Program is to provide financially disadvantaged clients with access to education and training necessary for them to achieve independence through employment. Through apprenticeship programs, basic foundation skills and academic upgrading with approved educational institutions, the government hopes to reduce the dependency on other forms of assistance.

The Program is delivered through the use of educational institutions

The Skills Development Program provides basic education, upgrading, post-secondary and apprenticeship instruction to eligible candidates. Under the Program, the Department pays a fee per student to educational institutions and a living allowance to students disbursed under the control of the institutions. The educational institutions work with the Department in accordance with a Memorandum of Understanding (MOU).

Funding for the Skills Development Program amounted to $102 million in 1999-2000.

Controls over Program funds are inadequate

In our view, the controls in place under the existing MOU over the provision of funds to students and educational institutions and the monitoring of student progress are inadequate.

Agreements do not adequately define the obligations of the educational institutions

We observed that there were no contracts with the educational institutions to supplement the MOU. A contract would provide a means to more clearly define and detail the obligations of the educational institutions. We reviewed the provisions of the MOU and identified the following significant areas which need to be properly addressed as part of the terms and conditions of a contract supporting the MOU:

- **Definition of Key Terms—**there is a risk of overpayment of tuition service fees and student living allowances because of poorly defined terms. Student absenteeism, termination dates for funding, and changes in financial status of students were not sufficiently well defined.
- **Record Keeping—**the MOU does not stipulate the form and content of the records that are required to be maintained by the educational institutions. There is a risk that record keeping by the institutions will be inadequate.
- **Monitoring of Student Progress—**the MOU is unclear as to the obligations of the educational institutions in monitoring student academic progress. The information gathered by the educational institutions on the progress made by students is key to evaluating the success of the Program.
- **Reporting—**regular, frequent and prompt reporting of all changes in the financial status of students, cessation of class attendance, and other determinants of changes to or stoppages in funding should be reported to the Department. Although the MOU refers to certain forms to be used in the Program, the requirement for the educational institutions to report to the Department on a regular basis is absent.

Also, from discussions with staff members from the Department and from Alberta Learning, we have been informed that a MOU by itself is not legally enforceable and that a legally binding contract with the educational institutions would be necessary to address this deficiency.

A pilot audit revealed material overpayments of Program funds by educational institutions

This Office reviewed the results of a pilot audit of educational institutions that was performed by Alberta Learning on behalf of the Department of Human Resources and Employment covering the period October 1998 to March 2000. Prior to April 1999, responsibility for the Skills Development Program lay with the former Alberta Advanced Education and Career Development.

The pilot audit was designed to identify instances of overpayment of tuition fees to educational institutions and living allowances to students rather than the institutions' monitoring of student academic progress.

The pilot audit results showed significant overpayments through non-compliance with the MOU by educational institutions. Specifically, the audit identified instances of failure to apply the MOU provisions relating to student non-attendance, to report changes in student financial status, and to properly calculate refunds to the Department for tuition fees.

We have been advised that Alberta Learning has discussed the pilot audit observations with the educational institutions and has concluded that much of the non-compliance can be attributed to a failure to fully understand the commitments included in the MOU.

My staff has been informed that the Department is currently developing a new MOU supported by a contract and expects to implement this new MOU and contract over the period between this fall and April 2002.

Until the new contract which addresses the present inadequacies is implemented, the Department continues to be at risk

We have reviewed the most recent draft of the proposed new MOU and contract. The provisions contained in these documents appear to adequately address the risks that we had identified from our review of the existing MOU. However, we are concerned that the time delay before implementation is completed leaves the Department at a high level of risk for a long period of time.

Further audits of educational institutions are necessary, but no audits are planned

The results from the pilot audit indicate that there is a significant risk of overpayments. In our view, to address all risks of non-compliance with Program terms, the Department should audit the remaining (approximately 90%) educational institutions or establish other interim measures pending the implementation of the proposed new MOU and contract. The audits should include a review of educational institutions' monitoring of individual student academic progress. We have determined that on-site audits of educational institutions have not been planned either directly by the Department or indirectly through Alberta Learning.

A process to review information to be provided by institutions under the new contract has not been developed

We also determined that a process for reviewing information to be reported by the educational institutions under the contract has not been developed. We understand that the review will be performed by contract managers in parallel with other programs where contracts are in place. In our view, review procedures specific to the Skills Development Program should be established.

Shared services for community based programs

In my 1998-99 annual report (page 168), I recommended that the Department prepare a plan and agreement for the delivery of shared services to PDD boards and child and family services regional authorities.

Last year, there were no formal agreements for services provided to community boards

In 1998-99, regional and head office support service areas had been established by the former Department of Family and Social Services (FSS) which provided administrative systems for the newly formed PDD boards and the then single child and family services regional authority. My staff had observed that the former Department of FSS did not have shared services agreements in place and had identified significant risks relating to finance and administration, allocation of costs, and legislative compliance that should have been addressed in agreements. Significant problems were encountered by the PDD boards and the single child and family services authority which may have been avoided or lessened if shared services agreements had been implemented.

Alberta Corporate Services Centre is taking over most of the Department's responsibility to provide shared services.

Subsequent to June 11, 2000, the services previously provided by the Department to child and family services regional authorities, PDD boards (and also to the Department of Children's Services) through regional centres are provided by the Alberta Corporate Services Centre (ACSC). The services provided centrally, as distinct from regionally, by the Department continue to be provided to these entities but there are plans in place to transfer additional responsibilities to ACSC in December 2000.

The remaining shared services provided by the Department will need formal agreements

Agreements for shared services provided, or to be provided, to these entities by ACSC are not a matter of concern for the Department of Human Resources and Employment. Shared service agreements, however, do need to be implemented between the Department and the two ministries responsible for these entities, covering the residue of shared services that the Department will continue to provide.

We will monitor the Department's progress towards implementation of shared service agreements.

On page 62, I recommended to Alberta Children's Services that Child and Family Services Authorities enter into service agreements with their service providers.

Performance measures

In my 1998-99 annual report (page 172), I recommended that the Ministry of Human Resources and Employment improve the quality of performance measures in its annual reports. My staff had observed that:

- Performance measures had not been established for all goals.
- Performance information was not provided for one measure.
- Generally, the Ministry's 1998-99 annual report did not provide sufficient information that described how each measure has been derived or calculated and where performance information is gathered.

I am pleased to report that none of the above deficiencies recur in the Ministry's 1999-2000 annual report.

Workers' Compensation Board – Alberta
for the year ended December 31, 1999

Financial Statements

The *Workers' Compensation Act* (the Act) requires that the financial statements of the Workers' Compensation Board (WCB) be audited at the direction of the Auditor General by an audit firm appointed, in consultation with the WCB, by the Auditor General. In accordance with the Act, a private sector audit firm completed, at my direction, the audit of the WCB's financial statements as at and for the year ended December 31, 1999.

Contract Management

In my 1989-99 annual report (page 235), I commented on the need for the Workers' Compensation Board – Alberta (WCB) to improve its contract management of private health care providers used by the WCB.

Sufficient resources must be committed to ensure a rigorous contract review process

Contract management includes defining the roles and responsibilities of the parties, agreement of the measurable expectations to be achieved, effective monitoring and reporting of actual performance in relationship to expectations, and analysis and subsequent refinement based on results. Contract performance must be monitored, results must be analyzed and corrective action must be taken on a timely basis. This can only be achieved if sufficient and appropriate resources are dedicated to a rigorous contract management process.

Improving contract management is part of the WCB's strategic initiative relating to risk management

The WCB is in the process of developing a comprehensive risk management framework, which includes contract management, as part of an overall strategic initiative. This initiative is included in the WCB's Five Year Strategic Plan 1999-2003. The WCB has also made some progress in developing and implementing certain phases of its audit model for Health Care Service, the management of contracts with health care providers.

We will continue to monitor the WCB's progress on this matter.

Other entities

Financial audits where also completed for the following entities:

For the year ended December 31, 2000

Government of Alberta Dental Plan Trust
Government Employees Extended Medical Benefits Plan Trust

For the year ended March 31, 2000

Long Term Disability Income Continuance Plan-Bargaining Unit
Long Term Disability Income Continuance Plan-Management, Opted Out and Excluded

Guidance to reader

The Ministry of Infrastructure was created in the government reorganization in May 1999. The reorganization brought the former Ministries of Transportation and Utilities, and Public Works, Supply and Services together.

The Ministry is responsible for:

- Providing safe and effective highways within the Province
- Ensuring traffic safety
- Providing facilities to government departments, Crown boards and agencies
- Funding and developing supported infrastructure including educational, health and water management facilities—these facilities are managed by other organizations such as school boards, health authorities, municipalities and post-secondary educational institutions
- Providing central services to government departments including vehicle fleet operations, accommodation, and air transport

The Ministry is also responsible for the government's capital planning initiative

The Ministry is also primarily responsible for the cross-government initiative of capital planning. The overall goal of this initiative is to ensure effective, innovative capital planning and funding decisions. Strategies include an annual corporate overview to facilitate planning, multi-year infrastructure budgeting, implementing effective infrastructure management systems with common performance measures and the effective management of physical infrastructure.

The following table summarizes the operating and capital expenses and revenues from external sources of the Ministry for the year ended March 31, 2000:

	2000			1999
	Operating	Capital	Total	Total
	(in millions of dollars)			
Expenses:				
Inter-Ministry Services	$ 89	$ 8	$ 97	$ 97
Transportation Systems and Services	1,083	181	1,264	806
Construction and Upgrading of School Facilities	242	-	242	184
Municipal Water/Wastewater Grants	35	-	35	14
Construction and Upgrading of Health Facilities	185	-	185	109
Upgrading Senior's Lodges	21	-	21	20
Management of Properties	191	9	200	193
Construct and Upgrade Owned Facilities	32	3	35	26
Water Infrastructure Facilities	-	33	33	46
	$ 1,878	$ 234	$ 2,112	$ 1,495
External Revenues	$ 74			$ 59

The Ministry owns and manages the majority of the government's capital assets and provides funding for supported infrastructure

The Ministry is the major holder of infrastructure in the government. The approximate net book value of the government's capital assets amounted to $7.3 billion at March 31, 2000 (1999 $7.2 billion). Of this amount, the Ministry owns and manages capital assets with a net book value of approximately $5.1 billion (1999 $5.1 billion). The Ministry also funds supported infrastructure such as health and educational facilities. Most of the remaining government assets are held by the Ministries of Environment (primarily land and water management systems) and Community Development (heritage buildings and collections and social housing).

We examined the Ministry's capital asset management systems and noted the need for improvements

To be successful, the Ministry must have effective capital asset management systems. This year we reviewed the Ministry's capital asset management systems to determine whether the Ministry has appropriate and sufficient information to facilitate resource allocation decisions. We found that the Ministry has many of the elements of capital asset management systems in place or is in the process of developing these systems through the implementation of the strategies of the Capital Planning Initiative (CPI). We also noted that improvements to the Ministry's systems could be made. Specifically, we noted that the Ministry should obtain additional information on strategic program delivery needs to develop long-term capital asset plans for owned and supported facilities, develop processes for monitoring the implementation of the CPI within the Ministry and review existing plans for the development and implementation of infrastructure management systems.

The Ministry's progress in developing the transportation infrastructure management system was examined

In 1996-97, the Ministry commenced work on its plan to establish a Transportation Infrastructure Management System. This system is being designed to assist the Ministry in identifying Province-wide needs and priorities for maintenance and construction of highways and bridges. The successful implementation and use of this system will be critical to the success of the Ministry in future years. We have reviewed the Ministry's progress in developing the system and in addressing our prior year recommendations.

Ministry of Infrastructure
year ended March 31, 2000

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Infrastructure as at and for the year ended March 31, 2000. My auditor's report contained a reservation of opinion.

In my view, the Ministry should estimate the cost and record the liability for site restoration

In accordance with corporate government accounting policies, the Ministry reports the costs of site restoration in the period in which the restoration work is performed rather than in the periods in which the liabilities arose. In my view, the Ministry should estimate the cost and record the liability for sites that do not meet the required contractual or environmental standards. The estimate of the liability should be refined each year, as the extent of required restoration work becomes clearer. I believe that the effect of this departure from generally accepted accounting principles is significant; therefore, a reservation of opinion is noted in my auditor's report.

Scope of audit work

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

- Application of specified audit procedures to key performance measures included in the Ministry's 1999-2000 annual report

- An examination of the Ministry's systems for capital asset management including the follow-up of my prior year's recommendation relating to the transportation infrastructure management system

Capital Asset Management

Background

The ministry is responsible for both owned and supported infrastructure

The Ministry is responsible for the infrastructure programs of the government. The Ministry's activities are focused on:

- owned infrastructure—capital assets that are managed by the Ministry such as highways, bridges, and buildings
- supported infrastructure—capital assets that are managed by other organizations such as school boards, post-secondary educational institutions, municipalities, and health authorities and funded by the Ministry

  Grant funding for supported infrastructure is provided for the construction and/or upgrading of facilities. The Ministry may provide 100% of the funding for supported infrastructure such as school and health facilities, or provide a portion of the funding, as is the case for post-secondary educational facilities.

The following table provides details of the assets owned and managed by the Ministry.

The Ministry owns and manages over $5.1 billion in capital assets

Classification of asset	Net Book Value Total (in millions of dollars)	%
Highways	$2,840	55.4
Bridges	336	6.5
Land	875	17.1
Buildings	882	17.2
Computer equipment and system	19	0.4
Equipment	20	0.4
Other (trailers, leasehold improvements and airplanes)	32	0.6
Dams and water management systems - work in progress	122	2.4
Total	$5,126	100.0

Source: *Ministry of Infrastructure March 31, 2000 Financial Statements*

The estimated net book value of certain supported infrastructure at March 31, 2000 is as follows:

- School Facilities $2.3 billion
- Post-secondary Facilities $2.1 billion
- Health Facilities $2.4 billion

Audit Scope

Our review of the Ministry's capital asset management systems was concentrated on the general framework for capital asset management within the Ministry. This included a high-level analysis of the Ministry's processes for highways, owned and leased facilities and supported facilities, specifically educational and health facilities. We also reviewed the results of the Capital Planning Initiative (CPI). The remainder of the audit was focused on the Ministry's processes for managing owned and leased facilities.

Capital Planning Initiative

Background

As previously noted, the Ministry has been designated as the lead ministry for the government's Capital Planning Initiative (CPI). The stated goal of the CPI is to ensure effective, innovative capital planning and funding decisions. Four strategies were identified in the 1999-2000 government business plan to address the overall goal of the CPI. The results of the work to date, as reported in the final report on the CPI, include:

A corporate capital plan has been prepared

- A Corporate Capital Overview was prepared in the spring and fall of 1999 based on submissions from ministries. A Corporate Information Technology Overview was also prepared.
- A report was prepared identifying issues and options for multi-year infrastructure budgeting. As a result, a decision was made to provide ministries with flexibility to reallocate funds between operating and capital budgets.

The CPI identifies the components of infrastructure management systems and common performance measures for infrastructure

- The components of effective infrastructure management systems, common performance measures and a strategy for review and co-ordination of government wide systems were identified and agreed upon.

  The three performance measures to be used across government to report on the management of physical infrastructure are: condition, utilization and functional adequacy. Ministries will be required to collect and report this information on a consistent basis, recognizing differences in standards and criteria for different types and purposes of infrastructure. The three performance measures are expected to be key drivers in making funding decisions across government.

- A framework for assessing the potential for private sector provision of infrastructure and divestitures/alternative uses of underused infrastructure.

The final report of the CPI identifies strategies for 2000-2001

The final report of the CPI also identified the next steps required to complete the work set out in the CPI. The following strategies will be continued in 2000-01:

- support funding decision with a five-year capital plan for both owned and supported infrastructure
- implement infrastructure management systems and common key performance measures for owned infrastructure to improve planning and priority setting
- develop a strategy for design and implementation of an infrastructure management system for supported infrastructure
- ensure effective, innovative management of physical infrastructure
- divest properties that are no longer required for government programs

Monitoring the Ministry's implementation of the Capital Planning Initiative strategies

Recommendation No. 25

We recommend that the Ministry of Infrastructure monitor and evaluate its progress in implementing the strategies of the Capital Planning Initiative.

Implementation of the CPI will provide the Ministry with better information to support capital asset decisions

As the lead ministry for the government's Capital Planning Initiative (CPI), the Ministry has formally adopted the strategies of the initiative and is in the process of implementing the necessary changes to its systems. We reviewed the CPI and concluded that implementation of the strategies would improve the Ministry's infrastructure management systems and, therefore, provide better information to support capital asset decisions.

Monitoring of progress is needed to ensure that the Ministry achieves its objectives

The full benefits of the initiative will not be achieved until the Ministry has developed and implemented infrastructure management systems and is measuring and reporting on common key performance measures for all infrastructure assets. The strategies of the CPI may take several years to fully implement; therefore, monitoring of progress is needed to ensure that the Ministry meets its objectives. We recognize that the CPI is a relatively new initiative for the Ministry and, therefore, monitoring processes have not been fully established. Information on the achievement of actual results against targets for strategy implementation, performance measures, and costs will be required for effective monitoring. This information should be reviewed and evaluated by the Ministry's Executive Committee on a regular basis.

Long-term capital asset plans for owned and supported facilities

Recommendation No. 26

We recommend that the Ministry of Infrastructure obtain further information on the strategic service delivery options and forecasted needs of client ministries to assist in the development of long-term capital asset plans for owned and supported facilities.

Information on strategic service delivery options is needed to optimize the allocation of resources

As part of the CPI, the Ministry is developing information systems to obtain current information on the condition, utilization and functionality of infrastructure. The Ministry also requires information on strategic service delivery options and forecasted needs to develop strategic long-term capital plans. Such information would include strategic policy changes, options, and priorities as well as forecasted needs based on economic analysis and projected demographic data. In the absence of this information, there is a risk that the government will not have the most cost-effective program delivery methods nor will it optimize the allocation of resources to the acquisition, preservation and maintenance of capital assets.

Information on service delivery needs is not available for all types of facilities

The Ministry receives capital project requests from client ministries that are prioritized based on the proposed purpose of the project, such as maintain health and safety, preserve infrastructure, and address functional obsolescence. However, we noted that sufficient information for an evaluation of the alignment of these proposed capital projects with current and future program delivery needs is not available for all types of facilities. Ministries are requested to submit multi-year plans for their long-term facility requirements but to date only a few ministries have produced such plans. In addition, we noted opportunities for improvement in linking the information on strategic education program delivery, as developed by Learning, to the capital plans for school facilities. Last year we recommended that the planning for health facilities be improved; we understand that progress is being made but that improvements are still required. This year we noted that information on the strategic direction and needs of the post-secondary institutions is now becoming part of the capital planning process for their facilities.

Capital project decisions should be made in context of program needs and directions

The Ministry should obtain additional information on strategic service delivery alternatives and projected facility requirements from all ministries so that capital project decisions can be made in context of program needs and strategic directions. Understanding trends in program delivery and forecasted needs will assist the Ministry in setting priorities and optimizing resource allocation decisions. In our view, long-term capital plans should reflect the strategic program delivery needs and the condition, utilization and functionality of the capital assets.

Infrastructure Management Systems

Background

A sub-committee concluded that it would not be practicable to develop a single infrastructure management system for all departments

A sub-committee of the Capital Planning Initiative (CPI) was given the task of making recommendations regarding development, common reporting, sharing and coordination of the existing and planned systems in the six government departments that hold infrastructure assets. The sub-committee reviewed the systems in existence at each of the six departments and estimated the cost of implementing and maintaining the required system improvements. The sub-committee concluded that it would not be practicable to develop a single infrastructure management system (IMS) for all departments but that there should be a high degree of commonality across all systems. This will allow comparison of data extracted from all systems using common measures. The sub-committee also noted that, if the departments are to meet the requirement for infrastructure management systems, then approximately $5 million is required in the next year for systems development and an additional $750,000 will be required annually to operate and maintain these systems. This amount does not include the estimated $13.8 million to develop the Transportation Infrastructure Management System that is being developed for highways and bridges.

Ministry Infrastructure Management Systems

Recommendation No. 27

We recommend that the Ministry of Infrastructure review the plans in place for the development of the Ministry's infrastructure management systems and satisfy itself that the most cost-effective systems are being developed and that it has the resources necessary to successfully develop and implement the systems.

There is a risk that systems will not be developed in a cost-effective manner

The Ministry is in the process of implementing and/or enhancing several systems to enable it to comply with the requirements of the CPI and ensure that it has adequate information to manage its capital assets. We consider that the risk that systems will not be developed in a cost-effective manner and that they may not support the Ministry in its responsibilities for capital asset management is not being sufficiently mitigated.

The Ministry faces a significant challenge in guiding systems development

The Ministry's vision is to have a single integrated IMS for all types of infrastructure. The Ministry faces a significant challenge in guiding systems development. There appear to be conflicting views on an appropriate solution to the Ministry's infrastructure management system needs. There are proponents of a single integrated IMS for all types of infrastructure that advocate using the transportation IMS as the foundation for a single system. Others propose separate systems. They consider that the re-developed transportation IMS will be more complex than required and may be more costly than developing separate systems. Several system developments in progress and the recent identification of problems with the model used for the transportation system, further complicate the issue.

Systems are being developed in three areas:

- Transportation (highways and bridges)
- Realty Services (leased assets and land)
- Property Development (government-owned buildings and supported facilities)

A number of issues have been encountered with the transportation IMS

The transportation section of the Ministry has been developing an infrastructure management system for the past four years. Release 1 of the system was implemented in 1999 and Release 2 was implemented in 2000. The cost of the systems development to April 2000 was approximately $8 million. A number of issues surfaced with Release 2 and, as a result, a firm of consultants was engaged to perform a review of the systems development. The firm concluded that the original scope and objectives of the system are still valid but the development of the system is not consistent with the plan and does not support the objectives. The consultant has recommended that the system be re-configured based on a common data architecture and clearly defined objectives. The consultant also recommended that the roles of the Ministry and the systems developer be clearly defined. As a result of the consultant's report, the systems developer has assembled a new team for the project and a new project plan is being developed.

A problem was also encountered with an IMS for health facilities

A problem was also encountered at the Ministry with the development of an infrastructure management system for Health facilities. The system is web-based and is to be used by Regional Health Authorities for recording information about the facilities they manage. The system is perceived to be unworkable in its present state and is not being used by the Authorities. The system is currently being reviewed to determine how it could be enhanced to meet the needs of the Authorities and the requirements of the CPI.

Consultants have advised that systems be compatible

The Ministry recently engaged a firm of consultants to prepare business requirements studies as a basis for the development of systems by the Realty Services and Property Development divisions of the Ministry. The studies concluded that all systems should be developed around a core data store based on common architecture. The core data store will be used to share data with other ministries and stakeholders.

The Ministry should be satisfied that the systems developments will be cost-effective and successfully implemented

The Ministry is incurring significant systems development costs. It should be satisfied that the approach being taken is the most cost-effective and in line with the long-term objective of having an integrated system which meets the requirements of the CPI. A detailed analysis of the approach planned, including comparative costs of each alternative, by each of the three divisions currently developing new systems, would allow the Ministry to satisfy itself that the systems are being developed in a cost-effective manner and that the systems will meet requirements. The Ministry should also review the systems development processes to ensure that the necessary resources are available to make the most appropriate decisions and monitor the projects.

We were advised that the Ministry is taking steps to address the above issues. A recent decision was made to have some common membership on each systems development project steering committee. The purpose is to ensure that a common approach is being taken. Business requirements identified for all systems will be reviewed and aligned prior to further advancement of systems development. The Ministry is also developing an information technology strategic plan.

Contract review processes

We recommend that the Ministry of Infrastructure ensure that significant contracts and grant arrangements be reviewed by finance personnel to identify potential financial and accounting issues.

The Ministry and other organizations are entering into arrangements for private sector provision of owned and supported infrastructure

As part of the CPI, a framework for assessing the potential for private sector provision of infrastructure was developed. As a result, the Ministry, along with other ministries and organizations, is currently investigating and undertaking a number of projects with new and innovative funding arrangements, such as private-public sector partnerships. These new arrangements may have significant accounting or financial implications.

These arrangements should be reviewed to ensure that all potential risks and implications have been identified and addressed

In our view, personnel with financial and accounting expertise should review all significant contracts or grant agreements prior to finalization. This review will provide assurance that all potential financial and accounting implications are considered and that significant risks have been identified prior to approval of the agreements. It is also important that the personnel responsible for accounting are aware of the nature of all contracts signed to ensure that they are being accounted for in accordance with generally accepted accounting principles. We understand the high volume of contracts managed may prohibit a contract-by-contract review and suggest that standard contracts be reviewed in detail initially and then only when exceptions to the standard arise.

Government facility usage policy

We recommend that the Ministry of Infrastructure adopt and implement a government facility usage policy.

One third of the government's accommodation space is occupied by non-department users

Departments occupy approximately two thirds of the government's total accommodation space. The remainder of the space is occupied by various agencies, boards, and commissions, funded organizations (RHAs, post secondary institutions and schools), contracted agencies, government-sponsored non-profit organizations, other levels of government, and some private companies. In addition, various government departments and agencies are providing programs in partnership arrangements with both private and not-for-profit organizations as well as other levels of government. In some cases, volunteers from the program partner may be working in government premises. In these cases, government facilities are being used by other organizations that may or may not be charged for the use of the space.

Various usage policies and charging practices exist for the non-department users

Various usage policies exist for non-department users. Entities supported by other government ministries such as regional health authorities or post-secondary institutions may or may not contribute to the operating costs incurred by the Ministry on their behalf. Other groups are charged fees closer to market lease rates plus operating costs and taxes.

A consistently applied policy will enhance the effective use of government facilities

We understand that the Ministry is drafting a policy to address the issue of the use of government space by non-department users. In our view, it is important that the policy clarify who will be eligible to use government space and what charges, if any, they will be required to pay. Such a policy will ensure that organizations are treated in a consistent manner and that there is effective use of government facilities.

Guidance to reader

The mission of the Ministry of Innovation and Science is to enhance the contribution of science, research, and information and communications technology to the sustainable prosperity and quality of life of all Albertans. The Ministry was reorganized in May 1999 to improve the management of research and technology in Alberta. The Ministry has three core businesses:

- The management of science and research
- The development of technology knowledge and use of technology throughout the Province
- The management of cross-government information technology issues

The Ministry comprises:

- the Department of Innovation and Science
- the Alberta Science, Research and Technology Authority
- the Alberta Research Council Inc.
- the Alberta Informatics Circle of Research Excellence
- the Alberta Oil Sands Technology and Research Authority
- the Alberta Agriculture Research Institute

Total operating expenses for the Ministry of Innovation and Science for 1999-2000 was $195.5 million (1998-99 $85.1 million). The significant increase from last year arises from additional responsibilities, primarily relating to information technology management, which were transferred to the Ministry in the reorganization. In addition, the Alberta Heritage Foundation for Medical Research, which is an organization accountable to the Minister, had expenses of $45.4 million that are not reflected in the above expenses.

The Ministry had revenue of $22 million for 1999-2000 ($21 million 1998-99) arising from commercial contracts.

The Ministry plays a leadership role in setting overall science and research priorities for government. If the Ministry fails in this role, research activities might be funded that are not compatible with the government's economic strategies or have little possibility of providing a benefit to Albertans.

Likewise, research activities that require funding to achieve the government's objectives may not be identified. For this reason, we are in the process of examining the systems used by the Ministry to review and evaluate government science and research policies, priorities and programs in ministries and accountable organizations.

We reviewed the progress made by the Ministry to develop the systems needed to manage cross-government information technology issues. Without good systems, there is a risk that desired information technology cost savings or benefits may not be achieved.

We also examined the controls in IMAGIS, which is the main system that the ministries rely on to process financial transactions and produce financial statements. Without adequate controls in this system, there is a risk that financial transactions and accounting records may not be correct.

Ministry of Innovation and Science
year ended March 31, 2000

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry and Department of Innovation and Science for the year ended March 31, 2000. My auditor's reports for the Ministry and the Department contained reservations of opinion. The auditor's reports should be read for full details of the reasons for the reservations. On page 264 of this report, I have provided a summary of the reasons for the reservations in my auditor's reports on the Ministry and Department financial statements.

Scope of audit work

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

- An examination of the systems used to manage cross-government information technology services and infrastructure
- An examination of the controls over the IMAGIS system
- Specified audit procedures on the Ministry's key performance measures reported in its Annual Report for the year ended March 31, 2000

- A presentation to the Alberta Science, Research and Technology Authority board on board governance and accountability

Information Technology

Recommendation No. 28

We recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, develop systems to assist in the management of cross-government information technology (IT) services and infrastructure.

The Ministry is responsible for effective use of cross-government information technology

The Ministry is responsible for coordinating the effective use of the government's computer technology, networks, and information systems, and establishes cross-government policies and standards for information and communications technology. It is also responsible for proposing solutions to information and communication technology problems and promotes best practices through cross-government initiatives.

Ministries' roles and responsibilities for achieving cross-government corporate goals should be defined

The Ministry, with input from the other ministries, must define the roles and responsibilities of the Ministry of Innovation and Science and the other ministries for achieving cross-government corporate goals. In order to achieve its responsibilities, the Ministry needs to give clear direction to, and monitor the results achieved by other ministries that contribute towards cross-government information technology initiatives.

Ministry plans must be consistent with cross-government corporate goals

The Ministry should also clarify the extent of involvement and guidance that it will provide to the other ministries in the preparation and review of their information technology plans. Individual ministry plans, which are consistent with cross-government corporate goals, are critical if the goals are to be achieved.

A cross-government information technology plan is needed to give guidance to ministries

The development of a cross-government information technology plan by the Ministry, outlining the government's technology direction and priorities including cross-government goals, strategies, outputs and performance measures, would provide useful guidance to all ministries in developing their plans.

Appropriate accountability systems are needed

The Ministry should also ensure appropriate accountability systems are in place between it and the other ministries so that the Ministry can determine the extent to which the other ministries are contributing to the cross-government corporate goals. This information will be needed by the Ministry to enable it to report the extent to which corporate goals and strategies have been successful and would also help the Ministry identify where changes in strategies might be needed.

The proposed planning and reporting process would produce a number of benefits

It is expected that the proposed planning and reporting process would produce the following benefits:

- Guide ministries' information technology planning and resource allocations.
- Clarify responsibility for the achievement of corporate information technology goals.
- Help achieve consistent information technology standards across the ministries.
- Help eliminate redundant or incompatible systems or infrastructure.
- Help establish cross-government infrastructure
- Help achieve consistency of reporting of results, including costs.
- Identify and implement best practices.
- Improve communication between the ministries.

The Chief Information Officer has drafted a document identifying a three-year strategic direction for the Province. As it progresses, the scope of this initiative should encompass all entities accountable to a minister, such as Provincial agencies, colleges and regional health authorities. The Ministry expects that the strategies contained in this document will be in place by mid-2001 for departments. We will be reviewing this document to determine if the strategies contained in it achieve the benefits outlined above.

IMAGIS

Recommendation No. 29

We recommend that the Ministry of Innovation and Science obtain an appropriate level of assurance that information technology service providers are maintaining effective controls to protect the confidentiality and integrity of IMAGIS data. We also recommend that controls in the IMAGIS system be improved.

IMAGIS is an important financial system

IMAGIS is the system used by the ministries to process financial transactions, including payments for supplies and services and payroll. It also produces the accounting records which ministries rely on for the preparation of their financial statements and which the Department of Treasury relies on for preparation of the Province's consolidated financial statements.

The IMAGIS environment is complex

The IMAGIS system environment is dependent on local and wide area networks of the various ministries, the government network, communication devices supported by a communications provider, operation services provided by a service bureau, and hardware facilities monitored by a technology service provider. The ministries are responsible for the controls in their individual local and wide area networks. The Ministry is responsible for controls over the rest of the system.

Assurance is needed that controls at service providers are appropriate

The Ministry should obtain assurance that controls are working appropriately over those parts of the IMAGIS system for which it is responsible. Where a service provider manages the system, the Ministry should obtain assurance from the service provider that appropriate controls are in place. The assurance can be provided in the form of a report by an independent party on the adequacy of controls at the service provider's organization. Alternatively, if allowed under the terms of the contract with the service provider, the Ministry may have access to the service provider's premises and can itself assess the controls directly.

Ministries require assurance that appropriate controls are in place

All ministries using the IMAGIS system require assurance that appropriate controls are in place for the entire IMAGIS system, including those that are the responsibility of the Ministry.

Internal controls can be improved.

During our review of the IMAGIS system, we noted instances where controls could be improved. The system does not prevent unlimited attempts to sign-on to IMAGIS processes. We also observed workstations left unattended while connected to sensitive information. The system should disconnect from a workstation after a short period when there is no activity.

Other entities

Financial audits of the following were also completed for the year ended March 31, 2000:

Alberta Research Council Inc.
Alberta Informatics Circle of Research Excellence
Alberta Heritage Foundation for Medical Research
Alberta Foundation for Health Research

My auditor's reports on the financial statements of the following, for the year ended March 31, 2000, contained reservations of opinion. The auditor's reports should be read for full details of the reservations.

Alberta Agriculture Research Institute
Alberta Oil Sands Technology and Research Authority
Alberta Science, Research and Technology Authority

Guidance to reader

The Ministry of International and Intergovernmental Relations is responsible for the development of cross-government policies and strategies to guide agreements and relations with other Canadian governments, international governments and organizations, and the Aboriginal community.

As a result of the government reorganization in May 1999, the Ministry's Protocol program was transferred to the Ministry of Executive Council and an Office for the newly appointed Associate Minister of Aboriginal Affairs was created. The Department of International and Intergovernmental Relations alone makes up the Ministry. The Metis Settlement Transition Commission and the Metis Settlement Appeal Tribunal report to the Minister but are not part of the Ministry.

In 1999-2000, the Ministry expended $38.7 million (1998-99 $35.4 million). Of this amount, $22 million (1998-99 $22.5 million) related to obligations under, and administration of, the *Metis Settlements Accord Implementation Act*. The cost of other Aboriginal Relations initiatives, including settlement of Indian land claims, was $10.2 million (1998-99 $5.5 million). International Relations, Trade Policy, and Canadian Intergovernmental Relations programs accounted for spending of $3.1 million (1998-99 $4.7 million), with the balance of funding applied to Ministry administration. The Ministry has no external revenue.

Ministry of International and Intergovernmental Relations
for the year ended March 31, 2000

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of International and Intergovernmental Relations as at and for the year ended March 31, 2000. My auditor's report contained a reservation of opinion. The auditor's report itself should be read for full details of the reasons for the reservation. On page 264 of this report, I have provided a summary of the reasons for the reservations on Ministry financial statements.

In addition to the annual financial audit, my staff applied specified auditing procedures to key performance measures included in the Ministry's 1999-2000 annual report.

Metis Settlement Transition Commission
year ended March 31, 2000

I conducted an audit of the financial statements of the Metis Settlement Transition Commission for the year ended March 31, 2000.

In addition to the annual financial audit, my staff reviewed the accountability framework of the Metis Settlements Transition Commission.

Performance measurement and reporting

We recommend that the Metis Settlements Transition Commission measure progress towards its core goal "Good Self-government Practices" and include this information in its annual report.

Annually, $9 million is distributed equally among the settlements as grants

The Commission's budgeted revenue amounts to approximately $11 million, of which $2 million is for the administration of the Commission. The remaining $9 million is distributed equally among the settlements as grants. Under the *Metis Settlements Accord Implementation Act*, the Commissioner of the Metis settlements is responsible for all matters relating to the financial affairs of settlements.

One of the Commission's core goals is good self-government practices

One of the Commission's core goals, listed in their 1997-2001 business plan, is "Good Self-government Practices." Within this goal the Commission states it will concentrate a major portion of its resources on improving settlement self-government practices in a number of areas, including sound financial management practices.

The Commission does not measure its progress towards its goal of good self-government practices on Metis Settlements

The Metis Settlements Transition Commission does not measure or adequately report its progress towards the accomplishment of this significant goal. As a result, neither the Commissioner, nor the users of the report will have a clear idea as to whether the goal is being accomplished. Establishing benchmarks or targets and measuring performance against these will encourage the Commission to improve the settlements' processes and help the settlements achieve good self-government practices.

Guidance to reader

The mission of the Ministry of Justice is to ensure equality and fairness in the administration of justice.

The Ministry comprises the Department and the Victims of Crime Fund. The total operating expense for the Ministry of Justice was $409 million in 1999-2000 (1998-99 $399 million) and comprises mainly:

	1999-2000 (in millions of dollars)
Court services	$ 81
Legal services	50
Support for legal aid	21
Public Trustee	7
Medical Examiner	4
Public Security	99
Correctional services	103

Total revenue for the Ministry was $117 million in 1999-2000 (1998-99 $112 million). The Ministry's main revenue sources are:

	1999-2000 (in millions of dollars)
Fees	$ 35
Fines and related late payment penalties	30
Transfers from the federal government primarily for cost-sharing agreements	27

Fees consist primarily of court fees ($16 million) and fees to administer Motor Vehicles Accident Claims ($15 million).

Transfers of $15 million from the Government of Canada relate to the Young Offenders Program.

A significant aspect of Justice's activities is the management of funds held on behalf of others. The fund balances in these accounts total approximately $431 million. Of these, trust funds administered by the Office of the Public Trustee total $386 million.

Justice needs to be able to demonstrate the cost-effectiveness of its programs so that effective management decisions can be made and public accountability is enhanced.

The Ministry provides legal services to other government departments, either through in-house staff or by contracting external legal counsel. There is a risk that, without appropriate accountability for these services, the Ministry may not be providing cost-effective legal services. In this section, I make a recommendation that the Ministry enhance its accountability systems for the management of legal services. I also repeat a recommendation that the Ministry improve its reporting of the results and costs of its fines collection activities.

Ministry of Justice
for the year ended March 31, 2000

Ministry Financial Statements

I conducted audits of the financial statements of the Ministry and Department of Justice as at and for the year ended March 31, 2000. My auditor's reports contain reservations of opinion for the reasons summarized on page 264 of this report. The auditor's reports should be read for full details of the basis for these reservations.

Scope of audit work

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

- An examination of the Department's accountability system for legal services provided to other departments
- A follow-up on the Department's progress in reporting the results and costs of fines collection activities
- A follow-up on planning relating to the Special Reserve Fund managed by the Public Trustee
- Performance of specified audit procedures on the Ministry's performance measures

Department of Justice
for the year ended March 31, 2000

Accountability for legal services

We recommend that the Department of Justice enhance its systems for managing and reporting on the cost-effectiveness of legal services, including contracted services.

Justice is responsible for retaining outside legal counsel

Justice is charged with the responsibility of providing legal services to the government of Alberta as defined in the *Government Organization Act*, Schedule 9. The Department uses a combination of in-house and contracted outside counsel to deliver legal services. Outside counsel are used when there is a lack of internal resources, a need for specialized expertise is not available in-house, and in cases of conflict of interest. The current management practice is to address requests for legal services on a case-by-case basis.

In 1999, the Department developed a protocol for retaining outside legal counsel. The protocol states that retention of any outside counsel for government departments is the sole responsibility of Justice. As well, it specifies that government departments are responsible for paying outside counsel and that Justice is responsible for monitoring all legal services provided to the government. Currently, Justice's accountability systems for contracting outside counsel do not include measurable performance expectations, or monitoring and evaluation of performance.

Justice should set measurable performance expectations, and monitor and evaluate performance of outside legal counsel

To improve the accountability of outside counsel to Justice, and of Justice to the ministries, Justice should establish performance expectations that are measurable, prior to the commencement of each engagement. These expectations should be communicated and agreed upon in discussion with the client ministries and the retained outside counsel. Throughout the engagement there should be periodic assessments of the progress on the file in terms of the initial agreed upon expectations.

At the completion of each engagement, a performance appraisal should be conducted. This overall evaluation should include a comparison between fees and budget as well as an exit interview with the client department and the retained counsel. Analysis and feedback are essential to quality assurance, continual improvement and cost effective legal services.

The process described above should likely vary depending on the size of and risks associated with the assignment. Otherwise, the process may not be cost-effective.

The Department should develop measures and report on the cost and effectiveness of legal service delivery

Because the Department is also accountable to the Legislature for the cost-effectiveness of its services, the Department should develop performance measures that disclose the cost effectiveness of legal service delivery. For example, the Department could, using average cost per service hour as a basis, report a comparison of internal costs to external costs or current costs to prior year costs. Public disclosure would improve Justice's accountability for the costs of the legal services it provides.

Legal claims

We recommend that the Department of Justice improve the accuracy and completeness of legal claim information included in reports for use by client ministries.

Justice assembles listings of legal claims made against ministries

The Department of Justice is responsible for assembling the listings of legal claims made against the various ministries. The client ministries need this information for management and financial reporting purposes. In order for ministries to correctly record liabilities in their financial statements, they rely on the Department for an assessment of the likelihood of costs arising from these legal claims. I acknowledge that ministries also have a responsibility for assessing the information Justice provides and ensuring that ministry financial statements provide appropriate disclosure and presentation.

We noted errors in the listings

My staff observed problems with the completeness, accuracy of amounts, and the indicated likelihood of costs resulting from these claims. Completeness refers to ensuring that all legal claims are listed. Justice currently has no method to verify completeness of the listings.

Not all errors were properly corrected

The listing of legal claims does not accurately reflect the amounts claimed. Based on a review of the supporting files, we identified several errors in the amounts reported on the list. Not all of these errors were properly corrected once they had been brought to management's attention.

There was no indication of the likelihood of loss in approximately 21% of listed claims

My staff also noted that, of about 450 claims listed at June 1, 2000, for approximately 21% of the claims, there was no indication of the likelihood of loss. The Department advised that the ministries could assume that for those claims without the information, the likelihood of loss was considered indeterminable. However, in the absence of management controls to ensure the accuracy of these listings, there is a risk that the omission of such information from the listing could result in incorrect conclusions regarding the likelihood of incurring costs.

Justice needs complete, accurate information to manage its activities effectively

In addition to the importance of providing complete and accurate information to other departments, Justice needs this information to effectively manage its own activities throughout the year.

Fines and costs

Recommendation No. 30

We again recommend that the Department of Justice report the results and costs of its fines collection activities.

In my 1998-99 annual report (page 226), I commented on the progress the Department has made towards implementing our 1994-95 recommendation to disclose the results and costs of its fines collection activities.

The Department has not yet taken action in response to a recommendation made in my 1994-95 annual report

The Department has not implemented the recommendation. The Department is still not reporting on the results and costs of its fines collection activities. Each year the Department collects about $85 million from approximately one million fines imposed in Alberta. The majority of the fines collected belongs to municipalities in Alberta or to the federal government, and the balance, which in 2000 amounted to about $22 million in fine revenue and about $8 million in late payment penalties, belongs to the Province. In order to demonstrate the Department's performance, the Department needs to measure and report on the success of its collection activities. The Department should measure and report on the number of fines collected, outstanding and written off. As well, the Department should determine the costs of collecting the fines in order to determine whether the activities are cost-effective or whether alternative strategies might be needed.

In 1999, the Department advised us that an action plan would be developed to implement my recommendation. However, as at the end of August 2000, this plan has not yet been produced. In my opinion, progress on this matter is not satisfactory. My staff will be following up with the Department to ascertain what strategies are required to resolve this issue.

Public Trustee

Special Reserve Fund

In my 1998-99 annual report (page 225), I recommended that the Public Trustee determine the appropriate balance to retain in the Special Reserve Fund (SRF) and decide on the distribution of any excess funds.

The SRF operates as a contingency fund to provide for future financial obligations resulting from errors or omissions of the Public Trustee. To meet these obligations, the balance in the SRF is adjusted by setting regulated interest rates for payments from the Common Fund to its clients. The SRF then absorbs surpluses or provides for shortages between the regulated earnings paid to clients and actual earnings. Last year I reported that the reserve has been increasing beyond internally set limits.

The Public Trustee determined the balance required to meet future obligations

During the past year, the Public Trustee, based on an analysis of earnings and transfers to/from the SRF over the past ten years, determined that the current balance of $52.5 million at March 31, 2000 is required to provide for future obligations. In the coming year, we will be reviewing management's support for how they determined the balance required to be retained in the SRF.

Other entities

A financial audit of the **Victims of Crime Fund** was also completed for the year ended March 31, 2000. My auditor's report contained a reservation of opinion. The auditor's report should be read for full details of the reason for the reservation.

Guidance to reader

On May 25, 1999 the government announced a major reorganization. As a result of this reorganization, Alberta Advanced Education and Career Development and Alberta Education essentially were combined. The Career Development programs became part of Alberta Human Resources and Employment. The school and post-secondary facilities programs transferred to Alberta Infrastructure. Alberta Innovation and Science assumed responsibility for the University Research Excellence and University Intellectual Infrastructure programs.

The core businesses of this new Ministry comprise basic learning (kindergarten to grade 12), adult learning and apprenticeship and industry training.

In this report, "Ministry" includes the Department of Learning, the Alberta School Foundation Fund, the school jurisdictions and, the public post-secondary institutions

The Ministry's mission is: "Alberta Learning's leadership and work with partners build a globally recognized lifelong learning community that enables Albertans to be responsible, caring, creative, self-reliant and contributing members of a knowledge-based and prosperous society." The "partners" referred to in the Department's mission statement are primarily school jurisdictions and the public post-secondary institutions. In the government's view, the Ministry of Learning consists only of the Department of Learning and the Alberta School Foundation Fund. In our view, the Ministry also includes all the school jurisdictions and the public post-secondary institutions. Accordingly, when we refer to Ministry in this Report, we mean the Department, the Alberta School Foundation Fund, the school jurisdictions and the public post-secondary institutions.

During 1999-2000, the Department and the Alberta School Foundation Fund spent approximately $4.3 billion (excluding Ministry support services) as follows:

	1999-2000	1998-1999
	(in billions of dollars)	
Basic education	$ 3.2	$ 2.8
Adult learning	1.0	0.9
Adult learners	0.1	0.1
Total	$ 4.3	$ 3.8

Of the $3.2 billion used to support basic education, $2.8 billion was provided to school jurisdictions. Approximately $869 million of the $996 million used to support adult learning was provided to post-secondary institutions. Through programs for students, approximately $120 million was expended as support for adult learners. Other than $1.1 billion of school property taxes and transfers from the Government of Canada of approximately $161 million, there were no significant sources of revenue.

The link needs to be improved between strategic planning for the delivery of basic education and long-term capital planning for school facilities

The Province has made a substantial investment in school and public post-secondary buildings. Accordingly, it is essential that systems be in place to evaluate the risks of not maintaining and replacing buildings when required. This year we examined the capital planning systems in place at the Department to support the capital needs of school jurisdictions. We concluded the Department needs to ensure that the long-term capital planning for school facilities is consistent with strategic plans for educational delivery.

Since the Province only funds a portion of the cost of capital assets of the public post-secondary institutions, institutional budgeting systems need to identify the non-Provincial sources required. This year we examined the budgeting processes at the University of Alberta, strategic planning at Athabasca University and long term capital planning at Grant MacEwan College.

Better systems are needed to ensure capital project proposals demonstrate cost/benefits, to manage scope changes and to evaluate contractor performance at the University of Calgary

As a result of projected increases in sector enrolment, especially in certain program areas, providing sufficient access to post-secondary education has become a more significant challenge for the Ministry. To meet this challenge construction activity has increased within the sector. This year we reviewed the systems to approve and manage construction contracts at the University of Calgary. We concluded that better systems are needed to:

- ensure capital project proposal demonstrate cost/benefits
- manage change orders
- evaluate contractor performance
- ensure conflict of interest policies are being followed

As both school jurisdictions and the public post-secondary institutions are defined in the *Government Accountability Act* as accountable organizations, they are required to submit to the Department a business plan and an annual report. We examined the Department's processes to approve deficits of public post-secondary institutions and the Department's review of financial statements of school jurisdictions. In both cases, we concluded that improvements are needed.

As the statutory auditor of the public post-secondary institutions each year we perform financial statement audits at these institutions. We have included in this report some of the recommendations made at the conclusion of the current year audits. These recommendations were designed to:

- Ensure control weaknesses are identified and corrected at the University of Alberta.
- Improve financial reporting at the Olympic Oval/Anneau Olympique.
- Improve accounting for interest earned on endowments at Mount Royal College and the Southern Alberta Institute of Technology.

Ministry of Learning
year ended March 31, 2000

Financial Statements

An adverse audit opinion was issued on the Ministry financial statements because of the lack of consolidation of school jurisdictions and public post-secondary institutions

As with previous years, an adverse audit opinion was issued on the financial statements of the Ministry of Learning for the year ended March 31, 2000. The Ministry financial statements contain only the transactions of the Department and Alberta School Foundation Fund. In my opinion, generally accepted accounting principles applicable to the Ministry require school jurisdictions and the public post-secondary institutions to be consolidated in the Ministry financial statements. Accordingly, I am of the opinion that the Ministry financial statements are not fairly presented.

The primary objective of Ministry financial statements is to provide an accounting of the full nature and extent of the financial affairs and public resources for which the Minister is responsible. While the Department of Learning, the Alberta School Foundation Fund, the school jurisdictions and the public post-secondary institutions are separate legal entities, they constitute the publicly funded system for learning. Accordingly, consolidated financial statements provide the most appropriate basis for the Minister to fulfill his accountability responsibilities for informing stakeholders about the operations and fiscal results of the system as a whole.

To demonstrate the magnitude of the differences in the Ministry financial statements if these entities were consolidated, I used each entity's most recent financial statements as though they were dated March 31, 2000. Since some of the public post-secondary institutions and all of the school jurisdictions have different year ends than March 31, 2000, the actual effect of consolidating the above entities will differ from the amounts I have estimated.

Using this methodology, had these entities been consolidated the Ministry results would have been as follows:

Financial Statement component	Figure reported on the Ministry financial statements	Estimated adjustment required if the entities were consolidated	Revised figures
	(in billions of dollars)		
Total assets	$ 0.098	$ 6.7	$6.798
Total liabilities	4.064	1.9	5.964
Net assets	(3.966)	4.8	0.864
Revenues	1.356	1.4	2.756
Expenses	4.263	1.6	5.863

There were other reasons as well for the reservation of opinion, and the auditor's report should be read for full details. I have provided a summary of the reasons for reservations in my auditor's reports on ministry and department financial statements on page 264 of this report.

Scope of Audit Work

In addition to the annual financial audit of the Ministry of Learning, I reported on the results of applying specified audit procedures to the performance measures presented in the Ministry's 1999-2000 Annual Report.

Department of Learning
year ended March 31, 2000

Scope of audit work

In addition to the annual audit as at and for the year ended March 31, 2000 of the financial statements of the Department of Learning, the following work was completed:

Basic Education

- An examination of Departmental systems to ensure the strategic planning for the delivery of education is linked to the long-term capital planning for school facilities conducted by the Department of Infrastructure

- A follow-up of the planning conducted by the Department to determine its monitoring activities as required under the *School Act*
- A follow-up on the accountability reporting by charter schools
- A follow-up on the financial reporting and the analysis of academic performance for special needs education
- A follow-up on local target setting for Provincial achievement tests
- A review of the results from school jurisdiction audits for the fiscal year ended August 31, 1999

Post-secondary Education

- An examination of the systems used by the Department to approve deficits of the public post-secondary institutions
- A follow-up of with respect to our previous year recommendations concerning deferred maintenance
- A follow-up of the processes used to improve the reliability of certain Key Performance Indicator information reported by the public post-secondary institutions to the Department
- A follow-up of the financial and administrative controls exercised over the payment and subsequent use of Access Fund, Learning Enhancement, Research Excellence and Infrastructure Renewal grants

Except for my examination with respect to capital budgeting for school facilities and public post-secondary institutions, the results of which are reported below, the results of my other examinations are reported either under the Basic Education section or, where the examination pertains to departmental systems related to public post-secondary institutions, in the post-secondary education section of this Report.

School Facilities and Public Post-Secondary Institutions Capital Budgeting

Long-term capital planning

Recommendation No. 31

We recommend that the Department of Learning enhance its systems to ensure that long-term capital planning for school facilities is consistent with strategic plans for the delivery of education.

School facility capital projects are funded through the Department of Infrastructure

Since May 1999 responsibility for school facilities is shared by the Departments of Learning and Infrastructure. The School Buildings Board, consisting of two representatives from Learning and representation from Infrastructure, is responsible for the approval of new construction or additions to school buildings. Although Infrastructure has Provincial responsibility for the planning and funding of school facilities, the Minister of Learning remains responsible for the delivery of effective education to Alberta students.

The Department should coordinate with Alberta Infrastructure to ensure capital funding is linked to the strategic direction of Learning

Consequently, it would be useful for the Ministries of Learning and Infrastructure to coordinate their strategic planning more effectively so that school facilities planning reflects the strategic direction of the Ministry of Learning. For example, the Ministries should coordinate their efforts in preparing their respective ministry business plans to ensure consistency with respect to planning of school facilities. Both ministries’ 2000-2003 business plans do not reflect any specific strategies relating to planning for school facilities, other than that the two ministries will work together.

Strategic policy changes and priorities in education should be shared with the Department of Infrastructure to provide a long-term view of future school facility needs. In order to do this, Learning should consider generating sector-wide information on projected enrolments, economic analysis, and demographic data and sharing it with Infrastructure. Currently, Infrastructure takes a lead role in gathering information on school facilities to incorporate in the annual Corporate Capital Overview as part of the government’s budget and business planning cycle. Although Infrastructure requires information from Learning as part of this process, Learning does not generate sufficient sector-wide information to adequately identify future program delivery needs.

The Department should work with Infrastructure to systematically identify inconsistencies between school jurisdiction education plans and capital plans

In addition to providing a long-term strategic view to capital planning, the Department should work with Infrastructure to develop a systematic process to identify and reconcile any inconsistencies between trends, priorities and needs as identified in school jurisdiction three-year education plans and the capital needs and proposals included in three-year school jurisdiction capital plans. Currently, Learning receives and reviews school jurisdiction education plans, while Infrastructure receives school jurisdiction capital plans. There is no process to ensure that the two sets of plans that are received are consistent. We provide further discussion of this matter on page 185 of this Report.

We reviewed the education plan and related capital plan for seven school jurisdictions and noted a number of discrepancies. For example, for three of the school jurisdictions, there was not a complete match between the modernization, new construction and replacement projects identified in the education plan and those included in the capital plan. No explanation was provided in the capital plans for the discrepancy. In addition, three of the school jurisdictions included detailed technology plans in their education plans, but did not reflect any of these needs or planned projects in their capital plans. We also observed that three of the seven capital plans did not include projected enrolments, which would provide support for the proposed capital projects.

In our 1998-99 Annual Report (page 66), we recommended that the Department, working with the public post-secondary education institutions, develop a long-range capital planning system for post-secondary institutional infrastructure.

Significant progress has been made toward developing a long-range capital planning system for the public post-secondary institutions

The Department agreed with the recommendation and we are pleased to report that significant progress has been made toward implementing it. Most institutions are now providing capital plans covering periods of 5 to 25 years based on enrolment forecasts. The Department has begun the process of compiling, analyzing and prioritizing the projects included in the institutions' capital plans in order to complete a long-term strategic capital plan for the Ministry as a whole. The Department has already identified and prioritized the most immediate capital expansion needs within the sector. Since a combined long-term strategic plan is not yet complete, my staff will continue to monitor progress in this area.

Basic Education

Departmental monitoring and evaluation

We again recommend that the Department of Learning conduct periodic comprehensive reviews of all significant legislative, business and financial risks to improve the effectiveness of its monitoring of school jurisdictions.

The Department does not conduct a comprehensive review of all significant risks in order to carry out the monitoring of school jurisdictions

In our 1998-99 Annual Report (page 126), we reported that the Department of Learning does not conduct a comprehensive review to identify all significant risks that school jurisdictions must address in order to deliver basic education. We also stated that, once the risks were identified, the Department would be able to prioritize these risks and develop a comprehensive long-term plan for its monitoring activities.

The Department should integrate financial information with performance assessment

During 1999-2000, the Department established a Systems Improvement and Reporting (SIR) division that is responsible for evaluating the performance of the learning system. However, a separate division within the Department monitors and evaluates school jurisdiction financial reporting. As a result, there is still a risk that financial issues will not be incorporated into monitoring plans. For example, as explained in the following section, the Department is still unable to determine the costs of delivering special needs education because school jurisdictions cannot provide reliable data on these costs. The Department should integrate its review of the outcome related information with financial information. The Department has recently commenced a process to identify ways to achieve integration.

The System Improvement and Reporting division does not identify and prioritize all significant legislative, business and financial risks

Although the establishment of SIR makes it clearer in which division the monitoring is to occur, the Department still does not identify all significant legislative, business and financial risks which would enable it to prioritize these risks and to develop an effective plan that would encompass the monitoring done throughout the entire Department.

Special needs education

We again recommend that the Department of Learning work with school jurisdictions to improve the accuracy of information on the costs of delivering special needs education.

In our 1998-99 Annual Report (page 128), and our 1997-98 Annual Report (page 84), we reported that the Department of Learning was not able to accurately determine the costs of delivering special needs education.

Although more information on special needs expenditures is being reported by school jurisdictions, the Department is not confident it is being disclosed accurately or consistently

For the fiscal year 1998-99, the Department required school jurisdictions to report on the expenses related to the delivery of education to mild/moderate special needs students as well as costs for delivering services to severe special needs students. Even though this information was reported, the Department has not used this information because it is still not confident that the data is reported on a consistent basis by school jurisdictions. The Department needs reliable financial and outcome-based information, gathered on a consistent basis, to assess the costs and performance associated with the delivery of special needs programming. The implementation of Management Information Reporting Schedules now provides the Department with outcome-based information. However, school jurisdictions continue to inform the Department that they do not have the systems in place to accurately gather and report cost information. The Department has indicated that it will continue to work with school jurisdictions to improve the reporting of the costs of delivering special needs education.

Charter School Accountability

We recommend that the Department of Learning continue to work with charter schools to develop measurable outcomes so that there is a base from which to measure and evaluate charter school results against their mandates.

In our 1998-99 Annual Report (page 127), our 1997-98 Annual Report (page 87), and our 1996-97 Annual Report (page 86), we stated that the Department of Learning does not ensure that each charter school's charter contains measurable outcomes so that expected improvement in results occurring from innovative learning practices can be demonstrated. These expected outcomes would serve as the results against which the renewal of the charter could be evaluated.

The Department is at risk of not being able to fully evaluate performance for charters that will be renewed before the changes to Charter School Regulations are approved

In 1998-99, the Department prepared a draft of proposed changes to the Charter School Regulation that would have required charter schools to establish learning outcomes specifically related to their mandate. However, during the past year, the changes to the regulation have been delayed. In lieu of an amended regulation, the Department incorporated specific requirements for measurable mandate-related goals into the Guide for Charter School Planning and Results Reporting. As a result six of the ten charter schools have included mandate-related goals in their 2000-01 business plans that attempt to measure student performance in relation to their charters. However, the Department does not require the results of these goals to be reported until November 2001. Five charters are to expire by June 30, 2001. Without reported results of the mandate-related goals by June 2001, the Department continues to be at risk of not being able to fully evaluate student performance in accordance with the charter mandate.

During the past two years, two charters have expired and been renewed. Because the original charters or business plans prior to 2000-01 did not contain measurable mandate-related outcomes, the Department based its decisions to renew the charters on on-site observations. One of the schools was not granted its requested five-year term because the school does not yet provide sufficient evidence of mandate-related outcomes. Instead the Department granted a three-year term and required that this charter school provide measurable outcomes by March 31, 2001.

Local Target Setting

In our 1995-96 and 1998-99 Annual Reports, we stated that the Department should encourage schools and school jurisdictions to strive for achievable improvements by requiring school jurisdictions to include local targets for provincially administered examinations in their three-year plans.

Steps have been taken to improve the Department's monitoring of targets set by schools and school jurisdictions

We are pleased to report that the Department has taken steps to encourage schools and school jurisdictions to set local targets. The Department has observed in its *Value-Added Report – Analysis of School Jurisdiction 1998-1999 Annual Education Results Reports* that "jurisdictions are not identifying meaningful targets in their Three-Year Plans or Annual Education Results Reports…The lack of targets undermines accountability and may impede continuous improvement". As a result, the Department has started to analyze the reasonability of jurisdictions' local targets that differ from the Provincial standard. Also, the Department has identified jurisdictions that are using the Provincial standard as their target and have compared these standards to their actual results to assess the reasonableness of the targets. Local target setting has been identified as a priority issue in the latest Annual Education Results Report.

The Department should continue assisting school jurisdictions to improve local target setting

We encourage the Department to continue their review of all school jurisdiction targets to ensure they are meaningful. Additionally, the Department should monitor and provide on-going assistance to school jurisdictions to help the jurisdictions and their schools improve their target setting.

We will continue to monitor the progress of the Department in providing assistance and monitoring of the local targets as set by school jurisdictions and their schools.

Financial Reporting in the Education Sector

Monitoring/Assessment of School Jurisdiction Financial Statements

We recommend that the Department of Learning critically evaluate school jurisdictions' financial statements to determine consistency in reporting practices and to identify reporting deficiencies and business risks.

The Department does not critically evaluate the audited financial statements submitted annually by the school jurisdictions. We reviewed all school jurisdiction financial statements for the year ended August 31, 1999 and noted a number of financial reporting deficiencies and business risks that the Department should be identifying and addressing.

The Department should analyze school jurisdictions' financial statements to identify trends and take corrective action where necessary

For the year ended August 31, 1999, 29 of the total 69 school jurisdictions and charter schools recorded operating deficits (before extraordinary items) compared to 23 of 69 for the previous fiscal year. Furthermore, four jurisdictions recorded an operating deficit (before extraordinary items) combined with negative unrestricted net assets and a poor liquidity ratio below one. Subsequent to the application of one-time funding from the Province of Alberta in the amount of $151 million (recorded by school jurisdictions as an extraordinary item on the Statement of Revenue and Expenses), one school jurisdiction remained in an accumulated operating deficit position. The Department should analyze trends and statistics to assess the financial position of all school jurisdictions in the Province and take proactive steps to address problems.

The Department should monitor the remaining useful lives of school jurisdiction capital assets

At August 31, 1999, 11 of 69 jurisdictions reported capital assets that have remaining useful lives that are less than 50% of their estimated useful lives. Six of those 11 jurisdictions recorded stable or declining internally restricted net assets for capital purposes in 1999 when compared to 1998. Planning for the maintenance and replacement of capital assets ensures that effective and efficient delivery of education can continue for future years. The Department should identify such trends and encourage jurisdictions to properly plan for asset maintenance and replacement, such as by setting aside adequate funds to replace capital assets.

The Department should encourage school jurisdictions to request and forward management letters upon completion of their audits

The Department should also encourage school jurisdictions to request management letters from their auditors upon completion of the annual financial statement audits. Of the 69 jurisdictions, management letters were not received by the Department for 37 of the jurisdictions compared to 16 in the prior year. Management letters provide useful information to school jurisdictions, as well as the Department, with respect to potential issues arising from inadequate internal controls, problems with recording of school generated funds, and specific business risks.

School Generated Funds

The Department and school jurisdictions have made some progress in improving controls over the completeness of school generated funds

In our 1998-99 Annual Report, we reported that 58% of school jurisdictions' auditor's reports for the year ended August 31, 1998 were qualified because controls over the completeness of school generated funds were not adequate. For the year ended August 31, 1999, 28% of school jurisdictions auditor's reports were qualified because of inadequate controls over school generated funds. The Department is making progress on this issue and we will continue to monitor performance in this area.

It is important that school jurisdictions establish appropriate controls over the collection and recording of school generated funds so that school jurisdiction financial statements accurately reflect all revenues and expenses, and the Department can accurately determine total education costs.

Unrestricted Net Assets

In our 1998-99 Annual Report we stated that the Department should work with school jurisdictions to ensure that proper financial reporting practices are being adhered to with respect to internally restricted net assets.

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

School jurisdictions in Alberta are required to follow the financial reporting practices established for not-for-profit organizations. These practices require that unrestricted net assets, which represent resources available for general operating purposes, be reported as a separate category from internally restricted net assets. Internal restrictions on net assets are usually imposed by a formal decision of the Jurisdiction. It is inappropriate to transfer amounts to internally restricted net assets if such a transfer would leave the school jurisdiction with a negative balance in its unrestricted net assets. In effect, net assets cannot be internally restricted where there are insufficient funds in the organization to support them. Reporting such a transfer in the financial statements is misleading and could also cause financial statement readers to believe that there are insufficient funds available for operating purposes.

For the year ended August 31, 1999, only one of 69 audited financial statements of school jurisdictions reported an increase in internally restricted net assets, while also reporting a deficit in unrestricted net assets. This compares to seven of 69 for the year ended August 31, 1998. This practice is not in accordance with generally accepted accounting principles.

The Department and school jurisdictions have made improvements in their accounting treatment of restricted and unrestricted net assets

I am satisfied that the Department is making progress on this issue. The Department should continue to work with school jurisdictions to ensure that all school jurisdictions understand and conform to appropriate accounting treatment for restricted and unrestricted net assets.

Other entities

Financial statement audits of the following were also completed:

Northland School Division No. 61- year ended August 31, 1999
Teacher’s Retirement Fund- year ended August 31, 1999

Post-secondary Education

Budget Review and Approval Process

Background

Where sufficient funds are not otherwise available, public post-secondary institutions cannot have a deficit budget without the approval of the Minister

The Acts governing all public post-secondary institutions state that the board of an institution "shall not incur any liability or make any expenditure…unless the whole of the liability or expenditure can be provided for out of the annual income of the year or out of other money available for the purpose, or unless the liability or expenditure is approved by the Minister."

Budget information is provided to the Department via the departmental system database in January and institutional business plans in June of each year

The Department requires the institutions to submit budgets to the Department in two stages. In January of each year institutions are required to submit budget information for their next fiscal year to the Department via the Departmental Financial Information Reporting System database (the database). They are also required to submit a business plan that has been approved by the board by June 1 of each year. Budgets are included in the institutional business plans.

Institution budgets

Recommendation No. 32

We recommend that the Department of Learning require institution budgets be prepared on the same basis of accounting as the institution's audited financial statements. We also recommend that the Department ensure that the budgets of public post-secondary education institutions are reviewed and approved in accordance with Legislative requirements.

Although improvement was made over the prior year, there were still at least two public post-secondary institutions that did not budget for all financial statement components in 1999-2000

We examined the 1998-99 and the 1999-2000 database and business plan submissions for those institutions where we had noted, during the attest audits, that the institutions were not budgeting on a full accrual basis. Five institutions used an accrual basis but did not budget for all significant accounts for 1998-99. At the conclusion of the 1999 financial statement audits we made recommendations encouraging those institutions to prepare budgets on a full accrual basis.

While the situation had improved in 1999-2000, we still discovered two institutions that were not budgeting for all financial statement components. Neither institution budgeted for amortization of deferred capital contributions revenue. One of the institutions did not budget for conditional grants and one did not budget for amortization of capital assets. Without budgets for these components, the Department cannot ascertain the amount of the budgeted excess or deficiency of revenue over expense determined on a generally accepted accounting principle basis.

One university submitted database budget information on an accrual basis and the board approved budget on a different basis

In addition, one university in 1999-2000 submitted the database budget information on the accrual basis, but submitted its institutional business plan with a budget prepared on a basis consistent with its internal reporting system. This latter basis contained significant differences from the accrual basis. For example transfers from net assets were included as budgeted revenue and budgeted expenditures did not account for amortization of capital assets but reflected instead capital asset purchases.

As it was not possible to reconcile the database budget information to the internal reporting based budget, the Department was unable to determine the extent, if any, to which the board had approved a change in the budgeted excess of revenue over expense from that submitted with the database budget information.

The Department should require the board approved budget to be prepared on the same basis as the audited financial statements

The Department should require each institution to prepare and submit the approved board budget in the institutional business plan on the same basis as the audited financial statements.

In one instance, we observed that a university budgeted for a deficit in 1999-2000. In this case, the university had reported in its 1998-99 financial statements an unrestricted net assets deficiency. Accordingly, the university did not have unallocated funds available to cover its deficit, raising the question of whether it would be able to comply with the section governing deficits in the *Universities Act*.

There was evidence that Departmental staff had reviewed this budget. Departmental staff prepares a summary of the issues noted in the business plan and in the case observed, the deficit budget was noted on the summary. However, the Department was unable to provide any documentation indicating that the Deputy Minister and/or the Minister was made aware of the projected deficit. The Department was also unable to provide copies of any correspondence with the institution indicating that the Department had approved the deficit. The Department should establish formal procedures to ensure that deficit budgets submitted are communicated to the appropriate officials in the Ministry and the budgets or associated expenditures receive approval of the Deputy Minister and/or Minister where required by legislation.

University budgets should be submitted to the Department prior to the start of the fiscal year to allow enough time for the Department to review them and take corrective action if necessary

We also noted that, by the end of July, 2000 one university had not submitted its board approved budget for the 2000-01 fiscal year. Public universities have a March 31 year-end. If the budget is not submitted until four months into the fiscal year and the institution is budgeting for a deficit, the Minister has little time for corrective action if he does not approve of the deficit. Accordingly the Department should require the universities to submit their board approved budgets and institutional business plans prior to the commencement of the next fiscal year.

Conditional grant processes

In our 1998-99 Annual Report (page 69), we recommended that the Department of Learning improve the processes used to collect and verify conditional grant information from the public post-secondary institutions to facilitate the monitoring and evaluation of each conditional grant program.

During the year, a majority of the Infrastructure Renewal Envelope and all of the Research Excellence Envelope were transferred to other ministries. The programs transferred out represent approximately half of the conditional grant funding provided by the Department.

Progress has been made towards improving the processes and controls for the Department's grant programs.

We are pleased to report that progress has been made by the Department towards improving the processes and controls for the remaining programs. The scope of project site visits has been expanded to include the Learning Enhancement Envelope as recommended in our 1998-99 Annual Report. As well, the Department has developed a course and manual for the management of conditional grant programs. A pilot course has been completed and full roll-out of the course is anticipated in the near future.

Deferred Maintenance

Recommendation No. 33

We again recommend that the Department of Learning and public post-secondary institutions continue to improve the system to manage the sector's infrastructure by evaluating the overall progress made towards addressing the critical health and safety risks arising because of deferred maintenance.

In our 1998-99 Annual Report (page 65) we recommended that the Department and the public post-secondary education institutions improve the system to manage the sector's infrastructure by evaluating the risks relating to unfunded deferred maintenance.

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

The individual institutions are responsible for capital asset maintenance. Since 1997-98, a total of $105 million has been granted through the Infrastructure Renewal Envelope to help institutions address the $362 million backlog of deferred maintenance identified by a Departmental study in 1997. To date the institutions have submitted Infrastructure Renewal Funding plans and summary accountability reports listing the initiatives undertaken with the Infrastructure funding. Neither the plans nor the reports, however, indicate which projects address critical health and safety concerns. Such concerns include for, example, elevator and structural safety together with fire suppression systems. Therefore, although the Department conducts annual project site visits, sufficient information is not available to determine the overall progress made towards addressing the critical health and safety risks relating to deferred maintenance.

We staff will continue to monitor Departmental and institutional progress in managing the sector's unfunded deferred maintenance

During the year, the Infrastructure Renewal Envelope and responsibility for funding the accumulated unfunded deferred maintenance was transferred to the Ministry of Infrastructure. The Ministry of Infrastructure is planning to conduct another comprehensive facility study to reassess the level of deferred maintenance within the sector and to evaluate the progress made with the infrastructure renewal program. Future funding strategies to address the remaining deferred maintenance and the incremental annual additions to deferred maintenance are also currently under review. Although the funding decision has been transferred to the Ministry of Infrastructure, the Department of Learning should continue to work with the public post-secondary institutions to identify and prioritize the critical health and safety risks relating to deferred maintenance. We will continue to monitor the Departmental and institutional progress in managing the sector's unfunded deferred maintenance.

Key Performance Indicator (KPI) Reliability

We again recommend that the Department of Learning work with the public post-secondary education institutions to improve the reliability of KPIs for credit full load equivalents, graduate employment rate and graduate satisfaction.

In our 1998-99 Annual Report (page 64), we recommended that the Department work with post-secondary institutions to improve the reliability of KPIs for full load equivalents, graduate employment rate and graduate satisfaction. (In general terms one full load equivalent represents one student taking a standard year of study.)

The Department is planning a full review of the KPI system for the fall of 2000 and is expected to address the reliability of KPIs

The Department is planning a full review of the KPI system in the fall of 2000 with the assistance of the public post-secondary institutions. As part of the review, the Department will address internal controls and reliability of systems to generate KPI information. We will continue to monitor the progress made by the Department following the review.

Athabasca University
Year ended March 31, 2000

In addition to the audit of the financial statements of the University, we reviewed the systems to establish expectations in strategic plans.

Background

An effective accountability framework includes setting expectations, execution of planned activities, reporting results and comparing actual results with expectations. Our review of the University's accountability framework focused on the University's process to establish expectations in plans.

Senior management's expectations for each year are conveyed to the University's Governing Council through:

- the Strategic University Plan (strategic plan)
- divisional operating plans (divisional plans)

The strategic plan is revised every three years, and contains goals and strategies for the University. Divisional plans provide implementation plans within the context of the strategic plan and are updated annually. All plans require the approval of the Governing Council.

Each type of plan contains initiatives. Initiatives are either the strategies required to meet the goals in the plan or the tasks required to implement strategies.

Information in strategic and divisional plans

Recommendation No. 34

We recommend that Athabasca University ensure sufficient information is contained in the strategic plan and divisional plans to enable senior management and the Governing Council to determine the University's progress in implementing the objectives set out in its plans.

Strategic Initiatives

The University's Strategic University Plan contains 70 strategic initiatives

The University's strategic plan contains 70 initiatives. To determine whether sufficient information was provided in the strategic and divisional plans we examined the plans to determine whether the following was provided for each initiative:

- the individuals responsible for implementation
- incremental costs, revenues or cost savings expected as a result of implementation
- resource requirements for implementation
- performance measures to determine completion and success of implementation
- timeline for implementation

The individual or group responsible for each initiative should be clearly identified

Only two of the initiatives in the strategic plan identified an individual position or group responsible for the implementation of the initiative. Three of the divisional plans had some limited information on the parties that were responsible for their tasks. The divisional plans should identify individuals responsible for each of the initiatives contained therein. Identifying the individual responsible enhances the accountability for implementing an initiative.

The incremental revenues or cost savings of each strategic initiative should be quantified

While the University has developed separate documents that predict incremental revenues and costs for certain initiatives, this information is not contained in the strategic or the divisional plans. The divisional plans should quantify incremental costs, human resource requirements, and any cost savings or expected revenues associated with implementing the initiatives. Human resource and capital cost information can then be compared to time and cost savings or expected revenues, so that senior management can quickly see the costs and benefits of the individual initiatives. This information can provide senior management with information regarding the stewardship of financial resources of the University and demonstrate fiscal responsibility by the sponsoring department. This information is also needed to prepare the University's budget.

Assumptions made in the determination of the resources required should be provided for each initiative

In total, 19 of the initiatives in the strategic plan contained information on assumptions concerning specific resources required for implementation. The divisional plans did not provide further information regarding sources of funding for the supporting initiatives. To enable senior management to understand the effect of assumptions, information should be provided in divisional plans indicating the key assumptions made, the support for them, and the significant alternatives that management considered and rejected.

Each initiative should have an indicator to measure progress toward implementation

Approximately 40% of the initiatives did not include or imply a performance target that could be used to measure the extent to which the initiative was successfully implemented. Performance indicators should be determined for critical strategies covered in the strategic plan. Adding a success measure in the plans provides a basis against which the University can measure its progress towards implementing its plans.

Each initiative should have a timeline for completion

Fifteen of the initiatives included a timeline for completion. Both the strategic and the divisional plans should identify a deadline for implementation of each initiative. Providing a deadline is critical for monitoring the success of the University in carrying out its initiatives.

University of Alberta
year ended March 31, 2000

Scope of audit work

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

- A review of the University's budgeting process
- A follow-up review of the recommendations made in 1998-99 with respect to the University's construction management processes
- A follow-up of our previous year examination of the governance and accountability systems of the Council of Academic Health Centres. The results of this work are reported on page 238

My staff also completed the financial audit of **PENCE Inc**. for the year ended March 31, 1999. The March 31, 2000 financial audit for PENCE Inc., the **University of Alberta 1991 Foundation** and **Research Technology Management Inc.** were in progress at the date of this report.

Internal Control Systems

Background

While the University undertook a review of key systems in 1999-2000, weaknesses with certain accounting controls and processes exist

For the past several years, the University has focused significant effort on ensuring that the implementation of University administrative electronic data processing systems (ASRP) occurred prior to the year 2000. We also acknowledge the University's Administration undertook a review of certain systems during the fiscal year 1999-2000. However, further work by the University to improve internal control is required as we observed that weaknesses relating to certain key accounting controls and processes exist.

No one department is accountable for, or has the authority to ensure adequate internal controls at the University

The University's administrative responsibilities are decentralized. It appears that the controllership responsibilities are shared amongst a number of departments. Accordingly no one department including Financial Services is accountable for, or has the authority to ensure internal control is adequate across the University.

The University lacks a system to ensure that critical control weaknesses are identified and resolved on a timely basis

The University needs to improve its control systems to ensure critical control weaknesses are resolved on a timely basis. As the risks presented to the University by operating with control weaknesses are significant, the University needs to establish systems whereby:

- Non-performance of all critical controls and processes across the University are identified to senior management.
- The priority of the weaknesses for correction, including those identified by external and internal audit, is established.
- A plan is put in place that indicates the deadline for completion of corrections and the specific resources including staff time required for corrections.
- Departments are held accountable for the performance of the plan and provide periodic reporting of performance throughout the year to senior management.

Further, the University should review the assignment and discharge of the controllership responsibilities within the University's overall structure.

Internal control systems

Recommendation No. 35

We recommend that the University of Alberta ensure control weaknesses are identified and corrected.

The following examples reflect some of the weaknesses with internal controls and accounting processes observed during the financial statement audit.

Bank Reconciliations not completed on a timely basis

Reconciliations of several of the University's main accounts had not been performed promptly throughout the year. As of March 2000, two of the accounts had not been reconciled since May 1999, one account had not been reconciled since June 1999 and another account had not been reconciled since November of 1999. All of the bank accounts, with one exception, were reconciled by the conclusion of the audit.

Failure to reconcile its bank accounts on a timely basis has left the University exposed to the risk of substantial losses

The University was unable to reconcile its accounts promptly in the previous year as well. We believe that the University's failure to reconcile its bank accounts throughout the past two years left the University vulnerable to substantial losses. Properly designed and executed bank reconciliations can provide preventive protection. Such controls are typically highly automated and are executed daily to provide maximum internal control.

Student fees system not reconciled to general ledger

The University has not been able to fully reconcile the student fees sub-ledger interface to the general ledger since July 1999.

Difficulties with the student fees system have left the University unable to properly manage student receivables

The fees system cannot produce a credit history for an individual student. This, in turn, results in the system being unable to age the student receivables or prepare statements of account. Without accurate statements of account, the University is not in a position to follow-up unpaid balances or move these balances to collection when appropriate. The inability to age student accounts also results in the University being unable to charge penalties for late payments where appropriate. In addition, the system does not allow payments to be redistributed. Finally, the system is not currently able to process refund cheques. As a result, the University has had to manually process in excess of 6,000 refund cheques.

Accounts Receivable Billings prepared outside of University system

The University should discourage the practice of faculties issuing invoices outside of the University system in order to ensure appropriate processing controls are in place

During our review of miscellaneous accounts receivable, we noted one Faculty has been processing their own invoices rather than using the University's general billing system. Administration within the Faculty indicated that the use of internally generated invoices provides a level of flexibility and timeliness not available when processing invoices through the central system. Processing invoices at the Faculty level may result in weakened internal control and possible financial statement errors, as the University loses the ability to place reliance on the routines that would normally ensure completeness of revenue. The University should discourage the practice of Faculties using billing systems other than the University's general billing system.

University of Alberta's Budget Process

Background

In the year ended March 31, 2000, the University of Alberta exercised stewardship over assets of approximately $1.4 billion, revenues in excess of $650 million and expenses of approximately $639 million. Management of these resources demands the presence of an effective and responsive budgetary system.

The University is working towards improving its current system and practices

The University recognizes the critical nature of an effective budgetary system and has been making changes to improve its budget process. However, these changes did not include ensuring that the primary focus of the University's approved budget is a budget prepared on a basis consistent with generally accepted accounting principles (GAAP).

Basis of Measurement for Budget

Recommendation No. 36

We recommend the University of Alberta adopt a basis consistent with generally accepted accounting principles for its budget presentation and that the budget encompasses all operating, financing and investing transactions.

The Board approved 2000-01 budget document includes a statement of operations that is presented on two different bases

The Board approved 2000-01 budget includes a statement of operations that is presented on two different bases. One budget is prepared on a basis consistent with generally accepted accounting principles (the GAAP budget) and accordingly consistent with that used to prepare the audited financial statements. The other budget is prepared on a basis consistent with the University's internal reporting systems (the internal budget). The internal budget is the major focus of discussion in the budget document.

The internal budget is presented in a balanced format, whereas excluding transfers from reserves there is actually a $3 million deficiency of revenue over expenditures

The internal budget is presented as a balanced budget whereby budgeted revenues equal budgeted expenditures. However, in the discussion included in the document it is noted that there is a budget deficiency in the internal budget of $3 million. The presentation of the internal budget in a "balanced" format even though there is an acknowledged budget deficiency before transfers and appropriations reduces the importance and understandability of the University's fiscal plan. It also sends a signal that there are two statements of operations.

Some of the budgeted revenues and expenditures in the internal budget are not consistent with those of the GAAP budget. For example:

- The internal budget includes as revenue $12 million of transfers from reserves (Transfers & Appropriations). Under GAAP, it is not appropriate to treat transfers from reserves as revenue because transfers do not represent an increase in economic resources to the University.
- Budgeted cash revenue includes financing transactions of $106.5 million for capital acquisitions.
- Budgeted expenditures does not account for amortization of acquired capital assets but reflects $106.5 million of investing transactions for major project and capital program spending.

Presenting capital asset transactions as operating revenue and expenditure in the budget presentation creates confusion concerning the underlying nature of these resources and where the resources to acquire these assets are to come from.

The budget document focuses on the internal budget instead of the GAAP budget

The budget document focuses its discussion on the internal budget statement of operations with very minimal discussion of the differences in definition, meaning and interpretation of the GAAP based budget compared to the internal budget. The internal budget as previously mentioned, reflects a deficiency of $3 million whereas the GAAP based budget reflects an excess of revenue over expense of $14.4 million. Accordingly, the budget process currently risks confusing decision makers with respect to the meaning and application of the budget. Users of the budget are unable to determine the expected change in the University's financial position.

The budget could be improved by including all financing, investing and operating transactions, presented on the same basis as the audited financial statements

The budget could be improved and better understood by providing a complete GAAP based budget including all operating, financing and investing activities and by presenting the budget in a comparable format to that of the University's annual financial statements.

Under such presentation, the document would include a budgeted statement of operations, a budgeted cash-flow statement and a budgeted statement of financial position. Having both a budgeted statement of operations and budgeted cash-flow statement on a GAAP basis would provide essential information for cash management and the measurement of projected financial results.

Preparation of a budgeted cash-flow statement will allow the Board to more easily identify cash shortfalls. Providing a budgeted statement of financial position would allow the Board to fully assess the extent to which the strategies in the budget will result in an improved financial position. Since the budget would be on the same basis as the financial statements, it would be much easier to use the budget to monitor the fiscal performance of the University in meeting its expectations.

Net Assets

Recommendation No. 37

We recommend the University of Alberta determine the level of net assets that will be required to ensure that programs and faculties will continue to be supported.

The University has an unrestricted net assets deficiency of approximately $46.5 million

While the University has total net assets of approximately $623 million, the portion available to be used for general purposes of the University (unrestricted net assets) is a deficiency of approximately $46.5 million as at March 31, 2000. This deficiency in effect represents an accumulated deficit. The rest of the net assets have already been invested in capital assets and collections or are for externally or internally restricted endowments.

The University has advised us that they are either considering or have implemented strategies to reduce the unrestricted net assets deficiency. These strategies were not documented in the University's approved budget document for 2000-01. Nor has the University determined the extent to which these strategies, along with the projected excess of revenue over expense, will result in a reduction of the deficiency. By having an unrestricted net assets deficiency, in effect the University is using some of the cash that will be required at some point to discharge liabilities to fund some of its operations and capital asset purchases.

Institutions are responsible for capital assets maintenance, replacement and betterment

Further, in 1995, the Department of Learning indicated that institutions were responsible for funding capital assets maintenance, replacement and betterment through revenues provided in the annual operating grant. The Department of Learning and the Department of Infrastructure have provided some grant funding to assist in meeting the requirements of the University's capital asset maintenance, replacement and betterment needs. Since the Province only funds a portion of the cost of capital assets of the public post-secondary institutions, institutional budgeting systems need to identify the non-Provincial sources required.

The University must consider how the replacement of capital assets will be funded

Accordingly, the University must not only consider its annual cash needs but must also consider how the replacement of capital assets will be funded in future years, ie. either through operating funds, capital contributions, or financing sources. Unless donated, the acquisition of capital assets requires cash, which is generally funded either through operating revenues or through capital contributions. Recording amortization expense in the annual budget reflects the consumption of acquired assets over the useful life of the asset and serves to measure whether revenues are sufficient to cover the amortization cost of acquired assets. If amortization of acquired assets is not included in the budget, revenues that should represent recovery of amortization costs are reported as available for other activities and risk being spent rather than being set aside for capital asset replacement.

If the University intends to replace assets through accumulated equity, then sufficient net assets for capital asset replacement must be established

If the University intends to replace assets through accumulated equity, then it must ensure that an amount, equivalent to amortization and any additional amounts required, is set aside in net assets so that sufficient cash is available to replace capital assets at the end of their useful lives. If these reserves are not established and the University plans to replace assets through accumulated equity, then over time the University will, in effect, be downsizing.

In planning for future capital expenditures, the University will need to make some assumptions about future government funding policies and consider whether it should be restricting funds for future capital purposes from current operating funding. This is needed since the government has indicated it expects operating grant funds to be used for such purposes. Otherwise the University may not have sufficient resources to fulfill its mandate.

The University currently does not have sufficient unrestricted net assets to establish reserves

The University has indicated to us that reserves for capital asset replacement have been established at the faculty level. The internal budget also indicates that the University has reserves. These reserves are not reported on the audited financial statements because, as noted previously, on a GAAP basis, the University does not have sufficient unrestricted net assets to establish any capital reserves and in fact has a deficiency of unrestricted net assets (accumulated deficit).

Given that equipment and furnishings and library materials are already amortized to the extent of $362 million and the University has no net assets set aside for capital equipment replacement, it is evident that the unrestricted net assets deficiency should stand out as a significant call to the University to take action.

The University should make plans to eliminate its unrestricted net assets deficiency and establish a reasonable level of unrestricted net assets

In our view, the University needs to make immediate plans to eliminate its unrestricted net assets deficiency and establish a reasonable level of unrestricted net assets that will be required to be able to maintain its programs and operations. In this regard, it would be useful for the University to adopt a balanced budget concept based on GAAP that first determines an appropriate level of unrestricted net assets required to deliver the University's planned programs and services and then defines an annual balanced budget sufficient to maintain this capital base.

Construction Project Management

The University has made satisfactory progress in strengthening its contract management processes

In our 1998-99 Annual Report (page 74), we recommended that the University strengthen its contract management processes by:

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

We are pleased to report that the University has made satisfactory progress in implementing this recommendation. The processes that the University uses to manage construction have been revised and the changes implemented. Accordingly, we believe the University is in a much better position than when reported previously to ensure that it obtains value for money from its construction activities.

University of Calgary
year ended March 31, 2000

Scope of audit work

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

- A review of the University's systems to approve and manage construction contracts
- A review of the recommendations made previously with respect to the University's budgeting process

- A follow-up of our previous year examination of the governance and accountability systems of the Council of Academic Health Centres. The results of this work are reported on page 238

We also completed the financial audit of **University Technologies International Inc.** as at and for the year ended March 31, 2000 and statements of the **Olympic Oval/Anneau Olympique** as prescribed by the Oval Long-term Operating Agreement, December 31, 1987 and the Oval Long-term Operating Amending Agreement, April 1, 1995 for the year ended March 31, 2000.

The audits of the University of Calgary Foundation, the **University of Calgary Foundation (1999)** and **The Arctic Institute of North America** for the year ended March 31, 2000 were in progress at the date of this report.

Capital Project Management

Background

The University has undertaken a number of capital projects from small maintenance projects such as renovating classrooms to constructing new facilities. The University finished construction of a new building during the year and is currently constructing another building expected to cost $32.5 million.

Fifteen projects including a major project valued at over $19 million were selected for review. All supporting documentation for each contract that related to bidding, contracting, vendor selection, change order management and vendor payment was reviewed. The results of the review indicate that improvements are required in the University's capital project management systems.

Project Proposals

Recommendation No. 38

We recommend that the University of Calgary's capital project proposals demonstrate cost benefits and alignment with the long-term campus plan. We further recommend that project management controls be strengthened.

Project proposals are incomplete

Based on our review of the capital project proposals, we concluded that the proposals for major projects are incomplete. The proposals often lack support such as how the project will meet the present and anticipated needs of the program, an analysis of the fit with the long-term campus plan and a full analysis of costs and benefits, including life-cycle costs and the impact on existing infrastructure.

Analyses should include assumptions used

We noted that even when an analysis is prepared for how the project will be financed, the information is not supported by the assumptions used in preparing the analysis. For example, the initial proposal for the new residence included a budget showing that the revenue would not exceed the operating costs of the building. The budget was subsequently revised to show a breakeven state. As the assumptions were not included in the analysis, it is unclear if the revenues and costs as presented were reasonable. In addition, a payback analysis was not performed and amortization was excluded from the budget. Amortization cost, as a component of all costs, helps to determine if revenue will be sufficient to cover all the cost of operations.

Project proposals should be linked to the long-term capital plan

For renovation projects, we noted that there was no analysis of the costs and benefits, even though some of the renovation projects exceeded $500,000. One of the main considerations in determining whether a renovation project will be undertaken is whether the faculty has confirmed sufficient funding for the project. There is no requirement to link the project with the long-term capital plan. Therefore, the University is at risk of undertaking projects that are not necessarily in line with the campus plan or the overall direction of the University. Certain faculties may be in a position to undertake more extensive work while other faculties may be unable to address critical needs. In addition, projects may be undertaken that do not meet the ongoing needs of the faculty.

Project evaluation criteria should be linked to the long-term capital plan

The University is currently refining its capital plan to guide long-term campus development. The University has also developed capital project planning guidelines that outline the approval process and the required documentation for major projects. It would be useful to link the project evaluation criteria to the long-term capital plan to assist the faculties in developing project proposals and to enable Facilities Management and Campus Planning to effectively assess, screen, prioritize and accept capital projects that fit with this plan.

Project Management Controls

There is insufficient evidence of approval of changes in scope of work or for revised estimates

Most capital projects reviewed had change orders varying in size and scope. Other projects had revised estimates where the scope of the project had changed. Although the University implemented a procedure to require the project sponsor to sign off on the change orders and identify funding sources, the procedure was not consistently applied. For the projects that were examined, we found insufficient evidence of the project sponsor’s agreement and of approval for changes in scope of work or for revised estimates. We examined one project for which Board approval of the spending limit was necessary. While the Board approved the initial cost estimate and one revised estimate, we could not locate evidence that the Board had approved the additional spending when costs exceeded the revised estimate.

Change orders may result from errors in project design

Where change orders exceed a certain number or pre-defined limit, a review should be done to determine whether a weakness in the construction project management system may have caused the change orders to occur. For example, the cost of one project increased 22% (from $118,770 to $144,365) as a result of ten change orders. In one other instance the change orders increased the project cost by 10%. In our opinion, some of the change orders were required due to errors in the project design.

Assessment of cause for change order should be documented

As part of the approval of change orders, there should be evidence that the construction project manager reviewed the technical merits of the change and concurs that the change order, as presented, represents fair value to the University. In addition, there should be documentation that the construction project manager and the purchasing department agree that the change order does not represent work that should have been performed under the original contract.

All costs should be included in project estimates

We noted that certain costs are not included in the project estimate. For example, some internal charges are not estimated. All costs should be estimated to allow project managers to monitor and report costs against the budget and to assess whether the project should be undertaken.

Administrative charges should be reasonable

An administrative charge is also allocated to projects. The amount varies depending on the type of the project. Where the project is capital in nature, the cost is recorded as part of the capital asset. We had difficulty substantiating the overhead charges recorded as part of the capital asset. We suggest that the University review the methodology to ensure that where overheads are applied to capital projects, they are reasonable.

Contractor Performance Evaluation

All contractors should be evaluated

Project management has a formal process to evaluate contractors, although it is not always performed. The University should extend its written evaluation system to general contractors, consultants, architects and design firms. Through the evaluation system, project management is able to assess concerns about performance of a certain contractor, consultant or design firm for consideration in the University's future business dealings.

Evaluations can be used to determine sub-standard performance

General contractors could provide information to allow the evaluation of design or architectural firms. For example, one contractor's concerns with delays caused by the architectural firm resulted in the general contractor refusing to complete any more work. The use of inadequately performing contractors, design firms and consultants can result in project delays; and can affect the value the University is receiving for the consideration paid. The University may also be exposed to increased liability from a poorly completed construction or repair.

Post completion audits may result in savings for the University

For larger dollar value or riskier contracts, the University may wish to include in its contracts the right to perform post completion contract audits. Many institutions incorporate the use of a contractor auditor to provide an ongoing program of post completion contract audits. Post completion contract audits can address such issues as the achievement of overall project objectives, the final cost versus the budget, user satisfaction levels and the extent to which value for money is being achieved.

Conflict of Interest Policy and Code of Conduct

We recommend that the University of Calgary require annual disclosure of conflict of interests for those staff involved in procurement and project management. We further recommend that the University require a conflict of interest disclosure from its contractors.

Conflict of interest policy is unclear

The University has a conflict of interest policy that is applicable to all staff and defines conflict of interest. The policy suggests that guidance in avoiding such conflicts be obtained through the office of the appropriate Vice-President. However, during interviews with members of Facilities and Materials management, it became evident that not all staff members were aware of the policy or its application to them. There also appeared to be uncertainty as to what constitutes a conflict of interest in the context of project management.

Annual written disclosure of conflicts of interest should be obtained

Failure to have clear disclosure of any and all conflicts of interest could affect the management of construction projects. For example, project sponsors and project managers could be in a position to unduly influence contractor tendering and selection. Therefore it would be useful for Facilities and Materials management to provide specific guidance for disclosure by persons in a position to contract or to provide influence over the competitive bidding processes.

In addition, the University should consider whether all contractors should be required to provide conflict of interest disclosures in order to disclose conflicts of interest that may exist.

Accrual Based Budgeting

In our 1998-99 Annual Report (page 81), we recommended that the University of Calgary's budget be prepared on an accrual basis reflecting all transactions that will be reported in its consolidated financial statements.

The 2000-01 budget has been prepared on an accrual basis

We are pleased to report that the University has made satisfactory progress in implementing this recommendation. The budget for 2000-01 includes an operating budget, includes estimates of revenue and expenses for cost recovery and sponsored research, and includes estimates of the earned capital contribution and amortization. The University also includes a separate capital budget in the package presented to the Board.

Balanced Budget

In our 1998-99 Annual Report (page 84), we recommended that the University of Calgary review its budgeting process to determine whether its current definition of a balanced budget is adequate to ensure programs and facilities are supported and will continue to be supported.

The University has taken the initial steps towards determining its capital needs. We acknowledge that this recommendation will take time to fully implement. We will continue to monitor the University's progress in implementing this recommendation.

Council of Academic Health Centres of Alberta

Governance and accountability

Recommendation No. 39

We again recommend that:

- **Those who manage and fund academic health activities acknowledge the full scope and magnitude of those activities and the consequences for the accountability of academic health centres.**
- **The entity or entities responsible for academic health and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established.**

We further recommend that the Universities of Alberta and Calgary take the lead in addressing the need for a governance structure for academic health.

Academic health is a partnership

Academic health refers to the education of health professionals, health sciences research, and the provision of specialized clinical services. These functions are carried out by academic health centres: partnerships of medical faculties, health authorities, and academic physicians. The Council of Academic Health Centres of Alberta (the Council) consists of the two deans of medicine at the universities of Alberta and Calgary and the CEOs of the Capital and Calgary Regional Health Authorities and the Alberta Cancer Board (RHAs). The Council plans to expand its membership by including the two Vice-Presidents (Academic) of the universities.

Faculties, RHAs, and academic physicians are mutually dependent. RHAs depend on faculties to attract and retain professionals and to conduct research. Faculties depend on RHAs to provide the environment for education and research—academic physicians cannot teach or conduct research without practising clinical medicine.

Academic health faces serious risks

In last year's report of the Auditor General we stressed the serious risks faced by the academic health centres:

- lack of understanding of their scope and of transparency of funding
- lack of information on their financial status
- inequities in physician remuneration

- dependence on extramural funding that generates infrastructure costs

We estimated the total 1997-98 cost of academic health to be $350 million, 70% of which is ultimately funded in various ways by the Province. Accountability for this substantial amount of public funds is seriously lacking.

Stakeholders must agree on clear definition of the responsible entities and their accountabilities

Progress on the complex issues facing academic health requires all stakeholders to recognize the need for and to agree on clear definitions of the responsible entities and their accountabilities. It is essential that stakeholders collectively agree first, that new structures are required, and second, on a new model of accountability and funding. The principal stakeholders are the universities of Alberta and Calgary, their respective medical faculties, the RHAs, and the ministries of Learning, Health and Wellness, and Innovation and Science.

Limited progress has been made

Because we have little evidence of progress in addressing the risks, we have found it necessary to repeat the first two recommendations made last year. The government accepted these two recommendations. While the Council is pursuing the development of an accountability and funding model, a common agreement on the issues, let alone on a solution, has yet to be reached. Meanwhile, increases in the underlying pressures of competition for physicians and research funds make the need for a solution more urgent.

Universities should take the lead

In our view the two universities should take the lead in addressing our recommendations and seeking agreement among the stakeholders. Despite their multiple interfaces with the health system, the faculties are institutionally part of the universities and the only distinct entities whose activities focus solely on academic health. The Council is essentially an advisory and collaborative organization, not an accountable entity. The other stakeholders have significant but less comprehensive roles. In our opinion, the most appropriate body with the requisite authority is the university to which each faculty belongs.

We will continue to monitor progress on this important matter.

Olympic Oval/Anneau Olympique

In my auditor's report on the statements of the Olympic Oval, I reported that the Special Equipment Reserve balance is less than the amount required under the Agreements and is therefore in contravention of the terms of the Agreements. The auditor's report should be read for full details.

Financial reporting

We recommend that the Oval improve its financial reporting to stakeholders by providing financial statements that include assets, liabilities and cash flows.

Although disclosure by Oval management meets the requirements of the Agreements, it does not provide all of the appropriate information to the funders

The requirements for financial statements of the Olympic Oval/Anneau Olympique (the Oval) are prescribed by the Oval Long-term Operating Agreement, December 31, 1987 and the Oval Long-term Operating Amending Agreement, April 1, 1995 (the Agreements). The requirements include reporting the balance in the reserve accounts, a statement of base operating costs and net revenue and a statement of costs associated with programming for certain athletes. There is no requirement to report the assets used in the operation of the Oval nor the obligations existing at year end.

While the reporting prepared by the management of the Oval meets the requirements of the Agreements, it fails, in my opinion, to provide all of the appropriate information to the funders of the Oval.

No disclosure of assets to support reserves

For example, while the statement of reserves indicates that reserves aggregating $1,692,277 exist at March 31, 2000, there is no disclosure relating to the assets that support the reserves. The reader of this statement is unable to determine the existence, nature, custodian, market value, etc, of the assets supporting these reserves.

Current reporting does not disclose extent of activity

On the statement of base operating costs, revenues are currently reported on a net basis. Information about gross revenues and expenses is usually necessary for a reader to understand the extent of the activity undertaken by the entity. Depending on the activity, it may be appropriate to disclose the information in the notes to the statements. Reporting revenues on a net basis can mislead the reader of the statements as to the extent of the operations and activities of the Oval undertaken during the year.

The objective of financial statements is to communicate information that is useful to investors, members, contributors, creditors and other users (users) in making their resource allocation decisions and/or assessing management stewardship. Consequently, financial statements provide information about:

1. An entity's economic resources, obligations and equity/assets.

2. Changes in an entity's economic resources, obligations and equity/net assets.

3. The economic performance of the entity. (CICA Handbook paragraph 1000.15).

Information is needed to determine viability

Providing the user with information on the assets, liabilities, and cash flows assists the user in determining the resources available to the Oval and in how those resources were used by the Oval. Information on the assets used to generate revenue can provide funders with information on the need to fund replacement assets, especially when there has been a significant consumption of the useful life of the assets. Providing information on the assets, liabilities and cash flows can also assist funders with information necessary to predict the ability of the Oval to meet its obligations and achieve its service delivery objectives.

Authority to waive, donate, or use fees for other purposes

We recommend that the Oval determine whether actions that result in the forfeiture of revenue are in accordance with the Oval Long-term Operating Agreement.

Under the Agreements, gross revenue is deducted from expenditures to determine the amount of support for the Oval's operation that is paid by the Calgary Olympic Development Association (CODA). Gross revenue is defined in the Agreement and includes user fees.

Fees were not charged in accordance with the rate schedule

The rate charged for public skating is in accordance with a fee schedule. However, starting in 1994, the Oval commenced a program where the general public can skate for free on Monday nights with a non-perishable food product donation to the food bank. The monetary fees collected on Monday nights were also donated to the food bank. Due to changes in the University's systems, the Oval is unable to determine the total amount of fees that were donated to the food bank. While cash donations were discontinued in 1997-98, the Oval still allows skaters to skate for free on Monday nights with a donation of a food product to the food bank.

These practices impact the amount paid by CODA

In addition, the Oval created a fund to aid speed skaters. In two previous years, certain admission fees were not reported as gross revenue. The Oval has since reported the amount as gross revenue. These practices impact the amount received from CODA as fees are not being charged and recorded to the Oval accounts. It is unclear if foregoing the skating revenue would be subject to challenge under the Agreement.

Cost of programs should be budgeted

It may be appropriate to include the estimate of the cost of these types of programs in the operating budget so that all parties are aware of the use of the facility and associated revenues. Where the Oval determines it is desirable to set up a special fund or program from Oval revenue, the Oval should obtain prior approval from CODA to use a portion of CODA's share of gross revenue.

Grant MacEwan College
year ended June 30, 1999

In addition to the annual financial audit, a financial audit was completed for the **Grant MacEwan College Millwoods Day Care Centre** for the year ended December 31, 1999.

Facilities renewal

In addition to amounts for furniture and equipment replacements, an amount should be set aside for future facility renewal.

According to "Financial Planning Guidelines for Facility Renewal and Adaptation" (the Guideline), a joint project between an association of colleges and universities in the United States and a major public accounting firm, a post-secondary education institution should plan on setting aside between 2% and 4% of the replacement cost of its facilities each year to cover future renewal. This does not include an amount for new facilities, and funds needed for furniture and equipment replacements.

Long-range capital plan

Recommendation No. 40

We recommend that Grant MacEwan College perform an assessment of its long-range facilities requirements and incorporate this assessment into a long-range capital plan.

The current approach to identifying facility needs focuses on specific problems rather than an overall funding level to protect the College's asset base over the long term

The College has established short-term strategies to address immediate critical needs with respect to facilities and identified some longer term funding strategies. The College's current approach to identifying need is to assess the condition of the facilities, identify the projects that must be tackled over the next two to three years, estimate a cost, obtain approval for those projects considered a priority, and incorporate that expenditure projection into the budget.

The Guideline states that: "A difficulty with this approach is that it tends to focus on specific, identifiable problems rather than on an overall level of funding that should be provided on a continuing basis over the long run to protect the plant assets. The set of identified problems may in any given year be well above–or more typically will be well below–the proper ongoing level of funding. A second difficulty is that this approach inevitably looks at the present physical plant and focuses on maintaining its current functionality, perhaps missing the funding necessary to adapt the plant continually to the evolving needs of the institution." Another difficulty again, is that actual expenditures are based on available funds, not necessarily need.

Strategies to obtain necessary funding can be more appropriately developed once the College's facilities needs are identified

To ensure the College's capital requirements will be met in the medium and longer-term, the College should define the facilities it requires to support its various activities, and determine what will need to be done to keep the facilities in good condition with consideration for future changes in factors such as programs, enrolments, and instructional and administrative technologies. The College should then establish a long-term capital plan that identifies the costs expected and the amounts expected to be funded from contributions, financing or the internal resources of the College.

Mount Royal College
year ended June 30,1999

In addition to the annual financial audit of Mount Royal College, my staff completed the financial audits of the **Mount Royal College Foundation** and the **Mount Royal Day Care Society** for the year ended June 30,1999.

Interest earned on Endowment Contributions

We recommend that Mount Royal College retain evidence of the donor's stipulations for the use of contributions on file and that the College capitalize interest as required per the donor agreements.

Inadequate documentation of donors' wishes was obtained

In the testing of a sample of endowments, we noted that, for seven endowments, inadequate written evidence of the donor's wishes with respect to the use of the donation was obtained. Formalizing the terms of reference in a contract or agreement can assist the College in ensuring that the donor's wishes are complied with over time.

For some cases, interest was not capitalized as specified by the donor

In our review of endowment agreements, we noted that some donors had specified that a certain amount of interest earned annually should be capitalized. During the current year, the College has not capitalized any interest to these endowments.

Investment income was not allocated appropriately

In addition, although the College has designated separate accounts to record investment income that is restricted by donors, we noted that the College does not allocate the appropriate share of investment income earned to the restricted accounts. Allocating the incorrect amount of investment income may result in investment income being used for purposes other than that intended by the donor.

Southern Alberta Institute of Technology
year ended June 30, 1999

Endowment Interest

We recommend that the Southern Alberta Institute of Technology review its endowments to ensure that interest earned on endowments is correctly calculated and appropriately recorded.

Interest was not capitalized as required

In a review of new endowment accounts, it was noted that, for two endowments received in the year, all the interest earned on the donations should have been capitalized. However, the Institute did not capitalize any interest to the endowments. This places the Institute in non-compliance with the donor agreements. While the amount is not material in the current year, there will be a compound effect in the future, as the earnings calculated will be based on an incorrect principal balance.

We also noted that the calculation of interest earned on three endowments was not correct, resulting in an amount being calculated in excess of the amount actually earned. The Institute therefore restricted the incorrect amount of income. Reporting interest as restricted when it is not can impact the ability of the Institute to undertake other activities.

Other entities

Matters related to the Public Post-secondary Educational Institutions

Annual financial audit of the **University of Lethbridge** was completed for the year ended March 31, 2000.

Annual financial audits, for the year ended June 30, 2000, of the following entities were in progress at the date of this report. Any findings arising from these audits will be included in my next Annual Report.

Alberta Centre for International Education
Alberta College of Art and Design
Bow Valley College
Fairview College
Fairview College Foundation
Grande Prairie Regional College
Grande Prairie Regional College Foundation
Grant MacEwan College
Keyano College
Lakeland College
Lethbridge Community College
Medicine Hat College
Medicine Hat College Foundation
Mount Royal College
Mount Royal College Day Care Society
Mount Royal College Foundation
Northern Alberta Institute of Technology
Northern Lakes College
Norquest College
Olds College
Olds College Foundation
Portage College
Red Deer College
Southern Alberta Institute of Technology

Guidance to reader

The Legislative Assembly has six Legislative Offices whose expenses were as follows:

	1999-2000	1998-1999
	(in millions of dollars)	
Legislative Assembly Office	$ 22.0	$ 20.9
Office of the Auditor General	12.7	12.1
Office of the Chief Electoral Officer	0.9	1.2
Office of the Ombudsman	1.4	1.3
Office of the Ethics Commissioner	0.2	0.1
Office of the Information and Privacy Commissioner	1.4	1.4

These Offices do not administer significant revenue systems.

The Legislative Offices produced a first set of financial statements

These six Offices have all produced financial statements as at and for the year ended March 31, 1998. The five Legislative Offices other than the Office of the Auditor General are not required to produce annual financial statements. At the time of preparing this Report, the Legislative Assembly Office was still preparing its financial statements as at and for the year ended March 31, 1999. The Offices of the Ethics Commissioner and Information and Privacy Commissioner have prepared financial statements as at and for the year ended March 31, 1999. The Office of the Ombudsman and the Office of the Chief Electoral Officer have both prepared financial statements as at and for the year ended March 31, 2000, that I have audited. I am expecting that the other Legislative Offices will match their timeliness in future years.

The financial statements of the Office of the Auditor General as at and for the year ended March 31, 2000, were audited by a private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices. The financial statements, together with the Auditor's Report are included in this report starting on page 308.

Guidance to reader

The mission of the Ministry of Municipal Affairs is to:

- help ensure public confidence in local government
- provide comprehensive safety systems and services for disaster and emergency situations
- support open and accountable government and the protection of privacy for Albertans through the *Freedom of Information and Protection of Privacy Act*

There are two main operating divisions: Local Government Services and Public Safety and Information Management. The latter division encompasses disaster services, safety services, and information management and privacy. The Ministry also provides support services to Alberta Government Services under a shared services agreement.

The Ministry has extensive regulatory responsibilities with respect to local government and has been provided with wide statutory powers enabling it to act where there is mismanagement of local government. Its present policy of non-interference in the affairs of individual municipalities appears to be working and is saving costs at the Provincial level. But there is a risk that the Ministry does not have information systems adequate to properly discharge its responsibilities to local government. My staff intends to explore this issue during the forthcoming year.

At the commencement of the current year, ministerial responsibilities under the *Disaster Services Act* were transferred to Alberta Municipal Affairs. The Act requires the Disaster Services Branch to act as consultant in the preparation of the emergency plans of government departments albeit that deputy ministers must ensure the preparation and maintenance of business resumption plans covering all essential services of their departments. The Act places the Branch with responsibilities for the development, validation and revision of government emergency plans and further requires the Branch to coordinate the overall government response to emergencies. Under the Act, the Minister of Municipal has power to review, approve or require modifications to Provincial emergency plans.

In light of its powers and duties under the *Disaster Services Act*, Alberta Municipal Affairs should, in our view, be able to demonstrate best practices in business continuity planning. We believe that any deficiencies in the Municipal Affairs plan could, through poor example, become widespread across other ministries. We have therefore devoted audit effort to the business continuity planning of this Ministry in order to provide assistance in addressing a potentially wider problem.

During 1999-2000, safety services administration became the responsibility of the Minister of Municipal Affairs. Under the G*overnment Organization Act*, the Minister has delegated many of his duties for administering various safety code regulations to four delegated administrative organizations (DAOs) and numerous other authorities. The four DAOs comprise:

- Alberta Boilers Safety Association
- Alberta Elevating Devices and Amusement Rides Association
- Alberta Propane Vehicle Administration Organization Ltd.
- Petroleum Tank Management Association of Alberta

The *Safety Codes Act* authorizes the Safety Codes Council, the four DAOs and the other delegated entities to perform duties and functions that are integral to the achievement of the Minister's responsibilities under the Act.

Ministry expenses for 1999-2000 amounted to $133 million of which $107 million was spent on local government services, $11 million on disaster services, $6 million on safety services and $1 million on Information Management and Privacy. External revenues amounted to $10 million of which $6.1 million were refunds of past expenses.

Ministry of Municipal Affairs
for the year ended March 31, 2000

Ministry Financial Statements

I conducted an audit of the financial statements of the Ministry of Municipal Affairs as at and for the year ended March 31, 2000. My auditor's report contained a reservation of opinion. In my opinion, generally accepted accounting principles require the financial statements of the Safety Codes Council and the four DAOs to be consolidated in the Ministry financial statements. The effect of not consolidating the financial statements of these five entities is disclosed in my auditor's report on the Ministry financial statements.

There were other reasons also for the reservation of opinion, and the auditor's report itself should be read for full details. On page 264 of this report, I have provided a summary of the reasons for the reservations in my auditor's reports on ministry and department financial statements.

In my view, the Council and the DAOs are both accountable to and controlled by the Minister and therefore should form part of the Ministry's reporting entity.

Scope of audit work

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

- Specified audit procedures were applied to the performance measures included in the Ministry's 1999-2000 annual report
- Audit of a claim under the Joint Emergency Preparedness Program

Business continuity planning

We recommend that the Ministry establish a business continuity plan to enable the timely resumption of business in the event of a disaster.

A business continuity plan has not been prepared

The Ministry does not have a business continuity plan to recover from interruptions in service arising from damage to its operational resources particularly its information systems. Such a plan would provide for a controlled response to emergency situations, and allow management to avoid or recover from interruptions in service with minimum disruption to the organization. A business continuity plan has broader scope than information systems recovery and focuses on how a business can continue to operate in the event of a disaster.

A plan serves to avoid a delayed response to a disaster

It is acknowledged that the Ministry creates and retains regular backups of system data offsite. It may thus be that the Ministry can recover most of its data in case of disaster, but, without a comprehensive plan, there will be a risk of delay and consequent or additional adverse effects that otherwise would be unforeseen.

Remedial procedures need to be established

A business continuity plan should develop formal business continuity procedures, to be implemented in the event of a disaster. Alternative locations to conduct business should be identified, as well as the actions that need to be taken, and who is to undertake those actions. Without such a plan, critical time will be lost as Ministry staff will need to work out the details of how to resume business after the disaster has struck.

A regulation under the *Disaster Services Act* requires each department to have a business continuity plan.

Other entities

Financial audits were also completed for the following entities:

For the year ended December 31, 1999

Improvement Districts 4, 9, 12, 13 and 24
Kananaskis Improvement District
Special Areas Trust Account

For the year ended March 31, 2000

Joint Standards Directorate

Guidance to reader

The Ministry of Resource Development comprises two operating entities, the Department of Resource Development and the Alberta Energy and Utilities Board. In addition, the Alberta Petroleum Marketing Commission is directed and operated by staff of the Department. The Ministry's mission is "to optimize the sustained contribution from Alberta's resources in the interests of Albertans." The Department allocates the Crown-owned resource base to industry and supports the development of the oil and gas and other resource industries; it also collects the Crown's share of revenues. The Board acts as the regulatory agent by approving development, monitoring and enforcing regulations, and collecting critical data. In 1999-2000, the Ministry expended $132 million to perform these functions (1998-99 $130 million).

Information technology is critical to the Ministry's success. The size and complexity of the oil and gas business requires the Ministry to develop large and complex automated information systems. For example, in 1999-2000 the Department recorded $5,015 million of revenue (1998-99 $2,713 million). To calculate, invoice, and collect such a flow of revenue, the Department relies extensively on large automated systems such as the Mineral Revenue Information System for gas royalty and the Mineral Revenue System for mineral tax and oil royalty. The development costs for such systems are significant. At present, the Ministry's largest information technology project is the Volumetric Infrastructure Petroleum Information Registry that is estimated to cost $25 million before it is implemented in January 2002. Information technology issues are a significant challenge for the Ministry, and in this Report we highlight a number of concerns related to existing and proposed projects.

The Alberta Petroleum Marketing Commission (APMC) was founded in 1973. Originally it marketed all crude oil produced in the Province; however, in recent years its major business has been the marketing of the Crown royalty share of crude oil production. In 1995, the Department assumed the operations of APMC and, in 1996, the marketing function was privatized. In 1999-2000, Crown royalty crude oil generated revenue of $1,103 million for the Province (1998-99 $450 million). We examined APMC's aging system to monitor, report, and control this revenue flow, as well as the Department's plans to redevelop the system.

Ministry Financial Statements

Reservations in my auditor's reports

I conducted an audit of the financial statements of the Ministry and Department of Resource Development for the year ended March 31, 2000. My auditor's reports contained three reservations of opinion for the Ministry and two for the Department; these resulted from the Ministry and Department following the corporate government accounting policies and reporting practices as established by Treasury Department. The auditor's reports themselves should be read for full details of the reasons for the reservations. On page 264 of this report, I have provided a summary of the reasons for reservations in my auditor's reports on the ministry and department financial statements.

Department of Resource Development

year ended March 31, 2000

Scope of audit work

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

- We monitored the progress of the Volumetric Infrastructure Petroleum Information Registry project. The project's objectives are to design and build an automated system that will streamline the capture of upstream oil and gas production and processing data. The result will be a shared information registry that will be accessible to both government and industry. In May 2000, the project's Business Area Analysis Report was released, and in September 2000, a contractor is scheduled to be selected to manage the development of the registry itself. Due to the size and importance of the registry project, we will continue to monitor its progress until implementation.
- At the request of the Assistant Deputy Minister, we reviewed and commented on the Volumetric Infrastructure Petroleum Information Registry project's business case in detail in December 1999.
- We followed up our 1997-98 recommendation regarding the Department's information technology security controls.
- We applied specified audit procedures to the performance measures that appear in the Ministry's Annual Report.

The Alberta Petroleum Marketing Commission

Winding down the Alberta Petroleum Marketing Commission

We recommend that the Ministry of Resource Development consider whether the Alberta Petroleum Marketing Commission should be dissolved.

At one time, APMC was a separate operating entity within the Ministry

Until 1995, the Alberta Petroleum Marketing Commission (APMC) operated in Calgary as a separate entity within the Ministry. Its main role was to act as the agent of the Crown in selling the volumes of crude oil that had been collected as royalty by the government. In 1995, the then Department of Energy assumed control and responsibility for the functions previously exercised by APMC. The actual Crown royalty volume sale activities were then outsourced to private agents on behalf of the Crown. The staff who monitor the agents' activities are now employees of the Department of Resource Development. The commissioners themselves are senior Department staff. Operationally, the Department has absorbed APMC's activities.

There are costs related to external reporting for APMC

However, there is a cost of administration in continuing APMC, as there are annual financial statement reporting requirements for the legal entity. The resources that are annually expended in both Calgary and Edmonton to create these financial statements would be better allocated to other tasks. Internal reporting requirements would remain unchanged, as the Calgary operations would continue to report as part of the Department.

Dissolution of APMC would not have an impact on oil royalty business

We have been advised that the main reason that APMC continues as a separate legal entity is because of existing contractual commitments. APMC is a party to contracts with the private marketing agents and with Express Pipeline Ltd. However, we understand that these contracts were negotiated so that the Department can assume the contractual obligations of APMC.

Oil Marketing Automated Systems

Risks associated with the Crown royalty crude oil marketing system

Recommendation No. 41

We recommend that the Department of Resource Development take action to address the risks associated with the automated systems relating to the collection and marketing of Crown royalty crude oil.

APMC developed this application many years ago; it is now at the end of its life cycle

The Department of Resource Development relies on a VAX-based computer application to monitor and report the receipt and sale of Provincial crude oil royalty volumes. The application was developed at APMC many years prior to the restructuring in 1995. Overall, the application and its technology have not changed significantly for many years. Now, the hardware and the operating system that form the backbone of the application are being discontinued by their manufacturer, although the company will continue to support the technology for some time.

A new technology platform would make it easier to accommodate business changes

There are at least three reasons why the Department would like to redevelop the marketing application on a new technology platform. First, a redeveloped system will make it easier to accommodate expected enhancements to the crude oil marketing business and environment. For example, the Volumetric Infrastructure Petroleum Information Registry will likely have an impact on the collection and distribution of information relating to crude oil royalties. It would be more efficient to incorporate such changes on a new technology platform.

There are risks in maintaining the old technology platform

Maintaining the older application entails risk. For example, finding replacement hardware will be increasingly difficult. Disaster recovery planning becomes difficult, as fewer similar technology platforms are available as partners in disaster recovery plans. As well, the Calgary Information Technology group may find it increasingly difficult to recruit technical staff with experience in such outdated technology.

The old technology does not conform to Departmental standards

As this is a legacy application from APMC, the technology used is inconsistent with the overall technology standards established by the Department of Resource Development. This means that support from the rest of the Information Systems Branch would be limited due to lack of exposure to this technology.

The Department would like to redevelop the application, but does not have a formal plan

For these reasons, the Information Systems Branch, in its 1998-99 and 1999-2000 Business Plans, identified the migration of the crude oil royalty system to a new technology platform as its primary Calgary Information Technology project. During those two years, no progress was made with this project. Recently, the Department has frozen enhancements to the existing application. The Department has informed us that it intends to complete the redevelopment in the next two years. However, we understand that a formal plan that would identify key dates, activities, and deliverables has not yet been prepared.

Information technology security controls

In 1997-98, we reported that IT security controls could be enhanced

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

At the end of 1998-99, four key issues had yet to be fully addressed

In 1998-99, we reviewed the Department's progress with regard to our recommendation. Our review confirmed that most of the prior year's recommendations had been successfully implemented. However, four important components of general information technology security had yet to be fully implemented. These were:

- a formal security objectives policy
- the role of security administrators
- the identification and protection of confidential systems information
- the testing of disaster recovery plans for major applications

There are elements of our recommendation yet to be fully actioned

This year's audit indicates that there has been progress for these components. There are still elements of our recommendation that have yet to be fully actioned. For example, while the Ministry's Chief Information Officer has approved the Security Objectives Policy, it has not yet been formally approved by the Deputy Minister. However, the Department now bases its information technology security on the Policy, as evidenced by the activities of its Information Services Branch. As a result, we can report that the Department is addressing this recommendation.

Alberta Energy and Utilities Board
year ended March 31, 2000

Financial Statements

Reservation in my auditor's report

I conducted an audit of the financial statements of the Alberta Energy and Utilities Board for the year ended March 31, 2000. My auditor's report contained a reservation of opinion that resulted from the Board following the corporate government accounting policies and reporting practices as established by Treasury Department. The auditor's report should be read for full details of the reason for the reservation. On page 264 of this report, I have provided a summary of the reasons for reservations in my auditor's reports.

Scope of audit work

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

- At the request of the Board, we reviewed the systems in place to monitor, manage, and report financial security for the well abandonment program.
- We monitored progress against our 1998-99 recommendation regarding the Board's strategic information systems plan (see page 140 of last year's Report). The recommendation is dependent on the progress of the Volumetric Infrastructure Petroleum Information Registry project. The registry will impact the Board's existing systems; as a result, the scope of the registry must be defined before the Board can complete its strategic information systems plan. Until the project's impact on the Board's systems is defined and the strategic information systems plan created, we will continue to monitor progress.

Other entities

A financial statement audit was also completed for:

Alberta Petroleum Marketing Commission - year ended December 31, 1999

Guidance to reader

Services provided by the Ministry

The Ministry of Treasury provides financial and administrative services within government and externally through the Department of Treasury and a number of Provincial agencies, including Alberta Municipal Financing Corporation, Alberta Pensions Administration Corporation, Alberta Treasury Branches and the Credit Union Deposit Guarantee Corporation. In addition, the Department of Treasury is responsible for the administration of a number of funds, the most significant of which is the Alberta Heritage Savings Trust Fund.

The Ministry of Treasury manages significant financial resources

The Ministry directly manages significant financial resources. In 1999-2000 the amounts were as follows:

- Revenues $9.6 billion (1998-99 $8.9 billion) includes $6.3 billion of income taxes, $1.9 billion of investment income and $1.4 billion of other taxes
- Expenses $1.5 billion (1998-99 $2.1 billion) comprises principally debt servicing costs of $1.3 billion
- Assets $20 billion (1998-99 $19.3 billion) includes $12.9 billion of portfolio investments and $3.9 billion of loans and advances
- Liabilities $18.1 billion (1998-99 $19.8 billion) includes $11.7 billion of unmatured debt borrowings for general government purposes and $3.6 billion of debt borrowings by Alberta Municipal Financing Corporation

Further, the Ministry directly manages trust funds under administration of $21.2 billion (1998-99 $18.1 billion), mostly in connection with public sector pension plans.

Department of Treasury also has a responsibility for the Province's consolidated financial statements

Responsibility for the integrity and objectivity of the Province's consolidated financial statements rests with the government. The Provincial Controller prepares the consolidated financial statements. However, the individual ministries are responsible for the collection of revenues and for making and controlling disbursements.

In 1999-2000 the Province's consolidated financial statements included[1]:

- Revenues $20.2 billion (1998-99 $16.9 billion) includes $6.4 billion of income taxes, $4.7 billion of non-renewable resource revenue and $2.4 billion of other taxes, mostly school property tax
- Expenses $17.4 billion (1998-99 $15.8 billion) includes $5.3 billion for health, $4.6 billion for education and $1.7 billion for social services
- Net results of operations $2.8 billion (1998-99 $1.1 billion)
- Assets $22 billion (1998-99 $20.5 billion) includes $12.9 billion of portfolio investments and $4.7 billion of loans and advances
- Liabilities $24.1 billion (1998-99 $25.4 billion) includes $11.8 billion of unmatured debt borrowings for general government purposes, $3.6 billion of debt borrowings by Alberta Municipal Financing Corporation and $4.7 billion of public sector pension obligations, mostly for teachers
- Net debt $2.1 billion (1998-99 $4.9 billion)

Core businesses

The following core businesses are set out in the Ministry's 1999-2002 business plan:

- Provide analysis and recommendations to the Provincial Treasurer and Treasury Board.
- Maintain a framework that fosters government accountability.
- Administer and collect tax revenue.
- Manage the Province's financial assets and liabilities.
- Foster a fair and efficient financial marketplace.
- Provide financial services through Alberta Municipal Financial Corporation, Alberta Pensions Administration Corporation and Alberta Treasury Branches.

[1] These amounts are after consolidation adjustments and therefore will not be the same as the amounts reported by individual ministries.

Audit focus on the Ministry goals

In planning the extent of our audit activities, we take into account the Ministry's business risks, including financial risks, that need to be addressed by the Ministry to achieve its goals. For 1999-2000, this approach has resulted in several recommendations made to improve systems and controls, in particular, to improve accountability and the usefulness of financial information for business decisions.

Financial Statements of the Ministries and Departments

Basis of accounting

Ministries and departments are required to follow the corporate government accounting policies and reporting practices. Those accounting policies have been established by the Department of Treasury and are applied on a consistent basis across ministries and departments. For the 1999-2000 fiscal year, there continue to be certain matters that have given rise to reservations in my auditor's reports on the financial statements of ministries and departments because not all of the aforementioned accounting policies meet the definition of generally accepted accounting principles.

Corporate government accounting policies

Recommendation No. 42

We again recommend that the Department of Treasury initiate changes to the corporate government accounting policies in order to improve accountability.

Progress is being made

Before dealing with the specific issues of 1999-2000, I wish to acknowledge that a major concern was resolved during the year as a result of having ministries record, as the annual pension expense, the amount of the pension contributions made for the year, in accordance with the guidance set out in a new section of the Handbook of the Canadian Institute of Chartered Accountants.

Working together on unresolved issues

My Office and the Department of Treasury continue to work, together with ministries, to seek solutions to issues where there is currently no agreement. I will continue to include reservations in my auditor's reports on the financial statements of the ministries and departments until these issues are resolved.

Specific issues remaining in 1999-2000

Similar to the 1998-99 fiscal year, there are reservations in my auditor's reports on the 1999-2000 financial statements of most ministries and departments. We have included below a discussion on all the reservations in the auditor's reports on ministry financial statements for 1999-2000. Most of the reservations were as a result of ministries complying with corporate government accounting policies and reporting practices that we believe are inappropriate.

Purpose of audit reservations is to focus on improved accountability and alert readers that the financial statements are not complete and accurate

The purpose of these audit reservations is to maintain a focus on all of the assets, liabilities, revenues and expenses for which the management of the ministries are accountable, including performance measurement and financial management responsibilities. The reservations alert readers to the fact that the related financial statements are not complete, accurate and in compliance with generally accepted accounting principles. Also, where possible, the reservations provide the reader of the financial statements with the supplementary information that is missing from the financial statements.

Assets, liabilities, revenues and expenses

Financial statements of the ministries and departments should include all assets, liabilities, revenues and expenses that relate to a ministry and department.

The reporting entity should be expanded

Reporting entity

As I have reported for several years, in my view, certain entities have been inappropriately excluded from the reporting entity. For example, I continue to believe that regional health authorities, universities and colleges, and school boards should be consolidated respectively in the financial statements of the Ministries of Health and Wellness and Learning, as well as in the consolidated financial statements of the Province. This matter is discussed in greater detail in the sections on the Ministries of Health and Wellness, Learning, Municipal Affairs and Community Development.

For 1999-2000 there were reservations on this matter in my auditor's reports on the financial statements of those ministries.

This matter also impacts the Province's consolidated financial statements.

Treasury's initiative in seeking a solution

I appreciate the Department of Treasury's initiative in requesting action on this issue by the Public Sector Accounting Board (PSAB), since we have divergent views on the issue. Specifically, the Department has written PSAB several times to request they clarify the recommendations made on this topic because there are some other government jurisdictions where the government and the auditor have different interpretations of the recommendations.

My Office's initiative

We are currently participating in a PSAB survey on accounting disclosures in Canada that outlines the reporting entity issue. Treasury and my staff continue to work together and recently established a joint committee to reconsider the extent of reporting.

PSAB project

Concerning the reporting entity issue, the PSAB newsletter of August 2000 indicates that a project has been approved for "Defining the Reporting Entity." The PSAB plan is to have additional guidance, for applying the criteria of accountability, ownership and control, available in the Spring of 2001. It is expected that the guidance will assist in determining which entities are to be included in the Province's consolidated reporting entity.

Assets are not recorded

Assets

As in prior years, there were reservations in the financial statements of most ministries as a result of departments applying a corporate government minimum threshold to capitalize assets. For example, capital assets purchased by a department with a cost of under $15,000 were expensed in the year acquired rather than being capitalized and amortized over their useful lives. Consequently, a significant amount of resources available to the department were recorded as if they had been consumed. I continue to believe this issue arises because fundamentally there is a lack of an appropriate definition of a capital asset addition. The Ministry needs to provide guidance to departments on the definition of some capital assets. At present, the minimum threshold is being used as a practical, but in some cases an inappropriate, method to establish the annual cost for the usage of some capital assets.

In addition, there were other reservations of opinion in my auditor's reports concerning assets:

- Concerning capital assets, in the Ministry of Resource

Development, there was a reservation because a lease arrangement is being accounted for as an operating lease and accordingly expensed over several years, rather than as a capital lease and thus the acquisition of an asset, financed by the lease.

- The lack of recognition of certain inventories again gave rise to a reservation on the financial statements of the Ministry of Environment.
- For the Ministry of Health and Wellness there was a reservation because an allowance for doubtful accounts was not adequate.

Liabilities

There were reservations in the auditor's reports on the financial statements of the Ministry of Environment and the Ministry of Infrastructure which had not established liabilities in respect of site restoration costs. Also, in the Ministry of Justice a reservation of opinion was made because a liability for accident claims costs was not established.

Legislative non-compliance

In the Ministry of Gaming, I also reported that certain expenditures reflected in the financial statements are not in compliance with the applicable governing legislation.

Allocation of significant costs

Cost allocation

Recommendation No. 43

We again recommend that the Department of Treasury develop a methodology to allocate all significant costs to those entities which are responsible for delivering outputs.

All costs not allocated to departments

Reservations of opinion have resulted from certain administrative expenses, principally accommodation costs of about $170 million incurred annually by the Ministry of Infrastructure, which are not allocated to individual departments benefiting from the accommodation.

Cost allocation is a difficult matter to resolve

As I reported last year this will be one of the more difficult matters to resolve. The difficulty centres around two different accountabilities. For example, the Ministry of Infrastructure is presently accountable by legislation for providing accommodation facilities to all ministries. However, I believe each ministry should be accountable for the resources it consumes, including accommodation in the delivery of its services to clients.

Cost allocation remains as an unresolved issue

In 1998-99, the Department of Treasury commenced a review of the practical issues related to implementation of a solution. The Department's staff and my staff have continued to meet during 1999-2000 and my staff has made a proposal towards a solution. The Department is considering this proposal.

Strategies to improve reporting throughout the year

Recommendation No. 44

We again recommend that the Department of Treasury promote the benefits of quality financial reporting throughout the fiscal year.

No improvement noted in 1999-2000

This is the third year of the use of a ministry responsibility reporting model. Ministries continue to be unable to provide the Ministry of Treasury with year-end information by the required deadline for the Province's consolidated financial statements. In my opinion, generally there has been no improvement in ongoing financial reporting processes compared to the prior year. This is troubling because quality reporting throughout the fiscal year is a key element of good financial controllership. Further, good business decisions by management require quality and timely financial information throughout the year. In my view, further improvement concerning deadlines and the quality of the annual financial statements approved by the Senior Financial Officers and Deputy Ministers is possible. We would like to acknowledge the Deputy Provincial Treasurer's initiative in this matter in his letter dated June 20, 2000 to the Deputy Ministers. He stated that the Controller would review this matter with the Senior Financial Officers' Council to reach a mutually acceptable resolution.

Unnecessary time and effort still required

At the year-end, there continues to be a significant volume of adjustments, estimated in the hundreds, requested and made during the year-end accounting process. In addition, some ministries continue to produce several subsequent versions of the financial statements, in some instances after the agreed deadlines. In my view, the quality of the draft financial statements also requires improvement in some ministries.

Difficulties at Ministries of Children's Services and Health and Wellness.

In the Ministry of Children's Services, the newly formed Children and Family Service Authorities experienced considerable delay in financial reporting in the current year. These same problems also occurred in the Ministry of Health and Wellness with the Persons with Developmental Disabilities boards. These matters are discussed in greater detail in the sections on the Ministry of Children's Services and on the Ministry of Health and Wellness.

Year-end closing still seems to be a once a year "add on" activity

It still appears that financial information for year-end closing is an "add on" activity only relevant at year-end.

Financial records need to be complete and accurate throughout the year

Ministries need to apply good financial management practices and have sound systems and processes to ensure that their financial records are complete and accurate throughout the year. Instead, they tend to review and prepare significantly all of their annual year-end financial information subsequent to the year-end. Financial records should be closed off accurately and on a timely basis for each reporting period throughout the year.

If the interim reporting process is really effective, then the fiscal year-end process will be accurate and timely. As an example of the need to use information available on a timelier basis, in the section on the Department of Treasury, we recommend improvements in the forecasting of corporate income tax revenue. We noted in that instance that closer attention could have been given to information that had been available to obtain a more accurate forecast.

Government of Alberta, 1999-2000 Annual Report

The Annual Report of the Government of Alberta is the report to Albertans on *Budget'99-The Right Balance*, including the Province's consolidated financial statements and Measuring Up performance measures.

Consolidated Financial Statements of the Province year ended March 31, 2000

Province's consolidated financial statements are in the Government of Alberta Annual Report

The Province's consolidated financial statements are published in the Government of Alberta Annual Report. The notes to the consolidated financial statements explain the accounting policies and reporting practices applied.

My report on the Province's 1999-2000 consolidated financial statements is without reservation

On June 22, 2000, I reported without reservation on the Province's consolidated financial statements for the year ended March 31, 2000, which are prepared on a disclosed basis of accounting. The disclosed basis of accounting in the government's summary consolidated financial statements focuses on the net debt, which is the model commonly used for summary financial reporting by governments in Canada. My auditor's report is reproduced in section 3 of this annual report.

Timeliness of financial reporting

The *Government Accountability Act* required that the Province's consolidated financial statements for 1999-2000 be made public by June 30, 2000. This target was successfully achieved as the Provincial Treasurer released publicly the audited financial statements on June 29, 2000.

The Province continues to provide the earliest reporting by provincial governments in Canada.

Future improvement

The following recommendation identifies a further improvement that could be made to the Province's consolidated financial statements.

Earmarked assets

Recommendation No. 45

We again recommend that the Province's consolidated financial statements and the Ministry of Treasury financial statements provide expanded disclosure of assets set aside for particular purposes.

"Earmarked" assets are assets that the government has set aside for a specific purpose.

Extent of earmarked assets

Such assets exist in three entities within the Ministry of Treasury and consequently in the Province's consolidated entity, namely, the Alberta Heritage Foundation for Medical Research Endowment Fund (MREF), the Alberta Heritage Savings Trust Fund (AHSTF) and the Alberta Heritage Scholarship Fund (AHSF). The total earmarked assets of these Funds were $13.6 billion as at March 31, 2000, comprising:

AHSTF: $12.3 billion ($5.3 billion in the endowment portfolio and $7 billion in the transition portfolio),

MREF: $1 billion ($0.3 billion in the endowment and $0.7 billion in retained earnings), and

AHSF: $0.3 billion ($0.1 billion in the endowment and $0.2 billion in retained earnings).

Earmarked assets of the funds

As I explained last year in my report on page 272, the assets of the above mentioned funds are "earmarked" by the Legislative Assembly to be held to generate income for particular purposes such as medical research and scholarship grants to post secondary students.

Possible misunderstanding about extent of Province's consolidated assets available to settle liabilities under existing legislation

Without clear disclosure to facilitate understanding of this situation, a reader of the Province's consolidated financial statements might assume, incorrectly, that the $22 billion of assets as at March 31, 2000 were available to settle the non-pension liabilities of $19.4 billion at that date. Since $13.6 billion are earmarked assets in these Funds, only $8.4 billion of assets were in fact readily available to settle the $19.4 billion of non-pension liabilities as at March 31, 2000.

Suggested disclosure

In our view the financial statements would be more useful if the amounts are disclosed in the notes to the Province's consolidated financial statements in the following manner:

	(in billions of dollars)
Province's Consolidated assets	$ 22.0
Less earmarked assets:	
Alberta Heritage Savings Trust Fund	12.3
Alberta Heritage Medical Research Endowment Fund	1.0
Alberitiage Heritiage Scholarship Fund	0.3
	13.6
Net assets available to settle non-pension liabilities	$ 8.4
Province's Consolidated liabilities	$ 24.1
Less pension obligations	4.7
Non-pension liabilities	$ 19.4

Legislation may be amended but we have to deal with the current situation

We are aware of the Department of Treasury's view that these assets could be used for general purposes if the need arises. In order to do so, existing legislation would require amendment by the Legislative Assembly. Our view continues to be that the basis for all financial statements is compliance with current legislation, not possible future legislation.

The same situation applies to the Ministry of Treasury

The same extent of disclosure should also occur in the Ministry of Treasury consolidated financial statements.

Measuring Up year ended March 31, 2000

Background

In 1995 specified audit procedures were performed for the first time on Measuring Up, the Government of Alberta's report on its performance. Since that time, the goal has been to provide a high level of assurance on the report. This year I have issued an expanded specified auditing procedures report on the performance information contained in Measuring Up. This new report included several new procedures on core measures and separately identifies the work that we completed on supplemental information.

Auditor’s report on the results of applying specified auditing procedures to performance information

My staff performed the following procedures for core measures included in Measuring Up:

- Agreed information from an external organization to reports from the organization.
- Agreed information from reports that originated within the Government of Alberta to source reports. In addition, we tested the procedures used to compile the underlying data into source reports.
- Checked that time series information is comparable to stated targets and information presented in prior years.
- Checked the accuracy and completeness of core measures in relation to those presented in Budget’99.

In addition, for supplemental information presented in the report, my staff agreed the information to source reports and checked that the supporting narrative was consistent with the information.

Exceptions were noted in the report

As a result of applying these specified auditing procedures, the following exceptions related to the Non Renewable Energy Resources component of the core measure Resource Sustainability were identified:

Due to the late receipt of information we were unable to complete two procedures

- Information presented for this measure was received on the day scheduled for the signing and release of my auditor’s report. Therefore, available time did not permit us to agree information provided to source reports or determine whether the results presented were consistent with the methodology description in Appendix I.

Measure results did not report on prolonging the reserve life of oil and gas

- We found that actual results were not complete when compared to the target in Budget’99. The information presented for this measure included five charts with in-situ, ultimate potential and cumulative production volumes for oil sands, conventional oil, natural gas, coal-bed methane and coal. The target in Budget’99 was to “maintain the reserve life of Alberta’s oil and gas.” In my view, actual results were not complete in comparison to Budget’99 because the results presented did not relate to prolonging the reserve life of oil and gas.

These procedures, however, did not constitute an audit and, therefore, I expressed no opinion on the core measures and supplemental information included in Measuring Up.

Reporting performance information

Recommendation No. 46

We recommend that the Department of Treasury enhance the background information and results analysis included in Measuring Up.

Measuring Up is the government's performance report

Measuring Up forms part of the annual report of the government and reports on the non-financial performance of the government against the business plan. To be useful, performance reports should provide sufficient information for a reader to understand and assess the performance of an organization.

Background information and results analysis are integral components of a performance report

Background information and results analysis are integral components of a performance report. Background information for a report such as Measuring Up would include:

- Explanation of the purpose of the document and how it fits into the government accountability framework.
- Discussion of the relationship between measures and goals.
- Discussion of significant changes from year to year in the performance measures and the rationale for the changes.

Results analysis should describe the degree to which performance targets were achieved and how strategies contributed to actual results, including a discussion of external influences that have a significant impact on the results.

Disclosure in Measuring Up was not as informative as in prior years

We reviewed the disclosure in Measuring Up 2000, in comparison to previous years, and found that:

- The introduction to the report, "About Measuring Up", was significantly reduced. The description of the purpose of the report was reduced and highlights of changes in the report from prior years were removed.
- Explanations of the relationship between measures and goals were reduced.

- There was less reporting of the reasons for variances between actual and planned performance in the "Performance Summary".
- For one component of the Resource Sustainability measure, Non-Renewable Energy Resources, the measure changed from the prior year but the reason for the change was not disclosed.
- Several supplemental charts, presented in prior years, were removed from the report.

Measuring Up is a key accountability document of the government. In our view, the disclosure in Measuring Up should be improved to enhance the ability of readers to understand and evaluate performance.

Crown-controlled Organizations

Identification of these organizations

The financial statements of the two Crown-controlled organizations are included in the Ministry of Treasury's Annual Report 1999-2000. Those organizations are Alberta Insurance Council and Gainers Inc.

Access to information

Section 16 of the *Auditor General Act* provides the Auditor General with access to information concerning these organizations if the Auditor General is not the auditor of the organization.

All information needed by the Auditor General has been supplied

I am pleased to report that all of the information, which I required to properly fulfill my obligations concerning these organizations, has been made available to me.

Ministry of Treasury
year ended March 31, 2000

My report on the Ministry's financial statements is without reservation

I conducted an audit of the financial statements of the Ministry and the Department of Treasury for the year ended March 31, 2000. My audit opinion on each of these financial statements was issued without reservation.

Department of Treasury
year ended March 31, 2000

I reported on additional auditing procedures

In addition to the audit of the annual financial statements, I reported on the results of applying specified auditing procedures to the Ministry's key performance measures in the Treasury Annual Report 1999-2000.

Bank reconciliation control

Last year's recommendation now implemented

Last year it was recommended that the Department of Treasury reconcile the Province's bank accounts promptly. I am pleased to report that the major problems encountered with the bank reconciliation process have been resolved.

Performance measurement for social and economic development programs within the tax collection system

Recommendation No. 47

We recommend that the Department of Treasury identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax collection system.

Existence of social and economic programs within the tax collection system

In my 1998-99 Annual Report I discussed the existence, within the tax collection system, of programs that promote social and economic purposes to specific groups by means of revenues foregone. We estimate the annual financial cost of these programs to be in excess of $2 billion. These costs arise through the use of tax deductions, exemptions, credits, incentives, preferential rates and deferrals. I commented last year that these programs avoid the stringent scrutiny by the Legislative Assembly that is applied during the process of approving the Budget expenditure and supporting performance targets. I also commented that there is no disclosure of performance targets and results.

There may be difficulties in assigning amounts to the specific programs

I acknowledge that there are no common standards of reporting for such programs within the tax collection systems in Canada, and elsewhere, and that there may be difficulties in assigning amounts to the specific programs.

Other governments provide information for legislative review

However, in my view, a framework can be established for reporting these programs and improving government accountability to the public and the Legislative Assembly. Many government jurisdictions in North America and internationally have successfully implemented reporting on these programs as a valuable component for legislative review. Generally, such reporting is restricted to the estimated tax revenues forgone. However, we note, as one example, that the State of Oregon has a legislated requirement for a tax expenditures report which provides the following information:

- a list of expenditures
- the statutory authority for each
- the purpose for which each was enacted
- estimates of the revenue loss for the coming two years
- the revenue loss for the preceding two years
- a determination of whether each tax expenditure is the most fiscally effective means of achieving its purpose
- a determination of whether each tax expenditure has achieved its purpose, including an analysis of the recipients that benefit from the expenditure

The Alberta Legislative Assembly should assess these programs

We believe that these programs in Alberta must be managed to ensure that the Legislative Assembly specifically assesses the need, objectives, performance targets and effectiveness of these programs. This would include identifying in the government's and in ministries' business plans the expected performance targets and the expected costs for these programs. Also, to complete the accountability cycle, results achieved and actual costs should be compared to those planned.

Forecasting corporate income tax revenue

Recommendation No. 48

We recommend that the Department of Treasury improve its forecasting of corporate income tax revenue to facilitate more accurate reporting.

Difficult to forecast CIT revenue for budget purposes

It can be difficult to estimate corporate income tax (CIT) revenue for annual budget purposes because the budget is prepared several months in advance of the applicable fiscal year. Also, there are numerous external factors which affect tax revenue, particularly the state of the economy. However, using available CIT information to track various factors could assist the Department of Treasury in improving its estimates of CIT revenue. This information could include non-utilized non-capital tax losses and various other deferred, unused tax pools such as those for Canadian exploration, development, and oil and gas property expenses. Other useful information would be the amounts of tax instalments and assessments of taxpayers and industry groups on both a current year-to-date and on a year-to-year comparative basis. Although all of the information referred to above is available in the database in each corporate tax file, it is not accumulated on an aggregate basis for analytical purposes.

The CIT revenue forecast at the end of the third quarter exceeded actual revenue by $305 million

The following table illustrates the 1999-2000 budget, forecast and actual CIT revenues and the very large changes from budget and forecast amounts:

		Change from Budget	Change from previous Quarter Forecast
	(in millions of dollars)		
Budget 1999-2000 - March 1999	$ 1,745		
Forecast:			
1st Quarter - August 1999	1,781	$ 36	
2nd Quarter - November 1999	1,814	69	$ 33
3rd Quarter - February 2000	1,560	(185)	(254)
Actual 1999-2000 - June 2000	1,255	(490)	(305)

Our subsequent review showed reduced cash inflows and larger refunds issued

We acknowledge that a new CIT financial system was being implemented during the 1999-2000 fiscal year and that the reporting capabilities of the new system had not been fully developed and implemented. Based on our subsequent review of the CIT revenue forecast amount for the Third Quarter, my staff noted that in the ten months ended January 31, 2000, the CIT cash inflows were down about $293 million compared to the same period in the prior year. In addition, my staff noted that total normal refunds issued to the end of December 31, 1999 were $114 million higher than for the same period in the prior year.

Treasury staff have indicated that the significant reductions in CIT cash inflows in 1999-2000 arose late in calendar year 1999 and in early 2000. That information was only being compiled at the time they were making their decision about the estimation of the amount for CIT revenue to be reported in the Third Quarter forecast, released in February 2000.

In our view, these circumstances confirm the need to ensure that information on CIT cash inflows and refunds issued is up-to-date and is being closely monitored for trends that need to be considered in estimating the quarterly forecast revenue.

Alberta Pensions Administration Corporation
year ended December 31, 1999

In my 1998-99 annual report (page 281), I recommended that Alberta Pensions Administration Corporation work with the public sector pension boards to enable the audited financial statements of the respective pension plans to be issued on a timely basis.

Financial statements need to be issued on a timely basis to be relevant

Information provided in financial statements is used to inform plan stakeholders of the performance of the pension plan. For information to be useful, it must be relevant. A key characteristic of relevant information is that it be timely, as the usefulness of information for decision-making declines as time elapses.

Most of the Alberta public sector pension plans' 1999 financial statements were issued promptly

I am pleased to report that the audited financial statements of the Local Authorities Pension Plan, Public Service Pension Plan, Special Forces Pension Plan and the Universities Academic Pension Plan were issued within 90 days after the December 31, 1999 year-end.

MEPP's 1999 financial statements were not issued promptly

However, the audited financial statements for the Management Employees Pension Plan (MEPP) were not issued until August 2000, over 190 days after MEPP's fiscal year-end. The delay in the issuance of the audited financial statements was mainly due to the performance of an actuarial valuation as at December 31, 1999 to determine whether the pre-1992 unfunded liability was eliminated.

The Management Employees Pension Board has expressed their desire to issue the plan's audited financial statements on a timelier basis in the future. My Office will continue to monitor the progress on this matter.

APEX Alternatives Project

The APEX project is a strategic initiative to enable APA to meet future pension administration needs

In 1998, the Alberta Pensions Administration Corporation (APA) initiated the Alberta Pensions Excellence (APEX) project to invest in new pension administration software to meet APA's future business needs as a service provider to its stakeholders. Financing for the purchase and implementation of the APEX project is provided by the pension plans administered by APA.

The APEX project was put on hold in January 2000

In January 2000, the APEX project was put on hold due to performance concerns and contractual difficulties with a software vendor and the decision of the vendor to discontinue involvement in the project. As a result, $3.6 million in costs incurred were expensed and written off in 1999 because it was concluded that the work would not provide any on-going benefits to APA. The remaining capital asset value of the APEX project was determined to be $556,386 as at December 31, 1999.

The project has been re-initiated

In June 2000, the APA board approved the re-initiation of the APEX project. A strategy committee, comprised of stakeholders, including representatives of the public sector pension plan boards and APA board, will provide independent oversight of the APEX project.

APA's current system remains functional

APA's current pension administration system remains functional. APA has taken actions, including an upgrade to its existing hardware, to mitigate the risks with the continued use of its existing computer system.

My staff is continuing to monitor APA's progress on this matter.

Alberta Securities Commission
year ended March 31, 2000

Last year's recommendations was accepted

In my 1998-99 annual report (page 282), I recommended that when the Alberta Securities Commission (Commission) provides grant funds to an organization, an appropriate accountability framework be established to enable the recipient's performance to be measured and evaluated. I am pleased to report that the Commission has accepted the recommendation.

Alberta Treasury Branches
year ended March 31, 2000

Guidance to Reader

For the year ended March 31, 2000, Alberta Treasury Branches (ATB) continued to show significant financial progress. ATB increased its year-end equity position, from $44 million last year to in excess of $272 million this year. ATB's business plan for 2000-2003 focuses on the following three strategies:

- Achieving prudent growth
- Managing expenses
- Optimizing profits

My staff evaluated ATB's internal control policies and procedures

In recent years, ATB has undergone extensive change in the methods used to operate its business. While downsizing its staff, certain business functions have been contracted out to private firms while other administrative processes have recently been centralized. It is important to ensure proper controls are re-established after such large-scale system and process changes occur in order to mitigate operational risk. Operational risk can be defined as the chance that procedural errors, computer or network crashes, service or product quality lapses, fraud or failure to comply with regulations or ATB policy can lead to financial losses. This year, as part of the annual financial statement audit, my staff evaluated the policies and procedures used by ATB to manage the internal control element of operational risk.

It is important that the methodology and assumptions used in determining the general loan loss allowance be sound

ATB's business is predominantly confined to Alberta. This geographic concentration could expose ATB to greater economic volatility than more geographically diversified financial institutions. Given the potential impact a downward change in Provincial economic conditions could have on ATB's ability to realize on its loans, it is important that the methodology and assumptions used in determining the general loan loss allowances to account for potential impairments be sound. I have brought forward two recommendations regarding the general loan loss allowance and the Borrower Risk Rating system from my 1998-99 annual report including further advancements to improve the systems used to manage credit risk and liquidity risk.

Scope of audit work

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

- Reviews of quarterly financial statements were performed and review engagement reports were issued to the Board of Directors
- Audits of ATB Investment Services Inc. and Business Improvement Loans
- Audit of the new ATB Pension Plan for the year ended December 31, 1999

Strengthening Internal Controls

Recommendation No. 49

We recommend that Alberta Treasury Branches strengthen the internal controls within its financial systems by ensuring account reconciliations are performed regularly, adequate division of duties exists at the branches and useful systems documentation is maintained.

The financial systems should effectively support ATB's revised business structure

Over the last few years, ATB has revised several of its key business processes. For instance, certain administrative functions have been contracted out to private firms and responsibility for others has been transferred from the branches to a centralized division. Since these transitions, certain internal controls have not been consistently implemented, and staff roles and responsibilities have not been effectively redefined.

In addition, with ATB's adoption of a strong marketing culture over the past few years, branch staff in particular have directed some of their efforts away from financial recording and towards marketing new products. ATB should re-evaluate the existing financial systems to ensure they effectively support the revised business structure.

Regular reconciliations of general ledger accounts enhance the integrity of the accounting system.

My staff noted that the reconciliation and monitoring of several general ledger accounts has not been effective throughout the year. Regular reconciliations of account balances enhance the integrity of the accounting system. For instance, daily suspense account balances can be somewhat unpredictable since these accounts can receive different types of transaction postings from several different areas within ATB or from ATB's cheque-clearing service provider. Currently over 400 of these suspense accounts exist at ATB, and as a result of delayed reconciliations, unexplained balances have accumulated. Consequently, approximately $400,000, as determined by ATB management, was charged to income during the year ended March 31, 2000 and a further $600,000 in the first quarter ending June 30, 2000. Efforts will continue at ATB to investigate the source of these balances.

Another weakness in internal controls arises from the lack of division of duties currently existing at the branches

Another weakness in internal controls arises from a lack of division of duties at the branches. For example, to increase efficiency at the branches, Customer Service Representatives have been given the ability to render many services without the review or pre-approval of another staff member. During my staff's visit to one of the branches, we confirmed that several incompatible duties were assigned to Representatives. Additionally, we understand that in some branches, Representatives share computer terminals so account entries cannot be traced back to individuals. Without effective compensating controls surrounding these activities, the lack of division of duties increases the risk that errors or irregularities will not be detected. We did not note any instances where Representatives were improperly processing transactions.

Adequate documentation would enable ATB Management to demonstrate the existence of key controls and to identify any deficiencies

Finally, useful systems documentation describing significant business processes and internal controls has not been effectively maintained. In addition, ATB has not obtained independent assurance that adequate controls exist and are operating effectively at the outside firms that provide services such as processing customer cheques. Without such documentation, it is difficult for ATB's financial management to demonstrate the existence of key internal controls and to identify any deficiencies.

ATB management has developed a plan

The need for strengthening internal controls has been discussed with ATB management. Management has performed an assessment to determine the higher risk areas and a plan is in place to address these internal control weaknesses. We will continue to monitor the progress made in this area.

Loan Loss Allowances

We again recommend that ATB re-evaluate the methodologies and assumptions used to calculate the general loan loss allowance.

In my 1998-99 annual report (page 286), I recommended that ATB continue to refine its procedures to calculate and record the general loan loss allowance.

The primary purpose of the loan loss allowance is to determine the net realizable value of the loan portfolio

The primary purpose of a loan loss allowance is to determine the net realizable value of the loan portfolio on the balance sheet. ATB's allowance has two components: the specific and the general. For the year ended March 31, 2000, the specific allowance amounted to $101 million and the general allowance amounted to $112 million against a loan portfolio totaling almost $9 billion. A basic concept behind the general allowance is that impairment in the loan portfolio already exists although it cannot yet be specifically identified on a loan-by-loan basis particularly in the presence of a strong economy.

It is important that an ongoing evaluation of the assumptions used in the calculation of the general allowance be performed

Given the significance of the general allowance in asset valuation, it is important that an ongoing evaluation of the assumptions used in the calculation of this component be performed. The main determinant of the general allowance is ATB's loss history. The improvements in credit granting that have been implemented under the current management, combined with the continuing strength of the Alberta economy, have had a significant positive effect on ATB's loss history. These improvements should be reflected in the assumptions supporting the general allowance.

ATB should consider the impact of changes to its methodology on the overall general allowance

It is important that ATB consider any methodology changes in the context of its overall general allowance. If a specific area of risk is now being captured with a new calculation, it may be necessary to adjust other parts of the general allowance to ensure that the risk is not being provided for twice. In the current year, ATB introduced a risk-based allowance on consumer loans and mortgages. However, this new allowance covered areas of risk already attracting a degree of general provisioning, thereby necessitating a late adjustment to the general loss allowance.

ATB should analyze the standard percentages applied to higher risk loan classes

Finally, ATB should evaluate the standard percentages applied to classes of loans that have been determined to have higher risk. While the original choice of percentages was necessarily somewhat arbitrary, ATB should now be in a position to assess whether those percentages are reasonable. An analysis of recent and historic trends of both default occurrence and the projected loss could be performed to support the percentages used.

Further research should be done to quantify and support the appropriate level of loan loss allowance

Part of the difficulty in determining an appropriate level of loan loss allowance at ATB is due to its business being confined to Alberta. This geographic concentration could lead to greater exposure to economic volatility and may require a higher allowance than more geographically diversified financial institutions. Further research should be done to quantify and support the appropriate level of allowance.

Risk Rating

We again recommend that ATB develop a method of explicitly and systematically considering the borrower's risk rating in the pricing of loans.

The credit risk evaluation of individual borrowers should directly affect the pricing of loans

One of the primary areas in which the credit risk evaluation of individual borrowers has an effect on day-to-day operations is in the pricing of loans. Last year, we observed that if both the borrower's risk rating and the price of the loan accurately reflected the risk inherent in individual loans, there would be a very strong correlation between the two. An analysis of ATB's larger commercial loans indicated that a strong relationship did not exist. While we acknowledge that a new pricing system will take time to work through the existing portfolio, we did not see any noticeable change from the previous year.

Loan-pricing based on the borrower's rating ensures adequate returns are received for the risk assumed

The introduction of a system to explicitly and systematically tie the rating and the price of the loan to each other would ensure ATB receives adequate revenue for the risk assumed.

Provincial Trust Funds

The Province administers public money over which the Province has no power of appropriation. The money is therefore not included in the Province's consolidated financial statements. At March 31, 2000, trust funds under administration amounted to $23.6 billion. Summarized information of the funds making up this amount is provided in Note 7 to the Province's consolidated financial statements.

Other entities

Financial audits of the following were also completed:

Alberta Heritage Foundation for Medical Research Endowment Fund - year ended March 31, 2000

Alberta Heritage Savings Trust Fund - year ended March 31, 2000

Alberta Heritage Scholarship Fund - year ended March 31, 2000

Alberta Municipal Financing Corporation - year ended December 31, 1999

Alberta Risk Management Fund - year ended March 31, 2000

ARCA Investments Inc. - year ended March 31, 2000

Consolidated Cash Investment Trust Fund - year ended March 31, 2000

Credit Union Deposit Guarantee Corporation - year ended December 31, 1999

N.A. Properties (1994) Ltd. - year ended March 31, 2000

Orion Properties Ltd. - year ended December 31, 1999

S C Financial Ltd. - year ended December 31, 1999

The Alberta Government Telephones Commission - year ended December 31, 1999

Pensions related, for the year ended December 31, 1999:

Local Authorities Pension Plan
Management Employees Pension Plan
Public Service Management (Closed Membership) Pension Plan
Public Service Pension Plan
Special Forces Pension Plan
Universities Academic Pension Plan
Supplementary Retirement Plan Reserve Fund

Pension related, for the year ended March 31, 2000:

Provincial Judges and Masters in Chambers Pension Plan Fund

Pursuant to section 12(b) of the Auditor General Act, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 1999-2000 fiscal year, the Auditor General acted as auditor of the following organizations:

- Alberta Centre for International Education
- Alberta Hospital Edmonton Foundation
- Calgary Regional Health Authority
- Carewest
- Capital Health Authority
- Chinook Regional Health Authority
- East Central Regional Health Authority
- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Headwaters Health Authority
- Keeweetinok Lakes Regional Health Authority
- Lakeland Regional Health Authority
- Northern Lights Regional Health Authority
- Olds College Foundation
- Peace Regional Health Authority
- PENCE Inc.
- Regional Health Authority 5
- Western Irrigation District
- WestView Regional Health Authority

Legislative Mandate

The Office of the Auditor General of Alberta was established in 1978 and operates in accordance with the *Auditor General Act*. The Auditor General is the auditor of all government Ministries, departments, funds containing public money, Provincial agencies, including publicly owned advanced education institutions, and most regional health authorities.

The Act deals with the Auditor General's responsibilities by stating what he must and can report, to whom, and when.

Section 18 report and other audit reports

In his section 18 report, the Auditor General states whether, in his opinion, the consolidated financial statements present fairly the financial position, results of operations and changes in financial position of the Crown.

The section 18 report on the Province's 1999-2000 consolidated financial statements is reproduced later in this section of the annual report. Similar reports were issued on the financial statements of all entities of which he is the auditor. These reports are attached to the related financial statements, most of which are published in the Public Accounts of the Province.

Section 19 Reports

The report you are reading is the section 19 report for 1999-2000. Section 19 reports are annual reports to the Legislative Assembly on the work of the Office. These reports include audit observations and recommendations arising from that work, together with any other matters that the Auditor General believes should be brought to the attention of the Legislative Assembly.

Section 17 reports

Under section 17 of the *Auditor General Act*, the Legislative Assembly or the Executive Council may ask the Auditor General to perform special duties. Whether those duties result in reports, and to whom the reports are issued, depends on the terms of the request. During the 1999-2000 fiscal year, the Auditor General received no direction from the Executive Council to perform a special duty.

Section 20 reports

The Auditor General can report under section 20 to the Legislative Assembly on any matters of importance or urgency, which in his opinion, should not be delayed until the next annual report.

No reports have been issued under section 20 of the Act since the last annual report.

Section 28 reports

Reports issued under section 28 of the Act are known as management letters. The purpose of management letters, as explained more fully on page 292of this Report, is to communicate to management recommendations for improving financial administration.

Management letters are addressed to the Deputy Minister or senior executive officer of the audited entity. A copy is sent to the Minister responsible for the entity except for those Provincial agencies referred to in section 2(5) of the *Financial Administration Act*.

Mission

The following statement continues to guide the work of the Auditor General's Office:

The mission of the Office of the Auditor General of Alberta is to identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans.

Proposing solutions for the improved use of public resources

All of our clients face risks which, if not well understood and managed, could jeopardize their success. Business risks are sometimes difficult to identify and they are constantly changing. We believe we can maximize the value of our advice and recommendations by helping our clients to identify their changing business risks. We can then help them address and manage these risks, and thereby improve their programs. We do this by providing professional services, which help them find opportunities to reduce or eliminate their risks, to improve their use of public resources, and to better meet their goals.

Adding credibility

Each set of financial statements included in the Public Accounts reflects management's view of the entity's financial position at year-end, the results of its operations and the changes in its financial position.

Our responsibility is to bring professional judgment and skill to the examination of these financial statements in order to provide an opinion on them. The result is an Auditor's Report designed to add credibility to the assertions of management.

The Public Accounts Committee acts on behalf of the Members of the Legislative Assembly in examining the government's management and control of public resources. Our annual report, and the audited financial statements in the Public Accounts, is used by the Committee in its examination of the use and control of public resources.

We believe that effective performance reporting, which includes financial statement reporting, is essential for effective governance and accountability. We encourage our clients to develop improved measures of performance. Through our assurance services, we will also validate the resulting information and help to interpret expanded performance reports. We believe that measuring results and linking them to specific costs is critical to evaluating cost effectiveness, and will lead to improved management of public resources.

Types of audit

Throughout section 2 of this Report, the term "financial audit" is used. In this context, a financial audit encompasses:

- audit procedures considered necessary to support the expression of an opinion on financial statements,
- a review of action taken in response to previous audit observations and recommendations, including those reported to the Legislative Assembly, and
- an examination of transactions and activities examined for other auditing purposes to determine whether they comply with the significant financial and administrative authorities that govern them.

For some audit entities, work additional to the financial audit was completed. Such additional work involves examining systems in depth. The scope of the additional audit work undertaken for 1999-2000 is identified in section 2 of this Report.

All audit findings conclusions and recommendations arising from all types of audit activity relating to 1999-2000 have been reported to management.

Report Process

The audit observations and recommendations contained in this Report have undergone a rigorous process aimed at providing all concerned with opportunities to challenge or provide input.

Meetings (exit conferences and audit committee meetings) were held at the conclusion of audits to discuss significant audit findings and concerns. The matters discussed depended on the nature of the audit, but included typically the form and content of financial statements, valuation provisions and allowances, the accounting policies employed, recommendations for systems improvements, and observed instances of non-compliance with legislative authorities. These meetings were attended by representatives of this Office and senior financial and other management officials of the audited entities.

The main purposes of these meetings were to ensure that senior management and boards understood the audit findings, to discuss recommendations, and to provide opportunities for management comment and reaction before the audited financial statements and the letter to management were issued. We prepared and circulated minutes of these meetings to minimize the risk of misunderstandings on matters discussed.

Audit recommendations judged to be of concern to management were incorporated into management letters to the responsible Deputy Minister or senior executive officer. Copies of management letters were forwarded to the appropriate Minister, except for those addressed to Provincial agencies referred to in section 2(5) of the *Financial Administration Act*.

Subsequently, recommendations considered important enough to be reported to Ministers, Public Accounts Committee members, other MLAs and the public were selected for inclusion in this Report. When determining significance, the Auditor General takes into account the nature and materiality of the matter relative to the individual entity and the government as a whole.

Finally, before this annual report was published it was made available to the Audit Committee. Also, all Ministers and Deputy Ministers or chief executive officers were informed of observations that relate to areas for which they are responsible.

The Provincial Treasurer, on behalf of the government, responded publicly to the numbered recommendations in the 1998-99 Annual Report on November 30, 1999. Of the 50 numbered recommendations, 40 were accepted, seven were accepted in principle, and three were under review.

Reservations in Audit Reports on Financial Statements

Section 19(2) of the *Auditor General Act* requires the Auditor General to provide details in his annual report of reservations of opinion in reports issued on financial statements.

As described in detail in Section 2, on page 264, the Auditor General reserved his opinion on most 1999-2000 Ministry and department financial statements because of significant departures from generally accepted accounting principles.

Further, his 1999-2000 Auditor's Reports for the following contained reservations of opinion for the reasons described:

Excluded direct costs

- Twelve Funds, Foundations and Provincial Agencies including the Alberta Science, Research and Technology Authority, the Alberta Social Housing Corporation, and the Alberta Dairy Control Board
- Persons with Developmental Disabilities Provincial Board
- Six Persons with Developmental Disabilities boards

Excluded direct costs and understated liabilities

- Nine Child and Family Services Authorities

Excluded direct costs, understated liabilities, and omission of amounts recoverable from others

- Two Child and Family Services Authorities

Excluded direct costs, understated liabilities, omission of amounts recoverable from others, and excluded capital assets

- Three Child and Family Services Authorities

Excluded direct costs, understated liabilities, misstatement of certain revenues and expenses, and, variously, omission of amounts recoverable from others, and excluded capital assets

- Four Child and Family Services Authorities

Excluded direct costs and capital assets

- Office of the Ombudsman
- Historic Resources Fund

Excluded direct costs, revenue and capital assets, understated liabilities, and inappropriate recording of a change in accounting policy

- Michener Centre Facility Board

Excluded capital assets

- Alberta Alcohol and Drug Abuse Commission
- Environmental Protection and Enhancement Fund

Incorrect recording of a capital lease

- Alberta Energy and Utilities Board

Other Information Included in Audit Reports on Financial Statements

Additional information

The 1999-2000 Auditor's Reports for the following contained additional information as follows:

- Ministry of Gaming (Alberta Gaming and Liquor Commission)

  Certain expenditures not in compliance with the applicable governing legislation

- Olympic Oval/Anneau Olympique

  Special Equipment Reserve balance in contravention of the terms of applicable agreement

Report under Section 18 of the *Auditor General Act*

Section 18 of the *Auditor General Act* requires that the Auditor General report to the Legislative Assembly on the financial statements of the Crown for each fiscal year. The report is to include an opinion on the financial statements and any other comments related to his audit of the financial statements, and to state his reasons for any reservation of opinion.

Opinion on the financial statements

The Auditor's Report to the Members of the Legislative Assembly on the financial statements of the Crown for the year ended March 31, 2000, is attached to the consolidated financial statements and reads:

"I have audited the consolidated statements of financial position and capital assets of the Province of Alberta as at March 31, 2000 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of Treasury Department management. My responsibility is to express an opinion on these financial statements based on my audit.

"I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

"In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position and capital assets of the Province of Alberta as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 1 to the consolidated financial statements."

The Auditor's Report was dated June 22, 2000.

Public Accounts

Audit

The 1999-2000 Public Accounts will comprise the Annual Report of the Government of Alberta (including the audited Province's consolidated financial statements and Measuring up) plus the eighteen Ministry Annual Reports, including for each Ministry the audited financial statements of the Ministry and its components.

Consolidated financial statements

The 1999-2000 consolidated financial statements report on the Province's financial condition and capital assets, results of operations and cash flows.

The consolidated financial statements are an aggregation of most, but not all, of the entities controlled by the Province of Alberta. They combine the operating results, financial positions and cash flows of all the entities of Ministries whose financial statements are published in Ministry Annual Reports, including for example, departments, and regulated funds such as the Alberta Heritage Savings Trust Fund. The consolidation, however, does not include certain Provincial agencies such as universities, public colleges and technical institutes, and regional health authorities and school jurisdictions.

Accounting Principles and Auditing Standards

The principal source of generally accepted accounting principles and auditing standards is the Handbook of the Canadian Institute of Chartered Accountants. In addition, the Public Sector Accounting Board of the Institute issues accounting statements. These statements apply to and guide accounting in the public sector.

Accounting principles

Generally accepted accounting principles is the term used to describe the basis on which financial statements are normally prepared. The term generally accepted accounting principles encompasses not only specific rules, practices and procedures relating to particular circumstances, but also broad principles and conventions of general application. Generally accepted accounting principles are established to encourage the consistent and fair disclosure of financial information.

Assurance standards

The work of the Auditor General's Office is carried out in accordance with the assurance standards and recommendations published by the Canadian Institute of Chartered Accountants.

Office of the Auditor General

Management Discussion and Analysis

March 31, 2000

INTRODUCTION

Mandate

The Auditor General is appointed by the Legislative Assembly of Alberta and pursuant to the *Auditor General Act*, the Auditor General and the Office of the Auditor General fulfil their duties.

The purpose of the Office of the Auditor General (OAG) is to examine and provide independent reporting on government's management of, and accountability practices for, the public resources entrusted to it. Specifically, the Auditor General performs the following duties:

- Advises the Legislative Assembly on the work of his Office, including whether he received all the information, reports and explanations he required; and the results of his examinations of the entities for which he is the auditor, giving details of any reservation of opinion made in an audit report.
- Is accountable to the Public Accounts Committee for matters contained in the Auditor General's Annual Report.
- Assists the Provincial Audit Committee and must give to the Committee any information he considers necessary for understanding the scope and results of the Auditor General's audits of government entities, Provincial agencies and Crown-controlled organizations.
- Develops legislative auditors.

Mission

The Mission Statement, developed by the OAG staff in December 1996, serves as a relevant guide for the execution of duties and measurement of performance. The Mission of the Office of the Auditor General is:

"To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans".

Accountable to the members of the Legislative Assembly, the OAG is ultimately responsible to the public who require assurance that the government's performance reporting is credible.

This is achieved by providing cost-effective professional assurance services (opinions) that add credibility to the performance reporting of organizations accountable to the Assembly. In addition, advice in the form of recommendations is provided to improve the use of public resources.

The Auditor General is uniquely positioned to fulfill this mission because his Office:

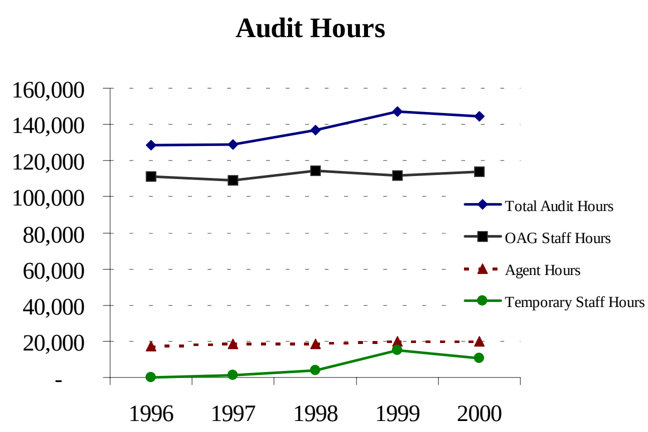
- is independent of government and can, therefore, offer impartial opinions and recommendations on government operations and management practices;
- possesses in-depth and thorough knowledge of :
  - complex government structures and systems used to manage public resources,
  - legislative authorities governing reporting organizations,
  - information systems auditing,
  - issues facing government entities in Alberta;
- adheres to accounting and assurance standards recommended by The Canadian Institute of Chartered Accountants;
- possesses a business perspective that is derived from the ongoing professional training, client interaction, and professional exposure.

BUSINESS CHALLENGES

Manpower

Full Time Resources

Approximately 63.7% of current operating expenses cover salaries, wages and benefits, and contract and temporary staff. The most significant business challenge continues to be the shortage of trained professional staff to meet the increasing demands for services. Given today's expanding economy, qualified professional staff is in short supply and the pressures on existing full time staff continues to escalate.



At March 31, 2000 the current staff complement was 118 full-time equivalent positions. This total fluctuates each year, but overall, since 1996, our full-time equivalent positions have increased by only four positions. In contrast, the number of audit hours has increased by 13.7% or 16,604 hours, which would require additional 11 positions. Outside resources were required to manage this demand.

Temporary Staff

Over the past three years, it has been necessary for the OAG to rely on temporary resources from accounting firms and manpower agencies to address the demand for services provided by the OAG.

Although potential cost savings can be achieved by using temporary staff, there is a negative impact if the number is large. For example, the costs and logistics of training short-term resources is a challenge since OAG resources are diverted from direct audit work. Permanent staff may also require supervision, but since they are trained continually in audit methodology, less direct supervision is required. Temporary staff cannot assist with systems audit work; OAG staff is dedicated to this task and the completion of attest audits. Accordingly, our objective is to minimize the use of short-term staff to below 2.5% of audit hours. In the current year, usage was 7.8% of total audit hours. The OAG recognizes this level of reliance on temporary staff is unacceptable. Increased emphasis on recruiting and effective staff allocation are strategies being pursued to reduce this usage to a more acceptable level.

Agents

The OAG also employs agents to help meet work demands. For the past two decades, extensive use of CA firms has been required to complete audit work. In the past year, 14 public accounting firms in nine communities across the Province assisted the OAG. The split of audit work undertaken by staff and agents is determined by which mix can be managed most effectively. Where agents are used, OAG staff continues to lead the work. By using agents, our practice benefits by:

- accessing supplemental resources to meet the demands of peak work periods;
- using particular skills cost-effectively;
- gaining a point of reference for comparing our methodology and cost; and
- saving on travel costs.

Agents are not, however, a viable solution for solving manpower shortages. They are expensive, and only make sense in certain situations. The average rate for audit work completed by agents last year exceeded the internal staff rate by $17.30 per hour (21.1%).

Technology

Continual changes in technology also affect the OAG. As computer systems used by government and the OAG constantly change, audit staff are continually challenged with identifying and managing new risks. Audit software tools also continue to change, resulting in continuous learning challenges for employees.

OPERATING HIGHLIGHTS

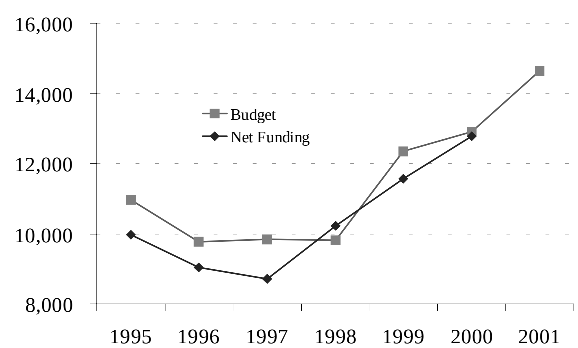
Primary Source of Funds

The OAG's primary source of funds available for operations is the annual appropriation from government. For 1999-2000, funding was received in the amount of $12,902,309, an increase of $557,099 over the amount received in 1998-1999.

While the cost of operations has increased in past years, the OAG places

Budgets Approved by Legislative Assembly

(in $000s)



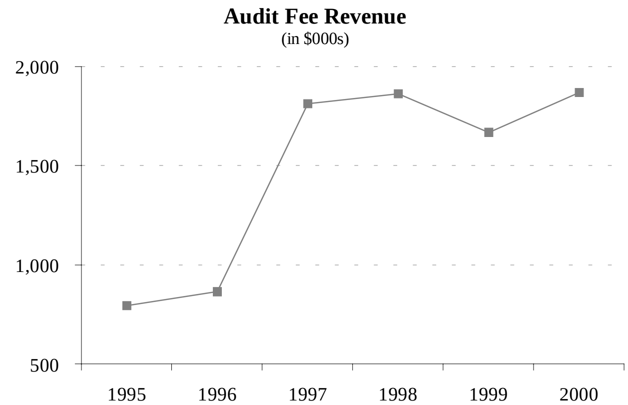
a high degree of scrutiny on cost control and effective spending. As evidence of this, the OAG returned funds last year ($776,027) and in the current year ($159,926).

Other Revenues

The OAG has a number of clients for which the General Revenue Fund is not the primary source of operating funds. These entities may be charged audit fees by the OAG. The OAG is appointed or engaged as auditor of these entities by the Legislative Assembly as these entities are determined to have a direct public interest.

Operating Expenses

Operating expenditures reflect the cost of the OAG fulfilling its mandate. Overall, operating expenditures increased $986,269 (8.4%) over the prior year. This is predominantly due to the increasing complexity of government structures and service delivery mechanisms, and the corresponding demand on OAG resources.



Manpower Expenses

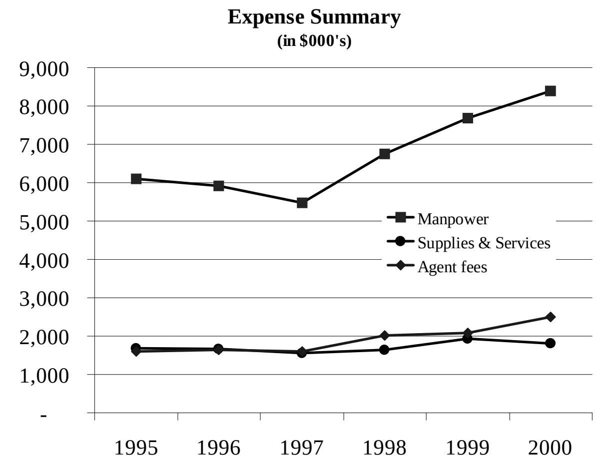
Overall, manpower expenses increased by approximately $735,000 or 10.0% from the prior year, and were approximately 2.2% greater than budget. The increase and budget overage are primarily attributed to cost increases in salaries, wages and services.

Salaries, wages and services expense increased by approximately $634,000 from the prior year for several reasons:

- Effective April 1999, all staff salaries were increased by 4.0%, increasing the salary and wage expense by approximately $225,000.
- On March 31, 2000, the government awarded retroactive pay increases. This increased the annual payroll by approximately $102,000.
- The cost for temporary manpower services increased by approximately $170,000 due to an increase in average hourly costs.
- Vacation and overtime pay accruals increased by approximately $109,000, as staff took fewer vacations than in the prior year.
- The remaining increase of approximately $28,000 is attributed to various items, including increases in severance pay for terminated employees and internal promotions of staff, resulting in some employees being paid at a higher pay scale.

Related employer contributions for pension and withholding amounts increased by approximately $100,000. This increase corresponds to increases in the salaries and wages expense.

Employee related consulting costs and professional fees, training and development costs decreased by approximately $30,000 as greater efforts were made to facilitate in-house courses. In addition, the OAG was unable to retain all staff for whom training was budgeted.



Supplies and Services

Overall, supplies and services expenses decreased by approximately $120,500 or 6.2% from the prior year, and exceeded budget by approximately 11.2%. In this broad category, office leases are the largest expense as it includes an incremental increase of 3.2% as set out in the original lease.

Budget overages in travel, professional services, and materials and supplies are a result of the OAG fulfilling its audit mandate. This specifically includes:

- Travel costs related to audit functions exceeded budget by approximately $49,448 or 29.3%; however, the costs incurred were within $4,300 of actual audit travel costs of the prior year.
- Legal expenses were approximately $69,000 higher than budget, largely attributed to completing issues with West Edmonton Mall (approximately $58,000).
- To assist auditors in performing their functions, 18 new computers were purchased as a result of computer program upgrades, making older computers incompatible with new software.

Agent Fees and Services

Agent fees were less than budget by approximately $512,000 or 17.0% due to internal OAG staff shortages. These fees related to projects which OAG principals must both design and supervise; due to staffing demands, many of these projects were deferred. Also, approximately $275,000 relates directly to Computer System Audits. A computer systems audit specialist was hired by the OAG in December 1999; however, due to the late hiring in the fiscal year, not all Computer System Audit projects were completed. These have been deferred to the next fiscal year.

The agent fee expense increase over the prior year is attributed to new work performed by agents. New agent contracts amounted to approximately $800,000, after taking in to account the fact that average agent rates decreased from approximately $105 to $99 per hour.

Work in Progress

Work in progress is the cost of work on recommendations for the following Auditor General's Annual Report. The cost of recommendation work is reflected in the statement of operations in the year in which the Annual Report is published. In this way, the cost of the output is matched with the delivery of the output.

The change in work in progress is largely attributed to timing differences in the start and completion of audit projects.

Audit fee revenue

The increase in audit fee revenue of approximately $202,000 is largely due to timing differences related to when the various audits started. There was also one significant new project, the Lakeland Regional Health Authority.

YEAR 2000 UPDATE

The year 2000 compliance issues were extensive as the OAG relies heavily on information technology. With this in mind, the potential impact of year 2000 on the Office's information systems was assessed. After reviewing existing hardware and software, office forms, and new computer purchases, it was determined that the Office's risks associated with year 2000 were low. More specifically:

- Our information technology plan established that all notebooks, desktops, and servers that were not year 2000 compliant would be replaced prior to July 31, 1999.
- Our new file interrogation software (SuperProbe) is year 2000 compliant. SuperProbe replaced old software that was not year 2000 compliant.
- The internal computer system for budgeting, recording, and reporting staff time is year 2000 compliant.

BUSINESS PLAN

1999 – 2000 Performance Against Objectives

The OAG's strategic objectives are those set out in its 1999-2000 Business Plan. The measures found under Objective 2 relate to both Objective 1 and 2. The OAG measures its performance in achieving its objectives throughout its fiscal year as well as annually.

Strategic Objectives	*Results Against Objectives*
1. Help our clients identify and manage risks.	
2. Be leaders in validating and interpreting performance information.	
▪ 95% of the OAG's primary recommendations will be accepted.	▪ 80% of primary recommendations made in the Auditor General's 1998-1999 Annual Report were accepted.

Strategic Objectives	*Results Against Objectives*
▪ Each primary recommendation will be implemented within three years of its acceptance.	▪ Ten primary recommendations accepted prior to September 1996 had not been implemented by September 1999.
▪ Average hourly cost of OAG staff will be less than 80% of that of agents.	▪ Average hourly cost is 83% of that of agents.
▪ Average hourly cost of OAG staff will be less than or meet planned hourly cost of $75.00.	▪ Average hourly cost is $81.96.
▪ 75% of management letters will be issued within two weeks of planned date	▪ 17% of management letters were released within two weeks of planned date.
▪ 90% of financial statements will be issued within 2 weeks of planned date	▪ 9% of financial statements were released within two weeks of planned date.

3. Provide a positive work climate, where people can develop careers as leading edge professionals in the business of legislative auditing.

▪ Student pass rate for OAG will always be higher than that of the Province of Alberta and Canada as a whole	▪ Uniform Final Exam for Chartered Accountant designation: National Pass Rate (all attempts) was 65.2% Provincial Pass Rate (all attempts) was 68.8% OAG Pass Rate (all attempts) was 80.0%
	▪ Qualifying Exam for Chartered Accountant designation: Provincial Pass Rate (all attempts) was 49.4% OAG Pass Rate (all attempts) was 33.3%

Discussion of Performance

Recommendations Accepted

80% of the Recommendations made were accepted. Acceptance does not include “accepted in principle” or “under review” which together account for the remaining 20% of the Recommendations made. When the government or a Ministry responds that a Recommendation is “accepted in principle” or “under review,” it means the OAG has not been able to convince the client that implementation of the Recommendation should commence. OAG staff are, in all instances, working with client entities to determine the most effective means to implementing the Recommendations made. In some instances, the Auditor General has acknowledged that a particular Recommendation will be a difficult matter to resolve and will take significant time and efforts on both the part of OAG and the Ministry’s staff.

Recommendations Implemented

The difficulty of some issues to resolve and the sheer demand on resources to put into effect other Recommendations are factors in implementation. 10 Recommendations made prior to 1996 are not yet implemented. The concerned Ministries have not rejected these; rather, progress in implementation is slower than originally anticipated. Based on current follow-up work, the OAG has rated progress in three of the Recommendations to be satisfactory; with the remaining seven, the Recommendations were repeated in the 1998-99 Annual Report in order to maintain client and OAG focus on their resolution.

Average Hourly Cost

Average hourly cost has exceeded our planned hourly cost by $6.96 and is 83% of agents' hourly cost. This is primarily due to the fact that the OAG's staff mix does not reflect plan. Due to a shortage of audit principals, managers and 3rd year professional program students, existing audit principals and managers are each performing more junior work as well as fulfilling greater job demands at their own levels. This increases the average hourly cost of projects.

Another factor in comparing agent and OAG costs is staff mix employed on projects. Agents are using professional program students to staff a greater proportion of their audit projects. On average, agents used lower level staff 71.4% of all hours worked on projects; in contrast, OAG staff used students 56.7% of all hours worked. This contributes to the lower agent hourly cost and the increased OAG hourly cost as staff experience and qualifications are determinants of hourly cost.

A number of strategies are being examined to address OAG hourly cost targets, including recruiting strategies, work mix, and job staffing.

Timeliness of Communication

The OAG failed to issue financial statements and management letters within two weeks of planned dates. The results measurement reflects delays in completing audit work according to original audit plans; it also reflects the effect of a lack of data integrity, which cannot be quantified. A business planning review is underway in the OAG to address the inability to consistently co-ordinate audit planning with audit execution. This review will also deal with the issue of data integrity and the information needs of the OAG.

Student Pass Rate

The student pass rate is viewed as a critical success factor for the OAG. The shortage of professional staff in the accounting industry makes internally trained, qualified staff that much more valuable. To this end, the OAG has put great emphasis on professional training and development programs, both pre and post qualification. The OAG has an in-depth UFE program, which has proven to be successful. For the coming year, the program has been enhanced to further improve the OAG's pass rate.

Recognizing that the QE is the first step in professional training, the OAG has also embarked upon a more in-depth training program for this exam. Students will now benefit from weekend sessions and experienced, well-known lecturers to assist them plan and execute their study programs and achieve greater success.

Alberta Legislature

Office of the Auditor General

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements have been audited by Kingston Ross Pasnak, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original Signed by Peter Valentine]
Peter Valentine, FCA
Auditor General
May 19, 2000

Alberta Legislature

Office of the Auditor General

Financial Statements

March 31, 2000

AUDITOR'S REPORT

To the Chairman, Standing Committee on Legislative Offices:

We have audited the balance sheet of the Office of the Auditor General as at March 31, 2000 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Kingston Ross Pasnak
Chartered Accountants

May 19, 2000
Edmonton, Alberta

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
BALANCE SHEET
AS AT MARCH 31, 2000

	2000	1999 (restated Note 3)
ASSETS		
Audit fees receivable (Note 2)	$ 853,628	$ 761,490
Other receivables and advances	8,305	21,441
Work in progress (Note 2)	535,438	583,833
Capital assets (Note 4)	818,385	916,296
	$ 2,215,756	$ 2,283,060
LIABILITIES		
Accounts payable (Note 7)	$ 1,207,234	$ 933,406
Accrued vacation pay	761,641	652,447
Deferred contributions related to capital assets (Note 2)	818,385	862,296
	2,787,260	2,448,149
NET LIABILITIES		
Net liabilities at beginning of year	(165,089)	445,012
Net operating results	(10,267,515)	(9,862,062)
Net transfer from general revenues (Note 1)	10,204,622	9,695,190
Deferred contributions related to capital asset additions	(343,522)	(443,229)
	(571,504)	(165,089)
	$ 2,215,756	$ 2,283,060

The accompanying notes and schedules are part of these financial statements.

ALBERTA LEGISLATURE

OFFICE OF THE AUDITOR GENERAL

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2000

	2000		1999
	Budget	Actual	Actual
Expenses:	(Note 6)		(restated Note 3)
Manpower:			
Salaries, wages and services (Note 8)	$ 6,858,303	$ 7,262,479	$ 6,628,896
Employer contributions (Note 5)	913,995	824,395	723,584
Employee related consulting costs	188,000	126,781	192,991
Professional fees, training and development	244,890	172,892	137,549
	8,205,188	8,386,547	7,683,020
Supplies and services:			
Office leases	236,000	208,353	201,972
Travel	260,000	302,783	306,172
Professional services	254,000	273,686	321,453
Materials and supplies	191,400	222,633	228,869
Amortization of capital assets	337,194	441,432	448,898
Repairs and maintenance	12,000	18,925	24,598
Telephone and communications	86,000	77,707	77,976
Rental of office equipment	40,860	41,484	33,376
Computer services	160,276	174,404	230,436
Miscellaneous	54,000	53,782	61,933
	1,631,730	1,815,189	1,935,683
Total Office professional services	9,836,918	10,201,736	9,618,703
Agent professional services	3,007,675	2,496,012	2,092,776
Expenses before work in progress adjustment	$ 12,844,593	12,697,748	11,711,479
Change in Annual Report work in progress		48,395	373,680
Total expenses for the year		12,746,143	12,085,159
Less:			
Audit fee revenue (Note 2)		(1,868,093)	(1,666,573)
Amortization of deferred contributions related to capital assets		(387,432)	(340,902)
Contribution of services provided at no charge		(223,103)	(215,622)
Net cost of operations for the year		$ 10,267,515	$ 9,862,062

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 2000

	2000	1999 (restated Note 3)
Operating activities:		
Net cost of operations for the year	$ (10,267,515)	$ (9,862,062)
Non-cash transactions:		
Amortization of capital assets	441,432	448,898
Amortization of deferred contributions related to capital assets	(387,432)	(340,902)
	(10,213,515)	(9,754,066)
Increase in audit fees receivable	(92,138)	(31,288)
Decrease in other receivables and advances	13,136	4,946
Decrease in work in progress	48,395	373,680
Increase in accounts payable	273,828	129,020
Increase in accrued vacation pay	109,194	25,747
Net cash used by operating transactions	(9,861,100)	(9,251,961)
Investing activity:		
Purchase of capital assets	(343,522)	(443,229)
Financing activities:		
Net transfer from general revenues	10,204,622	9,695,190
Net cash provided	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2000

Note 1 Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the Auditor General Act, Chapter A-49, Revised Statutes of Alberta 1980. The net cost of operations of the Office of the Auditor General is financed by general revenues of the Province of Alberta. The Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Auditor General provides opinions on accountability reports and issues an Annual Report to the Legislative Assembly containing recommendations designed to improve the financial administration of the Province. The 1998-99 Annual Report of the Auditor General was released in the 2000 fiscal year covered by these financial statements.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Audit fees

Audit fee revenue is recognized when billable opinion work is performed. Audit fees are charged to organizations, which are funded primarily from sources other than Provincial general revenues.

(b) Output costs

Schedule 1 provides detailed costs for three types of output:

i) Opinion Projects result in Auditor's Reports on financial statements.
ii) Recommendation Projects are undertaken to produce recommendations and observations for the Auditor General's Annual Report to the Legislative Assembly.
iii) Other Client Services represent various types of assistance provided to audit clients, such as advising task forces, and other special projects which may or may not lead to recommendations for the Annual Report and do not result in audited financial statements.

(c) Work in progress

Work in progress is the cost of work on recommendations for the following Annual Report. The cost of recommendation work is reflected in the statement of operations in the year in which the Annual Report is published. In this way, the cost of the output is matched with the delivery of the output.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	20%
Office equipment	10%
Leasehold improvements	term of the lease

(e) Deferred contributions related to capital assets

Contributions from general revenues received and expended for the acquisition of capital assets are deferred and amortized to the statement of operations as the capital assets are consumed.

(f) Pension expense

Pension costs included in these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years

(g) Supplementary performance information

These financial statements contain supplementary performance information designed to assist in evaluating the Office's performance. In management's opinion, this quantifiable information is relevant and reliable.

Note 3 Change in Accounting Policy

The Office has changed the way it accounts for its participation in multi-employer pension plans to a defined contribution basis. This change in accounting policy has been applied retroactively with restatement of comparative amounts. As a result of this change, opening net liabilities as of April 1, 1998 have been decreased by $694,411. As of March 31, 1999, pension liabilities decreased by $440,745, net liabilities decreased by $440,745, and pension recoveries decreased by $253,666 for the year ended March 31, 1999.

Note 4 Capital Assets

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 1,795,515	$ 1,609,537	$ 185,978	$ 270,091
Computer software	871,298	737,021	134,277	87,450
Office equipment	602,783	209,266	393,517	415,449
Leasehold improvements	269,766	165,153	104,613	143,306
	$ 3,539,362	$ 2,720,977	$ 818,385	$ 916,296

Note 5 Pensions

The Office participates in the following multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers established effective July 1, 1999. The expense for these pension plans is equivalent to the annual contributions of $367,838 for the year ended March 31, 2000 (1999 $268,859).

Effective January 1, 1999, the Office's contribution to the Public Service Pension Plan was reduced by 0.3% of pensionable salaries.

At December 31, 1999, the Management Employees Pension Plan reported a surplus of $46,019,000 (1998 $4,355,000) and the Public Service Pension Plan reported a surplus of $517,020,000 (1998 $406,445,000). At December 31, 1999, the Supplementary Retirement Plan for Public Service Managers had a surplus of $33,000.

Note 6 Budget

The budget shown on the statement of operations is based on the budgeted expenses reviewed by the Standing Committee on Legislative Offices on December 16, 1998, and subsequently voted by the Legislative Assembly.

The actual amount of expenses voted to the Office was $12,608,593, which is $236,000 less than the budget shown on the statement of operations. The difference relates to expenses voted to government departments who were to pay certain of the Office's costs.

Note 6 Budget (continued)

The following is a comparison of actual expenses to the authorized voted operating budget:

	Amount
Budget shown on statement of operations	$ 12,844,593
Less amounts included to be paid by government departments	(236,000)
1999-00 voted budget	12,608,593
Actual expenses (before valuation adjustments) shown on statement of operations	12,697,748
Less amounts included paid by government departments	(223,103)
1999-00 actual expenses for comparison with voted budget	12,474,645
1999-00 unexpended	$ 133,948

The following is a comparison of actual capital investment to the authorized capital budget:

	Amount
Budget presented to the Standing Committee	$ 327,500
Less amounts included to be paid by government departments	-
1999-00 voted budget	327,500
Actual purchase of capital assets shown on the statement of changes in financial position	343,522
Less amounts included paid by government departments	(42,000)
1999-00 actual purchases for comparison with voted budget	301,522
1999-00 unexpended	$ 25,978

Note 7 Lease Commitments

Minimum rental commitments for leased accommodations are as follows:

Fiscal	
2001	$ 202,836
2002	$ 135,061
2003	$ Nil

Note 8 Salaries and Benefits

Salaries and benefits of the Auditor General and his five Assistants comprise:

	2000			1999
	Salary[1]	Benefits and Allowances[2]	Total	Total[3]
Auditor General[4]	$ 154,440	$ 37,191	$ 191,631	$ 165,235
Assistant Auditor General[5]	126,856	27,955	154,811	132,242
Assistant Auditor General[6]	120,486	24,440	144,926	140,000
Assistant Auditor General[7]	120,451	33,567	154,018	130,433
Assistant Auditor General[8]	109,525	23,273	132,798	97,667
Assistant Auditor General[9]	104,625	19,742	124,367	128,074
Assistant Auditor General[10]	-	-	-	56,933
	$ 736,383	$ 166,168	$ 902,551	$ 850,584

(1) Salary includes regular pay and accrued achievement awards.

(2) Benefits and allowances include the Office's share of all employee benefits and contributions including health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, and professional memberships.

(3) Comparative figures for 1999 have been restated to include WCB premiums and professional memberships.

Note 8 Salaries and Benefits (continued)

Benefits and allowances also include any payments for vacation entitlements. With respect to executives, the payments were as follows:

	2000	1999
Assistant Auditor General[6]	$ -	$ 15,189
Assistant Auditor General[7]	$ 8,314	$ 7,458
Assistant Auditor General[8]	$ 1,526	
Assistant Auditor General[9]	$ -	$ 14,138
Assistant Auditor General[10]	$ -	$ 18,769

[4] Automobile provided to Auditor General; no amount included in benefits.
[5] Major responsibilities -- Learning, Health and Wellness, Community Development.
[6] Major responsibilities -- Treasury, Resource Development, Agriculture, Food & Rural Development, Human Resources & Employment.
[7] Major responsibilities -- Professional Practice and Quality Assurance.
[8] Major responsibilities -- Systems Auditing (from June 1, 1998).
[9] Major responsibilities -- Performance Measurement, Cross-Government Issues, Environment, Children's Services.
[10] Major responsibilities -- Internal Client Services (until August 14, 1998).

Note 9 Comparative Figures

Certain 1999 comparative figures have been reclassified to conform to 2000 presentation.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF OUTPUT COSTS BY MINISTRY
FOR THE YEAR ENDED MARCH 31, 2000
(Note 2)

	2000					1999[(1)]	
	Opinion Projects	Recommendation Projects	Other Client Services	Total	Annual Report Recommendations	Total	Annual Report Recommendations
Work performed by Office staff:							
Learning	$ 2,267,504	$ 200,512	$ 9,788	$ 2,477,804	19	$ 2,229,653	12
Treasury	1,535,652	111,233	152,092	1,798,977	12	2,372,033	8
Health & Wellness	718,293	395,787	60,308	1,174,388	12	1,115,504	12
Cross-Government Issues	240,910	544,998	-	785,908	13	375,626	10
Resource Development	376,459	61,108	14,863	452,430	3	390,924	3
Human Resources and Employment	373,692	50,223	-	423,915	3	545,754	0
Agriculture, Food and Rural Development	337,362	37,711	34,880	409,953	2	425,778	2
Community Development	338,795	34,644	-	373,439	2	309,903	0
Environment	217,699	103,387	33,533	354,619	8	366,220	2
Municipal Affairs	323,204	12,446	-	335,650	1	429,939	3
Justice and Attorney General	201,169	99,212	-	300,381	2	165,042	2
Children's Services	251,823	10,725	19,132	281,680	2	13,647	2
Innovation and Science	197,815	30,091	-	227,906	0	160,260	0
Executive Council	99,318	-	48	99,366	0	146,970	0
Infrastructure	164,292	24,380	-	188,672	1	463,052	4
Economic Development	125,546	26,808	-	152,354	0	181,059	5
International and Intergovernmental Relations	115,577	7,848	-	123,425	0	61,036	1
Legislative Assembly	106,696	-	-	106,696	0	90,118	0
Government Services	42,036	11,866	-	53,902	0	23,314	7
Gaming	42,632	320	-	42,952	0	77,629	1
	8,076,474	1,763,299	324,644	10,164,417	80	9,943,461	74
Work performed by agents:							
Health and Wellness	975,971	83,468	-	1,059,439	0	1,030,581	0
Learning	631,038	53,475	-	684,513	2	514,045	0
Infrastructure	318,694	9,750	-	328,444	0	94,957	0
Human Resources and Employment	134,204	-	-	134,204	0	131,234	0
Children's Services	98,838	-	-	98,838	0	-	0
Agriculture, Food and Rural Development	82,870	-	-	82,870	0	101,668	3
Gaming	63,090	18,177	-	81,267	1	45,000	0
Innovation and Science	63,609	-	-	63,609	0	57,287	0
Treasury	33,657	-	3,505	37,162	0	119,426	0
Resource Development	(1,120)	12,500	-	11,380	0	7,500	0
Municipal Affairs	-	-	-	-	0	40,000	1
	2,400,851	177,370	3,505	2,581,726	3	2,141,698	4
	$ 10,477,325	$ 1,940,669	$ 328,149	$ 12,746,143	83	$ 12,085,159	78

(1) The Government announced a major reorganization on May 25, 1999. Ministry comparatives for 1999 have been restated as if the work had always related to the current ministry.

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF RECOMMENDATION WORK AND STATUS OF RECOMMENDATIONS
FOR THE YEAR ENDED MARCH 31, 2000

Focus of Work

	1998-99 Recommendations		1997-98 Recommendations	
	Primary	Secondary	Primary	Secondary
Governance	4	7	4	4
Planning what needs to be done to achieve goals	19	8	19	7
Doing the work and monitoring progress	13	12	10	10
Reporting on results	11	5	7	3
Year 2000	-	1	6	1
Compliance with authorities, and matters of probity	3	-	-	2
Joint Audit of Alberta Registries	-	-	5	-
	50	33	51	27

Government Response to Recommendations

	November 30, 1999 (date of response)		December 1, 1998 (date of response)	
		%		%
Accepted	40	80%	44	86%
Accepted in principle	7	14%	4	8%
Under review	3	6%	-	0%
Rejected [1]	-	0%	3	6%
	50	100%	51	100%

(1) Recommendations described by the government as “partially accepted” are considered rejected until such time as they are fully accepted.

Analysis of Recommendations

The response to a primary recommendation, and any remedial action taken, is reported in the subsequent Annual Report. When the Auditor General considers that insufficient progress has been made in implementing a recommendation, it is repeated. Recommendations not repeated either have been, or are being, implemented satisfactorily. On occasion, a recommendation is neither implemented nor repeated due to changed circumstances.

	1998-99 Annual Report		1997-98 Annual Report	
		%		%
New recommendations	28	56%	45	88%
Repeat recommendations	22	44%	6	12%
Total primary recommendations	50	100%	51	100%

Performance Measurement

The Office has set performance targets as follows:

1. Each primary recommendation will be implemented within three years of its acceptance.

   Actual Performance:

   The Office has not met the target. By September 1999, 10 recommendations accepted prior to September 1996 had not yet been implemented.

2. 95% of primary recommendations will be accepted.

   Actual Performance:

   The Office has not met the target. As shown above, 80% of the primary recommendations were accepted.

Schedule 3

ALBERTA LEGISLATURE
OFFICE OF THE AUDITOR GENERAL
SCHEDULE OF OTHER PERFORMANCE INFORMATION
FOR THE YEAR ENDED MARCH 31, 2000

Average Hourly Costs

	Auditor General[1]		Agents[2]	
	2000	1999	2000	1999
Overall average	$ 81.96	$ 75.51	$ 99.26	$ 105.11

Average hourly costs as a percentage of agent average hourly costs

The Office has set a performance target as follows:

Average hourly costs will not exceed 80% of agent average hourly costs.

The Office has not met the target as incidated below.

Target	2000	1999
Not greater than 80%	83%	72%

(1) Costs do not include reduction in pension liability.

(2) Average based on fees paid to major agents in metropolitan centres.

Public Reporting

	1998-99 Reports	1997-98 Reports
Auditor General's Annual Report:		
Date of Report	September 27, 1999	September 23, 1998
Date of public release	October 5, 1999	October 6, 1998
Consolidated financial statements:		
Date of the Auditor's Report	June 18, 1999	June 17, 1998
Date of public release	June 28, 1999	June 24, 1998

Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on May 25, 2000, the day the Assembly last adjourned were:

Paul Langevin, Chair	Gary Friedel, Deputy Chair
Gary Dickson, QC	Denis Ducharme
Yvonne Fritz	Ron Hierath
Wayne Jacques	Mary O'Neill
Sue Olsen	

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

E. Susan Evans, QC, Chair	The Hon. Dr. Stephen West
Patrick Daniel	Frank Kobie
Alastair Ross	Peter Watson
Beverly Wittmack	

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. My annual report, and the audited financial statements in the Public Accounts, are used by the Committee in its examination of the use and control of public resources.

Lance White, Chair	Shiraz Shariff, Deputy Chair
Moe Amery	Laurie Blakeman
Wayne Cao	Heather Forsyth
Marlene Graham	Denis Herard
LeRoy Johnson	Albert Klapstein
Karren Kryczka	Rob Lougheed
Ken Nicol	Sue Olsen
Mary O'Neill	Raj Pannu
Julius Yankowsky	

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as my agent under section 10 of the *Auditor General Act*, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 2000, were as follows:

BDO Dunwoody LLP
Clews & Shoemaker
Collins Barrow
Craig Davies Collins
Deloitte & Touche LLP
Ernst & Young LLP
Feddema & Company
Grant Thornton LLP
Gregory, Harriman & Associates
Hawkings Epp Dumont
Heywood Holmes & Partners
Hudson & Company
Johnston, Morrison, Hunter & Co.
Joly, McCarthy & Dion
King & Company
KPMG LLP
Meyers Norris Penny & Co.
PricewaterhouseCoopers LLP
Roy, Solbak, Walsh & Co.
Tien Rostad
Young, Parkyn, McNab & Co.

The employees of the Office of the Auditor General as of the date of this report are:

Allan Font
Angela Nicoli-Griffiths, CA
Ann Doram
Ann Phan
Annie Shiu, CHRP
AnnMarie DeProphetis
Arlene Sideroff
Barb Clay, CA
Barry Timmons, CMA
Bob Ballachay, CA, CMA
Bob Fitzsimmons, CA
Brad Ireland
Brad Weiland
Brett Armitage
Brian Corbishley, DBA, CMC
Bruce Laycock, Barrister and Solicitor
Cathy Ludwig, CA
Cecille Quinto
Charolette Barry
Cornell Dover, CA
Cory Goodale
Craig Gawryluik
Dale Beesley, CMA
Dale Borrmann, CHRP
Dan Balderston, CA
Darlene Orsten
David Birkby, CA
David Chalupnik
Domenic Gallace, CMA
Donna Banasch, CA, CMA
Donna Chapman
Donna Yurkiwsky, CA
Doug Bewick, CCP, ISP
Doug McKenzie, LLB, CA
Doug Wylie, CMA
Elizabeth Chen-Hu, MBA, CMA
Evan Chan, CA
Gerry Lain, CA
Graeme Arklie, CA
Heather Miller
Jackie Di Lullo
Jane Staples, CA
Janice Lacher
Janine Mryglod
Jeff Sittler
Jim Hug, CA
Joe Ng
John Margitich
Karen Chan
Karen Hunder, CA
Karen Lau
Karen Schmidt
Kathleen Gora, CA
Kathy Anderson
Ken Hoffman, CA
Lawrence Taylor, CA
Levy Castillo
Lisa Peterson, CHRP
Lori Trudgeon
Loulou Eng, CMA
Lynda Turpin
Margot Anderson
Marteen Fica
Mary-Jane Dawson, CA
Merwan Saher, CA
Michael Reinhart
Michael Sendyk
Michelle Charbonneau
Michelle Desrochers
Michelle Fleming
Mike Mumby, CA
Mike Stratford, CA
Monica Norminton, LLB, MBA, CA
Nadia Potochniak
Nick Shandro, CA
Pamela Tom, CMA
Pat Doyle
Patty Hassink, CA
Pelma Jore
Peter Valentine, FCA
Peter Zuidhof, CGA
Phillip Auclair
Rahim Kanji
Ram Rajoo, CA
Rene Boisson, CMA
Richard Taylor, CA
Robert Drotar, CA
Roger Elvina
Ronda White, CA
Sabi Ghavami, CA
Salima Mawani, CA
Scott McIntyre, CA
Shauna Bruce
Sherry Hassen, CA
Simon Lee
Stu Orr
Sukh Johal
Sylvia James
Tabreez Lila
Tammy Bailey, CMA
Tanya Humphrey
Teresa Mitchell, CA
Teresa Wong
Theresa Politylo
Thomas Wong
Tim Lamb
Trevor Mills, CA
Trevor Shaw, CA, CMC
Valerie Holmgren-Jones, CMA
Venus Lee
Vivek Dharap, CA

1. Net Results of Operations, Net Debt and Debt

In order to properly understand the Province's financial condition and results, it is necessary to understand the terminology used in the Public Accounts. For example, NET RESULTS OF OPERATIONS, NET DEBT and DEBT are terms with particular meanings in the consolidated financial statements of the Province. Unfortunately, sometimes the terms are given different meanings by those not familiar with them.

The following table presents a summary of the Consolidated Statement of Operations for the fiscal year ended March 31, 2000, and the Consolidated Statement of Financial Position at March 31, 2000.

	In billions	
	2000	1999
Consolidated Statements of Operations		
Revenues	$20.2	$16.9
Expenses/expenditures (see following comments)	(17.4)	(15.8)
Net results of operations	$ 2.8	$ 1.1
Consolidated Statement of Financial Position		
Assets	$22.0	$20.5
Liabilities	(24.1)	(25.4)
Net debt	$ (2.1)	$ (4.9)
Net debt at beginning of year	$ (4.9)	$ (6.0)
Net results of operations	2.8	1.1
Net debt at end of year	$ (2.1)	$ (4.9)

Net Debt

Annual expenditures have exceeded annual revenues for several years in the past. As a result, Provincial liabilities exceed Provincial assets. That financial position is reported as "net debt."

The net debt arises from the consolidated financial position of 18 ministries, comprising departments, the Alberta Heritage Savings Trust Fund and other regulated funds, Provincial agencies and Crown-controlled corporations, including those agencies and corporations designated as commercial enterprises. Provincial agencies such as universities, public colleges, technical institutes, school boards, and regional health authorities are not included.

The assets of the Province include cash and temporary investments, receivables, investments, equity in commercial enterprises, loans and advances, and some inventories. Capital assets such as land, buildings and infrastructure are currently excluded.

The liabilities of the Province include accounts payable, unmatured debt, pension obligations and other accrued liabilities.

Debt

The word “debt” is used by some public commentators to describe the total liabilities of the Province (2000 $24.1 billion, 1999 $25.4 billion) without taking into account the fact that the Province has financial assets available to offset against part of the total liabilities.

However, the word debt is also used by other public commentators to describe the “unmatured debt” of the Province, namely, funds borrowed, plus debt of Alberta Municipal Financing Corporation, (together totalling 2000 $15.3 billion, 1999 $16.9 billion), which are a part of the Province’s liabilities. It is therefore important to be alert to the context in which the word “debt” is being used.

It is important to note that debt, however used, may be significantly different from net debt (2000 $2.1 billion, 1999 $4.9 billion) determined by deducting the total recorded assets from the total recorded liabilities of the Province.

2. Expenses and expenditures

The most significant of the changes introduced in the 1995-96 Province’s consolidated financial statements, and now impacting current financial statements, was reporting the expenses instead of the expenditures of main functions, such as health, education, social services, etc. The EXPENSE method accounts for resources consumed in the accounting period, whereas the expenditure method accounts for resources acquired, whether consumed or not. For example, for capital assets, the expense method accounts for annual amortization of the capital cost of an asset over the years of its expected life. On the other hand, using the EXPENDITURE method, the full cost of an asset is reported as expenditure in the year of acquisition. A simple example is a truck purchased for $20,000 at the beginning of the year which is worth $14,000 at the end of the year. What is the cost of the truck’s usage during the year? Under the expense method of accounting, the annual cost is the $6,000 difference (called amortization) between the initial cost and the value at the end of the year. Under the expenditure method, the cost is $20,000.

It should be noted, however, that even though the functional reporting within the Province's Consolidated Statement of Operations is expense based, the annual surplus for 1999-2000 is still effectively an expenditure-based result.

This expenditure-based result is achieved in the Statement of Operations as follows. Firstly, the amount of expense of each main function is disclosed (including the annual amortization of capital assets). Then, further down the Statement, a line item described as "net change in capital assets affecting operations" reverses out the annual amortization and substitutes the cost of capital assets acquired during the year.

This practice is not as strange as it may seem at first. Since no national government accounting standard at present requires expense-based reporting, all governments in Canada report their results using the expenditure method. It is claimed that expenditure-based reporting permits comparability across the nation. Also, credit rating agencies and existing and potential lenders appear to be comfortable with that method.

It is very likely that a reader of the statements will find this practice quite difficult to understand. However, it is based on the current view of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, and is considered by me as a progressive step towards eventual expense accounting.

From a government's business management perspective, there is a current movement in Canada to realize the benefits of focusing on performance results using the expense method to provide better-cost measurement of government outputs. As with many other government financial initiatives, Alberta is at the forefront of this initiative by having implemented expense functional reporting for the Province's consolidated financial statements since 1995-96.

3. Current development – the reporting model for governments

In August 2000, the Public Sector Accounting Board approved the issue of a document for comment by the government community proposing changes to the financial reporting model for governments. In our view, these changes, if approved and implemented in the future, will result in significant improvements in financial reporting. For future Alberta Provincial consolidated financial statements, it is anticipated that:

1. The statement of financial position will include all assets and liabilities, allowing the user to see the total financial position of the government in one statement.

2. The statement of operations will report the excess of revenues over expenses as the measure of a government’s surplus for the fiscal year.

   This presentation is simpler because only one measure of annual results will be reported on the operating statement, namely, the expense-based measure. The existing confusion of having both an expense-based and expenditure-based result on one statement is avoided. As a result, the statement will include the costs of government services consumed during the year.

The proposal moves the financial reporting model for government closer to the not-for-profit reporting model while retaining information considered critical by government officials and others, such as investment analysts, to assess the condition of a government’s finances.

Status of numbered recommendations

	Total Numbered Recommendations		Accepted and Fully Implemented		Not Implemented Due to changed Circumstance		Not Yet Implemented	
	Number	%	Number	%	Number	%	Number	%
1994-95	38	100%	29	76%	1	3%	8	21%
1995-96	35	100%	25	71%	2	6%	8	23%
1996-97	28	100%	18	64%	0	0%	10	36%
1997-98	51	100%	22	43%	0	0%	29	57%
1998-99	50	100%	13	26%	0	0%	37	74%

Status of recommendations not yet implemented

	Total Not Yet Implemented		Progress: Followed up with a Numbered Recommendation in 1999-2000		Progress: Satisfactory	
	Number	%	Number	%	Number	%
1994-95	8	21%	3	8%	5	13%
1995-96	8	23%	3	9%	5	14%
1996-97	10	36%	6	21%	4	14%
1997-98	29	57%	10	20%	19	37%
1998-99	37	74%	13	26%	24	48%

Identification of recommendations not yet implemented

1. Satisfactory progress

1994-95	4, 7, 9, 11, 16,
1995-96	6, 12, 13, 22, 36
1996-97	7, 8, 16, 20
1997-98	1, 2, 5, 6, 9, 19, 20, 23, 28, 33,34, 35, 36, 38, 47, 48, 49, 50, 51
1998-99	1, 4, 8, 9, 11, 14, 17, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 35, 37, 38, 39, 40, 44

2. Repeated recommendations

Recommendations made in 1999-2000 that repeat recommendations made in previous years	**Recommendation Number**				
	1998-99	**1997-98**	**1996-97**	**1995-96**	**1994-95**
Recommendation No. 7 Shared services support **We again recommend that the Department of Children's Services and the Child and Family Services Authorities examine the support services, including shared services, for opportunities to improve cost effectiveness. We also again recommend that the Department and Authorities enter into service agreements with their service providers.**	**10** **31**				

Recommendations made in 1999-2000 that repeat recommendations made in previous years	Recommendation Number				
	1998-99	1997-98	1996-97	1995-96	1994-95
Recommendation No. 11 **Business planning** **We again recommend that the business plans of the Child and Family Services Authorities provide clear links between the social and economic factors affecting service delivery and the attendant strategies to mitigate their effect on service delivery. We also recommend that each Authority develop an appropriate number of performance measures to monitor the effectiveness of services.**	34	24			
Recommendation No. 14 **Monitoring system for DAOs** **We recommend that the Department of Environment fully implement and continue to refine its system for monitoring its Delegated Administrative Organizations.**	Page 160				
Recommendation No. 17 **Accountability for the cost and quality of health services** **We recommend that the Department of Health and Wellness further develop a process for defining and reporting the respective accountability of those affecting the cost and quality of health services.**	42	32	15 17 18	20 21	23
Recommendation No. 18 **Business planning for health** **We again recommend that the Department of Health and Wellness and health authorities implement a joint strategy for improving the implementation of authorized business plans.**	36	26			
Recommendation No. 19 **Reporting the cost of outputs** **We again recommend that the Department of Health and Wellness take a lead role in working with health authorities in reporting the costs of key service outputs.**			21		
Recommendation No. 21 **Using information to improve funding systems** **We again recommend that the Department of Health and Wellness examine regional differences in the utilization and cost of health services with a view to improving the system for allocating funds to health authorities.**		27			
Recommendation No. 22 **Accountability for we//net results** **We recommend that the Department of Health and Wellness and the Alberta We//net Project Office review the alignment of accounting, funding, and accountability for we//net to better ensure the achievement of benefits for costs incurred.**	43	30		17	
Recommendation No. 30 **Fines and costs** **We again recommend that the Department of Justice report the results and costs of its fines collection activities.**	45				28

Recommendations made in 1999-2000 that repeat recommendations made in previous years	Recommendation Number				
	1998-99	1997-98	1996-97	1995-96	1994-95
Recommendation No. 31 Long-term capital planning We recommend that the Department of Learning enhance its systems to ensure that long-term capital planning for school facilities is consistent with strategic plans for the delivery of education.	13	11	6		
Recommendation No. 33 Deferred Maintenance We again recommend that the Department of Learning and public post-secondary institutions continue to improve the system to manage the sector's infrastructure by evaluating the overall progress made towards addressing the critical health and safety risks arising because of deferred maintenance.	12	10			
Recommendation No. 39 Governance and accountability We again recommend that: • Those who manage and fund academic health activities acknowledge the full scope and magnitude of those activities and the consequences for the accountability of academic health centres. • The entity or entities responsible for academic health and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established. We further recommend that the Universities of Alberta and Calgary take the lead in addressing the need for a governance structure for academic health.	18 19				
Recommendation No. 42 Corporate government accounting policies We again recommend that the Department of Treasury initiate changes to the corporate government accounting policies in order to improve accountability.	47	41	25		
Recommendation No. 43 Cost allocation We again recommend that the Department of Treasury develop a methodology to allocate all significant costs to those entities which are responsible for delivering outputs.	48	42			5
Recommendation No. 44 Strategies to improve reporting throughout the year We again recommend that the Department of Treasury promote the benefits of quality financial reporting throughout the fiscal year.	Page 268	43			
Recommendation No. 45 Earmarked assets We again recommend that the Province's consolidated financial statements and the Ministry of Treasury financial statements provide expanded disclosure of assets set aside for particular purposes.	Page 271				

Government's response to 1998-99 recommendations

Following are the numbered recommendations in the Auditor General's 1998-99 Annual Report and the government's response to them.

Auditor General's Observations	Government's Response
Introductory Comments	
"The government has done a commendable job in implementing the Government Accountability Act. The number of my recommendations should not be construed as an indictment of performance; rather the number is evidence that the "devil is in the detail:" "The scope for improvement is never ending … government managers must now show that they are using results information …"	The government's accountability framework was established several years ago under Premier Klein's leadership. The government has worked hard implementing this framework and is committed to continuing to improve the ways in which we hold ourselves accountable to Albertans. The Auditor General's support in developing and implementing the accountability framework is appreciated. As we work through the "detail", there will be ongoing opportunities to consider the Auditor General's suggestions and other possibilities on the best ways to achieve increased accountability.
"planning is the key to the management of capital assets …"	
"My Office has long advocated the full accrual accounting for capital assets …"	The government agrees that good planning is important for effective management of capital assets and is already working on this through the cross-government Capital Planning Initiative outlined in the government's business plan. Although the Auditor General's preference is to use full accrual for capital assets, the government believes following generally accepted accounting principles for governments, as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, remains the most appropriate way to report capital assets.
Cross Government	
1. It is recommended that Ministries collaborate with Treasury to articulate best practices in business planning.	Accepted in principle. The "art" of ministry business planning continues to evolve. Best practices typically emerge from an internal culture of continuous improvement. Treasury will continue to encourage ongoing refinements to the business planning process and provide assistance to ministries on request.

Auditor General's Observations	**Government's Response**
2. It is recommended that Ministries work with Treasury to develop a strategy to improve the definitions of the components of business plans.	Accepted. A common set of business plan components has already been established and communicated to ministries. Treasury will continue to work on clarifying definitions with ministries.
3. It is recommended that Ministries, together with Treasury, develop a strategy to combine Ministry core businesses and programs so that Ministry income statements clearly present the cost of implementing core businesses.	Under review. Accountability is enhanced if plans, results and financial information are linked in a meaningful manner. Whether a ministry uses core businesses and programs or some other presentation needs further consideration.
4. It is recommended that Ministries, in conjunction with Treasury, develop a strategy to improve the quality of performance measures in business plans.	Accepted in principle. Each ministry has ongoing responsibility to improve the quality of their performance measures. Treasury will continue to provide leadership in this regard.
5. It is recommended that Ministries, supported by the Treasury Department, provide guidance to accountable organizations on best practices for annual report presentation.	Accepted. Under the Government Accountability Act, each ministry may provide guidance to accountable organizations on the form of annual reports, as considered necessary. Given the diversity of accountable organizations in terms of size, resources, mandate and stakeholder needs, a single standard for all accountable organizations is not appropriate. Upon request, Treasury will provide advice to a ministry on developing guidelines that could be provided to its accountable organizations.
6. It is recommended that the Treasury Department develop guidelines for Ministries and accountable organizations regarding the use and content of summary financial information.	Under review. As noted by the Auditor General, summary financial information can meet only the most general information needs of any user. Since summary financial information is currently provided in several different forms for different purposes, whether there would be value added by developing guidelines needs to be considered further.

Government's response to 1998-99 recommendations

Auditor General's Observations	Government's Response
7. It is recommended that PAO, in conjunction with Deputy Ministers, enhance the Corporate Human Resource Plan.	Accepted. Many of the recommended enhancements are being developed and will be reflected in the 2000-01 Corporate Human Resource Plan.
8. It is recommended that each Deputy Minister, in conjunction with PAO, ensure that employee performance management systems clearly support the achievement of government and department objectives.	Accepted in principle. This recommendation is consistent with direction provided by the performance management policy framework. It is important, however, for departments to retain the flexibility to develop practical approaches to performance management and competency development tailored to the needs of their organizations.
9. It is recommended that the Deputy Minister of Executive Council work with other Ministries to set out governance principles for all agencies, boards and commissions.	Accepted in principle. Governance principles for all agencies, boards and commissions (ABCs) are being considered as part of the Government Reorganization Secretariat's review of ABCs.
10. It is recommended that the Deputy Minister responsible for the shared services initiative develop guidelines for shared services that mitigate identified risks and provide for the assessment of the cost effectiveness of each arrangement.	Accepted in principle. The Alberta Corporate Services Centre (ACSC) will implement service level agreements to establish the quality and levels of service provided to its clients, along with an appropriate mechanism to address any client concerns. Risks will be mitigated through the development, implementation and administration of these service agreements. The ACSC will also collect data to determine and assess the cost effectiveness of implemented service level agreements.

Advanced Education and Career Development

11. It is recommended that the Department of Learning work with the public post-secondary education institutions to improve the reliability of KPIs for credit full load equivalent student, graduate employment rate and graduate satisfaction.	Accepted. The Ministry will continue to work with institutions to improve the reliability of their Key Performance Indicators (KPIs). However, it is an institution's responsibility to ensure proper procedures and internal controls are in place for the collection, compilation, processing and inputting of data.

Auditor General's Observations	Government's Response
12. It is recommended that the Department of Learning and the public post-secondary education institutions continue to improve the system to manage the infrastructure by evaluating the overall progress made towards addressing the critical health and safety risks relating to deferred maintenance.	Accepted. The Ministry will work with institutions to identify accountability processes appropriate for monitoring progress in addressing critical health and safety risks.
13. It is recommended that the Department of Learning, working with the public post-secondary education institutions, continue to develop a long-range capital planning system for Ministry infrastructure.	Accepted. As autonomous board-governed institutions, public post-secondary education institutions are responsible for their own infrastructure planning. The Ministry will continue to work with the institutions and, through the cross-government Capital Planning Initiative, develop a Corporate Capital Overview.
14. It is recommended that the Department of Learning improve the processes used to collect and verify conditional grant information from the public post-secondary education institutions to facilitate the monitoring and evaluation of each conditional grant program.	Accepted. As these programs are relatively new, the Ministry will continue to seek improvements in the collection and verification of information from institutions.
15. It is recommended that the University of Alberta strengthen its contract project management systems by: • ensuring contracts are executed in advance of the commencement of all construction projects, • ensuring its competitive bidding policies are being followed and change orders are processed only when warranted, and • improving the process to evaluate contractor performance.	Accepted. The University of Alberta has initiated improvements to the management of construction contracts, including the outsourcing of contract project management to a third party. Appropriate accountability mechanisms will be established.

Government's response to 1998-99 recommendations

Auditor General's Observations	Government's Response
16. It is recommended that the University of Calgary's approved budget be prepared on an accrual basis reflecting all transactions that will be reported in its consolidated financial statements.	Accepted. The University of Calgary is working toward developing processes to report its budget both by function and in accordance with generally accepted accounting principles.
17. It is recommended that the University of Calgary review its budgeting process to determine whether its current definition of a balanced budget is adequate to ensure programs and facilities are supported and will continue to be supported.	Accepted. The University of Calgary will review the appropriateness of its budget process and reconsider its definition of a balanced budget. The University is also creating capital reserves in its budget.
18. It is recommended that the full scope and magnitude of academic health activities and the consequences for accountability of the academic health centres be acknowledged by those responsible for managing and funding those activities.	Accepted. The Council of Academic Health Centres will continue to review their governance and accountability structure.
19. It is recommended that the entity or entities responsible for academic health and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established.	Accepted. The Council of Academic Health Centres will continue to review their governance and accountability structure.
Agriculture, Food and Rural Development	
20. It is recommended that the Department of Agriculture, Food and Rural Development evaluate the performance of the Farm Income Disaster Program on a regular basis, and at least annually.	Accepted. A detailed evaluation of the program was completed in October 1998. The Ministry will complete similar evaluations of this program on a regular basis. Applications for program benefits include information respecting the location of applicants and the commodities that they produce. Over the past few years, this information has been used to analyze and monitor the flow of program payments to affected regions and producers. In future, statistics compiled from this information will be used to evaluate the program on an annual basis. Targets will also be set annually and compared against program results.

Auditor General's Observations	**Government's Response**
Community Development	
21. It is recommended that the Alberta Sport, Recreation, Parks and Wildlife Foundation comply with the *Income Tax Act* (Canada) when issuing official receipts for income tax purposes.	Accepted. The Foundation currently ensures that all official donation receipts comply with the *Income Tax Act* (Canada). By December 31, 1999, the Foundation will further improve its procedures for issuing official receipts for income tax purposes for qualifying gifts.
Education	
22. It is recommended that the Department of Learning conduct a comprehensive review of all significant legislative, business and financial risks to improve the effectiveness of its monitoring of school jurisdictions.	Accepted. The Ministry will develop a monitoring and planning mechanism that takes into account ministry-wide priorities.
23. It is recommended that the Department of Learning ensure that each charter school's charter contain measurable outcomes so that there is a base from which to measure and evaluate the charter school's results against its mandate.	Accepted. The Ministry is reviewing an existing regulation that calls for charter schools to be explicit in their written charter description about the goals of the charter school and about measurable outcomes intended. At present, charter renewal is contingent upon a school's successful achievement of its goals, in accordance with its education plan and its charter. The Ministry will work with charter schools, through reviews of their Annual Education Results Reports and monitoring reports, to ensure charter school success is measured on an ongoing basis.
24. It is again recommended that the Department of Learning work with school jurisdictions to improve the accuracy of the financial reporting of special needs expenses by school jurisdictions.	Accepted. The Ministry requires school authorities to annually report costs for special education in the areas of mild/moderate and severe disabilities. The Ministry will be enhancing the financial reporting guidelines for the 2000-01 school year so school authorities are better able to identify and report all costs associated with special needs programs.

Government's response to 1998-99 recommendations

Auditor General's Observations	Government's Response
25. It is recommended that the Department of Learning work with school jurisdictions to ensure that school jurisdictions set local targets for academic achievement on Provincially administered examinations that strive for improved academic results.	Accepted. In 1998-99, school jurisdictions were required to set and report local targets for achievement as part of their Three-Year Plans and Annual Education Results Reports (AERR). The Ministry will analyze target achievement reported in the AERR and assist school jurisdictions with implementing effective target-setting procedures based on this analysis.
Energy	
26. It is recommended that, once the scope of the Volumetric Infrastructure Petroleum Information Registry project is determined, the Alberta Energy and Utilities Board develop a strategic information systems plan to support the business needs now served by its well and production systems.	Accepted. The Volumetric Infrastructure Petroleum Information Registry (VIPIR) project is currently preparing a business case proposal for ratification by senior ministry and industry personnel. If VIPIR is considered viable, the Alberta Energy and Utilities Board (EUB) will be in a position to determine which system improvements can be incorporated in VIPIR and consequently what changes to the EUB's present systems would be required outside of VIPIR. Strategic plans will then be developed to provide for the transition to accommodate the EUB's continuing business needs in these areas.
Environmental Protection	
27. It is recommended that the Department of Environment budget for the expected annual fire fighting costs based on the most current information. Further, it is recommended that the fire fighting budget be subject to legislative approval, including approval for any supplemental estimates required during the year.	Accepted. There are ongoing discussions between the Ministry and Treasury on alternate budgeting and funding methods that would better serve the unpredictability of natural resource emergencies and ensure accountability to the Legislative Assembly and general public.

Auditor General's Observations	Government's Response
28. It is recommended that the Land and Forest Service of the Department of Environment ensure that its strategies, goals, and processes are effectively implemented through regional business plans and operations.	Accepted. Training sessions on business planning, operations planning and performance management agreements have already been offered around the province for all Land and Forest Service staff. Further training in business planning will be available.
29. It is recommended that the Land and Forest Service of the Department of Environment refine its contract management processes.	Accepted. Pre-tendering procedures were implemented in the spring of 1999 and will continue to be improved. Cost-benefit analyses and improved documentation have been implemented so that more informed decisions are made about contracting and alternatives.
30. It is recommended that the Financial Security Risk Assessment Model be implemented and that the Department of Environment ensure that it has the resources to assess the documentation that governs the calculation of the security.	Accepted. The Ministry will finalize a new policy and procedure for reviewing the security risk estimates provided by operators by the end of January 2000. Consideration is being given to the establishment of a financial review team and a technical review team to evaluate each security submission. The Ministry will also amend the Conservation and Reclamation Regulation to allow the Director to consider risk as a factor in setting security.
Family and Social Services	
31. It is recommended that the Department of Human Resources and Employment prepare a plan and agreement for the delivery of shared services for community boards and children's authorities which will support the management of their operations.	Accepted. The Ministry will be discussing shared service requirements with the Ministry of Health and Wellness, Ministry of Children's Services, Persons with Developmental Disabilities Community Boards, and Child and Family Services Authorities. The issues identified in the Auditor General's report will be taken into consideration in preparing service agreements.
32. It is recommended that the Department of Health and Wellness ensure that services to children with developmental disabilities continue to be provided in accordance with existing legislative authority and that such services should not be provided under the *Persons With Developmental Disabilities Community Governance Act* unless and	Accepted in principle. In order to meet the on-going needs of the children, services will continue to be provided by the Persons with Developmental Disabilities Community Boards until a seamless transfer of responsibilities can occur. Discussions on the operational aspects of this transfer are underway between the Ministry and the Child and Family Services

Auditor General's Observations	Government's Response
Community Governance Act unless and until the Act is amended to extend its provisions to children.	Authorities so that children are served by the appropriate body by March 2000.
33. It is recommended that the Ministry of Human Resources and Employment improve the quality of performance measures in its annual reports.	Accepted. The Ministry intends to identify performance measures for all goals, a description of how the measures are derived or calculated, and the data sources used. Existing guidance on measuring performance will be used in preparing future business plans and annual reports.
34. It is recommended that the Department of Children's Services require the business plans of Child and Family Services Authorities (CFSAs) to incorporate relevant measures and strategies to improve the overall accountability and effectiveness of CFSAs.	Accepted. The Ministry will be developing guidelines and requirements that focus on accountability and strategic direction for the 2000-03 business plans of Child and Family Services Authorities. Future business plans will incorporate strategies for implementing the foundations of the redesign of services for children and families (the "four pillars") and measures that determine the overall effectiveness of the Child and Family Services Authorities in achieving improved outcomes for children and families.
35. It is recommended that the Calgary Rocky View Child and Family Services Authority and the Department of Children's Services maintain accounting systems that can be relied upon for the preparation of accurate financial control information.	Accepted. Existing systems have been improved for fiscal year 1999-2000. The eighteen Children and Family Services Authorities have agreed that the costs for children who are the responsibility of an Authority will be allocated to that Authority, regardless of where services were provided. An inter-authority billing system has been implemented to track these costs so that they can be transferred to the appropriate Authority.
Health	
36. It is again recommended that the Department of Health and Wellness and health authorities implement a joint strategy for improving the timely implementation of authorized business plans.	Accepted. The Ministry and the health authorities have established a task group to examine options that can promote timely preparation and approval of business plans.

Auditor General's Observations	**Government's Response**
37. It is again recommended that the Department of Health and Wellness and health authorities implement a plan to improve performance measurement and reporting, including better reporting of results achieved compared to plan.	Accepted. In recent years, the Ministry has created a firm foundation for performance measurement and reporting of results by health authorities. The Ministry will continue to build on this foundation to improve performance reporting.
38. It is recommended that the Department of Health and Wellness assess the impact of new requirements for managing equipment and determine whether they have sufficiently diminished the risk of health authorities not meeting equipment needs.	Accepted. There is now a requirement that health authorities provide the Ministry with their capital equipment investment plans as part of the 3-year business plan submission. The Ministry will monitor the level of capital equipment investment compared to consumption on an annual basis.
39. It is recommended that the Department of Health and Wellness, in cooperation with health authorities and other departments, further develop systems for planning health facilities and obtain better information to support decisions.	Accepted. As part of the cross-government Capital Planning Initiative, the Ministry will be an active participant in the development of a government-wide physical infrastructure management system framework and the related performance measures to assist in capital planning priority setting and funding decisions.
40. It is recommended that the Department of Health and Wellness improve control over health registration to reduce vulnerability of the health system to potential loss of revenue.	Accepted. Steps are being taken, through the Business Policy Review and through new systems development, to improve the registration process and enhance control mechanisms of registration information. The implementation of these changes will result in improved services to the public and the health system while protecting the Ministry's information and resources.
41. It is recommended that the Department of Health and Wellness establish methods for measuring how much of a medical service budget variance should be attributed to each of the various factors included in the agreement with the Alberta Medical Association (AMA).	Accepted. The Ministry is working with the AMA to formalize joint reporting on the financial and non-financial aspects of the agreement. This will improve the accountability of both parties for the provision of physician services in Alberta.

Government's response to 1998-99 recommendations

Auditor General's Observations	Government's Response
42. It is again recommended that the Department of Health and Wellness establish a process for assessing the benefits and cost of issuing clinical practice guidelines as part of accounting for performance under the new agreement with physicians.	Accepted. Working in partnership with AMA, the Ministry will explore ways of assessing the monetary and non-monetary benefits of clinical practice guidelines.
43. It is again recommended that the *We//net* Project Office continue to improve systems of accountability in order to manage risks, maximize the prospect of meeting expectations within budget, and to render accountability for results achieved for costs incurred.	Accepted. A number of action steps are underway to improve accountability. These include clarifying the role of the we//net project office and stakeholders, preparing multi-year we//net business plans, periodic status reporting, and annual reporting of results and performance measures.
Justice	
44. It is recommended that the Public Trustee determine and plan for the level of funding required to meet the legislative purposes of the Special Reserve Fund.	Accepted. Independent consultants have been engaged to provide advice on the management of the special reserve and common funds.
45. It is again recommended that the Department of Justice report the results and costs of its fines collection activities.	Accepted. The Ministry, in consultation with the Auditor General, will define the reporting requirements for fines collection activities. Cost-effective enhancements to the system will be carried out to produce the necessary reports.
Transportation and Utilities	
46. It is recommended that the Department of Infrastructure improve processes for reporting on the status of the Infrastructure Management System in order to ensure that the objectives of the system are achieved.	Accepted. The Ministry has gathered the information related to licensing and support costs and will be updating the original Infrastructure Management System (IMS) cost/benefit report. A bi-monthly project status report will be implemented prior to the end of 1999-2000. The Ministry will also initiate an independent review of the IMS project to assist in further strengthening the project management process.

Auditor General's Observations	Government's Response
Treasury	
47. It is again recommended that the Treasury Department management initiate changes to the corporate government accounting policies in order to improve accountability.	Accepted in principle. The government sets corporate accounting policies that are considered appropriate and that increase accountability. In setting corporate accounting policies, the government follows the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate. There is an ongoing review of the government's corporate accounting policies, involving ministries and the Office of the Auditor General, that has refined our corporate accounting policies in recent years, and in some cases, addressed audit reservations. Government's corporate accounting policies will continue to be reviewed and refined where Treasury Board considers accountability can be improved further. The Auditor General has suggested certain accounting policies that the government does not accept. For example, the government does not agree with expanding the consolidated reporting entity, as explained in prior years' replies to the Auditor General's annual report, nor with full accrual accounting for capital assets, as noted in the introductory comments section.

Government's response to 1998-99 recommendations

Auditor General's Observations	Government's Response
48. It is again recommended that the Department of Treasury develop a methodology to allocate all significant costs to the entities responsible for delivering outputs.	Under review. The business case, value added, and practicality of implementation of cost allocation to the extent suggested by the Auditor General needs to be reviewed. In the interim, the government continues to provide note disclosure on services provided by one ministry to another without charge. The government believes its policy of providing note disclosure for such costs is in accordance with generally accepted accounting principles.
49. It is recommended that the Department of Treasury facilitate obtaining the legislative amendments required to formalize an arm's length relationship between the Departments of Community Development and Health for seniors' health insurance premiums.	Accepted.
50. It is recommended that the Province's bank accounts be reconciled promptly.	Accepted.

The 1998-99 Auditor General's Report comments on the progress being made to implement previous recommendations. The Auditor General has indicated that 22 recommendations above relate to recommendations since 1994-95 that have not been fully implemented. This represents the complex nature of some of these recommendations. The government continues to work towards addressing the Auditor General's recommendations.

AUDITOR GENERAL ACT

CHAPTER A-49

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows

Definitions

1 In this Act,

(a) "Auditor General" means the Auditor General of Alberta;

(b) repealed 1993 c19 s17;

(c) "department" means a department as defined in section 1 of the *Financial Administration Act* and includes

(i) the Legislative Assembly Office,

(ii) the Ombudsman and the staff of the Office of the Ombudsman,

(iii) the Chief Electoral Officer and the staff of the Office of the Chief Electoral Officer,

(iv) the Ethics Commissioner and the staff of the Office of the Ethics Commissioner, and

(v) the Information and Privacy Commissioner and the staff of the Office of the Information and Privacy Commissioner;

(d) "employee of the Office of the Auditor General" includes a person engaged on a fee basis by the Auditor General;

(e) "public money" means public money as defined in the *Financial Administration Act* and includes money owned or held by Alberta Treasury Branches;

(f) "regulated fund" means a regulated fund as defined in the *Financial Administration Act*;

(g) "Select Standing Committee" means the Select Standing Committee on Legislative Offices;

(h) "voting share" means a share of any class of shares of a corporation carrying full or limited voting rights ordinarily exercisable at meetings of shareholders of the corporation or a share of any class of shares of a corporation carrying voting rights by reason of a contingency that has occurred and is continuing.

RSA 1980 cA-49 s1;1983 cL-10.1 s57;1991 cC-22.1 s49;
1993 c19 s17;1994 cF-18.5 s93; 1997 cA-37.9 s39

Meaning of other words

2 Except as provided in section 1, words or expressions defined in the *Financial Administration Act* have the same meaning in this Act.

RSA 1980 cA-49 s2

Appointment of Auditor General

3(1) There shall be appointed pursuant to this Act an Auditor General who shall be an officer of the Legislature.

(2) Subject to section 6, the Lieutenant Governor in Council shall appoint the Auditor General, on the recommendation of the Assembly, for a term not exceeding 8 years.

(3) An Auditor General is eligible for reappointment under subsection (2).

RSA 1980 cA-49 s3

Resignation of Auditor General

4 The Auditor General may at any time resign his office by writing addressed to the Speaker of the Assembly or, if there is no Speaker or if the Speaker is absent from Alberta, to the Clerk of the Assembly.

RSA 1980 cA-49 s4

Suspension or removal from office

5 On the recommendation of the Assembly, the Lieutenant Governor in Council may, at any time, suspend or remove the Auditor General from office.

RSA 1980 cA-49 s5

Vacancy in office

6(1) If a vacancy in the office of the Auditor General occurs while the Legislature is in session but no recommendation is made by the Assembly before the close of that session, subsection (2) applies as if the vacancy had occurred while the Legislature was not in session.

(2) If a vacancy occurs while the Legislature is not in session, the Lieutenant Governor in Council, on the recommendation of the Select Standing Committee, may appoint an Auditor General to fill the vacancy and unless his office sooner becomes vacant, the person so appointed holds office until an Auditor General is appointed under section 3, but if an appointment under section 3 is not made within 30 days after the commencement of the next ensuing session, the appointment under this subsection lapses and there shall be deemed to be another vacancy in the office of Auditor General.

RSA 1980 cA-49 s6

Salary and benefits

7(1) The Auditor General shall be paid a salary at a rate set by the Select Standing Committee and the Select Standing Committee shall review that salary rate at least once a year.

(2) The Auditor General shall receive similar benefits as are provided to Deputy Ministers.

RSA 1980 cA-49 s7

Acting Auditor General

8(1) The Auditor General may appoint an employee of the Office of the Auditor General as Acting Auditor General.

(2) If there is neither an Auditor General nor an Acting Auditor General, the Lieutenant Governor in Council may appoint a person as Acting Auditor General to hold office until an Acting Auditor General is appointed under subsection (1).

(3) In the event of the absence or inability to act of the Auditor General, or when there is a vacancy in the office of the Auditor General, the Acting Auditor General has all the powers and shall perform the duties of the Auditor General.

RSA 1980 cA-49 s8

Office of the Auditor General

9(1) There shall be a department of the public service of Alberta called the Office of the Auditor General consisting of the Auditor General and those persons employed pursuant to the *Public Service Act* as are necessary to assist the Auditor General in carrying out his functions under this or any other Act.

(2) On the recommendations of the Auditor General, the Select Standing Committee may order that

(a) any regulation, order or directive made under *the Financial Administration Act*, or

(b) any regulation, order, directive, rule, procedure, direction, allocation, designation or other decision under the *Public Service Act*, be inapplicable to, or be varied in respect of, the Office of the Auditor General or any particular employee or class of employees in the Office of the Auditor General.

(3) An order made under subsection (2)(a) in relation to a regulation, order or directive made under the *Financial Administration Act* operates notwithstanding that Act.

(4) *The Regulations Act* does not apply to orders made under subsection (2).

(5) The chairman of the Select Standing Committee shall lay a copy of each order made under subsection (2) before the Assembly if it is then sitting or, if it is not then sitting, within 15 days after the commencement of the next sitting.

RSA cA-49 s9;1983 cL-10.1 s57

Engagement of services on fee basis

10 The Auditor General may engage, on a fee basis, any person to act as his agent for the purpose of conducting an audit or examination that the Auditor General is empowered or required to conduct or to perform a service that the Auditor General considers necessary in order to properly exercise or perform his powers and duties.

RSA 1980 cA-49 s10

Delegation of power or duty

11(1) Subject to subsection (2), the Auditor General may delegate to an employee of the Office of the Auditor General any power or duty conferred or imposed on the Auditor General by this or any other Act.

(2) The Auditor General may not delegate a power or duty to report

(a) to the Assembly or a committee of the Assembly, without the consent of the Assembly or the committee to which the report is to be made, or

(b) to the Lieutenant Governor in Council, without the consent of the Lieutenant Governor in Council.

RSA 1980 cA-49 s11

Auditor General as auditor

12 The Auditor General

(a) is the auditor of every ministry, department, regulated fund, revolving fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12; 1995 cG-5.5 s17

Financing of operations

13(1) The Auditor General shall submit to the Select Standing Committee in respect of each fiscal year an estimate of the sum that will be required to be provided by the Legislature to defray the several charges and expenses of the Office of the Auditor General in that fiscal year.

(2) The Select Standing Committee shall review each estimate submitted pursuant to subsection (1) and, on the completion of the review, the chairman of the Committee shall transmit the estimate to the Treasurer for presentation to the Assembly.

(3) If at any time the Legislative Assembly is not in session the Select Standing Committee, or if there is no Select Standing Committee, the Provincial Treasurer,

(a) reports that the Auditor General has certified that in the public interest, an expenditure of public money is urgently required in respect to any matter pertaining to his office, and

(b) reports that either

(i) there is no supply vote under which an expenditure with respect to that matter may be made, or

(ii) there is a supply vote under which an expenditure with respect to that matter may be made but the authority available under the supply vote is insufficient,

the Lieutenant Governor in Council may order a special warrant to be prepared to be signed by himself authorizing the expenditure of the amount estimated to be required.

(4) When the Legislative Assembly is adjourned for a period of more than 14 days then, for the purposes of subsection (3), the Assembly shall be deemed not to be in session during the period of the adjournment.

(5) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(i), the authority to spend the amount of money specified in the special warrant for the purpose specified in the special warrant is deemed to be a supply vote for the purposes of the *Financial Administration Act* for the fiscal year in which the special warrant is signed.

(6) When a special warrant is prepared and signed under subsection (3) on the basis of a report referred to in subsection (3)(b)(ii), the authority to spend the amount of money specified in the special warrant is, for the purposes of the *Financial Administration Act*, added to and deemed to be part of the supply vote to which the report relates.

(7) When a special warrant has been prepared and signed pursuant to this section, the amounts authorized by it are deemed to be included in, and not to be in addition to, the amounts authorized by the Act, not being an Act for interim supply, enacted next after it for granting to Her Majesty sums of money to defray certain expenditures of the Public Service of Alberta.

RSA 1980 cA-49 s13;1983 cL-10.1 s57

Auditor General may charge fees

14 The Auditor General may charge fees for professional services rendered by his Office on a basis approved by the Select Standing Committee.

RSA 1980 cA-49 s14

Access to information

15(1) The Auditor General is entitled to access at all reasonable times to

(a) the records of a department, fund administrator or Provincial agency, and

(b) electronic data processing equipment owned or leased by a department, fund administrator or Provincial agency,

for any purpose related to the exercise or performance of his powers and duties under this or any other Act.

(2) A public employee, public official or personal service contractor shall give to the Auditor General any information, reports or explanations that the Auditor General considers necessary to enable him to exercise or perform his powers and duties under this or any other Act.

(3) The Auditor General may station in the offices of any department, fund administrator or Provincial agency, any employee of the Office of the Auditor General for the purpose of enabling the Auditor General to more effectively exercise or perform his powers and duties under this or any other Act, and the department, fund administrator or Provincial agency shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15

Right to information

16(1) If the accounts of a Crown-controlled organization are audited other than by the Auditor General, the person performing the audit shall

(a) deliver to the Auditor General immediately after completing the audit a copy of the report of his findings and his recommendations to management and a copy of the audited financial statements of the Crown-controlled organization,

(b) make available immediately to the Auditor General on his request all working papers, reports, schedules and other documents in respect of the audit or in respect of any other audit of the Crown-controlled organization specified in the request, and

(c) provide immediately to the Auditor General on his request a full explanation of the work performed, tests and examinations made and the results obtained, and any other information within the knowledge of the person in respect of the Crown-controlled organization.

(2) If any information, explanation or document required to be delivered to or requested by the Auditor General under subsection (1) is not delivered, made available or provided to him or if the Auditor General is of the opinion that any information, explanation or document that is delivered, made available or provided to him pursuant to subsection (1) is not adequate to permit him to exercise or perform his powers and duties under this or any other Act, the Auditor General may make any additional examination or investigation of the records and operations of the Crown-controlled organization that he considers necessary.
RSA 1980 cA-49 s16

Reliance on auditor

16.1(1) In this section, "regional authority" means a board under the School Act or a regional health authority, subsidiary health corporation, community health council or provincial health board under the Regional Health Authorities Act.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

(a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person's findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,

(b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and

(c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.
1995 cG-5.5 s17

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of his powers and duties under this or any other Act.
1977 c56 s17

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in his opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,

(b) when the report contains a reservation of opinion by the Auditor General, state his reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to his audit of the financial statements that he considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of his office, and

(b) on whether, in carrying on the work of his office, he received all the information, reports and explanations he required.

(2) A report of the Auditor General under subsection (1) shall include the results of his examinations of the organizations of which he is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which he has observed that

(a) collections of public money

(i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

(ii) have not been fully accounted for, or

(iii) have not been properly reflected in the accounts,

(b) disbursements of public money

(i) have not been made in accordance with the authority of a supply vote, Heritage Fund vote or relevant Act,

(ii) have not complied with regulations, directives or orders applicable to those disbursements, or

(iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that he considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which he is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to his attention is adequately disclosed,

(b) include summarized information and the financial statements of an organization on which he is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(3.1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.1.

(4) A report under this section shall be presented by the Auditor General to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(5) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in his opinion, have been or are being rectified.

RS cA-49 s19; 1995 cG5.5 s17:1996 cA-27.01 s22

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in his opinion, should not be deferred until the presentation of his annual report under section 19.

(2) A report prepared pursuant to this section shall be presented to the chairman of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

1977 c56 s20

Establishment of Audit Committee

21(1) There is hereby established a committee called the Audit Committee consisting of not more than 7 persons appointed as members of the Committee by the Lieutenant Governor in Council.

(2) The Lieutenant Governor in Council shall designate one of the members of the Audit Committee as chairman.

(3) The Lieutenant Governor in Council may authorize, fix and provide for the payment of remuneration and expenses to the members of the Audit Committee.

1977 c56 s21

Meetings of Audit Committee

22(1) The Audit Committee may make rules, not inconsistent with this Act, respecting the calling of, and the conduct of business at, its meetings.

(2) The chairman of the Audit Committee shall, on request of the Auditor General, call a meeting of the Audit Committee to review any matter that the Auditor General considers should be brought to the attention of the Audit Committee.

1977 c56 s22

Information re scope and results of audit

23 The Auditor General shall give to the Audit Committee any information that he considers reasonable and appropriate to enable the Audit Committee to advise the Lieutenant Governor in Council on the scope and results of the Auditor General's audit of departments, regulated funds, revolving funds, Provincial agencies and Crown-controlled organizations.

1977 c56 s23

Availability of reports

24 An annual report of the Auditor General and any special report made under section 20 shall be made available to the Audit Committee before it is presented to the chairman of the Select Standing Committee.

1977 c56 s24

When report not required

25 In a report made under this or any other Act the Auditor General need not report on matters that are, in his opinion, immaterial or insignificant.

1977 c56 s25

Supplementary information

26 The Auditor General shall, at the request of a select standing committee of the Assembly engaged in reviewing financial statements of the Crown or an organization of which he is the auditor, attend the meetings of the committee in order to give supplementary information to the committee respecting the financial statements or a report of the Auditor General.

1977 c56 s26

Audit working papers

27 Audit working papers of the Office of the Auditor General shall not be tabled in the Legislative Assembly or before a Committee of the Legislative Assembly.

1977 c56 s27

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in his examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Treasurer of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Treasurer's powers and duties.

1977 c56 s28

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which he is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

1977 c56 s29

Annual audit

30(1) The Select Standing Committee shall appoint an auditor to audit the receipts and disbursements of the Office of the Auditor General.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the receipts and disbursements of the Office of the Auditor General as the Auditor General has or performs in relation to an audit of the receipts and disbursements of a department.

(3) An auditor appointed under subsection (1) shall report the results of his audit annually to the Select Standing Committee.

(4) A report made under this section shall be presented to the chairman of the Select Standing Committee and to the Treasurer for inclusion in the public accounts.

1977 c56 s30

Records Management

31 On the recommendation of the Auditor General, the Select Standing Committee may make an order

(a) respecting the management of records in the custody or under the control of the Office of the Auditor General, including their creation, handling, control, organization, retention, maintenance, security, preservation, disposition, alienation and destruction and their transfer to the Provincial Archives of Alberta;

(b) establishing or governing the establishment of programs for any matter referred to in clause (a);

(c) defining and classifying records;

(d) respecting the records or classes of records to which the order or any provision of it applies.

SA 1995 c34 s1

INDEX OF ENTITIES